WORLD BANK WORKING PAPER NO. 149

The Malaysia-Indonesia Remittance Corridor

Making Formal Transfers the Best Option for Women and Undocumented Migrants

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Foreword

The partnership between the World Bank's Financial Market Integrity Unit and the East Asia Social Development Unit brings together two different perspectives on the transfer of remittances from Malaysia to Indonesia. The Bank has been at the forefront globally in research on remittances—and the Financial Market Integrity Unit brings a particular focus on analysis of defined bilateral remittance corridors, with attention to integrity issues and specific incentives influencing the choices of channels to send money home. The regional Social Development team's research on the vulnerability of female migrant workers and their use of remittances brings a unique human perspective. Both perspectives are reflected in *The Malaysia-Indonesia Remittance Corridor: Making Formal Transfers the Best Option for Women and Undocumented Migrants.*

The number of Indonesian migrants in Malaysia has increased rapidly in recent years, and female migrants outnumber men. The corridor is also marked by a substantial flow of undocumented migrants. Despite this, remittance flows from Malaysia to Indonesia through formal channels have declined since 2002. Migrant workers make the choice of how to transfer and use the remittances they send home, and their choice at the moment is with the informal sector. Research shows that more formalized systems could improve financial sector development and enhance poverty reduction by providing greater security and reliability, reducing costs, and improving migrants' options for investing in better outcomes. However, major changes in approach will be needed to attract migrant workers back to the formal sector.

Meanwhile, the important role of the informal sector in providing easily accessible solutions is recognized. Greater regulatory oversight of this sector, while an important element, must be proportionate to the risks involved in order that migrants are not driven towards greater informality of transfers. Regulations should focus on enabling markets to function and encouraging solutions, and migrant workers need to be recognized for their important contribution to the economy and empowered to engage with these markets. The remittance market can also benefit from greater incentives to the private sector which can generate customized services for migrants given new data on the potentially large and lucrative market for financial products and services.

An encouraging development has been that new analysis from this report has already generated policy dialogues between the authorities in Indonesia and Malaysia. These efforts will address the important challenges of developing the remittance markets that can efficiently meet the varied needs of migrant workers in a safe and secure environment.

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Acronyms and Abbreviations

AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
AMLA	Anti-Money Laundering Act
ATM	Automated teller machine
BI	*Bank Indonesia*
BNI	*Bank Negara Indonesia*
BNM	*Bank Negara Malaysia*
CGAP	Consultative Group to Assist the Poor
CIMB	Commerce International Merchant Bankers
FDI	Foreign direct investments
FDIC	Federal Deposit Insurance Corporation
FIU	Financial Intelligence Unit
GDP	Gross Domestic Product
GNI	Gross National Income
ID	Identification
IMF	International Monetary Fund
IOM	International Organization for Migration
IT	Information Technology
MEPS	Malaysian Electronic Payment System
PBI	*Peraturan Bank Indonesia* (Bank Indonesia Regulations)
PPATK	*Pusat Pelaporan dan Analisis Transaksi Keuangan* (Indonesian FIU)
PPTKLN	Directorate General of Overseas Employment Development (Indonesia)
RM	Malaysian Ringgit (currency abbreviation)
Rp	Indonesian Rupiah (currency abbreviation)
TKI	*Tenaga Kerja Indonesia* (Indonesian migrant worker)
UK	United Kingdom
US$	United States dollar

The exchange rate conversions for all amounts used in this report are as follow, as of June 20, 2007:

US$1 (United States dollar) = RM3.4320 (Malaysian Ringgit)
US$1 (United States dollar) = Rp8,940 (Indonesian Rupiah)

Executive Summary

The main objective of this report, *The Malaysia-Indonesia Remittance Corridor: Making Formal Transfers the Best Option for Women and Undocumented Migrants,* is to contribute to policymakers' efforts to increase the impact that remittances have on economic growth and poverty reduction in Indonesia and investigate options for attracting more migrants to use the formal financial sector. The report provides a descriptive overview of the Malaysia-Indonesia remittance corridor and suggests some policy avenues for improving access to formal remittance transfer channels; increasing the transparency of the flows and the cost structure; and facilitating the transfer of remittances, particularly for undocumented and female migrant workers.

More than 190 million people, approximately 3 percent of the world's population, are living in countries in which they were not born (World Bank 2007). Global remittances have increased steadily over the last decade and recorded remittance flows to developing countries in 2006 are estimated at US$204 billion. However, the true size, including unrecorded flows through formal and informal channels, is believed to be significantly larger (World Bank 2005). According to IMF balance of payment data from 2005, the East Asia and Pacific Region as a whole accounted for US$45 billion, 17 percent of global recorded remittance inflows. The 2005 International Organization for Migration (IOM) study noted three important trends in Asian migration: (a) increasingly, more South and East Asian migrants are finding employment closer to home; (b) these regional migrant labor flows also seem to be increasingly undocumented workers; and (c) more and more South and East Asian migrants are women (IOM 2005).

Indonesian Migration and Remittance Trends

In 2006, 680,000 Indonesian migrant workers (*Tenaga Kerja Indonesia or TKI*) traveled overseas with contracts to work in other countries. The number of Indonesian migrant workers abroad is thought to be around 4.3 million. Of the Indonesians that were approved to work overseas in 2006, 85 percent went to Saudi Arabia and Malaysia.[1] Almost 80 percent of all the migrants leaving in 2006 were women, and 88 percent of these women went to work in the informal sector overseas. In 2006, IMF balance of payments records US$5.7 billion in remittances to Indonesia from all over the world. This figure is calculated from stock of migrants and survey estimates of contract amounts and percentages of remittances sent home.

Only about 10 percent of the districts in Indonesia send significant numbers of migrants overseas. Hence, remittance inflows may be highly significant in a local context. In certain provinces of Indonesia, remittance inflows are greater than total local income; for example in West Nusa Tenggara, remittances totaling over 300 billion rupiah in 2002 exceeded the 61 billion rupiah in local revenue in 2001 (Sukamdi, Striawan, and Haris 2004). The majority of migrants are from the rural areas where poverty is greatest; however, there

1. The figures reported are taken from placement statistics provided in www.nakertrans.go.id from the Indonesian Ministry of Manpower and Transmigration. The original source of this data is from the Directorate General of Overseas Employment Development [*PPTKLN*].

is no information on the macroeconomic impact of remittances on economic growth, net effect on poverty alleviation, and the extent to which such flows have influenced social welfare indicators.

Indonesian Migrants in Malaysia

Malaysia is an attractive destination for Indonesian migrants because of the geographical proximity and cultural familiarity between the two countries. Indonesian migrant workers account for more than 60 percent of total migrant labor force in Malaysia.[2] Around 60 percent of Indonesian migrants in Malaysia are women. Best estimates are that there are 1.2 million undocumented workers in Malaysia, of which 60 percent are Indonesian (UC Davis 2007).

There are significant costs associated with migration such as administration fees, placement fees, pre-departure accommodation and living costs, and transportation. Migrant workers have to take out loans to cover these costs; though with limited access to the formal financial sector, they are often forced to turn to informal loan providers, including the migration recruitment agents themselves who will deduct the money from migrants' salaries. The average wage of migrant workers in Malaysia is between US$90 and US$200 per month, and there is little difference between the salaries paid to male and female migrant workers. Estimates from surveys carried out by Bank Indonesia (BI) indicate that about 45 percent of migrant worker salaries are remitted back to Indonesia.

Estimates of Remittance Flows in the Malaysia-Indonesia Corridor

Remittances from Malaysia to Indonesia through formal channels decreased by over 30 percent from a high of nearly US$0.40 billion in 2002 to US$0.26 billion in 2006. This is despite the significant increase in the number of migrants going to Malaysia. The implication is that migrant workers are increasingly choosing alternative means of transferring remittances back. Total remittances coming into Indonesia from Malaysia were around US$2.7 billion in 2006. Bank Indonesia also estimates that approximately 9–10 percent of remittances to Indonesia from Malaysia flow through formal systems.

Formal Transaction Flows

Ninety percent of formal remittance transfers go through banking institutions (22 commercial banks, 11 Islamic banks, and 1 development financial institution, 6 non-bank remittance operators, and one POS Malaysia) while the rest channel through non-bank institutions.[3] Fees for remitting funds from Malaysia vary; however, most formal providers have a regressive charge structure whereby the cost of transferring US$100 decreases with the total amount spent. Since September 11, 2001, the regulatory environment in which the banking sector operates has been tightened and new regulations have, among other things, tightened the need for credible identification.

2. Interview with officials from Ministry of Home Affairs. Malaysia
3. Interviews with BNM officials, April 2007.

The distribution of remittances received in Indonesia through formal regulated channels is also concentrated in the banking sector. The cost of opening and maintaining an account is comparatively high and fees charged by banks in Indonesia are higher than those charged by Malaysian banks. POS Indonesia coverage is limited with only 50 branch offices capable of disbursing remittances quickly. Also, even in the formal system customers are not necessarily protected from scams with fake commissions and "facilitators" adding to the costs.

Informal Transaction Flows

The use of informal channels is predominant in the corridor and encompasses money changers, courier services, hand delivery, and employment agencies. In the case of some informal transfers, funds channel through the hands of middlemen or immigration promoters who deduct repayments from salaries.[4] Foreign exchange bureaus play a significant role in this corridor but when money changers serve as remittance channels, the flows are not regulated or measured. One of the main transfer mechanisms is for returning migrants to carry cash on behalf of others. These remittance couriers, who may or may not be close friends or family members of migrant workers, risk seizure at custom checkpoints and losses due to robbery.

In December 2006, Bank Indonesia issued a new regulation allowing remittances agents to conduct remittance transfers.[5] The regulation aims to prevent remittance channels from being abused by money launderers. It also aims to optimize the consumer protection on money remittance activity. Bank Indonesia has adopted a gradual transition from registration to licensing for the remittances agents.[6] The transition period provides an opportunity to those entities that are currently operating informally to register and apply for a license. Under the new regulation, individuals as well as corporate entities will legally be able to act as remittance agents.

Deciding Between Formal and Informal Transfer Options

In theory, a migrant worker has several remittance service providers from which to choose. Several factors influence their choices including:

- *Physical access.* The ease with which the migrant worker can physically access the point of entry in Malaysia. This could be restricted by distance and the ability of the migrant worker to leave the workplace during opening hours.
- *Institutional access.* The ease with which the migrant worker can deal with the administration required, and also the user-friendliness of the point of entry.
- *Regulatory access.* The degree to which regulations might restrict access.
- *Cost.* There is a wide variance in the costs associated with transferring funds.

4. Although this is a formal bank channel, it is considered informal remittance transfer because the recipient is not known or recorded. It is unclear how remittances sent through money changers are distributed once they arrive in Indonesia.

5. Bank Indonesia Regulation No. 8/28/PBI/2006 regarding money transfer activities.

6. This regulation applies only to remittances agents, and not to money transfer operators such as Western Union and MoneyGram.

- *Competition.* The extent to which other sources provide easier and cheaper access.
- *Financial literacy.* The degree to which migrant workers understand the different options open to them and have the information to make informed choices.

Conclusions

Despite the increasing flow of migrants, the amount of remittances transferred through the formal sector in the Malaysian–Indonesian corridor is decreasing. The extent of the preference for informal sector is unique in this corridor. As the corridor is characterized by a large presence of undocumented migrants and an increasing percentage of women, the implication is that these two groups of migrants in particular find formal sector transfers either hard to access or inappropriate for their needs. An unregulated industry has arisen to facilitate remittances in this corridor.

From the migrant workers perspective, informal transfers may be more convenient, more easily accessible, or cheaper. The provision of pre-departure loans may attract some, while undocumented migrants in particular have few alternatives. However, some of the informal options such as sending money back with couriers may be insecure and unreliable. Despite the disadvantages of the informal sector, the formal sector has little to offer the migrant workers in its current state. It is less competitive in terms of accessibility and provides little added value in terms of access to the much needed pre-departure credit or other instruments that might appeal to the migrant workers, especially women and the undocumented.

From the development perspective, the issue is how remittances are translated into social welfare improvements and sustainable poverty reduction impacts. The very substantial amount of remittances to Indonesia and significance of remittances to the economy—especially in migrant sending areas—justifies greater attention to this as a development issue. The formal sector is not offering much added value over the informal sector as there are few savings or investment instruments tailored to the needs of migrant workers, and no efforts to market or educate migrant workers in how improvements could be made.

From the financial sector perspective, the changed global scenario after September 11, 2001, has prompted the need to more effectively monitor money transfers without constraining financial sector development. However, updating a country's regulatory framework could incur additional costs on formal remittance service providers or reduce their accessibility, thereby reducing their competitiveness in the eyes of migrant workers. Since the decrease in remittances coincides with the introduction of Anti-Money Laundering/Combating the Financing of Terrorism regulations, this may be a factor in the Malaysia-Indonesia remittance corridor. The formal sector approach needs to balance a well-targeted regulatory framework in the financial sector that ensures remittances are not used for illicit purposes and with better instruments and services that attract migrant workers to use formal and regulated transfer channels.

Operational Policy Recommendations

The transfer providers, whether formal or informal, need to respond to the needs of the migrant worker, as well as the development and financial sector perspectives. The following recommendations on how this might be achieved are arranged into three areas: (a) making the formal sector accessible and responsive to migrant workers, (b) facilitating migrant workers access into the formal sector, and (c) formalizing and regulating the informal providers while maintaining their accessibility for migrant workers.

Making the Formal Sector Accessible and Responsive to Migrant Workers

Increasing Effectiveness of Identification Procedures. Both countries need to increase the security and reliability of identification, and ensure migrant workers have access to a valid and acceptable form of identification by:

- Strengthening the reliability and credibility of national passports by ensuring that the same number is not issued and assessing the possibility of using biometric information;
- Ensuring that migrant workers have unrestricted access to their passports by amending the memorandum of understanding clause that gives the employer the right to keep the migrant's passport;
- Continuing to pursue alternative forms of valid identification, such as the Foreign Worker Card being introduced in Malaysia, and expand access for undocumented migrants;
- Relaxing identification requirements for individual transfer of small amounts.

Customizing Products and Instruments for Indonesian Migrant Workers. As the flow of migrants and remittances increases, the market potential and business case for developing services and instruments should be tailored to the needs of migrant workers by:

- Introducing innovative and flexible options for transferring remittances;
- Providing pre-departure credit that is more readily accessible at competitive rates;
- Developing savings instruments either in the receiving country, or that migrants could transfer money directly into their home country.

Ensuring Better Assessment Techniques of Data and Regulatory Changes. Better information and data would better inform policy formulation for facilitating migrants' access to the formal sector. This could be done by:

- Improving data quality, gathering and reporting of remittance flows;
- Monitoring and disseminating remittance transfer costs in the remittance corridor to bring greater transparency to cost structures;
- Improving assessment procedures to comprehensively assess market responses to recent regulations terms of magnitude of remittance flows and contribution to development.

Enabling Strategic Partnerships Between Formal Remittance Service Providers. Some strategic partnerships between formal operators are already being developed in the corridor. Creative partnerships need to be encouraged to reduce remittance transfer times and costs, and improve transparency, for example, through use of Internet-based systems.

Expanding the State's Role in Encouraging Formal Transfers. Most migrants are expected to make significant contributions to local governments or religious institutions on their return.[7] This process for making these contributions could be made more transparent and their development impact increased by matching remittance transfers sent back through formal systems into village funds, with contributions from government budgets.

Facilitating Migrant Workers Access to the Formal Sector

Expanding Financial Education. The current pre-departure financial literacy program is carried out by the recruiting agents who have little incentive to do this well. Improvements could be made by:

- Collaborating with different financial institutions in providing training and allowing them to disseminate information about instruments they offer to migrant workers;
- Providing more information on financial services and options through the Indonesian embassy in Malaysia, or through the Ministry of Foreign Affairs in Malaysia;
- Encouraging formal sector employers of migrant workers to provide financial literacy training;
- Partnering with nongovernmental organizations, cooperatives, or other providers at the local level in migrant sending areas to reach prospective migrants, and the families of migrant workers with financial literacy training.

Improving Physical and Institutional Accessibility. Physical access either to the place where remittances can be deposited and transferred, or to the place where remittances can be received and withdrawn, are major considerations and can be improved by:

- Building on the steps already being taken to introduce mobile phone banking and developing mobile financial services;
- Developing creative partnerships with informal sector providers that might be able to more effectively reach the migrant workers;
- Improving user-friendliness of the financial institutions for the migrant workers, many of whom, especially the women, may be intimidated by the formality, even more so if they are not treated as a respected and valued customer.

Formalizing and Regulating the Informal Providers while Maintaining Their Accessibility for Migrant Workers

Reducing Costs by Increasing Competition. Allowing more providers to transfer remittances has been shown to have an impact on the costs of transfers and should be encouraged.

Licensing and Regulating Informal Providers. Both Malaysia and Indonesia are taking significant steps to regulate informal individual and corporate informal providers so that

7. Use of Remittances Study (draft under preparation by the World Bank)

remittances can be better monitored and tracked while migrants retain their access to these more flexible services. Next steps include:

- Ensuring that licensing requirements for money transfer operators reflect their comparative size so that are not a disincentive to compliance;
- Including account mediators as part of the formal channel for distribution as these informal operators often have better access to rural communities;
- Providing training to the account mediators to enhance their financial capacity and governance.

Concluding Remarks

In the end, it is the Indonesian migrant workers who make the choice of how to transfer and use the remittances they send home, and their choice at the moment is clearly with the informal sector. An underlying assumption in this report is that more formalized systems could improve development and poverty reduction impact by providing greater security and reliability, reducing costs, and improving options for investing for better outcomes. However, major changes in approach are needed in the formal sector if they are to attract the migrant workers. Meanwhile, the important role of the informal sector in providing easily accessible solutions is recognized; and increased regulation of this sector, while an important element, needs to be done carefully in such a way that it does not drive migrants to greater informality of transfers. Regulations need to focus on enabling markets to function and encourage solutions, and migrant workers need to be recognized for their important contribution to the economy and empowered to engage with these markets.

Key Statistics of the Malaysia-Indonesia Remittance Corridor

Economic Indicators for Malaysia and Indonesia

General	Malaysia	Indonesia
Population (million, 2006)	25.8	223
Population Growth (annual %, 2006)	1.6	1.1
GDP Growth Rate (annual %, 2006)	5.9	5.5
GDP (US$billion, 2006)	148.9	364.5
GNI (US$billion, 2006)	141.4	315.8
GNI per capita (US$, 2006)	5,490	1,420
Foreign Direct Investment, net inflows (balance of payment, US$billion, 2005)	3.97	5.26
Official Development Assistance and Official Aid (US$billion, 2005)	0.03	2.52

Source: World Development Indicators database, April 2007.

Migration Data*

Migrants	Amount	Source
Estimated number of Indonesian migrant workers in Malaysia (documented, 2007)	1.3 million	MHAM
Estimated number of Indonesian migrant workers in Malaysia (undocumented, 2007)[a]	700,000	MHAM
Average annual salary range of Indonesian Migrant workers in Malaysia (US$)[b]	960–2,040	MHAM
Range of annual cost of migration on average (US$)	343–475	
Range of total annual migration and transfer costs (US$)	370–502	
Migration and remittance transfer costs as percentage of Indonesian migrant workers salary (averaging total cost range and salary range, US$)	29	
Percent of salary sent back as remittances (on average)	45	BI

[a]The Ministry of Home Affairs, Malaysia (MHAM) assumes that the 700,000 undocumented workers listed in table are nearly all TKI.

[b]Yearly salary calculated by taking the average monthly salary times 12; average monthly salary information provided by the Ministry of Home Affairs, Malaysia.

Note: *The data for the categories in which the sources has been left blank is calculated by FPDFI and EASSO units, World Bank, for the sole purposes of this report.

Remittance Data*

Remittances	Amount	Source
Total Remittance Inflows to Indonesia from all countries (US$billion, 2006)	5.6	BI
Formal Remittance Inflows to Indonesia from all countries (US$billion, 2005)	1.9	BI
Total Remittance Outflows from Malaysia to all countries (US$billion, 2005)	5.7	DSM**
Formal Remittance Outflows from Malaysia to all countries (US$billion, 2006)	2.1	BNM
Total Remittance Inflows to Indonesia from Malaysia (US$billion, 2006)	2.7	BI
Formal Remittance Outflows from Malaysia to Indonesia (US$billion, 2006)	0.26	BNM
Formal Remittance Outflows from Malaysia to Indonesia (US$billion, 2006)	0.24	BI
Informal remittances as % of total remittance inflows for Indonesia	80	BI[a]
Informal remittances as % total remittance inflows to Indonesia from Malaysia specifically	90	BI[b]
Remittance Inflows to Indonesia as % of Indonesian GNI (BI figures used, 2006)	1.8	
Remittance Inflows to Indonesia as % of Indonesian GDP (BI figures used, 2006)	1.5	
Average remittance amount range (anecdotal surveys, US$)	115–150	
The Country Providing Indonesia with the largest remittance inflow	Malaysia	BI
The Country Receiving Malaysia's Largest Remittance Outflows	Indonesia	BNM
Remittance Operations		
Main Transfer Mechanisms//Cash-couriers, Electronic Transfers		
Estimated annual average Transfer Fees (through bank channels), to send from Malaysia (US$)	7	
Estimated annual average Transfer Fees (through bank channels), to receive in Indonesia (US$)	20	
Total Yearly Average Remittance Transfer Costs (US$)[c]	27	

**Department of Statistics, Malaysia.

[a]Formal remittance estimates by BI using BI statistics; these statistics have been derived from monthly reporting of Indonesian banks and remittance service providers rather than BI's estimation in balance of payment statistics; the latter procedure would have suggested informal flows to be about 70% (1.9/5.7 times 100).

[b](.24/2.732 times 100) = approximately 90 percent of informal flows.

[c]Annual average transfer fees are based upon the assumption that workers remit twice a year through bank channels.

Introduction

The corridor between Malaysia and Indonesia is the second largest remittance outflow for Malaysia and the largest remittance inflow for Indonesia.[8] In the East Asia and Pacific Region, Indonesia is the second largest supplier of labor migration with 680,000 overseas worker contracts concluded in 2006 alone. Since 2003, the number of contracts has more than doubled. Malaysia, in general, is a destination for foreign workers because of its economic performance and government recruitment policies aimed to alleviate labor shortages.[9] In addition to these factors, the cultural and geographical proximity of Indonesia makes Malaysia a destination for both documented and undocumented Indonesian migrant workers.

Global migration trends show a sharp rise in the number of female migrants working overseas, especially in the last 20 years. The issue of gender is particularly interesting in the Malaysia–Indonesia remittance corridor. In the past decade, more than half of total registered Indonesian migrant workers have been women. In 2006, approximately 60 percent of migrant workers in Malaysia were women mostly employed as domestic helpers. It is for this reason the report team approached this corridor with a particular view to understanding the role of gender in migration and remittances.

This report is a combined effort between the Financial and Private Sector Development and the East Asia and Pacific Social Development units of the World Bank. It is part of a

8. Based on work done by the World Bank's Development Prospects Group using migrant stocks, source country incomes and destination country incomes. They find that Philippines is the largest remittance outflow for Malaysia, followed by Indonesia. The largest inflow from Malaysia comes to Indonesia, followed by Saudi Arabia. Latest data from Bank Indonesia supports this information as well.

9. Immigration to Malaysia increased substantially in the 1980s at the time that the Government shifted development strategy from import substitution to export-oriented industrialization. Ramasamy (2004).

series of studies under both the global Bilateral Remittance Corridor Analysis program and the Indonesia Female Migrant Worker Program. The report analyzes the transfer of remittances by Indonesian migrant workers known as *Tenaga Kerja Indonesia* or TKI.

The main objective of this report is to contribute to policymaking efforts to increase the impact that remittances have on economic growth and poverty reduction in Indonesia, and investigate options for attracting more migrants to use the formal sector. The report aims to provide a descriptive overview of the Malaysia-Indonesia remittance corridor and to suggest some policy avenues for improving access to formal remittance transfer channels; increasing the transparency of the flows and cost structure; and facilitating the transfer of remittances, particularly for undocumented and female migrant workers.

Female Migrant Worker Program

Over the past four years, the Social Development Unit at the World Bank's Indonesia office has been analyzing key issues and providing support toward building up knowledge and capacity through its Female Migrant Worker Program. The main purpose of this program is to identify appropriate mechanisms to provide sufficient protection for female migrants and to reduce their vulnerability throughout the migration cycle. Activities under the program include research studies to better understand the problem, technical assistance to strengthen the institutional capacity of relevant ministries, and seminars and workshops to share knowledge and experience among various stakeholders. The migration and remittance research study undertaken within this program has searched for strategies to improve the welfare of female migrant workers. This report has been prepared with the aim of enhancing the development impact in Indonesia from remittance inflows, and specifically the impact of remittances from female migrant workers on rural villages.

Bilateral Remittance Corridor Analysis

In order to increase the transparency and realize the development potential of remittances in recipient countries, the World Bank is studying remittance systems around the world through its Bilateral Remittances Corridor Analysis. The overall objectives of these explorative studies have been to elucidate the principal issues faced by policymakers in both sending and receiving countries in protecting the integrity and raising the efficiency of formal remittance systems, enhancing the developmental impact of remittance flows, and describing how policymakers in the selected countries are dealing with these issues. An underlying assumption of this work is that the "formalization" of remittance flows (shifting remittance flows from informal to formal transfer systems) can discourage illegal financial flows and improve the developmental/poverty reduction impact of remittances. The Bilateral Remittance Corridor Analysis also examines the incentives that influence remittance decisions and identify information gaps and areas for further research. Table 1 lists the studies that have taken place to date.

The strengthening of anti-money laundering and combating the financing of terrorism (AML/CFT) regimes has been a focus of Government attention to remittances over the past decade. By enhancing supervision of remittance channels, it follows that money

Table 1. World Bank's Bilateral Remittance Corridor Analysis, 2007

Published	Completed or Underway
United States–Mexico	Qatar–Nepal
Canada–Vietnam	United Kingdom/ United States / South Africa–Uganda***
Germany–Serbia	South Korea–Mongolia
Italy–Albania	United States–Honduras
United States–Guatemala	Canada–Caribbean
Netherlands–Suriname*	
Netherlands–Morocco*	
United Kingdom–Nigeria**	

Note: *Conducted by the Ministry of Finance of the Netherlands, **Partnership with UK Department for International Development, ***Partnership with Central Bank of Uganda.

launderers and terrorist financiers will become more dissuaded from using them due to higher risks and costs associated with their illegal venture. Although logically persuasive, lack of data on illegal flows and the incipient nature of AML/CFT frameworks in most countries make judgments regarding their effectiveness premature at this point. There is also a risk that formalizing the procedures may dissuade the poorer and less-educated clients, such as migrant workers, who might benefit from accessing a responsive formal financial sector.

Methodology and Outline of Report

The report is based on fieldwork in both Malaysia and Indonesia, including interviews with key informants from the banking sector and government officials, and focus group discussions with migrant workers and their families. A major challenge has been reconciling data and information from different sources, which tend to differ significantly due to different methods of collection or calculation. The data presented in this report represents the best estimates based on significant research of all different sources.

The report is organized under four chapters. Setting the scene for the analysis of the bilateral remittance corridor, Chapter 1 presents key global and regional social and economic trends relating to migration and remittances. It also looks at Malaysia as a remittance-sending country, and Indonesia as a remittance-recipient country. Chapter 2 looks specifically at the migration and remittance characteristics and trends in the Malaysia–Indonesia corridor. Chapter 3 examines the remittance process and characteristics of the transfers—identifying both informal and formal intermediaries (remittance service providers) in both countries, and identifying some incentives and constraints that influence the choices made by migrants on the channel used. The conclusions and policy recommendations in Chapter 4 summarize the main findings and identify the main challenges. The policy recommendations are offered to develop better services for migrant workers and encourage a higher degree of formalization in the corridor. They are based upon best practices from other countries that might help increase the effectiveness of the transfer process in the Malaysia-Indonesia remittance corridor.

Finally, four annexes provide detailed explanations of specific issues covered in the report. Appendix A details the current regulatory environment in both Malaysia and Indonesia, including recent steps aimed at implementing stronger AML/CFT frameworks and promoting greater formalization. Appendix B discusses some of the challenges faced by central banks and statistics departments in recording and measuring remittance flows. Appendix C describes the World Bank team's fieldwork experiences in Malaysia and Indonesia on issues affecting the transfer of remittance flows between the two countries. Appendix D explains the Bank team's methodology to gain in depth insight into the factors influencing migrants' preferences for choosing financial services.

CHAPTER 1

Global and Regional Trends

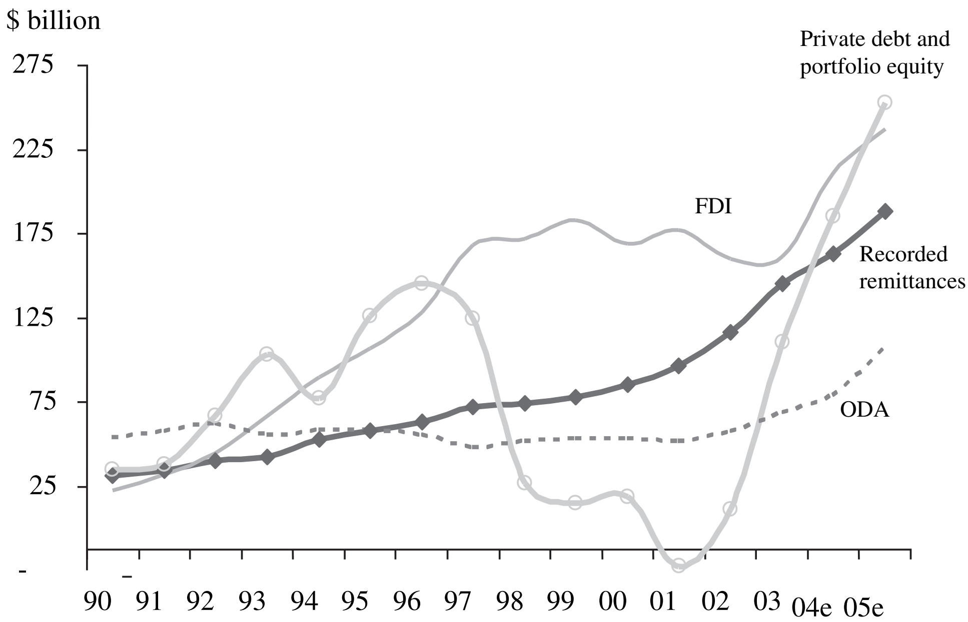
The Context

In the context of global and regional trends, this chapter places Indonesia as a labor-sending and remittance-receiving country, and Malaysia as a labor-receiver and remittance-sending country. Beginning with an overview of global and regional migration trends, the chapter continues with a look at trends in Indonesian migration, the Indonesian migrant workers, remittance flows, and the use of remittances. It concludes with migration into Malaysia and the flows of remittances from there.

