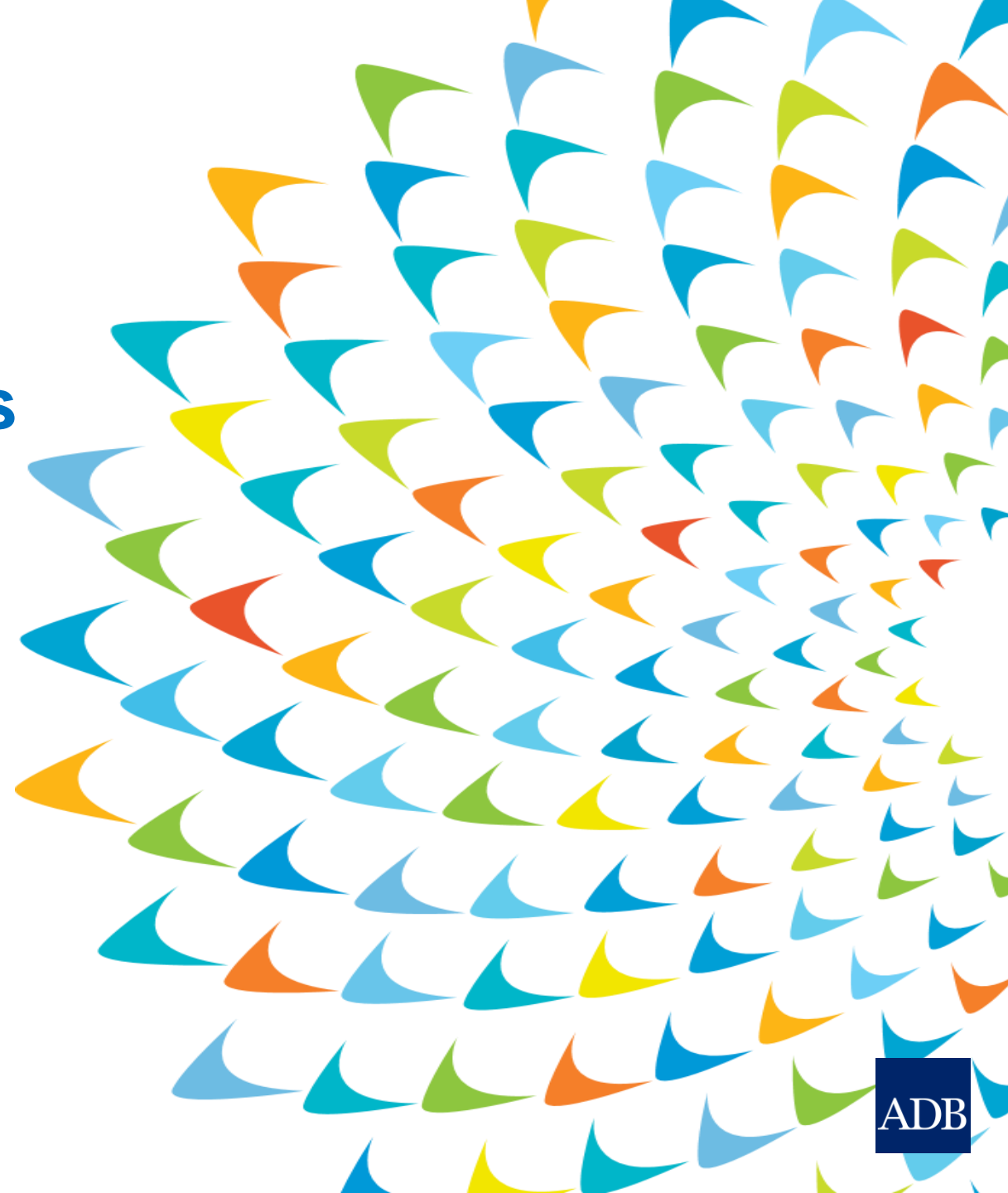


# **ADB Support for Digital Transformation of Rural Banks**

**Rural Bankers Association  
67<sup>th</sup> Annual Convention**

**25 June 2020**



# ADB Engagement in Inclusive Finance Reform Agenda

## Lending Programs

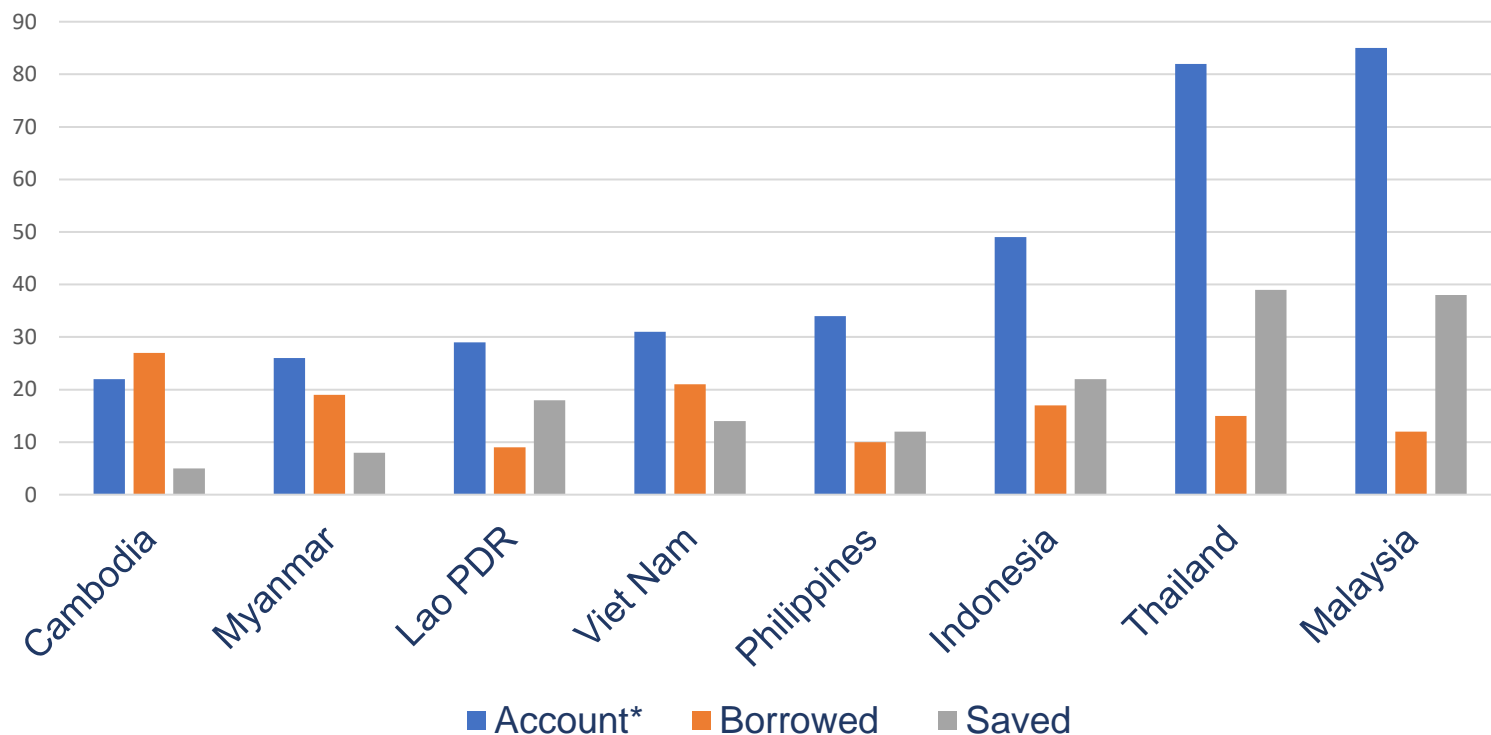
1996-2002	Loan for the Rural Microenterprise Finance Project
2005-2007	Loan for the Microfinance Development Program
