No One Left Behind

THE PHILIPPINE FINANCIAL INCLUSION JOURNEY

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Chelo Banal-Formoso
Linda Bolido

English

The BSP Vision

The BSP aims to be recognized globally as the monetary authority and primary financial system supervisor that supports a strong economy and promotes a high quality of life for all Filipinos.

The BSP Mission

To promote and maintain price stability, a strong financial system, and a safe and efficient payments and settlements system conducive to a sustainable and inclusive growth of the economy.

Filipino

Ang Bisyon ng BSP

Naghahangad ang BSP na makilala sa buong mundo bilang pangunahing tagapamahala ng sistema at kaayusan ng pananalapi at ekonomiya upang maitaguyod ang mataas na antas ng kabuhayan para sa lahat ng Filipino.

Ang Misyon ng BSP

Itaguyod at panatilihin ang katatagan ng presyo ng mga bilihin at ng sistemang pinansyal, at ng mahusay, ligtas at maaasahang pamamaraan ng pagbabayad upang makatulong sa patuloy na paglago ng ekonomiya at pag-angat ng kabuhayan ng lahat ng mga Filipino.

No One Left Behind:
The Philippine Financial Inclusion Journey

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BSP Governor Benjamin E. Diokno

FOREWORD

The real measure of a policy – its value and success – lies not in its complexities, but in its responsiveness and practical benefit to everyone, especially those at the margins. This has proven true throughout my career as both an academic and a civil servant. As a professor, I always had the task of simplifying theoretical concepts into practical, concise ideas that can be grasped easily and appreciated by young students. As someone who has been in the public service for many years, working across multiple administrations and in varying capacities, I have come to realize that policies and programs must be crafted and implemented in a way that effectively brings government closer to the people.

This is the reason why financial inclusion as an advocacy and imperative of the Bangko Sentral ng Pilipinas (BSP) strongly resonates with me. In the face of many political and economic crises the country has endured through the years, the problem of exclusion has remained. Millions of Filipinos at the fringes have yet to share in the fruits of the country's dynamic growth. Our unbanked and underserved people are left behind because vital financial services remain out of reach for them. Thus, the BSP's desire to help the poor by giving them the means to uplift themselves through financial inclusion is an impetus that I proudly pursue as Governor. Financial inclusion is in fact a key strategic outcome of my governorship.

The task before us is to foster greater understanding and recognition of the advantages of participating in the formal financial system that in turn will result in inclusive, sustainable growth. In order to do this task successfully, government must be adaptable and willing to evolve. Reform has always been a priority initiative for me. I have spearheaded reform programs that modernized and ensured that our public institutions are able to deliver services efficiently and effectively.

Remember the maxim:

A rising tide lifts all boats.

An improved economy should benefit all, and so government economic policy should focus on broad economic efforts.

Benjamin E. Diokno

Now, the BSP and its financial inclusion story is one of evolution – of reforming established systems, forward-thinking and challenging the conventions, and laying the solid foundational work that would carry us through in ordinary and extraordinary times such as the Covid-19 pandemic. This book provides a glimpse of the BSP as a reform-oriented and ever-changing institution through the perspective of financial inclusion.

This book gives an unprecedented look at the BSP's financial inclusion journey as told not only by us, but also by our advocates, champions, partners in industry and development, and, most important of all, the common men who give heart and meaning to our service. It features firsthand accounts and personal testimonies on financial inclusion's positive impact. It records how our initiatives were transformed from a seed of an idea scribbled on a whiteboard to bona fide institutional policies and action. Each chapter chronicles a step in our journey so far – the adoption of microfinance as an advocacy for poverty alleviation, the embrace of innovation for effective policy formulation and implementation, the ensuing impact of our initiatives, the eventual maturity into a thought leader, and, finally, what the future holds for the BSP and its financial inclusion work.

It is our hope that this book inspires and leads to greater appreciation for and renewed pursuit of financial inclusion in the country. This book encapsulates the lessons and insights we have gathered over the years. Importantly, it serves as a commemoration of what we have achieved so far, as well as a reminder of our aspirations and the long road ahead. Our journey continues, and we are ready and committed more than ever to bring the BSP closer to the people.

Benjamin E. Diokno, Ph.D.
Governor

7 October 2020

INTRODUCTION

RESHAPING THE FUTURE OF BANKING THROUGH FINANCIAL INCLUSION

By Chuchi G. Fonacier*

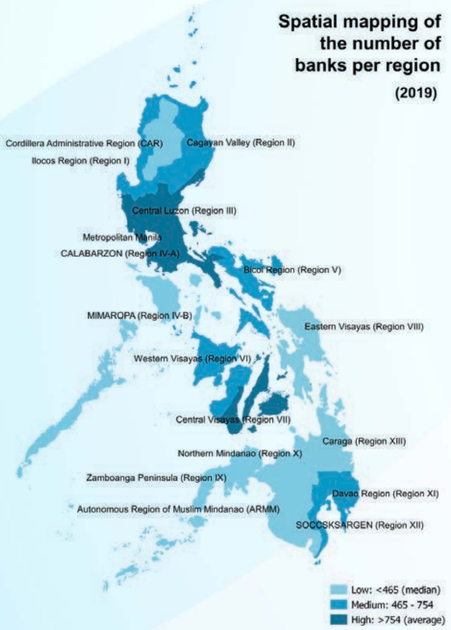
Financial inclusion, as a policy reform initiative in the Philippines, is like connecting the dots in a coloring book to form an illustration. Given the uneven economic development in our archipelago and varying financial needs of our people, there is a compelling need to establish linkages to connect scattered cities and municipalities to develop a truly inclusive banking system.

* Deputy Governor, Financial Supervision Sector

With a banking topology consisting of 7,641 islands,[1] 31.2 percent of cities and municipalities in the country were still without a banking presence; 26.6 percent were without a banking presence but had financial access points; and 4.6 percent were without financial access points, according to data as of December 2019 (BSP Financial Inclusion Dashboard, 2019).

Figure 1 provides a spatial map of bank regional density in the Philippines. It shows bank density concentrated in highly urbanized, densely populated, relatively developed regions of the country: the National Capital Region (NCR) with 29.8 percent share, Calabarzon or Region IV-A with 14.6 percent share, and Central Luzon or Region III with 10.5 percent share.

Figure 1. Spatial Map of Bank Regional Density
Source: BSP Report on the State of Philippine Financial Inclusion



In the unbanked areas, or those regions with low bank density (less than 400 banks as median), the people are bereft of access to financial services and are ill-equipped to participate in economic development. Access points, in this case, pertain to regulated entities that perform both cash-in and cash-out transactions. Meanwhile, "other access points" refers to the non-stock savings and loan associations, cooperatives offering financial services, microfinance non-government organizations, pawnshops, foreign exchange dealers, money changers, remittance transfer companies, other non-bank financial institutions (NBFIs), electronic money agents, and cash agents.[2]

1 National Mapping and Resource Information Authority
2 Source: Alliance for Financial Inclusion (AFI) Core Set of Financial Indicators.

The expansion of the banking network in the regions as a result of the BSP's liberalization of branching rules have yielded positive outcomes, particularly in the NCR, Western Visayas and Davao which all showed significant growths in deposits and loans. Based on data from 2015 to 2019, the NCR garnered the biggest share of deposits, loans and banking offices with respective growths of 43.7 percent for deposits, 63.2 percent for loans and 13. percent for banking offices (head office and branches).

Western Visayas followed with three-digit growth rates: 156.6 percent growth in deposits, 183.8 percent in loans, and 72.5 percent in banking offices. Davao Region also posted robust expansion with 72 percent growth in deposits, 144.3 percent in loans and 627.3 percent in banking offices. These two regions had smaller market shares compared to the other regions but recorded faster growth compared to regions with bigger market shares such as Calabarzon, Central Luzon and Central Visayas. Across the other regions, positive growth were also noted but their efficiency ratio in terms of deposit generation and loan granting still needs some improvement.

In order to bridge the gap, address the challenge of the uneven development of the economy, and harness the full potential of digital technology, Ehrbeck, Pickens and Tarazi (2012) introduced the concept of "financially inclusive ecosystems" for policymakers. This calls for financial markets to provide more people, especially the low income groups, with a broad array of financial products and services at lower cost.

The BSP's financial inclusion advocacy is centered on enabling all Filipino adults to own an account that would allow them to send and receive funds, save and borrow money, and obtain insurance, among other things. The basic outcome indicator for financial inclusion is the level of account penetration, that is, the percentage of adults with a formal account that can be used to save money, make payments and send or receive funds. The current account penetration in the country stands at 34.5 percent[3]. The goal is to attain 70 percent account penetration by 2023. For a country with over 109.6 million[4] people dispersed over 7,641 islands, this seems a gargantuan task.

Financial inclusion reform in the country, in this case, is guided by the multi-dimensional objectives of promoting financial stability through access to financial products and services; supporting the government's program on poverty alleviation by providing access points; offering tailor-fitted products and services and financial education; and encouraging entrepreneurship to improve the livelihood of farmers and fisherfolk in the rural areas (Llanto, 2015).

Since 2000, the BSP has played a key role in increasing access to finance for the poor and low income population by mainstreaming microfinance in the banking sector, in support of the government's poverty alleviation program. Current poverty incidence among Filipino families in the country remains high at 12.1 percent.[5] Given this, economic and social inequality remains a significant challenge for policymakers. For growth to be more meaningful, it has to be inclusive. This calls for sustained implementation of a comprehensive financial inclusion program.

Toward this end, the BSP has progressively pursued policy reforms, initiatives and advocacies on inclusive finance. As the central monetary authority and banking system regulator, the BSP considers financial inclusion a vital policy objective alongside the three pillars of central banking, namely, price stability, financial stability, and an efficient payments and settlements system.

In this light, the BSP has to strike a critical balance between promoting an enabling environment for financial inclusiveness and ensuring the sustained safety and soundness of the financial system. This balance is not about compromising the respective objectives of financial inclusion and financial stability. It is about having a better understanding of the circumstances of the unserved and underserved segments to effectively implement the proportionate application of existing regulations.

3 Source: 2017 World Bank Findex
4 Estimate for 2020 population. Source: Philippine Statistics Authority Census of Population and Housing. Commission on Population, at https://www psa.gov.ph.
5 Source: June 2020 National Quick Stat at https://www.psa.gov.ph.

Based on available data, the progressive implementation of financial inclusion reforms, initiatives and advocacies of the BSP continues to improve the state of financial access and expand the use of financial products among Filipinos.

Financial service access points are expanding across the country with microfinance non-government organizations (NGOs) growing by 36 percent from December 2018 to December 2019, money service businesses by 24 percent and pawnshops by 14 percent%.

The number of branch-lite units (BLU) also increased by a healthy 20 percent in 2019, with 2,248 BLUs in 871 local government units (LGUs), 195 of which are being served solely by a BLU. The number of touchpoints through agents continued to multiply bringing the total cash agents to 17,000 and e-money agents to over 43,000 in 2019.

On the other hand, the number of banking offices grew by a modest 4 percent while the number of automated teller machines (ATMs) improved by 2 percent.

The expansion in the number of financial touchpoints triggered a corresponding rise in the use of financial services.

The number of bank deposits rose by 17 percent while the number of deposits grew by 30 percent, the highest since 2012. Segmentation analysis indicated that the growth was driven by low-value accounts of PhP 40,000.00 or less, reflecting the gains of financial inclusion initiatives in generating retail deposits.

The adoption of Basic Deposit Accounts (BDA and e-money wallets in the country also rose. As of first quarter 2020, there were 121 banks servicing BDAs to 4.59 million depositors whose aggregate deposits reached PhP 3.98 billion or an average of PhP 867.00 per depositor. This is a significant, as the BSP's issuance of BDAs started only in 2018.

The number of active e-money wallets in the past year also grew from about 5 million in 2018 to 8.8 million, a significant 74 percent increase,

All these contribute to the overall health of the banking system.

With the advent of new technologies, we face exciting possibilities on how innovative platforms can continue to expand the reach of financial services and to provide products that are more responsive to the varied and changing needs of our people.

Continuing Policy Reform and Initiatives

As fate would have it, the sustainability of the earlier gains and milestones on financial inclusion was put to the test when the country recorded its first confirmed case of the coronavirus disease (Covid-19) on January 30, 2020. This prompted the national government to impose an enhanced community quarantine (ECQ) to address the health crisis and stem its spread.

Fortunately, the Philippine banking system entered the pandemic in a relatively strong position, with sufficient buffers to mitigate unforeseen shocks to the system. A preliminary assessment of the impact of the pandemic indicated that the banking system remains sound and stable with sustained credit expansion to support the requirements of the domestic economy during the global emergency.

In fact, even when Luzon was placed under ECQ, loans continued with total loan portfolio (TLP) posting an annual growth of 7.3 percent as of end-May 2020. And while non-performing loans (NPL) marginally increased from 2.2 percent to 2.4 percent as of end-May 2020, NPL coverage ratio improved from 91.4 percent to 97.3 percent. On the funding side, deposits continued to grow, increasing by 11.5 percent while liquid assets-to-deposits ratio increased to 50.1 percent as of end May 2020, providing sufficient liquidity for funding needs.

On the whole, the Philippine banking sector is prepared to withstand these extraordinary challenges.

The BSP implemented timely and decisive measures to ensure uninterrupted access by our people to basic and essential financial services and products even during a crisis, particularly sectors that may be financially vulnerable and excluded.

Recognizing that disruptions from the Covid-19 pandemic are bound to have adverse consequences on the operations of BSP Supervised Financial Institutions (BSFIs), the BSP instituted prudential relief measures that were time bound, proactive and inclusive. The measures likewise ensured the sustained provision of financial services through heightened use of digital banking and payment channels.

These regulatory relief measures include reforms allowing the BSFIs to grant equivalent financial relief to their borrowers in the form of more flexible and favorable lending terms, or to restructure loan accounts. The BSP granted operational relief measures to assist BSFIs in focusing their resources to the delivery of financial services, support their subsequent recovery efforts to address the financial needs of the public, and promote financial inclusion at the time of the pandemic.

The BSP also put in place prudential measures to help the micro, small and medium enterprises (MSMEs) sector and large enterprises sustain operations through the Covid-19 crisis, as well as to hasten their recovery after the crisis through incentivized lending programs.

Policies were similarly set to ensure access to formal financing channels by retail clients who would be deeply affected by the community quarantine. Banking clients were encouraged to use information technology, digital platforms and e-banking services to carry out financial transactions during the crisis.

To facilitate the sustainable delivery of fit-for-purpose and affordable financial services especially designed for the low income market, the BSP will continue to create an ecosystem for digital financial inclusion characterized by a wide range of players and digital platforms. The BSP will promote a level playing field for all players, banks and non-banks alike, as they all play an important role in the digital financial inclusion ecosystem.

In this light, the BSP is developing a regulatory framework on the establishment of digital banks in the country to advance financial inclusion through innovations that promote market efficiencies, expand access to broader financial services and overcome the barriers to reaching the unbanked and underserved population. Digital banks should have robust, secure and resilient technology infrastructure, effective data management strategy and practices, and sound digital governance, among others.

Consistent with the principle of proportionality, licensed digital banks are expected to adhere to the same standards of corporate governance and risk management commensurate to their business model and risk profile.

Conclusion

The BSP's proactive pursuit of key policy reforms, initiatives and advocacies to promote financial inclusion has led to increased connectivity among our regions, better financial access, and improved delivery of financial products and services to more clients, particularly in the unbanked areas. The upside of financial inclusion reform also became more salient at the onset of the Covid-19 pandemic when more people, forced to stay at home, relied on digital platforms for their financial transactions that kept them connected and empowered.

Moving forward, the BSP commits to pursue the interconnection of our people through financial access points that bridge the gap between the unbanked and banked segments of our society.

We will progressively create a better future for our people as digital transformation reshapes the banking system's overall landscape to become more robust. dynamic and inclusive within an interconnected ecosystem.

No One Left Behind

CHAPTER 1

NO ONE LEFT BEHIND

As with any advocacy,
financial inclusion needed a champion.

With its usual appetite for challenges,
the financial inclusion team of the Bangko Sentral ng Pilipinas (BSP) was brainstorming the problem of how to serve the banking needs of millions of people who lived in remote zero-bank areas. Would a scaled-down bank branch help? Wouldn't that be too risky for any bank? How much would it cost?

Nestor A. Espenilla Jr. – nicknamed Nesting, a.k.a. NAE among his colleagues – grabbed his white board and marker. He liked to illustrate his point, make his ideas visual so everyone would get it.

"Here's the client, here's the bank and here's a crocodile," he said, sketching a man, a building and, between the two, a crocodile. "Are you going to make him cross the river just to make a deposit? With that crocodile there?"

Crocodiles and rivers were only two of the persistent barriers to financial inclusion the BSP had to address to open up the banking system to previously unserved and underserved Filipinos. The country has more than 2,000 inhabited islands, many of them with neither structure nor service that remotely resembles the crudest of banks.

The beguiling thing about Espenilla was that he found genuine pleasure in looking for ways to dismantle the barriers that excluded. This was true during the many years that he was with the Supervision and Examination Sector (SES) as managing director, and then as deputy governor, and it was true in the heartbreakingly brief time that he was the bank's governor.

"Here we are, we have a good, robust banking system," he said in an interview in 2017. "But whom does it serve? If it's primarily concentrated in the urban areas, if it's only operating in the big cities, if it's primarily serving only big business, then what public policy purpose is being served?"

By allowing a rural or thrift bank to open a scaled-down branch in an unserved town, whether or not isolated by rivers and crocodiles, the BSP would make it possible for the villagers to make microdeposits and bills payments, accept microloans and government pay-outs, buy microinsurance and limited amounts of foreign currency, and do electronic money (e-money) transactions. The characteristic microservices made the choice of name for this revolutionary idea quite obvious: micro-banking office (MBO).

Before the Monetary Board approved the MBOs in 2010 on Espenilla's recommendation, 610 of the country's 1,635 cities and municipalities did not have a bank, not a glimmer of one. By the time Espenilla became BSP governor seven years later, there were 919 MBOs operating in 538 cities and municipalities, 99 of which were being served by MBOs alone.

"If you look at the demographics and the geographical profile of the Philippines, as well as the economic distribution, it makes a lot of sense to think about financial inclusion if you are designing policies that you want to make relevant to a broader segment of the population," said Espenilla in another interview. "Typically, the financial system in a developing country context touches only a very small although important segment of the economy, but by weaving financial inclusion into the more traditional objectives, we

From one Governor to another - Amando Tetangco Jr. (left) turned over the BSP to Nestor Espenilla Jr.

are able to reach out to the greater population and actually come up with policy making that matters for the population." (AFI, 2013)

His wife, Tess, recalls that when asked in an interview once what he was most passionate about, Espenilla had said that it was to ensure that even the poorest Filipinos are benefited by the BSP and this could be done by reforming the banking system to make it strong, modern and inclusive.

"You are fortunate to have a new governor whose heart beats for financial inclusion," outgoing BSP Governor Amando M. Tetangco Jr. told the audience at the opening of the Agri Value Chain Financing workshop sponsored by the BSP and the Asian Development Bank (ADB) in 2017.

Fe de la Cruz, former BSP director for corporate affairs, remembers Tetangco's words to this day. "He was introducing Nesting, who had just been appointed the day before to replace him." Tetangco was retiring after 12 years as governor, the only one to serve two terms in the BSP's history.

Kelly Hattel, ADB financial sector specialist, recalls that the same introduction struck a chord with her because "Governor Tetangco was absolutely right – the person most responsible for understanding the importance of financial inclusion and what it could do to help transform the lives of microentrepreneurs was Nesting Espenilla. Central bank issues are challenging and important, but financial inclusion was one issue that he really cared about a lot."

Pia Bernadette Roman-Tayag and Eduardo C. Jimenez, both of whom have been with the BSP financial inclusion team since year one of the advocacy, often heard Espenilla say that the challenge posed by the then brave new world of financial inclusion made fixing the banking system more exciting.

To go back to the MBO innovation, it did not spring miraculously from that one "crocodile" session. It resulted from a game-changing "test and learn" process in one town after another. Allowing the banks to experiment with products and services paved the way for innovation, according to Dr. Gilberto M. Llanto, trustee of the Philippine Institute for Development Studies, the government's economic policy think tank, and independent director of CARD Rural Bank, the largest microfinance institution in the country.

The "test and learn" approach to regulation and supervision was Espenilla's contribution to the growth of financial inclusion, Llanto says. "Without it, microfinance wouldn't have progressed this far here."

This progressive philosophy that Espenilla espoused would be echoed in due time in the financial inclusion community where he also played an active role.

Financial inclusion badly needed a champion and found one in Espenilla. Daring as he did to imagine a circle of life with nobody standing outside the circle – and doing the best he could to make that vision come true – Espenilla had often said, "The whole point, essentially, is that no one is left behind."

Flagship Program

In the beginning when it was called microfinance, the objective was modest enough: To make small sums of money available as loans to the underprivileged and help them become productive. The unbanked poor could use the loans as working capital so as not to fall victim again and again and again to usurers and loan sharks. If provided on a sustainable basis, microfinance could help the most marginalized communities build viable businesses, grow their income, cope with external shocks like illnesses and disasters, and improve their future.

It was in 2000 when Rafael B. Buenaventura adopted microfinance as the flagship poverty alleviation program of the BSP, the country's independent, central monetary authority responsible for all policies and supervision covering money, banking and credit. As BSP governor, Buenaventura oversaw a financial system that included universal and commercial banks, thrift banks, rural and cooperative banks, offshore banking units, investment houses, financing companies, securities brokers, credit card companies, and pawnshops, among other financial institutions.

Microfinance, according to the BSP, is a broad range of financial services made accessible to previously excluded low-income households with microenterprises. Its initial offerings were loans but more services were added later. The BSP definition makes it clear that a microfinance loan is not subsidized credit, not a salary or consumption loan, not a dole out, and not a cure-all for poverty.

Buenaventura said that as a major financial regulator in a developing economy, the BSP had always "felt a responsibility to try to do something more direct and immediate than our traditional tools allow us, in order to alleviate the poverty surrounding us, a poverty that injects a basic element of instability into everything."

That same year, the GBA mandated the BSP to recognize and establish rules for microfinance in the banking sector.

"This is an area that we understand and one where we have influence," Buenaventura said. "Microfinance is inherently attractive to us because its successful practice is basically founded on sound credit principles rather than credit subsidy. As such, it is market-oriented and therefore a viable proposition for the banks that we are responsible for."

Governor Tetangco presented a set of 20-piso banknotes overprinted with the 2005 UN Year of Microcredit logo to Luli Arroyo Bernas who represented her mother, President Gloria Macapagal Arroyo. Microfinance was a key component of the poverty reduction program of the Arroyo presidency.

The following year, having told an international conference that poverty in the Philippines continued to be prevalent among agriculture-dependent households, or 40 percent of the population, President Gloria Macapagal Arroyo declared microfinance "a cornerstone in our fight against poverty."

To the Bangko Sentral, microfinance has both the potential to become a sustainable banking activity and an opportunity to extend services and products to sectors that had been overlooked.

Not that microfinance was going to be an entirely new undertaking for the banking sector. There were rural banks and thrift banks already involved in microfinance at the time. The commercial banks too had previously experimented with providing wholesale credit to NGOs and cooperatives for lending to their members. But, by and large, the working poor did not have any genuine, direct and sustained relationship with formal banks.

Thanks to the early NGOs, mostly faith-based, microfinance was making inroads into marginalized Filipino communities even prior to 2000. They used their grants to purposely wean people away from self-perpetuating, high-interest debts to informal lenders.

Buenaventura believed that combining the effective credit delivery systems of the pioneering NGOs and cooperatives with the access to resources, broad network and risk management skills of banks would multiply the benefits of microfinance.

Backstory

Microfinance traces its modern roots to credit programs for the entrepreneurial but underprivileged communities in South Asia and South America back in the 1970s.

The most publicized of these efforts was economic professor Muhammad Yunus's experiment, conducted with his university students, of granting small loans at low interest to groups of impoverished women in Jobra, Bangladesh. Yunus, who received the Nobel Peace Prize in 2006 for pioneering the microcredit concept, created the Grameen Bank when the rural banks begged off the project after their initial involvement in the pilot phase.

Nobel Peace Prize awardee and microcredit pioneer Muhammad Yunus (left) was welcomed by Amando M. Tetangco Jr. to the "Partnership Against Poverty" three-day summit attended by 800 delegates from 60 countries.

Grameen's counterpart in South America, Accion, similarly addressed the lack of economic opportunity for small businesses by issuing small loans.

As in the rest of the world, microfinance began as microcredit in the Philippines, where it catered to borrowers who had no previous relationship with conventional banks because they were either too poor or lived too far – or both – to engage in any banking activity. The clients were usually employed in the informal sector and received low wages, if they were employed at all.

Microfinance Committee members went on field visits occasionally. Here with Monetary Board members Antonino L. Alindogan and Melito Salazar Jr were Alberto V. Reyes, Nestor A. Espenilla Jr. and Eduardo Jimenez.

In the early stories, the borrowers, those whom the traditional banks typically dodged for fear of loan defaults, turned to the pioneering microfinance NGOs and cooperatives for small credit at easy terms. Following the Grameen example, they were grouped into cells whose members were bound to one another to repay their loans. And, as it turned out, although cash-strapped, they did repay what they owed, debunking the myth that the marginalized were a bad risk because they were lazy, undisciplined and incapable of looking forward to tomorrow.

The loan process was simple. Borrowers could apply for a tiny amount to either kick start or keep afloat their humble trades, be it a fruit stand, street food cart or sewing machine for a home-based handicraft. The credit amount was small and determined by the client's cash flow, character and credit worthiness, none of which would pass muster at any regular bank. The interest rate was market based. The loan term was short and repayment was made daily, weekly or semi-monthly, depending on the net cash flow of the borrower's household. No collateral required, no cumbersome documents to file, and no credit history to dig up.

Using this formula, microfinance institutions (MFIs) – the collective term for rural banks, thrift banks, NGOs and cooperatives engaged in microfinance – were able to lend to folks who were financially struggling and, in so doing, earn reasonable returns. They later encouraged their borrowers to start saving money for future needs, thus transforming microcredit into microfinance.

Sooner than later, the BSP advocacy would become more ambitious in scope: To enable all Filipino adults to access bank services that would allow them to borrow and save money, make payments, receive funds and get insured, among other financial services, so they could improve their living standards. Everything by then would fall under the heading "financial inclusion."

Microfinance Committee

Before it could implement the new banking law's provisions the Bangko Sentral needed all hands on deck. The right hands on deck, to be more precise.

At the top level, specifically the Monetary Board, Buenaventura designated Antonino L. Alindogan Jr. as the Board Champion for microfinance.

Additionally, the BSP formed a committee in charge of recommending policy and supervising microfinance activities within the banking sector. Alberto V. Reyes, SES deputy governor, chaired the Microfinance Committee. Espenilla, a managing director then, was vice chairperson. Alindogan became the adviser to the Microfinance Committee together with fellow Monetary Board member Melito S. Salazar Jr., the former Department of Trade and Industry undersecretary for trade and investments.

"The more important emphasis in my latter years as deputy governor was to set up the basic rules for microfinance," recalls Reyes. "The clients were the economically active poor such as shopkeepers, ambulant vendors, and the like. The Microfinance Committee was at the forefront of all activities related to microfinance."

In his progress report in 2002, Reyes stated that an additional 11 banks with 22 branches had started microfinance operations in 11 provinces not previously covered by a microfinance bank, so that by May 2003 there were 119 banks with 363 branches that were engaged in microfinance, reaching 394,613 borrowers with total loans outstanding of Philippine Peso 2.2 billion.

Monetary Board Members Armando Suratos, Felipe Medalla, Alfredo Antonio (partly hidden) and Deputy Governor Diwa Guinigundo at a microfinance event.

"It gives me great pleasure to know that there are now 150 banks involved in microfinance and that there are now over 2.5 million microfinance entrepreneurs," says Reyes.

Upon the retirement of Reyes in 2005 after 41 years of service at the Bangko Sentral, the Microfinance Committee was reconstituted and Espenilla, who succeeded Reyes as deputy governor, also inherited the chairmanship. Likewise named were Ma. Corazon J. Guerrero as vice chairperson, as well as Monetary Board members Juanita D. Amatong, Raul A. Boncan and Nelly Favis-Villafuerte as new advisers.

Under Tetangco's governorship, the Microfinance Committee evolved into the Inclusive Finance Steering Committee (IFSC), one of three internal committees chaired by the governor himself. Deputy Governors Diwa C. Gunigundo, Juan D. De Zuñiga Jr. and Espenilla were vice chairpersons. The committee members included assistant governor Ma. Cyd N. Tuaño-Amador and managing directors Augusto C. Lopez-Dee, Johnny Noe E. Ravalo, Chuchi G. Fonacier and Edna C. Villa. By this time, there would be so much more going on than just microcredit.

The IFSC provided oversight and directed all BSP policies and programs related to financial inclusion. Inter-departmental working groups were also created to assist in furthering the BSP financial inclusion agenda, namely, the Regulatory and Supervisory Framework Group, the Financial Education and Consumer Protection Working Group, the Financial Inclusion Advocacy Group, and the Data and Measurement Group. These groups steadily espoused the financial inclusion objective in their own areas of work.

Microfinance Unit

Two new hires for the Microfinance Unit helped get the BSP's new advocacy off the ground. To start with, the BSP invited back Eduardo C. Jimenez, an extroverted and energetic microfinance expert.

Jimenez had first joined the BSP back when it was still known as the Central Bank of the Philippines. He was on the team that managed a multibillion-dollar portfolio, a significant part of the bank's international reserves. He quit the job in 1994, fully aware that it would mean a 60-percent cut in his income, to join the Kabalikat para sa Maunlad na Buhay Inc. (KMBI). The faith-based microfinance NGO, he believed, was the perfect outlet for his passion for helping the underprivileged.

Through hard work, discipline and conviction, Jimenez became an effective microfinance evangelist and rose to the fore as chief executive officer of the Alliance of Philippine Partners in Enterprise Development (APPEND), a network of faith-based NGOs in the country.

"In microfinance, you may owe money but you don't owe anyone a debt of gratitude," Jimenez says. "You settle what you owe, with interest to boot. *May utang na loob ka kung yan ay libre* o zero interest. But you didn't ask for charity, you didn't cup your hands for a dole. Instead you shook hands over a loan that you're now paying back. The impact of that on a poor person's self-respect is huge."

When the BSP came around offering him a job again, the maverick Jimenez asked for some time to think things through. He was now president of KMBI, which had become the fourth largest microfinance NGO in the country. He was also a trustee of the Microfinance Council of the Philippines Inc. (MCPI), the national network of microfinance institutions "advocating sustainable, innovative and client-responsive solutions to poverty." Would he have time and passion to spare?

Fortunately for the BSP, at the same time, Pia Bernadette Roman-Tayag had just come home from graduate studies in the United States. With economic development as the focus of her freshly acquired master's degree in International Affairs at Columbia University, she was hired by a microfinance nonprofit while in New York. The experience inspired her to fire off a letter of application to the BSP upon reading a news story about the bank's need for people who could help promote microfinance.

De la Cruz recalls sitting in the hiring committee that interviewed Jimenez and Roman-Tayag. "We were so impressed with the both of them that Max Edralin, BSP's long time consultant for public relations, wisely moved that we recommend them both," she says.

As the Microfinance Committee's adviser, Alindogan interviewed Jimenez and Roman-Tayag in addition to the panel interview. He agreed both should join the BSP's new microfinance unit.

Jimenez rejoined the BSP in November 2001, thus becoming the youngest and longest serving advisor of the bank. With Roman-Tayag coming on board two months later, the Microfinance Unit was ready to rock and roll.

Perfect Partners

Any advocacy would be merely an illusion without the proper support. For such a demanding task, Espenilla and his colleagues in the BSP Microfinance Committee needed people who could walk through walls, or at least believed in their hearts that they could. In this aspect Jimenez and Roman-Tayag were more than qualified.

It was the lean, mean Microfinance Unit that choreographed the steps needed to implement the committee's decisions, directions and initiatives. It liaised with the different operating units to ensure the continuity of microfinance activities. It informed, workshopped and publicized to generate awareness of the advocacy both within the BSP and without.

Together with Espenilla, the unit designed the BSP's three-pronged approach to microfinance. First, the BSP needed policies and regulations for the banking sector's practice of microfinance, including expanding the scope and scale of microfinance operations. Second, it had to improve not just the banks' capacity for microfinance activities but also its own through trainings. Third, it had to advocate for the development of sound and sustainable microfinance operations through participation in the legislative process, partnerships with other MFIs and government agencies, and consumer education.

The BSP is the first central bank in the world to have an office dedicated to financial inclusion, initially named the Inclusive Finance Advocacy Staff (IFAS). In 2013, the IFAS received the Presidential Lingkod Bayan Award. Members of the team (from left to right) include Mary Rose Roque, Rochelle Tomas, IFAS Head Pia Bernadette Roman-Tayag and Mynard Bryan Mojica.

When Espenilla became deputy governor, he made two recommendations to the Microfinance Committee that ordinarily would not have been top of mind for a bank regulator like him.

One was for the Microfinance Unit to be transformed into the Inclusive Finance Advocacy Staff (IFAS) that would focus on a broader campaign for financial inclusion for all segments of the population. The BSP is globally acknowledged as the first central bank in the Asia-Pacific region to have a permanent office dedicated to financial inclusion. In 2003, the IFAS was conferred the Presidential Lingkod Bayan Award, an esteemed civil service recognition for work that has made a nationwide impact.

The other recommendation was for the formation of the Financial Consumers Affairs Group because Espenilla was keen on making consumer protection the essential Side B to financial inclusion. "If we were going to invite people to join the financial mainstream, we'd have to help them protect themselves," he said.

In 2018, a year after Espenilla assumed the governorship, the BSP combined the financial inclusion and consumer protection advocacies into the Center for Learning and Inclusion Advocacy (CLIA) managed by Roman-Tayag. Directly under the supervision of the Office of the Governor, the center reflected Espenilla's serious commitment to both inclusion and protection.

As the international Consultative Group to Aid the Poor (CGAP) put it, "Espenilla was a tireless advocate for the role of policymakers in balancing innovation in the marketplace with protecting potentially vulnerable people and ensuring that products benefit poor people." CGAP, which is housed at the World Bank, is a global partnership of more than 30 development organizations and think tanks.

Core Group

In addition to the Microfinance Unit, the BSP created a special examiners group to monitor the loan operations of banks engaged in microfinance.

Traditionally, a bank requires collateral before approving a loan because without one, it risks ending up with nothing in case of nonpayment. Given that microfinance clients were the low-income borrowers who had always lacked credit history, steady income and collateral, how could a microfinance rural or thrift bank control for risk?

The BSP resolved the issue by amending the manual of regulations, developing special examination policies, and paying particular attention to the training of selected examiners to supervise microfinance-oriented banks – the term used when referring to banks not wholly devoted to microfinance but having some microfinance operations. The central bank prepared guidelines, including reporting requirements that helped in evaluating the microfinance portfolios of banks. It prescribed the use of portfolio-at-risk to monitor and measure portfolio quality and undertook onsite examinations. These initiatives helped improve the risk management of the banks along with their ability to efficiently loan out funds.

Through its circulars, the BSP recognized cash flow-based lending as a peculiar feature of microfinance and thus provided for the exemption of microfinance loans from the rules and regulations applicable to unsecured loans.

With the approval of the Microfinance Committee, the central bank conducted a yearly series of seminars for examiners that were developed with the assistance of the United States Agency for International Development (USAID). The core group was also given special training on computer-assisted examination techniques and IT audit for microfinance.

"We had onsite workshops every year," says Rogelio A. Encinas, head from inception in 2003 of the Microfinance Core Group of Examiners (MCGE), later to be the MicroFinance Specialist Group (MFSG). He particularly recalls attending a weeklong training at the CARD facility in Laguna where they were taken for onsite inspections of upland coffee farms.

An Accountancy graduate of the Divine Word College in Legazpi City, Encinas joined the Central Bank of the Philippines in 1976 and became an examiner for the rural banks that dispensed the government-subsidized loans in the time of Martial Law. In retirement, he has become an independent director of the Rural Bank of Camalig in Legazpi City.