Global Migration and Remittance Patterns

More than 190 million people, approximately 3 percent of the world's population, live in countries in which they were not born (World Bank 2007). Global remittances have increased steadily over the last decade and recorded remittance flows to developing countries in 2006 are estimated at US$204 billion. However, the true size, including unrecorded flows through formal and informal channels, is believed to be significantly larger (World Bank 2005). Remittances have overtaken overseas development assistance as a source of foreign direct investment (FDI) and have proved more robust and vulnerable to external shocks than other FDI sources (Figure 1). Over the last few years there has been increasing recognition of the importance of remittances to the economies of developing countries and interests by governments in trying to maximize the benefit potential.

Figure 1. Global Remittance Trends



Source: Global Economic Prospects: Economic Implications of Remittances and Migration 2006 (Washington, D.C.: World Bank, 2005).

East and South Asian Migration and Remittance Trends

One-quarter to one-third of the total international migrant stream comes from the nine largest Asian immigrant-exporting countries—the Philippines, India, Bangladesh, Pakistan, Indonesia, Thailand, China, Sri Lanka, and Myanmar. This is not surprising when taking into account that the total population of some main sending states accounts for nearly half of world population, and that several countries in the Region are both large importers and exporters of labor (IOM 2005).

The 2005 International Organization for Migration (IOM) study noted three important trends in Asian migration:

- More South and East Asian migrants are finding employment closer to home.
- These regional migrant labor flows also seem to be increasingly undocumented workers.
- More and more South and East Asian migrants are women.

Increasingly, more South and East Asian migrants are finding employment closer to home. Although the Middle East remains an important destination, the number of Asian workers overall migrating within Asia has increased in proportion to the diminishing numbers of migrants moving to the Middle East. The IOM report notes a number of causes for this trend, ranging from the recent violent conflicts in the Middle East to specific policies in some countries undertaken to "indigenize" the workforce (IOM 2005). This is not the case with

Indonesian migrants as the figures have fluctuated over the last five years; and in 2006 slightly less than half of documented Indonesian migrant workers were employed in Asia, slightly more than half were employed in the Middle East and Africa Regions.[10] However, these numbers do not take undocumented workers into account, and thus may underestimate the total, including those which flow to neighboring Asian countries.

Regional migrant labor flows also increasingly seem to be undocumented workers. Some governments in the Region, including Indonesia, promote labor export as a key component of their economic development planning. And although these countries generally have highly institutionalized and regulated migration-promoting programs, researchers have observed a rising level of undocumented migrant workers. An Asian Development Bank report notes that informality prevails in many countries of the Region, but most notably in Malaysia. It is notoriously difficult to measure the number of undocumented workers. Nevertheless, estimates of the percentage of undocumented Indonesian workers range from one-quarter to two-thirds of the total number of Indonesian workers in Malaysia (Sukamdi, Striawan, and Haris 2004).

Lastly, more and more South and East Asian migrants are women. The number of female migrant workers in Japan, Hong Kong, Singapore, and Malaysia surpass that of male migrant workers. In 2004, female migrant workers in these countries remitted more than US$3 billion, the average transfer ranging from US$300 to US$500 per transaction (ADB 2006b).[11] As in the case of the Malaysia–Indonesia corridor, female migrant workers are increasing in numbers and generally concentrated in specific sectors, such as manufacturing and domestic service.

According to IMF balance of payment data from 2005, the East Asia and Pacific Region as a whole accounted for US$45 billion, 17 percent of global recorded remittance inflows. In 2005, remittance inflows were five times that of official development assistance and aid. The Region has undergone steady growth in gross domestic product (GDP), with levels of foreign direct investment and goods' exports both rising steadily and more quickly over the last five years. Remittances have not only kept pace with this growth, but increased from 1.1 percent in 2001 to 1.5 percent of the regional GDP in 2005 (Table 2). However, this GDP percentage does not take into account the extent of informal remittance flows, so its contribution to overall GDP is likely to be much higher. Moreover, during the same period, workers' remittances[12] and compensation of employees[13] outflows increased nearly five-fold while remittance inflows more than doubled, indicating the growing importance of East Asian countries as both remittance senders and receivers. The macroeconomic development of Malaysia and Indonesia, along with the growth in remittances has also loosely followed this regional pattern.

10. Ministry of Manpower and Transmigration, 2006 data.

11. All dollar amounts are current U.S. dollars.

12. Defined as goods or financial instruments transferred by an individual who has been working abroad for at least one year to the residents of the economy in which the worker previously resided, according to IMF Balance of Payments Statistics Yearbook 2006.

13. According to the IMF definition, compensation of employees is differentiated from worker's remittances on the basis of the work period of the nonresident worker. If the work period is less than a year then the wages, salaries, and goods that are earned and remitted are classified as compensation of employees. Total remittances is composed of workers' remittances, compensation of employees, and migrants transfers (IMF 2006).

Table 2. East Asia & Pacific Region: Economic Aggregates and Workers' Remittances

	2001	2002	2003	2004	2005
GDP (current US$ billion)	1,838.4	2,027.3	2,291.0	2,654.3	3,040.0
Goods exports (balance of payment, current US$ billion)	529.3	604.1	751.5	963.8	1,187.8
Foreign direct investment, net inflows (balance of payment, current US$ billion)	47.7	57.0	53.5	66.1	96.9
Official development assistance and official aid (current US$ billion)	7.4	7.3	7.2	7.0	9.5
Workers' remittances and compensation of employees, received (US$ billion)	20.1	29.5	35.3	38.8	45.1
Workers' remittances and compensation of employees, paid (US$ billion)	2.0	5.4	5.5	8.4	9.9
Workers' remittances and compensation of employees, received (% of GDP)	1.1	1.5	1.6	1.5	1.5

Source: World Development Indicators (World Bank, 2006).

Indonesian Migration and Remittance Trends

In 2006, 680,000 Indonesian migrant workers traveled overseas with contracts to work in other countries. The exact number of Indonesian migrant workers abroad at any given time is difficult to estimate because of the fluid nature of migration and the unknown undocumented flows; however, it is thought to be around 4.3 million.

Migration Facts and Figures

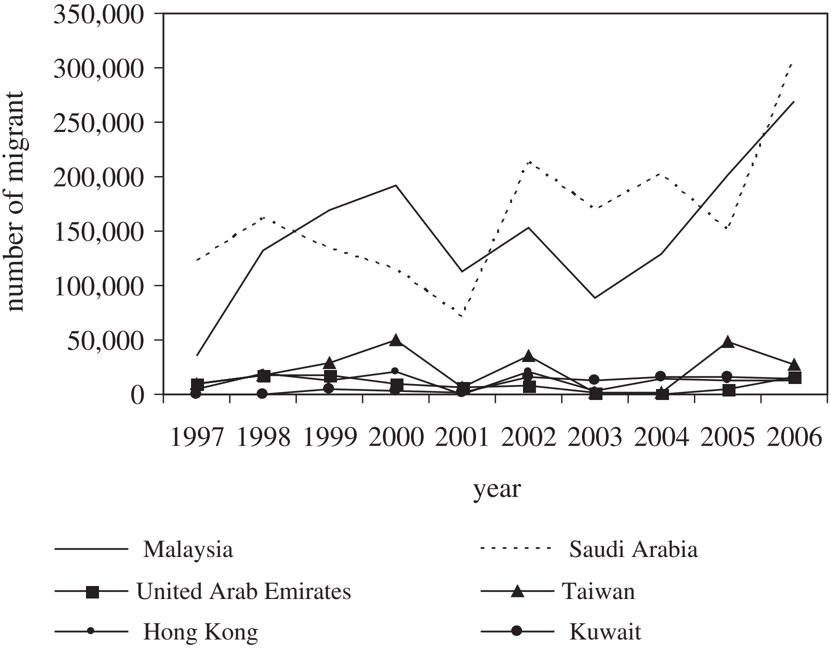
Migration has been steadily increasing since the early 1980s. Female migrants have consistently outnumbered men. There was a rapid increase in the number of both male and female migrants around the time of the economic crisis; and in recent years, the number of female migrants has continued to grow at a rapid pace while male migration has fluctuated. The vast majority of all overseas employment contracts were with employers in either the Asia Pacific or Middle East and Africa Regions. Over the last decades fewer contracts have been concluded with employers in Europe and the Americas, reaching nil in 2006.

There has been a rapid and steady increase in migration to Malaysia from Indonesia since 2003 (Figure 2). Of the Indonesians that were approved in 2006 to work overseas, 270,099 were destined for Malaysia and 307,427 to Saudi Arabia, accounting for 85 percent of all flows of migrant workers abroad.[14] Almost 80 percent of the migrants leaving in 2006 were women, and 88 percent of these women went to work in the informal sector overseas.

Migrant workers tend to come from specific regions in Indonesia such as West Java, Central Java, East Java, East Nusa Tenggara, West Nusa Tenggara, South Sulawesi, and Lampung. Hence remittances to Indonesia also tend to be concentrated in these provinces. Migration is primarily for financial reasons. Most Indonesian migrants work abroad to help support their families back home. They come from rural areas where there are few alternative employment opportunities. In some regions, such as Lombok, there is social pressure on younger

14. Directorate General of PPTKLN, from www.nakertrans.go.id

Figure 2. Indonesian Migrants, Major Destination Countries (1997–2006)



Source: Ministry of Manpower and Transmigration, Indonesia.

men and women to migrate and succeed. Other motives include encouragement by mediators who stand to benefit, or escaping from family problems.[15] Success stories of previous migrants can be a strong motivator. Migrants tend to have a higher social status; although single females in some places, unlike married women, may be stigmatized.

Recruitment agencies, so-called *PJTKI* and *PJTKA*,[16] and mediators place workers based on supply and demand between Indonesia and receiving countries. Migration has become an industry in Indonesia with over 400 companies now registered to recruit migrant workers and place them in employment overseas. The agencies, mostly based in Jakarta, hire field recruiters to promote overseas jobs in rural areas.[17] Others tend to work with freelance mediators and give them monetary incentives for each candidate they recruit. The industry is regulated under a law on placement and protection of migrant workers; and the companies are responsible for the entire chain of migration from recruitment, organizing papers and documents, training, placement, travel, and insurance.

15. Interviews with ADBMI, a nongovernmental organization working with migrants in Lombok.

16. PT or PJTKI stands for *Perusahaan Jasa Tenaga Kerja Indonesia,* the term used for recruitment companies in Indonesia. PJTKA stands for *Perusahaan Jasa Tenaga Kerja Asing,* the Indonesian term for recruitment companies in the host countries that partners up with PJTKI. While PJTKI is more focused on the supply side, PJTKA mainly deals with the demand side. One PJTKA usually partners up with several PJTKI.

17. Referring to the 2006 annual report of the Directorate General of Overseas Employment Development under Ministry of Manpower and Transmigration, there were 476 registered PJTKI. The Ministry issued a compulsory re-registry with a deadline of October 18, 2006. The total number of PJTKI after re-registration is 388 consisting of 370 re-registered agencies and 18 new agencies.

Indonesian Government Intervention and Regulation

The Indonesian Government is putting in place an institutional and policy framework for the placement and protection of migrant workers. A national task force headed by the National Planning and Development Agency (*BAPPENAS*) and Coordinating Ministry for Economy and Investment (*MenKoEkuin*) formulates the policy relating to migrant workers. A National Agency for the Placement and Protection of Migrant Workers implements the policies and monitors migration. The Ministry of Manpower and Transmigration directs training programs targeted to the country of destination and focused on increasing skills of migrant workers. The steps taken by the Indonesian Government to regulate migrations are described in Box 1.

Box 1. Official Policies and Programs to Regulate Indonesian Worker Migration

Bilateral agreements. Up to December 2006, the Ministry of Manpower and Transmigration (MMT) has signed seven memoranda of understanding with some destination countries, such as the Republic of Korea and Malaysia (with the Ministries of Labor), Taipei (Economic and Trade Office), the State of Kuwait, the Hashemite Kingdom of Jordan, and Japan.

The main elements of the memoranda were:

- Designation of the agencies responsible for recruiting, selecting, and sending of Indonesian workers and their counterpart in the migration-recipient country.
- Definition of quotas, recruitment requirements, procedure and mechanism, and job-seekers in each country. For example, one of the conditions required to work in Korea is to pass a Korean language proficiency test recognized by the Ministry of Trade, and job-seekers must furnish their personal data to the sending agency.
- Definition of the terms of the labor contracts such as the maximum duration.

Training and public awareness. Establishment of training programs and a policy of awareness raising and public knowledge of the conditions and steps involved during the migration process.

- Awareness raising has been conducted by the MMT within the country through provincial governors, heads of districts, and mayors, on procedures for placing Indonesian workers abroad and instructions on how to supervise recruiting agents in the respective regions.
- Awareness raising on local regulations has been conducted by Indonesian Embassies/ Consulates in destination countries such as Hong Kong.

Inter-institutional cooperation and coordination. Inter-institutional cooperation and coordination between MMT and different ministries—Foreign Ministry, Law and Human Rights Ministry, Ministry of Health, Ministry for Religious Affairs, and Ministry of Home Affairs—to discuss and resolve problems faced by Indonesian workers abroad and to monitor health related issues.

Legislation. Legalization of Act of the Republic of Indonesia No.39/2004 concerning the Placement and Protection of Indonesian Overseas Workers as the main reference in overseas employment placement mechanism.

National Agency for Placement and Protection of Indonesian Overseas Workers. Establishment of the National Agency for Placement and Protection of Indonesian Overseas Workers, which is composed of various government agencies through Presidential Decree No.81/2006.

Source: Ministry of Manpower and Transmigration, Indonesia and Ministry of Foreign Affairs.

Indonesia as a Remittance-receiving Country

In 2006, IMF Balance of Payments records US$5.7 billion in remittances to Indonesia from all over the world. This figure is calculated from stock of migrants and survey estimates of contract amounts and percentages of remittances sent home. This methodology, which is described in Appendix B, was introduced in 2005 when it was recognized that the US$1.9 billion reported by banks[18] and non-bank financial institutions[19] was a substantial underestimate of the total amount. Using the new methodology, the 2005 figure was revised to US$5.3 billion (Table 3) and has risen steadily since then (Bank Indonesia 2007).

Table 3. Estimates of Total Remittances Sent from Malaysia, and Total Remittances Received in Indonesia in 2005

	Reporting from Banks and Remittance Service Providers (formal channels only)	Estimates Based on Sampling or Migrant Stock (formal and informal channels)	Percentage of Remittance Flows Transmitted through Formal Channels
Malaysia	**US$1.8 billion**	**US$ 5.7 billion**	32%
Total remittances sent abroad to all countries	*Source:* Bank Negara Malaysia	*Source:* Department of Statistics, Malaysia; number reported to IMF balance of payment data	
Indonesia	**US$1.9 billion**	**US$5.3 billion**	36%
Total remittances received from abroad, from all countries	*Source:* Bank Indonesia, number originally reported to the IMF balance of payment and calculated using old methodology	*Source:* Bank Indonesia, official revised number reported for IMF balance of payment data	

Indonesia's consistent GDP growth, which averaged more than 6 percent per year from 1970 to 1996, outpaced population growth and brought the country into the lower middle-income category. The Asian economic crisis in the late 1990s was a major economic shock triggering social and political change. However, in the last few years, GDP growth has been recovering and is expected to be 6 percent in 2007.[20] Both goods exports and worker remittances and compensation received have increased along with GDP (Table 4). Lack of economic opportunity and continuing poverty in rural areas, coupled with increasing industrialization in urban areas, are factors encouraging Indonesians from rural areas to migrate more and more either within the country or to foreign destinations (EIU 2007a).

18. From a total 138 resident banks, 104 report foreign exchange transactions.
19. Non-bank financial institutions are securities, insurance, finance, and trust companies.
20. World Bank Online Country Brief, Indonesia, www.worldbank.org/indonesia.

Table 4. Indonesia: Worker Remittances Relative to Other Economic Indicators

	US$ Billion				
	2001	2002	2003	2004	2005
GDP	164.1	200.1	237.4	254.3	287.2
Goods exports	57.4	59.2	64.1	70.8	86.2
Foreign direct investment, net inflows	–3.0	0.1	–0.6	1.9	5.3
Workers' remittances and compensation of employees, received	1.0	1.3	1.5	1.9	1.9 *(5.3)**
Official development assistance and official aid	1.5	1.3	1.7	0.1	2.5

*Worker's remittances and compensation received figures in this table are based on bank and other money transfer operator reporting. In 2005 a new method of estimating remittances was launched, revised figure is given in italics.

Source: World Development Indicators (World Bank, 2006).

Indonesia is mainly a remittance-recipient country and has multiple corridors.[21] It is estimated that 90 percent of the total inflows originate from Kuwait, Malaysia, and Saudi Arabia (ADB 2006b). Other significant sources of remittances are Brunei, Japan, Jordan, Kuwait, South Korea, Taiwan, Thailand, and the United Arab Emirates. Regionally, The Philippines has the most significant flow of remittances in terms of GDP percentage, while China has the largest absolute flow of remittances coming in. While not as significant as either of these countries, Indonesia still has one of the largest remittance flows in the Region (Tables 5 and 6) especially if using the more realistic, revised balance of payment figure of US$5.3 billion for 2005 calculated from migrant stock.

Although the amount of remittances is relatively small compared to export earnings, remittance flows are a stable and consistent source of foreign exchange. (For more information on this, see Appendix B.) In particular, overall remittances inflows increased during the Asian economic crisis of the late 1990s. In 2005, remittances to Indonesia constituted approximately 12 percent of total remittances to the East Asia and Pacific Region, taking into account estimated informal flows in the corridor.[22]

Table 5. Workers' Remittances and Compensation of Employees, Received

	US$ Billion				
Country	2001	2002	2003	2004	2005
Indonesia	1.4	1.2	1.5	1.9	1.9 *(5.3*)*
Thailand	1.3	1.4	1.6	1.6	1.1
Philippines	6.1	9.7	10.2	11.5	13.6
China	8.4	13.0	17.8	19.0	22.5

*Worker's remittances and compensation received figures in this table are based on bank and other money transfer operators reporting. In 2005 a new method of estimating remittances was launched, revised figure is given in italics.

Source: World Development Indicators (World Bank, 2006).

21. Information obtained from Bank Indonesia, POS Indonesia, and the Banking Association.
22. Based upon rough World Bank estimates.

Table 6. Workers' Remittances and Compensation of Employees, Received

	Percentage of GDP				
Country	**2001**	**2002**	**2003**	**2004**	**2005**
Indonesia	0.6	0.6	0.6	0.7	0.7 *(1.8*)*
Thailand	1.1	1.1	1.1	1.0	0.7
Philippines	8.1	12.8	12.7	12.6	13.7
China	0.6	0.9	1.1	1.0	1.0

*Worker's remittances and compensation received figures in this table are based on bank and other money transfer operators reporting. In 2005 a new method of estimating remittances was launched, the percentage calculated using the revised figure is given in italics.

Source: World Development Indicators (World Bank, 2006).

Impact of Remittances on Regional Growth and Poverty Reduction in Indonesia

Only about 10 percent of the districts in Indonesia send significant numbers of migrants overseas.[23] Hence, while the level of remittances may appear small relative to total GDP, these inflows may be highly significant in a local context. In certain provinces of Indonesia, remittance inflows are greater than total local income.[24] For example, in the first quarter of 2007, it is estimated that migrants from the province of East Java remitted over US$90 million to East Java specifically, accounting for nearly 62 percent of total incoming remittance inflows to the country (Figure 3).[25] In fact, nearly 90 percent of all remittances to Indonesia flow into the populous island of Java.

The majority of migrants are from the rural areas where poverty is greatest, hence an impact on poverty reduction would be expected. However, there is no information on the macroeconomic impact of remittances on economic growth, net effect on poverty alleviation, and the extent to which such flows have influenced social welfare indicators in the beneficiary community. Qualitative research, however, indicates that there is significant room for improving both quantity and the quality of investment of remittances in order to have a better and more sustainable impact on household welfare. The high costs of migration, commitments to loan repayments, inefficient transfer mechanisms, and lack of instruments and advice for saving, mean that there is seldom sufficient savings from migration to invest in income generating activities by the time the migrant returns. Migrant workers and their families also lack the knowledge of investment alternatives, have limited financial literacy, and have limited access to additional financing for investment.[26]

There is rarely a plan made before departure as to how the remittances will be spent. Relatives looking after the migrants' children may feel entitled to a share of the remittances. Significant amounts are used to pay back loans or debts. While they are away, the migrant worker rarely has much control over how the remittances are spent, although once they return, with their added confidence gained from the experience, they take back control

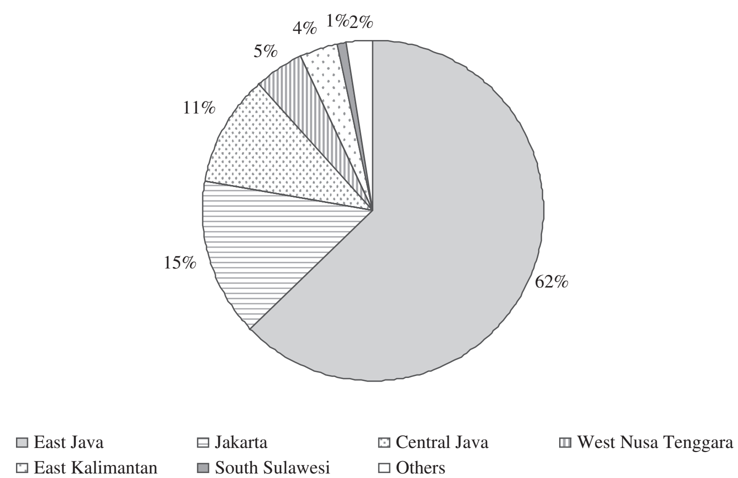
23. BNP2TKI lists about 40 districts as important sending districts.

24. This is the case in West Nusa Tenggara, which received remittances totaling over 300 billion rupiah in 2002, well exceeding the 61 billion rupiah local revenue in 2001 (Sukamdi, Striawan, and Haris 2004).

25. Based on data provided by the National Agency for the Placement and Protection of Indonesian Overseas Migrant Workers.

26. Use of Remittances study (draft under preparation by the World Bank).

Figure 3. Total Remittances Inflows to Indonesia by Region, January–April 2007



Source: Badan Pelayanan Penempatan Tenaga Kerja Indonesia (Institution Service for Indonesian Migrant Workers in District Area).

over the remaining funds. After paying debts and living costs of the family that stayed, housing is a priority for the migrant workers. Some family members invest in income-generating activities—such as buying a car or motorbike, investing in agriculture, or starting up a trading business, and others—though others in lesser numbers invest in education or are struck with health care costs. In many cases, instead of focusing on savings, migrants tend to spend on electronic and luxury consumer goods, such as plasma TVs, which they often end up selling if they cannot successfully re-enter the Indonesian labor force or have to travel again for more work (Box 2).[27]

Malaysia as a Remittance-sending Country

Bank Negara Malaysia (BNM) recorded US$1.8 billion total outflows in 2005 through banks and remittance service providers. However, alternative calculations based on sampling survey undertaken by the Department of Statistics, Malaysia, indicate total remittance estimated outflows US$5.7 billion in 2005. This is the figure recorded in the cash balance of payments data, which include cross-border transfers through the banking system, inter-company accounts, and overseas accounts.

Steady export-led GDP growth over several years has pulled the Malaysian economy into the upper middle-income category. Over the past two decades, this growth has been fueled by national savings and relatively high levels of foreign direct investment. Manufacturing and services dominate the economic landscape, accounting for about one-third

27. Use of Remittances study (draft under preparation by the World Bank).

Box 2. Use of Remittances

"I own the store out the front selling everyday necessities. I opened it with the money I earned in Malaysia. I only make a profit of about Rp 100,000 ($11) per month. It is difficult to make more than that here. Anyone who has money can go to town to shop. The profits from the store are only used to supplement our income. My younger sibling pays for our food. The profits from his cocoa plantation are able to cover our family's living costs."

Magda, 35 years old, Raja Village, Bone

"I am an only child and my mother was a widow then. We are the hardest off in the village; it was even a struggle to buy the daily staple food. I dreamt of owning my own house by going to Malaysia. Everyone had a house, while my house was made out of bamboo and had a dirt floor. I first went to Malaysia in 1992 and returned in 1998. Just as I had dreamed, I was able to finally build a house on the land that my family owned. I spent approximately Rp 15,000,000 ($1,677) on the house. One thing that I feel has changed after working overseas a few times is that nowadays I feel more confident in myself because I have earned a reasonable income. In the past I really was struggling, but now I no longer have to struggle."

Sadira, 31 years old, Barabali Village, Central Lombok

"I went to Malaysia in February 2003 and worked in a plywood factory in Sandakan. I worked twelve hours daily, and an additional 3 hours if there was overtime. I only rest for half an hour to have my lunch, and I was always on my feet during my shift. I didn't get any days off except on Holy days. After a year, I began to feel ill all the time: felt cold, short of breath, and headache. Maybe it was because I was working too hard or had inhaled too much glue fumes. I went to the clinic near the factory. The company would not reimburse my treatment because, apparently, they only provide accident insurance, not health or life insurance. Since I didn't get any better, I decided to return home in May 2004. I only brought Rp 1,000,000 ($111) and 20 grams of gold with me. My money is already gone as I used it to cover my medical costs and daily needs. I didn't receive any support from the factory. Now that I have run out of money, I have become dependent on my mother again."

Nina, 25 years old, Walenreng Village, Bone

Source: Use of Remittances Study (draft under preparation by the World Bank).

and one-half, respectively, of the national income (EIU 2006b). Migrant workers play a significant role in both these sectors but also in agriculture, construction, and domestic help. Table 7 below shows the upward trends in various economic indicators, including workers' remittances and paid compensation to employees.

Malaysia remains a significant employer for workers coming from Southeast Asia and beyond. In 2006, of an estimated 1.7 million total migrant workers of all nationalities in Malaysia, 1.2 million were registered (UC Davis 2007). Within this group, Indonesians constituted the largest group of migrant workers in the country, accounting for more than 60 percent of the total migrant labor force (Figure 4).[28] Nepalese, Indian, and Burmese workers were also well represented, making up 11, 7, and 6 percent of the migrant workers, respectively, in Malaysia. In 2006, the Malaysian Ministry of Home Affairs recorded 1,174,014 Indonesian, 109,219 Burmese, and 213,551 Nepalese workers.[29] Although the

28. Based on interviews with officials from Ministry of Home Affairs, Malaysia.
29. Statistic of foreign workers according to citizenship and sector, Ministry of Home Affairs, Malaysia.

Table 7. Malaysia: Worker Remittances Relative to Other Economic Aggregates

	US$ Billions				
	2001	2002	2003	2004	2005
GDP	88.0	95.2	104.0	118.5	130.3
Goods exports	88.0	93.4	105.0	126.6	141.8
Foreign direct investment, net	0.3	1.3	1.1	2.6	1.0
Workers' remittances and compensation of employees, paid	0.6	3.8	3.5	5.0	5.7

Workers' remittances are based on estimates compiled by the Department of Statistics Malaysia and reported in the IMF Balance of Payment Statistics Yearbook, 2006.
Source: World Development Indicators (World Bank, 2006).

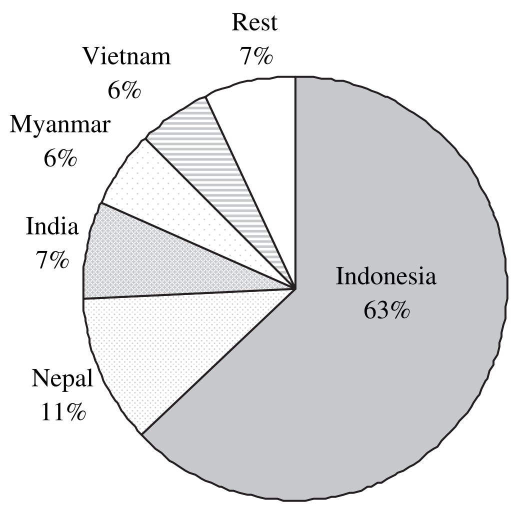
number of migrant workers increased only by 3 percent between 2005 and 2006, markedly lower than the 22 percent increase of 2004–2005, the total number of foreign workers remains significant, accounting for 17 percent of all those employed in Malaysia.[30]

Main Points

The main points from this chapter, which will be carried forward into the later analysis, are the following:

- The number of migrant workers from Indonesia to Malaysia has been rapid and steady.
- Despite the number of migrants leaving Indonesia and the high levels of remittances to some provinces, there is no clear link between migration and the reduction of poverty.
- More than 60 percent of the remittances leaving Malaysia (for all countries) and also arriving into Indonesia (from all countries) are transmitted through informal channels.

Figure 4. Foreign Workers in Malaysia by Nationality, December 2006



Source: Ministry of Home Affairs, Malaysia.

30. End of year figures, including foreign expatriates (Bank Negara Malaysia 2006).

CHAPTER 2

Migrants and Remittances

The Corridor

This chapter looks specifically at the Malaysia-Indonesia corridor starting with the history of migration from Indonesia to Malaysia and an analysis of the number and characteristics of the migrants, the processes and costs on the Malaysian end, and the remittance patterns.

History of Migration from Indonesia to Malaysia

Malaysia is an attractive destination for Indonesian migrants for several reasons. The geographical proximity and cultural familiarity between the two countries makes Malaysia a relatively convenient destination for migrant workers. It takes only 30–60 minutes to reach the closest city of Seiran (Serawak, Malaysia) from the city of Entikong in Indonesia (West Kalimatan). In fact, the history of migration to Malaysia goes back to colonial times, although the reasons and trends have changed somewhat over the years (Figure 5). The Indonesian Government promotes export of labor and remittances as part of the country's economic policy, and the Malaysian authorities have promoted the use of migrant labor as part of the economic development process making the two countries compatible neighbors (Sukamdi, Striawan, and Haris 2004).

