



Technical Assistance Report

Project Number: 49386-001
Capacity Development Technical Assistance (CDTA)
August 2016

Republic of the Philippines: Financial Inclusion Framework Strengthening

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 15 August 2016)

Currency unit	–	peso (₱)
₱1.00	=	\$0.02146
\$1.00	=	₱46.593

ABBREVIATIONS

ADB	–	Asian Development Bank
BSP	–	Bangko Sentral ng Pilipinas
IFAS	–	Inclusive Finance Advocacy Staff
NCC	–	National Credit Council
NGO	–	nongovernment organization
NSFI	–	National Strategy for Financial Inclusion
PMU	–	project management unit
SEC	–	Securities and Exchange Commission
TA	–	technical assistance

NOTE

In this report, "\$" refers to US dollars.

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CAPACITY DEVELOPMENT TECHNICAL ASSISTANCE AT A GLANCE

1. Basic Data		Project Number: 49386-001	
Project Name	Financial Inclusion Framework Strengthening	Department /Division	SERD/SEPF
Country	Philippines	Executing Agency	Bangko Sentral ng Pilipinas
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Finance	Finance sector development		0.12
	Housing finance		0.06
	Inclusive finance		0.30
	Insurance and contractual savings		0.06
	Small and medium enterprise finance and leasing		0.06
		Total	0.60
3. Strategic Agenda	Subcomponents	Climate Change Information	
Inclusive economic growth (IEG)	Pillar 2: Access to economic opportunities, including jobs, made more inclusive	Climate Change impact on the Project	Low
Regional integration (RCI)	Pillar 3: Money and finance		
4. Drivers of Change	Components	Gender Equity and Mainstreaming	
Governance and capacity development (GCD)	Client relations, network, and partnership development to partnership driver of change	No gender elements (NGE)	✓
Knowledge solutions (KNS)	Institutional development Organizational development Application and use of new knowledge solutions in key operational areas		
Partnerships (PAR)	Pilot-testing innovation and learning Implementation Private Sector		
Private sector development (PSD)	Conducive policy and institutional environment Promotion of private sector investment		
5. Poverty Targeting		Location Impact	
Project directly targets poverty	No	Nation-wide	High
6. TA Category:	B		
7. Safeguard Categorization	Not Applicable		
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		0.60	
Capacity development technical assistance: Technical Assistance Special Fund		0.60	
Cofinancing		0.00	
None		0.00	
Counterpart		0.00	
None		0.00	
Total		0.60	
9. Effective Development Cooperation			
Use of country procurement systems	No		
Use of country public financial management systems	No		

I. INTRODUCTION

1. In December 2015, the Government of the Philippines requested the Asian Development Bank (ADB) for technical assistance (TA) to enhance financial inclusion to address poverty and strengthen micro, small, and medium-sized enterprises. The project team consulted the Bangko Sentral ng Pilipinas (BSP) and other concerned government agencies in preparing the TA. The TA aims to identify, through consultations and a survey, sector-wide binding constraints to formulate effective assistance and support government efforts to expand financial inclusion by strengthening the policy and regulatory framework to promote financial services for the unserved and underserved population. The TA was first included in ADB's country operations business plan, 2016–2018 for the Philippines¹. It is in line with the Country Partnership Strategy, 2011-2016, and the government's Philippine Development Plan, 2011–2016, which identifies a “resilient and inclusive” financial system as the development goal of the financial sector.²

II. ISSUES

2. Access to financial products and services is critical for all individuals and businesses. It helps smoothen their cash flow, facilitates their investments, expands their economic activities, and protects their assets. Greater financial inclusion supports financial stability and economic development. It is also an effective means to achieve inclusive growth. However, limited financial inclusion can cause persistent income inequality and constrain economic growth.

3. Despite the impressive growth of microfinance and a recognized development framework for inclusive finance globally, financial inclusion in the Philippines still remains low. Only 31.3% of adults held an account at a formal financial institution in 2015. Lower-income populations are financially excluded, with only 17.8% of adults in the bottom 40.0% of income earners holding an account at a formal financial institution. There are significant regional disparities in financial access. As of December 2014, 36% of municipalities do not have a banking office according to the government. While these areas are partially covered by nonbank financial institutions (such as microfinance nongovernment organizations [NGOs], cooperatives, pawnshops, and remittance agents), people and businesses do not always have access to a full range of financial services, including savings, credit, and insurance. Expanding these financial services nationwide is critical to meet the multidimensional finance needs of individuals, households, and businesses.