It is his recollection that together with his deputy, Gerardo A. Butardo, and the other examiners, he would assess bank compliance with the BSP's microfinance regulations in several ways. Butardo would later assume leadership of the group. Shortly before he passed away in 2019, he was appointed to head the BSP's Human Resources Sub-sector.

"We evaluated each bank in terms of risk management, quality of assets, and number of new borrowers and depositors," says Encinas. "We determined the past due ratio to measure the effectivity of the bank's collection process. We also checked on the bank's ability to respond to microfinance problems encountered by clients."

In microfinance, the loan and repayment amounts depended on the borrower's income. As a result, loans had frequent amortizations, typically weekly since this was a common cash flow among microentrepreneurs. The terms were also shorter, six months on the average.

Good repayment assured borrowers of steady access to credit, the loan size growing along with the microbusiness. The BSP initially pegged the microfinance credit limit at PhP 150,000.00 (average loans were only around PhP 10,000.00). In instances where the business had grown and needed a larger loan, the BSP allowed up to PhP 300,000.00.

"A microfinance loan is different," Encinas says. "It can be given even without collateral. You look instead at the borrower's cash flow and character. The loan documentation is also simplified." All these accommodations were designed to make microfinance banks more accessible to microentrepreneurs who otherwise would end up at the mercy of loan sharks.

Banks may have risk management down to a science, but it makes an even bigger difference when, Encinas says, borrowers receive financial education and credit discipline counseling along with their loans, which is the case with well-supervised microfinance institutions like CARD Bank.

According to CARD's Llanto, the bank has a 98-percent repayment rate. "Microfinance has disproved that the poor are a banking risk. The perception that they will not pay you back if you lend them money is wrong."

The MFSG was the BSP's very first specialist group. The Technology Risk Specialist Group and the Anti-Money Laundering Specialist Group followed later as the need for each group arose.

Under Tetangco, the BSP evolved the microfinance examiners team into the Micro, Small and Medium Enterprise (MSME) Finance Specialist Group to include the supervision of banks with significant lending exposure to micro, small and medium enterprises.

With technical assistance from International Finance Corporation and German Technical Cooperation, the BSP undertook capacity building for BSP examiners to supervise and examine, using a risk based approach, the banks' lending operations to MSMEs.

The specialist group was dissolved once the special microfinance auditing regulations had become part and parcel of regular banking. Roman-Tayag says the concept of risk-based supervision is applicable to the credit risk management of all banks, not just microfinance banks.

The Art of Leading

A champion is someone who thrives in the confidence of the people above him and the support of a capable, committed and loyal team under him. Espenilla was the managing director of the supervisory policy department when the BSP adopted microfinance as its flagship program and, shortly thereafter, received the GBA's mandate to institutionalize microfinance operations in the banking industry. Since his office issued all the regulations for banks, it principally became his responsibility to craft the microfinance regulations and recommend their approval to the Monetary Board, from the initial circulars defining microfinance and its practice to the more recent circulars relating to financial inclusion.

> **"Our dreams have to be audacious and ambitious enough to compel us to overcome inertia, rethink our approaches, and aggressively seek opportunities. Are we bold enough to imagine new and greater possibilities for the poor we serve? Or are we perfectly content with business as usual?"**
>
> – Nestor A. Espenilla Jr.

"I listen a lot to what people are saying, both those who work with me and those that I work for," Espenilla said in a television interview. "I try to engage people. I try as much as possible to give an idea of where we are headed and why we are headed there." Espenilla looked at microfinance as an innovation and believed that, with the right products and services, it would make a good market out of people previously perceived as un-creditworthy and, at the same time, fuel their initiatives at improving their finances, according to Roman-Tayag. So the BSP made microfinance competitive for banks and more exciting than a donor-benefactor relationship or an old-fashioned lender-debtor deal. The banks that invented new and safe ways of doing things had the edge. They didn't have to engage in microfinance out of a sense of civic duty alone but could look forward to doing good while doing well.

"These beliefs guided the approach and the advocacy and are still consistent with how the BSP views financial inclusion today," Roman-Tayag says.

What was Espenilla's leadership style?

He created a greenhouse environment where people were encouraged to grow and share their ideas. If it was a dumb idea, you were bound to find out. Roman-Tayag recalled that Espenilla always challenged your proposal until you realized how absurd it was. On the upside, he had enough faith in people to allow them to try out many things and set their sights high.

"The way we crafted regulation was we engaged the industry and got their input," Espenilla had said. "I've found that listening to people improves the overall quality of the decisions that you make – to the benefit of all –and it makes people more, in a way, loyal and consistent in their activities."

Llanto notes that, generally, a banking regulator's instinct is to be conservative. "If the risk is too big, you'll be exposing the depositors. You are a fiduciary institution lending other people's money," he says. But because Espenilla was forward-looking, he was facilitative without losing sight of the need to maintain prudential limits.

"How to combine those two is an art," Llanto says.

But keeping an open mind was not enough. The BSP was a mammoth institution that was not interacting with the kind of people microfinance banks were talking to out in the field. For this reason, Espenilla allowed CARD Rural Bank to first try out its new microfinance products among the grassroots with close monitoring. Based on the results gathered from the testing, the BSP would make the regulation.

"If you are a bank how do you accept deposits and payments for loans? You do it through your branches, right?" says Llanto. "But what if your customers are in the countryside and have a hard time coming to town because of transportation costs, because of work, because they feel intimidated by banks, because of so many reasons? Maintaining a building is too expensive. Plus you need a vault, a guard and CCTV. It's because of these reasons that many people become financially excluded."

This was the genesis of the MBOs or stripped-down branches that rural banks put up to redress the absence of banks in far-flung villages. Although smaller markets did not justify the cost of a brick and mortar structure, they still needed deposit, withdrawal and other bank services.

"Nesting was adaptable, and he was willing to trust you when you said you had facts and evidence. If he had reservations and uncertainty, he would resort to the regulatory sandbox," Llanto says.

Regulation follows the market – the microfinance team would often hear these words from Espenilla.

"Allow the pilot testing if it won't harm the public in any way. If it works, let them try it on a bigger scale," Espenilla would tell his microfinance team. "Let's test it and if it works, we'll regulate it for the market. Otherwise, the market might die because of our control."

That was how Espenilla implemented the principle behind the regulatory sandbox, according to Jimenez. Espenilla had said himself that the BSP welcomed innovations from the private sector and allowed the testing of new ideas so both innovators and regulators could learn from the experience. A high degree of communication between the parties, however, was necessary.

"While we allow the market to lead we also cannot afford as regulators to be left far behind," he told the CGAP in an interview. "So we have to stay very close behind innovators just to make sure that things don't get out of hand because, at the end of the day, the target market for these financial services are really people who may not have had extensive experience in the use of financial services and are in that regard potentially vulnerable."

Exposure Trips

Promoting microfinance as a credible, scalable and sustainable advocacy within the entire banking system would have been impossible without first finding favor within the Bangko Sentral.

Jimenez, trusting his own hands-on experience in microfinance NGOs, recommended exposure trips to microfinance institutions in different parts of the country for the Microfinance Committee, the Monetary Board and the rest of the BSP leadership. He believed that the face-to-face interactions with microentrepreneurs on the ground would foster empathy. Not to mention that the field exposure would be a good way for the BSP to keep abreast of the latest methodologies, technologies and problems in microfinance.

Tetangco was BSP governor when the committee flew to Davao in 2011 to witness an e-money demonstration at the First Valley Bank. The Rural Bankers Association of the Philippines-Microenterprise Access to Banking Services (RBAP MABS) and the BSP microfinance team organized the trip.

"The Bangko Sentral had initially allowed the use of e-money on a pilot basis and we wanted to see its application on the ground, including the risks and other issues that needed to be addressed," Tetangco recalls. "We saw a demonstration of a microfinance rural bank client paying her loan through a mobile phone. I tried it myself together with some members of the Monetary Board."

Imagine the BSP governor and his colleagues, in their formal barong Tagalog, acting like kids in a toy store as they used their mobile phones to buy bottled water with e-money. They also learned about how a client could send e-money to relatives living in distant places.

"This was the beginning of all the digital banking that we are seeing today," Tetangco says, with a hint of pride for which he cannot be faulted. After all, BSP regulations have made it possible for countless Filipinos to use a gadget like a mobile phone to purchase goods, make deposits, and send remittances through a simple text message. A clear policy on e-money has helped banks expand their reach and make their transactions less costly and cumbersome.

Tetangco also remembers a trip to Cebu where a husband-and-wife team running a microbusiness "showed us their products and the fruits of their success – a house, children in good schools, among other things." The couple shared their story with the visitors from Manila and although they talked about hardships, they looked victorious.

"They both exuded pride, and that to me was a reassurance of the important work of microfinance that we were promoting within the banking sector," Tetangco says.

As adviser to the Microfinance Committee, Peter B. Favila, who also joined some field visits to see how BSP policies were being implemented on the ground, witnessed the early adoption of mobile banking by a rural bank.

For former Finance Secretary Dr. Juanita D. Amatong, the exposure trips were eye-openers. Amatong served as a Monetary Board member from 2005 to 2011. "It is important for policymakers to have ground level experience," she says. The visit to Bukidnon stands out in her memory. So does that fact that the microfinance clients she met were mostly women. "The men depended on their wives – that was the impression that I got when I interviewed the borrowers on those visits," she adds.

Just like Amatong, Ma. Corazon J. Guerrero's best memories of her stint in the Microfinance Committee revolved around field visits to MFIs in different parts of the country and meeting their clients. She says she witnessed firsthand their dedication to their respective businesses that were aimed at improving their lives.

Another member of the Monetary Board, Antonio S. Abacan, Jr. considers himself fortunate to have been invited to join the microfinance team in a meeting with a premier bank's officers and staff to discuss the different financial innovations and products that were widening its reach in the countryside. "We also got to meet with some local folks who were beneficiaries of their programs. Indeed, Dolores, Quezon is so rich in potential, waiting to be tapped! And I'm sure the same can be said of the rest of the Philippines," Abacan said.

Espenilla and committee, on another occasion, went as far south as Agusan del Norte to look into the micro-agri loan products of Cantilan Bank, the housing microfinance of Enterprise Bank and the mobile banking services of Green Bank. They also held a dialogue with the Federation of Caraga Rural Banks to gain insights into the prevailing issues in the region's banking sector and shared the BSP's current policy and regulatory initiatives.

On the other hand, visits to nonbank MFIs introduced the committee to the kinds of services NGOs and cooperatives extended to their members and to the actual practice of microfinance that inspired more responsive policy issuances. The exposure program led the group to Taytay Sa Kauswagan Inc., a microfinance NGO in Iloilo City, and the Negros Women for Tomorrow Foundation in Bacolod City, to name a couple.

To round out the experience, the microfinance team took the committee to the Hapinoy Stores to see what a network of sari-sari store owners could achieve with business development training, lower price sourcing, access to additional capital, and the use of digital technology.

Capacity-Building

"Banks were hesitant at first to engage in microfinance because of the risks involved. We had to conduct seminars all over the country," Reyes recalls. The regional seminars were meant to encourage potential microfinance practitioners.

Rural and thrift banks which fall under BSP supervision, are "good channels of microfinance because they have the infrastructure to provide such services in the countryside," Espenilla said in another interview. "As long as the BSP closely monitors their operations, microfinance in the banking sector is ideal."

For the benefit of the banks, microfinance was also incorporated into the Basic Rural and Thrift Banking Courses of the BSP Institute, the training group within the central bank.

Information campaigns were launched to generate awareness that microfinance is a sustainable, viable, workable credit program and to correct the perception then that microfinance was nothing but charity work.

In addition, the Microfinance Unit rolled out the Regional Advocacy Program. Launched in Cebu City in 2003, the series was both technical and practical in content as it presented BSP regulations, best practices and inspiring success stories to promote microfinance in strategic cities of the country, such as San Fernando (La Union), Angeles, Lucena, Legazpi, Iloilo, Cagayan de Oro and Davao, among other places.

This regional roadshow pulled key officials from across the BSP and experts from the wider finance sector to share what they knew as resource speakers. Real microfinance practitioners added breadth and depth to these seminars.

Ricardo P. Lirio, then BSP managing director for thrift banks, and non-bank financial institutions, was a favorite resource speaker at these information seminars. He was an early convert to microfinance, even before BSP adopted its advocacy, firm in his belief in its potential for poverty alleviation.

Other regular speakers were Alindogan and Jimenez who welcomed banks that already had microfinance operations but wanted to learn more to improve their operations, as well as cooperatives or NGOs already engaged in microfinance and wanting to formalize their operations through the establishment of a bank. In the process, the regionals became problem-solving sessions as well where policies and relevant issues were discussed, with the hope of finding solutions for the institutions involved.

By bringing people together – regulators with experienced practitioners, city bankers with their country cousins – the BSP Regional Advocacy Program built morale and fostered respect among microfinance colleagues. Just as important, it attracted future microfinance oriented banks.

The central bank also launched a series of seminars to educate banks on the importance of internal controls, performance standards and best practices for sound microfinance operations.

As part of the BSP's Economic and Financial Learning Program (EFLP), financial seminars were given specifically to banks with microfinance operations, their clients and the unbanked population. The seminars covered banking and its relationship to microfinance; budgeting and planning; savings and investment; responsibilities of clients in the use of credit; and consumer protection.

In 2011, the BSP hosted the first National Microfinance Stakeholders Summit.

To increase general appreciation and knowledge of microfinance among its own employees, the BSP launched a microfinance appreciation course in-house.The microfinance team also conducted learning sessions called Financial Inclusion Fridays to familiarize BSP employees with financial inclusion concepts and the central bank's role in ongoing initiatives. The big message of those Fridays was "every BSP employee can be a conduit for financial inclusion."

Credit Vacuum

The toughest issue the microfinance team had to face in their capacity building campaign was how to disengage the minds of stakeholders from the bad memories of the adverse impact of the national government's defunct Directed Credit Program (DCP).

Designed to provide access to credit to the entrepreneurial poor, the government dedicated funds for loans using rural banks as pass-thrus.

According to Llanto's research into the credit program, "the complex structure and flow of funds of the DCPs led to weak accountability, low repayment rates and huge subsidies at great cost to the taxpayers. They were also susceptible to leakages and entailed a huge fiscal cost. Worse, they had become fragmented into many different uncoordinated and inefficient programs, resulting in the wasteful use of scarce resources and the subsequent impairment of the rural banking system, which had grown very dependent on government infusion of cheap funds." The massive repayment problems in the DCP years resulted mainly from the borrowers' misperception that any government loan was as good as a doleout. Taxpayer money and lending institutions thus became collateral damage.

As the administrations that succeeded the martial rule were phasing out the failed DCPs, a credit vacuum occurred. "In that situation, farmers and other excluded groups had no choice but to turn once again to the informal money lenders who were the only game in town," Llanto recalls.

At this point, some well-meaning NGOs stepped in to partly fill the vacuum left by the discontinued DCPs by handing out no-collateral loans to small borrowers. Mostly church-based and funded by foreign donors, they were on a mission not just to save souls but also to help cure poverty. This was the beginning of microcredit in the Philippines. A handful of them introduced group guaranteed loans without collateral much like the Grameen model. Others managed to provide unsecured credit to the microbusinesses that could not qualify for bank loans.

"Many NGOs had problems with outreach and sustainability too," Llanto says. "They knew next to nothing about lending techniques and discipline. Also, their funding was unpredictable and unstable as their donors came and went."

Where were the rural banks at this time? Those that had not closed shop because of their involvement with the DCPs and their inability to recapitalize were being rehabilitated by the BSP from the mire of loan defaults and arrears.

In that scenario, ensuring a sustainable flow of credit to the entrepreneurial poor Filipinos became the priority for the government and the economic sector.

"The debate then was: Did the government-subsidized lending program fail because of bad management or did it fail because of flawed policy?" Llanto says. "Some of us believed that if the policy framework is not appropriate, no matter what you do everything will collapse."

Road Map

One year after the government finally terminated all the DCPs, Congress passed the GBA which, in Tetangco's words, "paved the way for the flourishing of microfinance within the banking sector."

Through the Bangko Sentral, the government gave marginalized entrepreneurs the option of borrowing from banks instead of loan sharks. To make sure that history would not repeat itself and microfinance would be a reliable and sustainable financial instrument, the BSP used as its road map the seminal National Strategy for Microfinance that was drafted by the National Credit Council in 1997. This strategy was the foundation of key credit policy reforms that benefited from the Credit Policy and Improvement Program headed by Llanto, succeeded by Dr. Pieded S. Geron and supported by USAID.

"The Philippines is among the few countries in the world with a national strategy for microfinance," Tetangco would point out with pride in not a few speeches. On becoming BSP governor upon Buenaventura's retirement, he also assumed command responsibility for the bank's microfinance advocacy and for scaling it to financial inclusion.

The strategy was comprehensive so as to ensure the soundness and sustainability of microfinance in the Philippines. It steered the government into handing down a market-oriented financial and credit policy through NCC, which was shepherded in the Department of Finance by Undersecretary Gil Beltran and the late director Itoy

Deputy Governor Chuchi Fonacier finds out what's going on with microentrepreneurs on a field visit in Dolores, Quezon.

S. Almario. Through the People's Credit and Finance Corporation (PCFC), the strategy guided the government in providing wholesale loanable funds and technical assistance to MFIs. And it gave the country's banking authority, the BSP, the framework for mainstreaming microfinance in the banking sector.

The strategy's sound recommendations included what had become obvious since the star-crossed DCPs: The government should leave microcredit to the private sector "to develop and customize financial products and services that would respond to different types of clients and to recover costs with sufficient margins to sustain their operations." The government should focus instead on creating an enabling, market-based policy framework that would allow healthy competition among MFIs.

"We took a proactive stance in developing a 'microfinance-friendly' policy environment, in increasing the capacity of the BSP and the banking sector as well as in engaging in promotion and advocacy efforts," Tetangco says.

Some of the strategy's principles found their way into the GBA. Sections 40, 41 and 44 of the banking law became the legal basis for the BSP to issue circulars on microfinance, open the way for private bank participation in microfinance, and configure appropriate regulation and supervision of banks engaged in microfinance. The GBA's framers understood that they had to address the "peculiar characteristics" of microfinance loans and the type of borrowers using microfinance.

The BSP adopted proportionate regulation on microfinance through more than 40 circulars on microfinance policies and regulations. By 2017, the BSP had added rules relating to financial inclusion so there were almost 60 circulars covering loan regulations, rediscounting, microfinance products, liberalized trade branching, e-money issuance regulations, pawnshop and money service business regulations, financial technology, the digital finance ecosystem, anti-money laundering, financial consumer protection, and mandatory credit to marginalized sectors.

Regulatory Framework

Complementing the national strategy is a clear regulatory framework for MFIs that focuses on the key areas of transparency, portfolio quality, efficiency, and outreach.

"The regulatory framework was established to support the diverse set of microfinance institutions, whether bank, NGO or cooperative, recognizing the strength of each type of institution in delivering quality microfinance services," Tetangco says.

As provided in the National Regulatory Framework for Microfinance, all deposit-taking institutions, such as banks and cooperatives, are subject to prudential regulation, as are microfinance NGOs that collect savings greater than the compensating balance. Non-deposit taking institutions are likewise subject to appropriate regulations.

Under this framework, the BSP is the regulatory body for all banks, including those with microfinance operations, subjecting these deposit-taking institutions to risk-based prudential supervision. The MCPI is the designated repository of information for all microfinance NGOs, while the Cooperative Development Authority supervises all cooperatives, including those with credit operations.

In 2002, the Microcredit Summit in New York launched the book "Pathways out of Poverty," which presented a case study of what the summit cited as the BSP's sound country regulation and policy framework for microfinance.

For five successive years, from 2009 to 2013, The Economist Intelligence Unit ranked the Philippines as the best in the world in terms of a regulatory framework for microfinance.

And as a pioneer in developing prudential regulation of microfinance, the BSP is part of the working group responsible for drafting the guidance paper on "microfinance activities and core principles for effective banking supervision" issued by the Basel Committee on Banking Supervision.

Year of Microcredit

Amando M. Tetangco Jr. assumed office as Governor of the Bangko Sentral ng Pilipinas in 2005, coinciding with the declaration of the United Nations International Year of Microcredit (IYM). The UN's goal was "to highlight the role of microfinance in poverty alleviation and economic development."

In support, the BSP and its institutional partners moved to have 2005 declared in the Philippines as the Year of Microfinance. Efforts to promote microfinance went into full gear with conferences and seminars, policy dialogues, a national search for outstanding microentrepreneurs, and the addition of the UN campaign logo on peso banknotes.

As a result of its contributions toward the promotion of microfinance, more specifically microcredit, the Philippine National Committee was recognized by the United Nations and the CGAP as Outstanding National Committee at the culmination rites of the International Year of Microcredit in November 2005 at the United Nations headquarters in New York City.

Kelly Hattel was at that UN celebration. She was then managing the MicroFinance Network for Accion International. Hattel has since joined the ADB, has supported many important initiatives of the BSP, and had dealt with Espenilla and his team often enough to know that "the BSP was absolutely in the forefront in adopting this vision, in promoting it, supporting it within the Philippines and was very quickly seen as a global leader."

She says she recently went over the list of participants in New York and was reminded that she and Espenilla were both on the list, but she is sure they had met previously at an earlier microfinance conference in Geneva.

Hattel also looked at the BSP's 2005 yearend report on microfinance initiatives, which stated that among the emerging issues the bank was looking to address was e-banking.

The BSP had reported: "Innovation in microfinance was particularly seen in the use of mobile phones for the collection and disbursement of loans. The BSP responded to these developments by evaluating and approving the use of G-cash and Smart Money." The participating banks in this initiative were members of the Rural Bankers Association of the Philippines.

"This was 15 years ago! Nobody else in the world was thinking about e-banking 15 years ago," Hattel says. "But the BSP has constantly looked at what the market needs, what could be done to help create a more facilitating environment for microfinance, what regulations need to be relaxed or tweaked or strengthened."

While e-money had caught Hattel's eye and would later inspire cutting-edge BSP regulation, there were other notable solutions that were emerging on the microfinance horizon, such as micro-agri product, housing microfinance and microinsurance.

The micro-agri product was credit that banks with microfinance operations would soon be allowed by the BSP to extend to microfinance borrowers who were engaged in

farming but also had non-farm sources of income. Factoring in the seasonal and cyclical nature of agricultural production, the BSP would provide for flexible payment of micro-agri loans, allowing a lump sum repayment when a farmer would have more money than usual. By applying microfinance principles like cash flow, the BSP would give small farmers access to bank credit that could be used for production boosters.

The BSP would also address the Filipino's dream of owning a house, not from a place of easy sentimentality but to meet the basic need for shelter. By enabling banks to offer housing microfinance loans, topped at PhP 150,000, the central bank would reduce the risk of borrowers using their microenterprise loan proceeds for home improvement or the acquisition of a house, be it ever so humble.

Another groundbreaking BSP regulation would permit rural, cooperative and thrift banks to market, sell and service microinsurance, a risk mitigation product that used to be engaged in by universal and commercial banks only.

As it successfully added more products to its microfinance menu, the BSP would inch closer and closer to Espenilla's financial inclusion dream.

Mainstreamed

Before the BSP entered the microfinance picture in 2000, there were around 55 banks with microfinance operations. By 2005, there were 187 banks engaged in microfinance with 596,941 borrowers across the country. Their consolidated borrowings reached
PhP 3.5 billion, or an average of nearly six thousand pesos per borrower.

A 200-percent increase in five years was not too shabby an accomplishment but things would get even better. By 2008 the BSP had explored microfinance in such stellar ways that Tetangco boldly declared "microfinance is no longer a mere buzzword" at the ADB's "Microfinance: Powering Innovations" conference.

Indeed, microfinance had a track record by then of nurturing microentrepreneurs who, through incremental increases in loan amounts used as working capital, had achieved a level of financial security for themselves and their families. Equally important, they had assumed the role of employers and catalysts for development in their communities.

Just how did the Bangko Sentral do it?

From the get-go, the BSP was bent on mainstreaming microfinance in the banking system without allowing professional standards to be compromised, even as it left room for creativity in customizing services to better address any risks.

Roman-Tayag says that Espenilla's knowledge of best practices in both the Asian and Latin American streams inspired a version of microfinance that the BSP was able to eventually infuse into the local financial system. The bank set in place regulations that recognized and built on these best practices.

Never wavering from a commitment to stand with the people trapped at the lowest rung of the income scale, Espenilla paved the way for innovations that were responsive to market needs through a "test and learn" policy.

E-money became a most fruitful innovation, recalls microfinance consultant Jimenez, after Espenilla recommended to the Monetary Board that local telecommunication companies Globe and Smart be allowed to test GCash and PayMaya, respectively, as cashless payment transactions through the mobile phone.

Take remittances, for another example. Month after month, year in and year out, Overseas Filipino Workers (OFWs) would send home precious funds to towns near and far where their families lived.

"It used to be very costly for OFWs to send money to the Philippines," says Jimenez who was part of the BSP working group for remittances. Again, on the BSP's initiative, all banks were mandated to post their remittance fees on their websites to inform the public. This enabled the OFWs to compare fees so of course the banks with the lower fees got the business. This made the banks more competitive."

But the fees still were not that low. How could the BSP keep down the cost of remitting money? By linking remittances to microfinance, the BSP found the answer: mobile banking.

"Nesting did the spadework so the financial system would be more inclusive by leveraging on technology," says Tetangco.

Another significant microfinance innovation permitted the servicing of deposits outside the bank premises. As long as banks met the capital requirements, ensured the safety and soundness of their operations, and kept the travel time to the head office or branch within one hour, they could accept deposits outside their banking premises. The BSP's liberalized branching regulations brought banks closer to their markets at lower overhead cost through MBOs, other banking offices (OBOs) and agent banking.

Microfinance, in addition, broke beyond the limited orbit of rural and thrift banks when commercial banks began engaging in microcredit with the BSP's support, primarily as wholesale lenders to MFIs; some engaged in retail loans while others set up their own microrofinance affiliaties or subsidiaries.

The Bangko Sentral also welcomed new institutions into the arena, particularly microfinance NGOs looking to become licensed banks, as long as they agreed to direct at least half of their credit portfolio to microentrepreneurs.

The BSP's policies and regulations allowed microfinance to thrive within the banking sector, so much so that the microfinance industry began to consider banks among the main players. Market-based microfinance had become part of the financial mainstream.

"Before the amendment to the General Banking Act, microfinance – then called microcredit – was seen as a type of product typically offered by NGOs, not banks," says Llanto. "Now you can read of commercial banks projecting themselves as institutions that care for the excluded."

All the best microfinance practices have been mainstreamed into the activities of banks regulated by the BSP, says Roman-Tayag, adding, "Basing a loan on cash flow and capacity to pay is now at the heart of the risk management that governs the credit activities of all banks." The concept of microdeposit is now embedded in the BSP regulations on Basic Deposit Accounts (BDA).

Remember the MBO that addressed the crocodile-in-the-river problem? The BSP has adopted the principle behind it for the branch lite units (BLU) and the agents that all banks, not just microfinance banks, may use to reach new markets for limited transactions.

"One gauge of its successful integration in the banking system is that there is now not much mention of 'microfinance' in financial operations," Roman-Tayag says.

For Tetangco, the mainstreaming had come about when more people finally understood what "microfinance" and "financial inclusion" meant, and there was more general agreement about their importance and relevance.

"I saw this evolution in my discussions with bankers, with fellow central bankers, and even with the media," he says. "I also saw it when our policies and regulations needed not to be carved out for microfinance or financial inclusion because the approaches were consistent with how we supervised or regulated institutions overall."

Monetary Board Member Peter Favila has seen how the BSP can be the convening platform so that individual banks can leverage off each others' efforts and also collectively work together with private sector innovators to create a more impactful change in the delivery of financial services.

He recognizes that the one hindrance to the development of MSMEs is the lack of access to finance. "It is not only a matter of expansion but a matter of day-to-day survival for a majority of microbusinesses," Favila says. "This is the impetus for financial innovation to make sure that financial services reach those who need them the most."

Beyond Microfinance

Financial inclusion was an unabashedly ambitious goal for the BSP but it was deemed imperative by its headstrong leadership.

"While this agenda was not traditionally handled by central banks," says Tetangco, "we learned, during my tenure as governor, that the objective of financial inclusion was complementary to our primary objective of price and financial stability. Indeed, a financial system with a broader base can contribute to its strength. Also, individuals who are adequately informed and included are effective economic agents."

Many banks had been serving marginalized entrepreneurs with some success since the BSP began regulating microfinance for the banking industry. They had, in fact, been offering this market not just tiny loans for their businesses but also microdeposits, housing microfinance, microagri loans, microinsurance and a few other products.

The BSP raised the average daily balance of microdeposits to encourage microfinance clients to save more. It enabled microinsurance providers to expand coverage to families of microfinance clients. It allowed the use of alternative identification documents (IDs) for opening bank accounts, including those issued to persons with disabilities or under government welfare. More importantly, it sought to provide comprehensive protection for all financial consumers, including microfinance clients, through a Consumer Protection Framework.

Still, even with the best of intentions, all that microfinance did was to keep the door ajar. Surely the BSP could do more. The underclass communities needed fair access to opportunities for generating wealth or, at the very least, rising above poverty. The door had to be opened fully.

"Our dreams have to be audacious and ambitious enough to compel us to overcome inertia, rethink our approaches, and aggressively seek opportunities," Espenilla said at the MCPI annual conference in 2017. "Are we bold enough to imagine new and greater possibilities for the poor we serve? Or are we perfectly content with business as usual?"

No One Left Behind

What was once a BSP flagship advocacy had turned into a compelling purpose, according to Espenilla. With inclusion, financial institutions would begin to offer a whole range of appropriately designed and priced products – savings, loans, payments, insurance, remittance, and then some– to all Filipinos, especially the unbanked and the underbanked.

Who are the unbanked and the underbanked? The unbanked are people who have no formal relationship with any bank, be it a checking account, a savings account or a loan. The underbanked are people who do have bank accounts but do not use banks for money orders, check cashing, remittances, and other financial services.

> "We learned, during my tenure as governor, that the objective of financial inclusion was complementary to our primary objective of price and financial stability... Also, individuals who are adequately informed and included are effective economic agents."
>
> – Amando M. Tetangco Jr

To this set of outliers must be added the traditionally excluded – persons with disabilities, indigenous peoples and cultural minorities, the youth, even women. Plus overseas Filipinos and their beneficiaries, agriculture and agrarian reform communities, and MSMEs that had been underserved by formal financial institutions all these years.

Although the statistics showed that 25 percent of the population still lived in poverty, Tetangco had maintained in 2015 that "the financial system is in a position of strength, with steady growth in resources, healthy balance sheets, and capitalization that is well-above national and international requirements." It was a perfect time to make the financial system inclusive.

Espenilla knew that could only happen if every Filipino had access to a deposit account. Without a financial account Filipinos could not take part in the digital economy that had been in the works as early as 2005.

Toward this end, the BSP allowed even regular banks to open microdeposit accounts that were originally designed to match the capacity and needs of marginalized clients of microfinance banks.

In 2014, only 31.3 percent of Filipino adults had formal accounts, according to the World Bank Global Findex. The numbers were not that much better at 34 percent three years later. Why this problem? The usual reasons: no money with which to open the account, no proper identification documents, no basic financial knowledge, not to mention lack of transportation fare. Culture also has a lot to do with it. Filipinos are not a trusting lot when it comes to money which is why most transactions are done face to face and in cash.

Affordable Accounts

The BSP addressed these barriers by evolving the microdeposit account into the basic deposit account (BDA), a no-frills, low-cost account that people can open with any third-party validated ID. All that is needed is an initial deposit of one hundred pesos (PhP 100.00). The account is easy to maintain because no maintaining balance is required. To prevent its misuse and as an anti-money laundering measure, the maximum balance in the account cannot be more than PhP 50,000.00. If at any time the balance exceeds PhP 50,000,00 the bank will convert the BDA to a regular deposit account.

Through the BDA, previously unbanked Filipinos can engage in the digital finance ecosystem safely, conveniently and affordably.

E-money, on the other hand, is monetary value electronically stored in a cash card, an e-wallet accessible via a mobile phone, or an electronic device. It enables consumers to pay for goods, transfer or remit funds, pay bills, withdraw cash through ATMs, SMS, a point-of-sale device, or all of the above. Designed for low value transactions, e-money allows banks to reduce fees, decrease cash-on-hand risk, and increase access to a wide range of financial services, including loans and deposits.

As early as 2007, The Economist had advised other central banks to follow the BSP regulatory framework that had paved the way for the fast-growing e-money business. It was a well-deserved compliment. That regulatory approach clearly defined e-money and e-money issuers so banks could prudently make use of them in serving the general public. It protected consumers as much as it boosted innovations in fund transfer mechanisms.

In 2011, the BSP expanded the e-money framework through the outsourcing of e-money network service providers so more institutions, particularly rural banks, could become competitive e-money issuers and service more clients, especially the unbanked in the countryside. Two years later, the central bank licensed the very first non-bank e-money issuer.

Like the BDA, e-money has penetrated areas that have previously been neglected, if not downright excluded. One example is Mogpog, a third-class municipality in the province of Marinduque, where nearly all adult residents have opened an account and are now financially included.

Before the BDA and e-money, many Filipinos had been prevented from opening an account because banks required a government-issued ID, which may be a passport, a driver's license or a social security card.

"This is not a trivial thing in the Philippines where we don't have a national ID system for various reasons, including political ones," Espenilla told CGAP in 2013.

To solve this problem, the BSP allowed practical ways of validating a person's identity. For people who live in small distant towns, barangay leaders or village elders may vouch for them and issue an ID. Commercial establishments, especially the ubiquitous ones like drugstores, may also act as verification agents and produce the required photo-bearing ID cards.

Remittance is another basic financial service immediately appreciated by the excluded and the low-income population.

"Addressing the needs of our overseas workers is an important driver for allowing innovation to happen in this space," Espenilla said. "The mere entry of competition has improved enormously the cost and quality of remittance services. That's already a big win."

Speaking at the Financial Inclusion Summit in 2016, Tetangco said that remittances received by OFW households were used mostly to purchase food and other household needs, thus helping drive the economy.

He noted another positive development as indicated by a BSP survey, which was the rising proportion of households directing remittances received to savings. "This is one of the many reasons why Philippine bank deposits have been hitting record high levels – it was P8.5 trillion in December 2014 and over P9.2 trillion as of December 2015," he said.

Tetangco also announced that online money transfer services were linking international remittances to Facebook. A recent global survey that studied seven remittance corridors, including US-Philippines, found that 83 percent of consumers were willing to shift to mobile money for international transfers.

But remittance does not refer only to funds from overseas. "There's a lot of internal remittances in this country. People working in the urban areas likewise send money to beneficiaries in the provinces," Espenilla told the CGAP in an interview.

He noted that the remittance service had been a good way of introducing new clients to other kinds of banking services.

Consumer Care

The EFLP is the BSP's flagship program for financial education, which the bank considers a parallel effort to consumer protection and an important aspect of inclusion. The program is implemented through Economic and Financial Learning Centers (EFLC) in the various BSP regional offices and branches to reach a broader audience and provide relevant information to local communities.

"These centers also serve as listening posts to gather feedback and suggestions from the ground with regard to our policies and programs," Tetangco recalls.

By 2014, the BSP had put the Financial Consumer Protection Framework (FCPF) in place as the primary system for the protection of consumers at all its regulated entities. The FCPF contains the BSP's expectations in terms of transparency and disclosure, fair treatment of clients (including product suitability), protection of client information and financial education.

The BSP also has a consumer assistance mechanism to respond to complaints from the public. Apart from addressing individual issues, this updates the BSP on actual practices in the market, which then inform its policies and enforcement.

"Together with access and education, we also promoted financial consumer protection to help mitigate financial risks to clients, including those that could arise from scams and the use of misleading information by others," Tetangco says.

As governor, Tetangco additionally gave importance to financial literacy as an integral part of financial inclusion. "We cannot have meaningful inclusion if the population does not know how to maximize the benefits of this access to finance," he says.

More Milestones

Considering the importance of the support of other institutions, the BSP took the initiative of convening 12 government agencies in 2014 to collaborate on the planning and crafting of the National Strategy for Financial Inclusion (NSFI). The committee, which was chaired by Tetangco before his retirement from the BSP, held three regional consultations over the draft strategy with key implementing partners from both the public and private sectors.