Organized migration between the two countries has been strengthened by two bilateral Memoranda of Understanding.[31] At the end of June, 2007, the Governments of Malaysia

31. At the end of June, 2007, both Governments met in Surabaya-East Java to review the Memorandum of Understanding on the Recruitment and Placement of Indonesian Domestic Workers signed on May 13, 2006.

Figure 5. The History of Indonesian Migration to Malaysia

Colonial Period	1970s	1980s	1990s
▪ In 17th century, Java was the largest exporter of slaves to Malacca. They were put to work as manual laborers in the harbor towns. ▪ Indonesian citizens entered Malaysia to trade rice and coconuts along two different routes: (1) East Java to Sumatra to Semenanjung, Malaysia; and (2) Sulawesi to East Kalimantan to Sabah. These routes later became the traditional migration route. ▪ At the beginning of 20th century, an increasing number of laborers from Java were recruited to work in Malaysia and East Sumatra during the rubber boom. Migration to Malaysia also continued, both through trade and recruitment into the agricultural sector.	▪ Migration to Malaysia was reignited by invigorated agricultural developments. Malaysia recruited male laborers on a large scale through formal and informal channels. ▪ Migration costs of domestic helpers were borne by employers, and recruiters gave money to the family left behind as incentives.	▪ Sending workers overseas became part of the economic development policy. The Government set target for overseas migrant workers in the 4th Five-Year Development Plan. ▪ Female migrant outflow, especially as domestic helpers, began to increase significantly and outnumber male migrant. Middle East was the primary destination. ▪ In line with the jump in the number of female migrants, sponsors began to offer villagers the opportunity to work overseas. ▪ Prospective migrant workers were made to pay their sponsor Rp200,000 – Rp250,000 and the family who they left behind was no longer given money	▪ The number of female migrants continued to escalate, reaching a peak during the economic crisis (1997/1998). ▪ Various destinations, namely, the Middle East, Singapore, Brunei, Hong Kong and Taiwan. ▪ Migration had become an ‘industry’. The placement of female migrant workers as domestic helpers was considered a profitable business so there was a rapid increase in the number of employment service agencies. ▪ The Government set a target of 1.25 million overseas migrant workers in the 5th Five-Year Development Plan, a 150 percent jump in the target outlined in the 4th Five-Year Development Plan. ▪ Departure costs shot up, causing migrant workers to go into debt. ▪ Efforts to protect female migrant workers were highlighted because of the increase in cases.

Source: Global Economic Prospects: Economic Implications of Remittances and Migration 2006 (Washington, D.C.: The World Bank, 2005).

and the Republic of Indonesia met in Surabaya-East Java to review the Memorandum of Understanding on the Recruitment and Placement of Indonesian Domestic Workers, which was signed on May 13, 2006. The Memorandum of Understanding Regarding the Recruitment of Workers was signed by both Governments on May 10, 2004, in Bali. The 2004 Memorandum stated the responsibilities of the employer, the employee, as well as the Malaysian and Indonesian Governments' and recruitment agencies. Among the multiple requirements, the workers must be 18–40 years old; know how to communicate in either English or Malay; pay any levies or processing fees imposed by the Malaysian Government; carry his or her foreign worker card at all times; not possess any previous criminal record; and not be involved in any marital relationship during his or her stay in Malaysia. The 2006 Memorandum outlined the regulations on the recruitment and placement of Indonesian domestic workers. A few notable advances were made, namely agreements on the opening of bank accounts, foreign workers cards, and passports. The Memorandum stated that the employer should, if requested, assist the domestic worker in opening an account, but it is not mandatory. It is also the responsibility of the employer to make sure that the domestic worker receives his or her foreign worker card from the Ministry of Immigration. The card is the property of the worker. Lastly, the employer is responsible for the safekeeping of the worker's passport once the worker arrives at the employer's house. The Memorandum was a step in the right direction, but the regulations are still not satisfactory. In particular, Indonesians are calling for the review of the article on safe keeping of passports by employers.

Indonesian Migrants in Malaysia

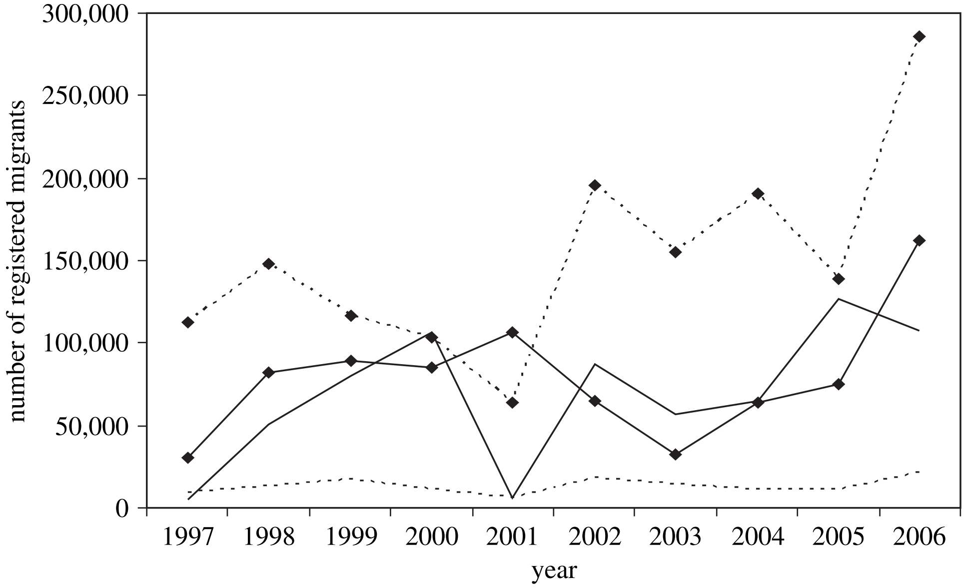
In 2006, according to Malaysia's Ministry of Home Affairs, there were approximately 1.3 million documented Indonesians working in Malaysia and an additional 700,000 illegal migrants, mostly Indonesian.[32] Malaysia is the second highest recipient of Indonesian migrant workers after Saudi Arabia. In the previous chapter, Figure 2 showed the steady increase of migration from Indonesia to Malaysia especially since 2003. Figure 6 shows the male and female breakdown of the documented migrants to both Malaysia and Saudi Arabia through the formal sector. Flows to both countries are now majority female migrants with a higher percentage of migrants to Saudi Arabia being women (90 percent) compared to Malaysia (60 percent).

In 2006, about 78 percent of the male migrants migrated to Malaysia and 16 percent to Saudi Arabia. On the other hand, 52 percent of the female migrants migrated to Saudi Arabia and 30 percent to Malaysia. Forty percent of all Indonesian migrant workers in Malaysia are employed in the informal sector, of which 90 percent are women. While the majority of male migrants are in the formal sector, 60 percent of female migrants work in the informal sector.[33]

32. Data provided by the Ministry of Home Affairs of Malaysia, 2007.

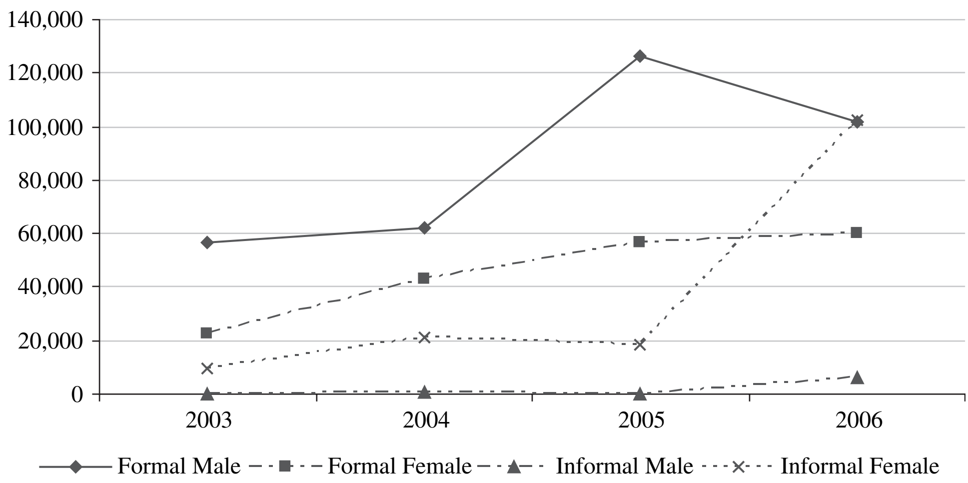
33. International Labour Organization (ILO) defines a worker in the informal economy as one who is not recognized or protected under legal regulatory frameworks. However, in Malaysia and Indonesia, the term "informal worker" refers to the status of the employer. If a worker is employed in a house or by a non-registered business, he or she is considered an informal worker. In this context, informal workers are recognized and may benefit from contracts established within regulatory norms; they are not undocumented or "illegal" workers.

Figure 6. Flows of Indonesian Migrant Workers to Malaysia and Saudi Arabia (1997–2006)



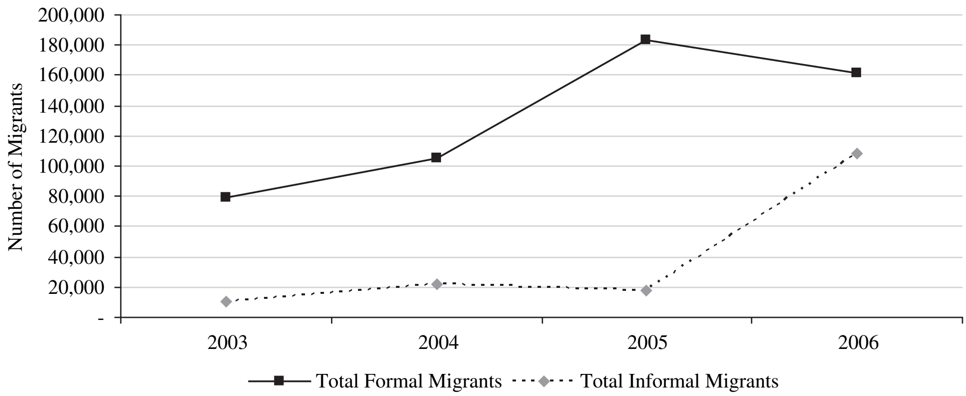
Source: Ministry of Home Affairs, Malaysia.

Figure 7. Gender Trends in Migrant Flows to Malaysia



Source: Ministry of Manpower and Transmigration of Indonesia.

Figure 8. Trends in Total Formal and Informal Sector Migrant Flows



Source: Ministry of Manpower and Transmigration of Indonesia.

Figure 7 shows a significantly upward trend since 2005 of female migrants going into the informal sector. Figure 8 shows that since 2005, there has been a significant increase in the total number of migrants (male and female) in the informal sector, whereas the total number of migrants in the formal sector has declined.

Best estimates place 1.2 million undocumented workers in Malaysia, of which 60 percent are Indonesian (UC Davis 2007). An undocumented migrant worker is someone who travels without a visa, overstays a visa/work permit, or changes jobs without following necessary procedures. Undocumented migrants tend to work on plantations, in construction, agricultural farms, fish ponds, and service industry. Migrants may travel and stay in other countries illegally for a number of reasons. They may travel to Malaysia on a tourist visa to join their families who had traveled their previously. There is also a significant problem of counterfeit passports. If a migrant worker carries a counterfeit passport then she or he is effectively an undocumented migrant, even if the migrant worker has gone through formal documented channels. Reasons for remaining undocumented include the high cost structure of official migration process and a lack of protection for documented workers. Undocumented migrants also include domestic workers who run away and who, according to Malaysian Association of Foreign Maid Agencies (*Persatuan Agensi Pembantu Rumah Asing* or *PAPA*), total 30,000 every year.[34] The majority of undocumented workers, who end up in Sabah and Serawak, choose the illegal route due to the proximity to Indonesia. Others get smuggled by middlemen via ferry to the Peninsular Malaysia. They also tend to work in construction companies and on plantations.

Undocumented workers essentially have no legal protection and in some cases, employers take advantage of their immigration status when hiring them. The problems they face include unpaid salaries, extortion; bad living conditions (water, health); and sexual abuse.

34. Indonesia authorities at the Indonesian Embassy and consulates in Malaysia attend an average of 3,000 in which abuses, harassment, overworked, lack of payment, pregnancies, and homesick, are the most common reasons for runaways.

It is worth noting that documented workers are also in a precarious situation because their employers can easily cancel their work permit.

Cost of Migration for Migrant Workers

There are significant costs associated with migration that often force migrant workers—especially women who have less access to formal credit—into debt. Placement fees range from US$670 to US$950 for documented workers and around US$170 for undocumented ones.[35] Fees associated with securing plantation jobs range from US$335 to US$390, while a construction job ranges from US$390 to US$560. Table 8 details the costs incurred by domestic workers in obtaining employment in and traveling to Malaysia.

Migrant workers need to cover the costs of the travel documents, training, and their stay in pre-departure centers. The stay at these centers may be for several months during which time the migrant worker needs to cover living costs and travel of family and relatives if they come to visit. In most cases, migrant workers, especially women for whom access to financial services is limited, borrow money from relatives or local lenders to pay for their travel and contractual expenses. Some of them forfeit land or wealth in order to finance their migration and have to return to Malaysia for work.[36] In some cases, promoters offer to cover the costs (for a fee). These debts tend to be repaid by withholding the first few months' salary. Sometimes relatives take on the debt and will use the remittances sent back to repay it.[37]

There have been some efforts to support Indonesian migrant workers financially through private/public partnerships.[38] One local bank in Yogyakarta, Indonesia, has been successful in lending money to formal migrant workers and collecting installments from remittances (Appendix C describes this scheme under the Java field work experience.). In East Lombok, the Selong Service Credit Clinique, funded from the district budget, piloted credits to formal male migrant workers going to Malaysia. Informal workers, the majority of whom are female domestic helpers, are very much in need of a credit scheme but still face considerable constraints as credit providers consider them high risk financially due to their vulnerable status.

The illegal migration process is cheaper than the legal one. Many potential migrant workers choose the illegal route to save money. Undocumented workers avoid levies and taxes deducted from their salaries at the expense of forfeiting any legal protection.

Recruitment Procedures in Malaysia

On the Malaysian side, the Malaysian employer is responsible for paying some costs of migration (Table 9). There are also procedures in place to identify the demand and regulate the process of placement and responsibility of the employer (Figure 9).

35. Interviews with Indonesian migrant workers in Indonesia and Malaysia, as well as, Malaysian and Indonesian officials.

36. Interviews with migrant workers in Lombok, West Nusa Tenggara, Indonesia.

37. Use of Remittances study (draft under preparation by the World Bank).

38. In this regard Ministry of Manpower and Transmigration has signed Memoranda of Understanding with several foreign and national bank institutions for a placement fee credit scheme.

Table 8. Cost to Domestic Worker Migrating from Indonesia to Malaysia

	Item	US$
1	Visa imposed by the Malaysian Embassy	7
2	Travel document and other related documentation imposed by the Indonesian authorities	
	a. Passport	12
	b. Government levy	17
3	Medical examination prior to leaving for Malaysia	21
4	Accommodation and incidental expenses charged by Indonesian recruiting agency in Indonesia before departure	
	a. Training (30 days)	28
	b. Accommodation (30 days)	28
	c. Meal expenses (30 days)	28
	d. Competency examination	12
	e. Insurance	45
	f. Pre-departure orientation	6
5	Transportation cost from place of residence of the domestic worker to the original exit point in Indonesia	11
6	Fee for Indonesian Agency	129
	Total	344

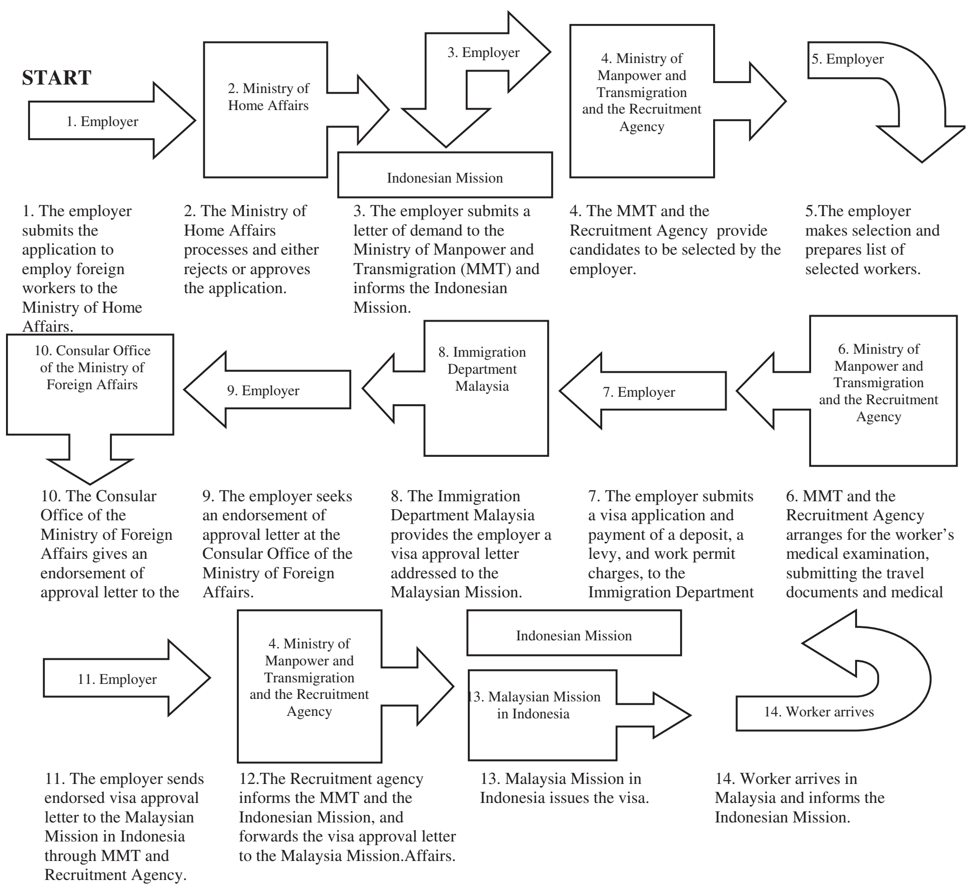
Source: Ministry of Home Affairs, Malaysia.

Table 9. Cost to Malaysian Employer of an Indonesian Migrant Domestic Worker

	Item	US$
1	Transportation cost from the original exit point in Indonesia to the place of employment in Malaysia	146
2	Compulsory Charges	
	a. Annual levy	105
	b. Visa re-entry	4
	c. Work pass	17
	d. Processing	3
3	Processing fees	
	a. Stamping, airport clearance, documentation, service tax, food and lodging, Foreign Workers Compensation Scheme (FWCS) insurance	188
	b. Malaysian agency fees	185
4	Medical examination within one month of the date of arrival in Malaysia (handled by agency)	55
	Total	703

Source: Ministry of Home Affairs, Malaysia.

Figure 9. Migrant Worker Recruitment Procedure from the Perspective of a Malaysian Employer



Source: Memorandum of Understanding on the Recruitment of Indonesian Workers, between the Government of the Republic of Indonesia and the Government of Malaysia, 2004.

Migrants Wages and Expenses in Malaysia

There is little difference between the wages of male and female Indonesian migrants in Malaysia. The scale of Indonesian migrant worker wages in Malaysia varies according to individual skills and the industry in which they work. A migrant worker working in manufacturing, services, or construction sectors earns approximately US$140–200 per month. The range for domestic workers is slightly less at US$140–175 and less than US$87 per month for those working in agriculture (Table 10).

While migrant workers are in Malaysia, their living costs vary. Domestic workers may have their accommodation and food paid for them, while those on plantations may not only have to cover these daily costs but sometimes also have to pay for their own tools. Even though documented migrant workers are supposed to be covered by health insurance, few

Table 10. Wages of Indonesian Migrant Workers in Malaysia, December 2006

Activity	Monthly Salary Range (US$)	Sex
Manufacturing	140–200	95 percent female
Domestic helpers	140–175	Overwhelming majority female
Construction	140–200	Predominately male
Agriculture (Plantations)	Less than 87	Both male and female
Services	140	Both male and female

Source: Ministry of Home Affairs, Malaysia.

of them understand what this means or how to claim it, and most end up paying costs of medical expenses incurred while they are away themselves.

Even when they return, migrant workers may be subject to significant costs. They have a social obligation to bring back gifts and souvenirs. Many make contributions to village funds or to the local churches or mosques on their return. Undocumented migrants may have to pay their transport costs, and even documented migrants may find themselves having to pay costs during their travel, or hidden costs and bribes on their return.

Estimates of Remittance Flows in the Malaysia-Indonesia Corridor

A large percentage of remittances earned—estimated at around 45 percent—are sent back home to the migrants families. The migrant worker uses various methods to make these transfers. According to BI, total remittances coming into Indonesia from Malaysia were around US$2.7 billion in 2006, calculated using their new methodology. They also estimate that approximately 9–10 percent of remittances to Indonesia from Malaysia flow through formal channels. Specifically, they estimate that approximately US$0.26 billion was transferred into Indonesia from Malaysia through formal systems in 2006 (based on reports via banks and remittance service providers).

The United States and Singapore are the only other countries besides Indonesia to have remained among Malaysia's top five remittance destinations for the last nine years. However, flows to the United States and Singapore are qualitatively different than those going to Indonesia. In 2006, 93 percent of total remuneration and remittances flowing to the United States were classified as employee remuneration and only 7 percent classified as worker remittances (see Table 11).[39] These proportions are inversed in the case of Indonesia. In 2006, employee remuneration made up 6 percent of total remittances and remuneration from Malaysia to Indonesia, and thus worker remittances account for

39. Bank Negara Malaysia differentiates remittance flows into workers remittances and employee remunerations. Workers remittances are flows that account for Ringgit (RM)5,000 (US$1,457) or below made by a resident with at least one year of residency. Employee remuneration are flows above RM5,000 (US$1,457).

94 percent of the total.[40] The smaller sums sent at one time to Indonesia reflect the lower salaries of Indonesian migrant workers than those of American or Singaporean workers living in Malaysia.

The majority of total funds flowing through banks and remittance service providers are categorized as employee remuneration, transfers of Ringgit (RM) 5,000 (US$1,457) or more, rather than workers' remittances. As seen in Table 11, from 2004–06 employee remuneration comprises approximately 55 percent of remittances flowing through bank and remittance service provider channels. The larger volume of remittances sent through banks and service providers are thus not from unskilled migrant workers but white collar workers from high-income countries such as the United States and Singapore.

Table 12 presents both official remittance figures of the Malaysia-Indonesia corridor and updated BI estimates of Malaysian inflows using newer methodology.

For the purposes of this report, the team recognizes that total BI remittance estimates of nearly US$2.7 billion in 2006 in the Malaysia–Indonesia corridor as probably being the closest to the real amount of remittances being transferred to Indonesia from Malaysia. This figure considers 2 million or more (including undocumented workers) Indonesian migrants in Malaysia and each person sending on average US$750 to US$1,080 per year, which is about 45 percent of the annual salary of migrant workers

Table 11. Formal Remittance Outflows from Malaysia by Top 5 Countries

	US$		
Country	**2004**	**2005**	**2006**
		Employee Remuneration	
Indonesia	9,622,222	13,961,103	16,547,186
United States	103,595,423	105,951,408	141,313,914
Japan	70,456,846		
United Kingdom	68,073,073	72,455,402	90,425,816
Singapore	61,989,850	66,189,029	74,304,137
Nepal		5,171,011	164,613
Others	809,311,139	1,029,768,622	1,213,321,731
		Worker Remittances	
Indonesia	326,283,451	257,048,712	245,824,216
United States	40,614,095	21,504,130	10,818,688
Japan	802,724		
United Kingdom	860,435	1,491,361	2,002,003
Singapore	1,163,790	1,921,205	2,926,150
Nepal		118,151,768	198,952,896
Others	148,912,249	95,436,109	67,120,281
Total	1,641,685,298	1,789,049,858	2,063,721,632

Source: Bank Negara Malaysia, based on bank and remittance service provider reporting.

40. Workers remittances and remuneration outflow by top five countries for years 1997–2007, Bank Negara Malaysia.

Table 12. Estimates of Remittances in the Malaysia-Indonesia Corridor in 2006

	Reporting from Banks and Remittance Service Providers (formal)	Estimates Based on Sampling or Migrant Stock	Percentage Transferred Through Formal Channels
Malaysia	**US$0.26 billion**[a]	**maximum of US$3.6 billion**[b]	**Approx 10%**
Remittances sent to Indonesia	*Source:* Bank Negara Malaysia	*Source:* World Bank rough estimate based on migrant stock and Department of Statistics, Malaysia sampling survey	*Source:* Bank Indonesia
Indonesia	**US$0.24 billion**	**US$2.66 billion**	
Remittances received from Malaysia	*Source:* Bank Indonesia and remittance service provider reporting	*Source:* Bank Indonesia figure, estimate based on migrant stock	

[a]The US$0.26 billion figure quoted by BNM in 2006 denotes the total financial flows from Malaysia to Indonesia including the employee remuneration and worker remittance categories displayed in Table 10.

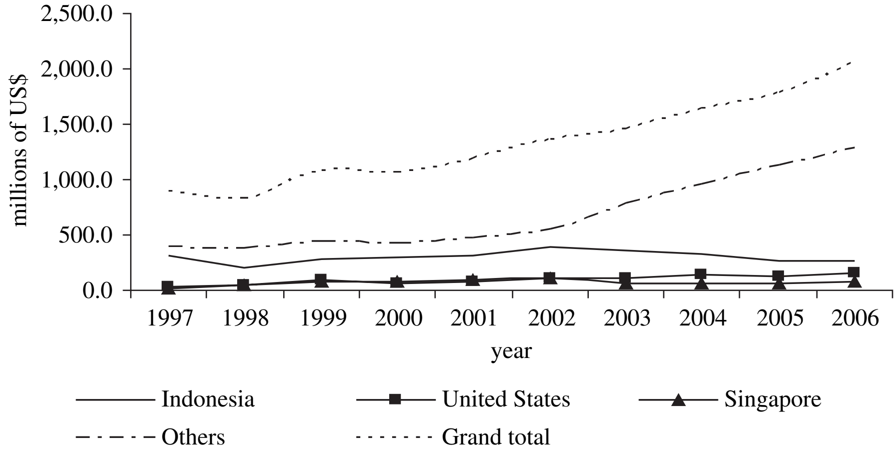
[b]Based on 2005 Malaysian Ministry of Home Affairs data which states that 63 percent of total foreign workers in Malaysia are Indonesian. It is estimated that approximately the same proportion of total balance of payment remittances paid would be going to Indonesia or US$3.59 billion. However, given that there are significant transfers to industrialized countries (US, UK, Singapore) likely to be of much greater amounts, this figure is likely to be an overestimate.

(the monthly salary range is US$140–200, except in the case of plantation workers at less than US$87).

Despite the increase in Indonesian workers in Malaysia, the remittances sent to Indonesia through the formal system decreased both in real terms and as a percentage of the total remittances. Data based on bank and remittance service provider reporting in Malaysia indicates that the total worker remittance and remuneration outflows from Malaysia through formal channels more than doubled over nine years, from US$870 million in 1997 to US$2 billion in 2006. Although the totals declined in 1998 during the East Asian economic crisis, remittances rapidly recovered and a year later surpassed the 1997 values. However, outflows to Indonesia as a percentage of the total decreased from 35 percent in 1997 to 13 percent in 2006 even though Indonesia remains the largest single remittance destination. Figure 10 also shows that the absolute amount of remittances sent back to Indonesia through the formal system has fallen steadily since 2002. The “Others” category in Figure 10 refers to countries which are not in the top five destinations in terms of percentages of the total. The steady increase in the “Others” category, which accounted for 62 percent of the total in 2006, seems to imply a wide diversification of remittance destinations.

Remittances through formal channels from Malaysia to Indonesia in the last five years decreased by over 30 percent from a high of nearly US$387 million in 2002 to US$262 million in 2006. Despite the increase in the flows of Indonesian migrant workers from 2003 to 2006, bank reported remittances have decreased. Reasons why this might be are discussed in Chapter 3.

Figure 10. Remittance Outflows from Malaysia (1997–2006)



Source: Bank Negara Malaysia, based on bank and remittance service provider reporting.

Main Points

The main points of this chapter that are relevant to subsequent analysis in this report are the following:

- The migration flows in the corridor are increasingly female, and there is a large presence of undocumented migrants.
- The high costs of migration and the lack of access to formal credit, especially for female migrants, leaves many with large debts that are repaid from remittances.
- Despite the increasing flows of migrants, the amount of remittances transferred through formal and recorded channels is decreasing.

CHAPTER 3

Transaction Flows

As labor migration flows from Indonesia to Malaysia, remittances flow from Malaysia to Indonesia. This chapter examines the mechanism of remittance transfers in the formal and informal sectors, including the main providers in Malaysia, as well as distribution networks in Indonesia. Discussion focuses on some important issues and challenges in the distribution of remittances in receiving areas, and the incentives and constraints that influence choices made by remittance senders and recipients.

