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Philippines Country Assessment for Youth Development Accounts

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CSD is part of a global consortium supported by the MasterCard Foundation that is exploring the potential for piloting a Youth Savings initiative in multiple developing countries. In addition to CSD, the consortium includes Save the Children, the Consultative Group to Assist the Poor (CGAP), and the New America Foundation. The consortium's goals for the 2009-2010 year include identifying six developing countries in which to implement these pilots, along with local financial and research institutions that could assist in implementing and evaluating the pilots.

This brief is one of a series that CSD has prepared on candidate countries in Asia, Africa, and Latin America. This brief, like the others, assesses the candidate country on four criteria: institutional capacity, national political interest, research capacity, and broader macroeconomic environment.

Summary

The Philippines stands out as a candidate site to include in the worldwide demonstration of Youth Development Accounts (YDAs) in four ways: (1) a well-regulated and innovative banking infrastructure that already delivers youth savings products; (2) national interest in asset-based development policy and financial services expansion to unbanked populations; (3) excellent research capability; and (4) large potential impact of YDAs in the country and region.

Basic Population and Economic Indicators

- » Population: 87.89 million (World Bank, 2007)
- » Percent of population under age 15: 35 (Population Reference Bureau, 2008).
- » Youth ages 10-24 (percent of total population, 2006): 32 (Population Reference Bureau, 2008)
- » Percent of population below national poverty line (1997): 25 (total), 12 (urban), 37 (rural) (UN Statistics Division, n.d.)
- » Median age: 22.5 (CIA, 2009)
- » Income level: Lower-middle income (World Bank, n.d.)
- » GDP per Capita (PPP US\$ in 2005): 5,137 (UNDP, 2007)
- » Percent of population living on \$2 a day or less: 43 (1990-2005) (UNDP, 2007)



Washington University in St. Louis

Institutional capacity

The Philippines has a well-regulated, reliable, and nationwide banking infrastructure to deliver YDAs. The country has a relatively developed financial system and a highly monetized economy. There are 42 universal and commercial banks, 87 thrift banks, and 764 rural/cooperative banks in the Philippines, many of which have the capacity to roll out thousands of accounts. YDAs can likely be implemented through this infrastructure as demonstrated by existing youth savings efforts in the country. Nearly all universal banks, including MetroBank, Banco de Oro, and Bank of the Philippine Islands, offer children and youth savings accounts. The country's second largest government-owned bank, Development Bank of the Philippines, offers youth savings accounts. Thrift banks, as well as rural and cooperative banks, also have children and youth savings products. Many of these products, particularly those offered by commercial banks, have targeted middle- and upper-income families. Accordingly, a youth savings initiative for lower-income youth and families in the country has tremendous potential to tap a "forgotten" market, expand the customer base, and provide access to safe and secure financial services.

Microfinance, which has a strong presence in the country, is well-regulated and actively promoted by the government. In 1997, the National Credit Council (NCC)¹ established the National Strategy for Microfinance (NSM). NSM is a government policy that envisions a viable and sustainable microfinance market that will help provide poor households and microentrepreneurs with greater access to microfinance services. NSM prioritizes market-based delivery of financial services to the poor. Accordingly, emphasis is on the adoption of market-oriented financial and credit policies to ensure viability and sustainability (BSP, n.d.). Deposit-taking institutions are also subject to prudential regulation under the National Framework for Microfinance Regulation. The Framework covers all types of microfinance institutions with regulations focusing on portfolio quality, outreach, efficient and sustainable operations, and transparent information (BSP, n.d.).²

Rural banks, cooperatives, and non-governmental organizations (NGOs) are the three major providers of microfinance services in the Philippines.³ Among the most promising microfinance institutions for the youth savings project include numerous rural banks, including Bangko Kabayan, First Isabela Cooperative Bank, First Macro Bank, New Rural Bank of Victorias,

and Green Bank of Caraga that offer microfinance deposits to youth and the poor.⁴