2016-2023	Loan for Inclusive Finance Development Program

## Technical Assistance Grants

2006-2009	TA Grant for Developing Financial Cooperatives
2008-2012	TA Grant for Developing Microinsurance in the Philippines
2017-2023	TA Grant for Financial Inclusion Framework Strengthening

# Financial Inclusion in the Philippines by Regional Comparison

ASEAN Financial Inclusion



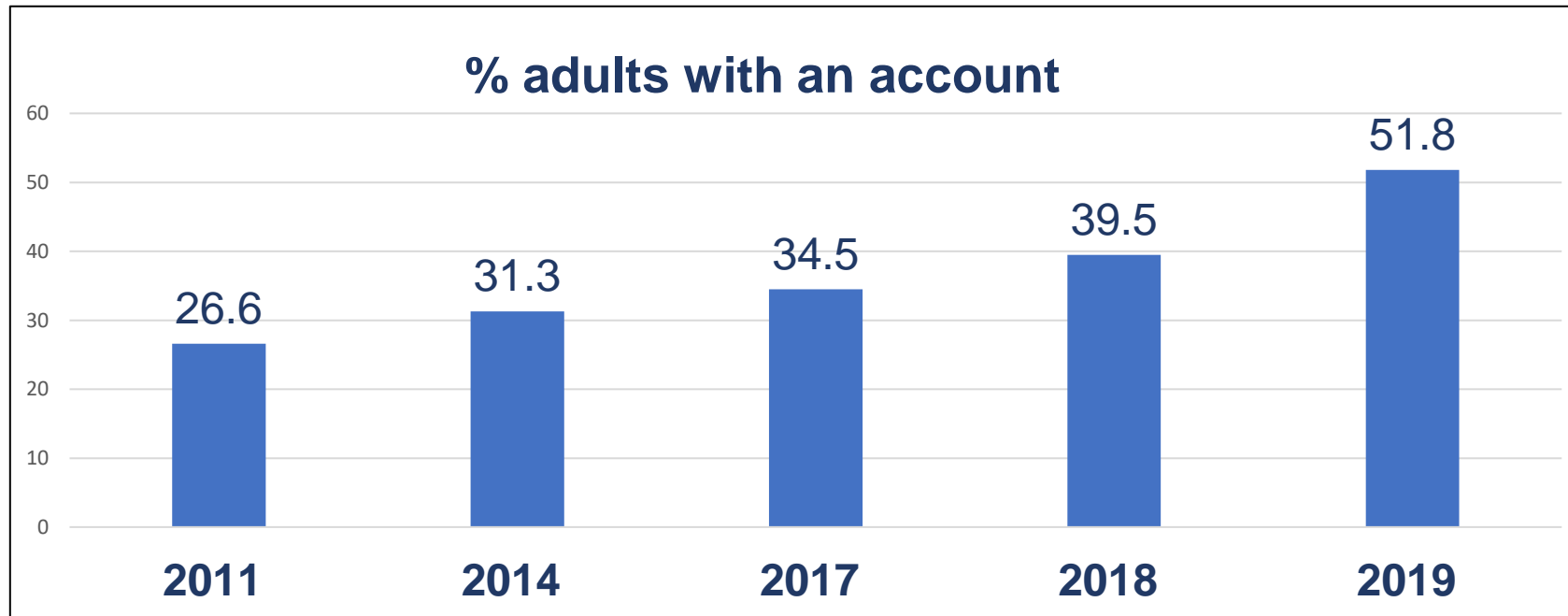
Source: The Global Findex Database 2017, World Bank.