The UNSGSA for Inclusive Finance for Development, Her Majesty Queen Maxima of the Netherlands, with Governor Tetangco at the launching of the National Strategy for Financial Inclusion in 2015.

Prior to the NSFI, there was no authority explicitly mandated or tasked to lead financial inclusion initiatives in the Philippines.

The NSFI was created to coordinate government agencies, multilateral institutions, NGOs and the private sector to set priorities, maximize use of resources and avoid overlapping of policies and programs aimed at achieving an inclusive financial system where Filipinos, regardless of income, can enjoy access to a wide range of financial products and can benefit from economic growth.

The strategy's objectives focus on financial products that are diverse, well-designed, suitable and relevant to different market segments; providers and business models that are diverse, responsible, responsive, and innovative; and a citizenry that is financially educated and adequately protected.

Although it retained the seminal ideas and approach of the 1997 National Strategy for Microfinance, the NSFI added financial education as well as data and measurements to the policy and regulation concerns of the original microfinance strategy.

For Tetangco, the NSFI is "another milestone and key indicator of the institutionalization of financial inclusion" in the country. He notes that the NSFI launch in 2015 was witnessed by Queen Maxima of the Netherlands, the United Nations Secretary General's Special Advocate for Inclusive Finance for Development. An auspicious beginning for a collective dream rooted in an advocacy for the poor.

"We want our people to be part of the financial mainstream where they can access financial services and to have options other than informal lenders with prohibitive rates and onerous conditions. And we want our people to be able to protect themselves against scams and to know their rights as financial consumers," said Tetangco at the NSFI launch.

The NSFI needed brainpower and manpower equal to its lofty vision and the interagency Financial Inclusion Steering Committee (FISC) answered this call. President Benigno S. Aquino III signed the executive order in 2016 officially tasking the FISC to implement the NSFI.

Three years earlier, in an AFI interview, Espenilla had talked about expanding the BSP's engagement with other financial regulators, policymakers and government agencies, not to mention the private sector, "as an important element in any financial inclusive policy that tries to develop solutions that have an immediate impact on the low income sector."

The World Bank has lauded the efforts of the Philippines in developing a monitoring and evaluation system for the NSFI implementation.

The committee provides strategic direction, guidance and oversight in the implementation of the NSFI. Its interagency working groups have mapped their respective financial inclusion initiatives, sorting out the common and interrelated work across agencies and identifying potential areas of collaboration to better implement the NSFI.

Now with 20 members and chaired by current BSP Governor Benjamin E. Diokno, the inter-agency body continues to ensure policy and program coordination as a cohesive approach to financial inclusion. The CLIA, which is under Roman-Tayag in the BSP, has been providing technical and secretariat support to the FISC. "I am happy to hear that the FISC remains very active and productive," says Tetangco.

Digital Payments

The world is changing fast, and it is going to change faster still because of technology. The BSP has turned to bank and nonbank players, including financial fintech, to bring about an affordable, safe, efficient and convenient digital means of payment and fund transfers since payments are the most basic and most used financial service by Filipinos.

Even when he was deputy governor for supervision, Espenilla had been working to move the country away from a largely cash or paper based economy to an electronic system. A 2014 study had shown that of the total number of retail payment transactions in the country only a woeful one percent was done electronically. This meant that people paid with cash, face to face.

This is the motivation behind the National Retail Payment System (NRPS), the BSP's regulatory framework for digital finance. Under the NRPS, the BSP has turned to financial technology (fintech) to bring about an inter-operable, safe and efficient real-time digital payments system.

Anyone with a bank or e-money account can do an electronic fund transfer from one account to another in participating financial institutions. This is a transaction that is not only easy and convenient but also secure and affordable. A customer may choose to have only one account to use for fund transfers and payment transactions.

Espenilla also included in the BSP digital finance policy package the use of cash agents like convenience stores, pharmacies, pawnshops, and other retail outlets where bank clients can open accounts, make real-time deposits and withdrawals, receive loan proceeds, and pay loan amortizations, and bills. Using cash agents is an easy and affordable way for banks to expand their reach. "This facilitates development of an expansive network of access points that will allow users, particularly the low-income segment, to move from cash to digital and vice versa," he said.

By the time Espenilla took the helm at the BSP, there were more than 120,000 other financial service access points in the country. These were non-stock savings and loan associations, credit cooperatives, microfinance NGOs, pawnshops, e-money agents, and other non-bank financial institutions.

Cooperatives had a 47 percent reach in unbanked areas, followed by pawnshops with 44 percent and microfinance NGOs with 40 percent. Despite their slow growth in recent years, pawnshops were still the most accessible, with presence in 73 percent of the 1,634 local government units, followed by cooperatives at 71 percent. Like banks, pawnshops are regulated by the BSP.

In pursuing the modernization of the payments system, Espenilla did not spare the BSP itself. As governor, he encouraged central bankers themselves to embrace change and technology through digital payment of medical claims, local travel expenses, parking, and corporate disbursements and open wifi within the bank.

At the BSP, it is not TGIF but TGICF. "Thank God it's cashless Friday" is a tradition that means that, on the workweek's last day, concessionaires of the BSP cafeterias will accept payment only through PayMaya, GCash or debit cards.

Homegrown relay

Tetangco led the BSP in the first half of 2017 and Espenilla, his fellow homegrown central banker, took over in the second half. No one could have asked for a more competent relay team.

That year, the BSP came out with its second Financial Inclusion Survey (FIS), a nationally representative poll dedicated to the gathering of financial inclusion data from the perspective of users and non-users of financial products and services. Like the previous survey conducted in 2015, the FIS is part of the BSP's commitment to collect data every two years to build a comprehensive and robust data framework for financial inclusion that complements available supply-side data and creates a more holistic picture of financial inclusion in the country.

The BSP also institutionalized consumer protection as an integral component of financial supervision through the FCPF. It began teaming up with the BDO Foundation, BPI Foundation, Maybank Foundation, Visa Foundation, and other private and public entities on financial education to reach all strategic audiences in a sustained manner. And it launched, under its EFLP, the PisoLit Facebook page that targets online Filipinos, particularly millennials.

"Technology is fast becoming democratized. Mobile devices are cheaper. There are digital platforms and cloud computing services. Social media is familiar to and used by an increasing number of people," Espenilla said when he addressed the 2017 MCPI annual conference. "Technology, once available only to the wealthy, is now within reach. The sooner we realize this, the sooner we can adopt digital technology as a strategy enabler. Our inability or refusal to use technology can undermine our efforts to deepen the impact of microfinance and drive financial inclusion."

Key Legislation

Key legislative measures had been passed or were in the works in support of the BSP's digitalization and financial inclusion efforts by 2018.

One is the Philippine ID System (Philsys) Act or Republic Act No. 11055, which establishes a biometric-based, foundational national identification system that will provide every Filipino or resident alien with a trusted, verifiable and nontransferable card.

Espenilla was instrumental in designing Philsys so it would not only address all identity challenges but would also be future ready and future proof, according to Roman-Tayag. He made time to meet with the bill's author to explain the need for the ID system to be foundational and digital. But before getting involved, he did his homework. On a trip to Washington D.C. for the World Bank Spring Meetings, despite a tight schedule, Espenilla made it a point to meet with Aadhaar founder Nandan Nilekani to learn about the ID system that India had rolled out in 2009. Espenilla wanted to find out how a similar system could be adopted in the Philippines. Based on an individual's biometric and demographic data, Aadhaar is reputed to be the most sophisticated ID program in the world.

Represented by Deputy Governor Chuchi Fonacier, the BSP is a member of the PhilSys Policy and Coordination Council and participates actively in the Interagency Technical Working Group on PhilSys.

Also up for legislative backing is the National Payment System Act or R.A. 11127, which seeks to promote a safe, efficient and reliable operation of payment systems, control systemic risks, and ensure an environment conducive to sustainable growth.

The BSP also pushed for the enactment of Republic Act No. 11439 or "An Act Providing for the Regulation and Organization of Islamic Banks."

The national ID system was the topic when Nestor Espenilla Jr. met with (left) former NEDA Secretary Ernesto Pernia and (center) Nandan Nilekani of the Unique Identification Authority – India.

The passing of Republic Act No. 10744 institutionalized the Credit Surety Fund Program initiated by the BSP in 2008 to enable MSMEs and cooperatives to access loans from banks despite lacking acceptable collateral, credit knowledge and credit track record.

"Every regulation must be periodically reviewed. Changes in conditions, circumstances and technology might make old regulations not only obsolete but counterproductive as well," says Monetary Board Member Felipe M. Medalla, former Economic Planning Secretary and Dean of the College of Economics at the University of the Philippines. "This also applies to banking regulations. Banks are too important and too interconnected with the rest of the economy. Clearly, for small banks and microlenders, regulations can be proportionately lightened to promote financial inclusion."

A Curve Ball

A few months after Espenilla's appointment as BSP governor, a health problem added complications to his new job. He was diagnosed with early stage cancer of the tongue, an unexpected disruption that made his new role in the BSP even more challenging.

Despite the diagnosis and taking time off for treatment, Espenilla continued working to achieve overall economic vitality and resilience, domestic liquidity, as well as improvements in bank asset quality, business operations and strong capitalization. Most notably, he helped the banks leapfrog into digital technology to make access to finance fast, efficient and affordable for everyone.

In March 2018, speaking at the Management Association of the Philippines' first economic briefing for the year, Espenilla seemed on his way to recovery as he tackled the issue of inflation.

"Nothing is off the table for the BSP," he told his audience. "We will do what is necessary to meet our inflation targets."

He admitted that he was not fully healed "but I assure you the spirit is more than willing." With characteristic wit, he told the reporters who covered the banking beat, "Today I still have some problems with 'liquidity flow' and I'm always dehydrated. Let me 'normalize.'"

Cancer did not let him, however. Espenilla died on February 23, 2019, one year and seven months into his BSP governorship. He was 60 years old.

"We pay tribute to an exemplary and transformational leader, and a known 'regulator-disruptor' who made economic inclusion his mantra," wrote Lito Villanueva, chairman of FinTech Alliance.ph in a tribute to Espenilla. "Letting innovations thrive was one of his legacies, allowing fintechs and similar players to provide alternative and affordable access to financial services. He made digital a tool to harness efficiencies, collaboration, and inter-operability in the industry."

The Alliance for Financial Inclusion (AFI), the global network of policy makers and regulators committed to financial inclusion, honored Espenilla, an AFI founding member and advocate, this way: "He has left a great legacy in driving forward the global financial inclusion agenda. His personal dedication and hard work have helped make AFI what it is today. We will have the memory of the governor as a passionate supporter of financial inclusion. He will always be remembered for working tirelessly to provide and increase access of quality financial services for the unbanked, both in the Philippines and globally."

From the Bankers Association of the Philippines came this message: "His legacy and dedication to the BSP and its constituencies will never be forgotten and his work will be a foundation in building a stronger banking industry for future generations."

Impact of Financial Inclusion

What has the BSP asked of itself and its stakeholders in espousing financial inclusion? Basically, to inspire, innovate, regulate, and invest in financial services, products and infrastructure that support the dignity, independence and well-being of all Filipinos, rich and poor, but especially the unbanked and the underserved whose options are perilously few. In short, to strive for a country capable of cultivating both economic growth and social justice.

In each of their turns as BSP governor, Rafael B. Buenventura advocated for microfinance, Amando M. Tetangco Jr. mainstreamed it, Nestor A. Espenilla Jr. championed it into financial inclusion. And now it is in the hands of Benjamin E. Diokno, who was appointed BSP governor upon Espenilla's death.

For Tetangco, who had 12 years to guide the movement, financial inclusion has made the most radiant difference in the BSP's regulatory system which has enabled financial providers to serve a wider and deeper market segment, especially those that have been left out of the financial system. "This has had a tangible impact on the Filipino people," he says.

But what is even more rewarding to Tetangco is that microfinance and financial inclusion have "enabled the BSP to bring its operations closer to the people and build a positive image of a central bank that cares for the welfare of the marginalized segments of society."

From only 400,000 borrowers or thereabouts in the early 2000s, microfinance in the banking system has helped millions of microentrepreneurs. In 2020, over 2.4 million microentrepreneurs had total outstanding loans of PhP27.3 billion and savings deposits amounting to P10.8 billion. Add to that the nearly seven million clients of other MFIs and there's the country's microentrepreneur base.

"While financial inclusion cannot be considered as the BSP's fourth pillar – after price stability, financial stability, and payments system safety and efficiency – it is very important to the BSP," says Medalla. "To use a building analogy, the pillars must be strong to make sure that the house is strong, but it takes more than a sure foundation to give those who live in the house a better life."

Llanto says that because of financial inclusion, banks and insurance companies that have traditionally ignored those at the bottom of the pyramid are now trying everything to tap into this market, including big commercial banks and insurance companies.

"They have changed their attitude toward the poor," he says. Yet, millions of Filipinos still remain excluded.

In one of the speeches he delivered in the small window of time that he had as head of the Philippine central bank, Espenilla declared: "The pervasive problem of inequality, the fast pace of technology and digitization, the interconnectedness of markets, globalization, regionalization, a growing millennial population, and other dynamics highlight the need for us to evolve, address issues in possibly non-traditional ways, and be steps ahead."

His reference to "other dynamics" was prophetic. The coronavirus that with no mercy assaulted the world in 2020, tested the BSP's capability to address the financial issues that the pandemic imposed upon a fearful nation, giving new recognition to Espenilla's championship of financial inclusion and digital transformation for the country.

"There is no arguing that the new economy is digital," Diokno told the FinTech Alliance in May 2020. "Our aspirations for a more inclusive and prosperous post Covid-19 world necessitate putting in place the critical pillars of a digital economy, including robust digital infrastructure digital skills, e-government, digital ID, and an enabling legal and regulatory framework."

And so it is a continuing story, this transformation of the Bangko Sentral ng Pilipinas and the banking system into an ever-widening circle of inclusion.

Gov Paeng

Microfinance did not become a day-to-day concern of formal banks until Rafael B. Buenaventura, BSP governor from 1999 to 2005, declared microfinancing the central bank's flagship program back in 2000, as mandated by the General Banking Law of 2000.

In speech after speech, Buenaventura told the banking community that the BSP was looking to expand the number of ways banks could participate in microfinance. He also wanted to "accelerate the propagation of proven microfinance technologies as broadly as possible to bring, as a long-term goal, microfinance to every province in our country."

That was not just wishful thinking on his part. Buenaventura was well aware that the BSP had the right staff to do the right stuff.

He exposed BSP employees to world-class standards, trainings and continuing education. He paid particular attention to the officers and supervisors because, in their positions, they had to be role models and implementers.

"Our values enhancement program will ensure that we will always have a deep pool of committed talents, and this is one critical element of success," Buenaventura said on the occasion of the BSP's seventh anniversary in 2000.

Rafael B. Buenaventura, BSP governor, July 6, 1999 to July 3, 2005. Under his leadership, the BSP implemented major regulatory initiatives in support of microfinance.

The holder of a master's degree in Business Administration from the Stern School of Business at New York University, Buenaventura made local and foreign scholarship grants available to BSP personnel who were qualified.

"He generously mentored others he worked with, sharing lessons learned and wisdom gained through the years. I can personally attest to this because we at the central bank learned a lot from him during his six-year term as governor of the Bangko Sentral," said Amando M. Tetangco Jr. of his predecessor.

Two successive BSP governors – Tetangco and Nestor A. Espenilla Jr. – were both homegrown central bankers groomed for top positions by Buenaventura, whose solid credentials equipped him to do so. The first, and so far the only, international banker to lead the BSP as governor, Buenaventura was also the first Filipino to head Citibank in the Philippines, Indonesia and Malaysia. His last position at Citibank was as Senior VP and Division Executive for Southern Europe responsible for Italy, Spain, Portugal, Greece, and Turkey.

Knowing what the people under him were capable of achieving, he drew support from the BSP's top leadership to move microfinance forward by forming a committee to take the lead in capacity building and by creating a unit dedicated to microfinance.

BusinessWeek magazine, which named Buenaventura one of the top 25 Asian leaders in 2003, noted that the BSP governor "has taken a surprisingly strong interest in the problems of ordinary Filipinos and the poor in particular."

Was this the same man who, prior to his appointment to the BSP, had spent his 34-year career in large commercial banks that never bothered with the bottom-of-the-pyramid markets? Had he found a new heart? Apparently so because he was, according to BusinessWeek, "especially proud of his role in expanding the Philippines' microcredit programs."

In his time, the BSP lifted the moratorium on the issuance of licenses to new thrift and rural banks, as well as for branches of existing banks, as long as these were focused on microfinance. Better yet, these banks became eligible to borrow from the BSP's rediscounting facility "to maximize their ability to serve the many small enterprises that do not otherwise qualify for credit from the big commercial banks."

Microfinance would have to build its own successes, Buenaventura said, "by providing financial services that the poor want and are willing to pay for at market terms, by maintaining high standards of credit discipline, and by continually educating the public on responsible borrowing."

Buenaventura finished his term as governor in 2005. The following year, he succumbed to cancer at age 68. In his honor, the banking community created the Rafael B. Buenaventura Microfinance Resource Center Foundation to continue his advocacy for mainstreaming microfinance by "providing microfinance institutions the tools, knowledge and technology to stay responsive to the changes in the market and the rapidly evolving demands of their clients."

Gone too soon, Buenaventura did not get to see the innovations – agent banking for the geographically isolated, cloud based banking for the rural folk in Mindanao, e-money for poor families receiving government aid, among other banking services – that have become a framework for hope among those who had been previously excluded. He would have felt vindicated.

Doing His Best

Not once in the years that Amando M. Tetangco Jr. was the Bangko Sentral ng Pilipinas (BSP) governor -– from 2005 to 2017 – did he miss giving the welcome remarks during the Citi Microentrepreneurship Awards (CMA) program every December. He had to be present too at the midyear event to kick off this nationwide search for outstanding microentrepreneurs. He also co-chaired the national selection committee that chose the winners from among the finalists every year.

Amando M. Tetangco Jr. was governor of the BSP from July 4, 2005 to July 2, 2017. Under his term, initiatives to promote financial inclusion across the country expanded the reach of financial services, consumer protection and financial education.

"I am talking of a total of 12 years plus the years when I chaired the committee in behalf of the late Governor Rafael Buenaventura," recalls Tetangco, the only governor to serve two terms.

Did he have this level of commitment because the CMA had been one of the BSP's long-running advocacies? That would have been a good enough reason, yes, but there was more to it. The microentrepreneurs and their "unrelenting pursuit of a better life" always left him inspired. Their stories stand out in his memory, says Tetangco.

"These individuals optimized the access to finance – sometimes starting with a loan amount as small as PhP 2,000 – and built businesses that provided employment and opportunities to improve their lot in life as well as that of their communities," he said at one CMA presentation

He had such insights because, as governor, his role was to implement policies and solutions whose benefits ought to be felt across the nation by everyone, including near-poor microentrepreneurs and the poorest of the poor who were falling without a safety net.

The governor role was one toward which he never let his heart wander. "Every central bank governor before me – even in the old central bank – was from the 'outside'. Being governor was not something 'insiders' like me aspired to," he told the church and government leaders attending the Serviam Foundation's 2nd Servant Leadership Conference in 2015.

He began his BSP career straight from working only a year at the Sycip, Gorres and Velayo accounting firm, after graduating cum laude from the Ateneo de Manila University, where he had also buffed up his Economics degree with graduate studies in Business Administration. Employment at the central bank would later reward him with a scholarship to the University of Wisconsin for a master's degree in Public Policy and Administration.

Three decades with the BSP as statistician, external debt negotiator, research director, deputy governor – with two years as alternate executive director of the International Monetary Fund in Washington thrown in – finally led to the appointment of this "insider" as governor.

Responding to the Lux-in-Domino award, one of the ADMU's Traditional University Awards, given to him in 2019, Tetangco said again that to be BSP governor had never been his life goal. "But when I became BSP governor in 2005, I made a conscious decision to give it my best, and to make the most of my God-given ability to be the good governor that the BSP and the country deserved."

As proof that he had stuck by that decision, only a year after his appointment as BSP head, Tetangco was named by New York-based international magazine Global Finance as one of the world's top six central bankers, in good company with his counterparts from Norway, Taiwan, Malaysia, South Africa and Chile. It was an honor that he would again receive in 2007, 2011 and 2012.

Also in 2012, another international finance magazine, Emerging Markets, named him the 2012 Central Bank Governor of the Year for Asia. The following year, Tetangco was chosen by The Banker, a publication of the Financial Times group, as Central Banker of the Year for Asia-Pacific, for having successfully steered the country through the economic turbulence of 2012. And just before retiring, Tetangco was conferred the 2016 Outstanding Achievement Award by FinanceAsia, a Hong Kong-based publication that covers investment banking, capital markets and strategic corporate finance in Asia Pacific.

Like his predecessor and successor governors, Tetangco firmly believed that financial inclusion would increase the economic activity and incomes of the 40 percent of Filipinos living on the lower rungs of society.

Thus, he threw his full support behind then Deputy Governor Nestor A. Espenilla Jr. and the microfinance team as they worked to increase the capability of the BSP and the financial service providers not just to offer microfinance services to the low income sector but also to expand the initiative to financial inclusion. He believed financial inclusion would give Filipinos the opportunity "to build up assets, prepare against emergencies and invest in education, health and housing."

Wanting to include marginalized sectors that had long been unserved or underserved by traditional financial institutions, Tetangco proposed and subsequently launched a multi-disciplinary body to take responsibility for enlarging the base of Filipinos who shall have greater access to financial services. Since 2016 the cross-sectoral National Strategy for Financial Inclusion has become a model of collaboration for other developing countries.

By the time Amando M. Tetangco Jr. retired in 2017, the achievements in inclusive finance that his BSP espoused were hard to deny. Financial inclusion was in full bloom.

Sticktoitiveness

In one corner of a Bangko Sentral ng Pilipinas office, the deputy governor was holding what looked like a children's book. Nestor A. Espenilla Jr. was being videotaped as he read aloud a chapter of "The Retelling of The Richest Man in Babylon," Rose Fres Fausto's modern take on the George S. Clason 1920 book of finance parables.

He began to read: "Chapter 4, The First Law of Money." What was it? Pay yourself first, said the book. Espenilla found it refreshing.

"Rather than from the perspective of sacrifice – you set aside something and deprive yourself – it ingeniously presents the concept of saving as something that you basically owe to yourself," he told Fausto after the read-aloud. "No guilt at all. You should be doing it regularly. To me that's a very powerful concept."

Spoken like a banker.

Espenilla learned how to manage his money at a young age. He was the baby among the five children of Nestor Sr., a CPA-lawyer, and Arminda, a public school teacher turned entrepreneur who opened the first rural bank in San Jacinto, Masbate. He was not just the youngest of five children, he was also the *unico hijo.* And a consistent honor student. What's not to love, right? Dad was wont to give him a cash reward whenever he did well in school, which was most of the time.

Nestor A. Espenilla Jr., BSP governor, July 3, 2017 to February 23, 2019. His heart beat for financial inclusion.

It was his mom who always reminded him to be responsible with money, to be aware that he wouldn't always have it forthcoming. So in Nesting's case, as one parent gave, the other cautioned. In other words, he had models of generosity and prudence growing up, both of which attributes he would put to good use as financial inclusion champion and central bank leader.

But where did Nestor Espenilla Jr. get his enduring idealism? What woke him up to a new model of banking that embraced the gospel of inclusion?

"Nesting's dad was very nationalistic and reform-oriented," says Espenilla's wife, Tess, who also acknowledges his Ateneo de Manila education as an influence on her husband. Not a few of Espenilla's colleagues, however, think that the bigger influence was Tess herself. She had been actively involved in development projects with the government, microfinance among them, up until her retirement from the USAID.

Tess insists, however, that her husband saw the promise of financial inclusion for marginalized Filipinos largely by himself. The effect it had on him was profound and far-reaching.

Espenilla's open heart branched out to an equally open mind. As the deputy governor who supervised the banking industry, he encouraged regulations that were smart, innovative and inclusive. As a result, the BSP pioneered globally applicable initiatives that earned him the respect of international organizations.

A couple of months after becoming BSP governor, Espenilla addressed the first batch of students in the MBA and Master of Science in Finance programs of the Cesar E. A. Virata School of Business on the modern University of the Philippines (UP) Bonifacio Global City campus. He exhorted them to take one word to heart.

"Sticktoitiveness. It has made all the difference in my career," he spoke. "Why? The reason is simple. There will be good days and there will be bad days. While we are presumably talented and intelligent uniformly each day, the feeling of wanting to persevere and stay on changes. It changes with our moods and is affected by situations and circumstances. That is why sticktoitiveness – commitment – is the true formula for success."

After receiving his Business Economics degree, magna cum laude, from UP, he did not pass up the chance to work with banking giants at the Central Bank of the Philippines. As a young bank officer he shuttled between the CB building in Malate, Manila and the UP campus in Diliman, Quezon City to attend his MBA classes. He also somehow managed to acquire a master's degree in Policy Science from the National Graduate Institute for Policy Studies in Tokyo, Japan.

Espenilla made the BSP his lifelong work. In a career spanning 37 years, he was animated by a deep sense of purpose, which everyone in his orbit knew moved toward financial inclusion.

In 2017, Espenilla succeeded Amando M. Tetangco Jr. as BSP governor. Sadly, just a few months after his appointment, he was diagnosed with tongue cancer. In February 2018, he sent a blast text message from Israel, where he was pilgrimaging with family and friends, that he had just completed his treatment. By October 2018, however, he had to go for more treatment because the cancer had returned.

On February 23, 2019, at the age of 60, Espenilla succumbed to the cancer, leaving behind a comet tail of innovations that have made the financial system more welcoming and less intimidating to a great many Filipinos.

Paying tribute to Espenilla and his quietly heroic role in both the Bangko Sentral and the life of the nation, Tetangco said, "He saw the imperative of financial inclusion, from the very start, how this could make the financial system meaningful for each Filipino and how this in turn could create the foundation for broad based growth."

And then he gave Espenilla back the word that the latter had bequeathed with earnest to his UP audience back in 2017: "He had sticktoitiveness. He stuck to a job until its completion.

The Original Two

Financial inclusion would have been merely an illusion without the firm resolve of the Bangko Sentral ng Pilipinas and it's partner agencies to help address poverty in our country. These first two appointees of the BSP's pioneering initiatives provided their passion and full support, believing in their hearts that it is an achievable cause.

What did a bright-eyed, twenty something one-time *Assumptionista* know about living on the margins, much less about lending money to the poor?

Fortunately for the Bangko Sentral, Pia Bernadette Roman-Tayag knew more than enough. After college at the University of the Philippines, a few years' local work experience, and graduate studies at Columbia University in New York, she had joined Women's Venture Fund, a small non-profit microfinance organization in Manhattan that catered to women from minority communities.

The WVF relied on money from the US Small Business Association and support from private donors. Pia's job was to write proposals to government agencies and private organizations appealing for funding.

Unlike microfinance NGOs in the Philippines, according to Pia, the WVF focused on only a handful of minority entrepreneurs but their businesses were bigger in scale. "What's interesting is that the issues are the same at every level: Lack of access, need for mentoring, vulnerability to shocks, and so on," she says.

It was her WVF experience that she brought with her to the BSP interview when the bank was looking to staff its Microfinance Unit. But it was not the only reason she was hired. The screening committee found her impressive. Her intelligence was unmistakable and so was her earnestness although she was only 26 years old.

Pia Bernadette Roman-Tayag and Ed Jimenez were originally hired for the BSP's two-person microfinance unit.

"Pia is the best thing that ever happened to the BSP's financial inclusion program," says consultant Ed Jimenez with whom she started in the unit.

"I believe in financial inclusion because it provides access not to solutions or cure-alls but to opportunities," says Pia. "It empowers. More often than not, this opportunity is all that the Filipinos need to take control of their lives and improve their lot."

She set up the BSP's Center for Learning and Inclusion Advocacy and is now on secondment as director of the United Nations Secretary General's Special Advocate (UNSGA) for Inclusive Finance for Development.

Eduardo C. Jimenez was no stranger to the leadership at the Bangko Sentral. He had worked there 14 years, almost right out of the Polytechnic University of the Philippines where he studied Economics. But the excitement and prestige of being a central banker began to wear off so he took a leave of absence from the bank and joined a microfinance NGO on a mission to help really small start-ups get off the ground. After a year he returned to his job at the BSP only to leave again a week later so he could devote his full time to the NGO.

Seven years later here he was, back as the microfinance consultant to the BSP which was trying to implement salient provisions of a new law relative to microfinance. He saw a need to take the bank's top executives on a trip to meet not big bankers but the unbanked poor.

One day he had an inspired thought. As an advisor to the World Bank-Manila, it occurred to him that the WB-Manila head himself might benefit from such a trip. "I'm taking some VIPs of the BSP to a microfinance center out of town," he said. "Would you like to come along?"

At his next meeting with the BSP's Microfinance Committee, he told members, "I'm taking the WB-Manila head on a trip to Laguna for a face-to-face with some microentrepreneurs. Would you like to join us?"

So off they all went. They came home from the trip with potted plants they purchased from a microentrepreneur whose budding business was a retail garden.

That was one lesson on financial inclusion for the BSP. Inclusion is not just a matter of suddenly throwing the bank doors open to the deprived and dispossessed. For Jimenez, it is about creating kinship.

At left, a chart of awards and distinctions for the BSP's innovations and initiatives in financial inclusion; below, microfinance NGO branch manager Lemuel Arzaga welcomed (left to right) Pia Roman-Tayag and Ed Jimenez of the BSP microfinance unit, BSP Managing Director Cora Guerrero, Director Andy Caballa and Monetary Board Member Juanita Amatong to Davao City; bottom photo, Monetary Board Member Peter Favila (center) observes Microfinance Week with (left to right) Mary Rose Roque, Jenny Romero-Asistin, Roman-Tayag, Tina Simbulan-Masangkay, and Mynard Brian Mojica; and, right, Governor Tetangco (in blue shirt) and then Deputy Governor Espenilla visited a microentrepreneur couple in Cebu.

Top: BSP Governor Rafael B. Buenaventura (second from the right) and Monetary Board Member Antonino L. Alindogan Jr. (right) with President Mila Bunker of the Ahon sa Hirap Inc (left) and client Felicidad Kalalo, Citi Special Achievement Awardee. Above: The 2017 CMA panel of judges co-chaired by Citi Philippines CEO Aftab Ahmed (seated, second from left) and BSP Governor Nestor A. Espenilla Jr. Members were multisectoral leaders (seated, from left) Imelda Nicolas, Marixi Prieto, Tessie Sy-Coson and (standing, from left) Joey Concepcion, Felipe Gozon, Michael Tan, Ramon Lopez and Antonino Alindogan.

CHAPTER 2

BANKING ON TECHNOLOGY

"Can we remove the requirement for collateral? Our clients are the landless poor," Dr. Jaime Aristotle Alip started to explain to some Bangko Sentral ng Pilipinas (BSP) regulators. "I know central bank rules say that 70 percent of loans must be guaranteed by collaterals. But we are different. We are not in the business of banking; we are in the business of poverty eradication."

By "we," Alip meant CARD Bank and by "different," he meant a microfinance-oriented rural bank did not do business as usual. Launched in 1997 before the BSP had had a chance to liberalize regulations for the banking industry, CARD Bank was initially subjected by the BSP to the same rules that covered bigger banks. The bank was an initiative of CARD MRI, which has more than half a million poor women as members, so Alip was telling the truth and nothing but.

Eventually, Alip and the poor women who helped set up and manage CARD Bank were able to convince the BSP that their small bank in San Pablo City, Laguna could become a showcase for microfinance banking if allowed to stir things up a little with some of their innovations.

“Where banks and other financial institutions didn't go, we went,” Alip recalls. They have been adventurous, maybe even fearless risk-takers, but, as far as he is concerned, the BSP deserves the bigger credit for the open-mindedness and flexibility with which it has allowed CARD to experiment and subsequently contribute toward the formulation of the country’s regulatory framework for microfinance-oriented banks.

In time the BSP trained a dedicated group of examiners for microfinance banks and issued regulations tailored to the unique characteristics of microfinance such as, in answer to Alip’s prayers, zero collateral and cash flow-based payments.

Over the years, the BSP also relaxed the rules on bank branches, allowing established and stronger banks to expand their networks by opening microbanking offices (eventually reclassified as branch lite units or BLUs) in places where the people were, instead of having the people come to the banks.

“From what I heard, the branch lite unit was inspired by our experience,” Alip says. BLUs allow people to remit money and perform other transactions that in the past could only be done at a bank's main office or branches.

For its part, CARD has kept the BSP updated on its innovations and activities to help in crafting policy. For example, the bank has been doing cross-selling by dealing in insurance, a product that used to be the exclusive domain of insurance companies. “People can now also remit their contributions to the SSS, GSIS and PhilHealth through CARD Bank,” says Alip.

Banking On and For the Poor

As the founder of CARD MRI, Alip is a pioneer in microfinance, community-based development and other innovations that have been life-changing for the poor and marginalized.

Wanting to help landless rural women in Laguna, he founded CARD MRI in 1986 with only PhP20.00 and an old typewriter on which he wrote letters of appeal to donor organizations. The advocacy won him the prestigious Ramon Magsaysay Award for Public Service in 2008. “We believe that increasing women's access to financial and non-financial services will lead to economic empowerment. But more than access to resources, we maintain that control over these resources is even more empowering,” he said then.

Alip believes that people are poor not because they lack access to money but because they do not know how to manage their resources. This is why CARD Bank’s predominantly women clients are not just clients but shareholders, too.

Dolores Maranan of Pila, Laguna is one of them. She relied on an initial loan of PhP5,000.00 from CARD Bank to put up her small eatery. Subsequent loans enabled her to grow her microenterprise to include a grocery, a pharmacy and a videoke rental shop. With another PhP150,000.00 loan, she became a three-door apartment owner.

It may sound easy but it has taken hard work, resourcefulness and a keen sense of responsibility to make all that happen in the 13 years that Dolly has been a CARD Bank member. For this reason, she was a shoo-in for the Galing ni Nanay-Maunlad award, which the bank presents every year to members who perform exceedingly well in growing their micro-ventures.

According to Dolly, CARD has been kind, caring and supportive. Its seminar on running a business was particularly helpful to her. She learned how to prepare a budget, among other skills, but what she appreciated most was the insight that her customers are people she ought to be thankful for and get to know better. And so it is not surprising to come upon Dolly giving free groceries to poor folks and senior citizens on days when they are in dire straits. Or that she is helping recent Muslim settlers in Pila who are into farming.

The 56-year-old mother of four makes sure her Dolly’s Mini-Grocery, open nearly 24 hours every day, is always well stocked. “At Dolly’s you can get everything you need,” her customers would say. If someone went looking for something to buy and did not find it at Dolly’s, they could be sure the next time they returned that the store would be carrying it.

Major financial institutions have generally considered a small business like Dolly’s as high credit risk. With hundreds, if not thousands, of micro, small and medium enterprises (MSMEs) requiring lifeline loans, the BSP was mandated by the 2000 General Banking Law (GBL) to recognize microfinance as a legitimate banking activity.

Having succeeded in mainstreaming microfinance and upgrading its advocacy to financial inclusion, the BSP has endeavored to eliminate barriers that prevent MSMEs from receiving the financial support they need. It has also made it easier for CARD Bank

and other financial institutions dealing with MSMEs to deliver their products and services by clearing the path for innovations and technologies that broaden their reach and deepen their linkages.

A significant institution like the Bangko Sentral, of course, is only as good as its leaders. As it is, Alip has no complaints about the BSP governors – from Gabriel C. Singson, Rafael B. Buenaventura, Amando M. Tetangco, Jr. to Nestor A. Espenilla Jr. – who came out with solid policies and were always responsive. Alip adds that current Governor Benjamin E. Diokno is ably continuing the work his predecessors had started in boosting financial inclusion.