Technological innovations have strengthened the institutional capacity of financial providers. According to CGAP, customer adoption of mobile banking services has a better chance of success in the Philippines than in most other jurisdictions (CGAP, 2008). At the end of 2007, the country's two largest mobile network operators had more than 8 million registered users for their mobile-based services that enable customers to manage money electronically. Customers can also make deposits or withdrawals from their bank accounts at more than 6,500 banking agents accredited by the central bank (CGAP, n.d.). In November 2008, the first mobile microfinance bank (Pilipinas Savings Bank) opened in the Philippines (Reyes, 2008). It will use mobile technology to deliver financial services and expand its retail client base. Plans are also underway to establish 8,000 stores that will offer mobile banking and Internet services.⁵ Mobile phone banking has not only been a prominent feature of commercial banks but also of rural banks. Forty-six rural banks with over 640 branches and bank offices already provide many of the mobile phone banking services to its clients through GCash.⁶ Mobile phone banking has helped rural banks reach out to more clients, particularly rural and low-income groups, and provided convenient access to banking services to its existing clients.⁷

In summary, the combination of extant pro-poor financial institutions that are offering youth savings products and technological innovations, particularly mobile banking that can bring financial products and services closer to all Filipinos makes the Philippines a favorable candidate to include in the demonstration of YDAs in the developing world. Additionally, the interest of the national government to expand financial services, particularly to the "unbanked" signifies an encouraging development that can boost the project.

National government interest

The political interest in expanding financial services to all Filipinos is very promising. The National Strategy for Microfinance was created to provide access to financial services to low-income households and microenterprises.⁸ The government's commitment to extend financial services to unbanked low-income populations has made the Philippines a world leader in branchless mobile banking services. The government has

continued to adopt financial regulation policies that promote investment and innovation, while protecting consumers and expanding the poor's access to financial services (CGAP, 2008). In 2006, the government created a PHP 100 million fund that will expand access to financial services in rural and low-income households and communities. In 2008, the government launched its first conditional cash transfer program that allows the poorest households to access financial services through the Land Bank of the Philippines.

The political environment in the Philippines is conducive to an asset-based socioeconomic development policy. Some of the most recent and noteworthy developments in policy toward building assets include pro-poor housing, small business, and agri-business programs. All these programs have been implemented in partnership with financial institutions. For example, the new housing program is available as a microfinance product (BSP, 2008). It aims to address the housing needs of economically active poor who are currently underserved by larger commercial banks.

Research capability and partnerships

Potential research partners include research centers at University of the Philippines (UP), University of Santo Tomas (UST), De La Salle University (DLSU), Ateneo de Manila University (AdMU), and Philippine Women's University (PWU).⁹ These research centers include the Center for Integrative and Development Studies (CIDS) at UP-Diliman, Cordillera Studies Center (CSC) at UP-Baguio, Social Research Center (SRC) at UST, Social Development Research Center (SDRC) at DLSU, Center for Advanced Studies in Social Development (CASSD) at PWU, Ateneo Center for Social Policy and Public Affairs (ACSPPA) and Institute of Philippine Culture (IPC) at AdMU. Another potential partner is the Philippine Institute for Development Studies (PIDS). PIDS is a government nonprofit corporation whose research is envisioned to help government planners and policymakers. All these institutions have conducted relevant research on savings, Filipino youth, and social and economic development. (Please see Appendix A for an illustrative list of relevant in-depth studies conducted by potential research partners.)¹⁰

Several universities also publish peer-reviewed research journals. For example, the *Asia Pacific Social Science Review*, an internationally refereed

journal that aims to advance and deepen the study of social sciences in Asia and the Pacific, is published biannually by DLSU. AdMU publishes the journal, *Philippines Studies*, another internationally refereed journal that publishes a wide variety of scholarly and original articles on various aspects of Philippine life. CIDS at UP-Diliman houses the journal *Public Policy*, which deals with contemporary and emerging policy issues in the Philippines and the Asia Pacific.

Larger potential impact in the country and region

With a very young population (median age is 22.5), a broad-reaching and innovative financial infrastructure, and active political support, the potential impact for YDAs in the Philippines is huge. A great number of the country's low-income and out-of-school youths can be reached through our efforts. A successful demonstration of YDAs can inform a larger and more inclusive savings and asset-based policy in the Philippines and in other countries in Southeast Asia and elsewhere that have relatively young and economically-active populations. (Please see Appendix B for a matrix of strengths and weaknesses regarding the potential of youth savings in the Philippines.)