Formal Transaction Flows in the Corridor

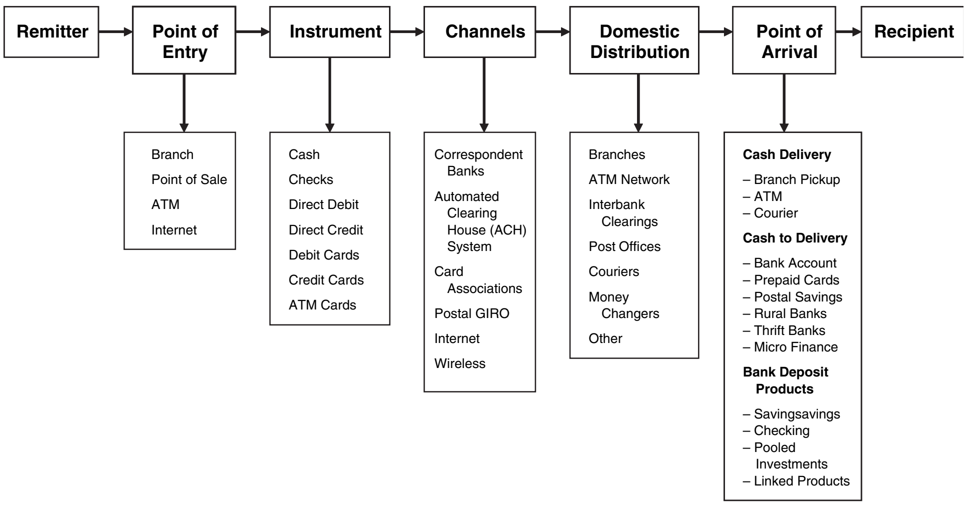
According to BNM, 90 percent of formal remittance transfers go through banking institutions while the rest channel through non-bank institutions.[41] Figure 11 shows a flow map and the options at each point in the formal sector transfer chain. According to some banks, the average transaction can range from US$87 to US$146, and remittances are sent at least twice a year. Other migrants remit every three months on average. Recent BI studies have found that Indonesian migrant workers generally remit 40–50 percent of their income, which implies that larger sums are transmitted through other channels.[42]

Since September 22, 2001, the regulatory environment in which the banking sector operates has been tightened to prevent money laundering or financing of terrorisms. An overview of the relevant laws and regulations in both Malaysia and Indonesia is included in Box 3, with more detailed explanations Appendix A.

41. Banking institutions include 22 commercial banks, 11 Islamic banks, 1 National Savings Bank, 6 Non-bank remittance operators, and 1 POS Malaysia. Additional information from interviews with BNM officials, April 2007.

42. Interviews with Bank Indonesia.

Figure 11. Flow Map of Formal Sector Transactions



Source: World Bank team-conducted interviews with stakeholders.

The Point of Entry in Malaysia

The leading bank that transfers remittances from Malaysia to multiple destinations is Commerce International Merchant Bankers (CIMB) Bank (a Western Union agent) with approximately 30,000 transactions per month with a value of US$87 million per year.[43] Maybank (MoneyGram agent) follows with a range of 50,000 to 60,000 transactions per month with an estimated value of US$23 million per year. Between CIMB Bank and Maybank, there are more than 700 branches where remittances can be collected and a combined network of more than 2,500 automated teller machines (ATMs).[44]

Some commercial banks have established small branches or booths specializing in foreign exchange transactions strategically located in areas where migrants work or gather. Since migrant workers mainly make cash transfers, these special branches and booths reduce the cost of tellers at the counter. These branches open late and on the weekends and therefore attract more transactions (around 70 percent of remittance transactions). The separation has also to do with discomfort conveyed by traditional banking customers for having to share branches with migrant workers.

It is not necessary to hold an account in order to request a bank transfer or to send money through money transfer operators. In Malaysia, unlike in many other countries, banks are often agents of money transfer operators such as Western Union or MoneyGram. For example, Western Union in Malaysia and Indonesia, contrary to the typical international business model, does not provide services directly to consumers. Instead,

43. Interviews with market players originally cited the figure of approximately RM 25 million (US$7.3 million) per month.

44. In April 2007, CIMB had 383 branches and 929 ATMs, while Maybank had 378 branches and 1,600 ATMs.

Box 3. Overview of the Malaysian and Indonesian Regulatory Framework

This box provides an overview of the regulatory landscape of Malaysia and Indonesia, including recent AML/CFT regulations. More detailed information is found in Appendix A.

Malaysia

Regulatory Framework for Remittance Agents. Bank Negara Malaysia (BNM), the central bank, has regulatory control over remittance service providers allowing banks, remittance companies, and the post office to participate in the remittance business. Bank Negara Malaysia also conducts both onsite and offsite supervision of licensed remittance service providers. The Malaysian authorities are now amending appropriate legislation which would formalize money changers' current informal practice of remitting funds

Malaysian regulations do not require presenting work permits, although banks recommend a work permit along with a passport in opening accounts or requesting remittance services. For remittance service providers, a national passport is the main identification document for non-nationals to process remittance transfers.[a]

AML/CFT Regulations. Malaysia has criminalized money laundering under the Anti-Money Laundering Act 2001 (AMLA), which came into force on January 15, 2002.[b] Under the AMLA Know Your Customer rules, every transaction, regardless of its size, should be recorded, and financial institutions and remittance service providers should keep records for at least six years. From 2002 to May 2007, the BNM Financial Intelligence Unit, which is responsible for receiving and analyzing information and sharing financial intelligence with law enforcement agencies, received 900 suspicious transactions reports related to money remittances. Given the large influx of suspicious transactions reports, BNM has issued standard and sectoral guidelines to reporting institutions. Both *Standard Guidelines on Anti-Money laundering and Counter Financing of Terrorism (AML/CFT)* and *Sectoral Guidelines 3 for licensed money changers and/or non-bank remittance operators* apply to remittance service providers.

Indonesia

Regulatory Framework for Remittance Agents. The Indonesian authorities have also taken significant initiatives aimed at formalizing current informal remittance service providers, including allowing both individuals and corporate entities to legally provide remittance services and adopting a gradual transition from registering to licensing remittance agents. Before December 2006, there was not an explicit framework for remittances in Indonesia. In December 2006, Bank Indonesia issued new regulation allowing remittance agents (*penyelenggara,* or administrator) to conduct remittance transfers.[c] These remittance agents can also be individuals. In follow up to these regulatory changes, BI will publish a list of authorized agents.[d] As this will take time, BI has adopted a gradual transition from registration to licensing for remittances agents.[e]

AML/CFT Regulations. To address money laundering and terrorist financing vulnerabilities, Indonesia has implemented an extensive training and technical capacity-building program among financial sector and government agencies.[f] The PPATK (*Pusat Pelaporan dan Analisis Transaksi Keuangan,* the Indonesian Financial Intelligence Unit) is responsible for developing policies and regulations to combat money laundering, which include receiving, analyzing, and evaluating currency and suspicious transactions reports. In this regard, in 2001 Bank Indonesia issued regulations *The Application of Know Your Customer Principles,* requiring banks to obtain information on customers and to verify their identity.[g] For the latter, PPATK in 2003 issued *Guidelines on the Identification of Suspicious Financial Transactions for Foreign Currency Traders and Money Transfer Service Businesses* to ensure a uniform national identity verification system.

Notes:
[a]Including POS Malaysia.
[b]Upon enactment, the predicated offenses were increased to 219 from 31 pieces of legislation.
[c]BI Regulation No. 8/28/PBI/2006 regarding money transfer activities.
[d]BI Regulation No. 8/28/PBI/2006, Articles 3, 5 and 8.
[e]Regulation applies to remittance agents and not to money transfer operators such as Western Union and MoneyGram.
[f]Indonesia was removed from the Non-Cooperative Countries and Territories in February 2005.
[g]BI Regulation No. 3/10/PBI/2001 requires banks to establish special monitoring units and appoint compliance officers responsible for implementing AML/CFT measures and maintain adequate information systems.

Source: Based upon information provided by Bank Negara Malaysia, Bank Indonesia.

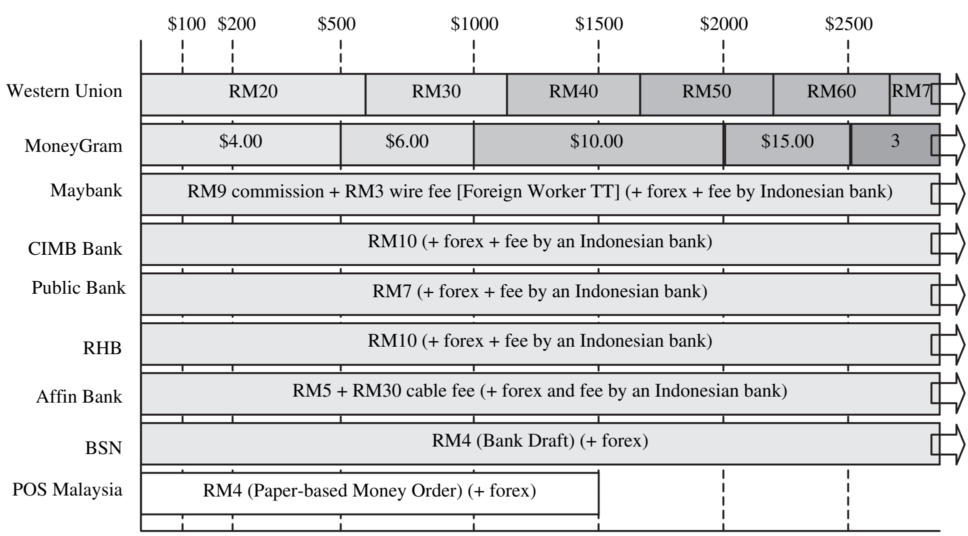
Western Union provides the remittance infrastructure to agents in Malaysia (including banks and the post office) and Indonesia (banks, courier companies, and the post office).[45]

Opening and maintaining a bank account in Malaysia is generally inexpensive and affordable to migrant workers. Large banks do not charge fees for opening either a savings or a current account. Many Malaysian banks charge the equivalent of US$2.90 on a savings account annually while current accounts tend to be more expensive with fees of US$2.90 twice a year. Some banks charge US$1.45 for a dormant current account.[46]

Fees for remitting funds from Malaysia vary (Figure 12). However, most formal providers have a regressive charge structure whereby the cost of transferring US$100 decreases with the total amount spent (Figure 13). Nevertheless, the process of remitting funds is expensive relative to a migrant worker's annual income (Table 13); in the case of the plantation worker, the funds remitted barely cover the cost of migrating and remitting.

Requirements for identification could also be a deterrent, especially for undocumented migrant workers. The Customer Due Diligence Requirements in Malaysia are shown in Table 14. For remittance service providers, a national passport is the main identification document for non-nationals to process remittance transfers.[47] For the opening of saving accounts, these institutions require, in addition to national passports, the work permits, and in some cases branch managers are required to approve the opening. It seems to be a practice for employers to open a joint account with Indonesian migrant workers and request remittance accounts for their employees, mostly in the case of domestic workers.

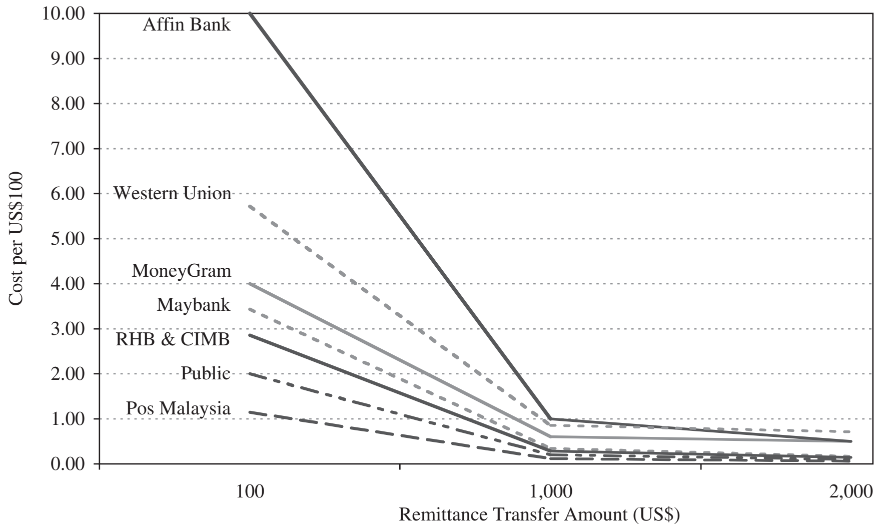
Figure 12. Fees for Remitting Funds from Malaysia to Indonesia



Source: World Bank team-conducted interviews.

45. Interview with market player.
46. Interviews with migrant workers.
47. Including POS Malaysia.

Figure 13. Costs per $100 of Remitting Different Sums of Money, April 2007



Source: Authors' interviews with remittance service providers.

Table 13. Cost of Migrating and Remitting Funds for Indonesian Worker in Malaysia in One Year

	US$		
	Construction	**Plantation**	**Domestic**
Earnings			
Average monthly salary[a]	170	80	157.5
Average annual salary	**2,040**	**960**	**1,890.0**
Costs			
Average annual remittance amount[b]	**918**	**432**	**850.5**
Average migration cost[c]	475	363	343
Yearly remittance cost (to send from Malaysia)[d]	7	7	7
Yearly remittance cost (to receive in Indonesia)	20	20	20
Total migration and remittance costs	**502**	**390**	**370**
Relative Costs	*%*		
Migration and remittance costs as % of annual remittance amount[e]	**55**	**90**	**44**
Migration and remittance costs as % of annual salary[f]	**25**	**41**	**20**

[a]*Average annual salary* is average monthly salary (provided by the Malaysian Ministry of Home Affairs) multiplied by 12

[b]*Average amount remitted* is based on Bank Indonesia estimate that approximately 45 percent migrant's salary is remitted

[c]*Average migration cost* and *yearly remittance costs* (in U.S. dollars) from research interviews with migrants and remittance service providers

[d]Salary yearly remittance cost is based upon the assumption that workers remit twice a year through bank channels

[e]For the calculated percentage to hold merit, we assume all migration costs have been paid in one lump sum rather than under the umbrella of any special financing schemes

[f]Authors assume that a migrant receives a salary within his first year of migrating.

Some remittance service providers require a probe of local addresses for remittance transactions and account openings.

Instruments and Channels

Formal transfer instruments in this corridor include cash, checks, ATM or debit cards, and direct debits and credits. At a Malaysian bank branch, the migrant worker has several options for depositing or transferring cash:

- direct deposit into his/her bank or postal account in Indonesia,
- deposit into a Malaysian bank account, and
- purchase a check or bank draft at the bank.

Table 14. Customer Due Diligence Requirements for Remittance Transfers in Malaysia

Remittance Service Providers Should Obtain and Verify the Accuracy of the Originator's Information	Remittance Service Providers Should Transmit the Originator's Information to the Corresponding Agent
• Name and nationality; • National registration identification card/ passport number; • Account number (or a unique reference number if there is no account number); and • Address (or in lieu of the address, date and place of birth).	• Name; • Account number (or a unique reference number if there is no account number); and • Address (or in lieu of the address, national identification or passport number, or date and place of birth)
• Maintain a list of its agents and made available to BNM upon request. • Obtain the letter authorizing the person conducting transaction on behalf of an entity. • Ensure that the complete originator's information is provided. • Check the particulars of a higher risk customer taking into account factors such as the name of the beneficiary, destination and the amount of the wire transfer. • Forward the sender's information to the agent of the remittance service operator.	

Source: Interviews with BNM; *AML/CFT Sectoral Guidelines 3 for Licensed Money Changers and/or Non-bank Remittance Operators, November 2006.*

Alternatively, the migrant workers can purchase a postal money order at the post office. Since the early 2000s there seemed to be a trend moving away from checks and drafts toward electronic transfers.[48] If the Indonesian migrant workers direct deposited or wired the money into an Indonesian bank account or postal account, the funds would travel through a correspondent bank, the automated clearing house, or postal giro. If they deposited funds into a Malaysian bank account, the remittances would pass through the link between the Malaysian Electronic Payment System and the *PT Artajasa Pembayaran Elektronis* (the Indonesian electronic payment system).

48. Interviews with market players and former migrant workers (TKI) in Indonesia. September 2006.

To reduce transfer costs, the Governments have worked together to link payment systems. Payment services in Indonesia are operated by commercial banks and the PT POS Indonesia. Commercial banks are different from the post office that offers payment systems using Giro Book. Banks use the BI system, Real Time Gross Settlement (RTGS), to transfer between accounts, banks, transfers throughout the Region using a network of correspondent banks. The inter-bank Giro system, the electronic remittance system, has become a topic of important discussion. Furthermore, BNM and BI have developed an ATM platform (Box 4).

Box 4. Regional ATM Link-up Between Malaysia and Indonesia

The Malaysian Electronic Payment System (MEPS) has linked up with its Indonesian counterpart, *PT Artajasa Pembayaran Elektronis* (Artajasa) in order to facilitate cross-border ATM cash withdrawals in Malaysia and Indonesia. This link-up has allowed since July 2005 customers of MEPS member banks to withdraw rupiah using their ATM cards at over 5,200 Artajasa member banks ATMs in Indonesia. Similarly, customers of Artajasa member banks are able to withdraw cash in Ringgit from more than 4,500 MEPS ATM network.

According to a 2005 interview with MEPS Managing Director, Dato'Mohd Hata, "This regional link is a major step towards MEPS vision of a future where people will be able to make ATM-related transactions conveniently regardless of where they are." With over 700,000 Malaysians and 2 million Indonesians regularly traveling between the two countries, this regional link-up provides a service which is convenient and more secure than carrying cash. The fees and maximum withdrawal limits are determined by the respective issuing banks.

At the end of March 2007, this regional link involved 12 Indonesian banking institutions with over 1,200 ATMs in Indonesia and 7 Malaysian banking institutions with over 3,000 ATMs in Malaysia. The second phase of this initiative will be to enhance the service to include cross-border ATM transfer of funds.

Participant banks are—*in Malaysia,* Affin Bank Berhad, AmBank (M) Berhad, *Edaran Otomobil Nasional* (EON) Bank Berhad, Hong Leong Bank Berhad, Malayan Banking Berhad, *Rashid Hussain Berhad* Bank Berhad, CIMB Bank Berhad; and *in Indonesia,* Bank Rakyat Indonesia, Bank NISP, Bank Bumiputera Indonesia, Bank Syariah Mandiri, Bank Mestika, Bank Sumut, Bank Sulut, Bank Nusa Tenggara Barat, Bank Muamalat Indonesia, Bank Nusantara Parahyangan, Bank Jatim, Bank Pembangunan

Source: Bank Negara Malaysia.

Informal Transaction Flows in the Corridor

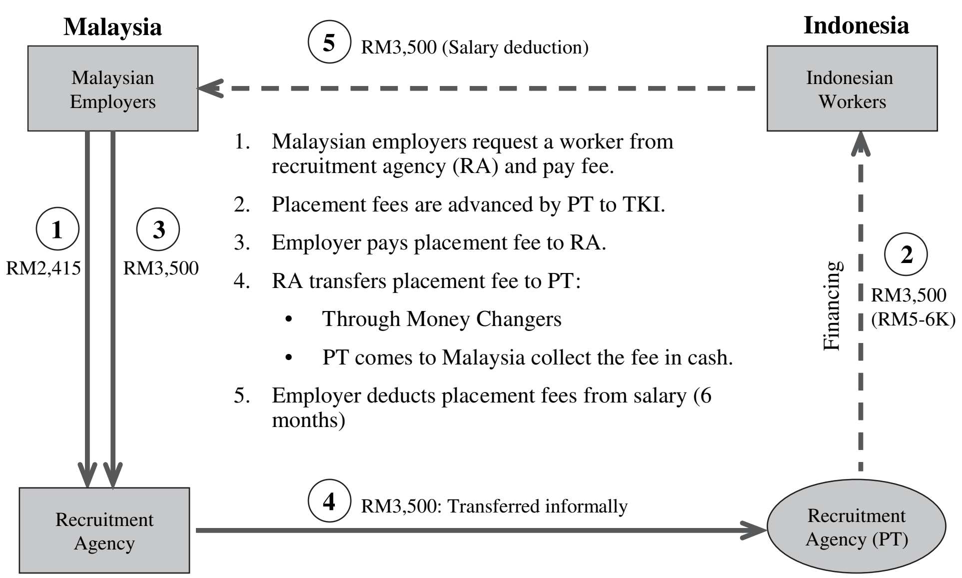
The use of informal channels is predominant in the Malaysian–Indonesian corridor. Informal channels encompass money changers, courier services, hand delivery, and employment agencies.

The use of informal channels is inadvertently fostered by the agency system. The broker who introduces the worker to an employment agency may also finance the initial costs of migration. The worker then must send a portion of their earnings to the broker to settle the debt. For an additional fee, the broker can also deliver money to the workers' families. They continue to use this "system" even after the debt is cleared. The convenience of dealing with such practices and bringing cash back may outweigh the benefits of using formal channels. Commercial banks are now looking into using the agencies to offer loans to workers going abroad, which could reduce the dependency on brokers and may contribute to increasing formal remittances. In some cases, recruitment agencies collect remittances door-to-door (Figure 14).

In the case of some informal transfers, funds channel through the hands of middlemen or immigration promoters. Money changers give the cash to someone who will hand-carry the money back to Indonesia or may use their own bank accounts to transfer funds.[49] A middleman or immigration promoter lends the money to the worker who will repay the loan through his or her earnings. The middleman will generally travel from Indonesia to Malaysia to collect the sums, and bring the money back and may also carry money to be delivered to the worker's family.

Foreign exchange bureaus appear to play a significant role in the corridor. Many money changers are formal businesses since they are regulated in their function as foreign exchange agents. There are approximately 800 money changers in Malaysia,[50] and they are already transferring remittances as part of the services they offer.[51] Money

Figure 14. Role of Recruitment Agencies on Collecting and Transferring Placement Fees



Sources: Ministry of Labor, employment agencies.

49. Although this is a formal bank channel, it is considered informal remittance transfer because the recipient is not known or recorded. It is unclear how remittances sent through money changers are distributed once they arrive in Indonesia.

50. Information given by BNM as of April 2007.

51. The study team identified money changers transferring remittances. For example in the Bernama Plaza-Bukit Bintang a minimum transfer will be for US$10,000 where the recipient will receive Rp87 million. The fee will be included in the financial exchange conversion.

changers are a popular mechanism for blue-collar workers to send money home. Some Indonesian migrant workers' employers also prefer to transfer money back to Indonesia through money changers. Money changers are also engaged in the transfer of the repayment of placement fees from and to recruitment agencies between Malaysia and Indonesia. However, when money changers serve as remittance channels, the flows are not regulated or measured. Steps are already being taken under the revisions to the Exchange Act to establish criteria that money changes would need to meet to be able to send back remittances.

There may be substantial risks in informal transfers. One of the main mechanisms is for returning migrants to carry cash on behalf of others. These remittance couriers, who may or may not be close friends or family members of Indonesian migrant workers, bear substantial risks of seizures at custom checkpoints and losses due to robbery. Indonesian migrant workers also bring back goods (electronics, home appliances, etc.) for their relatives. Female migrant workers also bring gold (necklaces, bracelets, rings) upon their return. Frequency of transfers is based on the ability of the worker to accumulate certain amounts that is *cukup* (sufficient/relevant) for the beneficiary. The migrant workers may also simply bring all his savings with him on his return. According to interviews conducted in Java and Lombok, undocumented workers tend to remit through friends carrying cash back home (Box 5). It is also a common practice for documented workers to share a bank account with undocumented workers and transfer through account-to-account remittances.

Box 5. Risks of Informal Transfers

"Initially I saved my earnings. When I knew that a friend was going home, I gave her my money to give to my parents. I had met her at my agent's place. I didn't know her that well, but I trusted her. She was a Mutaware woman from Beber Village, not far from Barabali. My parents received the money a month late. I rang my family in the village and told them that I had given her US$422 and they told me that she had only given them US$112 which she had paid in three installments. They should have received the equivalent of US$422 which is about Rp 2,250,000."

Susi, 28 years old, Barabali Village, Central Lombok

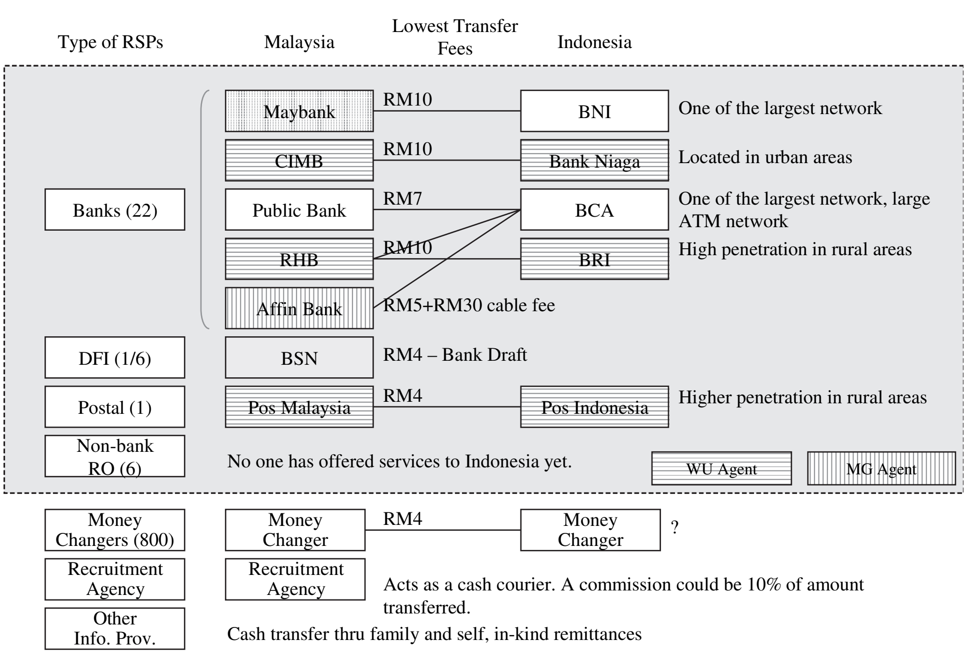
Deciding Between Formal and Informal Transfer Options

In theory, an Indonesian migrant worker has several different kinds of remittance service providers from which to choose—banks, money changers, the post office, money transfer operators, account mediators, or middlemen. There are regulated and unregulated providers in the Malaysia-Indonesia corridor. Because of the geographical proximity of the two countries, sending money home with family members or relatives may also be a convenient option. Figure 15 describes the overall remittance market between Malaysia and Indonesia. It details the major formal and informal remittance service providers in Malaysia, their lowest transfer fees, and their associated partners on the Indonesian side.

Several factors influence the choices made by the migrant workers including:

- *Physical access.* The ease with which the migrant worker can physically access the point of entry in Malaysia; this could be restricted by distance, and the ability of the migrant worker to leave the workplace during opening hours.
- *Institutional access.* The ease with which the migrant worker can deal with the administration required and also the user-friendliness or the approachability of the point of entry.
- *Regulatory access.* The degree to which regulations and requirements might restrict access.
- *Cost.* There is a wide variance in the costs associated with transferring funds.
- *Competition.* The extent to which other sources provide easier and cheaper access.
- *Financial literacy.* Many recipients do not know whether administrative fees are deducted from the amounts they receive through banks. Foreign exchange rates also play a key role in optimizing the amount of money received by Indonesian migrant workers' beneficiaries. From the report team's discussions with returned migrants, it seemed their experiences had given them a general understanding of financial mechanics learned through either their own or others (unfortunate) experiences. However, increasing financial literacy before migration may prevent some of these unfortunate experiences from occurring.

Figure 15. The Remittance Market Between the Two Countries



Source: World Bank team-conducted interviews with stakeholders.

Transfer mechanisms used in the corridor are determined by the type of job (activity/formality), the legal status, the gender, and geographic location. A documented migrant worker living and working in an urban area, remitting funds to a region well served by remittance service providers, should have a wide range of both formal and informal choices. The migrant workers in a rural area have less choice than their urban compatriots. Whether a documented worker or not, the Indonesian migrant worker based in rural areas generally faces higher constraints and may have incentives to choose informal methods of transferring funds. Informal money changers are extensively used in rural areas.[52]

An undocumented migrant worker has more limited options because he or she does not have the identification card necessary to access the formal channels and thus has more incentives to use informal channels. However, undocumented workers may also be able to use the wire transfer services of money changers, which do not require their customers to present identification.

A female migrant worker working in the domestic service sector may have the least choice in the remittance process. Her employer, having the legal right to retain a domestic worker's passport while she is in the employment of the family, commonly transfers the money for her. Thus, in general, female migrant workers in the domestic service sector do not control the way in which their funds are remitted to Indonesia.

Lack of reliability of Indonesian passports is a major problem for Indonesian migrant workers and a concern for both Malaysian and Indonesian authorities. On average, the Indonesian Embassy's immigration division receives between 1,200 to 3,000 passport-related applications daily. It is common for Indonesians to have a passport under a different name, which creates a major problem for the Embassy. A new Foreign Worker Card is now being used by Malaysian authorities, which includes biometrics with new security features and information hosted in a national database. The new card will reduce the use of the national passport as the main source of identification for foreigners and will facilitate access to formal channels. The policy for each prospective migrant worker in opening a bank account has applied since 2002 through Ministerial Decree (Ministry of Manpower and Transmigration) No. 104A year 2002. It is part of the requirement for getting KTKLN (*Kartu Tenaga Kerja Luar Negeri* or overseas worker card). It is also mentioned in Ministerial Regulation (Ministry of Manpower and Transmigration) No. 19 year 2006.

The major incentives of using different formal and informal transfer mechanisms for Indonesian migrant workers are compared in Table 15 and Figure 16. Box 6 summarizes some of the key findings from the focus group discussions.

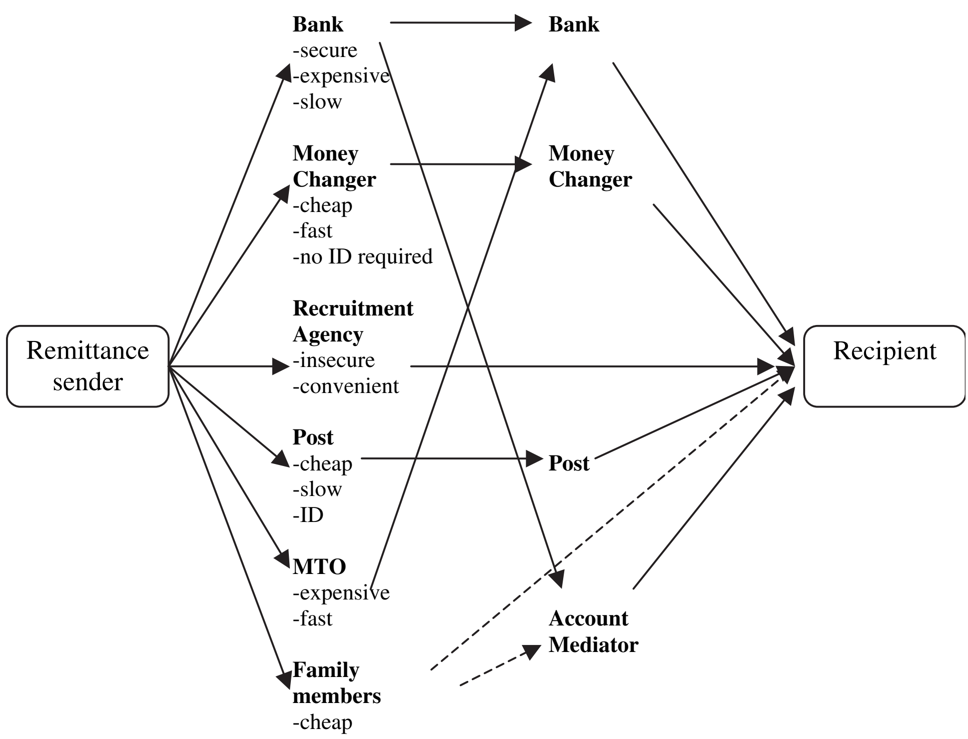
52. Interviews with money changers outside bank branches in Lombok and migrant recruitment agencies who also use money changers to remit.