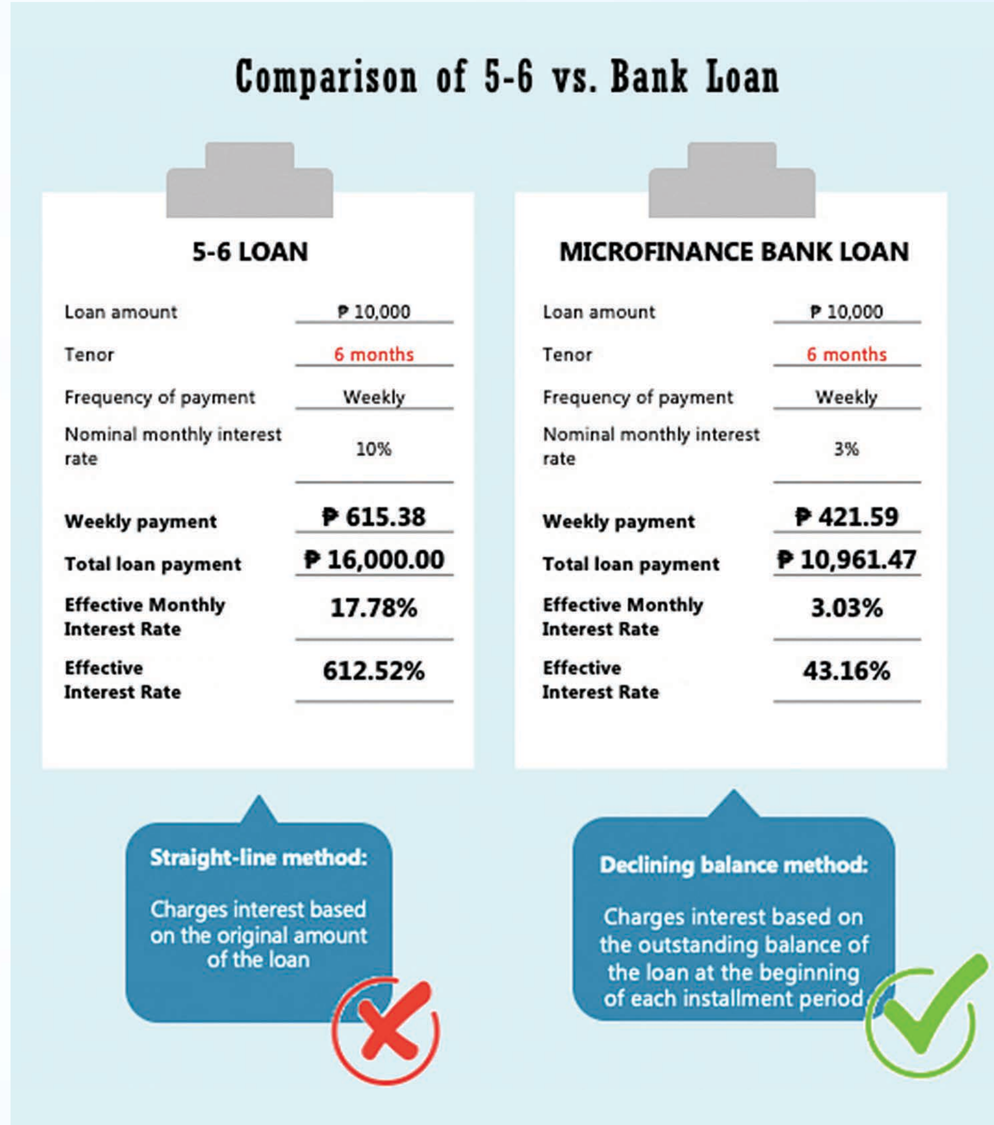
Digitization is one of the best things to happen to banking, according to Alip. Under BSP Circular 940, CARD Bank agents using mobile phones, tablets and other electronic handheld terminals can go to any location and, with no forms to fill out, accept mobile payments right there and then.

"We live in a digital age and financial services are expected to be delivered and are in the form defined by financial technology. The digitization of financial services, more popularly labeled as fintech, requires innovation and support. The BSP has put in place both its e-money and IT Risk framework to enable this environment," said Tetangco in 2016 when he was on his second term as BSP governor and technology was beginning to revolutionize banking in admirable ways.

Digitization has also allowed CARD Bank to create the Konek2CARD application that gives clients the luxury of transacting with the bank from anywhere 24/7. "Transactions have been shortened and human error, minimized," Alip points out. "People can now go to a sari-sari store, one that we have authorized, for simple banking activities in small amounts. They can make deposits, pay bills and transfer or withdraw money."

In Dolores, Quezon, for instance, people used to spend almost PhP100.00 to get to and from the CARD Bank branch where they often faced a long wait. Now they need only to go to their neighborhood sari-sari store to do their banking.

In the beginning, the new technology was not an easy sell. When told about the shift to smartphones, both the CARD Bank staff and their clients in Dolores were apprehensive. Alip was told they resorted to prayers to prevent digitization from happening for fear of many things, foremost of them the learning curve. "Lord, please touch Dr. Alip's heart so he won't push through with his plan to use mobile phones," they intoned in the vernacular at churches.



This infographic presents an example of the huge savings in interest expenses for microentrepreneurs who borrow from banks rather than from so-called 5-6 informal lenders.

Source: Center for Learning and Inclusion Advocacy

But after the group's leader learned how to work a smartphone, she began to actively promote the technology. CARD members were impressed that their transactions were happening in real time and they were getting confirmation in minutes, even seconds. It also helped greatly that they were dealing with someone they already knew quite well – the ever present sari-sari store owner.

As for the bank's employees, they soon realized that digitization reduced paperwork and allowed them to have a social life. Instead of being married to their jobs, they now had time to woo and be wooed.

Alip, who is now chairperson of CARD, says the bank helps develop financial discipline among its clients. When Taal Volcano erupted in January 2020, he recalls seeing CARD members standing in line to pay their loans. When he asked how they could think of doing that in the middle of a calamity, he was told that it was expected of them and they had saved money for the purpose.

Juana Sonia S. Urriza of Nagcarlan, Laguna is one such disciplined CARD Bank member. From a small first loan of PhP4,000.00, Nanay Juana has recently qualified for a loan of PhP500,000.00. That's because she makes it a point to set aside money to diligently repay what she owes.

Nanay Juana left her job in a candy factory upon the birth of her first child. She wanted to stay home with the baby, she told her husband, so they used their savings of PhP1,500.00 to start their own candy business. In 2011, she joined CARD Bank and borrowed money that she used to expand the candy-making business.

She chose CARD Bank not only for its collateral-free loans but also because "they make an effort to understand your situation and do not pressure you for your payment." The bank has enabled her to survive a PhP3 million loss she incurred after a longtime customer's checks bounced

Nanay Juana now makes 12 different kinds of candy that are sold by 22 agents in Laguna, Bataan and Pangasinan. From a two-person operation, Ides & Sonia Candies (Ides is short for Leonides, her husband's name) now employs 17 workers. Juana also hires students part-time to wrap the candies so they can earn pocket money.

A CARD–MRI's Galing ni Nanay-Masigasig awardee for excellence, Juana advises her workers to dream big and to join CARD. "I was impressed by their strategy of making women a priority. That's one more reason I joined CARD instead of another group," she says.

As of January 2020, CARD Bank had served more than three million clients like Dolly and Juana through its more than 900 offices and agents, and extended more than P11 billion in loans. It has diversified its portfolio over the years, extending loans not just for microenterprises but also for housing purchase and renovation, among other client needs.

"We have grown by leaps and bounds," Alip says. "We have not just expanded but exploded."

Today, there are over 150 bank branches serving nearly 2.5 million microentrepreneurs. These are the country's smallest business owners who would otherwise not feel comfortable stepping into bank premises.

Innovations for Inclusion

In the 2011 article "Innovative Solutions to Increase Access to Finance: The Role of Enabling Policy and Regulation," which appeared in the publication Bangko Sentral Review, Deputy Governor Espenilla and Pia Bernadette Roman-Tayag, then head of the Inclusive Finance Advocacy Staff, wrote that the central bank had taken measures to establish a supportive, enabling environment that encouraged innovation and market-based solutions to promote financial access.

The BSP also recognized that the big banks, despite their best efforts, could not go to the grassroots where the need was greater and more urgent. "The concentration of banking services is generally biased toward higher income areas, leaving much of the low income areas significantly underserved," the authors said.

With technology and digital financial services, the cost barrier in serving those previously unserved can finally be addressed. Banks are now increasingly looking at the very market microfinance pioneers were serving. The realization that innovation for inclusion is a market-creating proposition is now attracting banks that were previously averse to this market.

This is what the BSP has believed and espoused at the onset. Today, this belief and advocacy has been clearly mandated with Republic Act 11211.

As interpreted by the BSP officials, their mandate is not only to ensure the viability and fiscal strength of banks but also to bring the benefits of the financial system to the millions of citizens who have heretofore been excluded – the unserved, untapped and unreached – from the formal financial system.

The BSP sees financial inclusion as a potentially liberating force, a way to get millions of people out of the quagmire of poverty by helping them acquire and manage resources, no matter how meager, through savings and by providing them access to more reliable, trustworthy partners in the banking industry to finance income-generating enterprises no matter how small.

> **"Digital technology brought scale and affordability to transactions. It opened up new possibilities for delivering financial services to difficult to serve markets."**
>
> – Nestor A. Espenilla Jr.

Current BSP Governor Diokno, in a speech during the 2019 Finex Conference, stressed the importance of financial inclusion as a social mandate that played a critical role in ensuring that the fruits of prosperity were felt by everyone through increased opportunities.

"Financial inclusion lays the groundwork for sustainable and equitable national development. The goal of financial inclusion does not end with providing universal access to financial services but in ensuring that these services truly enhance the well-being of their users," he said.

In their paper, Espenilla and Roman-Tayag noted, "traditional constructs, while successful in delivering financial services, leave much to be desired." They pointed to the urgent need for new ways to "deliver useful and quality financial services to more people in a safe, sound and sustainable manner." Innovation, they stressed, played a central role in expanding the scale and scope of the banks to effectively reach the unserved and underserved.

New Height in Banking

Nowhere has innovation effectively reached the traditionally excluded than at Cantilan Rural Bank, which is named after the town where it is headquartered. Cantilan in Surigao del Sur is home to brothers William and Charles Hotchkiss, whose parents helped found the bank in the 1980s.

Charles, a retired Philippine Air Force (PAF) brigadier general and current bank president, says their parents, both public school teachers, saw the need for another financial institution in the province. The existing bank at the time was set up by a company to serve only its employees and their families.

"Cantilan started in one of the poorest areas in the country," he says. Mindanao has the highest concentration of the unbanked, unserved and unreached – about 43 percent of the total. He considered the situation as both a challenge and an opportunity. The bank aimed to promote financial inclusion from the very start and made it its mission to deliver financial services to the frontlines and provide a public good.

Cantilan Bank is often the only financial institution in the towns where it has a presence – usually through a BLU – in 12 Mindanao provinces and Leyte. With the high incidence of poverty in many parts of both islands, Cantilan could not live up to its commitment simply by opening branches. There is a high concentration of the unbanked, unreached and underserved – about 43 percent of the total. There is a high incidence of poverty in many parts of the island. For these reasons, Cantilan Bank committed to deliver financial inclusion to the frontlines.

When William, a retired PAF commanding general, joined the bank, he brought to the job an eagerness for new technology that he had developed as a fighter pilot. "In fighter flying, you have to stay ahead of the curve all the time and, as far as possible, be most technologically adept. I brought to the business the notion that, to survive the competition, you have to be ahead with technology and be more efficient. If you don't stay ahead of the power curve, you will be a victim. That's probably how we survived in the banking business," he says.

For Cantilan Bank, the strategy is "high tech, high touch," a combination of new technology and person-to-person service since many clients still prefer face-to-face interaction. While Charles says the bank would still need a brick-and-mortar presence in certain areas, Cantilan Bank considered the use of cloud technology to reduce the need for physical infrastructure and better serve a widely dispersed clientele, many in hard-to-reach areas.

"To stay ahead of the competition and to better achieve the goal of financial inclusion, you have to go high tech while keeping in mind that you really have to cater to people in the countryside – farmers, fishermen – and encourage them to enter the banking system," says William, who became bank chairman and president in 1997 because he has always wanted to give back to the town that nurtured him.

It was primarily Espenilla who provided clarity to the goal of using cloud technology in banking, according to Charles. Through the late governor's innovative regulatory sandbox, Cantilan was able to pilot test the technology.

"Governor Espenilla was really using the grassroots approach to banking. He had no problem going to the field to see the real situation and he reacted and responded quickly," says William's daughter, Tanya, who is executive director of the Hotchkiss Foundation and head of strategic management at the bank.

Cloud computing allows information to be stored remotely in a "cloud" or virtual space. The website Investopedia says: "Companies that provide cloud services enable users to store files and applications on remote servers and then access the data via the internet. This means the user is not required to be in a specific place to gain access to it, allowing the user to work remotely."

The new technology also allows for the delivery of different services, such as tools and applications through the internet like data storage, servers, databases, networks and software. It offers the benefits of cost savings, increased productivity, speed and efficiency, performance and security.

Cloud computing, however, is hardly affordable for a rural bank like Cantilan. Fortunately, Tanya learned about the Asian Development Bank's technical assistance under the National Strategy for Financial Inclusion, which was approved in 2015. She proposed using Cantilan Bank for the pilot project. The rural bank's experience could be the basis for scaling up or replicating a cloud-based core banking system.

William says the idea was mission-driven. It was in pursuit of the goal of financial inclusion. "Rural banks have to be freed of the need for infrastructure," he says, but without the support of the ADB and the BSP, Cantilan could not have ventured into cloud computing investopedia. The ADB also provided the documentation for the project. The BSP, for its part, placed the pilot project under its "test and learn" system.

"Governor Espenilla was the godfather of financial inclusion for allowing us into the sandbox," William says. Started in 2017, cloud computing investopedia for Cantilan Bank has now received approval from the BSP for full implementation.

With cloud computing came the need for a financial literacy campaign to teach people the value of keeping their money in a bank. "That is why Cantilan started a students savings club so that when they grow up they would already be part of our client base. They might also convince their parents to avail of the bank's services," William says.

Overseas Filipino workers are also important clients of Cantilan Bank. William points out that many OFWs come from the countryside. "When they remit their money through a bank, it not only gets sent more efficiently, it also promotes countryside development. Our new software has allowed us to partner with foreign banks to make remittances faster and more convenient."

There is a silver lining to cloud computing. "Cantilan Bank is no longer just a lender or creditor," William notes. "It has become a financial intermediary, a stakeholder in financial inclusion and countryside development."

Surety Fund for Loans

Diwa Gunigundo recalls that one of the ways the BSP pursued financial inclusion when he was deputy governor for the Monetary Stability Sector was through the Credit Surety Fund (CSF), which relied on local government funds and cash grants from three participating government agencies: the Land Bank, the DBP and the Industrial Guarantee and Loan Fund.

The passing of Republic Act No. 10744 in 2015 formalized the CSF program initiated by the BSP in 2008. The CSF provides up to 80 percent surety cover for loans granted by banks to MSME members of cooperatives and NGOs despite insufficient collateral, limited credit histories, and inadequate financial records, among other barriers.

"To ensure ownership by the cooperatives and NGOs, a minimum contribution from them is required," he says. "Cooperatives are taught various aspects of financial and business management, including the preparation of feasibility studies. Most important, a gearing ratio of ten times the cooperatives' cash contributions makes fund-raising exercise through the CSF more worthwhile and more meaningful from a business standpoint. This makes financial inclusion more attainable."

To date, there are 55 CSFs, with 791 members across the country. As of beginning of the fourth quarter of 2019, an estimated PhP5.2 billion in loans had been released, reaching 17,400 beneficiaries. What is even more remarkable is that the non-performing loan ratio is marginal, according to Gunigundo, who retired after 41 years with the BSP.

"While simplified bank rules and payment gateways through various retail payment platforms are important to empower people, there is a need to also empower them for business. It is imperative to enable economic participation and strengthen the population's ability to smoothen its consumption patterns," Gunigundo says.

Smartphones as Currency

The modern technology that has helped both the CARD and Cantilan banks extend their reach to the underserved is transforming not just banking but commerce and business as well. Financial technology, or fintech, has made smartphones a convenient link to banks and portable wallets that people can use in an ever-increasing number of ways.

BSP Deputy Governor Maria Almasara Cyd N. Tuaño-Amador had her light-bulb moment on the positive disruption coming from fintech one Sunday afternoon as she prepared to go out and spend some together time with her daughter. "I asked where her bag and wallet were because she did not have them. She said she had everything she needed in her cellphone."

The BSP official then realized that "with a large and rising percentage of Filipino households owning smartphones, the ease of making digital payments could entice more people to engage more actively in the financial mainstream, and from there realize more economic opportunities."

Espenilla had said that digital technology "brought scale and affordability to transactions. It opened up new possibilities for delivering financial services to difficult to serve markets."

For someone who wanted to bring more convenient financial services to more people, a passion he has had even before the technology to make it happen became available, Angelito Villanueva has the perfect career. He is executive vice president and chief innovation officer at Rizal Commercial Banking Corporation (RCBC) and, on top of that, chief digital transformation officer at the Yuchengco Group of Companies, the parent company of RCBC.

A pioneer in the use of the mobile phone for financial transactions when he was with the Philippine Long Distance Telephone Company (PLDT), Villanueva told Business Chief ANZ in an interview: "My singular purpose and passion in all these initiatives is to help uplift the lives of Filipinos. Technology is just a means to an end, with the customer at the core."

Villanueva, chairperson and founder of FinTech Alliance.ph, would not call the people he has been trying to reach "the unbanked." That would be a disservice, that would be relegating them to a particular group, according to him. Instead, he calls them FADS, short for "financial access deficient segment."

Villanueva says the vision of fintech has remained the same in recent history – "continuous digital disruption is not just about technology but how you use technology that is relevant, adaptable and capable. No matter how effective the platform, if there is no demand for it then there is no need for it."

The Institute for Growth towards National Inclusion, Transformation and Empowerment (IGNITE) is launched in honor of BSP Governor Nestor Espenilla Jr. with the goal of empowering sectors without financial access through digital technology. FinTech Alliance.ph Chairman Lito Villanueva, IGNITE president, paid tribute to the late Governor during the ceremonies attended by Maria Teresita F. Espenilla (fourth from left) and (fifth from left) Governor Benjamin E. Diokno.

This dovetailed neatly with the thoughts of Espenilla, whom Villanueva calls "the father of mobile money regulation." In his "Developing Stories" video interview, Espenilla had pointed out: "You look at these innovations, technologies, and if they are bringing in new ways of solving existing problems then they are useful. We ought to pay attention and engage them."

Villanueva says, "Espenilla prepared the enabling landscape for fintech. He built the runway. Now it is up to us to use it for our takeoff toward a progressive and digitally inclusive Philippines."

There is now a good mix and huge demand from the untapped market for the new technologies and how to make them part of the formal system, according to Villanueva.

He asserts the Philippines is the global pioneer in mobile money, having introduced its use as early as 2001. "Way ahead of the successful M-PESA of Kenya." The fintech regulations Espenilla drew up when he was BSP deputy governor had become models for the developing world on how to manage mobile money.

In an article in the Philippine Daily Inquirer following Espenilla's passing, Villanueva paid tribute to the late BSP governor's willingness to consider innovations that would achieve the goal of financial inclusion. "He was the true-blue disruptor-regulator personified. His degree of passion, commitment and vision to promote economic inclusion and digital transformation was definitely at the highest level. With so much sincerity, genuineness and focus, he was able to provide the enabling regulations embracing banking innovations."

Villanueva is now president of the BSP Gov. Nestor A. Espenilla Jr. Institute for Growth towards National Inclusion, Transformation and Empowerment (Ignite), which was set up by FinTech Alliance.ph after the governor's passing. Ignite is a private sector effort to reach more people and get them to use banks and online financial services, as well as 25 million Filipinos with basic deposit accounts to use for financial transactions.

When SmartMoney was introduced, Villanueva was then part of PLDT's technology brain trust. He says they were surprised by the BSP's openness and eagerness to learn more about the technology. The banking regulators, to their credit, seemed to have realized that the way to penetrate the untapped market was through mobile technology. At the time, the Philippines was the SMS (short message service) or texting capital of the world.

"The only way to reach the people in far-flung areas was through mobile phones," Villanueva says. This paved the way for collaboration between mobile money operators and the regulators – a case of regulation following innovation.

"The good thing was that the BSP or the regulators never stopped anyone from offering those digital services," Villanueva says. The central bank also provided the impetus through the regulatory sandbox, which allowed players to innovate and to find ways to make the experience more convenient and easy.

At the time, telecommunication companies (telcos) were not under the BSP, Villanueva recalls. Mobile money was launched without BSP regulation, as there was no National Payment Systems Act yet. The innovation was a product of trust so the telcos never resisted the engagement with the BSP because mobile money was a commodity of trust.

The BSP engaged the telcos to fully understand the product, its risks and potential. Approvals were done in stages, first allowing the use of mobile money for loan payments (Text A Payment), then deposits and withdrawal. This allowed the BSP to learn from the roll out and then be informed on how to regulate properly.

Rural banks were the first users of e-money to support access to microfinance as approved by the BSP and facilitated by Rural Bankers Association of the Philippines-Microenterprise Access to Banking Services (RBAP-MABS) in early 2005. According to the MABS report, by the end of June 2012, 77 rural banks with 1,171 branches and banking offices had been accredited to offer mobile phone banking services using GCash and Smart Money. Registered mobile phone banking clients exceeded 390,000. More than 3 million mobile phone banking transactions valued at more than PhP17 billion (USD 400 million) were facilitated by accredited rural banks. This was all made a reality due to a positive enabling environment by the BSP.

Approval by the BSP gave mobile money credibility. "Regulation played a key role in ensuring consumer confidence in the product," Villanueva says. In collaboration with telcos, he adds, the BSP started crafting regulations to apply to e-money. The basic tenets of governance and compliance that applied to any banking environment were applied to mobile money transactions as well.

"In 2000, when the innovation was rolled out, the adoption rate was low. It was an innovation that had come too early," Villanueva says. Kenya is often cited as having "the most successful mobile money deployment," but the situation in the African country is hardly comparable to that in the Philippines. "Imagine sending money to your loved ones there by entrusting it to a bus or train driver. There was no means to send money safely," he says. "The Philippines, on the other hand, has many financial touchpoints and service providers." He is talking of remittance centers like Western Union, Lhuillier, Palawan, among others.

The adoption of e-money was slow because people at first did not see the value of the product. Villanueva says millennials, adept in the new technologies, have fueled the significant and encouraging growth in consumer adoption of digital payment from one percent in 2015 to more than 10 percent. The goal is to bring the rate to about 20 percent by 2020, although Diokno wants to bring the rate up to 50 percent by 2022.

The BSP's enabling regulations have created so much impact on how fintech players and even banks are operating that more Filipinos have been encouraged to join the financial system, according to Villanueva. The regulations have included new rules on interest-earning basic deposit accounts (BDA), such as no required minimum deposit, no maintaining balance, fewer charges and, for overseas Filipinos, lower cost of money transfers.

But, Villanueva stresses, financial inclusion cannot go forward simply through “clicks.” It takes a combination of “bricks and clicks.” For this reason, RCBC has come up with its own digital or mobile bank concept specially suited to Filipinos who find traditional banks too intimidating.

DiskarTech is a mobile phone app for a "sachet" kind of one-stop banking that allows people in the countryside without mobile phones to avail of bank services through small I-preneurs. It enlists as agents people who are part of the daily lives of their clients and keep flexible hours, like the corner sari-sari store owner.

In step with DiskarTech, many banks are now optimizing the use of the BDA and offering it through their cash agents that are spread all throughout the country or through their mobile apps. This is true democratization of account ownership and truly bringing banking within reach. It is because of these capacities, that these banks have been tapped by the government to distribute the emergency cash from the government to families affected by the government-imposed quarantine due to the Covid-19 pandemic.

Villanueva says he is optimistic the financial inclusion initiatives will succeed, but the fintech products and services must be demand-driven and connect with the people. “I always put some emotion into my products. Filipinos are by nature emotional. Any product or service you have to offer must evoke emotions. You have to make that connection with the public because the ultimate measure of a product’s success is its adoption by the public.”

Mobile Wallet for Financial Transactions

As the banks are increasingly bringing banking services to more people through innovations and the mobile phones, e-money providers are similarly bringing financial services within reach.

Anthony Thomas is the former president and chief executive officer of GCash, an e-money issuer, and now adviser to the board of Mynt. He says, “It was important to establish GCash as more of a financial services platform. Our vision is a cashless society leading to finance for all because going cashless moves people up. An important element of that is now you have an identity, you have transactions that may be used to extend credit, which in turn opens up options for you in terms of savings and investments, even protection insurance products.” Mynt, which operates Globe Fintech Innovations Inc., is otherwise known as GCash.

In its 2020 report, “Finance for All: Financial Inclusion through Technology,” GCash showed that 66 percent of Filipinos did not have bank accounts; 90 percent did not have a credit score, with 95 percent of that without credit cards; and 34 percent had no access to physical banks. Given these data, the report said, opportunities abound for mobile financial services since 78 million Filipinos had mobile phones, 44 million used smartphones and 80 million were online users.

When adopting a new technology, Thomas says, the most important question to ask is “why.” He then proceeds to answer his own question: “We wanted to embed ourselves in the daily lives of Filipinos.”

Topping up the prepaid load was the starting point; it solved the distribution and access problem. “Then we extended that to being able to send money, not just GCash to GCash, but to any bank, any wallet, so you have an interoperable thing. Then you took all your monthly expenses – bills, utilities, loan and tax payments, groceries, and medicines – all that could be paid electronically. And it solved real problems like worrying about not having enough cash on hand or receiving exact change,” Thomas says.

The system is also convenient for emerging fields of commerce, like online shopping and purchasing applications (apps) for smartphones. People can simply use their mobile numbers and not have to provide credit or debit card numbers. The system provides value and convenience, linking merchants and consumers.

GCash makes it easy to onboard a consumer, Thomas says. It can be done in a completely electronic, remote process, in compliance with BSP regulations. Using the latest in technology, the system uses facial recognition and validates identification documents to verify a client's identity. These are innovations that have been enabled by regulations and many providers are adopting similar remote onboarding processes.

E-money providers do not require a minimum balance and even provides additional value through discounts and other benefits. Agents such as groceries, pharmacies, other financial institutions like pawnshops or other outlets can be used to load e-money and cash out. This means not having to go far to deposit or withdraw cash.

Thomas credits the BSP's openness to new ideas for GCash's existence. "Long before regulatory sandboxes became fashionable, the BSP has been willing to allow the use of financial technology, mobile phones and wallets, which has made the interoperability of payments possible."

QR (quick response) codes make using e-wallets even cheaper, allowing small merchants to adopt the technology. The machine-readable code consists of an array of black and white squares, typically used for storing URLs and other information to be read by the camera on a smartphone. By simply scanning a merchant's QR code with their phones, customers can pay for their purchases electronically, quickly and conveniently, without need of cash. The BSP launched the QR Ph in 2020 with the objective of making all payment QRs interoperable. Diokno's vision as governor is that every Filipino can access his or her account and use the mobile phone to scan a QR code in a tricycle or even at a wet market.

E-money issuers and other apps are also providing not just payments but other products to their customers. This has a huge potential in addressing all the financial needs of the consumer. The providers are cognizant that while these products are more easily accessible, there is a large responsibility to make sure that they are providing these services responsibly.

Thomas adds that they also provide GCredit, which may be used to pay for actual purchases and bills although it does not allow cash-outs. "That's how we try and build responsible credit," Thomas says. Paying bills on time results in a good credit score. Users can check their credit score anytime on the GCash app. As their GScore rises, their revolving credit line also increases while the interest rate drops.

Thomas says they do not want people to be perpetually in debt either or on a continuous credit cycle. They want people to have a little money set aside, hence, GSave,

BSP Governor Diokno (center) led the launch in 2020 of the QR Ph to make all payment QRs (quick response) interoperable. With him were RCBC President Eugene Acevedo and Union Bank President Edwin Bautista.

a GCash feature that shows people that saving money is not hard to do. GSave is described as the fastest growing savings product in the Association of Southeast Asian Nations region based on the number of accounts opened since it was launched. It is a partnership between GCash and CIMB Bank.

These kinds of partnerships between banks and non-banks are an emerging strategy that more and more players are adopting. Ultimately it benefits the customers by getting the best of both worlds in terms of product and delivery channel.

"What are the reasons people do not go to the bank? They don't think they have enough money. They don't believe it is easy. They don't think that for all that effort, the return is adequate. Why should I do all that paperwork, put in the little money I have, which I would need again very soon anyway, just to earn point-something percent?" Thomas says.

Thomas says they also want to help people build up investment, but carefully, just like credit. GCash has partnered with yet another institution, ATRAM, a local asset company, to launch GInvest because "we do not want people to go into very speculative ventures." For as little as P50, GCash users can start investing in products with safe options. If small investors lose money, they quickly lose trust in the product, he points out.

GCash is looking into how to embed insurance in its system because "most Filipinos still do not believe in its value." Pilot testing of the concept has been started. "We are doing this because it is a path to a profitable business model. If you only enable payments, it will not pay the bills for everyone. The path to any profitable, sustainable business model is if it can enable financial and even non-financial institutions as a platform."

A digital platform helps to reduce cost, says Thomas, as it does away with the need to construct physical facilities and reduces risk, with the savings increasing the value of the service to the consumer. Stressing the need to keep the trust of customers, he says, GCash has partnered with China's Alipay to strengthen its risk management capability, such as letting people know if their SIM (subscriber identification module) cards were being used in the same device, a ploy used by scammers.

"The idea behind risk management is not control but convenience in a controlled environment," he says.

According to Thomas, the BSP has been a facilitator for all these new products, and financial service providers have welcomed the partnerships with telcos. "I think the BSP realized very early on that telcos could actually be part of the solution to the low rate of financial inclusion because they have access to the consumers. People are already storing value in their phones when they buy a load, as most users still use the prepaid mobile phone service. The BSP was open to the idea and, in fact, the Philippines probably has one of the most benign regulatory environments," Thomas says.

Governor Benjamin E. Diokno tries out the QR payment system at McDonald's self-order kiosk, guided by McDonald's Philippines CEO Kenneth Yang and PayMaya CEO Orlando Vea.

Futureworld

Mobile money and the e-wallet are introducing Filipinos to a cashless society. At the Launchpad Building in Mandaluyong City no one uses cash anymore to pay for purchases at the food court. The building is home to PayMaya, the digital wallet attached to Smart Communications. Food stalls accept only digital transactions – except from visitors who may pay cash. Everyone who works in the building uses their PayMaya wallet. Even the fishball vendor out on the street has the PayMaya QR code on his cart.

This is not surprising for the company that Orlando Vea describes as "first in the world and ahead of its time" when it launched SmartMoney in 2000.

Vea, president and CEO of Voyager Innovations and cofounder of Smart, says the digital wallet's trailblazing feat was affirmed when the Mobile World Congress declared it "the first mobile wallet in the world" in 2001. Smart prepaid subscribers then could avail of electronic load (e-load) and, more importantly, send domestic remittances.

Governor Nestor Espenilla Jr. (top photo) and Director Raymond Estioko (bottom photo) explain the impact of using Instapay and PESONet as an electronic fund transfer service that allows cash transfers from one account to another.

"SmartPadala is now one of the biggest networks of cashpoints in the country," says Vea. Over the last 10 years, SmartPadala has gained the trust of people with more and more users sending money through it.

Reynaldo Vergara, who owns a small grocery in Tondo, Manila, has a vibrant SmartPadala remittance business, even though bank branches abound in his community. Some people prefer to save the cost of jeepney fare and pay the lower SmartPadala remittance fee.

Vergara put up his store more than 20 years ago after quitting his low-paying teaching job at a computer school. Using his personal SmartMoney account when he started his money transfer business, he could only process very small amounts at first. But after shifting to SmartPadala three years ago with a PhP3,000.00 initial deposit to fund the account, he soon found himself going to the bank more frequently to load up.

"At the time, I was only paying out cash to remittance claimants," he recalls. "But when people got to know and trust me, they started sending cash, which I used to pay out remittances." The cycle worked for Vergara and he did not have to go to the bank as often.

A slow day for Vergara means around PhP40,000.00 in transactions, cash in and out. He begins his day at 8 a.m. and ends it at 11 p.m. Proximity has its downside, though, as when neighbors wake him up in the middle of the night to send or collect their money. But Vergara does not mind because SmartPadala is adding substantially to his income.

The full potential of SmartPadala and SmartMoney could not be realized back when Smart pioneered the electronic wallet (e-wallet) because there were no smartphones at the time and data connectivity was a problem in many parts of the country.

"Now smartphones are affordable and people are becoming adept at using apps," Vea says. "Participants in the economy, consumers and merchants are enabled. It is a good environment to transform SmartMoney into its digital version, PayMaya. People are getting used to mobile digital financial services."

Vea says Filipinos have also overcome their reluctance to use the smartphone for other than connecting on social media. Estimates put the number of Filipinos with electronic wallets at five million as of 2018 and the number is "growing in multiples" for all service providers, he says. "Qualitatively, you can see it all over the place and we are contributing to the BSP's electronic payment goals. It is the tool now for the unbanked and the uncarded to participate in the digital economy."

The e-wallet is useful to both banks and the unbanked, Vea says, as it has greater flexibility. There are certain things a bank and its clients are not allowed to do with accounts, like give cashback rewards and undertake promotional activities. The e-wallet can do all these and offer greater convenience besides.

Vea says unbanked adults and others who would otherwise not be eligible to open accounts, like children, can use PayMaya. "Children need an e-wallet to receive their allowance from their parents and to use in the school canteen if it has a cashless system, which is already happening. Everyone needs an account and we are here to make it happen," he says.

When the BSP said they wanted 20 percent of transactions to be electronic by 2020 and 50 percent by 2023, where did they expect the bulk of that to come from? "You cannot achieve that only with the banked population," Vea notes. "You have to bring in the unbanked."

As for concerns about security, Vea says the fact that the base is growing, with more people using the product, is an indication that there is trust. Even then, they are constantly reminding clients to protect themselves when they go online.

"We're trying to educate them as much as we can," he says. Also, PayMaya makes sure it deals only with reputable merchants so clients can be sure they are not paying for fake or imitation products and services. While people always have to be careful, the risks are not enough to deter people from availing of the service.

PayMaya is working with government agencies, schools, merchants and transport terminals to enable them to shift to convenient digital payments.

"What's good about this industry is you have a regulator that's very progressive-minded," Vea says. "I think it is one of the most progressive central banks in the world, as far as pushing for financial inclusion and technology, from Governor Tetangco to Governor Espenilla and now Governor Diokno, who is also always talking about financial inclusion."

Diokno got to appreciate how PayMaya worked when he used it for the first time at a McDonald's. "You can talk about convenience but it's different when you experience it. That's why we encourage heads of agencies to use the account," Vea says.

Impact on the Banks

As things are turning out, it seems Tetangco was right when he said innovations, particularly through fintech, could be the catalyst for greater financial inclusion.

Elizabeth Carlos-Timbol, current Rural Bankers Association of the Philippines (RBAP) president, says the BSP's pursuit of digitalization is enabling the small banks to reach more people with greater ease and efficiency. "More Filipinos are now more open to trying new things and exploring the benefits of technology for the sake of convenience and accessibility," she adds.

Pointing out that rural banks are taking most of the risks in dealing with the unbanked and marginalized sectors, Carlos-Timbol is hopeful that the use of new technologies would minimize the risks and facilitate their work.

"On top of traditional banking, the industry is now embracing digitization in order to offer more services, which is expected to promote sustainable development in the countryside and contribute significantly to the improvement of people's lives throughout the country," she says.

Microfinance gave digitization its start and push, according to Leonilo Coronel, executive director of the RBB Micro Finance Foundation and a nonexecutive director of the Philippine National Bank.

"There were so many microfinance participants, you just could not do things manually," he says, citing as an example Cantilan Bank, the first bank to digitize payments and the disbursement of cash assistance under the government's Pantawid Pamilyang Pilipino Program (4Ps).

In view of this, Coronel acknowledges that microfinance and other informal institutions have been way ahead of conventional banks in terms of digital payments and the use of the digital medium. He gives credit to MFIs as pioneers in digital payment.

