

## SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

Country:	Philippines	Project Title:	Inclusive Finance Development Program, Subprogram 1
Lending/Financing Modality:	Policy-Based Loan	Department/Division:	Southeast Asia Department Public Management, Financial Sector, and Trade Division

<b>I. POVERTY AND SOCIAL ANALYSIS AND STRATEGY</b> Poverty targeting: Household and SDG targeting
<b>A. Links to the National Poverty Reduction and Inclusive Growth Strategy and Country Partnership Strategy</b> The Philippine Development Plan (PDP), 2017–2022 aims to create a strong foundation for inclusive growth through a robust agenda on infrastructure, human capital, and social protection for the poor and other vulnerable groups. <sup>a</sup> The PDP has set the gross domestic product growth rate at 7%–8% in the medium term to advance the Philippines as an upper middle-income country by 2022. The unemployment rate is expected to fall to 3.0%–5.0% by 2022 from 5.5% in 2016. The overall poverty rate is targeted to be reduced to 14.0% by 2022 from 21.6% in 2015. The poverty rate in rural areas is expected to decrease from 30% to 20% during the same period. The expected overall poverty reduction is equivalent to lifting about 6 million more people out of poverty by 2022. <sup>b</sup> Despite the considerable progress the Philippines has made in reducing the poverty rate from 25.2% in 2012, one in five Filipinos is still living under the poverty threshold of ₱1,813 per month. Moreover, 8.1% of Filipinos (8.2 million people) are unable to meet their basic food needs. The poverty incidence remains particularly high in rural areas, where 75% of poor households are located. Household income inequality in the Philippines declined from 0.46 in 2012 to 0.44 in 2015, as measured by the Gini coefficient. However, it was high compared with that in Indonesia (0.39), and Thailand (0.38). Most of the economic gains through the recent GDP growth accrued to the richest individuals in the country. In this context, eradicating poverty and vulnerability of large sections of the population remains a principal challenge for the government. To support growth and improve access to opportunities, the PDP emphasizes the importance of a resilient and inclusive finance sector. The government aims to stimulate economic activity and financial inclusion through an aggressive expenditure program on infrastructure, human capital formation, and social protection. The Asian Development Bank (ADB) country partnership strategy (CPS), 2011–2016 for the Philippines supports the government’s efforts under the PDP to achieve high, inclusive, and sustainable economic growth focusing on infrastructure, environment, and education. <sup>c</sup> In creating a resilient and inclusive finance sector, the Inclusive Finance Development Program aims to strengthen the effectiveness of financial inclusion initiatives by focusing on the efficient delivery of microfinance and microinsurance products and services, and by encouraging efficiency and innovation in the microfinance and microinsurance areas. The program is an overarching intervention that is fully aligned with the PDP and the CPS as it aims to provide an enabling environment for financial inclusion, strengthen infrastructure for financial inclusion, and boost the capacity of financial service providers, all of which are designed to support the goal of inclusive growth.
<b>B. Results from the Poverty and Social Analysis during Project Preparatory Technical Assistance or Due Diligence</b> 1. <b>Key poverty and social issues.</b> Financial exclusion is directly linked to poverty and inequality, in particular, because financial exclusion deprives the poor of opportunities to increase their income and mitigate various risks through credit, savings, insurance, pensions, and remittances. The National Survey on Financial Inclusion conducted by the Bangko Sentral ng Pilipinas (BSP) in 2015 and 2017 highlights persistent geographical, human, institutional, and infrastructure constraints on access to financial services. <sup>d</sup> While the number of loans, deposits, and insurance policies has increased along with the expansion of access points and the diversification of products and services, overall access to finance remains limited. 2. <b>Beneficiaries.</b> The proposed program will help provide an enabling environment for financial inclusion, strengthen infrastructure for financial inclusion, and enhance the capacity of financial service providers. The direct beneficiaries of the program include the central government agencies, as well as private stakeholders—rural banks; financial technology companies; micro, small, and medium-sized enterprises; and industry associations—and nongovernment organizations (NGOs), all of which need to overcome the constraints associated with expanding access to financial products and services to the unbanked and underbanked population. The indirect beneficiaries of the program include investors, enterprises, entrepreneurs, farmers, workers, consumers, and vulnerable households. Investors and enterprises will benefit from access to a broader range of financial products and a more stable finance sector. Entrepreneurs, farmers, workers, and poor households will benefit from a broader range of financial products and services, better access to services through gaining financial literacy, and stronger protection frameworks that boost the resilience to shocks. 3. <b>Impact channels.</b> The government’s focus on financial inclusion recognizes the importance of access to finance. This reform channel is direct, since finance sector development allows more entrepreneurs, especially those less