Table 15. Comparing Incentives Facing Undocumented Migrant Workers

Incentives	Bank	Postal (money order)	Money Transfer Operator	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-slow	slow	fast	fast	variable
Language barrier	variable	variable	variable	variable	none
Minimal paperwork	no	no	no	yes	yes

Source: Interviews with Indonesian migrant workers and remittance service providers.

Figure 16. Options Remittance Senders Face when Transferring Funds from Malaysia to Indonesia



Source: World Bank team-conducted interviews with Indonesian migrants and remittance service providers.

Box 6. Focus Groups in Purworejo and East Lombok

In order to gain more insight into the different factors that influence migrant workers' preferences in choosing financial services, a number of focus group discussions were held in Indonesia with migrant worker returnees. Several similar themes resounded at each discussion as well in surveys.

One theme that figured prominently is the general financial savvy and prudence of the workers. There was strong concern about the reliability of the method of remitting money and a clear understanding about the risks and trade-offs of each of them. However, much of this understanding came only after (negative or positive) experiences of remitting money through different channels. One worker, in particular, saved over US$1,457 and attempted to hand-carry this large amount of cash back to Indonesia but he was robbed by an acquaintance on his way.

Another theme was the general lack of direct control over salaries by female workers, in particular domestic workers. In many cases, the employers would remit money on behalf of the female workers either because they do not trust them to leave the house or they do not want to allow them to be in public alone; or the workers had no free time to make the transaction. However, in some cases, the employer did allow the domestic worker to choose her preferred method of transferring money, or helped her to better understand the different remittance options.

For more information on the focus groups, see Appendix C.

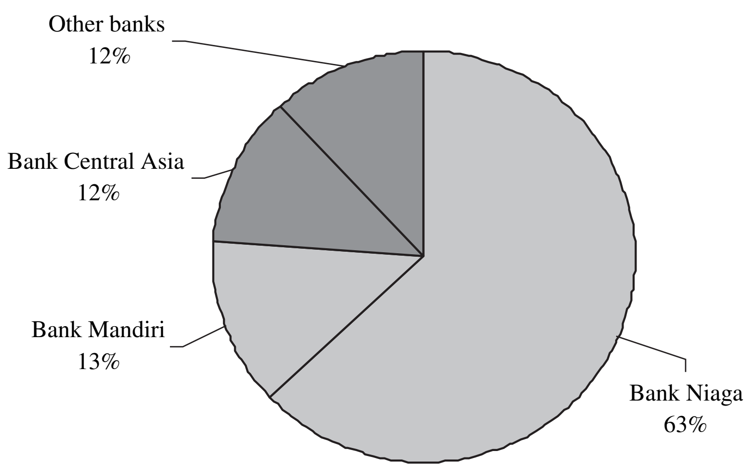
Source: Fieldwork interviews conducted by World Bank staff.

Remittance Distribution in Indonesia Through Formal Transfer Mechanisms

The Indonesian financial sector is large and diverse, spanning three tiers of banking service providers: 131 commercial banks; 2,000 people's credit banks or *Bank Perkreditan Rakyat;* and more than 11,000 microfinance institutions, including 5,300 village cooperative banks or *Bank Kredit Desa.* Although included in financial regulations, the *Bank Perkreditan Rakyat* and the *Bank Kredit Desa* are effectively unregulated in practice. Furthermore, no AML/CFT regulation is currently enforced on the second and third tiers of institutions as these are considered to present low risk. The state-owned bank, *Bank Rakyat Indonesia,* is the primary provider of banking services to lower-income households and is making profits. Operating through 4,600 village units, *Bank Rakyat Indonesia,* has 30 million account holders, making it the largest bank (by number of accounts) in Indonesia. The people's credit banks have an estimated 6 million account holders. The customers of *Bank Rakyat Indonesia* and people's credit banks are estimated to make up as much as two-thirds of all bank customers. However, banking penetration remains low with 20–30 percent of adults estimated to have a savings account.[53]

Distribution of remittances received in Indonesia through formal regulated channels is concentrated in the banking sector. Six Indonesian banks dominate the formal remittance market—Bank Negara Indonesia, Bank Mandiri, Bank Rakyat Indonesia, Bank Central Asia, Bank Niaga, and Bank Danamon. The cost of opening and maintaining an account is comparatively high. The main Indonesian banks receiving remittances are Bank Niaga, Bank Mandiri, and Bank Central Asia (Figure 17). In 2004, approximately US$540 million went through the banking sector. This amount included remittances flows conducted by money transfer operators, such as Western Union and MoneyGram, as well as remittances delivered through POS Indonesia.

Figure 17. Market Share among Indonesian Banks for Remittance Transfers (2004)



Source: World Bank team-conducted interviews.

53. Genesis Analytics, Implementing Financial Action Task Force Standards in Developing Countries and Financial Inclusion: Findings and Guidelines (Forthcoming).

In Indonesia it is relatively easy to open a savings account compared to other countries in the Region. A study by the World Bank and Consultative Group to Assist the Poor (CGAP) indicated that almost 40 percent of the population, ages 15–65 years, have savings accounts (CGAP 2004). However, unlike Malaysia, it is expensive for migrant workers or their families to open and maintain an account. Bank Mandiri charges the equivalent of US$16.70 for opening a savings account and US$7.80 for a monthly maintenance fee. Nevertheless, regulations have been in place since 2002 requiring migrant workers to open a bank account in Indonesia before going abroad.[54] Anecdotal information also shows that many Indonesian banks charge US$5 for incoming remittances and foreign exchange spread. Each bank applies various foreign exchange spreads. POS Indonesia includes incoming remittance fees in foreign exchange spread. Although fees at the counter in Malaysia seem low, all fees including fees on the Indonesian side and foreign exchange spread could go up to more than 10 percent. Interestingly, fees charged by Indonesian banks seem higher than the fees by Malaysian banks. For example, one remittance product, Cash Laju by CIMB Bank and Bank Niaga, costs RM10 (US$2.91) in Malaysia and US$5 in Indonesia as well as foreign exchange spread, which could bring total charges on the Indonesian side to US$8–10. Some banks offer the possibility to the remittance sender to transfer directly to a foreign currency savings account which may ameliorate foreign-exchange transactions costs.

After the funds have arrived in the Indonesian bank, the recipient can withdraw the money from the local bank branch. If the Indonesian migrant worker holds a Malaysian bank account, the funds deposited into this account may be withdrawn directly by the recipient in Indonesia using an ATM card associated with the migrant worker's Malaysian account.

POS Indonesia signed an agreement with Western Union in 2001 to provide remittance distribution through its network. However, there are only 50 branch offices that are technically capable of disbursing remittances quickly. The other branches pay remittances with lags of up to seven days depending on the geographic location of the recipient.[55] POS Indonesia has bilateral agreements with some remittances sending countries, such as Malaysia and Japan.[56] However, limitations in postal services in some of the sending countries prevent POS Indonesia from marketing its service network. Information technology (IT) capability also limits the expansion of POS Indonesia's remittances services. Last year, the U.S. Postal Service suspended operations in money orders with Indonesia because of these IT constraints. The offer of technical assistance from Japan was declined because of the difficulty in maintaining the donated IT platform offered.

POS Indonesia and many other money transfer operators require identification to pay out a remittance transfer; hence, the lack of official identification documents on the recipient side may pose a problem. One mechanism facilitating access to formal financial services has been introduced by the postal service. In some rural areas, the lack of a proper

54. Ministerial Decree 104 A, 2002, Article 50, Ministry of Manpower and Transmigration, regarding Placement of Indonesian Overseas Workers.

55. Indonesia has two types of postal service providers: POS Indonesia and private courier services that are authorized by the Ministry of Telecommunications. POS Indonesia has a network of 4,000 offices, including 206 main offices. There are 700 authorized couriers in the country that are not considered an extension of the POS network and may be agents of international courier companies, such as TNT and DHL.

56. POS Indonesia also participates in the distribution of remittances coming from Brunei, Thailand and the UAE, even though there are no bilateral agreements.

identification (ID) is substituted by the *Surat Keterangan Serba Guna* (multipurpose letter of identification), which is issued by local authorities.

Formal institutions also suffer from reliability and efficiency concerns. Recipients are asked to present their ID and sign (thumb prints are accepted) when collecting remittances. However, there are some scams within the branches. Some recipients are asked for a fake commission, which is deducted from the amount sent by cash tellers. In other cases, there are "facilitators" that charge US$2.80 to assist recipients (mostly female) in completing forms or guaranteeing a "fast-track" line.

The non-bank financial sector has yet to see a business opportunity for developing new products that could be cross-sold to both remittance senders and recipients, as is the case in more mature remittance corridors. For example, non-bank financial institutions do not consider remittance flows as potential collateral for new financial credits. This creates a substantial gap between institutions distributing remittances and those providing financial services, such as consumer financing.[57] Nevertheless, within the formalized banking sector, the activities of rural banks continue to be promoted by Bank Indonesia, as described by Box 7.

Some banks have started tapping into future and former migrant workers for lending products. For example, in 1996, *Bank Segara Kencana* in the Lombok Region started offering consumer loans between US$560 to US$1,100 that could be used for buying second-hand motorcycles or cars.[58] After experiencing a 90 percent default rate, Bank Segara Kencana

Box 7. Bank Indonesia Promotes Rural Bank Financing for Overseas Workers

At the end of June 2006, total assets held by rural banks stood at US$2.3 billion while lending reached US$1.8 billion (with a loan-default rate at 89.9 percent). Lending by rural banks continues to be dominated by commerce and other sectors, which together account for 82 percent.

In August 2006, Bank Indonesia launched a program for overseas workers aimed at overcoming rural bank financial and technical constraints. In this context, Bank Indonesia has hosted various seminars, workshops, and training programs and has actively promoted the linkage program between commercial and rural banks.

One key step taken by Bank Indonesia to empower rural banks is the promotion of financing for overseas workers. Under this program, rural banks provide lending from their own resources or in cooperation with commercial banks supported by insurance companies and credible overseas workers recruitment agencies. Bank Indonesia regards the financing of overseas workers as a profitable opportunity involving lending amounts within the scale of financing offered by rural banks. Additionally, overseas workers can generate significant foreign exchange earnings through remittances.

Despite this, overseas workers still face obstacles related to the substantial costs incurred in preparing for overseas employment. Many rural banks are also poorly informed about the processes and procedures involved in sending workers overseas.

Source: "Bank Indonesia Promotes Rural Bank Financing for Overseas Workers," Press Release No.8/47/PSHM/Humas (Bank Indonesia, August 29, 2006).

57. Consumer financing in Indonesia is mainly targeted to the acquisition of automobiles and motorcycles. These two products could potentially also be targeted at remittance senders.

58. Cost of motorcycle ranges in between Rp3 million (US$335) to Rp5 million (US$559). A second car cost could start at Rp10 million.

stopped and began financing investment projects for returnees. The Bank is now providing at least 60 percent of the capital required for new small enterprises, such as trade kiosks and market shops, with a cap of US$11,000 and a monthly interest rate of 2.5 percent. In 2006, Bank Segara Kencana managed to engage 6,000 clients who were former migrant workers. Ninety percent of the collateral is supported by certificates of land ownership, the value of which should be 1.5 times the value of the loan requested. Bank Segara Kencana has experienced a default rate of 10 percent.

Remittance Distribution in Indonesia Through Informal Transfer Mechanisms

At the point of arrival, as in the point of departure, the geographic location of the recipient is an important factor in determining the way in which the funds are received. If the recipient lives in an urban area, which is well serviced by banks, wire transfer agents, or the postal service, he or she may receive remittances directly into their bank account or in cash at an ATM or wire transfer point of service.

Account mediators are trusted individuals in local communities with an entrepreneurial drive. They hold a checking account to conduct business activity, for example a small grocery shop, and travel from their town or village to the nearest bank branch. The remitter may have chosen to deposit the money into an account mediator's bank account. The mediator will retrieve the cash and bring it (via courier service) to the recipient. The Indonesian migrant workers might also choose to send a check, postal money order, or bank draft to the postal mailbox of the account mediator. Account mediators provide future migrant workers with their account numbers and instructions on how to transfer remittances from a bank in the host country and provide them with a telephone number. Once the migrant worker makes a transfer and calls the account mediator, the account mediator calls the recipient; some account mediators offer small advances for uncollected but deposited transfers. Mediators also provide door-to-door delivery services saving time for remittance recipients and protecting their anonymity. They work mainly in rural but also some urban areas, any locale from where migrant workers originate. For example, the communities of East Lombok and Purworejo in Central Java have account mediators on whom senders and recipients rely extensively.

Issues of inconvenience and inaccessibility with banks promote the role of account mediators and facilitators. Facilitators are trusted with different activities, some of them are only "messengers" informing the recipients that they have received a remittance; others queue in bank lines on behalf of the recipient or exchange hard currency outside bank premises at a better conversion rate. The account mediator is the one who plays the most critical role in the distribution of remittances. Of course, by serving the community, account mediators also serve themselves. In some cases, an account mediator has a family member, son or daughter, in Malaysia. The mediator instructs remittance senders to deposit remittances in the mediator family member's account in Malaysia, instead of sending remittances to Indonesia. Once the remittances are deposited in the account in Malaysia, the mediator delivers the amount to a beneficiary. By doing so, the mediator serves the community and benefits from saving time and cost in supporting a family member overseas (Box 8).

Box 8. Account Mediator in Lombok

Mohamad Saleh worked in an oil palm plantation in Malaysia from 1983 to 1984. He opened a BNI account in 1983 for saving and remitting purposes. In those days only very few people in his village had bank accounts. He realized then that there was a "business" opportunity of becoming an account mediator.

Mohamad Saleh started offering migrant worker colleagues in Malaysia the use of his account to remit money home to Indonesia. After retiring as a migrant worker, he promoted and marketed his account to neighbors and villagers who had family members working overseas. He also started a "sponsorship business" assisting villagers to migrate and secure jobs in Malaysia. This allowed him to promote his account to these people he helped to migrate. However, over the last 10 years the number of clients has declined because having a savings account is becoming more popular. He now serves 2 to 5 clients per month, while in the past he used to serve an average of 15 per month. His clients are family members of migrant workers working in Malaysia and Saudi Arabia.

Villagers usually inform him that their migrant relatives sent money. He goes all the way to BNI Mataram by motorcycle to withdraw the money. He does not like going to BNI Selong because of its bad queue management where "queue mediators" are allowed. Once he gets the cash, he asks his clients to come to his house to pick it up. He never sets a rate for his remittance services. The "gratitude fee" he receives ranges between Rp50,000 ($5.60) to Rp70,000 (US$7.80) for transactions between Rp1 million (US$111.60) to Rp5 million (US$560), which is the range of regular transactions.

Mohamad Saleh has to maintain a BNI account balance of Rp200,000 (US$22.37). He has a separate account that has an ATM card to keep his own money. The account he keeps for clients does not have an ATM card and he does not think it is necessary to have one since nowadays clients rarely use his services. He now focuses on his sponsorship business. When asked about getting a permit to conduct his services, he answers that he is willing to do it if that proves he is a reliable person.

Source: World Bank team-conducted interviews.

In December 2006, Bank Indonesia issued a new regulation allowing remittances agents (*penyelenggara*) to conduct remittance transfers.[59] The regulation opened up the market for new remittance service providers different from banks (Appendix C), recognizing the role of informal operators on transferring funds. The new regulation aims to prevent remittance channels from being abused by money launderers. It also aims to optimize consumer protection on money remittance activity. Well-managed operators through appropriate legislation would provide legal protection, guarantees, and security for both remitters and beneficiaries. Other benefits of regulating remittance service providers include enhanced recording of remittance flows for balance of payment purposes, allowing the Government to maximize the monetary potential from remittance flows, and increasing investment in the remittance recipient areas for small and medium enterprises.[60] The information gathered on remittance transfers can be utilized to promote payment services and to improve the economy in general.

Bank Indonesia has adopted a gradual transition from registration to licensing for remittances agents.[61] The transition period provides an opportunity to those entities that

59. Bank Indonesia Regulation No. 8/28/PBI/2006 regarding money transfer activities.

60. Bank Indonesia Regulation No. 8/28/PBI/2006. Elucidation.

61. This regulation applies only to remittances agents, and not to money transfer operators such as Western Union and MoneyGram.

are operating informally to register by December 31, 2008.[62] During 2008, Bank Indonesia expects to issue a circular detailing the licensing process for both newly applying agents as well as for already registered agents, based on experience with the current registration process. After January 1, 2009, all new agents will be required to apply for a license. The shift from registration to licensing obligation will take place after Bank Indonesia has gained a picture of the readiness of remittances agents.

The new regulation introduces the use of individuals as remittances agents. Both individuals and corporate entities are allowed to become agents and be able to provide remittance services through their self-owned network or through the network owned or provided by operators. The collaboration between agents and money transfer operators who provide facilities and infrastructure to enable transfers should be defined by a written agreement, which includes the rights and responsibilities for each party. This written agreement should be submitted to Bank Indonesia as an effort to encourage individual agents to shift from informal to formal remittance service providers.

Bank Indonesia will publish a list of the authorized agents.[63] Registration and licensing requirements for remittance agents in Indonesia are described in Appendix A. Requirements for registration and licensing are quite similar. After completing registration or obtaining a license, agents are obliged to record money transfer transactions, submit periodical and incidental reports to Bank Indonesia, provide information to remitters regarding money transfers, and report suspicious transactions to Indonesia's Financial Intelligence Unit (PPATK). The licensing requirements will be evaluated once the registration process is analyzed during the transition period and a better understanding is accrued of the money remittance market in Indonesia.

Main Points

The main points to take forward from this chapter in the final analysis are the following:

- Bank channels make up 90 percent of formal channels; however, they represent a relatively slim percentage of the total remittance flows.
- The costs and risks of remitting funds facing migrant workers are considerable. The cost of remitting funds through formal channels may be high in relation to a migrant's salary.
- Account Mediators are part of an unregulated industry that has arisen to facilitate remittance transfers and provide more easily accessible options than the formal channel.
- Migration agents or agencies and informal channels that are part of formal enterprises (money changers) are a significant feature of the Malaysia-Indonesia corridor.
- Undocumented workers have more incentives to use informal remittance channels.
- Factors that influence the decision to use informal channels include physical access, institutional access, regulatory access, comparative cost, availability of competitive alternatives, and the financial literacy of the migrant workers themselves.

62. Bank Indonesia Regulation No. 8/28/PBI/2006. Article 30.
63. Bank Indonesia Regulation No. 8/28/PBI/2006. Articles 3, 5 and 8.

CHAPTER 4

Conclusions and Policy Recommendations

Malaysia and Saudi Arabia are recipients of the largest increase in numbers of Indonesian migrant workers leaving to work in other countries. With numbers increasing rapidly, 4.3 million Indonesians are now estimated to be working overseas. The level of remittances coming into Indonesia from all around the world was estimated to be US$5.7 billion in 2006, about 36 percent of which entered the country through formal systems. Qualitative evidence indicates that much of the remittances are spent on repaying debts and on consumption and luxury goods; the long-term sustainable impact on poverty is unclear. Migrants get caught in cycles of continuous migration as their families become dependant on the remittances for day-to-day survival.

In Malaysia, Indonesian migrants are increasingly showing a clear preference for informal transfer mechanisms compared to their counterparts in other countries. A little less than half of all Indonesian migrants overseas—thought to be around 2 million—are working in Malaysia. An increasing number of migrants are women, and the corridor is also marked by a high number of undocumented migrants. Despite the increasing flows of migrants, only about 10 percent of the estimated flow of remittances into Indonesia from Malaysia is transferred through the formal system. The extent of the preference for the informal sector is unique in this corridor. Indonesian migrants in other countries are using the formal sector far more than the migrants in Malaysia. There is also an implication that undocumented migrants and women in particular find formal sector transfers either hard to access or inappropriate for their needs.

Consequences for Using Formal or Informal Systems: Three Perspectives

The Migrants Perspective

From the migrant workers perspective, informal transfers may be more convenient, more easily accessible, or cheaper. For some, especially women, lack of access to pre-departure credit to pay the upfront costs of migration through the formal sector leads them into arrangements with recruitment agents or others where they are obligated to send money back through them to pay off debts even if the arrangements may not be to their best advantage. Undocumented migrants in particular have few alternatives other than the informal sector because of their legal status. However, some of the informal options such as sending money back with couriers may be insecure and unreliable.

Despite the disadvantages of the informal sector, the formal sector has little to offer the migrant workers in its current state. It is less competitive in terms of accessibility and provides little added value in terms of access to the much needed pre-departure credit or other instruments that might appeal to the migrant workers, especially the undocumented ones or women. While some migrant workers do not have access to the formal sector in the first place, the declining formal remittance flows implies that others are simply voting with their feet and choosing alternatives. The formal sector would need to undergo some radical changes in the way they approach migrant workers as valued customers to draw them back to the sector. That said, with a renewed approach that puts the migrant worker needs at the center, the formal sector has the potential to offer considerable advantages and could put the migrant worker back into a decisionmaking position with regard to how their money is saved or used. Meanwhile, some of the informal providers that offer the best services to migrant workers could be better recognized, and partnerships between them and the formal sector could offer effective solutions that appeal to the migrant workers.

The Development Perspective

From the development perspective, the issue is how remittances are translated into social welfare improvements and sustainable poverty reduction impacts. The very substantial amount of remittances to Indonesia and significance of remittances to the economy—especially in migrant-sending areas—justifies greater attention to this as a development issue. There are significant improvements that could be made in this respect. The formal sector is not offering any added value over the informal sector; there are few savings or investment instruments tailored to the needs of migrant workers and no efforts to market or educate migrant workers in how improvements could be made, thus not making the contribution it could to overall development impact. In this case, it is not whether the formal or the informal sector is chosen that is important but whether the transfer mechanism of choice offers the instruments that help the migrant workers to invest effectively for sustainable benefits. If there are informal sector mechanisms that offer ways to reach migrant workers and their families more effectively and with appropriate instruments, then these too are valid and need to be recognized.

The Financial Sector Perspective

From the financial sector perspective, the changed global scenario after September 11, 2001, has prompted the need to more effectively monitor money transfers without constraining financial sector development. However, updating a country's regulatory framework, including its AML/CFT policies, could incur additional costs on formal remittance service providers, or reduce their accessibility, thereby reducing their competitiveness in the eyes of migrant workers. Since the decrease in remittances coincides with the introduction of AML/CFT regulations, this may be a factor in the Malaysia-Indonesia remittance corridor. Hence, to promote use of formal and regulated transfer channels, the formal sector needs a well-targeted financial regulatory framework that ensures remittances are not used for illicit purposes to balance with better instruments and services that attract migrant workers. The formal financial sector should view the informal sector as an enormous potential market for formal financial products and services, which, if harnessed effectively, might lead to sustained revenue growth and improved market share for financial institutions.

Operational Policy Recommendations

The transfer providers, whether formal or informal, therefore need to respond to the needs of the migrant worker, as well as the development and financial sector perspectives. The following recommendations on how this might be achieved are arranged into three areas:

(1) Making the formal sector accessible and responsive to migrant workers,
(2) Facilitating migrant workers access into the formal sector, and
(3) Formalizing and regulating the informal providers while maintaining their accessibility for migrant workers.

The team also draws on global best practice experiences to provide examples for how this might be done.

Making the Formal Sector Accessible and Responsive to Migrant Workers

Increasing Effectiveness of Identification Procedures. Both Indonesia and Malaysia need to increase the security and reliability of identification, and ensure migrant workers have access to a valid and acceptable form of identification so that it does not constrain migrants' access to the formal sector. This could be done by:

- Strengthening the reliability and credibility of national passports by ensuring that the same number is not issued, and assessing the possibility of using biometric information (fingerprints, etc) so that it is harder to fake passports identities.
- Ensuring that migrant workers have unrestricted access to their passports by amending the Memorandum of Understanding clause that gives the employer the right to keep the passport of the migrant worker.
- Continuing to pursue alternative forms of valid identification, such as the Foreign Worker Card being introduced in Malaysia, and expand access for undocumented migrants as in the case of Consular Identification Cards in US–Mexico remittance corridor, described in Box 9.
- Relax identification requirements for individual transfer of small amounts as has been done in the South Korea–Mongolia remittance corridor (Box 10).

Box 9. Access to Formal Fund Transfer Mechanisms for Undocumented Workers

As in other host countries, undocumented workers in the United States appear to have limited access to financial services due to the lack of a proper identification. The same situation is observed in the United Kingdom among undocumented Nigerians and in Italy when foreign workers' permit expires. Estimates indicate that around 70 percent of Guatemalans in the United States do not enjoy a legal migratory status in the host country. This places them in a precarious condition with immigration authorities and exposes them to the risk of being deported, which further alienates them from access to the formal financial establishment.

In the United States. the acceptance of Consular Identification Cards (CICs) by some banks has partially mitigated the risk of preventing undocumented migrants' access to banking services. These are issued by consulates regardless of migratory status in the United States. Only the Mexican Consulate in Chicago issued more than 150,000 Consular Identification Cards in 2004, which are accepted by 44 banks in its jurisdiction. Guatemala's Consulates have issued more than 70,000 cards in the six years.

Source: Cheikhrouhou, Jarque, Hernández-Coss, and El-Swaify (2007); Hernández-Coss and Bun (2007); Hernández-Coss, de Luna Martinez, Amatuzio, Borowik, and Logi (2006); Hernández-Coss (2005b).

Box 10. Targeting Undocumented Workers to Use Formal Transfer Channels in South Korea

After South Korean president Roh Moo-Hyun visited Mongolia in May 2006, South Korea has revised its foreign exchange regulations to allow undocumented workers access to banking channels, The change in the foreign exchange regulation relaxed the procedures of foreign exchange transactions, including overseas fund transfers. Foreigners, whether documented or undocumented, are not required to present their legal status and source of funds in sending remittances, as long as the amount is less than US$1,000 per transaction and US$20,000 per year. Technically, foreign workers with illegal immigration status can send remittances through a commercial bank as long as the person holds a valid identification, for which a passport is accepted in many cases.

Source: Sameer Goyal, Jose De Luna Martinez, Isaku Endo, *The South Korea-Mongolia Remittance Corridor*. World Bank. Forthcoming 2008.

Customizing Products and Instruments for Indonesian Migrant Workers. There is a huge potential for developing services and instruments that are tailored to the needs of migrant workers. As the flows of migrants and remittances increase, the market potential and business case for doing so is increasing also. In particular:

- Introduce innovative and flexible options for transferring remittances such as the examples from the Philippines described in Box 11.
- Provide pre-departure credit that is more readily accessible to informal migrants and at competitive rates, making it more attractive to migrants at an early stage.
- Develop savings instruments either in the receiving country or through transfers directly to their home country; an instrument could be developed for home purchasing or education funds. This would give back more control to migrant workers, especially female workers, over how their earned and transferred money is spent.

Box 11. Customizing Banking Services to Migrants and their Families: The Case of BPI in the Philippines

Bank of the Philippine Islands (BPI) was chosen by the Central Bank of Philippines as "Outstanding Commercial Bank of the Year" in 2005 and 2006, based in part to services offered to overseas Filipino workers. The BPI Remittance Business Division developed innovative remittance products that were available to all overseas Filipino workers worldwide through their overseas remittance offices and through their partner organizations. BPI offers four major types of funds transfer systems:

- *Direct credit to account.* Overseas workers can send remittance funds to any BPI or BPI family bank account and have it credited to their beneficiary's account in Peso or U.S. dollars within 24 hours.
- *Branch pick up.* If an overseas worker's beneficiary does not have any account at BPI or BFI family bank, they can claim remittance at any BPI branch within 48 to 72 hours upon notification. The paying branch will notify the beneficiary via telegram or telephone.
- *Door to door cash/draft.* BPI may deliver remittance funds to overseas Filipino workers at their beneficiary's doorstep within 24 hours for Metro Manila residents and from 48 to 72 hours for provincial residents. In return, the overseas worker will receive proof of delivery plus a short note from their beneficiary.
- *Credit to other bank's account.* If overseas worker's beneficiary has an account at another commercial bank, BPI may forward remittance funds within 48 hours to the head office of their bank. This other bank's head office will then credit the remittance to the particular branch in which the beneficiary's account is maintained.

BPI now holds 21 percent of total market share in the Philippines remittance business, and continues to grow. Their market penetration within and outside the country is seen through 900 branches and close to 1,500 ATMs within the country; 18 branches outside the country; 83 tied-up companies in 20 countries; 376 correspondent banks in 58 countries; and strategic partnerships (i.e. Western Union, manning agencies, U.S. Government Agencies, and local placement agencies.)

Sources: World Bank team-conducted interview (November 2007).

Ensuring Better Assessment Techniques of Data and Regulatory Changes. Improved information and data gathering and handling would help create better informed policy formulation for facilitating migrants' access to the formal sector. Improvements are needed in the following areas:

- Improve data quality, gathering and reporting of remittance flows in order to help resolve current discrepancies in measuring remittance flows between Malaysian and Indonesian central banks, and provide more accurate figures for the balance of payment data in both countries.
- Monitor and disseminate remittance transfer costs in the remittance corridor to bring greater transparency to cost structures and improve ability of migrant workers to make the best choices for them. In the US–Mexico remittance corridor, a Mexican Government agency, PROFECO, has greatly assisted in this endeavor (Box 12).
- Improve assessment procedures to comprehensively assess market responses to recent regulations enacted in Indonesia that adopted a registration system for new remittance service providers in terms of magnitude of remittance flows and contribution to development feeding into future policy formulation.