"Commercial banks are quite far behind. They are just waking up to the need for digitization. They've been slow to move," he says, adding that it is never easy for the BSP to introduce any transformation to a commercial bank compared to a nonbank MFI because a commercial bank is a much bigger institution.

The former executive director of the Bankers Association of the Philippines observes that for the banks to catch up with digitization, they would need to make a big investment. But with the pandemic, when people are avoiding handling cash or entering banks, the shift has become more urgent.

Banks actually already had the infrastructure for an expanded use of new technology – faster check clearance, for instance – except they did not feel any urgency, Coronel adds. Though the BSP could have put pressure on them, he says, Espenilla had opted to use persuasion. “He wanted the banks to realize that the new system was good for them. He wanted them to own it,” he says.

Banks have been using InstaPay and PESONet for cash transfers and a lot of artificial intelligence, Coronel says, but as a result of the pandemic, consumers can “expect drastic changes from banks in the delivery of products and services.”

Banks will have to be more engaged and more proactive, anticipating client needs using account holders’ data, for instance. Credit card issuers will be alerting users to sales and promotions. Some banks are already doing this, but the privacy law has slowed the process.

Coronel predicts that, with the technological advances in fintech, it is just a matter of time before ATMs become “jurassic” or obsolete. He cites China, where “no one carries cash anymore because all merchants, even sidewalk vendors, have gone digital and all transactions are done through the smartphone,” as an example.

“One thing good about this pandemic is Nesting Espenilla’s dream for the country to go digital is being fulfilled,” he notes.

Cezar P. Consing, president and CEO of the Bank of the Philippine Islands, the first bank in the Philippines and Southeast Asia, agrees with Coronel: “Interestingly, the importance of digitization in general, and of digitized banking channels in particular, became very apparent in the lockdown, when the closure of most branches meant the vast majority of banking transactions took place via digital channels. The lockdown represented an inflection point in digital banking – one that will not be reversed – with rationalization implications for branch networks and possibly even ATMs.”

Consing admits that the BSP has long pushed for digitization as it saw that this would reduce the cost of serving clients and also allow many more Filipinos access to the formal banking system. Now the big banks are also recognizing the business imperative of inclusion and digital finance.

“The BSP encouraged electronic money issuers (EMIs), like GCash and PayMaya, to set up shop in the country. The customer base of an EMI like GCash is far larger than the customer base of the largest bank in the country,” he says. “The entry of EMIs – and their capture of a large share of domestic payments and remittances – forced the banks to step up their own digitization efforts. In 10 years, the percentage of digital transactions in the country has grown from about two percent to about 20 percent. The percentage of Filipino adults with bank accounts has also grown over the same period.”

BPI, like most Philippine banks, now has an app that clients can download to their smartphones to perform various transactions that used to be possible only by visiting a branch. Clients can even request their own QR code to make money transfers even faster and more convenient.

Nestor Tan, president and CEO of Banco de Oro (BDO) Unibank, the country’s biggest bank, says that as part of its promotion of financial inclusion, BDO is continuing to expand its branch network, both at the universal bank and rural bank levels, to serve the underbanked and unbanked markets. Its “digital capabilities have also been enhanced over time to encourage clients to move to alternative digital channels versus the traditional over-the-counter banking.”

Although digital channels are still in their infancy in terms of market acceptance, the bank will continue to push for increased client coverage and cover more underserved markets. He says, “The pandemic may have caused some delay in the implementation of this strategy, given limitations on mobility but, as these restrictions are relaxed, we expect to resume our plans to establish brick and mortar outlets in new areas, complemented by digital capabilities.”

Noting that the campaign for financial inclusion has had an impact on the traditional banking business of deposit-taking and lending, Tan says, “Deposit-taking will encourage digital modes of transaction fulfillment and maximize utility of cash for the business.”

As Mynt’s Thomas has concluded, “The last couple of months have felt like the Philippines is near the tipping point toward digital payment adoption, which should bring us all closer to the goal of finance for all.”

Fintech for Fishball Vendor

When Rodrigo Caadan displayed his QR (quick response) code, people thought it was a fake and a joke.

Caadan sells fishball from 11 a.m. to around 6 p.m. across from TV5 in Mandaluyong City, taking advantage of the long lines of people eager for a chance to watch the network's shows. His customers also include employees of the nearby United Laboratories and other offices in the area.

Next door to TV5 is Launchpad, headquarters for digital wallet service provider PayMaya. Those working at Launchpad have gone completely cashless – at least within the building. They have been using their PayMaya accounts to pay merchants inside the building and at the mini food court on the ground floor.

But without, or with very little, cash, the PayMaya staff could not buy Caadan's fishball and other *tusok-tusok* (skewered) offering. They decided to solve their problem by introducing the ambulant vendor, who converted an e-bicycle into a mobile food stall, to a financial technology (fintech) innovation – the QR code payment system.

Under this system, customers use their smartphones to scan Caadan's QR code to pay for their purchases. Payment is transferred in real time to the vendor's account.

Even some fishball vendors now use PayMaya QR codes for cashless payment.

By acquiring a smartphone, Caadan can now accept cash, as well as mobile money transfers through the QR code.

Caadan says he feels safer using the code as he does not have to hold a lot of cash.

He has also been able to save. *"Dati mahirap mag-ipon"* (it used to be hard to save)," he says. Having cash on hand, he tended to spend almost everything he had. But with some payments now transferred directly to his account, he hardly has reason to touch the money he receives through PayMaya. His daily cash intake is enough to buy his supplies and pay his helper.

Caadan, who has two children, is now using his savings to build his family a house in Bataan, his wife's province.

Banking with the Boss

When Maribel Ada's employees want to withdraw from or deposit to their CARD Bank accounts, they do not have to skip work to travel to the nearest bank branch where they have to wait in line, not to mention spend time and money. All they do is see the boss during their break.

Ada, who owns and runs the RMM Garments in San Pablo City, is a CARD agent. She uses the bank's Konek2CARD mobile phone application to allow her employees to perform basic transactions they used to be able to do only in the bank itself or its branches.

As a member of the Konek2CARD network, Ada performs all cash transfers – withdrawal or deposit – through mobile phones, hers and her employees'. Money moves to and from her phone so no cash is actually exchanged. Ada is provided continuous data connectivity by CARD as a Konek2CARD agent so she can perform transactions anywhere and anytime.

Maribel Ada is a member of Konek2CARD

CARD encouraged her to become an agent through Konek2CARD because almost all her employees are also bank clients. Even neighbors around the factory also transact their bank business through her now.

Ada has been a member of CARD for 13 years. She started her relationship with the bank not to fund her business. She borrowed PhP6,000.00 for her children's enrolment fees and has since relied on CARD's educational loans whenever short on money to pay the schools.

A sewing job in a clothing factory got Ada started on her own RMM Garments. Her siblings gave her six sewing machines and she used her savings for her startup capital. Her former boss, who encouraged her to go into business on her own, became her first client.

When her business started to grow and she needed to buy more machines, she turned to CARD and borrowed about PhP 30,000.00.

RMM Garments sews undergarments like bras and briefs for both domestic and international client-distributors. The materials come pre-cut from the clients, along with the thread and other supplies. For special sewing needs, the clients also provide the appropriate machines. All the workers have to do is sew the different parts together. Ada now has about 100 sewers, mostly from the neighborhood. The company averages 1,500 pieces a day.

She has bought the building where the company does production work and expects to complete payment in about three years. With her business doing well, Ada is now getting offers from big banks to handle her financial requirements but she remains loyal to CARD, the bank that has supported her from the beginning.

An Effective Intervention for Community Banks

The United States Agency for International Development (USAID) undertook beginning in 1997 the Microenterprise Access to Banking Services (MABS) program to, in its words, "address the need of the Philippine microenterprise sector and low income people to gain access to a wide range of financial services and ensure that all sectors of society can participate in a growing economy."

The program, under the oversight of the Mindanao Development Authority of the Office of the President, adapted international best practices to the needs of Filipinos in the rural areas. Inspired by the BSP's openness to new ideas and innovations, it introduced new savings and loan products for microenterprises and small-scale farmers. The basic talk-and-text cell phone expanded the delivery of the financial services. By 2008, participating rural banks were offering new microfinance services, including microinsurance and housing microfinance.

The rural banks followed the "deposit mobilization strategy" of encouraging people in their communities to save so the banks could generate their own funds for lending, instead of having to rely on government support. The Rural Bankers Association of the Philippines (RBAP) provided counterpart resources to the program and full access to its membership.

"Guidance from the BSP in the circulars provided clearer rules on microcredit products and the liberalization of bank branching. It provided support for microdeposit policies, including the relaxation of know-your-customer requirements for small deposits. It allowed for microinsurance services as an allied undertaking of rural banks in partnership with licensed microinsurance companies. And the BSP supported the use of technology to expand the outreach of banking services, especially the use of mobile money to increase financial services," the MABS 15-year report said.

The RBAP's position paper on microinsurance, which was presented to both the BSP and the insurance commissions, was made possible through the technical input from MABS and the strong leadership of then RBAP President Tomas Gomez IV of GM Bank. It argued for approval of rural banks as delivery channels for simple, affordable, and relevant microinsurance products under a "partner-agent" model.

What followed was a series of consultation meetings organized by MABS among RBAP, the Insurance Commission, and BSP during a two-year period, which resulted in issuance of several circulars and policies that allowed rural banks to sell, market, and service microinsurance services of licensed microinsurance companies as an "allied undertaking" under the GBL's Section 20.

Cantilan Bank, the first rural bank to implement the use of cloud technology, is given the award for Innovation by the BSP. The Hotchkiss family runs the bank. (Center) William and daughter Tanya received the award from (left) Monetary Board Member V. Bruce Tolentino and Governor Benjamin E. Diokno.

After these circulars were issued, RBAP-MABS continued regular consultations with the Insurance Commission and BSP to clarify remaining issues on microinsurance client eligibility and licensing requirements and procedures for rural banks as microinsurance agents.

One important issuance dramatically expanded the definition of microfinance clients to include microloan clients and microdeposit clients, as well as "existing clients classified by the bank as low income" and their household family members. This one change in policy led to a dramatic increase in the number of clients and household family members using microinsurance services, reaching 428,800 by June 2012. At present, microinsurance is reaching nearly 40 million Filipinos.

The BSP adjusted its rules and regulations to allow the institutions to respond better to their clients' needs and requirements. Small community banks linked up with major cellular phone companies to bring their services to the people wherever they were.

The project led BSP Governor Nestor A. Espenilla Jr. to later observe, "MABS has been the most effective intervention I have seen in enabling our community bankers to deliver quality financial services to low income people. This project was different because it changed the way people behave, the way banks behave in terms of delivering services."

The admiration turned out to be mutual. John Owens, Chief of Party of MABS, found working with the BSP an honor.

"Having worked around the world with dozens of central banks, I was always impressed with the can-do attitude and work ethic of the BSP staff and the Monetary Board," he said. "While many central bankers are too busy to get out in the field, I was inspired by their efforts to reach out to understand the challenges of everyday clients even in remote rural areas. One memorable trip included traveling with then Deputy Governor Nestor Espenilla on a Saturday to an island over one hour offshore on a small boat. The Deputy Governor, in polo shirt and shorts, visited a microbanking unit of Cantilan Bank and some mobile banking clients. He even watched carefully as e-money was used to transfer funds in a local shop. This approach is one of the most impressive I have witnessed!"

When the program ended in 2012, participating banks had not only increased the number of depositors and raised funds for loans through savings, they had also diversified into microinsurance, housing loans and other products and services.

CHAPTER 3

A VOICE IN THE GLOBAL AGENDA

Known as the central bank of central banks, the Bank for International Settlements (BIS) started periodic discussions on financial inclusion among the senior leaders of global standard setting bodies or organizations in 2011. These were closed-door meetings co-chaired by Her Majesty Queen Maxima of the Netherlands in her capacity as United Nations Secretary General's Special Advocate (UNSGSA) for inclusive finance for development. The BIS is owned by central banks representing countries from around the world that together account for about 95 percent of the world GDP.

"At the high level meeting in 2014, the Philippines joined Tanzania as the first non-Basel Committee members to be invited to share their country experience with this exalted and influential group, and to brainstorm with them confidentially about issues they were facing in implementing international standards and guidance in the context of digital financial inclusion," recalls Timothy Lyman, lead Financial Sector Specialist at the Consultative Group to Assist the Poor (CGAP) and vice chair of the Financial Inclusion Workstream of the Basel Consultative Group. The Basel Committee, an international forum for cooperation on banking supervision, is housed in the BIS head office in Basel, Switzerland.

That was, as Lyman puts it, "a particularly noteworthy– if not well publicized – example of 'royal' recognition at the global level" for the Philippines. Many more international opportunities for the Bangko Sentral ng Pilipinas (BSP) to weigh in on financial inclusion discussions, on behalf of the country, would follow.

The BSP did not deliberately aspire to be a global thought leader in financial inclusion. All it had wanted to do was to solve exclusion issues in the country as best as its role as policymaker and regulator would allow. But, in the process, foreign peers who were faced with the same challenges lauded and emulated the BSP's efforts.

BSP managing director Pia Bernadette Roman-Tayag, who was an early recruit into the central bank's Microfinance Unit, remembers a trip to the United Nations in Geneva where the Philippines was invited to be part of a panel discussion on microfinance in 2004.

"I didn't realize that I'd be on the panel seated beside the UN Undersecretary General," she says. "The experience was so intimidating and surreal that I walked from the UN to my faraway hotel in a daze. I couldn't believe what just happened." She did realize later, as the euphoria faded, that the country's story was worth telling and the lessons could benefit not only the BSP but also perhaps others who were on a similar journey.

The story worth telling the world was this: The BSP has taken full advantage of its new charter and began to take a more proactive role in giving millions of unbanked and underserved Filipinos access to economic growth through financial inclusion by adopting and adapting innovative concepts and trailblazing technologies.

Leading Central Bank

David Porteous, chair and cofounder of BFA Global, acknowledges the BSP as "an early leader among central banks in identifying both the need and the opportunity for financial inclusion measures, which went beyond promoting traditional microfinance." BFA Global is a renowned advisory firm looking at the intersection of finance and technology in emerging markets. It helps to empower people to be agents of their own future by building inclusive and competitive economies.

In 2010, the G20 Leaders recognized financial inclusion as an integral component of the global development agenda and launched the Global Partnership for Financial Inclusion (GPFI), which was created to implement a financial inclusion action plan. The Philippines, through the BSP, was among the few non-G20 members in the GPFI as part of the subgroup on regulations and Standard Setting Bodies (SSBs). This led to further meetings with relevant SSBs to help ensure support for national policymakers to promote innovative financial inclusion.

That same year, the World Bank reported that 90 percent of 142 countries surveyed had some financial inclusion agenda under the supervision of their main financial sector regulator.

Clearly, the BSP was not the only central bank looking for ways to mainstream microfinance and aiming to upgrade to financial inclusion. But it was the first central bank in the world to have an office dedicated to financial inclusion and, in some respects, it was leading the pack.

When the Economist Intelligence Unit (EIU), the research arm of The Economist Group, published the first annual Global Micro Finance Index and Study, it looked at 55 countries and assessed each country in terms of regulatory framework, investment climate and institutional development.

The EIU ranked the Philippines as the best in the world on the basis of its microfinance regulatory framework.

Overall, however, the Philippines ranked third in the world following Peru and Bolivia, which were renowned leaders of the microfinance movement. After that, Roman-Tayag recalls, whenever they were at a global conference, Nestor A. Espenilla Jr., then the deputy governor chiefly responsible for the BSP's financial inclusion program, would tell her "to listen well and take copious notes during any presentation from our Peruvian colleagues."

> "The BSP is an early leader among central banks in identifying both the need and the opportunity for financial inclusion measures, which went beyond promoting traditional microfinance."
>
> - David Porteous, Chairman & Co-Founder, BFA Global

It was a joke in light of Peru being the country to beat in the rankings. But while it was said in jest, Roman-Tayag knew well enough that it tied in with Espenilla's belief in peer learning.

Peer Collaborations

Espenilla totally bought into peer learning among regulators and supervisors from developing countries, according to Lyman. "He genuinely believed that the Philippines got as much as it gave through this kind of engagement with policymakers on the frontlines of financial inclusion regulation in other countries, and he was successful in socializing this idea with the then Governor and throughout the organization," Lyman says.

Most of the BSP's collaborations with peer organizations like CGAP, according to Lyman, "focused on financial inclusion in emerging market and developing economies and among low income households."

Porteous says the BSP was one of the early participants that willingly and openly shared its experiences and challenges, creating a precedent for peer learning and discussion that has continued through multilateral forums.

Consider Espenilla's participation in the 2008 Global Leadership Seminar on "transformational branchless banking," which was what digital financial inclusion was called at the time. The seminar was convened by the CGAP, the United Kingdom's Department for International Development, the Bill & Melinda Gates Foundation and other development partners.

"Espenilla played himself in a role-playing case study based on Globe Telecommunication's original proposal to the BSP to introduce its mobile money product GCash," Lyman says. "He loved listening to the ideas of peer supervisors about what he should have done."

Lyman recalls that Espenilla returned to the meeting the following year with a "thank you" gift for his colleagues from peer jurisdictions: "He had timed the governor's promulgation of the BSP's groundbreaking e-money circular, which incorporated many ideas generated or reinforced at the previous year's Windsor Global Leadership Seminar, to coincide with the 2009 event. Everyone felt that they shared emotionally in the Philippines' achievement," Lyman says.

Global Alliances

Because it valued collaboration and cooperation, it made sense that the BSP would be among the founding members of the Alliance for Financial Inclusion (AFI), the global network of central banks and policymakers seeking to make financial services more accessible to the world's poorest populations.

AFI Executive Director Alfred Hannig (seated second from left) and BSP Governor Nestor A. Espenilla Jr. (seated fourth from left) with other AFI members.

Dr. Alfred Hannig, AFI executive director, calls the BSP a knowledge-sharing hotspot for AFI members, "especially when it comes to learning from practical experience." He cites a recent AFI workshop where the BSP, with Bank Negara Malaysia and the Bank of Thailand, conceptualized a knowledge exchange program on digital financial services and inclusive financial technology (fintech).

"Over the past decade, the BSP has been a net contributor to AFI's peer learning modality. Many regulators in the AFI network have been keen to learn from BSP's knowledge and expertise in financial inclusion policymaking," Hannig notes.

As a consequence, every year the BSP would host central bankers from other countries who wanted to learn about the Philippines' regulatory and financial inclusion initiatives. In 2010 alone, there were more than 20 international knowledge exchange and study visits. In 2018, the BSP hosted 124 participants from other Asian countries.

At the 9th AFI Global Policy Forum, during the 2018 AFI Awards, Jenny Romero of the BSP's Center for Learning and Inclusion Advocacy (CLIA) was one of the recipients of the Young Generation Award, which is given to upcoming experts in the AFI network who are under 35 and have made a substantial contribution to the Working Groups and Regional Initiatives. She was the second from CLIA, after Mynard Mojica, to receive such a distinction.

"Experts from the BSP have contributed to 18 peer reviews of policies and regulations of fellow regulators in the network, leading to the BSP's twice being given the AFI Peer Review Award in recognition of its contributions," Hannig says.

Officials from the BSP are also well recognized by their peers in the AFI network and have been elected to a total of seven leadership positions within AFI working groups, a rare feat in the network, according to Hannig.

Each time has been an opportunity to share, learn and help shape the global discussions and agenda on financial inclusion. Amando M. Tetangco Jr. was the board chair at a crucial time during the AFI's transition into a formal international organization. In 2013, he chaired the AFI Steering Committee and the 5th Annual AFI/G24 Policymakers' Roundtable on Financial Inclusion, which discussed the possibility of learning interactions with SSBs to include financial inclusion objectives when setting prudential standards for financial stability and integrity. The G-24 is an informal group of 24 developing countries, including the Philippines, that ensures their members are represented at international discussions of monetary issues.

Tetangco and Espenilla had opportunities to address the G24 and AFI meetings that were held annually during the World Bank and IMF Spring Meetings in Washington DC, according to Roman-Tayag. "It was a clear indication that financial inclusion had moved to the global center stage when it became part of the meetings' agenda. The Philippines was always involved in the discussions."

Roman-Tayag recalls receiving a text message from Tetangco after the Spring Meetings in 2014: "Financial inclusion is an area which people are just beginning to appreciate and understand the significance of. It is unlike the traditional functions of a central bank but reinforcing nevertheless."

Speaking at the BSP-BIS Research Conference that the BSP cohosted in Cebu in 2016, Tetangco told the international central bankers and experts: "As traditional players such as banks interconnect and engage new players such as fintech companies – which are often not within central bank supervision – there is a greater need to look at the entire chain of financial services being offered. The challenge for central banks and regulators is to stay abreast of emerging business models and innovations, to understand the inherent risks of these new models, and to know how to proportionately manage the risks."

Mynard Mojica of the BSP's Center for Learning and Inclusion Advocacy

"The BSP is a knowledge-sharing hotspot for AFI members, especially when it comes to learning from practical experience."

- Dr. Alfred Hannig
Executive Director, AFI

Lyman considers membership in the AFI as the best indicator of the level of engagement of central banks and governments in financial inclusion. On its 10th anniversary, the AFI reported that 107 policymaking and regulatory institutions from more than 90 countries had joined the alliance.

But there are actually more countries promoting financial inclusion that have not joined the alliance, Lyman says, as many highly developed economies are "following the lead of developing and emerging market economies like the Philippines and increasingly becoming publicly committed to solving their own domestic financial exclusion challenges."

Maya Declaration

The BSP was among the early adopters of the Maya Declaration, the first global commitment platform on financial inclusion by developing and emerging economies that enabled AFI members to make concrete financial inclusion targets, implement in-country policy changes and share regular progress updates.

"A very significant moment in my professional life was when Nestor Espenilla read the very first Maya Declaration during the 2011 AFI-GPF at Riviera Maya in Mexico," Hannig narrates. The AFI Board of Directors chairman, Central Bank of Kenya Governor Njuguna Ndung'u, had to fly back to Kenya for a domestic emergency. Espenilla, who was his vice, had to take over the role at short notice, and he did so with passion and conviction.

"His engagement was crucial in giving birth to the Maya Declaration and subsequent commitments. By the end of the session, AFI members had come forward to make 18 financial inclusion commitments. We never expected such a high number," Hannig says.

The BSP has made nine Maya Declaration Commitments, covering such key financial inclusion topics as targets designed to strengthen and accelerate consumer protection, financial inclusion data, and financial education, Hannig adds. “It has also been instrumental in the launch of nearly a dozen AFI knowledge products that have given members access to their invaluable insights and expertise.”

Hannig says he learned a lot from Espenilla, whose leadership and guidance were “always well-articulated, practical, relevant and based on solid content.” The career central banker had a talent for finding the right balance between being both diplomatic and clear, while remaining sensitive and friendly.

Porteous gives a lot of credit to Espenilla’s dedication and work: “Under his leadership, the BSP became a sought-after, respected voice in international financial inclusion circles. In those circles, BSP punched well above its weight, as others came to hear the BSP's voice invariably as one of moderated reason – first asking questions like: What did the evidence show? What were the real risks? How to take small steps towards change?”

He remembers meeting Espenilla for the first time when the latter was BSP deputy governor. “He was a quiet spoken and modest man, but his words carried weight. Some of those words from that first meeting have stayed with me. . . . I have used those terms ever since, with attribution to him, to characterize what still seems to me to be the most appropriate general mode of a regulator.” Porteous recalls that Espenilla said it was important for the financial regulator to be responsive and be on top of the situation by acting immediately, rather than being reactive or acting belatedly. And, instead of getting ahead of the market before people had fully grasped the impact of a development, the regulator should work with players in the sector to help them understand the new situation, adapt and change quickly.

Team BSP

Hannig remembers Espenilla as “a very popular man who cared for his staff. It left me with the impression that he had built strong bonds across his team, who saw him as not only the head of an institution but also the leader of the BSP family.” The BSP delegations at international events would always join Espenilla for meals and during breaks, he adds.

When the BIS hosted its first gathering on financial inclusion in 2006, the “test and learn” supervision of digital financial inclusion in the Philippines was still in its early phase. CGAP’s Lyman recalls that Espenilla, then a deputy governor, had accepted an invitation to speak, but brought Roman-Tayag along to present the Philippine experience in branchless banking for the poor.

Lyman was impressed that Espenilla had trusted a young and new member of his staff with the task. It was “emblematic of his savvy and empowering management style,” Lyman says, adding that both Espenilla and Roman-Tayag would subsequently be invited back to the Basel Committee with increasing frequency. In fact, the first BIS-hosted biennial GPFI Conference on promoting financial inclusion through proportionate standards and guidance opened with the video “No Near Bank,” which featured commentary by both Espenilla and Roman-Tayag.

Kelly Hattel, senior financial sector specialist in the Southeast Asia Department of the Asian Development Bank (ADB), also describes the BSP “as an absolute pioneer and global leader in financial inclusion” with many promising developments, like the cloud-banking initiative of Cantilan Bank, which the ADB supported; digitalization; the implementation of the national identification program; and the integration of financial education in senior high school.

The BSP has always been at the forefront of financial inclusion initiatives with Tetangco at its helm. When at times the momentum slowed, Hattel says, the glue that had held things together and saw the program through was Espenilla. She also acknowledges that the BSP has a knowledgeable and dedicated team to promote financial inclusion and expresses optimism that the program would continue to be strong as current governor Diokno has expressed his commitment to financial inclusion.

High Regard

There could be “no more meaningful demonstration of the high regard Nestor Espenilla and the BSP team came ultimately to command in the halls of financial sector standard setting power” than Espenilla’s selection to chair the prestigious Basel Committee’s Financial Inclusion Workstream at the Basel Consultative Group, says Lyman, who was vice chair. Espenilla’s BSP team included primarily then Director Lyn I. Javier, now managing director, Director Gerardo A. Butardo, and Roman-Tayag, who worked very closely with the Workstream and CGAP.

“The outputs of the Workstream also represent perhaps Espenilla’s and the BSP’s greatest contribution to financial inclusion standard setting,” Lyman says.

Range of Practice in the Regulation and Supervision of Institutions Relevant to Financial Inclusion analyzed the results of one of the most detailed surveys of supervisory practices in the Committee’s history. “For the first time, a Basel Committee publication addressed

regulation and supervision, not just of banks, but of the numerous types of non-banks serving or striving to serve low-income populations in countries in every region and across the income spectrum," Lyman says.

Even more groundbreaking, according to Lyman, was *Guidance on the Application of the Core Principles for Effective Banking Supervision*, which offered advice to regulators on how to apply the Core Principles to the full range of financial inclusion.

After a decade and a half working with the BSP, specifically on regulatory and supervisory issues in financial inclusion, Lyman says, "It is impossible for me to quantify the impressive impact of the unassuming and soft-spoken – yet commanding – leadership of the late Governor Nestor Espenilla Jr."

Espenilla Award

Since a tribute in words alone will not suffice, the AFI has established the AFI Nestor A. Espenilla Jr. Financial Inclusion Innovation Award in honor of the late BSP governor, who was a key figure in the founding of AFI and actively promoted and supported the world's leading organization on financial inclusion policy and regulation.

The award will "recognize outstanding achievements of financial policymakers and regulators who have implemented unique policy innovations and enabled an environment for technological and business innovations that address challenges of financial inclusion," Hannig says.

As recognition of the highest achievement for a policymaker, Hannig says, the award "speaks volumes on the importance of the BSP and its leadership in AFI."

Test and Learn

The highly esteemed Espenilla earned international respect for the Philippines and his leadership with his "test and learn" approach to innovation, a process that has been widely adopted as the "regulatory sandbox" in other countries engaged in financial inclusion.

A regulatory sandbox, as explained by a CGAP Working Paper released in October 2017, "is a framework set up by a financial sector regulator to allow small scale, live testing of innovations by private firms in a controlled environment (operating under a special exemption, allowance of other limited, time-bound exception) under the regulator's supervision."

The paper added, "A regulatory sandbox introduces the potential to change the nature of the relationship between regulators and financial services providers (regulated or aspiring) toward a more open and active dialogue. It may also enable the regulator to revise and shape the regulatory and supervisory framework with agility."

"The 'test and learn' approach has been studied and emulated by other countries, particularly emerging market and developing economies. After a decade, the world's leading financial regulatory systems would seek to catch up to the Philippines and would formalize the 'test and learn' approach into the regulatory sandbox to 'stimulate innovation in financial service delivery to reach new and underserved customers while also protecting financial system stability, integrity and the consuming public'," Lyman says.

What good has come out of the "test and learn" process? The BSP has used it for such innovations as electronic money (e-money) to allow non-bank providers to offer some payment and remittance services, cloud banking to expand the reach of banks, and the use of individuals as payment agents. No small feats that would have fizzled out at inception if not tried, tested and retested before being regulated!

Digital Leadership

The same "test and learn" approach enabled the country to deploy the world's first mobile money, an innovation that was recognized by the Global Microscope in 2019.

The pioneering regulation initiated by the BSP to facilitate the world's first mobile money that has given low-income consumers greater access to financial services also inspired other central banks and the AFI "to put financial inclusion at the core of policymaking."

CGAP's Lyman describes the BSP's adoption of fintech this way: "The BSP burst into what one might call the emerging global financial inclusion leadership circle in the mid-2000s with a series of steps taken to give space to the country's two largest mobile network operators (MNOs), Smart and Globe, to pioneer mobile financial services. Though structured differently, both efforts targeted the Philippine mass market, particularly those unserved or underserved by the formal financial system. At the time the steps taken by the BSP were novel and noteworthy in that they amounted to regulatory forbearance rather than regulatory action, coupled with close engagement with the MNOs, in order to gather information of interest to a financial supervisor."

Dr. Eli Remolona (third from left), Chief Representative for Asia and the Pacific of the Bank for International Settlements co-hosted with Governor Tetangco (front center) the BSP-BIS Research Conference on Financial Inclusion in 2016.

According to Lyman, what the BSP had done prompted CGAP to include the country in the first round of seven market and regulatory diagnostics to identify preconditions for the robust development of digital financial inclusion. "Through initiatives such as interoperable retail payment systems and QR code national standards, the Philippines showcased that efficient retail payments are a conduit to advancing financial inclusion," Lyman says, adding that the BSP's work on "mitigating technology-related risks through cybersecurity frameworks or RegTech-based supervisory reporting mechanisms has been impressive."

Porteous affirms the leadership role the BSP has acquired internationally in digital finance. "Over the past decade, the BSP's voice around digital financial inclusion has resonated in many international councils; and it has become respected as an innovative and thoughtful proponent of change based on evidence and proportionality."

"To its great credit, the BSP's voice was never louder than its own actions; it essentially set up a sandbox environment for mobile money long before the term became widely used, and developed and followed a 'test and learn' approach long before it was named and endorsed by the G20," he adds.

No less than the UNSGSA, Queen Maxima of the Netherlands, expressed enthusiasm for the country's digital progress. "I believe the Philippines is ready to start its journey towards a more financially inclusive and cash-light economy, building on the country's mobile and digital innovations. This path could yield real social, economic and developmental benefits for all of its citizens."

ADB's Hattel likewise lauds the BSP's pioneering role in the introduction of e-money through SmartMoney and GCash. She says the country has done a tremendous amount of work in this field and was recognized as a global leader, probably the number one, or at least in the top three in the field.

She notes, however, that many people are still trying to understand the digital transformation. There is also a huge need to strengthen the business itself and to address the connectivity, or the lack of connectivity, issue. Financial inclusion rates are still low, she adds, due to several reasons, among them geography, lack of telecommunication infrastructure and distrust of the new systems. As a result, "the Philippines is absolutely still predominantly cash-based," with the normal tools to help minimize risks still "extremely limited."

Many Filipinos, Hattel points out, are still reluctant to deal with banks for various reasons, such as mistrust of the institutions, lack of awareness of the services banks provide and the hefty fees they charge. "Until people feel it is better to put their money in the bank, there will be less interest in financial institutions. Banks will have to start marketing themselves," she says.

Porteous acknowledges that where there should have been impressive progress in the country going by its high rankings in surveys like the EIU Microscope, "progress, as measured by conventional indicators, has tended to lag behind other leading countries." He sees this as an indication that enabling policy alone, while necessary, is not enough and the overall task is still unfinished.

"Other factors in the business, social and competition environments over which the BSP has little or no influence also come into play in affecting the rate of progress. But a consistent approach towards wider enablement is likely to pay dividends in time, building on the solid foundation laid by many of the BSP's policies," Porteous says. Fortunately, he recognizes that the BSP is open to self-reflection and rapid learning and rarely bogs down on unproven approaches or techniques.

Sound Strategy

Another BSP initiative that has had positive global impact is the National Strategy for Financial Inclusion (NSFI) under the inter-agency Financial Inclusion Steering Committee.

The 2019 Global Microscope has given recognition to the Philippines for its continued implementation of the NSFI and highlighted recent initiatives, such as the launch of the national digital identification system and creation of the BSP's Financial Technology Sub-sector, a support unit oriented towards fintech for the underserved.

The World Bank too has lauded the efforts of the Philippines in developing a monitoring and evaluation system for the NSFI implementation.

Hannig considers the "multi-stakeholder coordination, which facilitates cooperation with a variety of key institutions and players in the country to achieve a shared vision for financial inclusion," a success factor for the BSP setting the tone for financial inclusion. He points out that the pursuit of financial inclusion is no longer seen as the sole responsibility of financial regulators or the public sector.

"The development and implementation of national financial inclusion strategies have gained prominence in the AFI network and globally as the common policy approach that accelerates financial inclusion. The development and implementation of NSFI across the network have taken a collaborative multi-stakeholder approach, involving both the private and public sectors," he says.

Over the past decade, he adds, more countries have adopted the NSFI, with 54 countries in the AFI network in various stages of implementing their strategies. AFI's Financial Inclusion Strategy Peer-Learning Group focuses on supporting and advancing the trend. "Global and regional private sector institutions have also shown a keen interest and proven capacity to advance financial inclusion in developing and emerging countries," he says.

International Engagements

While the BSP is willing to share its own expertise, Hannig says it is also eager to learn from others. To keep abreast of major discussions as well as maximize extensive networks that provide a wellspring of expertise and resources needed to realize financial inclusion, the BSP also actively participates in other regional and global forums.

The BSP is part of the Working Committee on Financial Inclusion (WC-FINC), one of the working committees established under the Economic Community of the ASEAN (Association of Southeast Asian Nations) to achieve regional financial integration. Currently, the BSP serves as WC-FINC chair alongside Autoriti Monetary Brunei Darussalam.

Better Than Cash Alliance (BTCA), a partnership among governments, private organizations, and development institutions aimed at broadening inclusive growth by supporting the transition from cash to digital payments, counts on the BSP as member and regional representative to the BTCA's Editorial and Publication Committee.

The BSP also takes part in the Innovations for Poverty Action (IPA) Policy Advisory Group, Fintech Leaders' Roundtable, and Islamic Financial Services Board (IFSB) Task Force.

The Work Continues

Despite all the accolades, the BSP is not resting on its laurels and is determined to continue to pursue and strengthen its financial inclusion initiatives.

Governor Benjamin E. Diokno, in his speech on "The Philippine Economy in 2020: Looking Back, Moving Forward, said: "To support our financial inclusion agenda, we are championing an enabling environment for the digitization of the payments system. Our flagship project, the National Retail Payments System (NRPS), is expected to boost economic activities by making available an interoperable, safe and efficient real-time digital payments system."

He added: "Our target by the end of the year is to have (digital) transactions at 20 percent and value at 30 percent. By the end of 2023, we hope to have both percentages up by 50 percent."

The current governor reiterated the BSP's commitment to financial inclusion: "Digital solutions present opportunities for cost savings and efficiency gains that make the economics of serving the marginalized sector of our economy viable as well as help fill the financial services needs of the unserved and underserved markets on a broader scale. We are continuously refining the regulations on e-banking in ensuring that we keep abreast of the ever-changing dynamics of our times."

In Honor of a Pioneer and Advocate

In September 2021, when the Alliance for Financial Inclusion (AFI) holds its annual Global Policy Forum (GPF) in Jordan, the Nestor Espenilla Jr. Financial Inclusion Innovation Award will be presented for the first time.

