

FINANCIAL INCLUSION IN THE  
PHILIPPINES: A REGIONAL ASSESSMENT

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# FINANCIAL INCLUSION IN THE PHILIPPINES

*“Financial inclusion aims at drawing the “unbanked” population into the formal financial system so that they have the opportunity to access financial services ranging from savings, payments, and transfers to credit and insurance.”(Hannig and Jansen 2010)*

- Eight out of ten households are unbanked... In terms of credit, among the respondents who borrowed, banks were not among the main sources of financing. – Consumer Finance Survey, BSP, 2009
- The Philippines consistently fell under the low IFI category in two separate studies covering the years 2004 to 2010. – Cross-country research by Sarma (2008 and 2012)

# MOTIVATION OF THE STUDY

The study intends to delve deeper in explaining the relatively weak state of financial inclusion in the Philippines by providing a more empirical regional-wise analysis on the issue and identifying the socio-economic factors that could shed light on the financial inclusion gap across the different regions.

# ADOPTING THE RESEARCH DESIGN SARMA (2012)

Dimension	Notation	Indicator *
Bank penetration	$P_i$	Number of bank accounts per 1000 adult population
Availability of banking services	$ABS_i$	Number of banking offices per 1000 adult population Number of ATM per 1000 adult population Number of alternative financial service providers per 1000 adult population
Usage	$U_i$	Outstanding loans and deposits as proportion of the region's GDP

The formula for the IFI becomes:

$$IFI_i = \frac{1}{2} \left[ \frac{\sqrt{(P_i)^2 + (ABS_i)^2 + (U_i)^2}}{\sqrt{3}} + \left( 1 - \frac{\sqrt{(P_i)^2 + (1 - ABS_i)^2 + (1 - U_i)^2}}{\sqrt{3}} \right) \right]$$

# PRESENTATION OF RESULTS

Regions		Banking Penetration	Availability of Banking Services	Usage	IFI
	<b>National Capital Region</b>	0.992	1.000	1.000	0.997
	<b>Cordillera Administrative Region</b>	0.137	0.457	0.798	0.468
I-	<b>Ilocos</b>	0.065	0.127	0.125	0.108
II-	<b>Cagayan Valley</b>	0.000	0.362	0.341	0.252
III-	<b>Central Luzon</b>	1.000	0.809	0.675	0.810
IV-A	<b>Calabarzon</b>	1.000	1.000	0.748	0.889
IV-B	<b>MIMAROPA</b>	0.007	0.428	0.000	0.185
V-	<b>Bicol</b>	0.090	0.213	0.063	0.129
VI-	<b>Western Visayas</b>	0.462	0.346	0.434	0.414
VII-	<b>Central Visayas</b>	0.695	0.908	1.000	0.847

# PRELIMINARY RESULTS (CONT.)

Regions		Banking Penetration	Availability of Banking Services	Usage	IFI
VIII-	Eastern Visayas	0.085	0.153	0.000	0.089
IX-	Zamboanga Peninsula	0.087	0.101	0.172	0.123
X-	Northern Mindanao	0.229	0.533	0.379	0.384
XI-	Davao Region	0.562	0.608	0.654	0.608
XII-	SOCOSKSARGEN	0.470	0.224	0.160	0.293
XIII-	CARAGA	0.024	0.292	0.170	0.175
	Autonomous Region of Muslim Mindanao	0.000	0.000	0.000	0.000
	<i>Average</i>	0.347	0.445	0.395	0.398

Legend: Red font – High IFI region (0.6 to 1)  
 Black font – Medium IFI region (0.3 to < 0.6)  
 Blue Font – Low IFI region (below 0.3)

# LOW IFI REGIONS

Regions		Bank Penetration	Availability of Banking Services	Usage	IFI
I-	Ilocos	0.065	0.127	0.125	0.108
II-	Cagayan Valley	0.000	0.362	0.341	0.252
IV-B	MIMAROPA	0.007	0.428	0	0.185
V-	Bicol	0.09	0.213	0.063	0.129
IX-	Zamboanga Peninsula	0.087	0.101	0.172	0.123
XII-	SOCOSKSARGEN	0.47	0.224	0.16	0.293
VIII-	Eastern Visayas	0.085	0.153	0	0.089
XIII-	CARAGA	0.024	0.292	0.17	0.175
	Autonomous Region of Muslim Mindanao	0	0	0	0
	Average	0.092	0.211	0.115	0.142