Note: All indicators are defined as % age 15+ except for young adults which is % ages 15-24)

- Number of people who have an account, on their own or with someone else, at a bank or another type of financial institution or personally using a mobile money service in the past 12 months.

- **Philippines ranked among the lowest in SE Asia** for almost all financial inclusion indicators.
- **Only 34% of the population** had an account in 2017.
- **Only 10% of the population borrowed and 12% saved** at a financial institution.

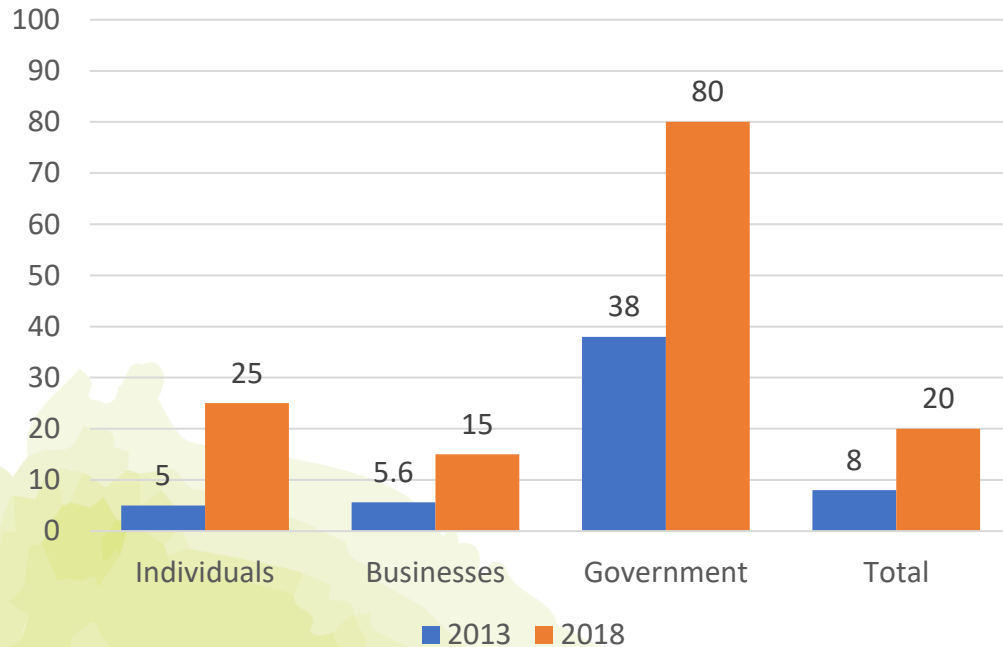
# Improvement in Overall Financial Inclusion



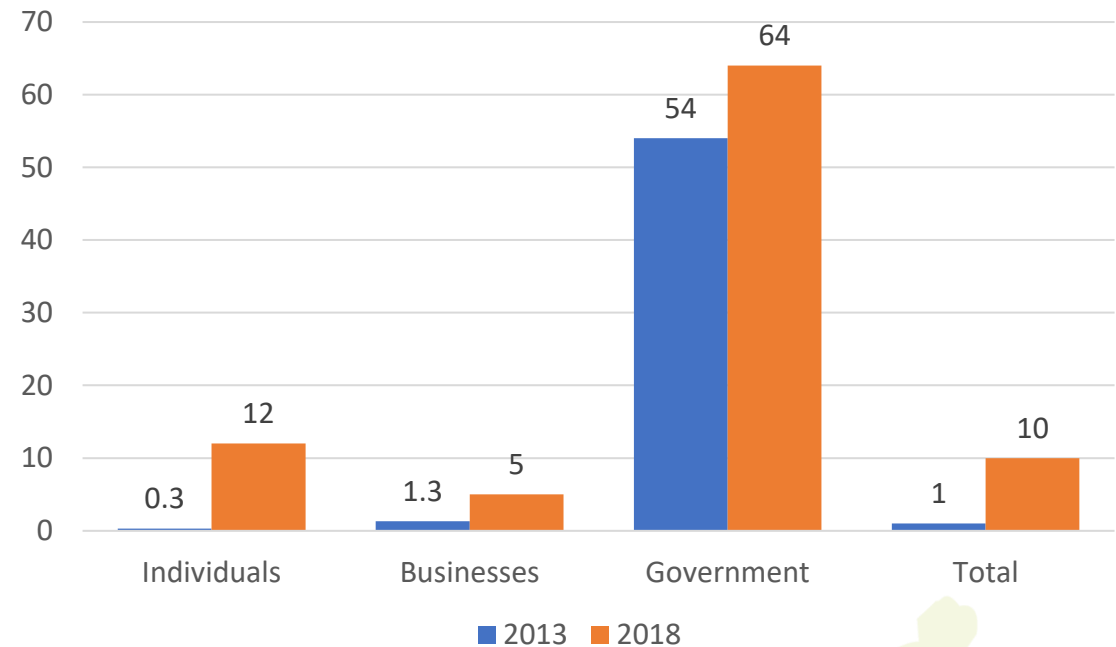
Source: Global Findex Survey; BSP Financial Inclusion Dashboard

