

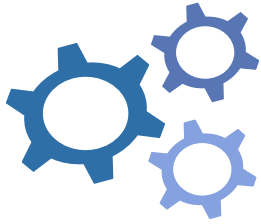


BANGKO SENTRAL NG PILIPINAS



2019
Financial
Inclusion
Initiatives

Financial Inclusion Initiatives 2019



National Strategy for
Financial Inclusion (NSFI)

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“The goal of financial inclusion is to ensure all Filipinos are able to use financial services that are appropriate to their needs and capacity - whether for saving, payment, credit, insurance or investment. Financial services allow individuals and businesses - regardless of income and size - to effectively manage their finances and achieve their financial goals.”

- Governor Benjamin E. Diokno in his keynote address for the 2019 Citi Microentrepreneurship Awards

Through the years, the Bangko Sentral ng Pilipinas (BSP) has worked tirelessly to promote financial inclusion as a strategic advocacy in pursuit of its vision to provide a high quality of life for all Filipinos. With the passage of Republic Act (RA) No. 11211 of 2019 amending the BSP charter, financial inclusion and its complementary objectives of financial literacy and consumer protection became no longer just a strategic advocacy but a mandate of the BSP. Under Section 3 of the law, BSP is mandated in the attainment of its objectives to “promote a broad and convenient access to high quality financial services and consider the interest of the general public.”

BSP’s financial inclusion efforts have largely been geared toward ensuring an enabling regulatory environment that allows a variety of players – new and incumbents alike – to viably serve the diverse needs of the unserved and vulnerable sectors of the economy which include, among others, informal workers, micro-entrepreneurs, and farmers.

These efforts have borne fruit as more financial service providers increasingly pay attention to the mass market as a vehicle for growth – offering products such as the basic deposit account, expanding outreach through the cash agents and mobile apps, and offering digital payments. These are the foundational pieces toward an inclusive digital finance ecosystem benefitting our target underserved sectors.



of adults have a formal account

(BSP Financial Inclusion Survey 2017)



95.8%

of municipalities have a financial access point

(BSP Q2 2019)



BDA

2,196,445

Basic Deposit Account
(BDA) depositors

(BSP Q2 2019)

113

banks offering BDA

(BSP Q2 2019)

PESONet

55 Participating
institutions

(BSP November 2019)

instaPay

31 Participating
institutions

14 of which connecting as
receiving institution only

(BSP November 2019)

Financial inclusion is necessarily a whole-of-nation undertaking. Beyond enabling regulations, financial inclusion requires the development of adequate digital and financial infrastructure, a widely shared awareness and trust in financial services, and compelling value propositions for owning and using a formal account. The National Strategy for Financial Inclusion (NSFI) and the Financial Inclusion Steering Committee (FISC) serve as a platform for effective multi-stakeholder collaboration key to delivering the demands of financial inclusion.

“The pursuit of financial inclusion requires an openness to all possible transformative solutions and impactful innovations, such as digital technology, new business models, and cross-sector collaboration.”

*– Governor Benjamin E. Diokno at the 2019
Finex (Financial Executives Institute of the
Philippines) Conference*



NSFI

National Strategy for Financial Inclusion

Launched in 2015, the National Strategy for Financial Inclusion (NSFI) provides a comprehensive framework that underpins efforts of the government and private sector toward the shared vision for financial inclusion in the country.

It provides the platform for public-private coordination and cooperation as well as harmonization of policies and programs related to financial inclusion.

To provide guidance and oversight in the NSFI implementation, the Financial Inclusion Steering Committee (FISC) – a nineteen (19) member strong interagency body – was established in 2016 through Executive Order No. 208.

Financial Inclusion Steering Committee (FISC)

As the governing body tasked to drive the implementation of the NSFI, the FISC members recognized the need to promote greater collaboration in government and private sector toward the development of two (2) focal areas, namely:

- 1) Agriculture Value Chain Finance (AVCF); and
- 2) Digital Finance.

In its 7th meeting on 5 July 2019, the FISC discussed the **proposed AVCF pilot project** initiated by the BSP which aims to increase awareness and confidence of banks to finance the agriculture sector using the value chain approach. Under the pilot project, selected participating banks will receive technical assistance from the Asian Development Bank for the design and delivery of AVCF products for the priority commodities and value chain projects supported by various government programs. These include

the Philippine Rural Development Program of the Department of Agriculture (DA), Project Converge of the Department of Agrarian Reform (DAR), and RAPID Growth Program of the Department of Trade and Industry (DTI).

The FISC also expressed commitment to ensure more Filipinos are able to open and regularly use a transaction account so they can fully participate in the gains of an **inclusive digital finance ecosystem**. Discussions covered the pay-outs to conditional cash transfer beneficiaries of the Department of Social Welfare and Development (DSWD) and online platform for government payment transactions of the Department of Finance (DOF).