<p>well-off, to obtain affordable credit that can then be used to expand and grow their productive endeavors. In addition, the government's increased focus on financial literacy can potentially empower consumers to increase their savings and to use financial services in more responsible ways.</p> <p>4. <b>Other social and poverty issues.</b> Not applicable.</p> <p>5. <b>Design features.</b> The program has three components that were systematically designed to promote a resilient and inclusive finance sector by supporting the government's key reform priorities of increasing access to finance and strengthening micro, small, and medium-sized enterprise and agriculture finance. The specific goals are to increase the scale and types of financial products and services available to the entire population, and to selected segments and regions that are particularly underserved. The reform priorities under the program consist of developing effective delivery channels for financial products and services, including payments. The program seeks to capitalize on the opportunities that technology can bring to increasing efficiency, reducing risk, and developing more demand-driven financial products and services.</p>
<p><b>C. Poverty Impact Analysis for Policy-Based Lending</b></p> <p>1. <b>Impact channels of the policy reforms.</b> The program's policy reforms will lead to increased access to range of quality and affordable financial products and services for the previously unbanked and underbanked population while enhancing financial literacy and strengthening consumer protection. Through the policy reforms and interventions to expand financial inclusion, the proposed program directly supports the government's efforts to achieve the goals set out under the PDP, i.e., to reduce the vulnerability of the poor and to build the capacity and resilience of key sectors such as agriculture. The program has a high-level impact leading to finance sector development that boosts economic growth and income.</p> <p>2. <b>Impacts of policy reforms on vulnerable groups.</b> Positive impacts include the expansion of financial services such as credit, savings, and insurance to the financially underserved population, which supports economic growth. In addition, financial deepening is expected to improve access to long-term funding for development activities.</p> <p>3. <b>Systemic changes expected from policy reforms.</b> The program contributes to the goals of the PDP and the CPS related to poverty reduction and inclusive economic growth in the medium term by increasing financial inclusion through enhancing related institutional and policy environment, infrastructure, and capacity of financial service providers. This is expected to increase the share of the population with access to formal financial services.</p>
<p style="text-align: center;"><b>II. PARTICIPATION AND EMPOWERING THE POOR</b></p> <p>1. <b>Participatory approaches and project activities.</b> Aspects of the reforms that the program will support have been subject to extensive consultations with a wide range of stakeholders including government, private sector, and non-governmental organizations.</p> <p>2. <b>Civil society organizations.</b> The steering committee of the National Strategy for Financial Inclusion, chaired by the Bangko Sentral ng Pilipinas, includes agencies representing the interests of both youth and women.</p> <p>3. The following forms of civil society organization participation are envisaged during project implementation, rated as high (H), medium (M), low (L), or not applicable (NA):</p> <p><input checked="" type="checkbox"/> Information gathering and sharing (L) <input checked="" type="checkbox"/> Consultation (L) <input checked="" type="checkbox"/> Collaboration (L) <input checked="" type="checkbox"/> Partnership (L)</p> <p>4. <b>Participation plan.</b></p> <p><input type="checkbox"/> Yes. <input checked="" type="checkbox"/> No. The program supports the government's consultation and participation process.</p>
<p style="text-align: center;"><b>III. GENDER AND DEVELOPMENT</b></p> <p>Gender mainstreaming category: some gender elements</p> <p><b>A. Key issues.</b> Although overall figures show that women have more accounts than men in the Philippines, Filipino women are still disproportionately affected by cultural, social (class and ethnicity), and educational barriers to formal financial services. In 2017, 61% of women did not hold an account at a bank or another type of financial institution.<sup>e</sup> Reaching those women who remain excluded from financial services not only serves to fulfill national priorities set forth in the Philippines National Strategy for Financial Inclusion and the Sustainable Development Goals but doing so also presents a market opportunity for providers. There is a clear business case for serving women because they tend to save more relative to their total income than men, repay loans at a higher rate, buy more financial products per capita, and be more loyal to their bank if they are satisfied with the customer service environment. More employed women in the country are engaged in jobs lacking decent working conditions, such as jobs in unregistered companies in the informal economy or as unpaid family workers. Thus, their opportunities for social mobility and social protection are limited. Key policy measures under subprogram 1 will help increase financial inclusion among women, such as the development of a national identification system (considering that women are less likely than men to have identification documents required to open a bank account), the introduction of cash agents, and the strengthening of microfinance NGOs, which predominantly serve women. Financial literacy campaigns under subprogram 2 will be specifically designed to meet the needs of female clients, particularly around the use of mobile financial services, for which there is a gender gap in ownership and usage.</p>
<p><b>B. Key actions.</b></p> <p><input type="checkbox"/> Gender action plan <input checked="" type="checkbox"/> Other actions or measures <input type="checkbox"/> No action or measure</p> <p>The proposed program will widen access to financial services for women, enabling them to invest in themselves, their</p>