# Increase in Digital Payments by Volume and Value

Share of digital payments in the Philippines by volume (%)



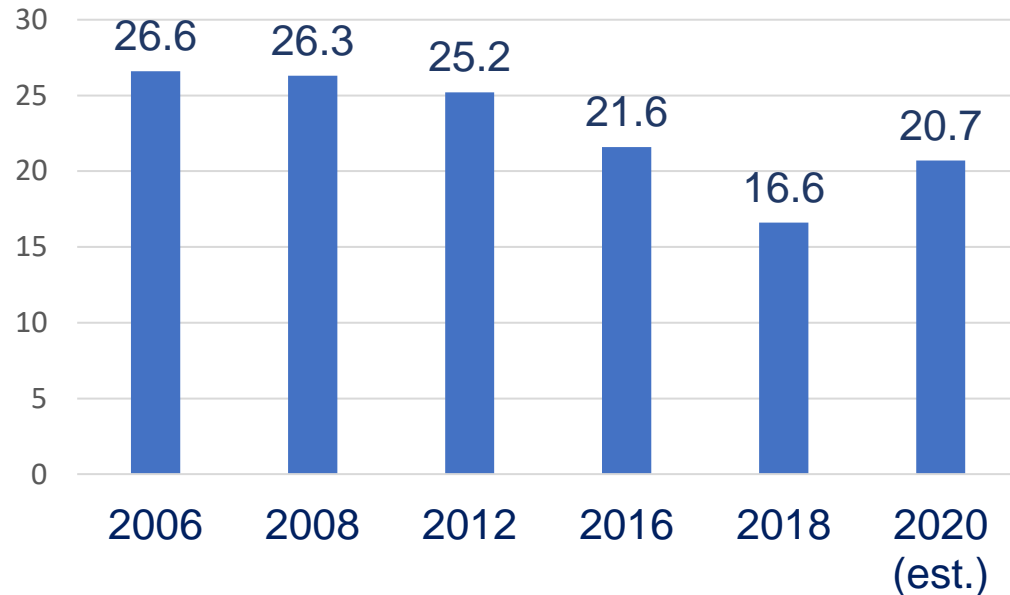
Share of digital payments in the Philippines by Value (%)



Source: Better Than Cash Alliance. *The State of Digital Payments in the Philippines*. December 2019

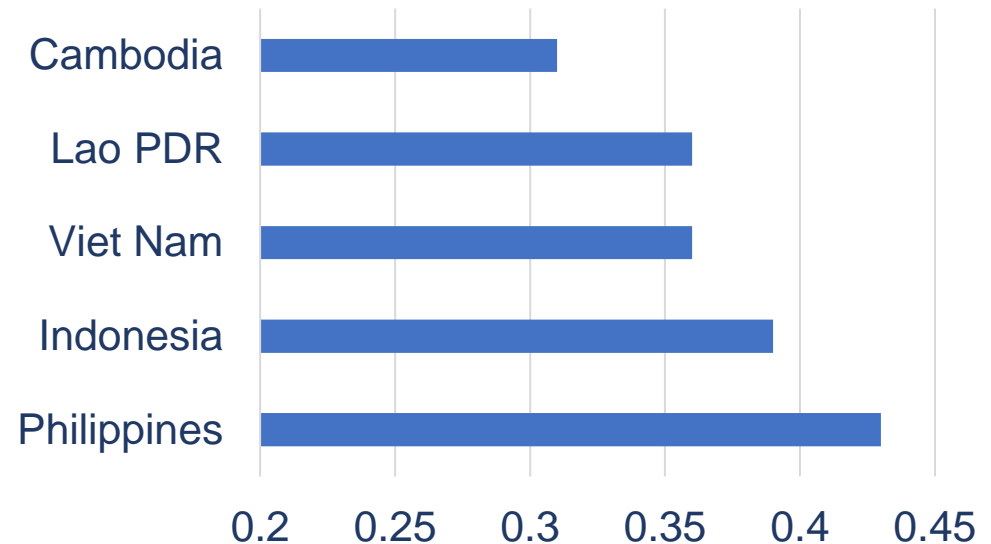
# Poverty and income inequality have declined but remain high. Progress reversed due to COVID-19 impact.

## Philippines National Poverty Rate (% of population)



Source: Philippine Statistics Authority

## Household Income Inequality - Regional Comparison (Gini coefficient)



Source: GINI Index World Bank

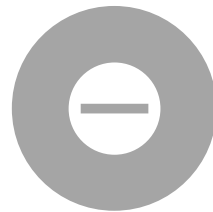
- Poverty rate fell from 23.3% in 2015 to 16.6% in 2018.
- COVID-19 crisis will increase poverty rates to 20.7% in 2020 - a 68.6% increase in NCR and 31.3% increase nationally (ADB estimates).
- Studies have shown positive linkages between higher financial inclusion and lower rates of poverty and income inequality.

# Development Problem and Rationale

**Development Problem:** Low level of financial inclusion in Philippines compared to other countries in Southeast Asia is due to a number of development constraints.