The FISC also noted the sustained efforts to **forge strategic partnerships to increase financial literacy** in the country.

In 2019, the Department of Labor and Employment (DOLE) and Department of Transportation (DOTr) were onboarded in the interagency body in light of the agencies' role in promoting payment of salaries through formal accounts and digitizing payments in public transportation.



Strategic Thrust 1

Building the digital and financial infrastructure

One of BSP's guiding principles for financial inclusion is that the low-income, MSME and agriculture sectors can be sustainably served by the private sector with well-designed government interventions that address the challenges associated with serving these sectors: high cost and high risk. BSP is therefore committed to support the development of market-enabling financial and digital infrastructure that can significantly improve cost-efficiencies, deepen customer insights, and mitigate risks to facilitate the delivery of innovative financial services for the target sectors.

National Payment System Act



RA No. 11127 or the National Payment Systems Act (NPSA), is a landmark legislation that provides the comprehensive legal and regulatory framework for the payment systems in the country. As the appointed regulator and overseer of the payment systems, BSP will be able intervene more strategically in developing the digital payments landscape in the country toward greater efficiencies and inclusivity. An efficient retail payment system is considered a backbone of digital finance.

Philippine Identification System (PhilSys)



RA No. 11055 of 2018 establishes the PhilSys as a national digital ID which is envisioned to promote financial inclusion by addressing oft-cited account opening barriers by the unbanked (e.g., lack of documentation), making onboarding more cost efficient and facilitating digital finance innovations. The goal of BSP as PhilSys nears implementation is to ensure that banks and e-money issuers are prepared to effectively leverage PhilSys to reach the unbanked. Toward this end, BSP actively participates in the PhilSys Policy and Coordination Council (PSPCC) and its interagency technical working groups, specifically on the use cases and communication. It also continuously engages with the industry on implementation updates and possible financial service use cases for PhilSys. BSP has worked with the Asian Development Bank on the conduct of a study to assess the readiness and requirements of the industry to leverage PhilSys for inclusion.

Credit Surety Fund

The Credit Surety Fund (CSF) program was conceptualized and launched by the BSP in 2008. The CSF is a credit enhancement scheme which aims to give MSMEs access to non-collateral bank financing by way of surety cover issued jointly and severally by the parties of the CSF in favor of the creditor bank. It is created by pooling the contributions of participating cooperatives, non-government organizations, local government unit and partner institutions.

In 2015, the CSF program was institutionalized through the passage of RA No. 10744 or the “Credit Surety Fund Cooperative Act of 2015”. Under the law, the Cooperative Development Agency (CDA) is the lead implementing government agency of CSF responsible for the registration, regulation, monitoring and supervision of CSF cooperatives. The BSP’s role, on the other hand, is to spearhead the promotion, encouragement, creation and organizational development of CSF cooperatives all over the country, and facilitate capacity building of the CSFs.

In 2019, in support of CDA’s transition process as CSF regulator, the BSP conducted briefing sessions for the staff of CDA’s newly established CSF department on the details of RA 10744 and IRR, and CSF program implementation. BSP also hosted three (3) business forums for the members of the CSF cooperatives which cover topics such as business registration, MSME programs of the local government units (LGUs) and MSME loan products.



The Ifugao CSF was also launched on 5 December 2019 as the 55th CSF and the first to be launched after the implementation of RA 10744. Of the 55 CSFs, 2 have already been registered with the CDA in 2019: the Tacloban City CSF Cooperative and Baguio City CSF Cooperative.

Credit Risk Database



The CRD is a credit enhancement tool pioneered from Japan, which uses financial data (sourced from balance sheet, profit and loss statement) and non-financial data (e.g., type of industry/sector, business location, etc.) as well as default-related information (e.g., record on arrears, bankruptcy, etc.) to build statistical models that can be used to predict the creditworthiness of MSMEs.

The CRD collects data from its member financial institutions, which is used to come up with a statistical scoring model that calculates the probability of default (PD) for each MSME. A lower calculated PD indicates low credit risk for the MSME, while a higher calculated PD indicates elevated credit risk for an MSME. This development is expected to broaden MSMEs access to finance by lessening the dependence of banks on collateral and promoting risk-based lending.

The Japan International Cooperation Agency (JICA) initiated the feasibility studies and plans for the operational set-up of the CRD under the technical cooperation program for the Philippines. The BSP has agreed to serve as the lead responsible agency for the implementation of the CRD project in the country.