The annual award will honor the "outstanding achievements of financial policymakers and regulators that have implemented unique policy innovations that create an enabling environment for the introduction of technological and business innovations towards addressing challenges of financial inclusion."

AFI is a network of almost 100 central banks and financial agencies in developing nations committed to the policy goal of financial inclusion. It seeks to empower policymakers "to increase access to quality financial services for the poorest populations" and make the services "more accessible to the world's unbanked."

The Bangko Sentral ng Pilipinas (BSP) and Espenilla, who passed away on February 23, 2019, were AFI pioneers. Espenilla was also a staunch advocate for the alliance. AFI paid tribute to the former BSP governor by observing a minute of silence before the opening of last year's GPF.

Dr. Alfred Hannig, AFI executive director, said of the founding member, "As a public servant, Governor Espenilla was a role model. He was a true visionary. With technical excellence and integrity, (the) Governor was impartial, committed to development, internationally widely recognized and modest."

In a statement after the governor's passing, the network said, "Espenilla played a crucial role in bringing AFI to life and developing it into the global leadership alliance that it is today. While serving as Deputy Governor, he led BSP as a founding and first official member of AFI . . . His personal dedication, passion and hard work have helped make the Alliance for Financial Inclusion (AFI) what it is today."

AFI added, "Above all, Governor Espenilla will always be remembered for working tirelessly to provide, and increase access to quality financial services for the unbanked, both in the Philippines and globally."

The Nestor Espenilla Jr. Financial Inclusion Innovation Award is institutional, which means nominations for it are open to AFI member institutions. Criteria for nomination include a demonstration of the following: (i) implemented unique or new policy solutions to foster financial technologies; (ii) existence of market solutions responding to the above policy(ies); (iii) evidence of uptake in access, usage and/or increased quality of financial services as a result of these market solutions. A shortlist of nominees

Nestor Espenilla Jr., then BSP's Deputy Governor, reads the first Maya Declaration during the 2011 AFI-GPF at Riviera Maya in Mexico.

will be submitted to an independent Awards Jury based on, among other things: (i) The Duration: the time taken to develop and implement the policy; (ii) The Quality: the scope and coverage of the policy; and (iii) The Outcome: the changes resulting from the policy implementation.

AFI had originally scheduled a survey in July 2020, using the nomination criteria, to draw up a list of nominees. If the Covid-19 pandemic does not cause further havoc to the current situation, there should be no stopping this award program from honoring a most deserving pioneer and advocate of financial inclusion.

A Harvest of Awards

The Philippines' pursuit of financial inclusion has won accolades from different organizations.

During the observance of the International Year of Microcredit in 2005, the Philippine National Committee for the United Nations Year of Microcredit was recognized as one of the excellent national committees. The honor was conferred on the Philippines on November 21, 2005 at the UN International Forum to Build Inclusive Financial Sectors.

The BSP's governor then, Amando Tetangco Jr., chaired the Philippine national committee that was composed of representatives of government and private sectors and academe.

The Philippines was one of three countries from Asia that were among the 12 winners out of 61 countries. It was recognized for its active support and commitment to increasing the appreciation of microfinance in the country and for highlighting the role of microfinance in poverty alleviation. It was particularly recognized for the conduct of the National Microfinance Summit where a Memorandum of Agreement by concerned agencies was adopted and a Uniform Set of Performance Standards for All Types of Microfinance Institutions was signed.

Governor Amando Tetangco, Jr. chaired the AFI Steering Committee and the 5th Annual AFI/G24 Policymakers' Roundtable on Financial Inclusion on April 17, 2013 in Washington DC, USA. With Governor Tetangco are Luis Madrazo (left) from the Ministry of Finance and Public Credit, representing Mexico as chair of the G24, and Dr. Alfred Hannig (right), AFI Executive Director.

The Philippines received a plaque from the UN and the Consultative Group to Assist the Poor (CGAP), the World Bank consortium of nearly 30 donors, as well as a scholarship to a microfinance training course in the United States.

The Presidential Lingkod Bayan Award was conferred in 2013 to the BSP's Inclusive Finance Advocacy Staff (IFAS) in recognition of the team's exceptional performance that had a nationwide impact on public interest.

The BSP received twice the Alliance for Financial Inclusion (AFI) Peer Review Award. Bangko Sentral experts contributed to 18 peer reviews of policies and regulations of fellow regulators in the AFI network.

In 2018, the Philippines tied with India for the top place in Asia in the ranking of the Economist Intelligence Unit (EIU), the research arm of The Economist Group, of the top countries promoting financial inclusion. The Philippines was fourth in the world.

The EIU Global Microscope crosscountry study assesses nations in five categories: government stability and support; stability and integrity; products and outlets; consumer protection; and infrastructure.

The Philippines had been in EIU's top five across the world from 2014 to 2019 in terms of having a conducive environment for financial inclusion. Between 2009 and 2013, EIU's global survey on microfinance ranked the Philippines number one in the world in terms of regulatory framework for microfinance.

In the latest ranking, 2019, the Philippines was fifth in the world and first in Asia, along with India. EIU found the Philippines performing exceptionally well in almost all five categories. The country was also at the top in terms of credit portfolios for middle and low-income customers, market entry and ongoing requirements for banks.

The Global Microscope 2019 recognized the country's efforts in promoting digital financial inclusion and financial literacy. It cited the continued implementation of the National Strategy for Financial Inclusion under the inter-agency Financial Inclusion Steering Committee and highlighted recent initiatives, such as the launch of the National Digital Identification System, a one-stop program for online government services, and the creation of the BSP's Financial Technology Sub-Sector, a support unit oriented towards financial technology (fintech) for the underserved.

In 2019, the BSP won Central Banking Fintech and Regtech Global awards in two categories: Artificial Intelligence Initiative and Data Management Initiative.

National Strategy for Financial Inclusion

Partner agencies and Her Majesty Queen Maxima of the Netherlands, United Nations Secretary General's Special Advocate (UNSGSA) for Inclusive Finance for Development, at the launch in 2015 of the National Strategy for Financial Inclusion led by (second from right) Governor Tetangco.

The globally recognized and emulated National Strategy for Financial Inclusion (NSFI) was launched in 2015 as a comprehensive framework for all government and private efforts at financial inclusion to meet the goal of creating a financial system that is accessible and responsive to the needs of the entire population.

A long-overdue platform for collaboration among multiple entities so they could effectively deliver and harmonize solutions to the demands of financial inclusion, the NSFI raises awareness, appreciation and understanding of financial inclusion among these various stakeholders as they are working together.

Four key areas necessary for promoting inclusive financial systems have been identified in the NSFI, namely, policy and regulation, financial education and consumer protection, advocacy programs, and data and measurement. These areas will govern the strategies for crafting evidence-based regulations, designing and implementing programs, and monitoring progress relevant to financial inclusion.

The Financial Inclusion Steering Committee (FISC), which was established by the President in 2016 through Executive Order No. 208, provides guidance and oversight in the implementation of the NSFI. The BSP serves as its chair and secretariat. Starting with 13 agencies that served as its principal authors, the NSFI has expanded and is now a 20-member interagency body.

Since its launch, the FISC has been successful in coming up with a clear framework for action, responding to changes and building on opportunities. The digitization of transaction accounts has since been in effect for conditional cash transfers, government payment transactions, wages of informal sector, and transport payments. A proposed agriculture value chain financing (AVCF) pilot project is intended to unlock access to credit by the agriculture sector, particularly by priority commodities.

The FISC composition has evolved to ensure participation of all agencies with financial inclusion agendas relevant to these two priorities. The newest addition is the Philippine Commission on Women (PCW)[1] , which aims to drive discussions and deepen collaboration in the promotion of welfare-enhancing financial services and economic opportunities for women.

The NSFI has also been the primary platform for the private sector to anchor its strategies or to lend its support for financial inclusion.

Since the launch, private sector players have introduced products and initiatives particularly designed to support the NSFI and have formed partnerships with the BSP, as FISC chair and secretariat, in the areas of account ownership promotion, digital and financial literacy, and consumer protection and responsible finance.

The NSFI has also clearly identified potential areas for development partnerships. The World Bank provided technical assistance in the development of a measurement and evaluation framework which provided useful insights in organizing and streamlining the NSFI priorities. The Asian Development Bank has a comprehensive technical assistance package to support the NSFI. Other development partners such as the USAID, JICA, AfD, Better than Cash Alliance, Alliance for Financial Inclusion have supported various areas of the Strategy.

In the pipeline are further development partnerships to support studies on MSME or small business and digital finance, design and implementation of financial education programs, and conduct of pilot studies on agriculture insurance.

1 PCW was onboarded in August 2020.

The Members of the Financial Inclusion Steering Committee (FISC)

1. Bangko Sentral ng Pilipinas (Chair & Secretariat)
2. Commission on Filipinos Overseas
3. Cooperative Development Authority
4. Department of Agrarian Reform
5. Department of Agriculture
6. Department of Budget and Management
7. Department of Education
8. Department of Finance
9. Department of Information and Communications Technology
10. Department of Labor and Employment
11. Department of Science and Technology
12. Department of Social Welfare and Development
13. Department of Trade and Industry
14. Department of Transportation
15. Insurance Commission
16. National Economic Development Authority
17. Philippine Deposit Insurance Corporation
18. Philippine Statistics Authority
19. Philippine Commission on Women
20. Securities and Exchange Commission

CHAPTER 4

EDUCATED, PROTECTED AND INCLUDED

A class of fifth graders at Santiago A. De Guzman Elementary School in Valenzuela City traveled thousands of virtual miles to meet some college students of Halytsky College in Ukraine. Age and language differences did not deter them from having lively conversations, via video call and social media chat, about how they were saving pesos and hyrvnia.

Young learners at San Ildefonso Elementary School in Bulacan forged virtual friendships with their Russian peers by sharing creative ways to earn and save money through a video conference. Pupils at the F. Benitez Elementary School in Makati interacted with their counterparts in a Malaysian classroom, while students of Sta. Barbara Elementary School in Iloilo and Pasig Christian Academy in Metro Manila exchanged ideas with gradeschoolers in Brunei – all through video sessions.

These knowledge exchanges, initiated and supervised by the Bangko Sentral ng Pilipinas (BSP) as part of its financial education campaign for children, were prompted by two eye-opening surveys. One survey found that less than five percent of Filipino children and youth saved regularly. The other indicated that Filipinos had a financial intelligence quotient less than half the maximum score of 100.

Front and Center of Inclusion

In reaching out to new financial consumers who are inexperienced in dealing with banks, the BSP needs to make sure that things do not "get out of hand" and the financial services that the banks are rolling out will be beneficial to the more vulnerable consumers.

"We have to make transacting with banks delightful for everyone," Pia Bernadette Roman-Tayag, managing director, sums up one of the objectives of the Center for Learning and Inclusion Advocacy (CLIA) that she heads. Indeed, the consumer is front and center of inclusion.

In October 2018, when Nestor A. Espenilla Jr. was BSP governor, the bank created the CLIA to ensure that the financial system would not only cater to all segments of the population but also adequately inform and protect financial consumers. It was also Espenilla who, as new deputy governor for supervision and examination in 2005, expanded the bank's small microfinance unit into a financial inclusion office. A consumer affairs unit renamed the financial consumer affairs group (subsequently expanded too) was also created in 2006 to focus on consumer protection in support of the BSP's financial supervision mandate. Each of these two offices with distinct mandates supplemented the functions of the other. These offices have since been consolidated into the CLIA as the Financial Inclusion Group (FIG) and the Consumer Empowerment Group (CEG).

The FIG is responsible for all financial inclusion matters – advocacy, data management, policy and regulations, stakeholder coordination, and other things relating to financial inclusion. The CEG, on the other hand, looks after the consumers – protective policies, financial education, data management, as well as the implementation of the Consumer Assistance Mechanism (CAM).

The CLIA seeks to build on the momentum gained by the BSP since it began advocating for microfinance in 2000 and to solidify as well as scale those gains, according to Roman-Tayag. Its basic and concrete objective is for all Filipinos to have an account in a formal financial institution as a tool for their financial health and well-being. Strategic sectors like agriculture and MSMEs receive a lot of the CLIA's attention, since financial inclusion is seen as not the end but a means to broad based and inclusive growth. The center also looks at mechanisms that can deliver substantial reach, such as digital channels and financial technology.

Beginning with Education

The BSP defines financial education as "the process of systematic instruction to increase financial literacy and capability." And what is financial literacy? Quite simply, it is the ability to understand how money works.

> "Together with access and education, we promoted financial consumer protection to help mitigate financial risks to clients, including those that could arise from scams and the use of misleading information by others."
>
> – Amando M. Tetangco Jr.

When people make the wrong financial moves, they could lose the money they have been saving for years. When they take out loans without understanding interest payments or the consequences of defaulting, they could lose a house, car or a similar big ticket item important to them. Without financial knowledge, they could be victimized by scams and end up with no money for their retirement.

Two laws have made financial education imperative not only for the BSP but also for other financial institutions, whether public or private: the Youth Entrepreneurship Act (Republic Act No. 10679) and the Economic and Financial Literacy Act (R.A. 10922).

Bunny D. Fabila and Iana Jill F. Valdez were among the Business Administration students at Romblon State University who attended the 2018 financial education seminar that formed part of the then BSP Economic and Financial Learning Program, a mix of learning sessions implemented through provincial roadshows.

"It did not only teach about investing, budgeting and saving, it made the participants realize what they could contribute to the economy, how they could exercise their rights as financial consumers and how they could handle money wisely," wrote Fabila in an essay published in the 2018 BSP Financial Inclusion Initiatives report. Motivated by the seminar's message, she said, she inquired at PNB Savings Bank about opening an account the following day.

Valdez, who admitted in her essay that she did not know much about the economy before the seminar, wrote: “It was inculcated in us that the study of finance was applicable to everyone since money is, in fact, inseparable from life.” She particularly appreciated the session that talked about the role of the Bangko Sentral, which she described as “the mother of all banks.”

Public-Private Partnerships

To reach more Bunnys and Ianas, the BSP made the decision to collaborate with like-minded public agencies and private organizations to support, scale and sustain financial learning programs for specific audiences, says Roman-Tayag,

What does the BSP bring to the table in such multi-sectoral collaborations? It contributes competencies and resources as content developer and innovator of learning tools and delivery methods. It also has the huge advantage of having links to key market players and stakeholders. And then, of course, there is the Bangko Sentral ng Pilipinas brand which, as they say, you can take to the bank anytime.

Having initiated the public-private collaboration known as the National Financial Inclusion Strategy and being the lead agency for the coordination of all financial inclusion initiatives of the Financial Inclusion Steering Committee’s stakeholders, the BSP is in the best position to model the expert synergy that can result from strong partnerships.

A huge mission like financial education for all requires wide support. The BSP relies on the strength, resources and networks of all its partners to develop audience-specific modules, equip financial education trainers, and co-develop program monitoring and evaluation mechanisms. The BSP partners include government institutions, industry associations, foundations of financial institutions, and other non-profits whose advocacies on financial education, financial inclusion or consumer protection are aligned with their corporate social responsibility objectives.

Strategic Partnership

Mario Deriquito is on a mission to make as many Filipinos as possible financially savvy. He is president of BDO Foundation (BDOF), the corporate social responsibility arm of BDO Unibank.

The BDOF believes that Filipinos can only improve their financial future if they have the necessary skills, tools and values. “We have to take care of the mindset issues first,” Deriquito says. This thinking is aligned with the BSP’s financial education objectives.

The foundation made the decision to do financial education to scale early on, according to Deriquito. “It is easy to organize financial literacy seminars and go around teaching people, giving lectures, maybe even mobilizing some of our BDO financial experts. But we wanted our approach to be far reaching and more strategic because, based on studies, the problem is big.”

To be able to do that, BDOF has linked up with the BSP since 2017 to either build on what the central bank has already started for certain audiences or form new alliances with agencies needing financial education.

The foundation has been producing learning resources like videos to complement the financial education modules being developed by the BSP for government partners. “The message is the same, but the nature of the videos and discussion guides are different for each group,” Deriquito notes.

Public-private sector collaboration is familiar territory to Deriquito. He had served as an undersecretary in the Department of Education (DepEd) during Br. Armin Luistro’s time as education secretary, after having worked at Ayala Foundation, SM Foundation and other corporate foundations.

In two years, the BDOF-BSP team has formed partnerships with the DepEd, the Overseas Workers and Welfare Administration, the Armed Forces of the Philippines, and the Civil Service Commission. Talks are underway for similar alliances with the Bureau of Fisheries and Aquatic Resources, the Philippine National Police and the Bureau of Fire Protection.

The BDOF recently produced a video called Banking 101 to be distributed to all its partners which debunks the myths about banks that have always intimidated people who have limited or no experience dealing with banks.

“Hopefully, with the policy reforms of the BSP, with the product innovations by financial institutions for the lower income sector, and with financial education, everything will lead to financial inclusion,” Deriquito says.

In 2019, the BDOF received the “Outstanding Financial Education Partner of the BSP” award.

Fin-Ed for DepEd

If the BSP wants to see more Filipinos educated in financial matters where should it begin? The no-brainer answer is, of course, the DepEd where 28 million learners, 800,000 teachers and 30,000 non-teaching personnel (NTP) could benefit from lessons in money management, bank services, future planning and many more topics that have never been taught in classrooms systematically and are rarely if ever discussed at home.

Education Secretary Leonor Briones knew what she wanted the tripartite partnership with the BSP and BDOF to accomplish. It would be to strengthen the financial education component of K to 12, improve the DepEd's capability to train teachers to integrate financial literacy concepts into their lessons, and enhance the knowledge of teachers and NTP in personal finance management.

During the launch of this partnership program, Briones noted that embedding financial education in the curriculum "is a response not only to requirements of law, but also to our own professional and personal improvement." She emphasized the importance

Taken after the Financial Education Stakeholders Expo opening ceremonies, (left to right) Dr. Noi Keng Koh, Chairperson of the Center for Financial Literacy Singapore, Citi-National Institute of Education Financial Literacy Hub for Teachers; BSP Monetary Board Member V. Bruce J. Tolentino; BSP Deputy Governor Chuchi G. Fonacier; DepEd Secretary Leonor Magtolis-Briones; and Ms. Kelly Hattel, Senior Financial Sector Specialist of Asian Development Bank.

of financial literacy as she shared past experiences of needing help with her personal finances while managing public finances in her previous position at the Department of Social Welfare and Development (DSWD).

Likewise, then BSP Governor Espenilla encouraged educators to see the value of teaching financial literacy in their classes, and urged them to apply financial literacy lessons in their own lives. "In doing so, not only will you set credible examples to the youth but you will also positively shape your own personal financial circumstances. The narrative will be most effective when concepts taught in class are consciously upheld and exercised. The results will attest to and affirm the truth of the financial education messages," he said.

The partnership has created a total of 10 videos that cover saving, budgeting and financial planning, managing debt, avoiding scams, investing, entrepreneurship, and other relevant topics. Each video is two to three minutes long. Accompanying these videos are lesson plans and discussion guides developed by DepEd specialists and master teachers. All materials have been uploaded to the department's Learning Resource Portal so teachers and trainers may utilize them, as authorized by DepEd Memos 32 and 107 series 2019.

To be added to the suite of learning tools are the learner-generated videos entered as contest pieces during the 2020 National Festival of Talents – Sineliksik Competition themed around money matters. There are plans to develop lesson plans using all the winning videos.

All these learning materials will support the implementation of the Financial Education Integration Policy and Roadmap, which was drafted and showcased during the 2019 Financial Education Stakeholders Expo. This document sets guidelines for the efficient and effective integration of financial education in appropriate learning competencies across all grade levels within the K-12 curriculum.

On a separate but related track, the BSP with support from BPI Foundation, the corporate social responsibility arm of the Bank of Philippine Islands, is working with the DepEd in implementing Personal Finance Management Seminars (PFMS) for all DepEd personnel. PFM modules were co-developed by the partners, pilot tested among 5,000 teachers in Metro Manila, and eventually used to train around 300 DepEd trainers from various regions, who in turn are expected to share their learnings with their colleagues nationwide. The PFMS are regularly rolled out by these trainers and plans to systematically incorporate the same in the personal and professional development trainings of new teachers are underway.

In lieu of the planned PFMS in 2020 and to address mass gathering restrictions during the Covid-19 pandemic, the DepEd, with support from the BSP and BPI Foundation, conducted a series of financial literacy webinars broadcast on the DepEd's Facebook page for thousands of teachers and other audiences in various parts of the country. While PFMS are temporarily suspended, the partners are collaborating to transform the modules into materials that can be flexibly used in both online and face-to-face settings.

Other BSP partners like Visa Foundation and Maybank Foundation are also supporting the education sector. Both foundations are providing financial literacy learning tools and capacity building programs for teachers and learners in selected public and private schools.

Starting 'em Young

When former Education Secretary Fe A. Hidalgo was DepEd officer in charge, she mobilized students of public and private schools nationwide to flush out coins that were stored idly in piggy banks, cans, jars and other containers for Tulong Barya Para Sa Eskwela (Coins for Schools). An offshoot of the BSP's coin recirculation program, Tulong Barya aimed for the kids to exchange their collected coins at retailers and banks for banknotes to get the coins back in circulation and correct the coin shortage.

Hidalgo, who has retired from government service and is now a consultant for the Knowledge Channel, asserts that directly engaging children in activities like the coin recirculation campaign and the Kiddie Account Program (KAP) leads to better retention and application of financial concepts. For her, the BSP savings calculator ruler is the best tool for teaching about savings. "The kids were eager to save money regularly upon seeing on the ruler how much in savings they could have in five or 10 years," the career educator recalls.

The BSP distributed the sliding rulers in schools across the country for many years. "Not just to students but also to teachers," says Fe de la Cruz of the BSP's corporate affairs office. "One school principal even called in the teachers and the administrative staff to give them rulers, with a reminder to be inspired and to set savings goals for their households with members of the family contributing money regularly."

More reinforcing activities outside the classroom came by way of Banking On Your Future (BOYF), a program launched by the BSP with the Bankers Association of the Philippines, Rural Bankers Association of the Philippines, Chamber of Thrift Banks, Bank Marketing Association of the Philippines (BMAP) and Bankers Institute of the Philippines (BAIPHIL).

The KAP, which was aligned with the BOYF, was jointly initiated by the BSP and the BMAP to invite students to open accounts with an initial deposit of only PhP100.00 and with no maintaining balance required. The BSP even gave the banks special authorization to conduct deposit activities on the school premises.

Schoolchildren joined Governor Tetangco and bank CEOs at the launch of the savings campaign Banking on Your Future.

At its onset, KAP pegged the age limit for student savers at age 12 but later raised it to 19 to allow depositors to keep their accounts until they graduate from high school. Before the amendment, KAP deposits became regular accounts once the child turned 13.

"Banks continue to offer kiddie savings accounts as part of their regular services," says CEG Deputy Director Rochelle D. Tomas. "The kiddie accounts have features similar to the BDA, so technically they are BDAs except the owners are children who still need a parent or guardian to sign off on the account."

BSP's Corporate Affairs Office Director Fe M. de La Cruz received the 2013 country award from the Child and Youth Foundation for its school-based savings promotion programs. The award was presented to Governor Tetangco with CORAO's Advocacy Group. From left: Jetzer Tan, Rogelio Garcia, Jay Edward Amatong and Mina Libao.

Recognitions

For the BSP-DepEd effort in integrating financial lessons into the elementary education curriculum, the Philippines received the 2013 Country Award for the Most Outstanding National Child and Youth Finance Program from the Child and Youth Finance International (CYFI), a Netherlands-based NGO advocating for financial inclusion for the young. The CYFI also recognized the BSP-DepEd-BMAP tripartite effort in developing child-friendly deposit products and promoting savings in general.

Another award-winning advocacy was Money Matters for Teens: You Can Bank on It, a financial literacy series for high school students published in the Philippine Daily Inquirer with the support of Citi Philippines and the BSP. Stories on how to earn, borrow, budget, spend, save and share money were serialized in the newspaper's education section and came with workshops for teachers and ready-to-teach activity guides. The series won the top Young Readers Prize for Newspaper In Education from the World Association of Newspaper Publishers or WAN-Ifra in 2011.

The BSP also gave out awards. In 2012, the bank introduced the GURO ng Pag-ASA (Gantimpala para sa PagtutURO ng Pag-iimpok at Araling panSAlapi), a rewards program for public elementary school financial education teachers

The awards were designed to motivate more teachers to integrate lessons on savings, money management and basic economics in the subjects for which teaching guides were developed. These subjects were Araling Panlipunan (social studies), Edukasyon sa Pagpapakatao (values education) and Edukasyong Pantahanan at Pangkabuhayan (home economics and livelihood education). Many of the finalist teachers had started their students on the habit of saving money.

A couple of years later, the BSP complemented the search for GURO with the Bida Sa Pag-iimpok at Pangkabuhayan (BSP Award), which recognized a student, teacher, and class, or school that had been implementing a savings and entrepreneurial program for at least a year.

FinEd for OFWs

"Together, let us help overseas Filipinos and their families put their money to optimal use, so they can allocate their cash flows not only to consumer goods and leisure but also to savings and smart spending such as for education, housing and investment. Banks should also explore new products and services for overseas Filipinos as well as guide them on the type of savings patterns and investments suitable for them," Tetangco said at the BAIPHIL general meeting in 2009.

The partnership in the ensuing years among the Overseas Workers and Welfare Administration (OWWA), the BSP and BDOF resulted in the implementation of PiTaKa (Pinansiyal na Talino at Kaalaman), a financial literacy campaign for Overseas Filipino Workers (OFWs) and their families.

Launched in 2018 when Espenilla was BSP governor, the PiTaKa campaign answered the BSP's aspiration of promoting financial literacy among OFWs. Espenilla, in a keynote address delivered on his behalf by Deputy Governor Chuchi Fonacier, said that progress would only be meaningful if the majority of the people felt it and the goal was to see the day when OFWs need not go abroad to find work.

The PiTaKa campaign developed financial education modules consisting of upbeat yet informative videos and discussion guides that would equip OFWs with the basic knowledge and skills in managing their income and remittances. The materials were designed for integration into seminars OFWs and their families are required to attend.

> “Given the right support, Filipino ingenuity, patience and honesty can produce amazingly good results.”
>
> – Rafael B. Buenaventura

The module for use in pre-departure orientation seminars has been presented to more than 600 trainers from OWWA-accredited seminar providers, who in turn should cascade the module to more than 2.3 million land- and sea-based OFWs. Standard modules are also being developed for post arrival orientation seminars and general orientations for OFW families.

When fully rolled out, the PiTaKa campaign is estimated to reach around 10 million Filipinos living and working abroad and their families. It underscores the temporary nature of overseas employment and encourages the workers and their families to spend wisely, save regularly and constantly look for ways to augment their family income. The ultimate goal is to see OFWs returning to the Philippines with the ability to prudently manage their financial resources and enjoy the fruits of their labors.

FinEd for the AFP-PA

In 2018, the BSP and BDOF signed an agreement with the Armed Forces of the Philippines-Philippine Army (AFP-PA) to promote financial inclusion and arm the men and women of the military with the skills required to achieve financial independence.

The partnership covers the development and deployment of training materials tailored to the programs for new recruits, senior officers and AFP personnel families. Included in the package are financial education videos, modules and trainer kits that cover saving, budgeting and financial planning, investments, entrepreneurship, managing debt, and avoiding scams, among other topics. The materials are used to train AFP instructors who, in turn, conduct customized financial education sessions for personnel of all branches of the armed forces – the Philippine Air Force, Philippine Army and Philippine Navy.

This is in line with the AFP-PA Transformation Roadmap, where financial health is among the indicators measured on the Individual Performance Scorecards for AFP personnel. The financial education sessions are delivered in key stages of a soldier’s training. The program is expected to benefit the AFP’s 140,000 uniformed and civilian personnel and their families.

FinEd for Civil Servants

The BDOF and the BSP have also signed a tripartite agreement with the Civil Service Commission (CSC) to implement the Financial Education Program for Civil Servants.

“We share the conviction that a financially literate bureaucracy able to make prudent financial decisions in their personal lives can be better public servants and contribute more meaningfully to nation building,” BSP Governor Benjamin E. Diokno said about the partnership.

The program is implemented in two phases. The first phase involves the development of learning resources, which will be pilot-tested before deployment within the training programs for the more than 1,000 CSC employees, including regional personnel. In the second phase, the learning resources will be rolled out to form part of the regular training programs for civil servants across all government departments, agencies and offices.

“The CSC has also agreed to look into the possibility of incorporating financial literacy in civil service eligibility assessments and performance evaluation systems,” says Deriquito, adding that this was something that excited the BSP.

FinEd for MSMEs

The BSP has also formed a partnership with the Department of Trade and Industry (DTI) and two networks of non-government microfinance organizations – the Microfinance Council of the Philippines Inc. (MCPI) and the Alliance of Philippine Partners in Enterprise Development. These two networks by themselves cover around nine million entrepreneurial households. Building on the network of over 1,000 DTI Negosyo centers nationwide, this partnership can bring financial education to the country’s economic base – the millions of microentrepreneurs – and expand their access to credit.

Among the BSP's tasks under this partnership is to collaborate with DTI in promoting financial and digital literacy within the MSME sector, particularly those who access the services of DTI Negosyo Centers around the country.

PisoLit

The BSP's campaigns to promote financial education and consumer protection via the internet are also implemented under the CLIA. One such campaign is PisoLit, an account mirrored on Facebook, Instagram and Twitter aimed at promoting financial awareness, particularly among the youth and other active social media users. It is distinct and separate from the official Facebook account of the BSP. PisoLit provides daily posts on financial management tips, scam prevention reminders, and consumer protection advisories. Launched in September 2017, PisoLit has nearly 48,000 followers, averaging a daily reach of about 10,000 and engagement of 1,000.

PisoLit is the BSP's Facebook account for its Economic and Financial Learning Program. It initially consisted of structured, face-to-face learning events for targeted audiences like schoolchildren, students, the workforce, and special sectors like overseas Filipino workers and their beneficiaries, as well as participants in some social benefit programs of the government.

Digital Literacy and Cybersecurity

For the countless Filipinos who refuse to do digital transactions for fear that the technology is unsecure, the BSP is implementing the Digital Literacy and Cybersecurity Awareness Program in collaboration with industry associations and selected stakeholders to boost trust and confidence in the digital finance system.

The BSP has been working with USAID's E-PESO Project Team to craft the program design following the first consultation meeting with banking and fintech industry associations in February 2020.

As one component of the program, a communications campaign in traditional and social media to promote e-payment use during the Covid-19 community quarantine has been implemented, together with the banking, fintech and e-payment industry associations.

The campaign aims to educate consumers about e-payment and other online financial transactions and urge them to practice due diligence when undertaking online and mobile-based financial transactions. Campaign messages include tips on opening an online account, creating strong passwords, watching out for phishing emails and spoof websites, as well as keeping account and personal information confidential.

Virtual Stakeholders Expo

Many more students should benefit from the virtual Financial Education Stakeholders Expo planned by the BSP for November 2020, in view of the restrictions imposed on mass gatherings due to the coronavirus pandemic. For five days the BSP would be hosting two-hour online sessions to heighten awareness of the availability and accessibility of financial education programs, with special emphasis on the value of digital financial literacy.

The expo, held annually during Economic and Financial Literacy Week, is the BSP's flagship program for financial education in line with the long-term development vision for the country espoused in Ambisyon Natin 2040 by the National Economic and Development Authority (NEDA).

Since debuting in 2010, the expo has been implemented in the regions as mini-expos with learning booths showcasing economic, banking and financial literacy lessons. Redesigned in line with evolving partnership approaches and rolled out in 2018 as a national event, it has drawn students, educators, entrepreneurs, stakeholders, and other

participants from public and private institutions. In addition to plenary and breakout sessions on, among other things, developing positive money values, using financial services wisely and stock market investing, it has also featured a play, a board game, a game show, and public exhibits on the financial education activities of selected public and private entities.

Informing the public about the financial tools available to help promote their financial health may be an easy straightforward mission but the expo does more. It also explores strategic partnerships and networks of advocates who have the shared vision and responsibility of implementing sustainable and effective financial learning programs.

In the Pipeline

The financial education partnerships are geared toward the country's most vulnerable. The BSP will work with the Department of Agriculture's Bureau of Fisheries and Aquatic Resources to develop special gamified modules for use by BFAR regional employees in conducting financial learning sessions as part of their capacity building and livelihood assistance programs for fisherfolk. Upon institutionalization, the program is expected to reach the estimated 1.9 million fisherfolk currently listed in the BFAR registry.

A similar partnership with the DSWD is likewise in the works. It will embed financial consumer protection lessons in the family development trainings conducted by DSWD for beneficiaries of the Pantawid Pamilyang Pilipino Program (4Ps).

Also in the pipeline are agreements with the Philippine National Police and the Bureau of Fire Protection to embed financial education sessions in their regular training programs.

"We cannot manage or improve what we cannot measure," Roman-Tayag says. To ensure that the desired outputs, outcomes and impacts are reached in all these laudable partnerships, the BSP has partnered with the Asian Development Bank to develop a monitoring and evaluation framework with systems, tools and indicators to track, monitor and evaluate the financial education programs of the BSP and its partner institutions.

"The results of financial education are not seen overnight," Roman-Tayag adds. "The fruits may even be generational. But the BSP will continue all these efforts to make sure that each Iana and each Bunny will remember the financial concepts they had been taught when they are faced with financial decisions. The hope is that each of these decisions will do them no harm and will benefit their financial well-being."

Consumer Protection

As the head of CLIA, Roman-Tayag plays the role of watchdog for the public because the center is tasked with protecting consumers. Now what does "protecting" actually entail? For one, it is making sure consumers are not taken advantage of or harmed. It also involves increasing their understanding of complicated financial transactions so they can make informed decisions. And, though unspoken, it also means empowering them so they can better provide for their families and pursue their dreams.

So it is not surprising that on a cable news program one morning in 2020, Roman-Tayag is fielding questions from consumers and the media on behalf of the BSP. It is clear that she has done this before and she is deeply committed to this mission. But this time the need for answers is more urgent. The world is in the grip of a deadly coronavirus and the country has been placed under varying degrees of community quarantine. Consumers are more vulnerable when the economy is shaky, money is tight and jobs are scarce.

It turns out that, in the midst of the pandemic, the public's huge concern, next to staying alive, is making their loan payments. Fueling the anxiety is the worsening financial situation. How can people who are not receiving wages because work has stopped almost everywhere, who may even be jobless soon, be expected to settle their financial obligations at this time?

Roman-Tayag explains that the Bayanihan to Heal as One Act, which Congress passed to help the nation cope with the health and economic crises caused by the Covid-19 pandemic, requires all lending institutions to give a 30-day grace period for all loan payments whose due dates fall within the quarantine periods. She stresses that the grace period applies to all kinds of loans from all kinds of financial institutions, even those outside the BSP's supervision.

"The reason behind this relief is so consumers will not stress over loan delinquency during the quarantine period and will not be overburdened with loan payments once the lockdown is over," she says.

Fortunately, the current BSP governor believes in safeguarding the consumer's welfare as his predecessors did. "We ensure consumer protection. By this we mean innovations must work for the benefit of consumers, especially the most vulnerable ones, and those availing of financial services for the first time. Regulations must ensure that issues such as transparency, product suitability, security, and confidentiality, are made paramount considerations in the design and deployment of digital solutions," Diokno had said at the eCompareMo.com Finovation event in 2019.

Former governor Tetangco considers the importance he gave to consumer protection among his more significant contributions to the BSP's financial inclusion advocacy during his term. "Together with access and education, we promoted financial consumer protection to help mitigate financial risks to clients, including those that could arise from scams and the use of misleading information by others," he says in retrospect.

Framework

The primary system that the BSP has in place for consumer protection is the Financial Consumer Protection Framework. This lays out the central bank's expectations that all its regulated financial service providers do business ethically by informing consumers properly and adequately about their products and services, as well as by staying away from unlawful and harmful practices.

"In particular, the expectations are in terms of transparency and disclosure, fair treatment of clients – to include product suitability – protection of client information, effective recourse mechanism, and financial education," says Roman-Tayag, adding that these are enforced through the BSP's usual enforcement authorities.