<p>families, and their communities. Providing women, particularly from marginalized and underserved groups and communities, with quality financial services will help advance inclusive and equitable economic growth and sustainable development. Key gender actions in subprogram 1 include credit information data collection disaggregated by sex and promotion of gender diversity on microfinance NGO boards. A gender assessment conducted under subprogram 1 will help identify ways to include a gender focus under subprogram 2 and increase women's financial inclusion.</p>	
<b>IV. ADDRESSING SOCIAL SAFEGUARD ISSUES</b>	
<b>A. Involuntary Resettlement</b>	<b>Safeguard Category:</b> <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI
<p>1. <b>Key impacts.</b> Based on the assessment of the proposed policy actions, the program will not entail involuntary land acquisition resulting in physical or economic displacement of people.</p> <p>2. <b>Strategy to address the impacts.</b> Not applicable.</p> <p>3. Plan or other Actions.</p> <p><input type="checkbox"/> Resettlement plan <input type="checkbox"/> Combined resettlement and indigenous peoples plan</p> <p><input type="checkbox"/> Resettlement framework <input type="checkbox"/> Combined resettlement framework and indigenous peoples planning framework</p> <p><input type="checkbox"/> Environmental and social management system arrangement <input type="checkbox"/> Social impact matrix</p> <p><input checked="" type="checkbox"/> No action</p>	
<b>B. Indigenous Peoples</b>	<b>Safeguard Category:</b> <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI
<p>1. <b>Key impacts.</b> Assessment of the program policy actions indicates no impact on indigenous peoples' communities. Is broad community support triggered? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>2. <b>Strategy to address the impacts.</b> Not applicable.</p> <p>3. <b>Plan or other actions.</b></p> <p><input type="checkbox"/> Indigenous peoples plan <input type="checkbox"/> Combined resettlement plan and indigenous peoples plan</p> <p><input type="checkbox"/> Indigenous peoples planning framework <input type="checkbox"/> Combined resettlement framework and indigenous peoples planning framework</p> <p><input type="checkbox"/> Environmental and social management system arrangement <input type="checkbox"/> Indigenous peoples plan elements integrated in project with a summary</p> <p><input type="checkbox"/> Social impact matrix</p> <p><input checked="" type="checkbox"/> No action</p>	
<b>V. ADDRESSING OTHER SOCIAL RISKS</b>	
<b>A. Risks in the Labor Market</b>	
<p>1. Relevance of the project for the country's or region's or sector's labor market, indicated as high (H), medium (M), and low or not significant (L).</p> <p><input checked="" type="checkbox"/> unemployment (L) <input checked="" type="checkbox"/> underemployment (L) <input checked="" type="checkbox"/> retrenchment (L) <input checked="" type="checkbox"/> core labor standards (L)</p> <p>2. <b>Labor market impact.</b> No such risks envisaged.</p>	
<b>B. Affordability</b>	
Not applicable.	
<b>C. Communicable Diseases and Other Social Risks</b>	
<p>1. The impact of the following risks are rated as high (H), medium (M), low (L), or not applicable (NA):</p> <p><input type="checkbox"/> Communicable diseases (NA) <input type="checkbox"/> Human trafficking (NA)</p> <p><input type="checkbox"/> Others (please specify) (NA)</p> <p>2. <b>Risks to people in project area.</b> Not applicable.</p>	
<b>VI. MONITORING AND EVALUATION</b>	
<p>1. <b>Targets and indicators.</b> The performance indicators and targets in the design and monitoring framework will be monitored, including the increase of 46% of the overall population and 27% of the bottom 40% income group having access to formal bank accounts.</p> <p>2. <b>Required human resources.</b> Not required.</p> <p>3. <b>Information in the project administration manual.</b> Not required.</p> <p>4. <b>Monitoring tools.</b> Not required.</p>	

<sup>a</sup> Government of the Philippines, National Economic and Development Authority. 2017. *Philippine Development Plan, 2017–2022*. Manila.

<sup>b</sup> Government of the Philippines, Philippine Statistics Authority. 2015. *Full Year Poverty Statistics 2015*. Manila.

<sup>c</sup> ADB. 2011. *Country Partnership Strategy: Philippines, 2011–2016*. Manila.

<sup>d</sup> Bangko Sentral ng Pilipinas. 2015. *National Baseline Survey on Financial Inclusion*. Manila. Bangko Sentral ng Pilipinas. 2017. *National Baseline Survey on Financial Inclusion*. Manila.

<sup>e</sup> World Bank. *The Global Findex Database 2017: Measuring Financial Inclusion and the Fintech Revolution*. Washington, DC.