To carry out the project, a Project Implementation Unit (PIU) administratively placed under CLIA and in coordination with the BSP's Financial Supervision Sector (FSS), will soon be established with a strategic guidance from the CRD Technical Working Group (TWG). The TWG is composed of representatives from the BSP, Department of Finance (DOF), Securities and Exchange Commission (SEC), and Department of Trade and Industry (DTI) with the UP School of Statistics as observer.

Credit Information System



A well-functioning credit information system and database promote risk-based lending and address information asymmetry, thereby reducing the cost of the credit risk assessment process of lending institutions. The Credit Information Corporation (CIC) was created by law to be the country's central credit information, and to provide access to reliable, standardized information on credit history and financial condition of borrowers. In 2019, BSP was granted four seats in its Board of Directors to support the effective operations of the CIC as a crucial market-enabling financial infrastructure.

Warehouse Receipts System



BSP is advocating for the passage of the warehouse receipt system bill that will support farmers and agri-entrepreneurs by providing them tools to manage commodity price fluctuations and access financing using warehouse receipts as collateral.

This bill complements the PPSA with warehouse receipts being an important use case for the movable collateral framework. The proposed bill in congress will provide the needed update to the existing century-old warehouse receipt law by putting in place, among others, a central online registry, an oversight body, and an accreditation framework for warehouse operators.

Movable Collateral Registry



BSP is actively supporting the implementation of the Philippine Property Security Act (PPSA) which provides the legal framework to govern the use of movable collateral such as warehouse receipts, inventories, receivables and equipment, among others. The implementation of the PPSA, in particular the online movable collateral registry, is envisioned to expand the types of properties that MSMEs can use as acceptable collateral to obtain credit from banks and other lenders. BSP is exploring possible policy issuances to promote the adoption of banks of the PPSA and expand their MSME loan portfolio.

Strategic Thrust 2

Fostering trust and financial literacy

Achieving financial inclusion not only necessitates providing access to financial products but also forging trust in those products and promoting financial literacy. Adequate consumer protection mechanisms are necessary to foster public trust in and continued use of welfare-enhancing formal financial services. Financial literacy on the other hand is about consumers understanding what it means and what it takes to be financially healthy, which will then compel them to seek out, use and drive the demand for fit-for-purpose financial services.



Financial Education

Since 2018, BSP has adopted a financial education approach built on strategic institutional partnerships with both government agencies and private sector. The ultimate objective is to build an ecosystem of financial education advocates with a shared vision and collective responsibility for sustained and effective financial education programs.



In this approach, the BSP serves as a convener of key stakeholders as well as content creator: developing financial education materials that are “product agnostic” or not linked to particular products/providers, leveraging on digital modes of delivering financial education messages, and seeking ways to better measure program effectiveness.

The financial education materials are intended for use of its strategic partners that already have institutionalized delivery mechanisms wherein financial education sessions can be mainstreamed.

The primary approach is to coordinate, collaborate and capacitate partners in developing and implementing financial education sessions as part of their own regular capacity building programs to ensure sustainability and measurable key performance indicators.

A key component of this approach is a robust monitoring and evaluation system to ensure that desired outputs, outcomes and impact are reached.

Partnerships

Department of Education (DepEd).

The partnership aims to support DepEd in integrating financial education in the K to 12 curriculum to address learners' needs; and incorporating personal finance management (PFM) sessions within regular training programs for teachers and is expected to reach 29 million learners and more than 800,000 teaching and non-teaching personnel.

To-date, 10 videos and 24 lesson exemplars as classroom learning tools were co-developed. These multimedia learning tools discuss topics such as financial planning, saving, budgeting, debt management, investment, insurance, entrepreneurship and preventing financial scams and will be used for classroom instruction, and training of teachers and non-teaching personnel, as required under DepEd Memorandum No. 032 dated 14 March 2019 and DepEd Memorandum No. 107 dated 30 August 2019.

The BSP also developed a personal finance management module for teachers, and capacitated around 300 trainers to cascade the module to their peers and colleagues nationwide.



Overseas Workers' Welfare Administration (OWWA).

In 2019, the BSP partnered with OWWA to implement PiTaKa (Pinansiyal na Talino at Kaalaman), a financial literacy campaign for Overseas Filipino Workers (OFWs) and their families. Under this campaign, the BSP is developing standard financial education modules for OFWs that will be embedded in orientations that OFWs and their families are required to take.

To date, BSP has completed a financial education module for use in Pre-Departure Orientation Seminars (PDOS) and presented it to more than 600 trainers from OWWA-accredited PDOS providers who will in turn cascade the module to over 2.3 million land-based and sea-based OFWs. Standard modules are also being developed for Post Arrival Orientation Seminars (PAOS) and General Orientations for OFW Families.

It is envisioned that the full roll-out of the PiTaKa campaign would reach of around 10 million Filipinos living and working abroad.



Partnerships

Armed Forces of the Philippines (AFP).

