

Regional Programme on Remittances and Diaspora Investment for Rural Development

ACTION PLAN

Migrant Investment Fund Feasibility Study

I. Overall Plan

This feasibility study is part of the Project effort to establish appropriate investment fund and subsequent vehicle for OFWs that will harness their capacity to invest and actively participate in spurring growth in their localities of origin. There is huge potential for OFWs to fund viable rural enterprises while at the same time preserve the value of their investment.

The Project is in the best position to do this considering that the Project partner NATCCO and its primary cooperative members have been playing active role in rural financial intermediation and have been involved in rural enterprises. Likewise, they are able to cost-effectively serve OFW families because of their proximity and they can command trust and maintain arms-length relationship which other similar financial service providers might have some limitations.

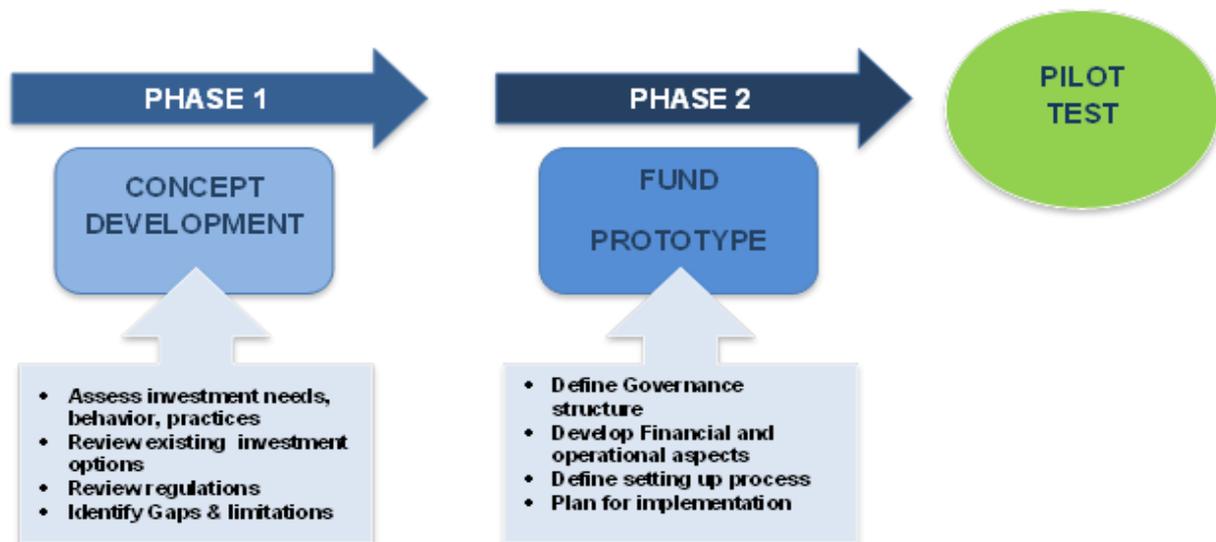


Figure 1- Implementation Phases

The feasibility study will proceed in phases as shown above in Figure 1. Phase 1 research will be conducted in order to fully develop the concept for presentation to NATCCO. At the inception, NATCCO will be engaged in discussions to refer to their ideas and if there are financial investment practices that they have adopted already that can serve as basis for designing the investment fund facility. Moreover, the financial products, including direct investments developed by the selected cooperatives that were identified under Component 1 of this Project will be reviewed. These cooperatives will be visited for this purpose.

For the demand side analysis, since the Project has completed its research of micgrnats/OFs in Malaysia and Korea, the information from this research will be reviewed and analyzed. This will be supplemented by the information of migrants/OFs gathered by the selected cooperatives and the FGDs done by the Project team.

Discussions will be held with the concerned regulators and supervisory bodies as needed. This will be supplemented by information gathered through desk research and reviews of earlier financial and capacity needs assessment surveys done by the Project team. Relevant laws will be reviewed such as the R.A 9520 or the Philippine Cooperative Code of 2008, the Philippine Investment Act and the Rural Banking Act, which also covers cooperative banks.

Upon obtaining NATCCO’s buy-in, research in Phase 2 will complete the financial and operational details of the concept.

II. Draft Objective of the Plan at the Inception

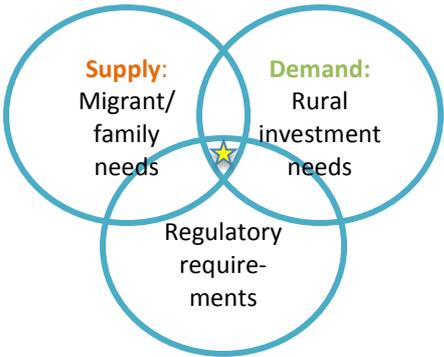
It is expected that at the start of the feasibility study, an initial concept on its objective has been drafted. However, during the course of the study, this is expected to evolve and be finalized.

At the onset, the overall goals for the investment fund component were conceptualized as follows:

1. Create an innovative, financially inclusive investment instrument that leverages the impact of international and/or domestic remittances for the development of rural communities;
2. Develop a prototype that can be scaled up to become a national migrant investment mechanism.

To achieve these goals, the feasibility study seeks to find the intersection between:

- Supply of funds: the investment needs of migrants/migrant family members;
- Demand for funds: investment gaps that can be filled through the fund;
- Regulation: requirements for both fund structure and distribution under current regulation.



Supply Side Analysis. What kind of product are migrants/family members willing and able to invest in?

- Segmentation of migrant/migrant families (by income, time abroad or other relevant characteristics)
- For each segment:
 - Understand their hopes/dreams/goals to be achieved through migration;
 - Understand their current household financial behavior (savings, remittances);
 - Understand their perception of “investment” – what it means to them, past experiences, etc.;
 - Understand their risk appetite;

- Estimate the amount of investable funds available, desired rate of return, expected term of investment (years)

Demand Side Analysis. What will the fund invest in and what is its investment strategy?

