Testing Commitment Devices for Remittances among Filipino Migrants in Rome

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Sector(s): Finance, Labor Markets

Location: Rome (Filipino Migrants)

Sample: 501 migrant workers

Target group: Migrants

Outcome of interest: Remittances

Intervention type: Information Technology Tracking

AEA RCT registration number: AEARCTR-0000151

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Partner organization(s): Bank of the Philippine Islands (BPI), Philippine Association of Private Schools, Colleges, and Universities (PAPSCU)

In 2012, remittances from migrant workers to developing countries were roughly three times the total amount of global foreign aid, yet little is known about how to make these funds work better. Researchers explored this in two ways: First, they introduced a financial product that enabled migrant workers to pay schools in the Philippines directly for their children's or other relatives' education. Second, they ran a lab-in-field experiment to test if giving migrants different degrees of control over how remittances are used for educational purposes made them more likely to send money home. Simply labeling remittances as funds to be used for education raised the amount of money migrants sent home substantially—by more than 15 percent—while adding the ability to directly pay the school only added a further 2.2 percent.

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Migrant remittances are one of the largest international financial flows to developing countries. They exceeded US$400 billion in 2012, which was roughly three times the amount of total foreign aid flows to developing countries that year.[1], However, little is known about how to maximize the impact of remittances. Studies have shown that spending on the education of relatives back home is one of the most significant expenditures for migrant workers and that remittances have improved the educational attainment of migrant' s children. A previous study also suggests that financial products that provide migrants with greater ability to monitor and control how remittances are spent can lead them to send more money home. This study evaluated how migrants' remitting behavior changes when they can label remittances to be used for education or directly transfer remittances to their child' s school back home. It also investigated the demand for a new financial product that allowed migrants to channel tuition

payments directly to schools and to receive information about student performance.

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The Philippines is one of the top recipients of officially recorded remittances, topped by only China and India, with Filipinos sending US$26 billion back home in 2013.[2], From 1981 to 2011, approximately 1.8 million Filipinos migrated overseasan average of 60,000 departures every year.[3] There are estimated to be approximately 113,000 Filipino migrants in Italy, remitting about US$500 million on average back to the Philippines each year. Nearly half of these remittances are for educational purposes. The majority of Filipino migrants who participated in this study were women and they primarily worked as domestic assistants in private residences. Their median monthly wage was 900 euros and the median amount of remittances was 380 euros per month. The median amount of remittances sent home for education each year was about 970 euros. Almost 96 percent of participants remitted regularly in the last year and 72 percent sent money home every month.

The intervention was a pilot to help inform the Philippine Association of Private Schools, Colleges, and Universities and the Bank of the Philippine Islands (BPI) on whether there is sufficient demand for a new financial product called "EduPay," whether it can be profitable for BPI to offer this product, and whether it leads to increased financing for schooling in these transnational households. The EduPay product allowed migrants to send tuition payments for their children or other relatives directly to schools back home and monitor their academic performance.

Discussing EduPay with Filipino migrants in Italy

Majlinda Joxhe

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To evaluate remittance behavior and demand for EduPay, researchers carried out games that tested participants' remittance decisions in different scenarios and then they offered them the EduPay product.

Participants were asked to play four games, with the order randomized, to test if their likelihood to remit changed under different circumstances. The games mimicked real life choices in which a migrant makes money and then has to decide how much to keep for herself and how much to give to family members back home. In the first game, migrants were entered into a lottery to win 1,000 euros and asked how much they would like to allocate any winnings between themselves and between people back home in the Philippines. In the second game, migrants were offered the same lottery but they were also given the option to label any of the amount shared as money for education. In the third, migrants had both the option to label education remittances and to send the money directly to the student' s school. The fourth game was identical to the third, but if they chose to send money directly to a school, the migrant would also receive the student' s attendance and grade reports.

Researchers hypothesized that the willingness of the migrant to use education labels and send money directly to the school might differ with the information that their household in the Philippines received about the choice the migrant made. To test this, researchers randomly assigned the migrants into three groups, as follows:

- *Private information:* Migrants were told that the most closely connected household in the Philippines would not be informed of any of their decisions.
- *Information sharing:* Migrants were told that the household in the Philippines would be informed of all the choices they made.
- *Social excuse:* Migrants assigned to this group were told that, as in group two, the household in the Philippines would be informed of all choices made.However, if the migrant chose any of the EduPay options, the survey team would inform the household that a small donation to a Filipino community organization in Rome was made when the EduPay option was chosen.

Finally, the migrants were offered the EduPay product, which gave them the opportunity to send tuition payments directly to schools in the Philippines from a BPI branch in Rome. EduPay also sent the migrant attendance records and grade reports from the child' s school so that they could better monitor their academic performance. Researchers then examined whether participants' decisions in the games predicted their demand for the EduPay product.

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The introduction of simple labeling for education raised remittances by more than 15 percent relative to migrants who were not offered the labeled or direct payment product. Migrants who were offered the chance the label their remittances for education sent about 708 of a possible 1,000 euros home relative to 615 euros in the comparison group. Labeling also increased the likelihood that migrants would remit at all by 4.6 percentage points. Adding the ability to directly send this funding to the school only added a further 2.2 percent. This suggests that migrants are prepared to remit more money when given the option to explicitly label some of it for education purposes. Giving the migrant more control over how the money is actually spent by transferring their remittances directly to the school resulted in little additional increase in the amount of money they sent home.

Furthermore, researchers found that behavior in this game was useful for predicting whether migrants would sign up for the EduPay product. Migrants who remitted more for education purposes in the game, and who remitted more with education labeling than without, were more likely to want to use the product. They also found that demand for EduPay was driven more by a demand for the ability to label remittances for education, than by the option which gave them the opportunity to control how the money was spent.

The findings from this study are in line with recent evidence which shows that simply labeling money for certain purposes can change spending and saving behaviors, but the future challenge for researchers and policymakers is to identify how to implement these simple interventions most effectively. Given that remittance flows are so large, a proven approach to enhancing their development benefits could have substantial influence on policy.

De Arcangelis, Giuseppe, Majlinda Joxhe, David McKenzie, Erwin Tiongson, and Dean Yang. 2015. "Directing Remittances to Education with Soft and Hard Commitments: Evidence from a Lab-in-the-Field Experiment and New Product Take-Up Among Filipino Migrants in Rome." Journal of Economic Behavior & Organization 111(2015): 197-208.

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3. International Organization for Migration. 2013. "Country Report for the Philippines." p. 50.