4. To holistically promote financial inclusion in line with the G20 Principles for Innovative Financial Inclusion outlined in the Global Partnership for Financial Inclusion framework,³ the government launched the National Strategy for Financial Inclusion (NSFI) on 1 July 2015 to coordinate broad-based initiatives for greater financial inclusion among stakeholders, including 13 government agencies, private sector institutions, and development partners. The BSP houses the secretariat for the NSFI, and monitors and coordinates the strategy's implementation. The NSFI defines financial inclusion as “a state wherein there is effective access to a wide range of financial products and services by all.”⁴ To achieve this goal, the BSP has mapped

¹ ADB. 2015. *Country Operations Business Plan: Philippines, 2016–2018*. Manila.

² ADB. 2011. *Country Partnership Strategy: Philippines, 2011-2016*. Manila; and National Development Authority. Philippine Development Plan, 2011–2016. <http://devplan.neda.gov.ph/>. The TA first appeared in the business opportunities section of ADB's website on 14 June 2016. The design and monitoring framework is in Appendix 1.

³ The Global Partnership for Financial Inclusion offers a global platform to promote financial inclusion in G20 and non-G20 countries. Global Partnership for Financial Inclusion. 2010. *Innovative Financial Inclusion: Principles and Report on Innovative Financial Inclusion from the Access through Innovation Sub-Group of the G20 Financial Inclusion Experts Group*. http://www.gpfi.org/sites/default/files/documents/Principles%20and%20Report%20on%20Innovative%20Financial%20Inclusion_0.pdf.

⁴ BSP. 2015. *National Strategy for Financial Inclusion*. Manila. p.2.

activities initiated by the concerned government agencies and set up a monitoring framework. Based on these activities, a broad range of stakeholders and partners will formulate and implement action plans to exert a concerted effort to expand financial inclusion. The national financial inclusion framework established under the NSFI needs to be strengthened and sustained to comprehensively monitor and evaluate the progress of a wide range of initiatives under the strategy.

5. ADB has supported financial inclusion initiatives for the Philippines since 1988. ADB's Rural Microenterprise Finance Project,⁵ implemented from 1996 to 2002, laid the foundation for successful microfinance wholesale lending operations, strengthening microfinance operating entities and their reach from less than half a million clients in the late 1990s to about 7 million active clients. ADB's Microfinance Development Program,⁶ implemented from 2005 to 2007, strengthened the microfinance policy environment, improved regulatory and operational capacities, and promoted financial literacy. Associated grants and TA helped further improve the regulatory environment for credit and savings cooperatives, and develop an appropriate regulatory environment for microinsurance.⁷

III. THE CAPACITY DEVELOPMENT TECHNICAL ASSISTANCE

A. Impact and Outcome

6. The impact will be greater financial inclusion. The outcome will be strengthened institutional capacity of national financial inclusion initiatives.

B. Methodology and Key Activities

7. The TA will identify sector-wide binding constraints, through consultations and a survey, to formulate effective assistance and support the implementation of the NSFI by strengthening the policy and regulatory framework to promote savings, credit, microinsurance, and digital finance. It will provide inputs to the formulation of the ensuing loan that will address emerging and remaining sector development issues identified through the course of TA implementation. The TA scope includes (i) assessing the financial inclusion framework to identify sector-wide challenges to effective assistance, (ii) promoting savings and credit through policy and regulatory improvement, (iii) developing diverse microinsurance products and services by improving the regulatory framework, and (iv) promoting digital finance by enhancing regulatory and supervisory capacity. The TA is also a follow-on project to the capacity development TA for microinsurance (footnote 7) and will cover a wider range of development initiatives for greater financial inclusion, especially among low-income households, to supplement social insurance initiatives. The TA will have four outputs.

8. **Output 1: Financial inclusion framework assessed to formulate effective assistance.** The TA will conduct a diagnostic study of the financial inclusion framework through consultations and a survey to identify sector-wide binding constraints to deeper financial inclusion. The TA survey will complement the National Baseline Survey on Financial Inclusion,⁸

⁵ ADB. 1996. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Technical Assistance Grant to the Republic of the Philippines for Rural Microenterprise Finance Project*. Manila.

⁶ ADB. 2005. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan and Technical Assistance Grant to the Republic of the Philippines for the Microfinance Development Program*. Manila.