**Structural impediments limit access to finance**



**Fragmented financial infrastructure**

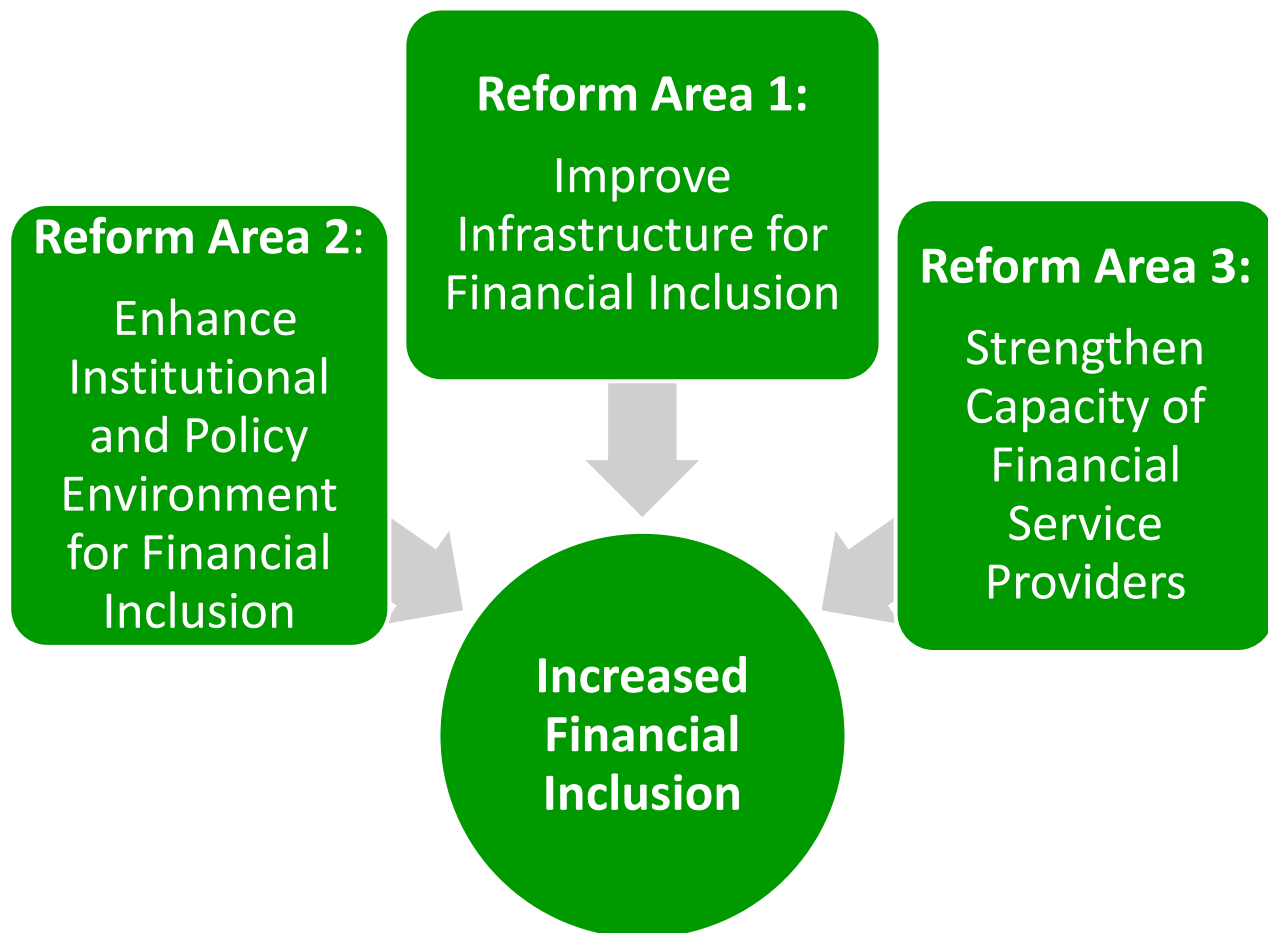


**Limited capacity of financial institutions**

**Rationale:** The program will contribute to increased financial inclusion by:

- leveraging national identity to expand financial inclusion
- strengthening infrastructure needed to expand digital payment ecosystem
- further building capacity of financial service providers through digital transformation.

# Design of the Program



## By 2023

a. Individuals with an account at a financial institution increased to 70% of the population: men with an account increased to 70%, women with an account increased to 70% (2017 baseline: overall-34%, men-30%, women-39%)

b. youth with an account increased to 65% (2017 baseline: 24%)

c. Individuals at the bottom 40% of the population (age 15+) with an account at a formal financial institution increased to 55% (2017 baseline: 18%)

d. Accounts at a formal financial institution increased in rural areas to 64% (2017 baseline: 27%)



# Design of the Program

## Subprogram 1

(March 2016 – April 2018)

- **National identification system:** National identification legislation passed.
- **Agriculture Value Chain:** Policy framework to promote Agriculture Value Chain Finance (AVCF) introduced.
- **National Strategy for Financial Inclusion:** Legislation passed to increase financial literacy awareness among public and policymakers.
- **Digital payments:** established batched electronic fund transfer credit and real time low value push to enable low value electronic fund transfers.
- **Capacity of Financial Service Providers:** innovative cloud bank pilot conducted.
- **Islamic Financial Services:** Legislation submitted for strong Islamic Finance framework.

## Subprogram 2

(May 2018 – April 2020)

- **National identification system:** IRR issued; implementation plan approved; key packages procured; financial inclusion linkages identified.
- **Agriculture Value Chain:** Pilot AVCF launched to support agriculture sector.
- **National Strategy for Financial Inclusion:** financial consumer protection strengthened; Philippines commission on Women included in leadership; demand survey approved with gender focus.
- **Digital payments:** QR Code standards adopted; pilot testing of G2P payments.
- **Capacity of Financial Service Providers:** Supervision of MF-NGOs strengthened; cloud banking approval issued to 26 additional banks.
- **Islamic Financial Services:** Legislation passed and capacity building campaign conducted.