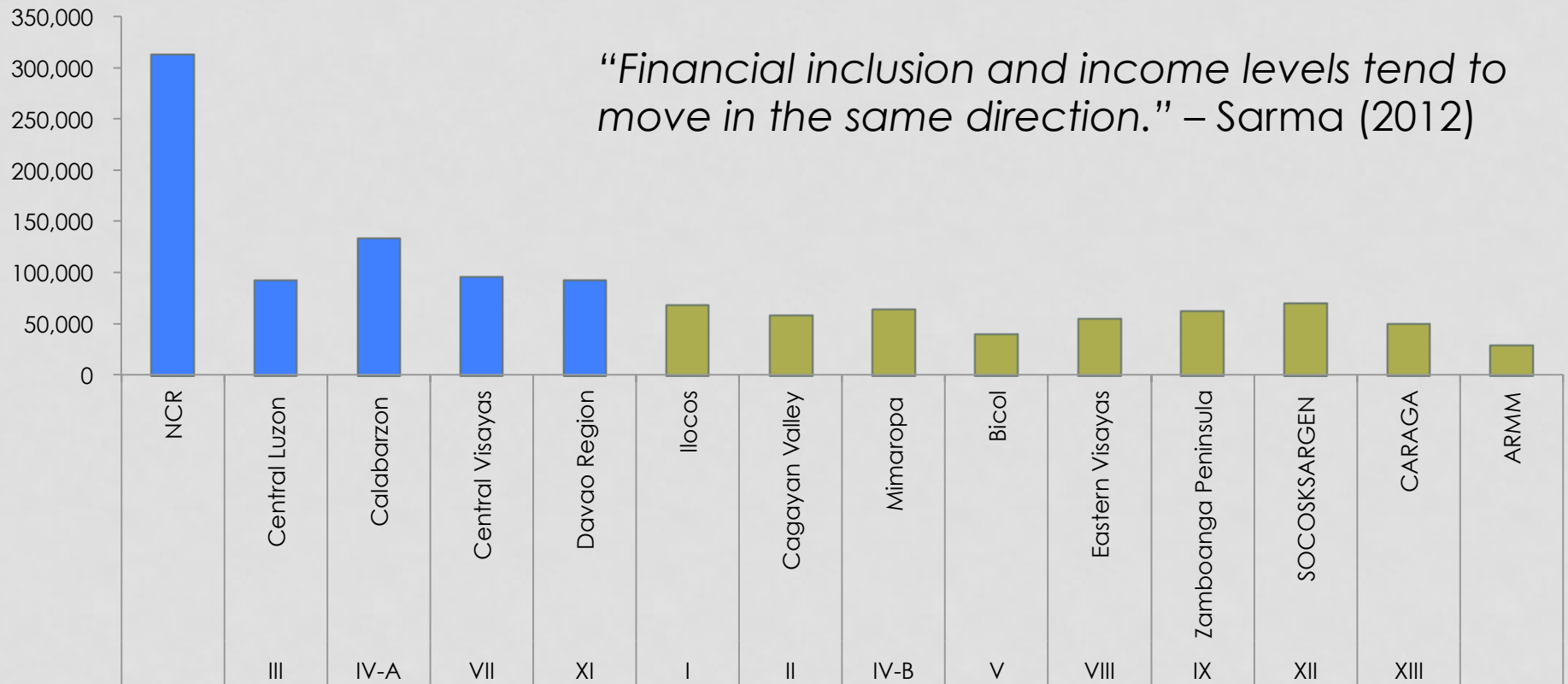
# CORRELATION WITH SELECTED SOCIO-ECONOMIC INDICATORS

<b>Correlation with IFI Values 2012 (unless otherwise stated)</b>	
Per Capital Gross Domestic Product (Current Prices)	0.742
Average Family Income	0.827
Poverty Incidence	-0.739
Subsistence incidence	-0.650
Level of Urbanization, 2010	0.846
Main Source of Income	
<i>Salary/Wage</i>	0.738
<i>Entrepreneurial</i>	-0.606
<i>Other Sources</i>	0.024
Functional Literacy Rate, 2008	0.692
Share of Agriculture in Total Employment	-0.809