In 2019, mandated by its amended charter to consider the general public's interest as it promotes broad and convenient access to high quality financial services, the BSP revised the framework – first issued in 2014 by the Monetary Board – to adapt to the rapid technological innovations that have brought about increasingly complex financial markets. Headliners in this area are digital financial products and services.

The revised framework fundamentally strengthens the market conduct of BSP-supervised financial institutions (BSFIs) by requiring them to integrate consumer protection into their corporate governance and culture, as well as risk management. Although BSFIs are allowed some flexibility in their approach to consumer welfare, the new circular stresses that BSFIs should avoid practices that discriminate or take advantage of vulnerable groups such as low income earners or persons with disabilities. The BSP has issued circulars espousing consumer protection regulations that are aligned with its risk governance and compliance frameworks as well as consistent with international practices and standards.

Meet "BOB" (BSP Online Buddy), the BSP chatbot now fully deployed to serve financial consumers who approach the BSP on complaints against BSP-Supervised Financial Institutions (BSFIs).

A Chatbot named BOB

"We have a consumer assistance mechanism (CAM) to respond to complaints from the public. Apart from addressing individual issues, this system allows us to learn of actual practices on the ground, which then inform our policies and enforcement," Roman-Tayag says.

The CAM is the general public's primary point of contact for complaints, inquiries and requests through conventional channels such as direct mail, phone calls and personal visits to the BSP offices. More important, it is an avenue for redress for consumers who are dissatisfied with the handling of their concerns by specific BSFIs.

As consumers shifted to online financial transactions during the pandemic, according to CEG Director Charina De Vera-Yap, internet banking, mobile banking and e-money became among the top concerns reported through the CAM system. Most issues pertain to fund transfers, crediting funds to recipient accounts, and unauthorized transactions.

"We have stepped up this mechanism through a chatbot that gives us even more intelligence on market conduct," Roman-Tayag says. The CEG is in charge of the CAM and its chatbot BOB, which is short for BSP Online Buddy.

A complaints escalation portal using natural language processing, machine learning and artificial intelligence, BOB is being pilot-tested as the country is grappling with risks, restrictions and unfamiliar tension points brought by Covid-19.

"BOB is still 'learning' at this stage and it's still building and collecting data from the users," says De Vera-Yap. "It has a frequently asked questions (FAQs) feature for common consumer concerns. As more and more consumers use BOB, it will become more responsive to questions and it will be able to give us more data for analytics purposes."

BOB allows financial consumers to lodge concerns about any BSFI in English, Pilipino and Taglish through webchat on the BSP's website, social media (Facebook Messenger), and short message sending (SMS). It enables the BSP to immediately and directly respond to financial consumers through the same medium used to air their concerns.

The chatbot gathers the complaints through a conversational process. If the system detects that the concern involves a complaint that needs to be brought to the attention of a specific BSFI's senior officers, BOB automatically refers the complaint to the BSFI involved for appropriate action. Upon receipt of a referral, BSFIs are expected to directly respond to the complainant via email, copy-furnishing CLIA-CEG within set timelines as indicated in the referral e-mail.

Aside from the regular problems relating to financial services, BOB has received pandemic-related concerns mostly related to lending and credit card services as well as remittances.

Upon BOB's full implementation, all correspondence will automatically be processed through the system's document tracking system, which will record and keep an inventory of the correspondence without delay to avoid any loss of data.

BOB collects a wealth of data and information that can be used to understand consumer sentiment, identify emerging risks and opportunities, aid in the supervisory process, and ultimately strengthen trust in the financial system. In effect, it amplifies the voice of the financial consumer in policy making, regulation and supervision.

BSFIs are encouraged to include the chatbot's access information on their websites and in all their marketing materials to ensure maximum reach to the public.

For advancing its consumer assistance process from a manual mechanism to a chatbot equipped with state-of-the-art technology, the Bangko Sentral won awards in two categories – for Artificial Intelligence Initiative and for Data Management Initiative – at the Central Banking Fintech and Regtech Global Awards in Singapore in 2019. The BSP was the only institution to win in two categories that year.

The CMA Tradition

"The Citi Microentrepreneurship Awards (CMA) is testament that financial inclusion toward economic empowerment is not a Sisyphean task," Roman-Tayag says. "We have seen how access to finance, with proper financial education, uplifts the lives of financial consumers, their families and their communities. There is strong conviction as well as hope."

There is always a glimpse of hope in the lobby just outside the hall everytime the awards are handed out to winners from across the country. This is where the microentrepreneurs, happy and confident, show off their products like badges of honor.

When the nationwide awards were first given out in 2002, the entrepreneurs brought samples of their products to the venue, as in a "show and tell." That gave the organizers an idea for the succeeding years: Set up booths where the finalists could display their merchandise for exhibition and/or sale. Nolie Estocado's homemade Christmas decor spread joy in 2006. Lenieflor Ico's icing flower candies sweetened 2012. Teresita Nicanor's breaded squid rings made a crunchy appearance in 2014. Marcelina Occena's herbal oil soothed the nerves in 2016.

The awards have been self-affirming for these microentrepreneurs, a way to acknowledge their genius for survival and their worth in a society that ordinarily just passes them by. And if there had been controversy in the early days of microfinance over who deserved microcredit, this group has resolved it. As borrowers they persevere and overcome; they will keep swimming upstream to be able to start or sustain their small businesses.

As Diokno succinctly put it in his keynote address as BSP governor during the 17th CMA, "Being a microentrepreneur is an act of courage."

Rafael B. Buenaventura, who was BSP governor when the maiden ceremonies were held at the Metropolitan Museum in December 2002, said the winners were being honored for having proven that "given the right support, Filipino ingenuity, patience and honesty can produce amazingly good results." Their stories, he added, should encourage many others to be equally resourceful in identifying business opportunities within their own communities.

"Their stories are a reminder of the value and nobility of our work," said Espenilla in his CMA speech in 2017 when he was BSP governor.

And oh what stories they tell! Many of the CMA winners come from poor backgrounds. Some are also painfully undereducated. Before discovering microfinance, or before microfinance found them, they had relied mostly on grit and prayers. Not to mention the 5-6 creditors ever present in their hour of need. But, through microfinance, they found a lifeline and an opportunity to change their narratives.

Over the years, the CMA has given recognition to 132 microentrepreneurs who, in the words of Citi Philippines Chief Executive Officer Aftab Ahmed, "have made a difference for themselves, their families and their respective communities."

In 2002 when Citibank – then the largest foreign bank in the Philippines and one of the most prestigious in the world – was celebrating its 100th year of operations in Asia, microfinance had just been introduced as a priority program for Citi globally, recalls Lilibeth Fajardo, the bank's corporate affairs director at the time.

Shining a light onto model microentrepreneurs seemed like a good way to mark the milestone, but they first ran the idea by Ed Garcia, then executive director of the MCPI, and Aris Alip, founder of the CARD-MRI. Citi was going to rely on these microfinance leaders and their member institutions to nominate the best microentrepreneurs from among their clients. To generate more interest among the MFIs, it was decided that the program would give out cash prizes not only to the winning borrowers but also to their nominating loan officers. After all, behind every successful microentrepreneur are a dedicated loan officer and an inclusive MFI.

MCPI agreed to be a partner. To add more prestige to the awards, Citi and MCPI invited the BSP to be part of the team. Ed Jimenez, the central bank's microfinance consulant, has been the CMA program emcee year after year, even after Fajardo had left Citi and Aneth Lim, Lisa Coory and Jackie Ampil each took her turn as head of public affairs for the bank and co-emcee.

No awards were given out in 2003 because the CMA was originally meant to be a one-time celebratory event, according to Lalaine Joyas, who was MCPI's research and information officer at the time and would eventually become executive director. But because it was such a feel-good program for all concerned, especially the microentrepreneurs, the partners turned it into an annual recognition after its resumption in 2004.

Since then, the CMA has gone through three BSP governors, five Citi country officers, five MCPI chairpersons and three MCPI executive directors – testament to the relevance of the program and its importance to the principals," Fajardo says.

The number of categories and the prizes have also changed through the years as it became more and more difficult to choose just four winners because the widening geographical coverage – denoting the rise in the number of microfinance banks and other MFIS – brought a bigger harvest of nominees every year.

In 2019, total prizes amounted to close to PhP 2 million in cash and non-cash incentives that included life and health insurance coverage for one year, an entrepreneurship course at the Citi Microenterprise Development Center, training to help them scale up their operations, and laptops. Celebratory town hall meetings feted the winners in their respective hometowns.

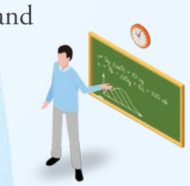
"The success stories brought about by the *sipag at tiyaga* (industriousness and perseverance) of the winners were certainly inspiring," said Fernando B. Caballa, who was head of the BSP's Thrift Banks Department and a Microfinance Committee member. Thrift banks are among the financial institutions that give out loans to microentrepreneurs.

Screening Stories

Nominees, screened by a team composed of representatives from the BSP, MCPI and Citi Philippines, are trimmed down to 25 semifinalists. A review committee then takes over. Volunteers from the three partner entities conduct onsite visits and video interviews of the semifinalists. At the second screening, the review committee picks the finalists.

Fajardo recalls that one of Citi's American expatriates, Andrew Padovano, had volunteered to do the onsite visit to a woman nominee who sold local desserts in coconut shells in Tacloban, Leyte. The entrepreneur spoke only Waray so her loan officer had to translate to Tagalog, which Fajardo then translated to English for Padovano. But nothing, it turned out, was lost in translation because, as Fajardo puts it, "Padovano turned in one of the most incisive reports on the Leyte entrepreneur."

The responsibility of choosing the final winners rests in the National Selection Committee (NSC) which the BSP governor and the Citi Philippines CEO co-chair every year. The NSC has always been a group where success is pervasive. Its high profile panelists through the years have included the late Antonino Alindogan Jr., Ron Chua, Joey Concepcion, Tessie Sy-Coson, Steven Edminster, Robina Gokongwei-Pe, Felipe Gozon, Cheche Lazaro, Ramon Lopez, Mary Ann Montemayor, Imelda Nicolas, Marixi Rufino-Prieto, Dr. Michael Tan, Orlando Vea, Veronica Villavicencio, Dr. Darwin Yu and Fernando Zobel de Ayala.



Former Philippine Daily Inquirer chairperson Marixi Prieto has faithfully attended the selection process every year since 2002, serving not just as judge but also as encourager. She would always make time to shop in the exhibit hall for the microentrepreneurs' products. Taking particular interest in the healing promise of an herbal oil, now known as 49-Plus, she says, "I continue to order the oil to this day."

The one time that Prieto could not make it to the NSC deliberations she sent her two daughters to represent her. Alindogan was quick to remind the Prieto sisters that they each had only half a vote.

"As a judge I learned how a credit of PhP 3,000 can transform the life of a family from extreme poverty. The process allows us a glimpse into their journey and the evolution of their lives," Prieto says.

Deliberations were always insightful at every NSC meeting. Says Joyas: "I remember preparing for Tessie Sy-Coson's questions. She knew what questions to ask about the outstanding qualities of the finalists and their businesses."

Coson, vice chairperson of SM Investments Corp., also served as a judge for many years. "I greatly admire how microentrepreneurs grow their businesses to make their lives and their communities better. Their fortitude and determination are great life lessons for me. I appreciate BSP's longstanding support of this group with Citibank," she says. Fajardo recalls that Coson's support for the microentrepreneurs extended beyond the competition. An astute businesswoman, Coson would pick out possible suppliers for the SM chain of supermarkets from among the winners.

Sustained Success

Alindogan, who was a perennial judge from the time he was a Monetary Board member until his death, was once asked for suggestions on how to improve the CMA.

"First is to search for and recognize unusual or unique microentrepreneurs for special category awards," he said. "Second is to go back to the winners of prior years to assist them in production techniques, marketing, packaging, etc, so they can continue to be viable and more profitable." Both suggestions have been implemented.

The CMA program's success in the Philippines and the international recognition it has received has inspired Citi Foundation to replicate it in 34 other countries. "While we've done more than our fair share of transporting best practices from our shores to other countries, I admit to being extremely proud for having been the catalyst for spreading this particular goodwill to other countries," remarked Sanjiv Vohra at one CMA ceremony. Vohra, Citibank Philippines' country head from 2005 to 2013, is now the president and CEO of Security Bank.

> **"Being a microentrepreneur is an act of courage."**
>
> – Benjamin E. Diokno

For the second time in its history, the CMA would declare no winners in 2020 because the restrictions imposed by the Covid-19 pandemic have prevented onsite inspections, group screenings and large social gatherings.

Instead of the usual prizes, the CMA would award a cash incentive of up to PhP 50,000 each to 75 previous winners and finalists severely affected by the government-imposed community quarantine. The money could be used as additional capital for an existing microbusiness or as seed capital for alternative income-generating activities or a new microenterprise venture.

At the CMA media launch in 2019, Governor Diokno summed up the significance of the CMA this way: "The partnership with MCPI and Citi Philippines remains one of the BSP's cornerstones in stakeholder engagement for financial inclusion."

2002 CMA Grand Winner

Josephine Alima of Cabatuan, Isabela holds the distinction of being the CMA's very first national microentrepreneur of the year (MOTY) winner.

Whether or not peanuts are good for the brain does not matter much to Josie. As far as she is concerned, peanuts are good for the heart. So very good. The little legumes, after all, are the main ingredients of the cookies that won for her the CMA's grand prize in 2002.

Before learning how to make cookie dough, she was selling vegetables grown by her husband, Alan. A stall in the public market cost too much to rent so every day Josie would just pick a free spot in the market, spread out her greens and hope for the best.

Alan was also a rice farmer until they were forced to pawn their farmland. Josie remembers many rough years when, despite the backbreaking work, Alan would come home after selling their grains with nothing else for the family besides the few unsold sacks of rice.

"No cash? Not even for a pair of new underwear for you?" Josie would ask, harvest after harvest, until it became a running joke between them.

Josephine Alima of La Paz, Cabatuan in Isabela is the very first Citibank Microentrepreneur Awards national winner, topping other finalists with her peanut cookies in 2002.

Photo Credits: "Foundation for a Sustainable Society Inc. (www.fssi.com.ph)" and the Microfinance Council of the Philippines, Inc

Life was hard, but the couple were burdened even more by a loan they had guaranteed for Alan's younger brother, who had failed to send the monthly amortization from Surigao del Sur in Mindanao where he had a bakery famous for its cookies. Josie and Alan ended up having to repay that loan plus interest for five years, the original Php 20,000.00 having ballooned to Php 80,000.00

"Why don't I go to Mindanao and try to get my brother to repay what we advanced for his loan?" Alan suggested to Josie one day in 2000 when he was feeling unjustly broke. "If he says he has no cash, I'll take his peanut cookie recipe as payment."

Josie agreed. After two months, Alan returned with the recipe, which meant no cash, but he did bring home, besides the cookie formula, the skills and hands-on experience he acquired from his brother and would use to start their business in Isabela.

There was a small problem, however. They did not have an oven.

Alan found the solution in a nearby bakery. They offered to rent the oven whenever the owner was not using it. The peanut cookies were an instant hit beyond the couple's expectations. But the bakery owner, seeing their initial success, refused to let them continue using the oven.

Undeterred, the Alimas found another bakery that let them use their oven. Josie would mix the dough at home. Alan would then take the dough, the peanuts, and the pans to the bakery which was about two kilometers from their barrio. After baking, he would bring everything back home and, with the children helping, Josie would roll the cookies in the crushed oven-roasted peanuts. Packed, they sold for PhP27.00 per 36-piece bag. Alan made the deliveries to school canteens and grocery and sari-sari stores in their barrio and neighboring towns.

Josie was a member of a group that had borrowed money, a la Grameen Bank of Bangladesh, from the First Isabela Cooperative (FICO) Bank in Cabatuan. Wishing to take the cookie business farther, she went to the bank. "I'm no longer interested in being part of a group, I'd rather apply for a microfinance loan on my own," she told the FICO folks.

The bank lent her PhP 25,000, which enabled the Alimas to convert a part of their house into a tiny bakery with its own honest-to-goodness oven. They also hired workers to help them. And the customers came, followed soon after by bulk buyers who resold the tasty, crunchy cookies in Cagayan, Nueva Vizcaya, Baguio, even Manila.

At the 2002 CMA awards, Josie and her humble peanut cookies won the grand trophy and PhP 150,000 cash prize that she used to redeem their farmland and invest in their growing business.

The couple now have a mill that grinds 50 kilos of peanuts a day (they began with only two kilos back in the day). Their 14 employees do the baking, packing and delivery. Best of all, they now have four ovens. Adding a new cookie product, *galletas*, the recipe for which also came from Alan's brother, proved to be another wise decision.

Just before the Covid-19 pandemic struck, they had started construction of a stand-alone bakery next to their bungalow. They hope the new bakery would be ready by the end of 2020 and the distribution of their products by the resellers, which was rudely interrupted by the pandemic, could resume.

How did they manage to grow their microenterprise since its iffy start in 2000? "If you love and take care of your business, it will prosper," answers Josie, straight from the heart.

Firmly Grounded Finally

Fair winds and friendly seas are every Filipino seaman's wishes, but after some rough voyages and almost 20 years as a seaman, Gary Esguerra began to dream of being back on land for good.

A marine engineer by training, Esguerra worked as an environmental officer on product tanker vessels. Like any seafarer, he wanted not only to see the world but also help his parents put his siblings to school. Soon he also started his own family.

"A seafarer must have an end goal. He must know when to stop," he says. His own goal had long been to set up a business that would allow him to leave his job on a ship permanently, but he had no idea how and where to start.

Inspiration hit as he took a careful look at the comfortable hotels where he stayed at before and after every contract. At every hotel, guests were given free slippers, toothbrushes and other disposable grooming products. Gary noticed, however, that these were not environment-friendly. He thought to himself, "Why can't we make them earth friendly and locally sourced?"

When the National Reintegration Center for OFWs (NRCO) of the Overseas Workers Welfare Administration (OWWA) launched a business plan competition for seafarers in 2019, Esguerra and his wife Chique tried their luck. Their idea for a footwear business, GreenFoot, topped the competition.

GreenFoot offers 100 percent biodegradable, disposable room slippers made of natural materials like abaca ***bakbak***, water hyacinth stalks, jute sack, and *katsa* (muslin) cloth. The footwear comes with one to three seeds of mustard, chili pepper, or tomato. When the footwear has outlived its usefulness, it can be buried to let the seeds grow.

As part of their training under NRCO, the Esguerras were mentored on setting up, growing, and managing their business. Among the lessons was financial literacy.

"One of the things I learned from the NRCO training was financial freedom. I learned not to let go of my existing source of income until my business was stable and able to give me the financial capability to provide for my needs," Esguerra says.

Marine engineer Gary Esguerra, 20 years a seaman, has disembarked to embark on his own microenterprise to produce earth-friendly and locally sourced slippers.

He also learned from BSP's PiTaKa Campaign, a financial education program for OFWs implemented in partnership with OWWA. The campaign wants every OFW to understand the importance of money management and to work toward financial freedom, even before they leave for their overseas jobs.

Esguerra left to fulfill another contract in January 2020 to earn more funding for his start-up business. But the pandemic cut his contract short and he was among hundreds of OFWs who came home in July. "It turned out to be a blessing because by being home I've been able to focus on my business. Hopefully, I can offer our product to hotels and grow our client base." he says.

Aside from GreenFoot, which has gone online, the couple also have rice retailing and souvenir shop businesses. With their sustainable sources of income, they know that, even when the tide changes, their family will be fine. Indeed, Gary Esguerra is home and back on land for good.

Making BSP 'user-friendly'

The Economic and Financial Learning Center at the BSP Head Office in Manila

To bring the Bangko Sentral ng Pilipinas (BSP) closer to the people, the first Economic and Financial Learning Center (EFLC) opened its doors and gave the public full access to its facilities in 2009.

Other EFLCs have since been established in all BSP offices around the country. As focal points of the BSP's contact with the public, they provide information on economic and financial matters and promote greater understanding of the BSP and its role in the Philippine economy.

As a resource hub, EFLC Manila has a Library and a Statistical Learning Center with a collection of books, databases, exhibits, and digital learning tools to meet the information requirements of visiting teachers, students, and researchers. It also caters to employees of public and private institutions, as well as international organizations like the Association of Southeast Asian Nations (Asean), International Monetary Fund (IMF), World Bank, and other central banks. It serves the BSP staff and provides systems and auxiliary support to the Monetary Policy Sub-Sector (MPSS), particularly in the maintenance and administration of the economic database to support the requirements of inflation targeting.

"Local residents began to identify themselves with their government by visiting the centers," says Diwa C. Gunigundo, who was Deputy Governor of the BSP's Monetary Stability Sector that pursued financial literacy and education through the EFLC. "Branches and regional offices no longer just distributed cash. Through the EFLCs, the BSP developed a stronger economic and financial presence in the regions and even earned representation in the regional development councils."

EFLCs in BSP regional offices and branches (ROBs) are microcosms of the Manila center. Through institutionalized coordination, the EFLC ROBs implement and deliver information, programs, and services customized to the needs of their respective local stakeholders. Expanded information technology network capabilities make available to ROBs all online materials and databases in EFLC Manila.

The EFLC conducts learning activities for schools and members of the academe, the media, and other institutions on request. These include familiarization visits to its facilities, dissemination of special economic information, and lectures on the role of the BSP in the economy. Brown-bag sessions on different central banking topics are coordinated and co-organized by EFLC with other BSP departments.

The center produces short and simple infographics and videos, among other learning materials, to explain central banking functions. It coordinates the production and dissemination of BSP's annual reports and other special publications, which are distributed during learning sessions and made available online through the BSP website and social media accounts.

In 2017, the EFLC established the Knowledge Resource Network (KRN) in partnership with academic institutions and local government units to bring BSP resources closer to local communities and better promote economic and financial learning.

By June 2020, the KRN consisted of 285 libraries in 80 out of 81 provinces in the country (Sulu is the last holdout). The libraries hold BSP publications, books, journals, and other learning resources. They participate in resource-sharing activities with EFLC ROBs. New partnerships are being forged with the Philippine Economic Society (PES), Council of Economics Educators (CECON), and Region V Council of Program Heads and Educators of Economics (COPHEE).

In response to the coronavirus pandemic, the EFLC has adapted to the "new economy arrangement" with appropriate strategies themed "Keeping in Touch while Keeping Distance." It is shifting to web-based learning sessions to complement face-to-face sessions for target audiences. An Economic Education Portal is being developed on the BSP website to provide wider public access to BSP knowledge resources.

Saved by Savings

Josefa Clariño, principal at San Lorenzo Elementary School (SLES) in Tabaco City, Albay, is a crusader. Driven by past experience of almost stopping her high school education if not for her savings, Clariño has made it her personal advocacy to teach students, parents, and teachers to save money every day, no matter how small.

Together with an NGO partner, Children International Bicol Inc., Clariño launched the iSHARE (Saving Habits, Augmenting Resources) program in her school. Children are taught to put away daily a portion of their baon in their coin banks which are kept in the classrooms. Each coin bank has the student's name and the purpose for saving. Starting with just two sections of students in 2015, SLES has now adopted the program for students from kindergarten to sixth grade.

"It is easy to teach the kids about saving because they still don't know that they have the option of borrowing money," Clariño said.

But while the children might not have had an idea about loans, they were well aware of the concept of spending. Clariño noticed that the students could easily take the money out of the coin banks whenever they wanted to buy things. The savings were being depleted.

Clariño decided to enhance the iSHARE program by encouraging the students to open accounts in financial institutions. Some opened accounts in cooperatives that required only PhP20.00 as initial deposit. Others opened Basic Deposit Accounts (BDA) in banks with a maximum of PhP100.00 as initial deposit, as required by BSP regulations.

Out of 945 SLES students, more than 500 now have savings accounts, have their own passbooks and are able to track the money they save.

As in other public schools, money lessons are integrated in all subjects at SLES, providing students reasons and motivations to maintain their savings accounts. The children are taught to live within their means, prioritize needs over wants, and how to be entrepreneurial by having a business or earning some extra money when classes are out. They are also reminded that they should touch their savings only when there is a real need, like when they plan to start a business.

Josefa Clariño, principal at San Lorenzo Elementary School in Tabaco City, Albay teaches students from kindergarten to sixth grade to save through her iSHARE (Saving Habits, Augmenting Resources) program.

When she started, it was difficult for Clariño to convince parents to participate in the school's iSHARE program. But now her efforts are paying off. Many parents are thankful for the program as their kids' savings have helped them cope with the Covid-19 pandemic.

"All we wanted to do before was to teach the necessity of saving. We never thought that a pandemic would underscore the importance of our program," Clariño said, her face radiating satisfaction that her modest program has helped SLES students in their time of need.

CHAPTER 5

TRUSTING THE VISION

The writing of this book was long-planned and scheduled but, as it was being finalized, the world was hit hard by the coronavirus pandemic which placed economies on a precarious footing and affected people from all walks fo life.

When the Philippine government first imposed the Enhanced Community Quarantine (ECQ) to curb the spread and impact of Covid-19, the measures were among the strictest in Asia. All schools, offices, churches, factories, business establishments and public places were closed. No public transportation ran. Mobility restrictions were imposed on everyone, more so people over age 60 and under 20, pregnant women, and people with health risks.

The varying degrees of lockdown posed a grave threat to the socioeconomic life of the poor and marginalized. Millions of Filipinos who belonged to the informal sector – daily wage earners heavily dependent on face-to-face, physically delivered services – were disadvantaged even more by lost livelihoods and hardly affordable basic necessities. Their lack of savings, insurance, and access to financial services heightened their vulnerability even more.

Past efforts and early gains in financial inclusion and digitization have, in large measure, prepared the government and the private sector to respond to the confounding global crisis with some level of clarity and agility.

As the health crisis intensified, the urgent need to provide economic relief illustrated the primacy of financial inclusion in ensuring vital financial services that safeguard the people's welfare, as well as the role of digital technology in efficiently delivering such services, especially much needed government assistance.

A widely shared recognition emerged: past efforts and early gains in financial inclusion and digitalization have, in large measure, prepared the government and the private sector to respond to the confounding global crisis with some level of clarity and agility.

Bangko Sentral ng Pilipinas (BSP) Governor Benjamin E. Diokno said in an address during a fintech launch: "The pandemic's impact has brought significant realizations, challenges, opportunities, and lessons. For one, we in the BSP now see the fruits of laying the foundations early for digitization. We have set enabling regulations to provide a fertile ground for innovation and open doors for new business models and digital-native players to enter the industry."

He cited recent data from the period March 17 to April 30, 2020, the height of the ECQ, that showed that an estimated 4.115 million digital accounts were opened among banks and e-money issuers. "This is worth highlighting as a digital account serves as an indispensable social protection instrument by functioning as an efficient and social distancing-friendly distribution channel for much needed government assistance to the most vulnerable households and affected small businesses across the country," he said.

The National Retail Payment System (NRPS) did not only set the standard for interoperability, according to Diokno, it was also decisively thrust into the limelight electronic payments and settlements, a move that proved critical as the country entered community quarantine in mid-March. "Filipinos quickly turned to mobile and online banking for their daily financial activities with the enforcement of social distancing measures and promotion of contactless payments," Diokno said. "InstaPay and PESONet transactions registered a surge both in volume and value."

Electronic transfer bank services InstaPay and PESONet increased in transaction volume by 84 percent and 24 percent, respectively, in April and May 2020 when the ECQ was in full effect, he said, adding that PESONet in particular saw a 325 percent increase in the month of May alone.

According to recent data made available to BSP, "new online sign-ups and app downloads for digital financial services (DFS) from January to April 2020 also increased by 100 percent from the prior year. Local businesses, households, and individuals made the technological leap forward when they recognized the range, convenience, and other advantages offered by DFS, and there was reason to believe that more Filipinos would be using mobile and online platforms more regularly.

Success of the Financial Inclusion Advocacy

As the post-pandemic new economy emerges, CLIA Director Joyce Suficiencia believes that "the BSP will continue to be the vital architect of an inclusive financial services landscape unlocking digitalization's game-changing potential for the poorest and most vulnerable sectors."

The shift to digital has been made possible by deliberate and constant efforts taken by the BSP year after year with financial inclusion as the end in mind. From learning the lessons of development financing to supporting a market-based approach in microfinance – its flagship program for poverty alleviation – to institutionalizing financial inclusion as an imperative to get closer to the people, the BSP has assiduously endeavored to make a positive difference in the life of every Filipino. All these while fulfilling its mandate of price and financial system stability for the country.

If the goal of an advocacy is to be seamlessly ingrained into the life of the nation, one can say that the Bangko Sentral has been successful – financial inclusion is now embraced by both the public and private sectors at domestic, regional and global levels.

It is fitting that in Republic Act No. 11211, otherwise known as "The New Central Bank Act," financial inclusion has become an explicit mandate. A section in the law now reads: "In the attainment of its objectives, the Bangko Sentral shall promote broad and convenient access to high quality financial services and consider the interest of the general public."

The United Nations Sustainable Development Goals, the global blueprint for peace and prosperity now and into the future, has recognized financial inclusion as an enabler of developmental goals and has featured it as a target in eight of the 17 goals. Regional bodies, such as the ASEAN, have created committees focused on financial inclusion. The Philippine Development Plan incorporates financial inclusion in its vision toward inclusive growth as aligned with the National Strategy for Financial Inclusion. Traditional financial service providers and even new digital players have anchored strategies and business models on financial inclusion.

Based on the latest financial inclusion survey, account penetration grew to 29 percent in 2019 from 22.0 percent in 2015, the maiden run of the survey. This translates to over 5 million Filipino adults brought into the financial system for a total 20.9 million adults (out of 72 million) in 2019. A similar improving trend was seen in the World Bank Global Findex where the estimate in 2017 was 34 percent of adults from the 22.6 percent in its baseline 2011 survey.

Noteworthy in the recent survey is that a significant portion of new account holders is from underserved markets, such as those in the socio-economic class E, living outside Metro Manila (except Visayas), did not reach college, as well as those who are unmarried, non-working, male, and aged 15-19 years old. There is inclusion happening for the most excluded.

Further, the use of financial services has also been expanding. While saving remains the primary reason for opening and using an account, the share of accountholders who use their account for payment transactions more than doubled to 39 percent in 2019 from 18 percent in 2017.

Developments in digital payments have also been significant. The Better than Cash Alliance diagnostic estimated the share of digital payments to be 10 percent by volume (number of transactions) and 20 percent by value (amount of transactions) in 2018. This translates to about 470–490 million digital payment transactions every month in the country. That is nearly 20 times the estimated total monthly volume of digital transactions in 2013 (25 million). The Philippines' overall growth rate in digital payments is estimated to be 27–30 percent, compared to 25 percent in other emerging Asian countries. (Better than Cash Alliance Diagnostic, 2019)

What these developments and numbers have shown, however, is that while there truly have been many accomplishments, much more needs to be done.

Leveraging on Innovation and Technology

To arrive at a state where access to finance has empowered every Filipino to ensure their social and economic well-being and contribution to the country's prosperity, future efforts need to leverage on innovations and technology, focus on strategic segments of the economy, and center on the desired outcome of a financially healthy Filipino.

Against this backdrop, the BSP continues its work in financial inclusion. It is necessary to ensure that disruptions, brought about by the convergence of technologies in the biological, physical and digital domains, do not exclude more segments of the population but rather optimize benefits for every Filipino, much as other industrial revolutions did in the past.

In this regard, the BSP has mapped out a Digital Payments Transformation Roadmap (DPTR) for 2020-2023 which clearly lays down two strategic outcomes. First is to strengthen consumer preference for digital payments to a level where digital is their first option. Second is to have a wider range of innovative and responsive financial services. The roadmap provides some measurable indicators of each of these strategic outcomes. To be able to claim that the Philippines is a digital-first state, 50 percent of total retail payments should be electronic, from the base of 1 percent in 2013, and that at least 70 percent of Filipinos have transaction accounts. Innovative services, on the other hand, include products that have maximized existing technologies or digital infrastructure such as the Philsys digital identification system or open banking.

The general approach to achieve these outcomes is consistent with BSP approaches in the past. One is through collaborative engagement with the private sector and other financial regulators. Another approach is through commensurate regulations that promote digital financial inclusion. Another approach is through capacity-building activities that leverage on rapidly evolving technology.

In addition, the roadmap aims to focus on three areas deemed to be necessary pillars for a digitally transformed financial system.

First is a focus on payment streams with the objective of being a cash-lite economy where not only the share of electronic payments increases but also the percentage of the population taking part in these digital payment streams. Examples include payments to government; merchant payments and other payments to businesses; supplier payments and other business-to-business payments; remittances and other person-to-person payments; and social transfers and other government-to-person payments.

Imperative to Financial Inclusion

By V. Bruce J. Tolentino[1]

In 2020, two cataclysmic events demonstrated the importance of open access to telecommunications services for financial inclusion: the eruption of Taal Volcano in January and the Covid-19 pandemic that continues to rage on as of this writing. During times of upheaval, access to better internet and telecommunications is essential for rapid recovery and the effective transition to the "new economy" and the "new normal".

Shackled Potential

The eruption of Taal Volcano and the Covid-19 pandemic showed that digital banking and finance, coupled with enhanced telecommunications services,

Monetary Board Member V. Bruce Tolentino speaking at the launch of the Dinagat Island Credit Surety Fund

enable a much deeper and more resilient banking system and economy. In the areas of the country where access to telecommunications and digital services is best, the people have been better able to adjust to the crises. Yet much more remains to be done.

The Philippines is one of the most "wired" countries in the world. Filipinos use the internet for entertainment, shopping, transacting business, and staying connected with family and friends worldwide. With 73 million internet users, internet penetration of 67 percent, and some 53 percent of the adult population using the internet each day,[2] the country ought to be served by faster and more accessible telecommunications. Sadly, the country's internet connectivity lags quite far behind its neighboring economies.

1 Independent member of the Monetary Board, Executive Assistant, and Bank Officer.

2 Kemp, S. (2020). Digital 2020: The Philippines. https://datareportal.com/reports/digital-2020-philippines

Across Southeast Asia, the Philippines ranks fifth out of eight countries (excluding Singapore and Brunei Darussalam) in internet connectivity, according to the TowersXchange survey in 2019. As of the third quarter of 2019, the country had only 17,850 cellphone transmission towers, trailing behind Indonesia in first place with 95,556 and Vietnam in second with 90,000.[3]

Department of Information and Communications Technology (DICT) officials told a 2019 hearing of the House of Representatives that each of the country's cell towers served an estimated 4,000 Filipinos (0.14 per 1,000 subscribers), a number far bigger than those served by cellphone towers in other countries.

While the DICT has committed to help build 50,000 new cell sites over the next five years, the road to better telecommunications has not been a smooth one. The country's complex geography, extreme weather conditions, and tedious franchise and permit acquisition laws (on average 25 different licenses per site, with processing that could take up to nine months, and with local government units often complicating the process)[4] have been a turn-off to prospective investors. The high initial investment needed coupled with other higher risks have driven them to other ASEAN countries.

A report entitled "From Analog to Digital: Philippine Policy and Emerging Internet Technologies" published by The Asia Foundation (TAF) in 2018 [5] found that while access to the Internet had positive socioeconomic effects on household income, about 61 percent of our 23 million households remained unconnected to it, 45 percent of the total population of 103 million people had no access to reliable internet and, despite having the budget allocation from the Department of Education, 46,700 public schools nationwide had been unable to connect to the internet in their communities.

Data from the BSP's Financial Inclusion Dashboard show that there are 1,124 (68.8 percent) local government units (LGUs) with a banking presence while 510 LGUs (31.2 percent) have none. Out of these 510 LGUs, 435 (26.6 percent) have at least one form of financial access (e.g. cash agent, money service business, remittance center). This means that most parts of the country are connected to a financial service in some way. However, the data do not really show how many people actually use of these financial services.

A key finding arising from the recent experience is that there are so many barriers to entry into telecommunications. Laws that require telecommunications companies to obtain a franchise are outdated, requirements for access to satellite communications technology are said to be unreasonable, and delays in the rollout of official guidelines and policy cause hesitation in potential investors.Executive orders and legislation like the Ease of Doing

3 TowerXchange Asia Dossier 2019; TowerXchange: Journal of Record for the International Tower Industry, Issue 27, November 2019.