⁷ ADB. 2006. *Grant Assistance to the Republic of the Philippines for the Developing Financial Cooperatives Project*. Manila; ADB. 2008. *Grant Assistance to the Republic of the Philippines for the Developing Microinsurance Project*. Manila; and ADB. 2012. *Technical Assistance to the Republic of the Philippines for Capacity Building for Microinsurance*. Manila.

⁸ BSP. 2015. *National Baseline Survey on Financial Inclusion*. Manila. <http://www.bsp.gov.ph/downloads/publications/2015/NBSFIFullReport.pdf>.

which assessed the general status of financial inclusion nationally, by analyzing the adult population's awareness of, attitude about, behavior toward, and skills in financial services that support their well-being. The terms of reference for the survey are in Appendix 3. The findings of the diagnostic study and survey will help formulate the government's action plan under the NSFI and an ADB policy-based loan scheduled for processing in 2018.⁹ The diagnostic study will be shared and discussed at stakeholders' consultative meetings and will be continuously updated with emerging and important issues identified during TA implementation.

9. **Output 2: Policy and regulatory framework improved to promote savings and credit.** Access to credit can be improved by strengthening the institutional capacity to provide inclusive financial services and promoting new financial products suitable for various business models. Following the enactment of the Microfinance NGOs Act in late 2015, the TA will help set up an appropriate regulatory framework for microfinance NGOs to conduct sound grassroots financial operations for low-income populations and protect them as financial customers. The new law will establish the Microfinance NGO Regulatory Council, which will be headed by the chairperson of the Securities and Exchange Commission (SEC), as the regulatory body for microfinance NGOs. The TA will help SEC and the council (i) improve the implementing rules and regulations of the Microfinance NGOs Act; (ii) disseminate the rules and regulations; (iii) formulate accreditation, performance and social standards for microfinance NGOs; (iv) design an effective monitoring system and supervisory procedures; (v) through TA training, strengthen microfinance NGOs' regulatory and compliance capacity to provide safe, accessible, and responsible financial services; and (vi) determine the optimum organizational structure of the council for its efficient and effective regulations.

10. The TA will promote the value chain finance approach to meet the growing needs for timely and sufficient financing to critical phases of value chains, including procurement, manufacturing, processing, and shipping for private businesses. With the lack of hard collateral and weak financial conditions, most micro, small, and medium-sized enterprises are ineligible for formal finance and cannot achieve their potential. There is also very little knowledge or awareness of risk management techniques and price volatility control. Risk mitigation products, such as insurance, loan guarantees, and options, could be used to offset some of the risk in value chains. The tightening of prudential norms under the Basel Accords exacerbates the financial exclusion of small borrowers. However, there are examples of successful development of value chain finance in the food business segment. These can be replicated in other industries with improved access to finance by relying on the strength of the value chain rather than on hard collateral such as property. Moreover, the BSP has been supportive of alternative collateral-based finance, and, in March 2016, issued a circular to promote agriculture value chain finance.¹⁰ The TA will help the BSP promote value chain finance through regulatory incentives, awareness raising, and capacity development in database formulation, performance monitoring, risk management, and governance compliance. The TA will link with an ADB supply chain finance program to support innovation in financing small-scale businesses by showcasing and catalyzing successful value chain financing deals.¹¹

11. The TA will also promote financial technology by using alternative sources of data for credit scoring to reduce credit management costs and risks. Collaboration with other initiatives of development partners will be sought, including the movable collateral registry and the credit information bureau projects supported by the International Finance Corporation.

⁹ ADB. 2015. *Country Operations Business Plan: Philippines, 2016–2018*. Manila (Reducing Income Inequality through Financial Inclusion Program).

¹⁰ BSP. 2016. *Circular No. 908, Series of 2016: Agricultural Value Chain Financing Framework*. Manila.

¹¹ ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Supply Chain Finance Program*. Manila.

12. To increase savings mobilization, the BSP has been (i) promoting micro-deposits as an expanded microfinance product by defining the average daily balance threshold (currently ₱40,000) for micro-deposits, (ii) simplifying procedures to open accounts, and (iii) allowing banks to open micro-banking offices to reach unserved and underserved areas. The TA will further support BSP efforts by designing options to link micro-deposit accounts to cash cards through which conditional cash transfers are disbursed. To promote savings, it will also facilitate electronic money transfers to and from deposit accounts. The TA activities will be coordinated and collaborated with conditional cash transfer support by ADB and World Bank and ADB's private sector operations for electronic banking promotion.