Source: NSCB, NSO, Author's calculations

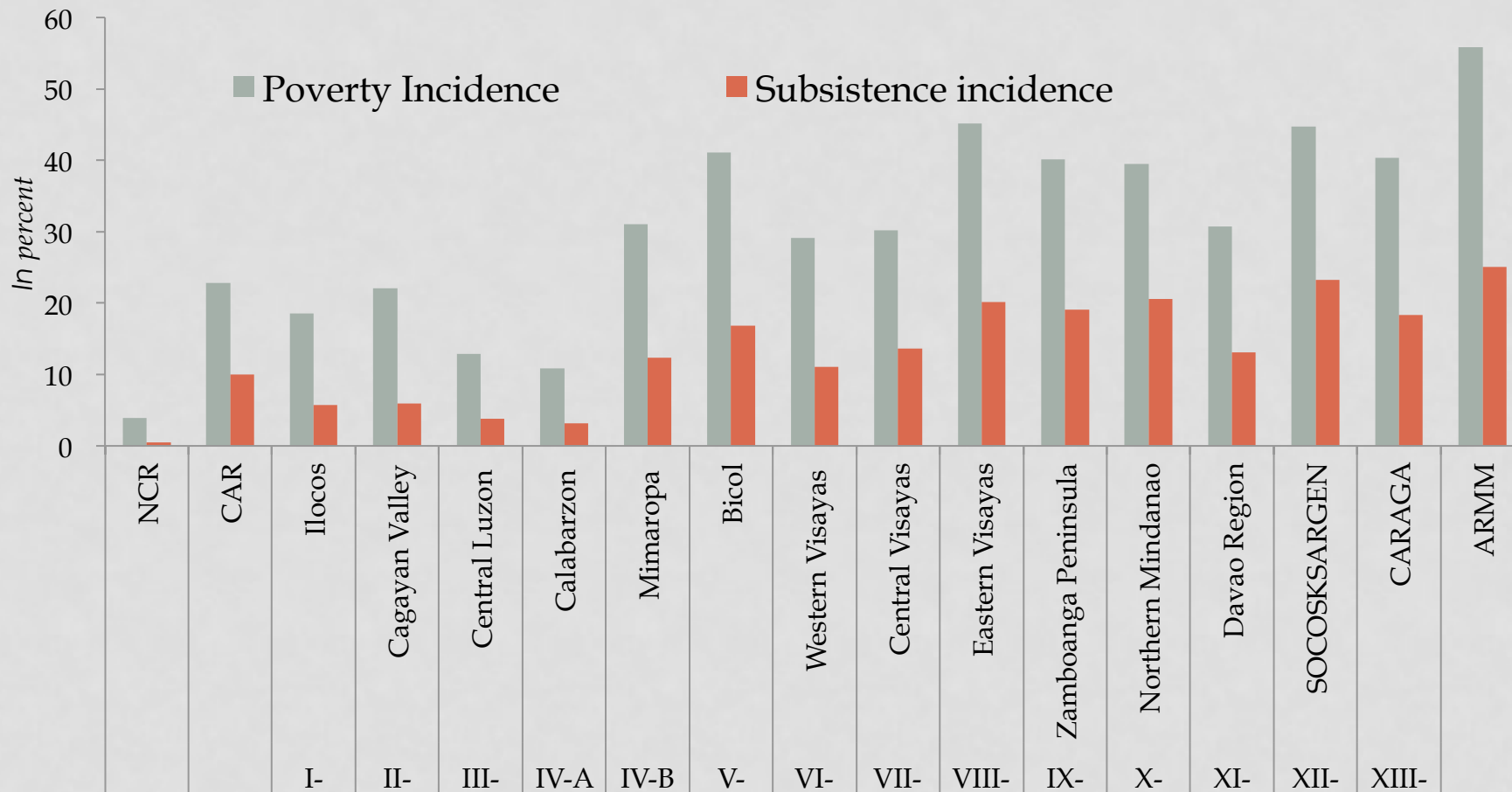


# INDICATOR I: GDP PER CAPITA, BY REGION (HIGH VS. LOW IFI REGIONS), 2012