The BSP's partnership with AFP covers the development and deployment of learning tools tailored to circumstances of the army for use in the training programs for new recruits, senior officers and families of AFP personnel. This is in line with the AFP Transformation Roadmap, where financial health is among the indicators being measured in AFP personnel's Individual Performance Scorecards. Training of Trainers (TOT) is currently being designed to build internal capacity to deliver financial education sessions in key stages of a soldier's training.

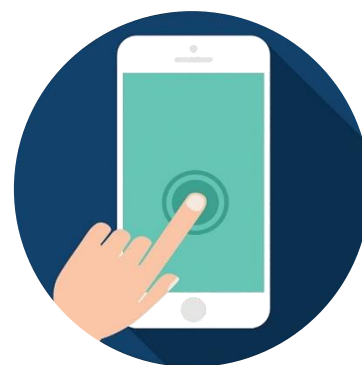
This partnership is expected to benefit the 140,000 uniformed and civilian personnel of the AFP.

Financial education for MSMEs.

In 2018, the BSP partnered with DTI and two networks of microfinance non-government organizations to facilitate information sharing and greater access to finance for MSMEs served by DTI Negosyo Centers. One of the BSP's tasks under this partnership is to capacitate Negosyo Center personnel to deliver financial learning sessions as part of the broader capacity building program for MSMEs. Technical discussions on content and modules development are slated for 2020.

Comprehensive Social Benefits Program (CSBP).

The BSP is also part of the broader, inter-agency Comprehensive and Social Benefits Program (CSBP). In tandem with the Department of Trade and Industry (DTI) and Technical Education and Skills Development Authority (TESDA), basic financial literacy, entrepreneurship and skills development sessions are conducted for beneficiaries of soldiers and policemen killed or wounded in action (KIA/WIA beneficiaries). The financial literacy session is among the requirements for KIA/WIA beneficiaries to receive their monetary benefits.



Digital literacy program. In 2019, the BSP partnered with E-PESO, a United States Agency for International Development (USAID)-funded program, to enhance cybersecurity awareness and digital literacy in the country. The underlying objective is to increase trust and confidence in the security of digital payments and other financial transactions. It is envisioned to support the BSP in expanding the digital finance ecosystem through encouraging massive usage by consumers across all sectors.

Aside from the partnership programs, the BSP also aims to promote financial literacy through the annual FinEd Expo and PisoLit:



The **Financial Education Stakeholders Expo** is BSP's flagship program for financial education convening around 1,000 fin-ed stakeholders and providing a venue for all to share their work, explore partnerships and leverage on existing initiatives. It is organized annually in line with the celebration of the Economic and Financial Literacy Week as mandated under RA No. 10922 and supports the development objectives of *Ambisyon Natin 2040*.

PisoLit is a financial literacy campaign on Facebook (FB), managed by the BSP. It is a page distinct and separate from the BSP official FB account. PisoLit provides daily posts on financial management tips, scam prevention reminders, and consumer protection advisories, targeted for young Filipinos and netizens on the FB platform. Launched in September 2017, PisoLit has now over 42,000 followers; averaging a daily reach of about 10,000 and engagement of 1,000. The BSP continues to manage PisoLit and is conceptualizing additional methods to increase followers, reach and engagement.



FB: <https://www.Facebook.com/pisolit/>

Box Article 1: 2nd Financial Education Stakeholders Expo



The BSP hosted the 2nd Financial Education Stakeholders Expo on 25 November 2019 in SMX Manila. The event gathered more than 1,000 stakeholders and advocates from the public, private, academic and civic sectors to undertake financial learning sessions and activities, share updates on their financial education initiatives, understand the challenges, find solutions and explore partnerships.

The opening ceremony was highlighted by the milestone launch of the DepEd Financial Education Integration Policy and Roadmap, which sets guidelines for efficient and effective integration of financial education concepts, aligned with appropriate learning competencies in learning areas across all grade levels, within the K to 12 Curriculum. It also articulates DepEd's intent to capacitate teachers on two levels: as educators teaching financial education concepts and as individuals managing their own personal finances.

The Expo included breakout sessions on mainstreaming fin-ed in the public school curriculum, customer-centricity in financial services and stock market investing. It also featured interactive activities such as a fin-ed board game, financial literacy game show, awards show and special performances. Exhibit booths showcased the financial education activities of selected government agencies, private financial institutions and non-government entities.

“Through complementary, coordinated and collaborative financial education programs, we must aim to change the life of every Filipino towards a financially healthy future.”