13. **Output 3: Microinsurance regulatory framework improved to develop diverse microinsurance products and services.** The majority of people who are working in low-income and informal sectors live in rural areas and depend on agriculture-based activities for their income and livelihood. The agriculture sector is highly vulnerable to increasingly intense weather-related events, particularly typhoons and floods, because of climate change. Providing proper risk protection to the agriculture sector is essential for promoting greater financial inclusion. The TA will support the implementation of an Insurance Commission circular letter¹² issued on 15 October 2015 to help the National Credit Council (NCC) under the Department of Finance and the Insurance Commission create an enabling regulatory environment and promote the development of commercial insurance products for the agriculture sector under public-private partnership arrangements.¹³ The scope also includes product bundling to increase product coverage with active roles of agents and brokers, and possible reinsurance arrangements for microinsurance to increase sustainability and resilience to natural calamities. This component will use the implementation framework developed under previous and ongoing grant and TA projects (footnote 6), working with the NCC, the Insurance Commission, and the Technical Working Group for Agriculture/Parametric Microinsurance Framework established under the Insurance Commission circular letter (footnote 12).

14. **Output 4: Regulatory and supervisory capacity enhanced to promote digital finance.** The TA will support the BSP in developing a more inclusive payment system by applying digital technology to help financial service providers extend their outreach to the most excluded populations. The TA will also explore the use of existing electronic payment channels to expand access to finance, and digital platforms to tailor products and services for the hardest-to-reach clients. The ongoing BSP initiative to develop a national retail payment system seeks to establish a unified electronic payment system to promote safe, efficient, inclusive, and reliable retail payments. The successful implementation of the national retail payment system will increase the volume and value of e-payment transactions and also open up more opportunities to scale up access to finance. The TA will enhance the regulatory and supervisory capacity to promote the use of digital financial services as a means to increase the overall scale of and people's access to financial services in the Philippines.¹⁴

15. **Risks.** Weakened Government's commitment and concerted efforts to deepen financial inclusion are considered as the main risk. However, the formulation and implementation of NSFI confirms that the risk is minimized.

¹² Government of the Philippines, Department of Finance, Insurance Commission. 2015. *Circular Letter No. 2015-53: Adoption and Implementation of Agriculture Microinsurance Framework*. Manila.

¹³ An insurance public-private partnership can be a contractual agreement between the public sector through a government program and the private sector, represented by the insurance industry and its service providers and distribution partners, that combine business objectives with public policy goals in a cost-efficient and effective way.

¹⁴ The TA will draw from the findings of ADB. 2015. *Technical Assistance for Promoting Financial Inclusion*. Manila, which will carry out a regulatory diagnostic study of digital finance in Asian countries, including the Philippines, in 2016.

C. Cost and Financing

16. The TA is estimated to cost \$720,000, of which \$600,000 will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF-other sources). The government will provide counterpart support in the form of counterpart staff, office, office supplies, secretarial assistance, domestic transportation, and other in-kind contributions. The cost estimates and financing plan is in Appendix 2.

D. Implementation Arrangements

17. The BSP is the executing agency. It became one of the first central banks in the world to establish an office dedicated to financial inclusion when it created the Inclusive Finance Advocacy Staff (IFAS) in 2007. Through the successful implementation of financial inclusion initiatives in collaboration with development partners (including ADB, the Alliance for Financial Inclusion, the Consultative Group to Assist the Poor, the International Finance Corporation, and the World Bank), IFAS' institutional, organizational, procurement, and financial management capacities have been proven satisfactory. The BSP, SEC, NCC, and the Insurance Commission are the implementing agencies. The BSP will establish a steering committee to provide overall direction for and coordination of the TA activities. The BSP deputy governor will chair the steering committee, composed of officials representing the implementing agencies. The BSP, through IFAS, will also establish a project management unit to provide technical support to the steering committee and oversee the TA activities of implementing agencies, undertaking project administration, and project reporting and communication with ADB. The implementing agencies will be responsible for their project reporting and will discuss implementing issues with the BSP, as necessary. The TA will be implemented over 24 months and is expected to start on 1 November 2016 and end on 31 October 2018.