Endnotes

1. The National Credit Council, a government agency within the Department of Finance, formulates credit policy frameworks that will expedite the delivery of financial services to target sectors.
2. Banks with microfinance operations are to remain under the regulation and supervision of the Bangko Sentral ng Pilipinas (BSP); cooperatives are to be under the supervision and the regulation of the Cooperative Development Authority; and NGOs while not regulated, are encouraged to submit information to the Microfinance Council of the Philippines (BSP, n.d.).
3. Around 300 NGOs, 195 rural and cooperative rural banks, and 4,579 cooperatives are involved in some form of delivery of microfinance services, mostly to low-income households. Leading microfinance providers are members of the Microfinance Council of the Philippines, Inc. According to the Central Bank of the Philippines, rural banks reach approximately 600,000 customers, while community-based savings and credit cooperatives usually serve 500 to 5,000 clients (BSP, n.d.).
4. The Rural Bankers Association of the Philippines (RBAP) provides a comprehensive list of all rural banks in the country that offer microfinance and regular savings products. More information is available on <http://www.rban.org.ph>.

- rbap.org/home/
5. Smart Communications has partnered with Microventures and the Center for Agriculture and Rural Development (CARD), the largest microfinance institution in the Philippines, to put up some 8,000 stores in Southern Luzon that will offer mobile banking and Internet services (Reyes, 2008).
 6. GCASH, Globe's flagship M-Commerce service, transforms a mobile phone into a wallet. GCASH gives Globe and Touch Mobile subscribers access to a cashless and cardless method of facilitating money remittances, donations, loan settlements, disbursements of salaries or commissions, and payment of bills, products, and services, with just a text message (Globe Telecom, n.d.).
 7. Some examples are Bangko Kabayan, PRBank, and Green Bank (Globe, n.d.).
 8. The target group consists of those who live below the poverty line and are engaged in some form of business or economic activity, but who do not have access to or are inadequately served by the formal financial sector (NCC, n.d.).
 9. Many of these universities have affiliated schools all over the country.
 10. A comprehensive list of socioeconomic research in the Philippines can be accessed at <http://serp-p.pids.gov.ph/>. SERP-P (SocioEconomic Research Portal for the Philippines) is an online electronic database of completed, ongoing, and pipeline research studies related to economic development and policymaking in the Philippines.

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Appendix A: In-depth studies conducted by potential partners

Research Center	Study	Description
ACSPPA	<i>Philippine banking system</i> (Tamangan, n.d.)	Examines the expansion of the banking sector since the 1980s, the role of banks in the economy, and the state of competition in the industry
ACSPPA	<i>Social protection and asset accumulation</i> (Lanzona, n.d.)	Examines the impact of the absence of social protection on those who are temporarily affected by economic shocks and the poorest of the poor
CASSD	<i>Image of banks in the Philippines</i> (Castro, Abuan, Parcon, & Tauro, 1998)	Study of the perceptions of the image of banks in the country held by the Cebuano
CIDS	<i>How community-based research influences national policy</i> (Rola, Liguton, & Elazegui, 2004)	Study of a process of communicating community-based water management research results to a national policy
CSC	<i>Socioeconomic and cultural survey of rural communities</i> (Reyes-Boquiren, 2003)	A profile of socio-economic and cultural characteristics, particularly economic activities and patterns of resource utilization, of communities located within the Agno River basin in northern Philippines
IPC	<i>Children, poverty, and social protection</i> (Racelis & Aguirre, 2005)	A study of children and youth in five Philippine cities that are implementing child-friendly programs
IPC	<i>Moving out of poverty: Understanding freedom, growth, and democracy from the bottom up</i> (Guevarra, 2009)	Part of a large-scale global study of the poor who moved out and stayed out of poverty in different social, political, and economic environments at the community level
PIDS	<i>Children and household savings in the Philippines</i> (Orbeta, 2009)	Examines the relationship between household savings and family size
PIDS	<i>Household poverty: Addressing the core of microfinance</i> (Lamberte & Manlagnit, 2003)	Examines the development of the microfinance market from the household perspective as it relates to poverty alleviation
PIDS	<i>Asset accumulation</i> (Manlagnit, 2004)	Examines the impact of credit obtained from community-oriented financial intermediaries on households' saving and asset accumulation
SDRC	<i>Women, work, and development in an urban poor community</i> (Arcinas, 2001)	Study of the needs and concerns of an urban poor community through participatory research and actions, particularly among women
SDRC	<i>Population, environment, poverty, and the quality of life in Asia and the Pacific Region</i> (Osteria, 1996)	A case study on various dimensions of population, environmental dynamics, poverty, and the quality of life in the Philippines, particularly their impact in development processes
SRC	<i>Microfinancing as a tool of empowerment of selected Filipino women microentrepreneurs</i> (Dinio, 2006)	Examines how women can access microfinance funds for use in small businesses, and their impact on income, savings levels, and status in the family and community.
SRC	<i>Rural poverty among migrants</i> (Calara, 2002)	A case study on the incidence of poverty among migrants in a rural community.