- Identify unmet capital needs in rural areas and why these gaps exist (what types of enterprises/sectors need financing, how much do they need, and why they cannot currently obtain it);
- Determine what type of financing (senior debt, subordinated debt, credit, equity, preferred shares, etc.) can overcome these gaps;
- Estimate the level of risk inherent in each type of financing and each type of enterprise/sector;
- Determine the mechanism for allocating fund resources to each type of enterprise/sector.

Regulatory Analysis. What structure and delivery channels can be mobilized given current regulations? *(the Project will take the current regulatory environment as given; it will not make recommendations that require a change in regulations since regulatory reform will likely take a considerable amount of time to achieve and could be beyond the Project duration)*

- Available fund structures (mutual fund, unit investment trust, endowment fund, revolving fund, sinking fund, etc.);
- Requirements for managing each type of fund (board, fund management, pricing, size, audit, licensing, tax, etc.)

III. Indicative Plan of Action

To achieve the objectives of the feasibility study, the level of inputs needed is estimated to be 66 person-days on a continuous basis. The consultant will work closely with the Project team and the implementing partners. Whenever necessary, interviews, site visits and focus group discussions will be done, otherwise information that can be obtained via secondary sources and desk reviews will also be considered relevant and sufficient. The indicative activities are shown below:

PHASES	ACTIVITIES	Jan			Feb			Mar				
		wk2	wk3	wk4	wk1	wk2	wk3	wk4	wk1	wk2	wk3	wk4
Inception	Review Project Documents											
	Develop plan of action											
	Hold discussion with project team											
Phase 1	Conduct Desk Research and review relevant studies, surveys and relevant documents											
	Review results of Need Analysis and capacity assessment of participating coops											
	Hold discussions with NATCCO											
	Review Relevant Regulations											
Phase 2	Hold discussions with Banks,Regulators,other relevant investment providers, MTOs											
	Review existing investment instruments, structures											
	Conduct site visits to selected participating Coops											
	Draft emerging investment fund concepts, governance, funding, pricing etc.											
	Writing and production of FS report											
	Submission of final FS report copy											



Feasibility Study Framework

Inventory of existing investment options	Inventory of existing funds and other investments targeting migrants	Creation of a new fund targeting migrants	Creation of an alternative investment vehicle for migrants
	Sources: 1. Banks <ul style="list-style-type: none"> • DBP, PNB • Landbank (Joy Cervero) • BPI and BDO 2. Govt Non-bank institutions <ul style="list-style-type: none"> • OWWA (Overseas Workers Investment Fund) R.A. 7111 • CFO • BSP-Coop Surety Fund Concept • Pag-Ibig and SSS 3. Private Non-bank Companies <ul style="list-style-type: none"> • Real estate investment • Multi-level marketing schemes 4. Insurance companies and Investment companies/ Mutual funds <ul style="list-style-type: none"> • PAMI • Manulife • Sunlife 5. NGOs and Industry Associations <ul style="list-style-type: none"> • Atikha 	n.a.	n.a.

Inventory of existing investment options		Inventory of existing funds and other investments targeting migrants	Creation of a new fund targeting migrants	Creation of an alternative investment vehicle for migrants
		<ul style="list-style-type: none"> • Unlad Kabayan • Other NGOs? 		
Fund structure	Object of investment <ul style="list-style-type: none"> • What the fund offers to migrants/migrant families • What the fund offers to the originator/seller • What the fund offers to the macro/local economy 	<ul style="list-style-type: none"> • How can migrants access it? • Eligibility requirements? • How do migrants benefit? • Risks involved • Are there gaps/concerns on the part of the migrants about the fund? 	← what are the gaps in the existing funds?	← what is the gap that a new fund cannot fill?
	Investing instrument (the asset underlying the fund)			
	Disbursement and collection methodology (how funds are provided to investees and how payments are collected)			
	Sales distribution channels (who can legally sell the product?)			
Legal Structure				
Governance (functional) structure	Board of directors/trustees			
	Fund management			
	Risk Management			
	Audit			
Financial issues	Funding requirement (size of fund and minimum investment amount)			
	Pricing			
	Investment period			
	Operating costs			
	Tax issues			
	Financial projections			

Inventory of existing investment options		Inventory of existing funds and other investments targeting migrants	Creation of a new fund targeting migrants	Creation of an alternative investment vehicle for migrants
	Expected return (annual percentage return)			
	Risk profile (risk/return and sensitivity analysis)			
	Income distribution (frequency and calculation method)			
	Life (term) of fund			
Other issues relevant to Philippines/Nepal				
Associated organizations (government, private sector, NGOs, international organizations)		Government agencies, NGOs, private sector and other stakeholders involved in fund facility		
Setting up the fund				
	Main steps	n.a.		
	Required legal instruments (e.g., articles, by-laws, other licensing requirements)	n.a.		
	Required operational and strategic instruments (e.g., strategic plan, investment strategy, fundraising strategy, operations manual)	n.a.		
	Implementation structure	n.a.		



-----Notes for research (not part of study framework)-----

Types of Fund Structures:

- **Endowment:** capital is preserved in perpetuity and only the interest is expended. Endowments are set up when an annual stream of income is required on a recurrent basis and there is sufficient capital to support this.
- **Revolving fund:** revenues enter and are spent on a continuing basis. Revolving funds are typically set up in cases where regular income is received, accumulates in an account, and is then reinvested or paid out to fund investors.
- **Sinking funds:** a single amount is received and then expended over time. Sinking funds are usually set up to manage Project funding, which is earmarked for a particular area or purpose.