18. The TA will provide 14 person-months of international and 21 person-months of national consultant services: (i) an international inclusive finance development specialist and team leader, 8 person-months; (ii) an international inclusive finance specialist, 6 person-months; (iii) a national microinsurance specialist, 6 person-months; (iv) a national digital finance specialist, 6 person-months; and (v) a national project management specialist, 9 person-months. ADB will also engage a national research institute to carry out a household survey in two or three cities. All consultants will work on an intermittent basis. ADB will engage the consultants individually following its Guidelines on the Use of Consultants (2013, as amended from time to time). The individual selection can provide a better mix of the skills required by the TA while maximizing the TA resources with no management fees charged. The outline terms of reference for consultants is in Appendix 3. A research institute for the TA survey (para. 7) can be selected through single-source selection when only one firm is qualified for the assignment. Disbursements under the TA will be made in accordance with ADB's *Technical Assistance Disbursement Handbook* (2010, as amended from time to time). Office equipment for the TA project administration will be procured in accordance with ADB's Procurement Guidelines (2015, as amended from time to time). Upon TA completion, all equipment purchased under the TA will be handed over to the executing agency in accordance with ADB's normal practice.

IV. THE PRESIDENT'S DECISION

19. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$600,000 on a grant basis to the Government of the Philippines for Financial Inclusion Framework Strengthening, and hereby reports this action to the Board.

DESIGN AND MONITORING FRAMEWORK

Impact the TA is Aligned with Greater financial inclusion approach (National Strategy for Financial Inclusion) ^a			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks
Outcome Institutional capacity of national financial inclusion initiatives strengthened	By 2019 The action plan under the National Strategy for Financial Inclusion implemented (2015 baseline: 0)	BSP project reports and website	Macroeconomic instability erodes the momentum for deepening national financial inclusion. Systemic risk, especially outside banking supervision, causes runs on financial institutions.
Outputs 1. Financial inclusion framework assessed to formulate effective assistance 2. Policy and regulatory framework improved to promote savings and credit 3. Microinsurance regulatory framework improved to develop diverse microinsurance products and services	1a. Diagnostic study on financial inclusion prepared in 2017 (2015 baseline: 0) 1b. Diagnostic study shared and discussed at a stakeholders' consultative meeting by 2017 (2015 baseline: 0) 2a. Microfinance NGO Regulatory Council under SEC commenced registration and regulation on microfinance NGOs in 2017 (2015 baseline: 0) 2b. New BSP circulars issued to promote value chain financing products by 2017 (2015 baseline: 0) 3a. Agriculture Microinsurance Framework by the Insurance Commission and MOU for commercial insurers' participation in agriculture insurance implemented to promote farmers' coverage by insurance by 2017 (2015 baseline: 0) 3b. At least five commercial agriculture insurance products launched by 2018 (2015 baseline: 0)	1a. TA survey; TA consultations with stakeholders 1b. Consultative meeting presentations 2a. SEC official gazette and website 2b. BSP website 3a. Report from the Philippine Bureau of Agricultural Statistics; report and annual report from the Insurance Commission 3b. Annual report from the Insurance Commission	Government's commitment and concerted efforts to deepen financial inclusion are weakened. A political movement against market-based financial operations arises. Agreement between DOF and/or the Insurance Commission and DOA and/or PCIC is delayed.

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks
4. Regulatory and supervisory capacity enhanced to promote digital finance	4a. Plan to increase digital financial services prepared by 2017 (2015 baseline: 0) 4b. Plan to promote linking CCT disbursements to financial services prepared by 2017 (2015 baseline: 0)	4a. BSP website; TA progress reports 4b. BSP website; TA progress reports	
<p>Key Activities with Milestones</p> <p>1 Financial inclusion framework assessed to formulate effective assistance</p> <p>1.1 Prepare a diagnostic study on financial inclusion through a survey and consultations with stakeholders in 2017</p> <p>1.2 Share and discuss the diagnostic study at stakeholders' consultative meetings in 2017</p> <p>1.3 Publish the diagnostic study in 2018, serving as a baseline assessment for TA activities and an overall sector road map and sector development priorities for a longer-term ADB sector assistance program for inclusive finance development in the Philippines</p> <p>2 Policy and regulatory framework improved to promote savings and credit</p> <p>2.1 Support Microfinance NGO Regulatory Council in supervising microfinance NGOs until 2018</p> <p>2.2 Assist BSP in preparing regulatory incentives to promote value chain finance in 2017</p> <p>2.3 Help BSP conduct awareness-raising campaign to promote value chain finance until 2018</p> <p>3 Microinsurance regulatory framework improved to develop diverse microinsurance products and services</p> <p>3.1 Support the Insurance Commission in issuing the implementing rules and regulations for the Agriculture Microinsurance Framework by 2018</p> <p>3.2 Support the Insurance Commission in issuing the implementing rules and regulations for an enhanced regulatory framework by 2018</p> <p>3.3 Facilitate the steering committee for microinsurance in drafting a memorandum of agreement on PPP development in agriculture microinsurance by 2018</p> <p>4 Regulatory and supervisory capacity enhanced to promote digital finance</p> <p>4.1 Support BSP in identifying opportunities for increasing electronic payments and leveraging e-money to expand the use of financial services by 2017</p> <p>4.2 Support BSP in identifying opportunities for linking more CCT recipients to financial services through consultations with DBM and DSWD by 2017</p> <p>4.3 Identify particular payment streams that ADB can support by 2017</p> <p>Inputs</p> <p>ADB: \$600,000 (TASF-others)</p> <p>Note: The government will provide counterpart support in the form of counterpart staff, office, office supplies, secretarial assistance, domestic transportation, and other in-kind contributions.</p> <p>Assumptions for Partner Financing</p> <p>Not Applicable.</p>			

