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## Focus on the Field: The Philippines Microfinance Efforts & Digital Financial Inclusion

By John Owens

*John Owens worked with Chemonics International on the USAID/Philippines Microenterprise Access to Banking Services (MABS) program from 1999-2012. From 2012-2013 he supported Chemonics International and several of its USAID-funded projects to shift to digital payments from 2012-2013. Today, he is the Senior Policy Advisor, Digital Financial Services & Other Financial Inclusion Policies at the Alliance for Financial Inclusion (AFI).*

I was fortunate to have worked with Chemonics International as the Chief of Party for most of the four phases of the Microenterprise Access to Banking Services (MABS), an ambitious project with a relatively small budget of only \$25 million over 15 years. USAID's MABS program, in partnership with the Rural Banking Association of the Philippines (RBAP), helped to dramatically change the commercial approach to microfinance in the country and became the early testing ground for new developments such as digital financial services and its role to support a more digital financial inclusion approach to development.

The program not only provided support to an extensive banking network but also leveraged millions of dollars in counterpart support from the rural banking sector, the telecommunications industry, the insurance industry, and other international foundations such as sub-grants from the Bill & Melinda Gates Foundation and the MasterCard Foundation. MABS also worked closely with the industry to engage with regulators in an extensive and ongoing public-private sector dialogue that led to many changes in regulations and policies that today support the financial inclusion efforts in the country. The

Philippines continues to be listed as one of the number one regulatory and policy environments for financial inclusion as rated by the Economist Intelligence Unit.<sup>1</sup>

We were fortunate in the Philippines to have support from Mission personnel including various Mission Directors, Office Directors in the Office of Economic Development and Governance, and especially long-serving Foreign Service Nationals, like Teresita Espenilla, who helped shape and support all three microfinance projects from the mid-1990s until the end of the MABS program in 2012. These three projects – Credit Policy Improvement Project (CPIP), Credit Union Empowerment and Strengthening (CUES), and MABS, had a dramatic impact on the regulatory environment as well as commercial support to develop a range of microfinance services that have had a lasting impact on the country and led the Philippines to become one of the true leaders in the world in support of financial inclusion.

Running from 1997 until the program ended in 2012, the MABS program took many of the lessons learned from successful approaches to microfinance from around the world and helped provide dedicated technical assistance and training to rural banks in the countryside to provide greater access to a range of financial services. Starting with savings and microfinance credit services, the program advanced to support micro-agri loans for farmers, some of the first successful housing microfinance loan services in the country, micro-insurance via rural banks in partnership with regulated insurance companies, and the first instances in 2004 of mobile-enabled electronic money (mobile money) to facilitate access to microfinance services.

Initially, we developed an idea of using airtime to send loan payments and thought it would be a great and simple way to remotely manage loan disbursement and re-payment. However, when we studied the market and discovered that the margins for selling airtime were high, we realized it would not be feasible. When we heard about mobile money being launched, first Smart Money and then GCASH a bit later in 2004, we dusted off our initial “text-a-payment” concept and approached the two mobile money operators about our idea. Globe’s GCASH and later Smart Money both committed resources, time, and personnel to pilot this service and then expand it.

The initial product was our Text-A-Payment (TAP) service, which built on the familiarity and comfort that people had with sending text messages via mobile phones. Instead of traveling to the bank to make loan payments, clients could easily text their loan payment using e-money directly to the bank, saving them travel time and money. This transaction mode also benefitted the banks because it allowed them to increase their outreach to rural areas while reducing costs.

As one of the first projects to champion the use of mobile money, we faced a number challenges and learned countless lessons along the way. Having only one mobile phone banking functionality did not create enough of a value proposition for the cash in/cash out agents or the clients. Other services on top of loan payments needed to be developed to create demand from the client and build up volume and value for the agents. So, MABS, in partnership with the mobile money operators and the banks, developed other mobile banking services, including deposits and withdrawals, paying salaries, and supporting the use cases of domestic and international remittances and other money transfer services. By closely analyzing where mobile money usage was the highest, we learned the importance of building

a broader ecosystem of retailers, clients, businesses, merchants, government payments, as well as a sufficient agent network.

Because few regulations existed for mobile money-enabled banking transactions, the MABS team worked closely with the Rural Bankers Association of the Philippines under the oversight of the Bangko Sentral ng Pilipinas (BSP) which operated under a “test-and-learn” regulatory and supervisory approach with regard to mobile money use for banking services, especially those services focused on financial inclusion. BSP representatives joined the MABS team in field visits with rural banks and clients to better understand the new mobile phone banking services that utilized these mobile money platforms. Throughout the process, circulars and guidelines were crafted, clarified, and strengthened. The Philippines became the mecca for study groups from other countries wanting to learn about mobile money, how it could be used to provide access to banking services, how to structure partnerships between banks and e-money issuers, and to learn from the regulators.

Mobile money became an opportunity to extend low-cost virtual bank accounts to a large number of clients in a cost-effective way that could not be provided through brick-and-mortar branches. From 2008-2012, MABS helped 77 rural banks with more than 1,100 branches and banking offices become accredited to offer mobile phone banking services using mobile money. These banks registered more than 390,000 mobile phone banking clients during this time frame and helped the banks to process more than 3 million mobile phone banking transactions valued at more than 17 billion PHP (\$400 million). While MABS did develop very useful pilots to support mobile money use cases for microfinance services, broader adoption of mobile money and digital payments still have a ways to go but hold significant potential for greater financial inclusion in the country.

As stated in my previous blog post, the MABS efforts, as well as many other projects that I came to know and respect within the USAID Missions, were true learning and innovation labs that have had a lasting impact on the development of microfinance and the world of financial inclusion as we know it today.