Appendix B: Matrix of strengths (opportunities) and weaknesses (obstacles)^a

Strengths		Weaknesses
Clients' savings capacity	There is evidence of savings capacity among low-income Filipinos, especially if they are given an opportunity that meets their needs.	Skepticism about savings ability among Filipinos is perpetuated by lack of data.
Ability to open accounts ^b	There is no minimum age to open bank accounts as long as the accountholder has a valid ID and can write.	
Demand for deposit services	Institutions that have focused on delivering quality savings services have increased deposits.	Demand may be limited by intimidation or unfamiliarity with financial institutions.
Financial sector	<p>The majority of depositors are served by a variety of regulated institutions.^c</p> <p>A tiered banking structure makes it more viable for regulated institutions to serve poor markets.</p> <p>Bilateral development agencies have identified the potential of cooperatives and rural banks to provide savings services to low- and middle-income households outside main urban centers.^d</p> <p>Numerous associations that promote best practice among members and lobby for their interests bolster institutional capacity.^e</p>	<p>Institutions closest to the poor are weakest in terms of performance, governance, and management.^f</p> <p>Financial institutions often perceive that cost of small savings is high.</p> <p>Stronger institutions have few incentives to mobilize small-balance savings.</p>
Information & communication technology	<p>Information and communication technology is revolutionizing access to banking services.</p> <p>The potential of mobile phone banking to increase savings mobilization in the Philippines is enormous.</p>	Some rural banks and financial cooperatives are not directly connected to the national payment system.
Government's support	<p>There is active government support in extending financial services to unbanked low-income populations.</p> <p>Government's policy stance encourages commercial microfinance aimed at increasing the outreach of financial institutions to the majority of the population.</p>	
Others	The opportunity to connect remittances and savings is a strength. ^{g,h}	

^aThe information presented in the matrix is drawn largely from Gardiol, Helms, & Deshpande (2005).

^bPersonal communication with Ruby Tolentino (June 26, 2009), former branch officer at Luzon Development Bank, Laguna, Philippines.

^cThe Philippine banking system has a tiered structure: universal and commercial banks cater mostly to corporate and wealthy clients; thrift banks serve upper middle-income clients and small and medium enterprises; and rural banks serve lower-income clients (Gardiol, Helms & Deshpande, 2005; Ruby Tolentino, personal communication June 26, 2009). All these institutions are supervised by the Central Bank and deposits are protected by the Philippine Deposit Insurance Corporation.

^dExamples are the Microenterprise Access to Banking Services (MABS) Program and Credit Union Empowerment and Strengthening (CUES) Project.

^eThese associations include the Bankers Association of the Philippines, Chamber of Thrift Banks, Rural Bankers Association of the Philippines, National Confederation of Credit Cooperatives, and Philippine Federation of Credit Cooperatives.

^fThe very qualities that make these institutions accessible to the poor—remote locations and low cost structures—make it difficult for them to attract the best trained and experienced staff (Gardiol, Helms, & Deshpande, 2005).

^gThe Philippines is the world's third highest remittance-recipient country after India and Mexico, and the highest when remittances are measured as ratios to population, GDP, and exports.

^hRemittances that are received through a bank facilitate the opening and maintaining of deposit accounts. Many youth, particularly the eldest sibling in the family, are in charge of the remittances from their parents, especially if both parents are working abroad.

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