ADB = Asian Development Bank, BSP = Bangko Sentral ng Pilipinas, CCT = conditional cash transfer, DBM = Department of Budget and Management, DOA = Department of Agriculture, DOF = Department of Finance, DSWD = Department of Social Welfare and Development, MOU = memorandum of understanding, NGO = nongovernment organization, PCIC = Philippine Crop Insurance Corporation, PPP = public-private partnership, SEC = Securities and Exchange Commission, TA = technical assistance, TASF = Technical Assistance Special Fund.

^a BSP. 2015. *National Strategy for Financial Inclusion*. Manila; and National Economic and Development Authority. Philippine Development Plan, 2011–2016. <http://devplan.neda.gov.ph/>.

Source: Asian Development Bank.

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COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Amount
Asian Development Bank^a	
1. Consultants	
a. Remuneration and per diem	
i. International consultants	300.0
ii. National consultants	80.0
b. International and local travel	50.0
c. Reports and communications	10.0
2. Survey	80.0
3. Equipment	10.0
4. Workshops, seminars, and conferences ^b	50.0
5. Contingencies	20.0
Total	600.0

Note: The technical assistance (TA) is estimated to cost \$720,000, of which contributions from the Asian Development Bank are presented in the table above. The government will provide counterpart support in the form of counterpart staff, office space, and other in-kind contributions. The value of government contribution is estimated to account for 16.7% of the total TA cost.

^a Financed by the Asian Development Bank's Technical Assistance Special Fund (TASF-others).

^b Inception and closing workshops, stakeholders' meetings on microfinance regulations, digital finance, and microinsurance are planned.

Source: Asian Development Bank estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

1. The capacity development technical assistance (TA) will require 14 person-months of international and 21 person-months of national consultant services. All consultants will work on an intermittent basis.

A. International Consultants

1. Inclusive Finance Development Specialist and Team Leader (8 person-months, intermittent)

2. The inclusive finance development specialist and team leader will have a postgraduate degree in banking, finance, or a related field with at least 15 years of professional experience in inclusive finance development at the policy and institution levels, including experience in promoting small and medium-sized enterprise finance and microfinance in Southeast Asia. Knowledge of the Philippine microfinance sector and inclusive finance is preferable.

3. Working under the guidance of the Asian Development Bank (ADB), the team leader will supervise and coordinate the work of the consultant team to help implement new regulations for microfinance nongovernment organizations (NGOs), develop value chain finance, and promote increased access to finance through innovative digital solutions. The team leader will formulate a sector assessment on inclusive finance, including microfinance and small and medium-sized enterprise finance; identify longer-term sector development issues; and recommend actions to address them as inputs to a future ADB loan. Specifically, the team leader will be responsible for the following activities:

- (i) Review the government actions for the TA objectives; and analyze the policy environment, legal and regulatory frameworks, reform and capacity development needs, supportive infrastructure, and sector (inclusive finance) performance. As part of this, the team leader will coordinate and incorporate inputs from the in-depth operational and regulatory reviews to be provided by the inclusive finance specialist and the digital finance specialist.
- (ii) Conduct consultations and interviews with stakeholders, consolidate inputs from team consultants, help implement the survey, and analyze survey results to identify policy and institutional constraints to sector growth.
- (iii) Review recent, present, and proposed future development initiatives, including government programs and strategies, and development partner activities.
- (iv) Collaborate on initiatives for the movable collateral registry and the credit bureau supported by the International Finance Corporation to promote financial technology by using alternative sources of data for credit scoring, and reduce credit management costs and risks.
- (v) Prepare a comprehensive sector assessment with a diagnosis on inclusive finance, including the sector road map sequencing development priorities for ADB's longer-term sector assistance program in the Philippines, to address identified bidding constraints from policy and/or regulatory environment and institutional development perspectives. The diagnosis will be continuously updated with emerging and persistent issues.
- (vi) Provide inputs for the design of the ensuing loan and help ADB prepare loan documents, including a sector assessment summary, an ADB sector road map, the immediate and medium-term policy actions needed, the investment needs to support an institutional development initiative(s), and a development coordination matrix and implementation arrangements. The team leader will also review the