Box 12. Recording Remittance Transfer Costs: The Case of Mexico

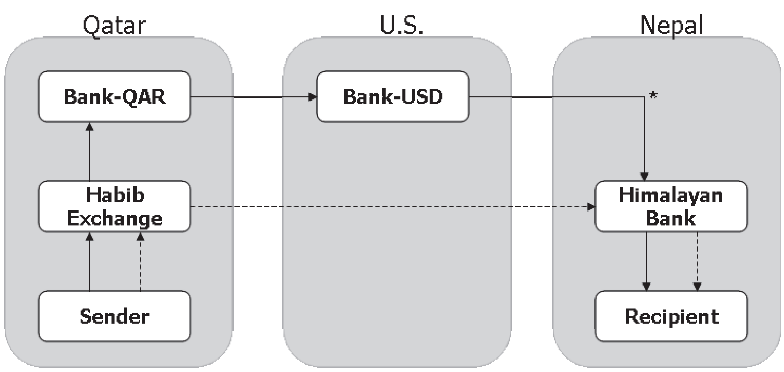
Procuraduría Federal del Consumidor (PROFECO), a Mexican government agency, has been working through Mexican consulates in the United States and through its website to distribute information on remittance costs. This information is based on averages voluntarily sent by some of the biggest remittance companies. Although this way of organizing and presenting information represents an advancement in the field, the information needs to be confirmed and the average price is not a reliable indicator of cost for the sender since actual price fluctuates according to the number of competitors in each location. Nevertheless, the PROFECO policy for transparent pricing structures has significantly benefited the Mexican consumer and spurred competition within the remittance industry.

Source: World Bank, "Bilateral Remittance Corridor Analysis: Research Guidelines" (Washington, D.C., 2007).

Enabling Strategic Partnerships Between Formal-and-Formal and Formal-and-Informal Remittance Service Providers. Some strategic partnerships between formal operators are already being developed in the corridor. Creative partnerships need to be encouraged to reduce remittance transfer times and costs, and improve transparency through more standardized and advanced tracking and monitoring mechanisms. The *HimalRemit* mechanism described in Box 13 is one such example.

Box 13. HimalRemit Mechanism

Nepal's Himalayan Bank developed its own Internet-based system for remittance transactions. The Bank staff at point of entry log into the system and send an instruction for remittances. The instruction is received instantly in Nepal. Himalayan Bank can disburse payments to the beneficiary as soon as it receives instruction and does not need to wait for its account to be financially credited by the sending institution, as is the case for traditional telegraphic transfers. Partnerships between Qatar's Habib Exchange and Himalayan Bank guarantee settlement between the two institutions within two days, and currencies are exchanged through American Express Bank in New York.



Note: Funds are not necessarily transferred to Himalayan Bank in Nepal. In some cases, Himalayan Bank chooses to keep funds in U.S. dollars in its account in a U.S. bank for expediting transactions or for other purposes.

Source: Hernandez-Coss, Raul, Isaku Endo, Gabi Afram, and Sabin Raj Shrestha, *The Qatar-Nepal Remittance Corridor* (World Bank, Forthcoming 2008).

Expanding the State's Role in Encouraging Formal Transfers. Research on the use of remittances[64] showed that most migrants are expected to make significant contributions to local governments or religious institutions on their return. This process could be made more transparent, and the development impact of these contributions increased by considering the experience of the "3×1" program in Mexico (Box 14). It may also encourage the use of the formal sector to transfer remittances.

Box 14. Home Town Association "3×1"

The "3×1" program channels community remittances from overseas into small-scale development projects in Mexico. Every dollar sent back through *formal mechanisms* is matched by three dollars from federal, state, and municipal governments to fund roads, schools, and other projects.

From 1993 to 2000, investments financed by the program totaled US$16.2 million. Typical projects include road construction, street paving, irrigation, sewage, and electricity. The program also funds works in churches, cemeteries, parks and civic squares, community centers, and athletic facilities. New investment projects include providing computers for high schools and dam and water-treatment projects. These small-scale projects have an average cost of US$56,000. The average size of the localities served by the projects is about 3,360 inhabitants. Almost two-thirds of the projects have been located in small communities of less than 2,000 inhabitants. Investment decisions are made by a joint committee of local government and Home Town Association representatives.

One of the strengths of the "3×1" program is that it provides a clear way for migrants' clubs in the United States to channel collective remittances to projects in their hometowns in Mexico. Observers have attributed the success of this small-scale program to the strong leadership of the Home Town Association and the show of commitment on the part of migrant clubs.

Source: World Bank (2002).

Facilitating Migrant Workers Access to the Formal Sector

Expanding Financial Education. The current pre-departure financial literacy program is carried out by the recruiting agents who have little incentive (and perhaps a disincentive if they are providing the transfer services themselves) to do this well. In some countries the Indonesian consulate is now providing additional training to migrants on arrival, though this may already be too late if the migrant worker is tied to a credit arrangement. Improvements could be made by:

- Collaborating with financial institutions in providing the training and opening competition by inviting different institutions to come and talk about the instruments they offer to migrant workers. Box 15 provides an interesting experience in this respect form the US–Mexico corridor. Western Union employs strategies that could be beneficial to the formal sector in attracting migrant workers. (Box 16)

64. Use of Remittances study (draft under preparation by the World Bank).

- Providing more information on financial services and options through the Indonesian Embassy in Malaysia, or through the Ministry of Foreign Affairs in Malaysia, for example, when migrant workers are issued their Foreign Worker Card (work permit).
- Encourage formal sector employers of migrant workers to provide financial literacy training.
- Partner in financial literacy training with nongovernmental organizations, cooperatives, or other providers at the local migrant-sending areas to reach prospective migrants and the families of migrant workers, and involve village leaders in helping to improve financial literacy in the villages.

Box 15. The New Alliance Task Force of the FDIC

To educate young immigrants on their financial options, the Federal Deposit Insurance Corporation (FDIC) and the Consulate General of Mexico formed the New Alliance Task Force (NATF) in May 2003. Its mission is to improve access to the U.S. banking system among recent immigrants and to take steps to carry out the Action Plan outlined in the U.S.-Mexico Partnership for Prosperity Agreement. The 55 members of the NATF include banks, community-based organizations, federal regulators, secondary market companies, and providers of private mortgage insurance. NATF working groups cover financial education, bank products and services, mortgage products, and social projects. As of December 2003, 35,000 immigrants in the Midwest have participated in financial education classes or workshops. There have been 50,000 new accounts opened in Chicago totaling US$100 million in deposits. The average account balance is US$2,000.

Source: FDIC, Chicago, cited in Hernandez-Coss (2005b).

Box 16. Western Union Strategies to Attract Migrant Workers

The Philippines requires each out-bound migrant to attend a pre-departure seminar. Western Union paid to offer migrants instructions on sending money home. “We tell them about the services of Western Union,” said the marketing director in the Philippines, “with the basic idea of seeking out Western Union when they go abroad.”

Emanuel Ellorian, a waiter in Dubai, said Western Union agents came to the hotel where he worked and processed the transfers there. “If any of the Filipino clubs have an event” he said “one of the sponsors is always the Western Union.”

Western Union appeared “money oriented” and “cold” warned an internal marketing document that called for a more empathetic image. The goal was to capture a “share of mind” and a “share of heart” to preserve a “share of wallet.” Having once stressed efficiency . . . Western Union now emphasizes the devotion money represents. One poster pairs a Filipino nurse in London with her daughter back home in a cap and gown, making Western Union an implicit part of the family’s achievements. “Sending so much more than money” is a common tag line.

Western Union sponsors hundreds of ethnic festivals, concerts, sporting events, from cricket matches for Indians in Dubai to sack races for Jamaicans in Queens. Last year it paid a Filipino pop star to record a Tagalog song urging migrants to send money home.

Source: Extracts taken from Jason DeParle, “Western Union Empire Moves Immigrants Cash Home” (New York Times International, November 22, 2007).

Improving Physical and Institutional Accessibility. Physical access either to the place where remittances can be deposited and transferred, or to the place where remittances can be received and withdrawn by the recipient are major considerations in deciding on appropriate options. Improving physical or institutional accessibility needs to:

- Build on the steps already being taken to introduce mobile phone banking and encourage financial institutions to partner with telecommunications companies to develop mobile financial services (Box 17).
- Develop creative partnerships with informal sector providers that might be able to reach more effectively the migrant workers.
- Improve user-friendliness of the financial institutions for the migrant workers, many of whom, especially the women, may be intimidated by the formality, even more so if they are not treated as a respected and valued customer. This may be done by educating bank staff about the valuable contributions that migrants make to the economy. Training bank staff to provide friendly and helpful service to migrants would help make the institutions less intimidating. For example, Western Union has led the way in many countries in this respect (Box 16).

Box 17. The Promise of Mobile Phones in Fostering Financial Sector Development

Mobile phones could potentially become a common way of conducting financial transactions in the near future given that the use of mobile phones for communications has reached billions of people around the globe, including the poor in recent years. Mobile phones could be an effective means of expanding access to finance for the 3 billion people in the world who do not have bank accounts (Littlefield 2006), and offering an unprecedented opportunity for financial sector development.

In a number of jurisdictions, the private sector has already responded to this potentially lucrative opportunity. Banks, mobile phone operators, and other non-bank institutions have developed services allowing people to conduct financial transactions through their mobile phones. These services include domestic and international money transfers, deposits and withdrawals, bill and retail payments, loan disbursements, stock exchange trading, and even electronic currencies. However, the continued growth of mobile banking will be dependant upon an enabling business environment, which fosters continued industry growth and ensures new technologies are not used for illicit purposes.

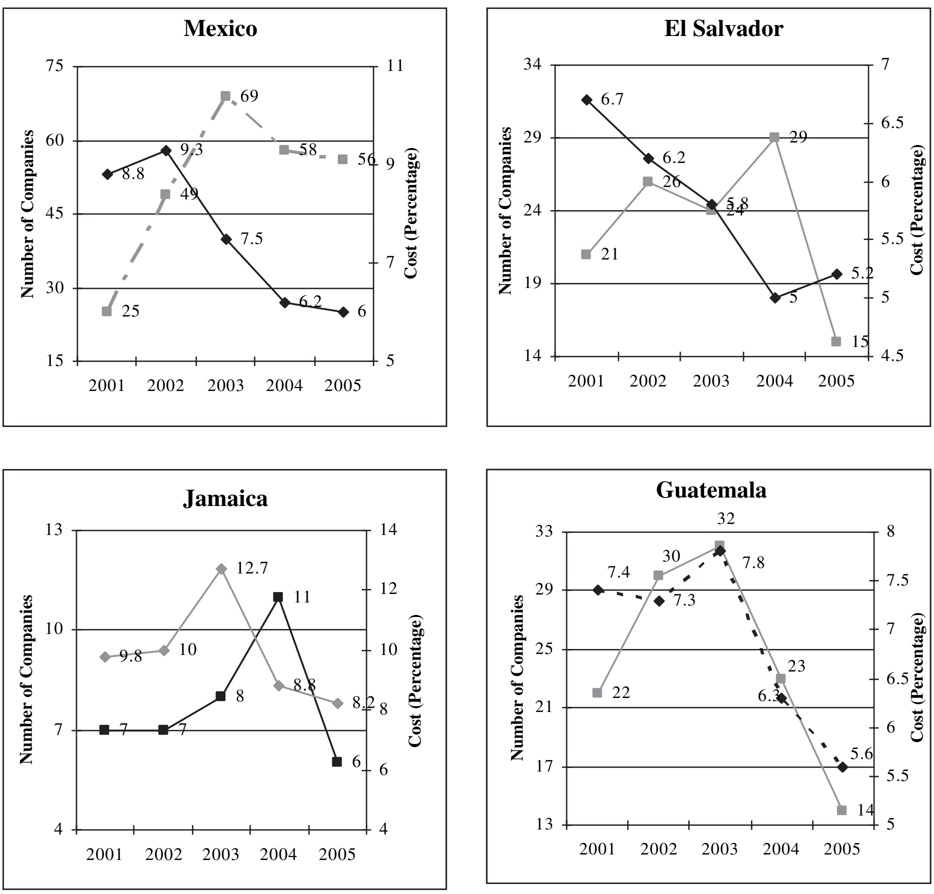
Source: Laurent-Chatain and others (2008).

Formalizing and Regulating the Informal Providers While Maintaining Their Accessibility for Migrant Workers

Reducing Costs by Increasing Competition. Allowing in more providers to transfer remittances has been slow to have an impact on the costs of transfers. For example, in much of the Caribbean and Latin America, an initial increase in the number of remittance service providers led to a relative reduction in average remittance costs. As the costs reduced, competition increased and the number of providers declined again. However, it appears that only the more efficient providers stay in the business at the lower costs and hence the costs stay at the lower levels (Figure 18). The decline in average cost of sending remittances was strongly correlated with the increase of remittance flows in the U.S.-Mexico example in Figure 19. The causal relationship might run either way (increased remittance flow allows for lower cost of individual transfer, or decreased costs encourage more remittances to be sent home). Either way, the outcome (lower cost or increased remittances) is desirable.

Licensing and Regulating Informal Providers. Both Malaysia and Indonesia are taking significant steps to regulate informal individual and corporate informal providers so that remittances can be better monitored and tracked, while migrants retain their access to these more flexible services.

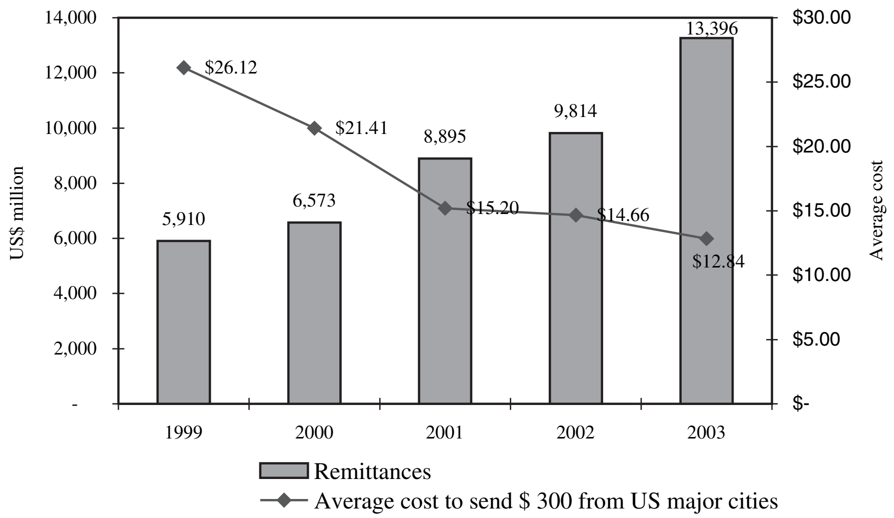
Figure 18. Cost of Sending US$200 from the U.S. to Mexico, El Salvador, Jamaica and Guatemala, Relative to Number of Companies Operating (2001–05)



Source: Data compiled by Manuel Orozco (InterAmerican Development Bank, Washington, D.C. 2006).

Figure 19. Correlation Between a Decline in Average Remittance Transfer Costs and an Expansion in Remittance Flows in the U.S.-Mexico Remittance Corridor

Figure 3.1. Remittances to Mexico, 1996–2003



Sources: PROFECO, BANXICO.

- Ensure that licensing requirements for money transfer operators are lower than that of banks, given the size and the risk of the industry. If the requirements for the license is high (high capital requirements), money exchangers will continue to provide remittance services informally.
- Include account mediators as part of the formal channel for distribution as these informal operators often have better access to rural communities. The case of an informal funds transfer provider in Mexico is described in Box 18. These account mediators could be considered "remittance agents," a new figure under a specially tailored level of regulation.
- Provide training to the account mediators to enhance their financial capacity and governance. Each account mediator could be registered with Bank Indonesia and could be managed by an affiliated commercial bank as an agent, as has been done in Brazil (Lyman, Ivatury, and Staschen 2006).

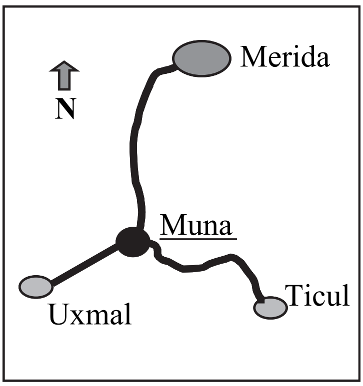
Concluding Remarks

In the end, it is the Indonesian migrant workers who make the choice of how to transfer and use the remittances they send home. Their choice at the moment is clearly with the informal sector. An underlying assumption in this report is that more formalized systems could improve development and poverty reduction impact by providing greater security

Box 18. Informal Fund Transfer Systems in Mexico: The Case of "Professor Pacheco"

Usually in rural areas in Mexico with no mainstream financial service penetration from banks, credit unions, or money transfer operators, a designated member of the community is responsible for remitting funds. This member of the community is usually a person of integrity, like a teacher or school principal, who is well known to members of the community in Mexico and abroad. For the customers who choose to remit by means of an informal fund transfer, cost is not an issue; rather, they are more concerned that their relatives receive the funds quickly and conveniently. Informal fund transfer systems are a social network for linking the community in Mexico with the remitter in the United States, as in the case of "Professor Pacheco."

In the town of Muna in Yucatan, Mexico, the authors interviewed Prof. Pacheco, a primary schoolteacher. Prof. Pacheco is responsible for receiving funds and disbursing remittances to recipients in his town. A mayoral candidate, he is highly respected and trusted by his community in Muna and by extensions of the community in the United States. Prof. Pacheco facilitates the "social linkage" between these two communities by receiving funds from overseas and making door-to-door deliveries of remittances. In doing so, he gets further acquainted with the members of his community and strengthens his reputation of honesty and trustworthiness.



The town of Muna is located two hours South of Merida, the capital of the State of Yucatan. There are three ways to receive remittances in Muna:

1. Through a Banco Nacional de Mexico agency that was opened in December 2003;
2. Through the Caja Popular Crecencio A. Cruz,* which started this service in 2004.
3. Through the door-to-door service of Prof. Pacheco.

Before the agency and the Caja offered remittance payments, other than Prof. Pacheco the only option was to travel 20 minutes to the town of Ticul, where there is a bank branch.

*A member of L@Red de la Gente.
Source: Hernandez-Coss and others (2004).

and reliability, reducing costs, and improving options for investing for better outcomes. However, major changes in approach are needed in the formal sector if they are to attract the migrant workers. Meanwhile, the important role of the informal sector in providing easily accessible solutions is recognized. And increased regulation of this sector, while an important element, needs to be done carefully in such a way that it does not drive migrants to greater informality of transfers. Regulations need to focus on enabling markets to function and encourage solutions, and migrant workers need to be recognized for their important contribution to the economy and empowered to engage with these markets.

APPENDIXES

Appendix A

The Regulatory Framework

This appendix describes the regulatory frameworks for remittance transfers in Malaysia and Indonesia.

Regulatory Framework for Remittance Transfers in Malaysia

Bank Negara Malaysia (BNM), the central bank, has regulatory control over remittance service providers allowing banks, remittance companies and the Post Office (POS Malaysia) to participate in the remittance business. The POS Malaysia has permission from BNM to collaborate with Western Union. Customers can walk into a bank to transfer without a bank account, but they are required to identify their beneficiaries on the Indonesian side. There are four laws regulating remittance service providers and their transactions:

- Banking and Financial Institutions Act (1989) provides for the licensing and regulation of institutions that conduct banking.
- Exchange Control Act (1953) restricts dealings in gold and foreign currencies related to payments to and from residents and any settlements.
- Anti-Money Laundering and Anti-Terrorism Financing Act 2001 (AMLA) imposes Customer Due Diligence/Know Your Customer rules and imposes obligations on recordkeeping. It also obliges institutions to report suspicious transactions.[65]

65. Foreign Exchange Administration Department has a power to sanction and remove license of financial institutions or remittance service providers. With regards to AML/CFT, sanction can also be brought under AML Act, Section 21 and 22 on Reporting Obligations, as well as section 86 on General Offence.

- Payment Systems Act (section 5) governs the authorization of remittance service providers. This law limits remittance transfers only to those companies incorporated according to the Companies Act of 1965.

A company involved in foreign exchange transactions must be approved by BNM.[66] Requirements to receive a license for remittance business include a list of proposed agents or correspondent parties inside and outside Malaysia, and other information related to the proposed remittance service. This additional information can include any procedures, controls, and measures for liquidity and settlement risk.[67]

Bank Negara Malaysia conducts both onsite and offsite supervision of licensed remittance service providers. Remittance service providers are required to file a monthly report, which is used for off-site supervision and monitoring. The central bank also conducts onsite supervision every year or every other year. BNM opened a dedicated department for consumer protection called LINK (*Laman Informasi Nasihat dan Khidmat*). LINK deals with customer complaints/trouble mitigation, and can be accessed in person, via telephone or through the web.

The Exchange Control Act is currently being amended to allow money changers to conduct remittance services after meeting the new criteria. There are approximately 800 money changers[68] and they are already transferring.

For non-bank remittance service providers, there is a transaction limit per day and per customer of RM10,000 (US$2,914). However, for banks, transactions of RM50,000 or more (US$14,569 or more) must be disclosed to the Statistics Department of BNM for balance of payment purposes. Specifically, banks must provide information on the recipient country, sender address and sender company. For amounts below RM50,000 and above RM10,000, the banks must inform the BNM Statistics Department of the country of destination and the purpose of the remittance.

ID Requirements for Remittance Senders

Although there are several types of identification documents, there is no uniform national identity system. Customer Due Diligence regulation requires upfront identification (verified only with the widely available identity card, such as national identification card, driver's license, or passport), as well as re-identification of current customers. However, it is widely recognized that there are some limitations with the use of some identity cards such as *Kartu Tanda Penduduk* (National Identification Card). Accordingly, banks are encouraged to collect additional profiling information in order to allow better monitoring of accounts. The government is in the process of improving the identity infrastructure.

While banks recommend a work permit along with a passport, current regulations do not require presenting work permits in opening accounts or requesting remittance services. Banks are required to conduct customer due diligence for transactions of RM50,000 (US$14,620) or more for the occasional customer or RM3,000 (US$877) or more for wire

66. Exchange Control Act of 1953, Section 10.
67. Based on interviews with officials from BNM, 2007
68. Information given by BNM as of April 2007.

transfers. Remittance service providers are required to conduct customer due diligence for transaction of RM3,000 (US$877) and above.[69] They should obtain and verify the accuracy of the originator's information and transmit the originator's information to the corresponding agent.

AML/CFT Regulations in Malaysia

Malaysia has criminalized money laundering under the Anti-Money Laundering Act 2001 (AMLA) which came into force on January 15, 2002 (Box A1).[70] The Minister of Finance appointed BNM as the competent authority under the AMLA. The Financial Intelligence Unit (FIU) or *Unit Perisikan Kewangan* has been established in BNM to execute AML/CFT-related functions under BNM. Institutions that are undergoing surveillance under AMLA in Malaysia include Islamic and conventional financial institutions, offshore sectors and non-financial businesses and professions, such as lawyers, accountants, companies' secretaries, and Malaysia's one licensed casino.[71]

Under the AMLA, Know Your Customer rules, every transaction, regardless of its size, should be recorded and financial institutions and remittance service providers should keep records for at least six years. Financial institutions should keep all records and documents of transactions, accounts, and customers obtained during customer due diligence procedures, for at least six years after the transaction has been completed or after the business relations with the customer have ended. Reporting institutions should submit reports to the FIU in BNM if they deem the transaction as suspicious regardless of the amount. BNM has invoked a cash transaction reporting obligation for all commercial banks, investment banks and Islamic banks with effect from September 1, 2006. The threshold has been established at RM 50,000 ($14,620). BNM has noted that it intends to extend this cash transaction reporting obligation gradually to other reporting institutions, including remittance service providers. BNM has developed a comprehensive supervisory template to examine financial institutions' compliance with the AMLA. Section 87 of AMLA provides that the director, controller, officer, partner, or anybody who is concerned in the management of a body corporate or an association shall be made liable for any offence committed by the body corporate or association.

Under the AMLA, banks are expected to maintain strict adherence to the law, monitoring all incoming and outgoing remittance transactions. Money changers were brought under AML/CFT regime in 2002 while non-bank remittance providers, which are relatively new in Malaysia, were brought under it in August 2006. As mentioned earlier, remittance service providers are required to conduct customer due diligence for transaction of RM 3,000 (US$877) and above, and to limit transaction per customer per day of RM10,000

69. BNM, Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT) Sectoral Guidelines 3 for licensed money changers and/or non-bank remittance operators, November 2006.

70. Since enactment of AMLA, the number of predicated offenses was increased to 219 from 31 pieces of legislation.

71. Malaysia took a gradual approach to invoke all or any of the AMLA provisions relating to reporting obligations between 2002–2007. Nowadays, it includes licensed gambling outlets, notary public, offshore trading agents, listing sponsors, stock brokers, money lenders, pawnbrokers, registered state agents, trust companies, unit trust management companies, fund managers, non-bank remittance service providers, and non-bank affiliated issuers of debit and credit cards.

(US$2,914). In case of incomplete information, remittance service providers have discretion regarding whether to continue with the operation. Suspicious transaction reports are expected to be filed regardless of amount, including the report of any transaction where its employees suspect or have reason to suspect that the transaction or attempted transaction involve proceeds from an unlawful activity or the customer is involved in money laundering or financing of terrorism. They are also obligated to ensure that the suspicious transaction report is submitted within the next working day from the date the compliance officer establishes the suspicion, and to ensure that the reporting mechanism is operated in a secured environment to maintain confidentiality and preservation of secrecy. Finally, they need to consider submitting a suspicious transaction report when any of its customer's transaction or attempted transaction fits the reporting institution's list of "red flags" and ensure that the compliance officer maintains a complete file on all internally generated unusual transaction reports and any supporting documentary evidence.[72] While such requirements are applicable to both big banks and smaller ones engaged in the remittance business, it has yet to be determined whether the cost of compliance provides a competitive advantage to one or the other, or otherwise creates barriers in the market.

From 2002 to May 2007, the FIU in BNM, which is responsible for receiving and analyzing information and sharing financial intelligence with law enforcement agencies, received 900 suspicious transaction reports related to money remittances. Most of these suspicious transaction reports were related to money scams activities (fraud). Of 900 suspicious transaction reports, 52 had been disseminated among law enforcement agencies between 2002 and 2006.

BNM issued standard and sectoral guidelines to reporting institutions. In case of remittance service providers, *Standard Guidelines on Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT)* and *Sectoral Guidelines 3 for Licensed Money Changers and/or Non-bank Remittance Operators* apply to them. Licensed remittance service providers appear to be aware of their AML/CFT obligations since they were brought under AMLA regime in August 2006 for suspicious transaction report reporting. However, the rest of the reporting obligations such as customer due diligence and recordkeeping were not invoked until March 2007.

Malaysia is taking steps to address non-licensed remittance service providers. While it is widely acknowledged that non-licensed remittance service providers have been playing a critical role in providing remittance services to unbanked residents and migrant workers or those who prefer the channel because of its competitive price, speed, and convenience, it continues to pose potential threats of the channel being used for money laundering and terrorist financing because these non-licensed remittance service providers are not subject to the same AML/CFT measures. Box A1 describes one of these AML/CFT measures, the Malaysian AML Act of 2001.

Regulatory Framework for Remittance Transfers in Indonesia

Before December 2006, there was no explicit framework for remittances in Indonesia. However, existing banking regulations stipulate that cross-border transactions, including remit-

72. Information provided by FIU in BNM.

Box A1. The Malaysian Anti-Money Laundering and Anti-Terrorism Financing Act 2001

The legislative framework of the Malaysian Anti-Money Laundering and Anti-Terrorism Financing Act (AMLA) involves several enforcement agencies, supervisory and regulatory agencies, and partnerships with foreign agencies. The Financial Intelligence Unit in Bank Negara Malaysia is at the center of the framework gathering data from over 36,500 reporting institutions. Since 2002, these reporting institutions have included commercial and merchant banks, offshore banks, money changers, *takaful* operators, and Islamic banks. The categories of institutions and the scope of regulations has increased, taking account of transactions by, among others, stockbrokers, licensed gaming outlets, pawn-brokers, non-bank remittance operators, and more recently, e-money issuers.

In conducting wire transfers or remittances, the reporting institution must request the originator's name, nationality, national identification or passport number, account number (or unique reference number if there is no account number) and address (or date and place of birth in lieu of address). If this information is incomplete, the remittance operator (bank or other) may lodge a suspicious transaction report to Bank Negara Malaysia.

	Banking institutions	**Non-bank remittance operators**
Regulated by:	Anti-Money Laundering and Anti-Terrorism Financing Act 2001 (AMLA)	
Suspicious transactions reporting requirement effective:	15 January 2002	10 August 2006
Remaining sections of the AMLA effective:	15 January 2003	9 March 2007
	Reporting institutions required to conduct customer due diligence and transmit originator information for wire transfer/remittance transaction involving more than RM $3,000	
	Requirements in relation to correspondent banking, ensuring the respondent institutions are not shell banks	

Source: Financial Intelligence Unit, Bank Negara Malaysia.

tances, may be undertaken by banks.[73] On the other hand, money remittance is explicitly prohibited for money changers. Bank Indonesia is currently evaluating the regulations relevant to the activities that can be conducted by money changers. The current registration and licensing requirements for such remittance agents in Indonesia are listed in Table A1.

AML/CFT Regulations in Indonesia

To address money laundering and terrorist financing vulnerabilities, Indonesia has implemented an extensive training, technical, and capacity-building program among financial

73. The Act of the Republic of Indonesia No. 7 of 1992 concerning Banking (as amended by No 10. of 1998) (Banking Act); the Act of the Republic of Indonesia No. 23 of 1999 concerning Bank Indonesia (Bank Indonesia Act).