- Governor Benjamin E. Diokno in his opening remarks for the BSP Financial Education Expo 2019

Consumer Protection

Consumer Assistance Mechanism (CAM)

The CAM has been put in place to ensure that consumer protection forms a substantial part of the BSP's regulatory and supervisory activities over BSP-Supervised Financial Institutions (BSFIs). Through the CAM, consumers are provided an avenue for redress, should they be dissatisfied with the BSFI's handling of their concerns. This service may be accessed by the public through phone, postal mail, e-mail or by personal visit to the CEG where the consumer complainant will be attended to by a consumer specialist.



Draft Consumer Protection Act

The proposed Consumer Protection Act aims to carve out from RA No. 7394 (Consumer Act) the provisions of Title IV (Consumer Credit Transaction) and have in place a stand-alone statute governing Financial Consumer Protection. This proposed bill provides, among others, for the authority of financial regulators such as BSP, SEC and IC, to exercise rulemaking, surveillance and inspection, market monitoring and enforcement powers over financial persons/entities. The proposed Bill covers, among others, the consumer protection principles of transparency, disclosure, and responsible pricing, fair treatment, effective recourse, privacy and protection of client data. This bill aims to give regulators stronger enforcement powers to ensure consumer protection and foster market discipline. This bill also takes into consideration the increasing digital financial services being offered to the consumers.



Updated Consumer Protection Framework

The BSP recently issued on 6 September 2019 BSP Circular No. 1048, which amends existing regulation on Financial Consumer Protection. This is in line with BSP's mandate to promote broad and convenient access to high quality financial services and consider the interest of the general public, as provided by Section 3 of RA No. 11211.



The Circular revises the Financial Consumer Protection Framework under Circular No. 857, Series of 2014, to adapt to the increased complexity of financial products and the rapid technological innovations in financial products and services. It strengthens market conduct practices of BSFIs by establishing guidelines that institutionalize consumer protection as an integral component of corporate governance and culture, as well as risk management.

The Circular also underscores the BSP's commitment to promote broad and convenient access to high quality financial services and consider the interest of the general public by ensuring that financial service providers conduct ethical business practices and do not engage in practices that may cause harm to the consumer in the conduct of their business. It also emphasizes that BSFIs should not employ practices that discriminate or take advantage of vulnerable groups such as low-income earners or persons with disability.

Box Article 2: BSP Chatbot Recognized at the Central Banking Fintech and Regtech Global Awards 2019

Last September 4, 2019 in Singapore, the BSP won awards in two (2) categories—the *Artificial Intelligence Initiative* and *Data Management Initiative*—in the Central Banking Fintech and Regtech Global awards. It was the only institution to win in two categories for this awarding year.

The BSP won in the **Artificial Intelligence Initiative** category for its development of a prototype Chatbot to provide the public a more accessible and efficient means to engage the BSP on financial consumer concerns. From the existing manual process to using artificial intelligence (AI) and natural language processing (NLP), the Chatbot will be able to adequately and efficiently handle consumer concerns coursed through channels including SMS and social media. The solution addresses the pain points of the customer assistance mechanism (CAM) which receives more than 10,000 complaints, inquiries and requests from the general public through conventional channels such as direct mail, phone calls, and in-person visits to the BSP offices.

The Chatbot is also envisioned to equip the BSP with more insight into customer experiences, banking practices and conduct as input to

policymaking and supervision and develop consumers' trust in the financial system. This pioneering solution offers it with the wealth of data and intelligence that can be used to understand consumer sentiment, identify emerging risks and opportunities, input to the supervisory process, and ultimately strengthen trust in the financial system. The chatbot, in effect, amplifies the voice of the financial consumer as input to policy making, regulation, and supervision. The Chatbot is expected to go live in mid-2020.

The BSP also won in the **Data Management Initiative** category with the development of a prototype API-based prudential reporting system. This is part of BSP's continuing effort to strengthen its supervisory capacity in a rapidly evolving financial services landscape.



Photograph courtesy of Central Banking Publications

Strategic Thrust 3

Creating compelling value propositions for a transaction account

In the 2017 Financial Inclusion Survey of the BSP, one of the top cited reasons for not having an account by the 52.8 million unbanked Filipino adults is a reported lack of need for such. An account is typically associated as a tool for saving, and not for anything else. The perceived low utility of an account is corroborated by the fact only 18% of Filipino adults used their account for payments. Meanwhile, Findex data showed only 22% of wage earners receive salaries through an account; only 2.3% used an account to pay utilities; and 10% received government payments through an account. Payments – sending and receiving funds – can be a critical use case for an account among the unbanked considering that nearly 9 out of 10 reported to have payment transactions. To turn account ownership from being perceived as a luxury for some to a necessity for all, it is imperative to deliberately shift payment of social cash transfers, salaries and wages, remittances, bills payment from cash-based to account-based digital transactions.