- financial management capacity of the executing and/or implementing agencies and prepare a fund flow arrangement for the ensuing loan as necessary.
- (vii) Coordinate with the executing agency to organize the TA inception, midterm, and final workshops and present the following at them:
 - (a) Inception workshop: a detailed work plan of the consultant team and preliminary outputs to date.
 - (b) Midterm workshop: draft sector assessment, survey results, draft status report on the National Strategy for Financial Inclusion, and draft sector road map of the longer-term ADB sector assistance program.
 - (c) Final workshop: key design element of the ADB loan and parallel assistance, including the proposed medium-term policy actions, and institutional development and investment needs.
 - (viii) Submit to ADB the following reports: (a) inception report, including a detailed consultant work plan and preliminary outputs to date; (b) midterm report, including a draft final sector assessment, draft status report on the National Strategy for Financial Inclusion, and updated ADB sector road map; and (c) final report covering the TA's overall outputs and inputs to ADB's policy dialogue with the government and future assistance. The inception and midterm reports should be submitted within 1 month of the respective stakeholder workshop. The final report should be submitted within 1 month of receiving comments from the government and ADB.

2. Inclusive Finance Specialist (6 person-months, intermittent)

4. The inclusive finance specialist will have a postgraduate degree in banking or finance with at least 10 years of professional experience, focusing on banks and financial institutions. Experience in Southeast Asia, especially knowledge of the Philippine microfinance sector and inclusive finance system, is preferable.

5. The specialist will work under the guidance of ADB and the direct supervision and coordination of the team leader. The specialist will be responsible for the following activities:

- (i) Take stock of the key institutions providing inclusive finance services, including value chain finance loans and loans to micro, small and medium-sized enterprises in the Philippines (such as banks, microfinance NGOs, and cooperatives). Assess their operational performance and institutional capacity to provide effective financial services to low-income households and micro, small, and medium-sized enterprises in a sustainable manner. The review should include a description of services (terms and conditions), the number of clients, volume of services, characteristics of the clientele, marginal analysis (expenses, incomes, profits, and subsidies), and funding sources. The review should identify factors that constrain the growth of these financial products and services.
- (ii) Through consultations and interviews, assess the institutional capacity of financial institutions involved in new financial services, including value chain finance, and identify growth potential and constraints.
- (iii) Review the overall microfinance regulatory framework, particularly the regulations for microfinance NGOs under the Microfinance NGOs Act. Work with the Microfinance NGO Regulatory Council to facilitate the implementation of the act by strengthening regulatory and compliance capacity, focusing on registration, prudential requirements, reporting, governance, ownership, branch setup, mobile banking, taxation, and foreign participation, to identify flaws and issues that need improvement.

- (iv) Assist the Microfinance NGO Regulatory Council in drafting supervision manuals for the council regulators.
- (v) Assess the capacity of the Microfinance NGO Regulatory Council in carrying out regulatory and supervisory activities in monitoring sector development, and the capacity of microfinance NGOs in complying with regulations.
- (vi) Formulate and implement training programs for the Microfinance NGO Regulatory Council and microfinance NGOs in coordination with the Microfinance Council of the Philippines, Inc.
- (vii) Prepare an institutional strengthening program for the short, medium, and long term to provide inputs to the overall sector assessment, including the sector road map prepared by the team leader.
- (viii) Prepare an investment proposal to support innovation in inclusive finance under the ensuing loan.
- (ix) Participate and provide inputs to the inception, midterm, and final stakeholder workshops, as appropriate.
- (x) Provide inputs to the team leader for the sector assessment, including the ADB sector road map, and for the loan proposal on microfinance NGO development.

B. National Consultants

1. National Microinsurance Specialist (6 person-months, intermittent)

6. The national microinsurance specialist should have a degree in business administration, economics, or a related discipline; and at least 3 years of professional experience in project assistance and management. Experience managing capacity building TA projects funded by development partners; and a degree in finance, insurance, or a related field are advantages.