Table A1. Registration and Licensing Requirements for Remittance Agents in Indonesia

Parties Entitled to be an Agent (administrator)	Registration Required Documents	Licensing Required Documents
Individuals	A. Photocopy of Citizenship Card; B. Photocopy of Certificate of Residence from local village/area head; C. Application Letter stating compliance to not misuse the Money sent and/or received; D. Application Letter stating compliance to separately book the Money sent and/or received from the applicant's personal assets. E. Information regarding the office and facilities used by the applicant in acting as Administrator.	A. Photocopy of national citizenship card (*Kartu Tanda Penduduk*); B. Certificate of Residence from local Village Head; C. Application Letter stating compliance to not misuse the Money sent and/or received; D. Application letter stating compliance to separately book the Money sent and/or received from the applicant's personal assets; E. Information regarding the office and facilities used by the applicant in acting as a Administrator, and F. Money sending and/or receiving procedure.
Legal Entities	A. Photocopy of Certificate of Status as an Indonesian Legal Entity and any relevant amendments, which have been certified by the authorities; B. Letter of Consent in the form of an original certificate stating the Administrator's compliance to: 1. Act responsibly should any misuse of Money sent and/or received occur; and 2. Separate the bookkeeping of Money sent and/or received from the personal assets of the Administrator; C. Photocopy of the Certificate of Residence for the legal entity from the local village/area head; D. The concept of Know Your Customer Principles implemented by the Administrator to identify the Sender and/or Receiver, supervise Money Transfer activities, and report suspicious transactions as illustrated in the Example of Know Your Customer Principles included in Attachment 1; and	A. Photocopy of Certificate of Status as an Indonesian Legal Entity Establishment Certificate, and any relevant amendments, which has been certified by the relevant authorities; B. Letter of Consent in the form of an authentic certificate which states Administrator compliance to the following: 1. Act responsibly should there be a misuse of Money sent and/or received; and 2. Separate the bookkeeping of Money sent and/or received from the personal assets of the Administrator; C. Provide a photocopy of the Certificate of Residence of the business entity from the local Village/Area Head. D. Practice a risk-management mechanism which covers a minimum of: 1. Know your customer principles; 2. A method to monitor Money sent and/or received; and 3. A problem resolution mechanism, including late or failed payments;

Table A1. Registration and Licensing Requirements for Remittance Agents in Indonesia (*Continued*)

Parties Entitled to be an Agent (administrator)	Registration Required Documents	Licensing Required Documents
	E. Proof of operational conformity including: 1. Adequate human resources; 2. Office compliance; and 3. Facilities and instruments to perform Money Transfers.	E. Proof of operational conformity including: 1. Adequate human resources; 2. Office compliance; 3. Facilities and tools to send and/or receive Money; and 4. Mechanisms and procedures to send and/or receive Money.
Non-legal Entities	A. Proof that the owner and board members are Indonesian Citizens. Proof of Indonesian citizenship can be in the form of a Citizenship Card, Driver's License or Passport; B. Photocopy of Certificate of Residence from the local village/area head; C. Letter of Consent in the form of an original certificate stating Administrator compliance to: 1. Act responsibly should any misuse of Money sent and/or received occur; and 2. Separate the bookkeeping of Money sent and/or received from the personal assets of the Administrator; D. The concept of Know Your Customer Principles implemented by the Administrator to identify the Sender and/or Receiver, supervise Money Transfer activities, and report suspicious transactions as illustrated in the Example of Know Your Customer Principles included in Attachment 1; and E. Proof of operational conformity including: 1. Adequate human resources; 2. Office compliance; and 3. Facilities and instruments to perform Money Transfers.	A. Photocopy of Certificate of Status as an Indonesian Business Entity, and any relevant amendments, which has been certified by the relevant authorities; B. Letter of Consent in the form of an authentic certificate which states Administrator compliance to the following: 1. Act responsibly should there be a misuse of Money sent and/or received; and 2. Separate the bookkeeping of Money sent and/or received from the personal assets of the Administrator; C. Provide a photocopy of the Certificate of Residence of the business entity from the local Village/Area Head. D. Practice risk-management mechanism which covers a minimum of: 1. Know your customer principles; 2. A method to monitor Money sent and/or received; and 3. A problem resolution mechanism, including late or failed payments; E. Proof of operational conformity including: 1. Adequate human resources; 2. Office compliance; 3. Facilities and tools to send and/or receive Money; and 4. Mechanisms and procedures to send and/or receive Money.

Source: Bank Indonesia Circular (No.8/32/DASP) for registration requirement, and Regulation No. 8/28/PBI/2006 for licensing requirement.

sector and government agencies.[74] Money laundering activities are connected to non-drug criminal activity such as gambling, prostitution, bank fraud, piracy and counterfeiting, illegal logging and corruption. In 2002, Indonesia passed legislation making money laundering a criminal offense and established Indonesia's Financial Intelligence Unit (PPATK).[75] Emergency counterterrorism regulation issued on October 18, 2002, criminalizes terrorism, including the tracking and freezing of assets.[76] However, financing of terrorism is yet to be criminalized, and neither is a predicate offense to money laundering.

The PPATK is responsible for developing policies and regulations to combat money laundering, receiving, analyzing, and evaluating currency and suspicious transactions reports; providing advice and assistance to authorities and issuing publications. By the end of 2006, PPATK received more than 6,000 suspicious transaction reports from banks and nonbank financial institutions, from which 608 were analyzed resulting in 417 cases referred to law enforcement authorities.

In 2001 Bank Indonesia issued Application of Know Your Customer Principles which requires banks to obtain information on customers and to verify their identity.[77] It also requires banks to analyze and monitor customer transactions and report to PPATK within three working days any suspicious transactions in excess of Rp100 million (US$11,186). This poses a problem because suspicious transactions.

Foreign exchange transactions are reported to the central bank through the International Transaction Reporting System and, under AMLA, cash financial transactions whose cumulative amount is greater than Rp500,000,000 (US$55,928)[78] must be reported to the PPATK. In 2003, the post office was included among the financial services providers that must comply with the requirements of the AMLA. Any person carrying cash in or out of Indonesia in the amount of Rp100 million (US$11,186) or more, or the equivalent in other currency, must declare these sums to the authorities.[79]

The AML regime as promulgated reflects an understanding of banking and bank capacity. For example, the regulations stipulate that banks are required to have a management information system in place, but does not require these systems to be electronic or of a particularly advanced nature. According to the 2003 guidance issued by Bank Indonesia, the system can either operate manually or automatically. This will give an option for small players who may otherwise face cost prohibitive requirement and at times, unnecessary burden given the level of risk such players face.

PPATK issued *Guidelines on the Identification of Suspicious Financial Transactions for Foreign Currency Traders and Money Transfer Service Businesses* in 2003. The guidelines allow walk-in customers remitting or receiving an amount below Rp100 million (US$11,186) in a single transaction within one day to be exempted from Know Your Customer requirements. While this is still within the framework provided by the Financial Action Task Force, con-

74. Indonesia was removed from the Non-Cooperative Countries and Territories in February 2005.

75. Law no.15/2002 Concerning the Crime of Money Laundering identifies 15 predicate offenses related to money laundering. Amended by Law No.25/2003 in September 2003.

76. The Government Regulation in Lieu of Law of the Republic of Indonesia (Perpu), No. 1 of 2002 on Eradication of Terrorism.

77. Bank Indonesia Regulation No. 3/10/PBI/2001 requires banks to establish special monitoring units and appoint compliance officers responsible for implementing AML/CFT measures and maintain adequate information systems.

78. Article 13 of Law 15/2002.

79. Article 15 of Law 15/2002.

sidering the average remittance transactions in Indonesia, and paying due regard to prevention of terrorism financing, the threshold can be considered too high. The average remittance amount is estimated to be about US$250.

The guidelines require recordkeeping of transactions in the amount of Rp100 million (US$11,186), or more or in foreign currencies of equal value, in a single transaction within one day. International best practices suggest that all transaction records be kept regardless of the amount. With regard to reporting of suspicious transactions, the guidelines require reporting of such transactions to PPATK within three business days. However, these guidelines currently only apply, among non-bank remittance service providers, to post offices and Western Union (which is an operator). Given the new regulation for remittance agents issued by Bank Indonesia, it is critical that the AML/CFT requirements are clarified and applied to remittance agents as well. The most pressing challenge, however, remains in respect to effectively monitoring, supervising and enforcing remittance agents (Table A2).

Conclusions

This overview of the regulatory landscape of the two countries more clearly shows how the Malaysia-Indonesia remittance corridor functions.

Table A2. AML/CFT Requirements in Malaysia and Indonesia for Non-Bank Remittance Service Providers

	Malaysia	Indonesia
Regulatory System (number of registered/licensed)	Licensing (Six as of April, 2007)	Licensing with a 2-year transition registration process ending in 2008.
Authority	Bank Negara Malaysia (BNM)	Bank Indonesia (BI)
Capital/guarantee	A bankers' guaranty shall be provided to BNM of US$29,000 Net remittance liabilities can not exceed twice the amount in the guarantee	None
Required legal structure	Company incorporated under the Companies Act 1965	Individuals of Indonesian citizenship, and corporate bodies defined by Bank Indonesia Regulation No. 8/28/2006
Fit and proper	Performed by BNM	Performed by BI
Experience	Not required	Not required
Criminal records	Checked	Checked
Business plan/AML Program	Procedures and system's capacity in detecting suspicious and abnormal transactions required	A risk-management mechanism including Know Your Customer principles and monitoring of money sent/received (required for legal and non-legal entities but not for individual agent)
Onsite visits	Conducted by BNM Supervision Department	Conducted by BI or third party

(*continued*)

Table A2. AML/CFT Requirements in Malaysia and Indonesia for Non-Bank Remittance Service Providers (*Continued*)

	Malaysia	Indonesia
Identification	For transaction of RM3,000 (US$877) or above	Transaction in excess of Rp100 million (US$11,186)
Transaction limit	Per customer per day of RM 10,000 (US$2,914)	None
Suspicious transactions reports	Suspicious transaction reports are expected to be filed regardless of amount.	Suspicious transaction reports are expected to be filed regardless of amount.
Thresholds transaction reports	Not Required	Cash financial transactions whose cumulative amount is greater than Rp500,000,000 (US$55,928)
Record keeping	Customer identifications, accounts and transactions information should be kept at least six years after the transaction has been completed or after the business relations with the customer have ended	Transaction in excess of Rp100 million (US$11,186) for minimum of five years.
Sanctions	FIU and BNM supervision department have sanctioning power with regards to violations of AML requirements.	Violations to AML requirements are penalized by relevant authorities in accordance with prevailing laws governing the criminal act of money laundering.
Fees on entry/ Annual Fees	None	None

Sources: Bank Negara Malaysia, Bank Indonesia.

- BNM has regulatory control over remittance service providers. The Malaysian authorities are now amending appropriate legislation that would formalize money changers' currently informal practice of remitting funds.
- Bank Indonesia has recently issued a new regulation for remittances which takes significant measures to formalize currently informal remittance service providers, including allowing both individuals and corporate entities to legally provide remittance services, and adopting a gradual transition from registering to licensing remittance agents.
- Although authorities on both sides of the Malaysia-Indonesia remittance corridor have taken measures to address AML/CFT requirements for the formal remittance channels, other informal remittance service providers continue to pose potential money laundering and terrorist financing threats. The challenge of striking a balance between protecting financial integrity and allowing for the flow of remittances faces public policy makers of both countries.

Appendix B

Measurement of Remittance Flows and Impact on Economies

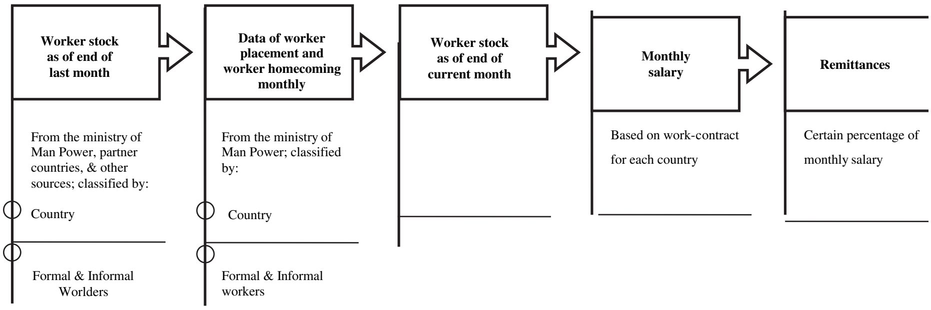
Central banks and statistics departments face many challenges when trying to record and measure remittance flows, which have often led to discrepancies in estimates. In 2006, Bank Indonesia Directorate of Statistics attempted to estimate the contribution of informal remittance flows on total flows and concluded that both total remittance inflows from Malaysia approximated to nearly US$2.7 billion in the previous year compared to US$0.26 million recorded through the formal channels.[80] Hence, it is estimated that about US$2.5 billion comes into Indonesia from Malaysia through informal channels.

The methods developed by both Bank Negara Malaysia (BNM) and Bank Indonesia (BI) to get a more accurate picture of the total remittance flows involve sampling surveys and migrant stock data. For example, revised BI methodology aims to measure total remittance flows (which include informal flows) more accurately and takes the following major steps: (1) estimating the number of Indonesian workers working abroad (the stock of workers), based on data provided by Ministry of Manpower and Transmigration; (2) taking into account the average of monthly wages as mentioned on the contract; and (3) estimating the percentage of the salary (remittance rates) sent to Indonesia[81] (see Box B1 for more details) This methodology attempts to capture workers' remittances sent home by Indonesian workers abroad using all possible mechanisms (banks, money transfer operators,

80. Bank Indonesia, Directorate of Economic and Monetary Statistics, estimates US$2.659 billion in 2005.

81. According to a Bank Indonesia official, the most recent study shows that the remittance rate is around 40–50 percent of a worker's salary.

Box B1. Bank Indonesia Five Steps to Estimate Workers Remittances Inflows



Source: Bank Indonesia.

friends/relatives, informal agents, hard cash, etc.) as well as remittances through other institutions conducting remittance transactions not reporting to the central bank (such as POS Indonesia, which has no reporting obligation to Bank Indonesia). Agreements to report such flows by POS Indonesia to Bank Indonesia remain outstanding.[82]

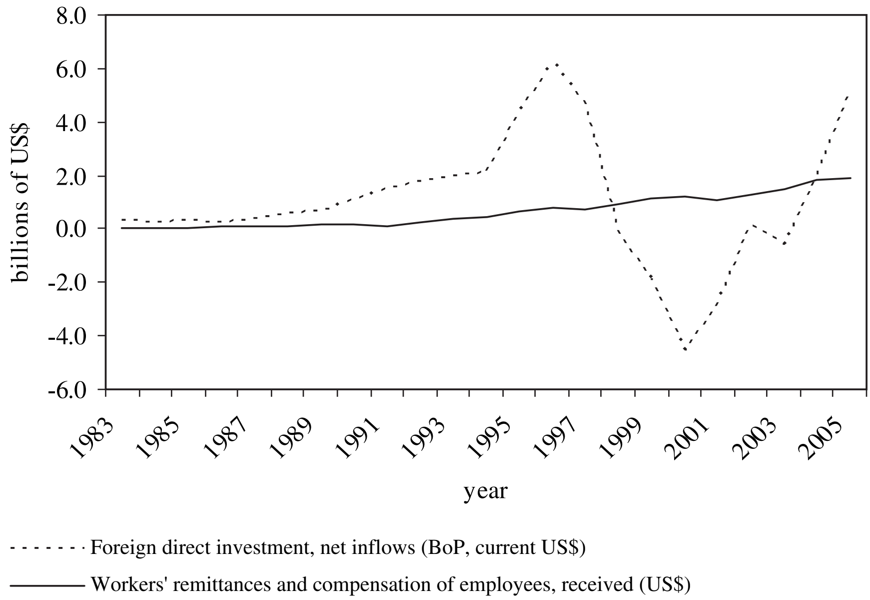
While the revised methodology hopes to measure more accurate figures, it might still underestimate total remittance inflows to Indonesia because it is difficult to estimate the true number of undocumented migrant workers. At best, a rough estimate of undocumented workers is made through information and data obtained from Indonesian embassies, surveys and partner countries.

Bank Negara Malaysia obtains worker remittances and remuneration information from their bank and remittance service provider reporting system. When an individual wishes to remit funds through the bank or remittance service provider system, he or she must fill in a remittance form, which is then reported to the BNM. Flows that account for RM5,000 (US$1,457)[83] or below made by a resident with at least one year of residency are categorized as workers' remittances. Flows above RM5,000 (US$1,457) are considered employee remuneration. BNM considers these two categories together as total remittances.

The cash balance of payments system was developed in order to more accurately reflect the reality of an economy in which, as mentioned above, cash transactions and informal transfers play a large role. Remittance data in the cash balance of payments are compiled by BNM and are based upon estimates and surveys of actual flows through the banking system. Thus, this figure for total remittances in the balance of payment data reported to the IMF is substantially larger than that captured by other reporting systems.

82. POS is supervised by the Directorate General of Post and Telecommunication.
83. Based on the exchange rate at 1 USD equals 3.4320 RM as of June 20, 2007.

Figure B1. Indonesia Worker Remittance Inflows and Net Inflows of Foreign Direct Investment (1983–2005)

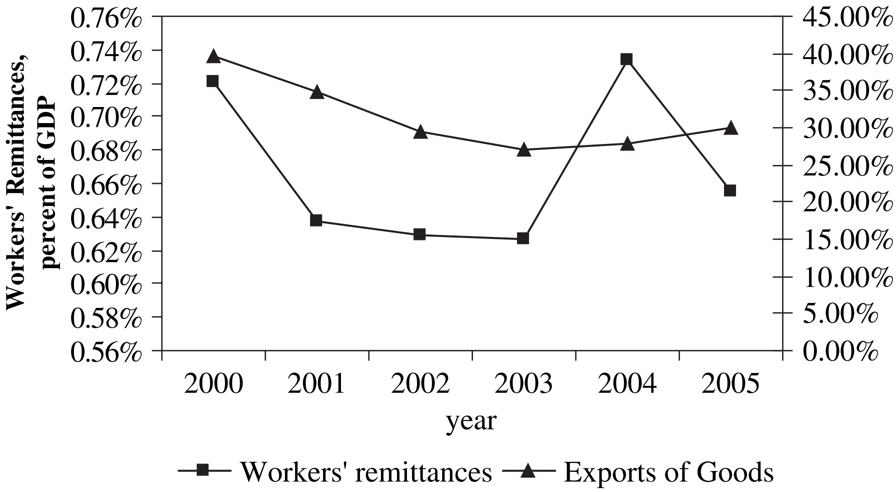


Source: Bank Indonesia. Worker's remittances and compensation received figures in this graph are based on bank and other money transfer operator reporting. In 2005 a new method of estimating remittances was launched, the number presented here is the non-revised figure and thus more consistent with the figures from the previous years.

According to balance of payment data, workers' remittances through the formal sector increased at the same rate as GDP from 2000–2005, staying within one-tenth of a percentage point difference (between 0.64 percent and 0.74 percent of GDP). Goods exports in the same period, however, fluctuated over 10 percentage points from nearly 40 percent to less than 30 percent of the GDP. Since the mid 1990s net foreign direct investment inflows to Indonesia have fluctuated even more dramatically, rising to US$6 billion before sharply declining to negative US$5 billion after the East Asian economic crisis. Net foreign direct investment is now beginning to reach pre-crisis levels. Workers remittance inflows, however, have been steadily increasing over the past 20 years. In 2006, remittances were among the highest source of foreign exchange for Indonesia, second only to oil and gas exports.[84] Hence, remittances flowing to Indonesia have helped provide some stability to the Indonesian economy in the face of fluctuating foreign direct investment and net exports between 1995–2005.

84. For 2006, Income from oil and gas (net) was US$6,365 million while workers' remittances (net) was US$4,520 million according to balance of payment by Bank Indonesia.

Figure B2. Indonesia: Exports of Goods and Inflows of Workers Remittances as a Percentage of GDP (2000–2005)



Source: Bank Indonesia. Worker's remittances and compensation received figures in this graph are based on bank and other money transfer operator reporting. In 2005, a new method of estimating remittances was launched; the number presented here is the non-revised figure and thus more consistent with the figures from the previous years.

Appendix C

Field Work in Malaysia and Indonesia

Appendix C describes the World Bank team's field work experiences in Malaysia and Indonesia on issues affecting the transfer of remittance flows between the two countries. The field work was conducted in Indonesia (Java and Lombok) in September 2006 and Malaysia (Kuala Lumpur) in April 2007.

Indonesian Embassy in Kuala Lumpur: Helping Migrant Workers

With over than 250,000 registered Indonesians annually migrating to Malaysia, not to mention the unknown number of migrants who have migrated illegally, the Indonesia Embassy in Kuala Lumpur and its Consulates are one of the busiest in the country. Of the many cases they handled, many relate to female migrants working as domestic helpers. *Persatuan Agensi Pembantu Rumah Tangga Asing (PAPA),* the Malaysian Association Foreign Maid Agencies, recorded that every year there are around 30,000 Indonesian domestic helpers running away from their employers. Of this number, around 1,000 cases eventually found a way to the Indonesian Embassy and about 2,000 cases to the Indonesian Consulates across the country.

According to interviews with officials at the Indonesian Embassy and Consulates, these authorities provide facilitating services for migrants so that the rights of domestic workers (economically as well as legally) are well protected based on the law and regulations applicable. Often the cases involved unpaid wages and remittances. In facilitating these cases, the available options are compensating the worker or going to court. Calculating compensation is complicated by the fact that employer usually pays 5–6 months salary in advance to cover for the worker's placement fee. This is very influential when the worker has only been working for less than 5 months.

Passport applicants on a quiet day

For the period of November 2006 to March 2007, the total compensation that the Embassy has been facilitating amounted to Rp2 billion (more than US$220,000). Payments of compensation usually take place at the Embassy and mostly involve cash since the amount is considered not too large. The amount of compensation ranges from RM2,000 to tens of thousands. In cases where large amount of money is involved, the Embassy would ask the lawyer to hold the money for the worker; otherwise compensation money will temporarily be held by the Embassy.

Compensation money is sometimes used to buy airfare for the worker, and a certain amount (usually RM1,000–2,000) is carried home in cash by the worker. The rest will be transferred by the Embassy to an account that is desired by the worker.

It can be a family member's account or her own account that she opens up after she arrived home. Aside from transferring to a bank account, the Embassy also used bank draft. It will depend on the worker's request. Transfer cost will be borne by the worker through deduction.

Central Java

Market Bank is a *Bank Perkreditan Rakyat* (people's credit bank) in Yogyakarta serving customers from Central Java. Bank Perkreditan Rakyat provides loans to migrant workers and regards it as a profitable business. The scheme was jointly developed by the bank and an Indonesian recruitment agency. The agency arranges migrants' contracts with Malaysian employers. The loan is mainly to cover the costs of migration. The agency prefers to limit the number of employers, usually factories or state-owned plantations, in order to oversee the execution of contracts and working conditions so as to lower the number of cases in which the worker runs away. The agency guarantees the repayment of loans to the bank by purchasing insurance in case a migrant worker disappears. The run-away rate of Indonesian workers has been about 5 percent.

The average loan size is Rp5 million (US$560) with an interest rate of 1.25 percent per month. Loans are repaid through deductions from worker's salary from the employer. The employer deposits monthly salary in a bank in Malaysia which credits 70 percent of the salary to a worker's account and 30 percent to the agent's account. The agent consolidates the amount and wires the payment from its bank account in Malaysia to the Market Bank in Indonesia. Migrant workers make repayments for 18 months. For the first three months, Market Bank only collects repayments on accumulated interest.

Box C1. Bank Perkreditan Rakyat (People's Credit Bank)

Bank Perkreditan Rakyat is a generic term for small deposit-taking and credit institution. Their services are limited to deposit taking and providing credit. Bank Perkreditan Rakyat originally aimed to promote agriculture by providing loans to farmers, but as demand rose they now also provide loans to non-agricultural sectors. The credit banks are allowed to accept deposits, but are limited in terms of location, function, and portfolio composition. Bank Perkreditan Rakyat branches operate on banking principles, offering loans, savings and term deposits, but no checking accounts.

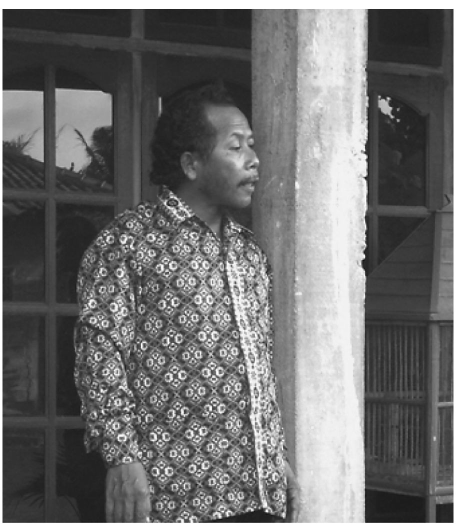
Source: Banking with the Poor, taken from http://www.bwtp.org.

Post Office in Purworejo

POS Indonesia in Purworejo

The post office in Purworejo serves as a distributor of remittances in the area. Forty percent of remittances that arrive at the Purworejo post office come from Saudi Arabia and 50 percent from Malaysia and Singapore.

This post office observes that the typical remittance is around US$500. If the sender is male, the typical recipient is his wife. By the same token, if a sender is female, the recipient tends to be her parents. Sometimes, a mediator is a recipient of remittances at the distribution point.



Village head

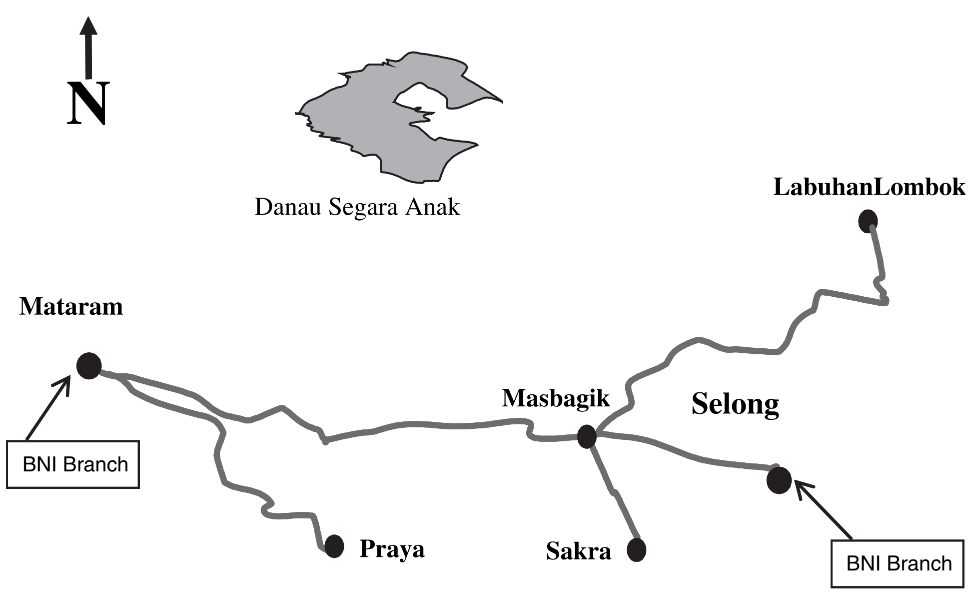
Interview with the Head of a Village in the Purworejo Region

The population of the village is about 1,200 people. There are about 100–150 people who are currently abroad as migrant workers, of which most of them are women. Men in the village engage in fishery (25 percent) and agriculture (75 percent). Migration from this village began in 1985 when a woman first migrated to Saudi Arabia as a housemaid. Most migrants go abroad with sponsorship of a mediator.

According to the village head, migrant workers tend to use banks to send remittances, in particular through BNI since it is faster and easier. The closest bank branch from the village is located 30 minutes away by motorcycle. If one takes a public transportation, it costs Rp6,000 [US$0.67] for one-way trip to reach the branch.

Village members typically use remittances to purchase land, motorcycles, or build a house. Some returned migrants have begun small businesses in the village. Migrant worker donations play a key role in developing infrastructure of the village such as roads and a mosque.

Figure C1. Lombok



Bank Negara Indonesia Service Office at Selong, East Lombok

Bank Negara Indonesia (BNI) at Selong is only a "service office," a sub-branch of the BNI Mataram branch, but it dominates the distribution of formal remittances in the East Lombok District of West Nusa Tenggara Province. It served 500 to 600 customers daily and an estimated 60 percent to 70 percent of its daily transactions are overseas remittance transfers. For general customers, there is a peak of transactions at the beginning of the month with deposit transactions into savings accounts and domestic remittance transactions. Incoming overseas remittances are mostly present around the 15 to 24 of each month because wages in Malaysia and Saudi are usually paid on the 10th of each month.

The average remittances volume paid in this branch per day is Rp1 billion to Rp1.2 billion of which Rp800 million is from migrant workers. The average volume of overseas remittances is 300 to 400 transactions daily with an average of Rp2 million per transaction for those originated in Malaysia and Rp2.5 million for the flows originated in Saudi Arabia. Most migrants' families withdraw in cash the entire amount transferred, leaving the

The long queue to cash in overseas remittances at BNI Selong, September 2006

account with the minimum balance of Rp250,000. Some even leave less than the minimum balance required by the BNI.

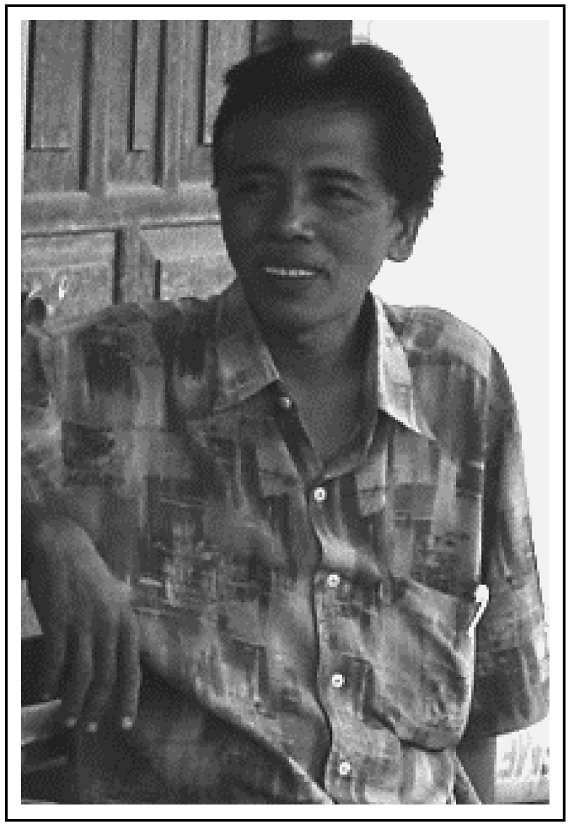
According to BNI staff, there are approximately 20 to 25 new accounts opened every day, almost all linked to overseas migrants. Only a few migrants open bank accounts before they go abroad because they have limited knowledge on banking services or account-to-account remittance transfers that will be available at their destination country. The majority of migrant households open accounts only after migrants start earning wages overseas.