Social Cash Transfers

The BSP is working closely with the DSWD and the Land Bank of the Philippines to ensure the use of full-service transaction account for the distribution of the cash grants under the Pantawid Pamilyang Pilipino Program (4Ps). Under the program, beneficiary households receive health and education grants, subject to compliance with program conditions. Depending on household composition, monthly transfers range from PhP 500-2,000, which are paid every two (2) months.

Promoting financial inclusion among the beneficiaries through the use of transaction accounts is clearly aligned with the objective of 4Ps as a human capital development and poverty alleviation program. Through these transaction accounts, beneficiaries will have the tools to practice the discipline of saving, and use digital payments to build a digital profile that can be leveraged to access lower-cost credit.

Accordingly, the use of transaction accounts for the 4Ps has been institutionalized in the implementing rules and regulations of RA No. 11310 (“Pantawid Pamilyang Pilipino Program (4Ps) Act”).



Box Article 3: Pantawid Pamilyang Pilipino Program

Launched in 2008, the Pantawid Pamilyang Pilipino Program has rapidly expanded to become the largest social protection and human development program in the Philippines. The program has been recently institutionalized with the passage of RA No. 11310 or the “Pantawid Pamilyang Pilipino Program (4Ps) Act” in April 2019. The law provides stability and continuity to a program that plays a central role in the government’s strategy to accelerate investment in human capital and break the intergeneration cycle of poverty.

With the objective to keep children in school and healthy, the program provides monthly transfers to poor households with children and/or pregnant women, on the condition that the household members comply with respective health and education conditions. The program covers about 4.4 million households, which represent around 22% of the total population, making the Pantawid Pamilya one of the largest conditional cash transfer (CCT) programs in the world. In 2019, the program budget amounted to 89 billion pesos.

Source: World Bank Social Protection Concept Note, September 2019

Private Sector Wages

The BSP and the Department of Labor and Employment (DOLE) are working together to promote the use of transaction account for the payment of wages and salaries. Part of the game plan is to launch a series of stakeholder forums on the benefits of account-based wage payments for both employee and employer and the issuance of a labor advisory encouraging employers to use transaction accounts. The first forum was held in November 2019 with more than 150 participants from various employer and worker groups.



“When we have a transaction account, we enjoy all the benefits afforded by digital payments and innovations. When we have a transaction account, we are able to meaningfully participate in the gains of an increasingly digital economy. Hindi tayo napag-iwanan.

We organized this forum, as we believe that you, the labor and employment sector, have much to gain and can play a big role in advancing financial inclusion. Payment of salaries and wages is a compelling opportunity to open transactions accounts for our workers.

And based on existing official data, there are 25.5 million strong workforce in the country—a massive client base that is hard to ignore for both financial service providers and policymakers in our pursuit of our financial inclusion agenda.”

– Governor Benjamin E. Diokno Diokno in his closing remarks for the First Financial Inclusion Forum for the Labor Sector

Box Article 4: BSP and Department of Labor and Employment (DOLE) promote financial inclusion before the Labor Sector

The BSP, in partnership with DOLE, held a Financial Inclusion Forum for the Labor Sector on 18 November 2019 at the BSP Complex in Manila. The event was attended by more than 150 participants from various employer and worker associations which included organizations of informal laborers such as construction workers and *kasambahays*.

The Forum was organized to promote awareness of digital payment innovations that can be used as a tool to further financial inclusion, more specifically by encouraging the distribution or payment of wages through formal transaction accounts. The Forum featured speakers from the BSP's Payment Systems Oversight Department (PSOD) which discussed InstaPay and PesoNet, as well as digital payment solutions offered by market providers from GCash, PayMaya, Cebuana Lhuillier Rural Bank and Union Bank who all discussed their innovative product offerings suitable for the workers and their employers.

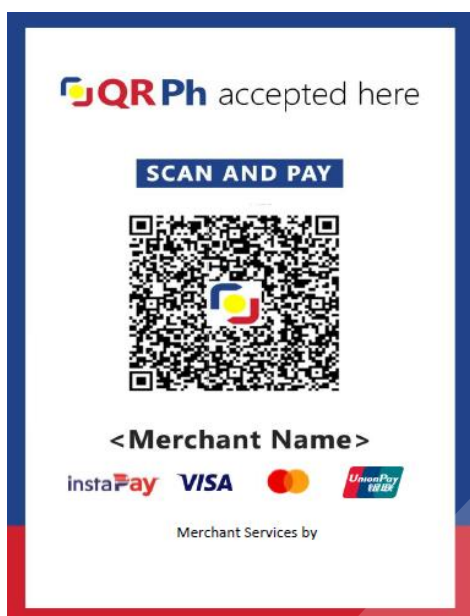


QR Ph

The use of QR codes for payments has been gaining traction as a faster, more convenient and cheaper alternative to the traditional debit and credit card payments, especially for small merchants and consumers. Accordingly, BSP issued Circular No. 1055 requiring all payment service providers (PSP) to adopt the national QR code standard developed by the Philippine Payments Management, Inc. (PPMI) to promote interoperability in the QR-driven payment services.