## Subprogram 3

(May 2020 – May 2023)

- **National identification system:** Majority of population enrolled; linkages to financial inclusion established.
- **Agriculture Value Chain:** Policy reforms in AVCF to increase availability especially for women-owned micro small and medium-sized enterprises and through digital platforms.
- **National Strategy for Financial Inclusion:** financial literacy expanded; updated NSFI action plan with gender focused targets approved.
- **Digital payments:** Sex-disaggregated data collected; scaled QR code; G2P digital payments promoted.
- **Capacity of Financial Service Providers:** Expands sandbox approach; upgrades regtech solutions.
- **Islamic Financial Services:** Implements capacity building campaign with focus on needs of women and women-owned enterprises.

# Digital Transformation Program - Background

- In 2017, ADB financed pilot of first cloud banking project for a rural bank in the province of Mindanao, Philippines – Cantilan Bank which went live in January 2019.
- A Technology Needs Assessment conducted in 2019 with RBs highlighted the need to transform from their present mode of operations to a set-up that allows digitalization in order to keep up with the demands and requirements of its clients
- Highlights of assessment:
  - at least 60% of participants using a core banking system. However, current systems do not provide for a straight through set-up to get banking (deposit and loans) transactions processed through backend (financial reports).
  - 40% of clients utilizing the services of commercial banks that offer online services, which at present are not available with RBs.

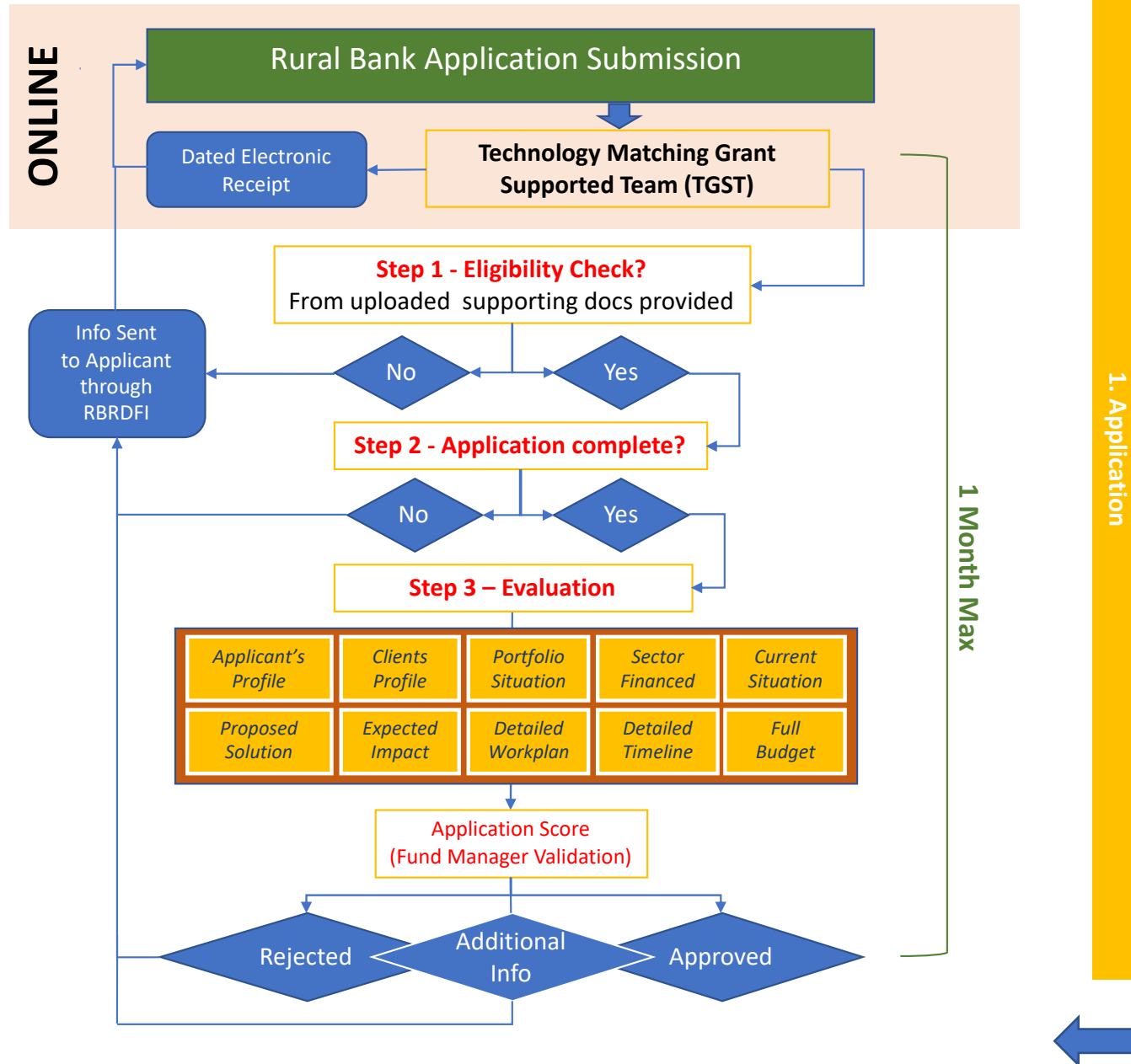
# Digital Transformation Program - Overview

- **Objective:** Support innovative use of technology to increase efficiency, reduce costs for financial service providers and increase the depth and scale of outreach of the financial services they offer to the underserved or excluded populations in the Philippines.
- **Outcome:** Increased performance in key financial and social indicators, particularly regarding cost, efficiency, depth and scope of outreach.
- **Design:** Through a simple but complete application process, matching grants will be given to support financial service providers
  - Program will start with support to rural banks
  - Preference will be given to RBs with a significant percentage of their portfolio in microfinance and/or agriculture finance.
  - Level of financing will depend on size of RB, strength of the proposal.