People line up at the BNI sub-branch to collect remittance at least two hours before it opens. During peak days, customers wait in a long queue to cash in their remittances. The bank promotes the use of ATM by charging Rp2,500 to customers who withdraw cash of less than Rp2.5 million from tellers. However, very few customers conduct ATM transactions. According to bank staff, the main reason is the lack of financial literacy among customers and the presence of a "technological barrier" among them. It should also be noted that there is only one BNI ATM within the whole district.

Interviews with Account Mediator in Lepak Village, Lombok

Hasanul Ahmadi is a high school graduate who worked in a vegetable plantation in Malaysia from 1985 to 1987 and came home penniless. He started his account mediation service in 1990 by offering clients full assistance from receiving to cashing in their remittances.

He does this by opening a post office box where *TKI* (Indonesia migrant worker) can send their checks through registered mail, providing *ojeg* (motorbike) rides to take clients to post office and bank, and assisting in filling out forms and ensuring all requested documents are in order.



However in 2000, he closed the post office box because people stopped sending checks and started using bank transfers instead. He saw there was a trend for TKI to inform their recipients of the transfer by phone and realized that there was an opportunity to combine it with account mediation service. With an investment of Rp12.5 million, he opened a phone kiosk in 2001. He financed it with a mortgage over his rice field and borrowed from a friend 50 percent more for working capital. He promotes his services by distributing "slips" with information on the kiosk and its phone number on one side and his bank account on the opposite side

His kiosk offers incoming call service as well, and it can even arrange to bring a family member to the kiosk when unscheduled incoming calls arise. Kiosk clients start to use his account while account clients start to use his kiosk. Clients inform him when the transfer took place and what the amount is. He has a friend at the Mataram bank branch who calls him when deposits are made. He prefers to go to Mataram on his motorcycle to withdraw the money and combine his trip with other business errand, therefore there is no need to wait for more than one deposit to leave for Mataram. He notifies a family when he has the remittance and delivers it to their house; or sometimes they prefer to pick it up at his house to avoid neighbors' scrutiny. One of his advantages in servicing the community is that everyone knows that he is discreet when someone is receiving remittances.

From Malaysia, transactions range is between Rp4 million to Rp5 million. The largest he has received has been for Rp15 million. The family pays him with "fuel money" rather than a commission for his services, which ranges from Rp50,000 to Rp150,000. He once received Rp250,000 for cashing in Rp9 million. The harvest season has the highest frequency for remittance transfers originated in Malaysia, with an average of 30 to 40 transactions per month and most of them above Rp2 million. In the low seasons, he only processes 3 to 4 transactions. Sometimes he uses his own cash to pay remittances and later, when he has businesses in town, he cashes the remittances. His liquidity is enough to pay up to Rp2 million to 3 million. Sometimes, remittance recipients only want an advance, which he supplies without a charge. He welcomes the idea of a registration as remittance service provider, because people already acknowledge his services. He sees two potential competitors for his business: a contractor with high liquidity and a cooperative established by a Muslim school, which is providing loans for up to Rp2 million and have excess liquidity. He has seen the publicity for Western Union, but it is still unknown in the community.

Appendix D

Focus Group Questionnaires and Findings

Objective

The major objective of the focus groups was to gather in-depth insight from the migrants into (1) the factors that influence their preference in choosing financial services for their migration-remittance needs and (2) why these preferences are held.

Methodology

Six focus group discussions were held—three in Central Java and three in East Lombok. Although the intent was originally to divide the groups by both gender and host country, the team found that a number of workers had been to both countries. Thus in the end the focus groups were separated only by gender. A total of 39 returned migrant workers participated in these focus group discussions.

Discussion Questions

Seven discussion topics and related questions had been identified:

1. *Financing migration.*
   Before you left to work overseas, did you receive a grant or a loan to finance migration?

2. *Transferring money back to Indonesia*
   When you lived and worked overseas did you send money to your household?
   How did you usually send this money to your beneficiaries?
   How much did you send to your house hold in money [per year]?
   What was your occupation when you lived and worked overseas?

3. *Incentives to use different channels*

Personal Incentives	Anonymity/Secrecy Cultural Familiarity Personal Contacts
Customer Service Incentives	Dispute Resolution Accessibility Class Discrimination Reliability
Economic Incentives	Speed Cost Secondary Benefits • Legal/ • Regulatory Environment

4. *Financial needs in host country*
   How did you resolve your financial needs when you were working abroad?

5. *Challenges to access formal services*
   Did you require an ID to transfer money back to Indonesia?

6. *Use of savings after return to Indonesia*
   Do you or your relatives currently have an account in a bank or other financial institutions?
   Did your household open this account after you went to work outside Indonesia?

7. *Impact of migration/remittance flows into their lives in retrospective*
   Who in your household usually receives this money?
   - Head of household
   - Wife
   - Son/Daughter
   - Son/Daughter-in-law
   - Father/Mother
   - Brother/Sister
   - Parent-in-law
   - Other relative

   Did you bring back goods to your relatives?
   Did either you or your relatives open a store or business after you went to work out side Indonesia?

Purworedjo Focus Group Discussions, Central Java, September 2006

There were three focus group discussions conducted in Purworedjo, Central Java, attended by returned migrant workers who had worked in Malaysia and Saudi Arabia. Characteristics of the participants are as follows:

Focus Group Discussion	Gender	Country of destination	Type of Work of the Participant	Number of Participant
1	Female	Malaysia	- Domestic worker - Factory worker	4
2	Male	Malaysia	- Plantation worker - Factory worker - Animal husbandry worker	3
3	Female	Saudi Arabia	- Domestic worker	5

Central Java Findings

Placement Fees

- In order to become a migrant worker in Malaysia, one is required to pay the placement fees. In this regard, methods chosen by participants varied. A couple of them (female, male) paid it by using their own money. Three of them paid the fee through salary deduction. And, one of them paid it by borrowing money from his relatives.
- All returning migrant workers from Saudi Arabia used their own money to finance the placement fees.

Methods of Sending Remittance

Malaysia returnees:

- One of participants used bank draft. She chose it since neither she nor her husband had a bank account. After her husband opened a bank account at Bank Negara Indonesia (BNI), then she started transferring the money through bank.
- One of participants asked a mediator (informal channel) to help her. She did it because she did not have enough time to go out. The factory management only gave one day off in a month.
- Others chose bank for transferring the money.
- Names of bank remittance service provider chosen by migrant workers were Maybank (most chosen), RHB, and Bumiputera Commerce. The recipient banks in Indonesia were BNI (most chosen) and *Bank Central Asia,* which were chosen because the transferring process was least time-consuming.
- None of participants had a bank account in Malaysia.
- Specifically, male participants admitted that they made comparison of banks nearby their place of work. The main factors that influenced them in choosing the bank are the currency of RM to IDR and the time period of transferring process. On the contrary, female participants who worked as domestic workers did not have any chance to choose which bank would be used in transferring their money. In this case, their employers were the ones who made decision for them. Besides, their employers also helped them in transferring the money.

Saudi Arabia returnees:

- Three of the participants used bank draft only during their working period in KSA. Their employers were the ones who did the process of sending the bank draft to their family members using postal service. The bank, where their beneficiaries cleared the bank draft, were BBD, BNI, Bank Mandiri. All banks mentioned by participants were located in Yogyakarta.
- One of the participants used two methods:
  a. She used bank draft. Her husband cleared the bank draft at BBD Yogyakarta or BNI Purworejo.
  b. After her husband opened a bank account at BRI in Purwodadi, then she started transferring the money through bank. Her employer was the one who helped her in this regard.
- One of the participants was experienced in using different methods:
  a. She transferred the money to a bank account (BBD in Yogyakarta). Then, her husband obtained a notification and asked to withdraw the money. For that, her husband had to bring ID.
  b. She transferred the money to her husband/son's bank account at BCA and BNI.
  c. She brought the bank draft with her when she went back to Indonesia.
- None of the participants had a bank account in Saudi Arabia.
- None of the participants went to the bank by themselves. Their employers did the process for them or accompanied them.

Beneficiaries

- For married migrant workers, the beneficiaries of their remittances were their husband/wife/children. For singles, they sent the remittances to their sibling or parent.

Malaysia returnees:

- Two of the participants asked their beneficiaries to open bank accounts after they had already started working in Malaysia. Others said that their beneficiaries opened bank account before they went to Malaysia.

Saudi Arabia returnees:

- Three of the participants used bank draft since their beneficiaries did not have bank account.
- Two of the participants shifted their method, from using bank draft to bank account for security reasons. In this case, they asked their beneficiaries to open bank accounts, which were located nearby their house.

Requirements to Send the Money

Malaysia returnees:

- Two of male participants admitted that the bank officer asked them to show their identity document (local ID card for migrants) as part of the bank policy in transferring process.

- Female participants who worked as domestic workers only gave their addresses in Indonesia or bank account number of their beneficiaries to their employers.

Saudi Arabia returnees:

- For using bank draft, participants should provide a copy of their beneficiaries' ID and complete address of recipient bank.
- For transferring to bank account, participants should provide beneficiaries' bank account numbers and show their passports.

Fees

Malaysia returnees:

- Transfer fee was between RM10-12 [US$2.90–US$3.50]. For female migrant workers who worked as domestic workers, transfer fees were paid by their employers.
- For female migrant worker who used informal channel, she gave IDR25,000 [US$2.80] to the mediator.

Saudi Arabia returnees:

- Four participants did not know the fees.
- Only one of the participants knew the fees:
  a. US$30 for transferring the money to BBD account
  b. 20 Riyals for transferring the money to her beneficiary's account at BCA.

Financial Problems During Working Period

- All female participants who worked in Malaysia and Saudi Arabia did not experience any financial problem during their working period. Those who worked as domestic workers informed us that their needs (meals, health allowance, clothes) were provided by their employers. However, one female participant, who worked as a factory worker in Malaysia, got only free meals from the factory management.
- All Saudi Arabia returnees could communicate with their family members through phone call. Only one of the participants received a calling card for free from her employer. Other participants financed it by themselves.
- Male participants explained that they had mechanism in dealing with financial problems. First, they could borrow from foreman or friends without interest. Second, they formed a group consisted of 5–7 persons called *arisan* group (a revolving remittance sending group). Each person took turns in receiving a sum of each members money, collected based on a name lottery. They also used this mechanism when transferring money to their families.

Usage of Remittances

- Total amount of money sent by male focus group participants in 2 years was between IDR7–17 million [US$783–1,902].
- Two of male participants admitted that they used the money to start a small, scale business (a small shop in front of the house, or a second-hand motorbike trading).
- None of the female participants (Malaysia as well as Saudi Arabia returnees) used the money for productive activities.

Other

- There was a complaint about the amount of money needed to open a bank account in Indonesia.
- All Saudi Arabia returnees brought back gold jewelries, new cloths, and cash (Riyal) when they were going back to Indonesia. One of the participants also brought home a tea set and an iron.

Female Migrants Focus Group Disccusions, Lepak Village, East Lombok District, West Nusa Tenggara, September 23, 2006

Participants were all single or widowed or divorced; two are preparing to migrate again soon:

Name	# of Times Migrating?	Where To?	How Long?	Type of Work?
Lulu	3 times	Malaysia (legal)	Total 10 years	Domestic
Raehan	3 times	Saudi (legal)	1st: 2 years	Domestic
			2nd: 2 years	Domestic
			3rd: 5 months	Domestic
Suharni	1 time	Malaysia (legal)	2 years	Domestic
Minah	3 times	Malaysia (all illegal)	1st: 1 year	Domestic
			2nd: 3 months	Domestic
			3rd: 3 months → abused & dumped at a terminal	Domestic
Raedawati	2 times	Malaysia (legal)	1st: 5 months	Domestic → farming
			2nd: 2 years	Domestic
Ael	1 time	Malaysia (legal)	2 years	Domestic
Nur	1 time	Malaysia (legal)	2 years	Domestic

East Lombok Female Migrant Findings

Funding Source for Migration Cost

- Borrow from family without interest except if a family member is a *tekong.*[85]
- Take a loan from friends or "loan shark": borrow 1 → pay back 2 (she is grateful that there is a "loan shark" to borrow from).
- Deducted from monthly wage [*interviewer's note: this could be pre-financed by the employer, the recruitment agency*[86] or the sponsor].
- Borrow from sponsor: usually equivalent to 3 months wages → remit to family and family pay to sponsor.

Remittance Beneficiary and Recipient

- Sent to older sibling who has an account: to be given to migrant's children and younger sibling; to pay for construction of her house [*interviewer's note: this comment from a returned migrant from Saudi Arabia*].
- Sent to younger sibling: saved money in the sibling's account and withdrew only when needed.
- Carried home in cash by brother who is a tekong.
- Sent to ex-husband to be given to children for schooling.
- Sent to a friend to be given to migrant's children

Amount of Money Remitted Home

- RM300 (US$87) or RM400 (US$117) or RM600 (US$175) (not a fixed amount) every 3–4 months → among others to pay for children's schooling.
- Remitting RM3,600 [US$1,050] after working 6 months to pay back a loan.
- RM1,000 [US$290]–RM 2,000 [US$580].
- Wait till "enough" wages is accumulated, then send it home.
- Depending on request from home.

Carrying "Remittance" Home

- Some bring only enough cash for expenses during the trip back home.
- Another participant brought RM900 [US$260] (last 3 months wages).
- Another participant brought the total amount of wages during contract because male employer gave her bad check and afterwards paid all her wages after she threatened to bring him to police [*interviewer's note: this comment from a returned migrant from Saudi Arabia*].
- Gold: necklace, bracelet, ring.
- Doesn't carry anything home because it was confiscated by Malaysian police [*interviewer's note: this is experience of a deported TKI*].

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85. Tekong: Migrant Worker Recruitment Scouts, generally involved in the process of illegal migration, except in the case of Lombok where they are generally legal.

86. The recruitment agency is known in Indonesia as *Perusahaan Jasa Tenaga Kerja Indonesia,* or PJTKI. These are generally private companies which "export" workers overseas.

Remitting Media

- Transfer to bank account;
- Send cheque;
- Employer sent it for migrant, but:
  - let migrant decide which media (telex, cheque, bank account) she wants to use; migrant checked with friends first and was informed that it is better to transfer to bank account because it's faster [interviewer's note: this comment from a returned migrant from Saudi Arabia].
  - and employer decides herself/himself to send the money via bank (account transfer?); employer won't allow migrant to go to bank/outside the house alone because employer is afraid she will run away [interviewer's note: a returned migrant from Malaysia];
  - to migrant's older sibling's account, but it is fully the employer's decision which media to use [interviewer's note: a returned migrant from Malaysia];
- The participants who worked in Malaysia explained that they never personally go to the bank to remit money because, in general, female domestic workers are not allowed by their employers to go outside the house by themselves. However, some were knowledgeable about bank requirements (identification card/passport, name and address of recipient) and explained that banks wouldn't provide services to a migrant without proper identification card/passport.
- Female migrant in Saudi Arabia couldn't go on their own to banks to remit money back to Indonesia due to existing social value system that does not allow women to go outside the house unless accompanied by their muhrim or their employer.

Savings and Accounts Overseas

- Majority of employers of domestic workers in Malaysia hold migrants' earnings and remit it for them; employers want to avoid the possibilities of migrants running away.
- A number of migrants kept their own earnings:
  - Under her pillow;
  - On her brassiere
  - On her clothing's pocket; practical if you need to buy things because you don't need to ask for cash to employer every time;
  - In her cupboard where it's safe.
- Returned migrants from Malaysia felt the need to open account overseas and questioned how would this be possible for illegal migrants.
- Returned migrants from Saudi Arabia were of the opinion that there is so much dishonesty in Saudi Arabia, that it was better for them to keep their own earnings.
- Some wanted to open an account to start saving, but she would have to depend on her employer to deposit the money in the bank, and even to open an account for her; it wouldn't work out if the employer was not honest or if migrant doesn't trust her employer.

Remittance Earned and Its Usage

- A Malaysia returnee: Migrants earned Rp16 million [US$1,790] for two years work; currency is exchanged from Malaysian ringgits to Indonesian rupiah.
- A Saudi Arabia returnee: Migrant earned Rp38 million [US$4,250] for four years work; generally currency is exchanged from Saudi Real to U.S. dollars and sent to Indonesia in U.S. dollars, but sometimes migrant exchanged it from Real to Indonesian rupiah.
- A Saudi Arabia returnee: migrated three times and used earnings to:
  - Repay a loan
  - Build a house
  - Buy land
- A Malaysia returnee: 3 sisters all working in Malaysia and the money they remit is used to build a large house (8 × 10 square meters); still under construction.
- For daily needs and children's schooling [*interviewer's note: not clear if she is speaking as a Saudi Arabia or Malaysia returnee*].
- To pay loan, for mother's and children's need; not even enough to buy chicken.
- Just for paying debt to the loan shark and nothing is left.

Place Where Female Indonesian Migrant Workers Gather in Malaysia or Saudi Arabia

- Malaysia: near Kuala Lumpur City Center, Genting Highland (famous gambling district). Saudi Arabia: female migrants rarely go outside the house. In Riyadh you can see many Indonesian domestic workers at the Al-Azziziyah shopping center; depending on the employer, some grant journalist permission to interview their employee.

Male Migrants Focus Groups Discussions, East Lombok District, West Nusa Tenggara, September 23, 2006

Participants everyone went to Malaysia.

Name	Age	What Kind of Work?	How Long?	Legal or Illegal?
Saifudin	30	Plantation	3 years	Illegal
Salman	36	Plantation	3 years	Legal
Hamdan	25	Construction	5 months	Legal
Adi	26	Construction	1.5 years	Illegal
Darakutni	33	Construction	3 years	Legal
Hidayat	30	Construction	3 years	Legal
Abdul Hamid	36	Fishery	2 years	Legal
Amaq Adi	45	Brick Factory	1 years	Legal
Sahdi	25	Construction	6 years	Legal
Zarwan	33	Plantation	6 years	Legal
Sukriyadi	25	Plantation	7 months	Legal

East Lombok Male Migrant Findings

Funding Source for Migration Cost

- Used own money: parents pay the cost by selling land.
- Borrowed from family: either with or without interest.
- Took a loan from a "loan shark": borrow 1 → pay back 2 (or even 3).
- Tekong and kontre offers to pre-finance the cost.
- Deducted from monthly wage: 3 to 5 months wages → depend on how much have been covered by the limited cash that they own [*interviewer's note: this can be interpreted that the employer or the mediator pre-finance the migration*].

Migration Process

- Through the service of tekong (illegal):
  - Migrant workers migrating in 1992: paid Rp350,000 (US$40) [*interviewer's note: this may be for tekong service*]; bought own ticket (Lombok–Yogya: Rp35,000 (US$4); Yogya–Pekanbaru: Rp75,000 (US$8); *tekong* find funding to cross to Malaysia RM 300 (US$87).
  - Migrant workers migrating in 2000: make a passport through mediator for Rp300,000 (US$34) [official price is Rp75,000–Rp105,000 (US$8–US$12)]; pay tickets (SP3Lombok–Jakarta Rp130,000 (US$15), Tj Priuk–Batam Rp125,000 (US$14); Batam–Malaysia Rp75,000 (US$8).
- The migrants are of the opinion that the illegal process of migrating is generally cheaper and faster. In several cases, the legal channels could be cheaper than illegal ones, but it is more complicated to prepare because of all the necessary documentation required, so in the end the legal process takes longer.
- The length of time it takes from preparation to actually start working:
  - Illegal: depend on tekong's schedule; usually a departure is scheduled anytime the tekong has managed to round up 10 people.
  - Legal: migrating through a recruitment agency legally usually takes longer. Waiting for a visa to be issued could already take up more than 3 months; sometimes a TKI's departure is cancelled.

Amount of Money Remitted Home

- Remitting monthly RM500 (US$146).
- Remitting once every 3 months RM1,500 (US$438).
- Remitting the equivalent of Rp300,000 (US$34).
- Remitting via arisan (5–7 persons collectively add up their money and taking turn sending it to their family); the money ranges from RM500–2,000 (US$146–US$583) per person, and each can remit about 3 times a year.
- Money is usually exchanged from Malaysian ringgit to Indonesian rupiah before being remitted home.

Remitting Media

- Bank transfer through Bumiputera Bank or May Bank; can use Indonesian ID card: "as long as we were confident and convincing, the Bank people wouldn't question us."

- To transfer to an Indonesian account via bank, a migrant worker didn't need anything except account number and address of recipient with copy of recipient's ID (sent to TKI when he wants to start remitting); "to send a check or bank draft, you need to show proper ID to the Bank."
- 1998–late 2000: the popular remitting media is check and draft sent via post. This media is seen not secure: there is a chance that recipients don't receive the draft/check; there are cases where the draft/check is claimed by another person with "fake ID"; the draft/check is withheld by the *calo(migrant worker recruitment scout, generally involved in processing legal migration),* cashing in the draft/check at the bank requires one whole day (arriving at 8AM, receiving cash in late afternoon); this is one of the reasons that people started preferring account transfers over draft/check.
- Time required from the moment that the TKI sends the remittance to the moment that it is cashed by recipient:
  - 1–2 weeks for draft/check;
  - About 2 days for account transfer; there are a few cases where it took much longer; one case even took 3 months for the recipient to receive the cash.

Remittance Cost

- Cheque: RM12 (US$3.50) flat fee (May Bank) and Bumiputera RM5 (US$1.50) (in 1997).
- Easiest way would be sending the check by registered post; this would cost RM3.5–5 (US$1–1.50) in1994.
- Some even inserted money in their letter and sent it home by regular post; this is seen as easiest way.

Remittance Beneficiary and Recipient

- Beneficiaries are either parents (in general) and wives (for those who are married).
- Beneficiaries aren't necessarily the same as remittance recipient. Even when a beneficiary has an account, on average he/she would receive cashed remittance through account mediator. It is true that they have to pay extra for ojeg (motorbike taxi) fee to the mediator, but this doesn't mean that the overall cost would be more expensive compared to when the recipient goes to the bank personally to cash it in. By using a mediator's service, a beneficiary does not need to waste time to go to the bank (it can take all day) and can allocate their time to daily, including economic, activity.
- The beneficiary's account is usually opened after the migrant has left the country and has accumulated enough to start remitting. A migrant will notify his family about a week before he sent his first remittance so that they have time to open an account.

Savings and Accounts

- TKI working for a company (or legal entity) is paid in cash. Those not working for a company:
  - construction worker: is paid twice a month by cheque (Bumiputera Bank)
  - plantation worker is paid monthly in cash.

- The last month's wage received is usually carried home in cash (around RM500 or US$146); carrying too much cash home is not safe during travel, so most prefer to bring an amount that can cover travel cost and meals during the travel.
- The participants felt that, on average, migrants usually aren't able to save money overseas. Their experience is as follows:
  - Saved RM6,000 (US$1,748) from 6 months wages and got robbed;
  - Illegal worker can't expect a steady income, will remit money whenever able to set aside RM 500 (US$146);
  - Let the employer holds the money until a certain amount is accumulated, then remit it.
- For those working in a company legally, there is an obligatory foreign worker savings [*interviewer's note: this might be the same as provident fund*]. A certain percentage is automatically deducted from the worker's monthly wages. One participant received RM1,700 (US$495) monthly, and had to pay RM17 (US$4.95) monthly. Workers can reimburse the savings when they complete their contract by showing that their contract/work permit has ended, and they will be paid in cash. If a worker went home without reimbursing, the company would send him a notification to cash in the savings.
- One TKI believes that in Malaysia people/employers won't deduct your wages without a reason, that's why you will earn money as long as you work well irrespective whether you are a legal or illegal worker.
- It is difficult for migrant to open up an account because at the minimum you need to have a Malaysian ID or valid passport and working permit.
- Remittance for investment purposes:
  - Difficult to do; the migrants felt they don't have control over the money they remitted, the use of the funds depends more on the recipient.

Did you prefer to remit all earnings home or save part of it in Malaysia?

- Remitted enough home and had own account in Malaysia for savings.
- A friend had an account under his own name in Indonesia; the migrant worker sent his own savings to this account.
- Important to have own account in Malaysia, but hard to do so because banks ask migrants to present their documents.
- An employer opened an account [*interviewer's note: this would be under the employer's name if the TKI is illegal, and could either be under the employer or the TKI's name if the TKI is legal*]; the migrant could withdraw and transfer money to his family's or his own account in Indonesia using the ATM. It's very useful and easier for migrants.

Final Note

Most difficult stage in the migration cycle is the pre-departure stage, waiting for the recruitment agency to send TKI abroad. Once in Malaysia, it is guaranteed that a TKI will find a job.

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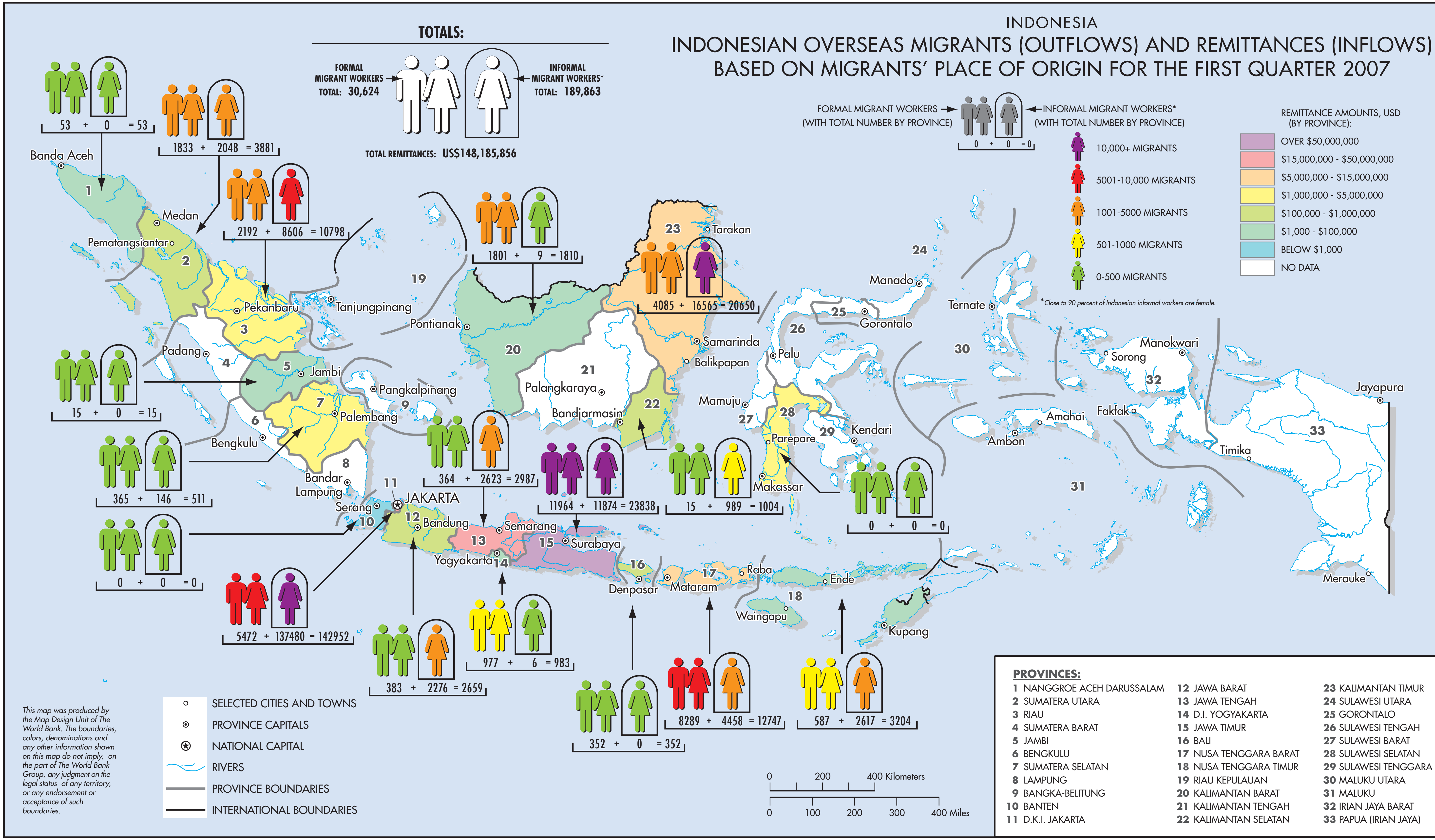

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The Malaysia-Indonesia Remittance Corridor is part of the World Bank Working Paper series. These papers are published to communicate the results of the Bank's ongoing research and to stimulate public discussion.

This study finds that Indonesian migrants to Malaysia are showing an increasingly clear preference for informal transfer mechanisms compared to their counterparts in other countries. A little less than half of all Indonesian migrants overseas—thought to be around 2 million—are working in Malaysia. An increasing number of migrants are women, and the corridor is also marked by a high number of undocumented migrants. Only about 10 percent of the estimated flow of remittances into Indonesia from Malaysia is transferred through the formal system. The extent of this preference for the informal sector is unique to this remittance corridor. Indonesian migrants in other countries are using the formal sector far more than the migrants in Malaysia. In addition, Indonesian women and undocumented migrants in Malaysia especially find formal sector transfers either hard to access or inappropriate for their needs.

This report gives an overview of the Malaysia–Indonesia remittance corridor and suggests policy avenues for improving access to formal remittance transfer channels; increasing the transparency of the flows and the cost structure; and facilitating remittance transfers, particularly for undocumented and female migrant workers.

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