On 22 November 2019, the BSP and the payments industry launched the pilot P2P payment use case based on the national QR code standard called QR Ph.

The event demonstrated how secure and easy transfer of funds are by scanning the QR code. Funds are transferred real-time via InstaPay. The pilot participants joining the event were Asia United Bank (AUB), China Banking Corporation (CBC), Land Bank of the Philippines, Rizal Commercial Banking Corporation (RCBC), Paymaya, and Union Bank of the Philippines (UBP).



“The digital life is upon us, and we can harness this to make sure internet access and mobile phone ownership do not only lead to better social connections and convenient shopping, but also and more importantly, to greater ability for all Filipinos to use welfare-enhancing financial services.”

Our financial inclusion and digital payments agenda necessarily go hand-in-hand. One is both an enabler and a requisite for the other. Our vision is to have more market vendors, jeepney, and tricycle drivers accepting digital payments through QR code linked to transaction accounts.”

– Governor Benjamin E. Diokno in his closing remarks for the First Financial Inclusion Forum for the Labor Sector



In the Spotlight:

Islamic banking towards financial inclusion

“For a country with Muslims representing 10% of its people, our financial inclusion narrative would be incomplete without touching on Islamic banking and finance. This statement becomes even more relevant when faced with the inconvenient truth that the three poorest provinces in the country are predominantly Muslim, namely: Lanao del Sur, Sulu, and Basilan.”

– Governor Benjamin E. Diokno in his remarks for the 4th International Islamic Finance Conference

On 22 August 2019, Pres. Rodrigo Duterte signed into law RA No. 11439 (Act Providing for the Regulation and Organization of Islamic Banks) to promote socioeconomic development in Muslim Mindanao – the country’s poorest regions – through Islamic Financing. Islamic finance can deepen financial inclusion not only as it delivers Shari-ah-compliant products for the Muslim communities but also – and more importantly - because its very essence is based on the principles of social justice and equality. Islamic finance products are specifically created to support the needs and protect the rights of the poor and underserved.

Islamic finance and financial inclusion, therefore, share a common end-goal.

RA No. 11439 will facilitate the development of Islamic Financing in the country by allowing other domestic and foreign Islamic banking players, either full-fledge Islamic banks or Islamic banking windows, to operate. Conventional banks will also be allowed to open Islamic banking unit or to establish a separate subsidiary Islamic bank. As the appointed regulator, BSP envisions a regulatory regime that accommodates Islamic finance within a flexible but secular unitary framework.



In the Spotlight:

Promoting agriculture value chain finance

Despite its important role in promoting inclusive economic growth, the agricultural sector faces persistent challenges in financing is constraining its development. The mandated agri-agra credit allocation has not effectively improved the banking system's exposure to the sector with its measly $\approx 3\%$ share in the banks' total loan portfolio. Agriculture financing constraints abound, including the lack of bankable projects, limited technical expertise of banks, and the high vulnerability of the sector to unfavorable weather conditions and commodity price fluctuations.

Recognizing these constraints, the BSP is promoting agriculture value chain financing (AVCF) as an innovative and sustainable financing approach. Well-organized value chains provide farmers and farming groups access to modern farming technologies and high value markets – thereby improving their productivity and income potential. AVCF is an innovative approach as it uses the strength of the entire value chain in determining the creditworthiness of the agri-entrepreneurs who otherwise would not be able to access credit if banks only relied on their individual credit profile.

Toward this end, the BSP is working with the Asian Development Bank on a pilot AVCF with selected participating banks which will receive technical assistance. The project takes off from the results of the 2017/18 AVCF study conducted by the ADB for the BSP which highlighted, among others, the need to develop the technical capacity and interest of banks to undertake AVCF.

The project also aims to forge stronger collaboration by banks and government agencies that have capacity building programs for farmers and agrienterprises. By leveraging on these government programs, participating banks will be able to tap into an organized pool of value chain players and projects that are made bankable by the productivity-enhancing and market linkage support services received. The government, on the other hand, will be able to optimize the desired program outcomes by expanding the financing options for the target beneficiaries.

The project kicked off in September 2019 with the conduct of a bankers' forum to formally present the pilot mechanics and elicit expression of interest to participate. Expected full roll out of the project is in January 2020 with the selection of the participating banks and the completion of the initial scoping of the potential value chain projects and enterprises for financing by the ADB consultant.

It is envisioned that 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.