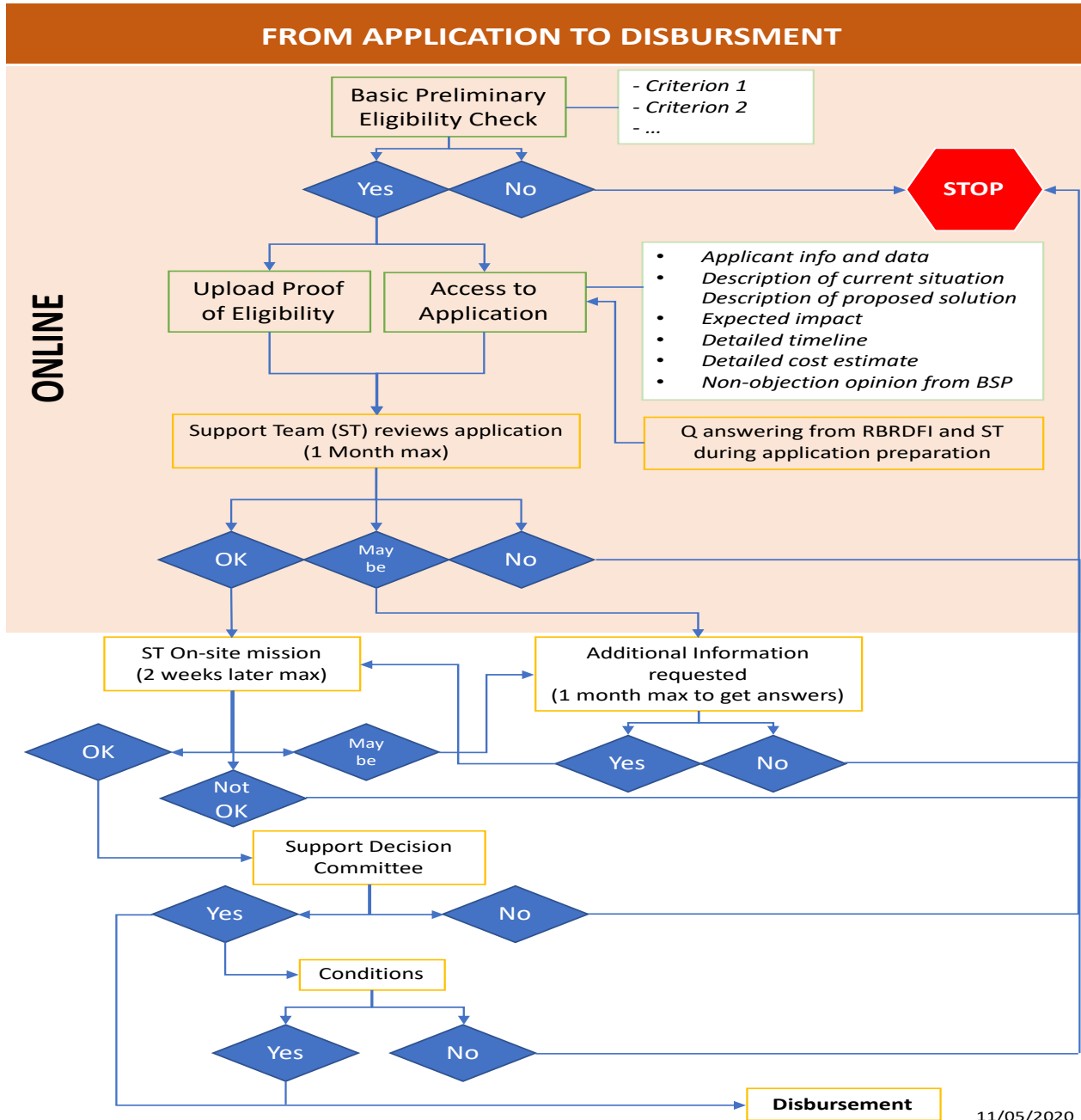
# Application Steps



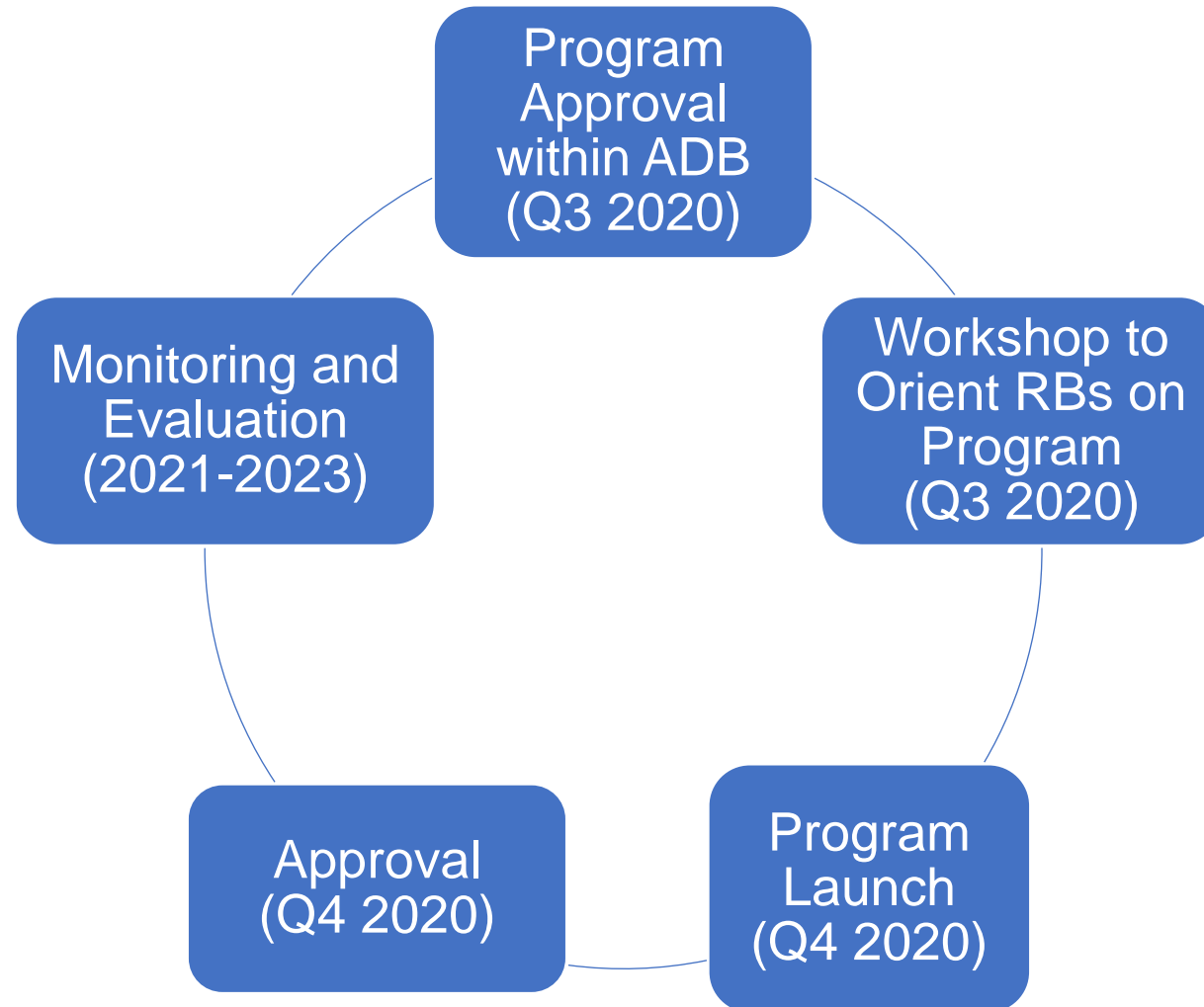
# Application Process Description



# FROM APPLICATION TO DISBURSEMENT



# Program Estimated Timeline



# Other ADB Programs to Support Rural Banks

- ADB Microfinance Risk Participation and Guarantee Program
  - a credit enhancement and a risk-allocation tool, designed to address a market gap and promote local currency lending to MFIs.
  - ADB partners with microfinance institutions, to increase their access to local currency funding .
  - Given its risk-sharing structure, the program encourages private sector participation on market-determined term



# Program Highlights, 2010-2019

Total loans supported:  
\$1.18 billion

Co-financing:  
610.22 million

Borrowers supported:  
6.12 million

MFIs approved: 35

Partner financial  
institutions (PFIs): 10

Countries covered:  
Bangladesh, Cambodia,  
India, Indonesia,  
Myanmar, Philippines

# Who can participate

- The program is open to international and domestic financial institutions. General minimum criteria include:
  - Rating of BB or higher (or equivalent) from at least one international credit rating agency, or industry recognition as a key player in the microfinance sector
  - Reputable and sound ownership, management, and governance standards
  - Status as a duly registered, regulated, and licensed entity in ADB's developing member countries