4 TowerXchange Asia Dossier 2019; TowerXchange: Journal of Record for the International Tower

5 Mirandilla-Santos, M.G., Brewer, J., & Faustino, J. (2018). From Analog to Digital: Philippine Policy and Emerging Internet Technologies. Published by The Asia Foundation

Business Act (RA 11032) can guide and incentivize LGUs to expedite the approval of necessary industry permits, while the entry of a third operator and the issuance of the Common Tower Policy can make the Philippine market more fertile. Developing rural and remote regions as sites for towers can bring growth and more opportunities to those areas.

Access to Telecommunications Service

With the passage of Republic Act (RA) No. 11211 of 2019 amending the BSP charter, financial inclusion and its interrelated objectives of financial literacy and consumer protection became a mandate of the BSP. Fulfilling this mandate requires the development of innovative digital and financial systems,[6] especially because it is becoming more and more clear that inadequate access to telecommunications services is a constraint to the achievement of the BSP's inclusive finance goals.

For BSP Governor Benjamin E. Diokno, thriving in the Covid and post-Covid digital economy means putting in place the critical pillars of robust digital infrastructure – digital skills, e-government, digital ID, and enabling legal and regulatory framework. "All these have given new immediacy to the BSP's long-standing financial inclusion and digital transformation agenda for the financial sector," he said in a May 2020 FinTech Alliance Digital Forum. The BSP has thus organized a program of advocacy with a focus on improving access to telecommunications services.

6 2019 Financial Inclusion Initiatives. (Bangko Sentral ng Pilipinas, 2019).

As a new member of the interagency Financial Inclusion Steering Committee (FISC), which oversees and directs the implementation of the National Strategy for Financial Inclusion (NSFI), the DICT should be able to provide expertise and perspective on digital connectivity for the effective promotion of financial inclusion in the country. The BSP, which chairs the FISC, will work closely with the DICT on initiatives that will enable inclusive policies on telecommunications and internet services that facilitate financial inclusion, including the update of Executive Order 467 (1988) to facilitate and enable inclusive access by Filipinos to satellite technology.

Indeed, there is much to accomplish to afford Filipinos, especially those living in far-flung and isolated areas, access to telecommunications, internet, and digital services. The payoff from such an accomplishment will be hugely significant for lasting, inclusive progress for all. The eruption of Taal Volcano and the Covid-19 pandemic will surely be followed by other emergencies and challenges, both natural and man-made. The resilience of the Philippine economy and the Filipino people will be strengthened by inclusive finance, enabled by open access to improved telecommunications, internet services, and digital finance. The BSP and the government must overcome this challenge.

Boracay tricycle owners and drivers who service the whole island have begun accepting GCash. Shown in this photo is Globe CEO Ernest Cu.

Identifying and actively promoting the use of digital payment streams are continuing for different sectors that are seen to be catalytic to broader ecosystem use and adoption, particularly those who are unserved or underserved.

Employer and labor groups constitute one sector. The BSP has worked with the Department of Labor and Employment (DOLE) to promote awareness of digital payments for salaries and wages. With the Financial Inclusion Survey showing nearly 80 percent of salaries and wages paid in cash, there is much room for improvement here. Through this partnership, the DOLE issued Labor Advisory No. 26 Series of 2020 in August 2020 on the use of transaction accounts for payment of wages and other monetary benefits.

Transportation is also a catalyst for broad adoption of digital payments. The BSP supports the Department of Transportation in its implementation of the Automatic Fare Collection System (AFCS) and cashless payments for public utility vehicles, taxis and transport network vehicle service units. The AFCS intends to benefit passengers using the light rail lines, its operators and the wider public through seamless, interoperable and contactless fare collection. The DOTr has also issued an order mandating 100 percent cashless toll collection at all expressways not later than November 2, 2020.

The National Quick Response (QR) Code Standard facilitates digital payments for public transport and vendors.

Government payments to citizens are another key digital payments stream, as was highlighted by the pandemic. As a result of the BSP's coordination work with the Department of Social Welfare and Development and the Land Bank of the Philippines, the the second tranche of the Social Amelioration Program was primarily disbursed through nearly 10 million new transaction accounts created. Limited-purpose cash cards used in the distribution of these cash grants under the Pantawid Pamilyang Pilipino Program (4Ps) will be converted to full-service transaction accounts.

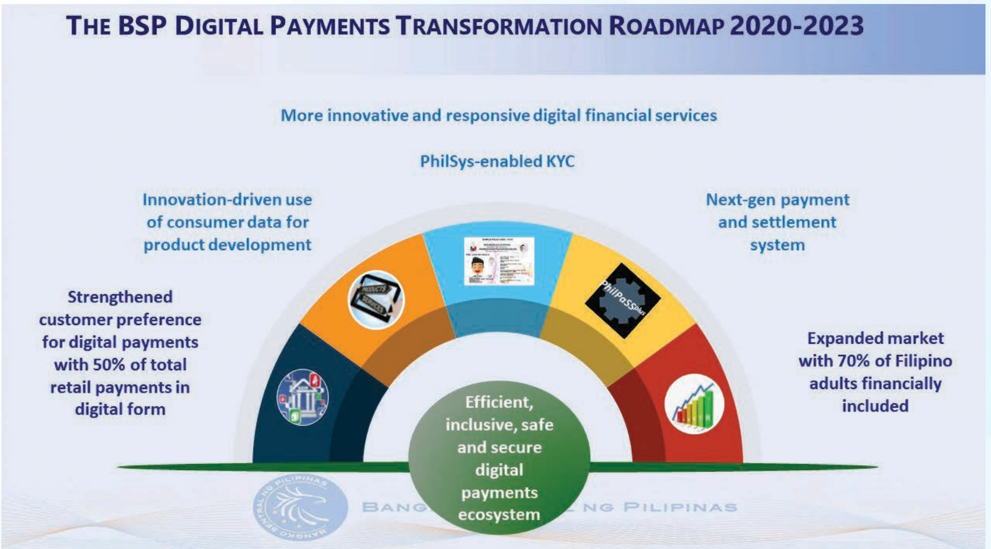
Merchant payments, whether to a market vendor or a retail establishment, are also a crucial use-case. Under the guidance of the BSP, the payments industry launched the national Quick Response (QR) code standard to promote adoption of digital payments among small businesses, including market vendors. The digital merchant payments effort supports the Department of Trade and Industry (DTI) in its ongoing review and enhancement of the national e-commerce roadmap and the BSP's DPTR. There is a proposal to form a technical working group to be co-led by the BSP and DTI with Better Than Cash Alliance as advisor and members from the Philippine Payments Management, e-commerce players, payment service providers and aggregators, retail and merchant associations, as well as fast moving consumer goods companies.

Beep cards are reloadable for cashless and contactless payment of bus fare.

These use-cases, together with the other payment streams, account for 97 percent of all transactions in the country. Thus, even a small shift toward digital payments in these cases could onboard larger numbers of individuals and businesses. Access to accounts has opened up opportunities for wider use of digital payments. One

in three Filipinos owns an account. Yet less than 5 percent of the population regularly makes, and thus gains from, digital payments. Similarly, the proportion of businesses that benefits from digital payments also has great opportunity to grow by targeting some clearly identified challenges. The transition to digital payments should also provide social, economic, and financial benefits, such as broader financial inclusion, poverty reduction, technical innovation, efficiency, and lower costs. (Better than Cash Alliance Diagnostic 2019)

The second and third pillars are the presence of digital infrastructure and the corresponding digital governance and standards, respectively. These include but, are not limited to the digital national ID system or Philsys, open banking platforms, and standards for fund transfers such as QR codes – all of which will be underpinned by an evolving appropriate policy and regulatory environment. The BSP recognizes the potential of new digital technologies and allows room for new business models, industry-wide collaborations, and partnerships to be developed. To encourage innovation, the BSP provides an appropriate and enabling regulatory environment while effectively managing related risks. Regulatory policies should evolve alongside the digital transformation of the financial system.



The Digital Payments Transformation Roadmap (DPTR) for 2020-2023

*The goal is for every Filipino to have access to finance so that they are empowered to pursue their financial goals and attain a better quality of life for their families.

BSP Governor Nestor Espenilla Jr. (second from left) signs the Memorandum of Agreement with Trade Secretary Ramon Lopez (third from left), Kamrul H. Tarafder (left) of MCPI and Edgardo F. Garcia (right) of APPEND to expand the financing ecosystem of Negosyo Centers to help Micro, Small, and Medium Enterprises (MSMEs)

The digital shift can be expected to continue as more Filipinos come to understand technology as a versatile tool that enhances, rather than impedes, their day-to-day financial activities. The thrust of adoption for ordinary individuals, it is worth remembering, will always be what technology can do and the kind of experience it can bring to them as users.

The post-pandemic environment will set the stage for sustainable digital acceleration and technology-driven financial inclusion, which must in turn be supported by a strong digital infrastructure and responsive financial ecosystem. The imperative of financial inclusion will not merely be about bringing financial products and services to the unbanked and unserved; it will be the foundation, both in good and bad times, for innovation and sound social benefits policy, economic recovery, and financial resiliency for years to come.

Focus onStrategic Segments of MSMEs and Agriculture

Broadening access to accounts through technology will help Filipinos take control of their financial lives. But while necessary, it is not sufficient to ensure a collective path to broad-based growth. The financial access needs to translate to economic opportunities, especially in sectors that make up the country's base – the agriculture and the micro, small

and medium enterprises (MSMEs) sectors. Taken together, these two sectors make up around 90 percent of total employment in the country. As evidenced during the pandemic, these critical sectors are also the most vulnerable.

"The MSME sector is a cornerstone of economic growth. We have seen how successful MSMEs liberate people from poverty by creating jobs and serving as catalysts for growth in their communities," said Amando M. Tetangco Jr. at the 2017 convention of the Chamber of Thrift Banks when he was BSP governor.

MSMEs are important economic drivers not only for their contribution of 63.2 percent of employment but also for the business linkages they provide as well as the innovation and creativity they foster.

The sector, however, remains constrained in capital. Bank loans to MSMEs pale in comparison to total loans in the banking system and total businesses, amounting to only 5.9 percent and 8.9 percent, respectively.[1] The World Bank also reports that 81.2 percent of enterprises are financed internally, while only 10.1 percent are financed by banks. [2]

Beyond these figures, there is hardly any available data about the sector, particularly in terms of access to finance. The current MSME data landscape is essentially fragmented and insufficient to facilitate a holistic view and deep understanding of the sector. For instance, informal MSMEs and the depth of informal financial services are unknown, and data cannot be disaggregated into critical segments (e.g., geographical location, business maturity level, and gender). Such insight would be valuable not only for policy interventions by the government but also for sizing up and meeting the financing requirements of this sector by the financial service providers.

The BSP hopes to address the MSME data gap by conducting an in-depth study to generate new and more granular data on MSMEs to support evidence-based policymaking and provide market insight for financial service providers. Addressing the MSME data gaps through a comprehensive and well-structured

The shift to digital has been made possible by deliberate and constant efforts taken by the BSP year after year with financial inclusion as the end in mind.

1 BSP (Q2 2019)
2 World Bank Enterprise Survey (2015)

study is deemed a public good that can inform policy, programs and even business strategy for the private sector. The study is also expected to be a timely input to the updating of the five-year MSME Medium Term Development Plan as well as the Philippine Development Plan in 2022.

The serious focus on evidence to best inform an MSME financing strategy is crucial if the goal is to provide a financial system that not only serves the unmet needs of MSMEs but also promotes the environment that incentivizes this much needed entrepreneurship.

The pandemic has significantly impacted the MSME sector. The disruption in supply chains and reductions in consumption due to Covid-19 quarantine measures have caused massive shutdowns, production interruptions and layoffs among MSMEs, especially in food manufacturing, transport and retail, which are key MSME sectors. Majority of MSMEs reported zero-sales due to temporary closure, particularly of non-essential businesses. In a survey conducted by the University of the Philippines Institute of Small Scale Industries during the community quarantine, 68 percent of respondents claimed they would not be able to survive beyond three months. Concerns raised were the lack of working capital to maintain or restart their businesses as well as the payments falling due, such as loan repayments, taxes and supplier payments.

As the government put in place emergency support measures for vulnerable groups and individuals – such as mandatory grace periods on loan payments and wage subsidies for small businesses – the BSP also swiftly instituted monetary, regulatory and operational relief measures to help the BSP-supervised financial institutions (BSFIs) endure the health crisis as well as to support households and business enterprises. These measures provide incentives for BSFIs to extend financial relief to their borrowers, incentivize bank lending, promote continued access to credit/financial services, continue delivery of financial services to enable consumers to complete financial transactions during the ECQ period, and support the level of domestic liquidity.

The measures are meant to stimulate bank lending to MSMEs and channel banking system liquidity to the sector. They include recognizing new MSME loans as a form of alternative compliance with the reserve requirement of banks and reduction in credit risk weight of loans to MSMEs from 75 percent to 50 percent for loans guaranteed by Philguarantee Corporation, among others.

Early results showed some positive impact of these measures where loans continued to flow to MSMEs even during the ECQ. New loans granted to MSMEs, as well as the loans reported as compliance to reserve requirements, amount to over PhP100 billion as of this book's writing.

While these emergency measures have proven effective, the protracted state of the pandemic is likely to exacerbate this situation as MSMEs contend with deteriorating financial positions. Without MSME financing approaches that are more responsive and contextualized to the evolving Covid-19 business landscape, banks may not be able to actively chase new MSME clients even with the incentives and macro stimulus measures to promote MSME lending.

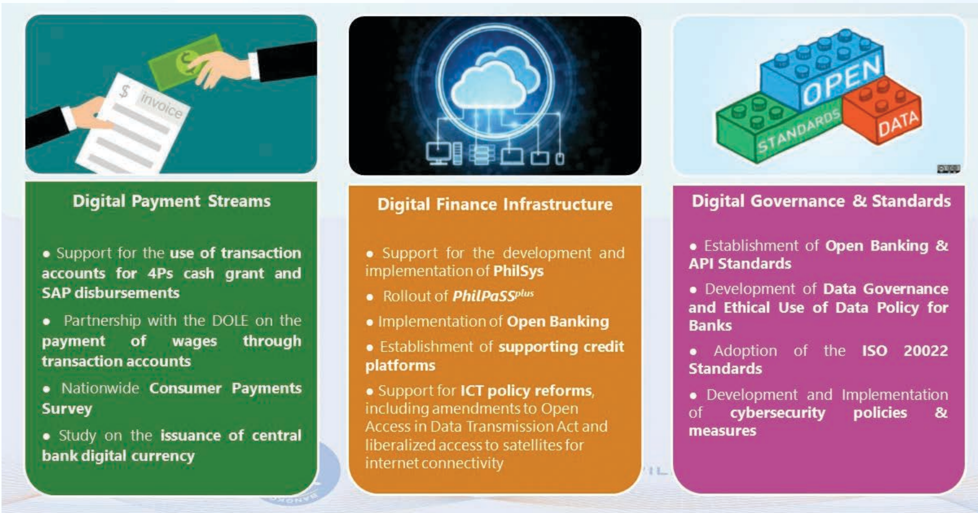
The BSP will also work on critical small and medium enterprises (SME) finance infrastructure by establishing a credit risk database and exploring the opportunities in supply chain finance.

The credit risk database (CRD) is a credit enhancement tool pioneered in Japan that uses financial statement information, non-financial data (e.g., industry/sector, location) and default data of borrowers to build a statistical scoring model predicting the creditworthiness of SMEs. Through support from CRD Japan, the BSP is building this database to enable banks to have better insight into the probability of default of SMEs where such insight would otherwise not be available. This development in credit infrastructure is expected to lower the cost of lending and improve speed of service delivery. The CRD initiative is seen to broaden SME access to finance by promoting the shift from collateral-based to risk-based lending. This will surely complement ongoing efforts to strengthen credit information in the country.

SAP recipients are able to do cardless withdrawals from the ATM, thanks to financial digital technology.

Supply chain finance (SCF), on the other hand, is an approach to financing businesses by leveraging the receivables and inventory flows as well as supply chain relationships. The SCF provides working capital efficiency and cash conversion cycle benefits to MSMEs and corporations. It also represents a very stable and low-risk revenue stream for banks compared to conventional lending products. Implementing

Social Amelioration Boosts Financial Inclusion



Three Pillars of the Digital Payments Transformation

On the 25th of March 2020, Republic Act No. 11469, more popularly known as the Bayanihan to Heal as One Act, was signed into law, mandating the implementation of the Social Amelioration Program (SAP) that provided emergency subsidy to around 18 million low income households adversely affected by the Covid-19 pandemic.

The subsidy ranged from a minimum of PhP 5,000.00 to a maximum of PhP 8,000.00 a month for two months. Due to the implementation of community quarantine protocols, the Department of Social Welfare and Development (DSWD) had to limit social contacts and refrain from mass assemblies for payouts. But with an enabling regulatory environment and the presence of financial service providers (FSPs) who were ready to effect fast disbursement while observing social distancing rules, the DSWD managed to release the second tranche payment primarily digitally through transaction accounts created for each beneficiary.

The DSWD admitted it was the first time it undertook digitization on a massive scale and recognized the contactless system's potential for other similar government payments to its citizens. The health crisis and the massive government cash assistance it required accelerated the shift to digital accounts and payments

The Bangko Sentral ng Pilipinas (BSP) entered into a Memorandum of Understanding with the DSWD to provide technical assistance in this undertaking. The BSP was to provide guidance on the requirements or qualifications of FSPs that would be part of the program. Since these FSPs were BSP supervised institutions, assistance was also provided in technical discussions to ensure that regulatory concerns were addressed and arrangements were in line with the objectives of the program.

Admittedly, the massive national undertaking, tried out for the first time during a pandemic, had to address certain obstacles and issues, but these were appropriately seen as the birth pains of digitization. All the parties recognized the program's importance and the impact it could make.

One of the bank officers involved said the program was an eye-opener for a corporate banker like herself. She said she "really saw the need to push accessibility to our countrymen, increase financial education, and push for agency banking at the local community level."

Within two months following the MOU's signing, the FSPs were able to create nearly 10 million accounts for social payment beneficiaries, some of whom cashed-in their ***ayuda*** (assistance) through the wide network of agents near them, while others went through cashout locations that were mounted for the purpose. Still others – for the first time in some cases – got their cash through ATMs.

Apart from the ease and transparency in disbursement on the DSWD's part, the program gave each beneficiary the opportunity to own a transaction account that could be used not just to claim social payments but also to save money, pay bills, send and receive remittances and eventually access other financial services.

One FSP reported that a beneficiary used her ***ayuda*** as capital for her sari-sari store business. Another FSP said a beneficiary used the funds for an e-load business.

As the country deals with the pandemic's immediate and long-term effects, financial inclusion will undoubtedly continue to make a difference. Financial inclusion remains a basic pillar for an efficient and comprehensive social protection system and a foundation for establishing financial resiliency among the country's poor and vulnerable. The SAP may have been a short-term solution prompted by the need to cushion the pandemic's impact, but it can make financial inclusion a long-term benefit by getting millions of the unbanked finally integrated into the formal financial system through account ownership.

Before this experience, only 30 percent of Filipino adults had formal accounts. Almost overnight, the number doubled, boosted by the country's most vulnerable sector. It is a rather remarkable outcome that has transformed despair into hope.

SFC can help deploy bank funds to smaller firms that banks may be unable or unwilling to serve using the traditional financing approach. SCF products typically provide control on cash flows, visibility of transactions, and underlying contracts between buyer and supplier.

Banks obtain support from and agreement with large corporates as an anchor to reduce the information asymmetry of MSME supply chain partners. MSMEs access bank financing using their receivables and inventories as collateral. Eventually, banks will find opportunities for long-term business and cross-selling for MSME clients of SCF. There are also opportunities in accelerating SCF in light of increased digitization of business processes. The vision is for MSMEs to be connected to broader supply chains and benefit fully from this participation not only to ensure access to financing but also to expand markets and ensure resilience.

Together with these initiatives, support for the Credit Surety Fund (CSF) program will be sustained. While under the CSF Act of 2015 (R.A. No. 10744) the Cooperative Development Authority (CDA) serves as the lead implementing agency responsible for the registration and supervision of CSF cooperatives, it is the BSP, on the other hand, that spearheads the promotion and capacity building of CSFs.

The BSP closely coordinates with the CDA on the existing CSF's registration into CSF cooperatives and on the capacity building for both the CSFs and the CDA itself. The BSP and the CDA have agreed to enter into a memorandum of agreement to formalize cooperation arrangements in the implementation of the CSF Act. The hope is for the sustained development of viable CSF cooperatives to continue to provide credit enhancement through a surety cover for loans granted by banks to MSMEs that typically do not obtain formal credit easily.

Similar to MSMEs, agriculture financing is faced with barriers primarily due to the lack of scale, perceived high risk and cost, and lack of information. The mandated agri-agra credit allocation has not effectively improved the banking system's exposure to the sector with its measly ≈3 percent share in the banks' total loan portfolio. Agriculture financing constraints include lack of bankable projects, limited technical expertise of banks, and high vulnerability of the sector to unfavorable weather conditions and commodity price fluctuations.

Linking small farmers to the urban markets through the agriculture value chain is considered a major strategy to improve the income levels of small farmers.

A study on agriculture value chain conducted by the Asian Development Bank (ADB) in 2018 cited that, despite liquidity in the banking system, most banks were not inclined to provide financing to the agriculture sector. Banks were neither familiar with nor aware of value

chain financing. They also viewed lending to agriculture as costly and risky. Most banks did not have specific information on farmers and farmer organizations that had been provided or were being provided technical support by government to be strong participants in the value chain. Similarly, farmers' groups and associations were not aware of or interested to get financing from private financial institutions. Most of them were dependent on financing from government credit programs with meager financial resources or from the informal sector.

Because of this prevailing perception among banks, there is a need to raise awareness and beef up the capacities of banks to engage in value chain financing.

Recognizing these constraints, the current work of the BSP is the implementation of a pilot project that will show the viability of agriculture value chain financing (AVCF) within the agriculture financing ecosystem. The pilot project will provide technical assistance to a few banks to demonstrate the viability of lending to the agriculture sector, particularly to farmers or farmers' organizations that are linked to, or are part of, a specific value chain. Technical assistance will be provided to participating pilot banks in any or all of the following areas: product development; required structural and organizational changes; policies, processes and procedures to be adopted; value chain analysis; and development of market for AVCF. To complete the elements of the AVC financing ecosystem, necessary credit enhancements, such

In March 2016, the BSP issued Circular 908 or the Agricultural Value Chain Financing Framework which aims to address agricultural credit risks by shifting the focus of lending from individual farmers and fisherfolks to the whole value chain. This benefits microenterprises that are involved in value chains as it provides an opportunity to open up credit to all the players in the chain. The AVCF Framework not only addresses financing constraints of small players but also allows them to take on other challenges such as access to markets, business development, and technology.

as agriculture insurance and agriculture guarantee, will also be provided to the pilot banks. Project assistance will be provided in linking the pilot banks to the Agriculture Guarantee Fund Program relevant institutions providing these credit enhancement measures (i.e. insurance companies).

Lessons learned from the pilot will be used as input for the development of an AVFC guide or toolkit and training program for the banking industry. The successful implementation of the pilot will demonstrate the viability of AVCF as a financing approach and encourage more banks to adopt it in order to strategically serve the agriculture sector. The lessons can also provide inputs to the development of a national roadmap/strategy on AVCF.

MSMEs and the agriculture sector, productively linked to broader value chains and having access to appropriate financial services, can ensure the stability of the inclusive growth base.

Financial Health and Protection

The proposition is that access to affordable and suitable financial services enables every Juan and Maria to improve his and her personal financial outcomes and take advantage of economic opportunities. This story has come true in the lives of many microentrepreneurs in the Philippines.

The trajectory from financial access to economic empowerment, however, is not straightforward, automatic or immediate. Several factors must be in place to achieve the end goal. Enabling policies and regulations for financial inclusion are one factor. Financial service providers that cater to the financially excluded segments of the population are another factor as they proactively design and target their financial services effectively for such markets, within appropriate risk management frameworks. A culture of protecting consumers must be imbibed by providers.

Equally important – and perhaps most challenging to set in place – is having a critical mass of financially-literate and well-informed users of financial services. The BSP understands the interdependency of these factors.

Before Juan and Maria can get to that sweet state of economic empowerment, they need to know how financial services can work to their advantage. They must effectively utilize this knowledge as they select, access and use financial services and deal with financial service providers, whether through traditional over-the-counter channels or digital platforms. They must be capable of making daily financial decisions that result in positive

outcomes, discerning and preventing risks of harmful financial transactions, and becoming financially resilient despite personal and economic shocks. These are the substance of financial health, and the desired end-product of the BSP financial education programs.

Edamil Patta, CMA regional awardee for Mindanao, is the owner of Wonderland Coffee Shop and Sari-sari store in Bongao, Tawi-Tawi. She opened the store with her husband, through a loan from the KFI Center for Community Development Foundation Inc.,a local microfinance institution.

Photo Credit:
Microfinance Council of the Philippines Inc.

An individual is financially healthy when he or she is able to use a range of financial tools, make financial plans, balance income and expenses, prioritize needs, manage debt and shocks to reduce financial vulnerability, build reserves, and accumulate assets.[3] Using this lens brings the perspective of consumer outcomes arising from having access to and usage of financial services. It emphasizes that financial inclusion should be measured not just in terms of the number of financial service providers serving all socio-economic strata, or hard-to-reach areas, or the percentage of the population with accounts, or the volume and value of digital financial transactions. Rather it requires a more granular and maybe even more qualitative assessment of how such metrics are translated into the well-being of consumers, with due consideration to behavioral and socio-economic factors. The financial health framework thus helps define the tangible value of financial services in the life of consumers.[4]

As the BSP journeys forward to the future, it will be anchored on the financial health framework and corresponding measurement tools to ensure that financial consumers remain at the center of its financial education programs. Over the long term, the BSP aims to educate generations of financial consumers to become financially healthy and

3 Rhyne, E., et.al. (2017). *Beyond Financial Inclusion: Financial Health as a Global Framework*. Center for Financial Services Innovation and ACCION.

4 World Economic Forum (2018). *Advancing Financial Inclusion Metrics: Shifting from Access to Economic Empowerment.*

economically empowered. The BSP will endeavor to design and implement more effective, innovative, digitally-delivered financial education programs, in tune with emerging developments in the financial system and the new economy.

Under the new economy, sectors of the population most in need of financial literacy interventions, or having immense potential for scalability and multiplier effects, will continue to be targeted. These include, among others, overseas Filipino workers and their families, microentrepreneurs and small business owners, agriculture and fisheries workers, beneficiaries of the government's conditional cash transfer programs, civil servants, the armed forces, educators and learners in the basic education system, college students, and young professionals. Financial education programs for these sectors will remain as collaborative initiatives with strategic partners from public and private sector institutions that share the BSP's vision of a financially healthy and economically empowered Filipino citizenry. Together with its partners, the BSP will aim and work towards an inclusive, progressive and prosperous Philippines.

Conclusion

Speaking before the Philippine Exporters Confederation in 2019, Diokno said, "Financial inclusion is a necessary condition for a sustainable economy. To realize this vision means pursuing change and reform, however difficult they may be. The BSP's enduring financial inclusion journey attests to this. We craft our policies not only for the present but also with the future in mind."

It is clear that the work is far from over. This book has focused on various aspects where impact has been made and measured. The impact should be seen in terms of "an inclusive financial system that is not only pro-growth but also pro-poor with the potential to reduce income inequality and poverty, and promote social cohesion and shared economic development."

Continuing the financial inclusion journey also means constantly going back to the questions: What is the impact of financial inclusion on the lives of poor families? With its potential to help smooth consumption, mitigate the effects of income shocks, manage financial risks and allow more investments, is financial inclusion moving towards uplifting the marginalized and helping the MSMEs grow?

In recent years, these questions have been of considerable interest to the development community given that more data and methods are available to coherently measure these.

For instance, the ADB (2018), using a new index to assess the impact of financial inclusion, found that economies with high financial inclusion had significantly lower poverty rates but the impact appeared to be significant in high and upper-middle income economies, and not in middle-low and low income economies. These suggest that inclusive finance reduces poverty and inequality when overall economic conditions empower people to use financial services for productive use.

Meanwhile, an IMF Conference in 2018 also tackled the drivers and real effects of access and usage of financial services. A synthesis of the papers indicated that while cross-country macro data had shown that financial development increased the income of the poorest quintiles and reduced inequality, evidence on the impact of financial inclusion alone had been mixed, with the question of whether or not financial services had sizeable real effects (and through which channels) remaining open.

The Consultative Group to Assist the Poor, in its review of financial inclusion impact studies, concluded that there was evidence of welfare-enhancing solutions for the poor but generalizations of results without a clear context might lead farther from a coherent, nuanced and broader inclusive finance narrative that can help shape policies. (CGAP, 2019)

Through this book, together with 20 years' worth of insight, the BSP contributes to the discourse as it empirically measures the transformative effects of expanding financial access in the country. This book is partly an adventure story, partly a lesson in development financing, partly an examination of innovative leadership, and partly a testimony to faith in the possibility of building a society where no one is left behind.

But this book also shows that the BSP's full financial inclusion story is yet to be written and shared. Towards this end, it is ready to do so, as its efforts so far have been towards forming the right questions and forging the right tools to find the right answers.

This is where the journey continues.

Towards A New Economy

Current Bangko Sentral ng Pilipinas (BSP) Governor Benjamin E. Diokno states with a hint of pride that he has been in government service for almost 40 years. While he has spent most of those years as a professor at the University of the Philippines (UP), his Alma Mater, he has never declined the call to serve the government in a broader capacity. And he believes other people should also see public service not as a sacrifice but as a rare opportunity to create the country every Filipino wants and hopes for.

BSP Governor Benjamin E. Diokno

In his commencement address to the Class of 2017 at UP Diliman, Diokno, then secretary of budget and management, told the new graduates, "Now, government may not offer you the highest pay or the most comfortable working environment, but it can offer you the chance to create impact at such a large scale."

He then shared his beacon in public service – the Oath of Athenian. It is an oath of citizenship engraved prominently in the lobby of Syracuse University's Maxwell Hall, which houses the Maxwell School Citizenship and Public Affairs where he received his doctorate.

"It captures my own attitude when it comes to the work that I do," Diokno said. "It goes: 'We will ever strive for the ideals and sacred things of the city, both alone and with many; we will unceasingly seek to quicken the sense of public duty; we will revere and obey the city's laws; we will transmit this city not only not less, but greater, better and more beautiful than it was transmitted to us.'"

He added, "This oath reminds us of our joint responsibility, as citizens, to transmit our country, the Philippines, 'not only not less, but greater, better and more beautiful than it was transmitted to us.' That is honor, and that is excellence."

At the BSP, he remains focused on this vision to transmit the Philippines to that "greater, better and more beautiful" future. While a less determined leader might have been overcome by the COVID-19 challenge, Diokno continues to build on what his predecessors started and relentlessly pursues the goal of financial inclusion.

"Financial inclusion is a key component of my vision in intentionally bringing the BSP closer to the people," he said. "The overall goal is to create an ecosystem that makes it viable for market players to serve the low-income sector by developing the necessary conditions that make formal financial services accessible and compelling for the low-income sector."

In this pursuit, Diokno has expressed his twin goals of shifting 50 percent of retail payment transactions to digital form and achieving 70 percent transaction account ownership among adult Filipinos by 2023.

In relation to this, Diokno is one of the drivers of the Philippine ID System. The landmark initiative intends to make it easier for the unbanked to comply with the stringent Know-Your-Client (KYC) requirement in opening bank accounts—a usual roadblock to access financial services. It would also facilitate the distribution of welfare grants to targeted individuals, as necessary.

Amid the pandemic, he reminded policymakers of "our deepest responsibility – to safeguard lives and livelihoods." The central bank's primary responsibilities are to control inflation and maintain financial stability. "Under my watch, it has played a more active role in poverty reduction and sharpened its focus on humanitarian outcomes," Diokno said, as he listed some of the steps the BSP took to cushion the impact of the pandemic on the most vulnerable Filipinos.

To cite one such measure, the BSP allowed the recognition of loans granted to micro, small and medium enterprises (MSMEs) as a form of alternative compliance with the reserve requirement, effective April 2020 until December 2021. This is meant to stimulate bank lending to MSMEs and channel banking system liquidity to the MSME sector. It essentially allows banks to tap into their funds that are maintained with the BSP in the Demand Deposit Account and to use the same for targeted lending for the benefit of the MSME sector.

As a result of this measure, new MSME loans were generated during the lockdowns amounting to PhP40.6 billion from the top 30 banks. Financial relief was also extended to MSME borrowers through amendments in bank financing terms, resulting in PhP25.6 billion in MSME loan accounts renewed while PhP1.8 billion were restructured by top 30 banks. Meanwhile, the average MSME loans used for compliance with the reserve requirements climbed to PhP120.9 billion during the reserve week of 1 October 2020 from PhP8.7 billion in end-April 2020.

In a recent opinion piece for the South China Morning Post, "Why the Philippine Economy Is Poised for a Strong Recovery," Diokno showed that the pandemic had not dampened his spirit and weakened his faith in the nation's ability to bounce back and resume the pursuit of a greater, better and more beautiful state for future generations. He said here was ample monetary and fiscal space to draw on to fuel recovery, as well as a young, well-educated and mostly English-speaking population.

Aside from considering reforms necessary for sustained recovery, Diokno said, "We also look forward to a 'new economy' that is stronger, more technologically savvy, and more inclusive." Digitization, he said, was one of the fastest ways to increase access to financial services, particularly in remote areas with no bank branches.

"While the economy is not out of the woods yet, the Philippines is poised for a strong recovery. I am confident, and not only because of our resilience as a people, which we displayed in the Asian and global financial crises. This challenge is far greater, but our institutions and economic fundamentals are stronger than ever," the BSP governor confidently stated.

We look forward to a 'new economy' that is stronger, more technologically savvy and more inclusive.

Benjamin E. Diokno

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Chelo Banal-Formoso has over 40 years' experience in journalism as writer, editor and resource person.

As Education editor of the Philippine Daily Inquirer, she founded and directed Inquirer in Education, which was awarded by the World Association of Newspapers for its campaign on using newspapers in elementary and high school classrooms.

Chelo took up Journalism and Education (major in Sped) at the University of the Philippines. She was also the recipient of a writing scholarship to the New School for Social Research in New York City.

Her journalism experience before focusing on education included writing for the Panorama Magazine of the Bulletin Today and editing the Lifestyle section of the Inquirer.

Chelo is married to Bill Formoso, a desk editor who retired from the Inquirer with her. They have two grown children: Isabel, a US-licensed speech pathologist, and Gabriel, who paints still lifes beyond the limits of autism and within the context and grace of family love.

Chelo is the proud owner and prodigious user of e-money and online bank accounts. She likens this to having a magic wand . . . bibbiddi bobbiddi boo and she can have anything and everything delivered. For this her family is thankful.

Linda B. Bolido is a freelance writer/editor. She was a contributing editor of Mirror magazine before she became a contributing editor and columnist of the Philippine Daily Inquirer. After working for the Bulletin Today (Manila Bulletin) as a reporter, she was hired to be editor of Depthnews Radio and, later, Depthnews Asia regional news services.

She edited the books "Over a Cup of Coffee" and "SBCAF - Celebrating 20 Years of Service to Bedan Education." More recently, she wrote "And the Father is Glorified in the Son," the story of the father of President Ramon Magsaysay.

Linda studied Journalism at the University of the Philippines but earned her Bachelor of Arts degree from the Lyceum of the Philippines University. As a Fulbright-Hays grantee, she was a Professional Journalism (now John S. Knight) fellow at Stanford University in California, United States.

Linda was a consultant in the Public Information Office of the World Health Organization and program officer of the Program for Asian Projects of the Ramon Magsaysay Award Foundation, at which time she met Muhammad Yunus, the pioneer in microcredit and microfinance, and got to see how his initiatives were helping Bangladeshi women liberate themselves from poverty.

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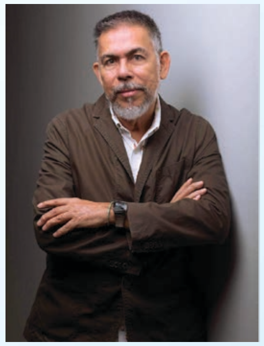

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