Lessons from the pilot will be used as input for the development of an AVFC guide or toolkit and training program for the banking industry.





BSP actively participates in international forums as a platform to support financial inclusion as a global development agenda and nurture a community of committed financial inclusion advocates. Through these forums, the BSP continues to reinforce its thought leadership and keep abreast of emerging issues and trends in financial inclusion.

International engagements enable the BSP to participate in and shape key policy discussions, as well as cultivate and maximize networks that provide a source of expertise and resources needed to realize financial inclusion-related policies and programs.

Memberships

Alliance for Financial Inclusion (AFI).

As one of the founding members of the AFI, the BSP remains an active member of the AFI network. AFI is a global alliance of financial policymakers from developing and emerging countries working together to increase access to appropriate financial services for the poor. The BSP has representation in all AFI Working Groups looking at the critical aspects of financial inclusion such as digital financial services, small and medium enterprise (SME) finance, consumer protection, global standards proportionality, national strategy, data and measurement, and sustainable finance.



In September 2019, the Alliance for Financial Inclusion (AFI) launched policy models on E-money and Data Core Set. These knowledge products constitute practical policy solutions or high impact policy lessons that may be adopted by members of the network.



Box Article 5: A True Champion of Financial Inclusion

In recognition of the outstanding contributions of the late Governor Nestor A. Espenilla, Jr. to the advancement of financial inclusion, the Alliance for Financial Inclusion with funding from its partners has established the **Nestor Espenilla Jr. Financial Inclusion Policy Innovation Award**. The Award will be given to institutions that have made significant impact in increasing access, usage or quality of formal financial services to the unbanked population through financial inclusion policy innovation. The Award provides monetary grant to the recipient institutions to enable it to further advance their financial inclusion agenda.

Governor Espenilla was instrumental in the establishment and development of AFI. He served as the Chairman of the AFI Steering Committee from 2012 to 2014, on behalf of Governor Amando M. Tetangco, Jr. Since AFI's inception, Governor Espenilla exhibited financial inclusion leadership in many ways. He led AFI in its transition to independence and was contributory in launching the Maya Declaration.



Late Governor Nestor A. Espenilla, Jr.

He championed impactful, innovative and inclusive policies and approaches, as well as helped shape the global financial inclusion agenda. There is wide recognition across the AFI Network and the global financial inclusion community of the spirit of innovation and commitment to financial inclusion that Governor Espenilla embodied and that the BSP continues to champion



BETTER THAN CASH ALLIANCE



Association of Southeast Asian Nations (ASEAN). The BSP currently co-chairs with Autoriti Monetari Brunei Darussalam (AMBD) the Working Committee on Financial Inclusion (WC-FINC), one of the working committees established under the Economic Community of ASEAN to achieve regional financial integration.

Work done under the 2019 priority programs of WC-FINC are namely: (a) conduct of digital financial services (DFS) self-assessment based on the Guidance Notes; (b) presentation of case studies on DFS by ASEAN Member States (AMS) as part of knowledge sharing initiative; (c) ongoing development of Guidance Notes on Monitoring Financial Inclusion Toolkit; and (d) continued capacity building programs.

Eleven (11) capacity building events were conducted in 2019, along with strategic capacity building activities with development partners on key areas such as consumer protection and digital financial literacy, Monitoring and Evaluation framework for AMS.

Better Than Cash Alliance (BTCA). BTCA is a partnership among governments, private organizations, and development institutions aimed at broadening inclusive growth by supporting the transition from cash to digital payments. The BSP is a BTCA member and presently serves as a regional representative to the Alliance's Editorial and Publication Committee. In December 2019, BTCA released its study which reported that the volume of e-payments usage in the Philippines grew from 1% in 2013 to 10% in 2018, while the value of e-payments rose from 8% to 20% during the same period. The study also revealed that women in the Philippines are ahead of the men in adopting digital payment solutions.

Other Engagements. The BSP is also part of the Innovations for Poverty Action (IPA) Policy Advisory Group, Fintech Leaders' Roundtable, Islamic Financial Services Board (IFSB) Task Force, and G20 Global Partnership for Financial Inclusion (GPFI).

Knowledge Exchange and Study Visits

The BSP regularly conducts knowledge exchange programs and hosts study visits as part of its commitment as an active member of the global community advocating financial inclusion and as a leading voice and thought leader. In particular, the BSP shares its roles in microfinance, regulatory and financial inclusion initiatives, such as the National Strategy for Financial Inclusion (NSFI), to interested institutions.

For 2019, the BSP hosted 52 participants from the following central banks/monetary authorities and international institutions:

- Bank of Uganda
- Chuo University
- Swabalanban, Nepal
- Rural Microfinance Development Center of Nepal
- Center for Self-Help Development of Nepal



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