  - Dedicated approach to the microfinance sector, including teams at both relationship manager as well as, risk management levels
  - Acceptable underwriting systems and servicing platforms in place
  - For banks, 3 years of experience in lending to MFIs; For nonbank financial institutions, at least 7 years of continuous operations and 5 years of experience in lending to MFIs in ADB's developing member countries
  - For banks, nonperforming loans of less than 5%; For nonbank financial institutions, a loan portfolio of at least \$250 million and nonperforming loans of less than 5%
  - Successful completion of applicable ADB due diligence and approval procedures

# Loans/Investments to Microfinance-Oriented Financial Institutions

- ADB's loan to ASA Philippines Foundation, Inc. (ASA) for the Fostering Women's Empowerment Through Financial Inclusion in Conflict-Impacted and Lagging Provinces Project in the Philippines.
  - Multi-tranche loan/investment in bonds, up to \$30 million<sup>1</sup> (in PHP equivalent) for supporting micro-housing and business-enterprise micro-loans in conflict affected and poorer parts of the Philippines.
  - ADB's facility targets women borrowers, most of whom own and manage microenterprises. T
  - Financing proceeds deployed in lagging and conflict-impacted provinces of Visayas and Mindanao, and the remote and less penetrated parts of Luzon.

# Maraming Salamat

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