7. Working with the project management unit (PMU) and the implementing agencies under the guidance of the team leader, the specialist will perform the following tasks:

- (i) assist the Insurance Commission and steering committee for microinsurance in agriculture microinsurance;
- (ii) assist in arranging and organizing meetings for the TA activities for developing microinsurance and ADB missions;
- (iii) coordinate and collect reports on microinsurance for submission to the PMU and/or the steering committee, in cooperation with the project implementation unit;
- (iv) assist in preparing materials for reports, meetings, and workshops for microinsurance development, including materials and document production;
- (v) undertake other tasks that may be reasonably required by the team leader for the efficient operation of the PMU, especially providing technical support to the PMU and the steering committee; and
- (vi) contribute to the consultant reports, as required.

2. National Digital Finance Specialist (6 person-months, intermittent)

8. The national digital finance specialist will have a degree in banking or finance and have an established career in the inclusive digital finance and/or microfinance sector with at least 10 years of professional experience. The specialist must be well versed in Philippine microfinance policies, regulations, and institutional issues for digital finance development. Excellent oral and written English communication skills are required.

9. Working under the guidance of ADB and the joint supervision of the team leader and the international finance specialist, the national specialist will be responsible for the following:

- (i) Lead an assessment of digital finance solutions to help increase financial services by consulting with the National Retail Payment System Working Group and the e-peso team to identify opportunities to increase electronic payments and leverage e-wallets to expand the use of financial services and assess other digital finance initiatives with the potential to significantly expand outreach of financial services in the Philippines.
- (ii) For the assessment, look at potential links with current ADB work supporting the conditional cash transfer program in the Philippines. In consultation with the Department of Budget and Management and the Department of Social Welfare and Development, the specialist will identify opportunities to link more conditional cash transfer recipients to formal financial services.
- (iii) In the assessment, identify particular payment streams that ADB support can help catalyze. Develop a road map for the support and include it in the overall sector road map and sector development priorities for the longer-term ADB sector assistance program in the Philippines.
- (iv) Participate in stakeholder workshops and contribute to the inception, midterm, and final reports.

3. National Project Management Specialist (9 person-months, intermittent)

10. The national project management specialist will have a degree in banking, finance, or a development-related course; and at least 5 years of professional experience in project assistance and management. Experience working for international aid organizations is preferable. The specialist will be responsible for the following:

- (i) arrange ADB requirements for TA fund transfers, payment for TA activities, and reports on TA fund disbursements;
- (ii) arrange and organize meetings for the TA activities and ADB missions;
- (iii) prepare materials for reports, meetings, and workshops, including collecting materials and producing documents related to the TA activities;
- (iv) provide assistance to TA consultants on specific technical matters, as requested;
- (v) provide assistance to TA consultants on administrative matters, including travel and visa arrangements; maintenance of hard and soft copies of files, including for backup; and general office administration;
- (vi) contribute as required to the inception, quarterly progress, midterm, draft final, and final reports; and
- (vii) perform other work in connection with the TA project as may be reasonably requested by TA consultants.

C. Research Institute for Survey

11. The TA survey will complement the Philippine National Baseline Survey on Financial Inclusion¹ by analyzing the adult population's awareness of, attitude about, behavior toward, and skills in financial services that support their well-being. The research institute for the survey will conduct the following tasks and other related activities that may arise during implementation:

¹ BSP. 2015. *National Baseline Survey on Financial Inclusion*. Manila. <http://www.bsp.gov.ph/downloads/publications/2015/NBSFIFullReport.pdf>.

- (i) prepare the draft survey questionnaire in coordination with the TA team leader, ADB, and the Bangko Sentral ng Pilipinas (BSP);
- (ii) pilot test the survey and provide feedback to the TA team leader, ADB, and BSP for consultation and revise the questionnaire accordingly;
- (iii) identify survey sites and sample population in consultation with the TA team leader, ADB, and BSP;
- (iv) provide guidance to surveyors conducting the survey;
- (v) conduct a pilot survey and address issues identified to conduct the full survey;
- (vi) manage the survey implementation;
- (vii) collect data from the survey and carry out data entry, coding, and processing;
- (viii) analyze the processed data and prepare a draft report, including presenting the analysis through tables, graphs, and narratives;
- (ix) finalize the draft report in consultation with the TA team leader, ADB, and BSP; and
- (x) present the final survey report at the TA stakeholders' consultative meetings.