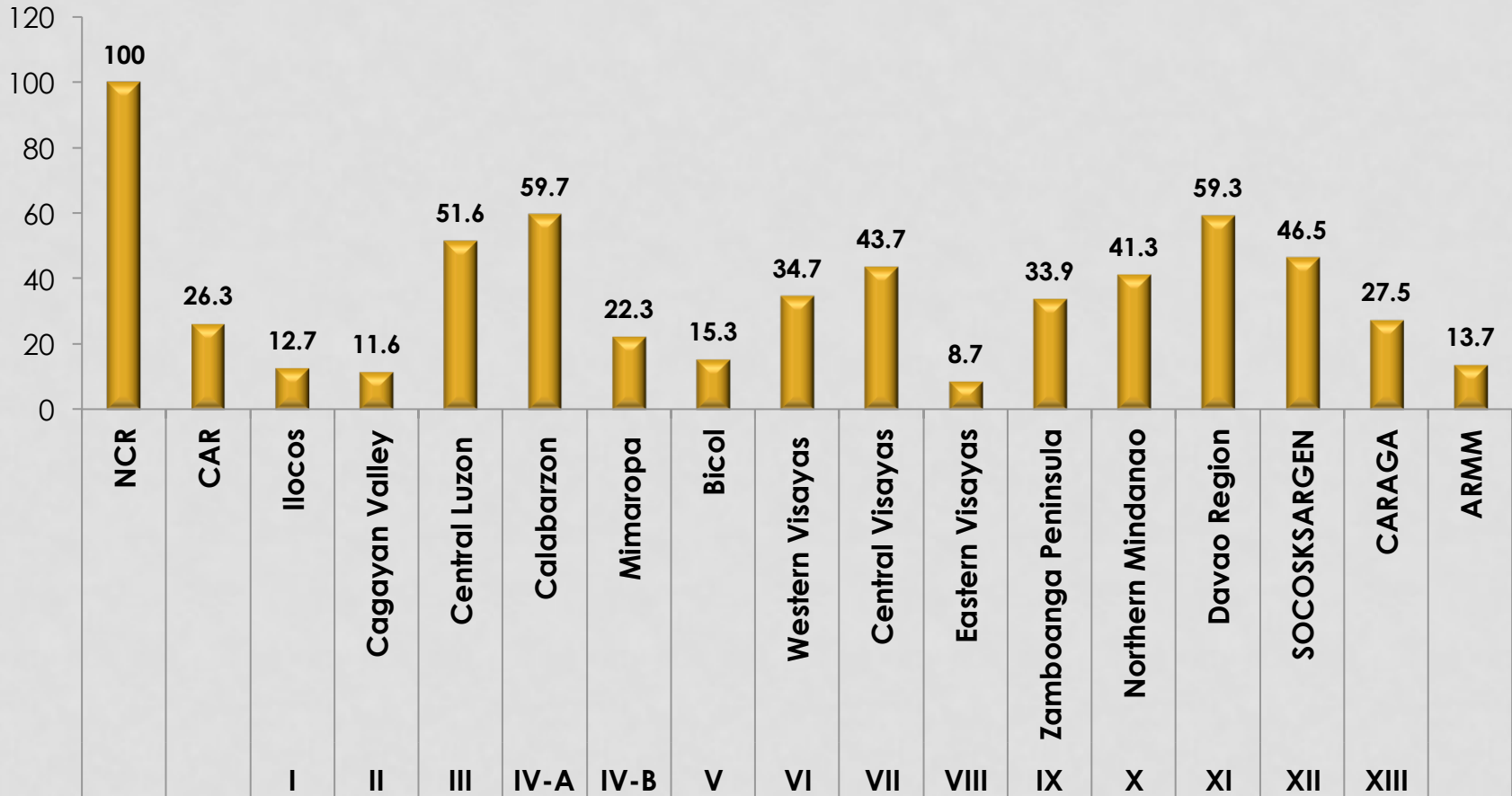
Source: National Statistical Coordination Board

# INDICATOR II: POVERTY INCIDENCE AND SUBSISTENCE INCIDENCE, 2012



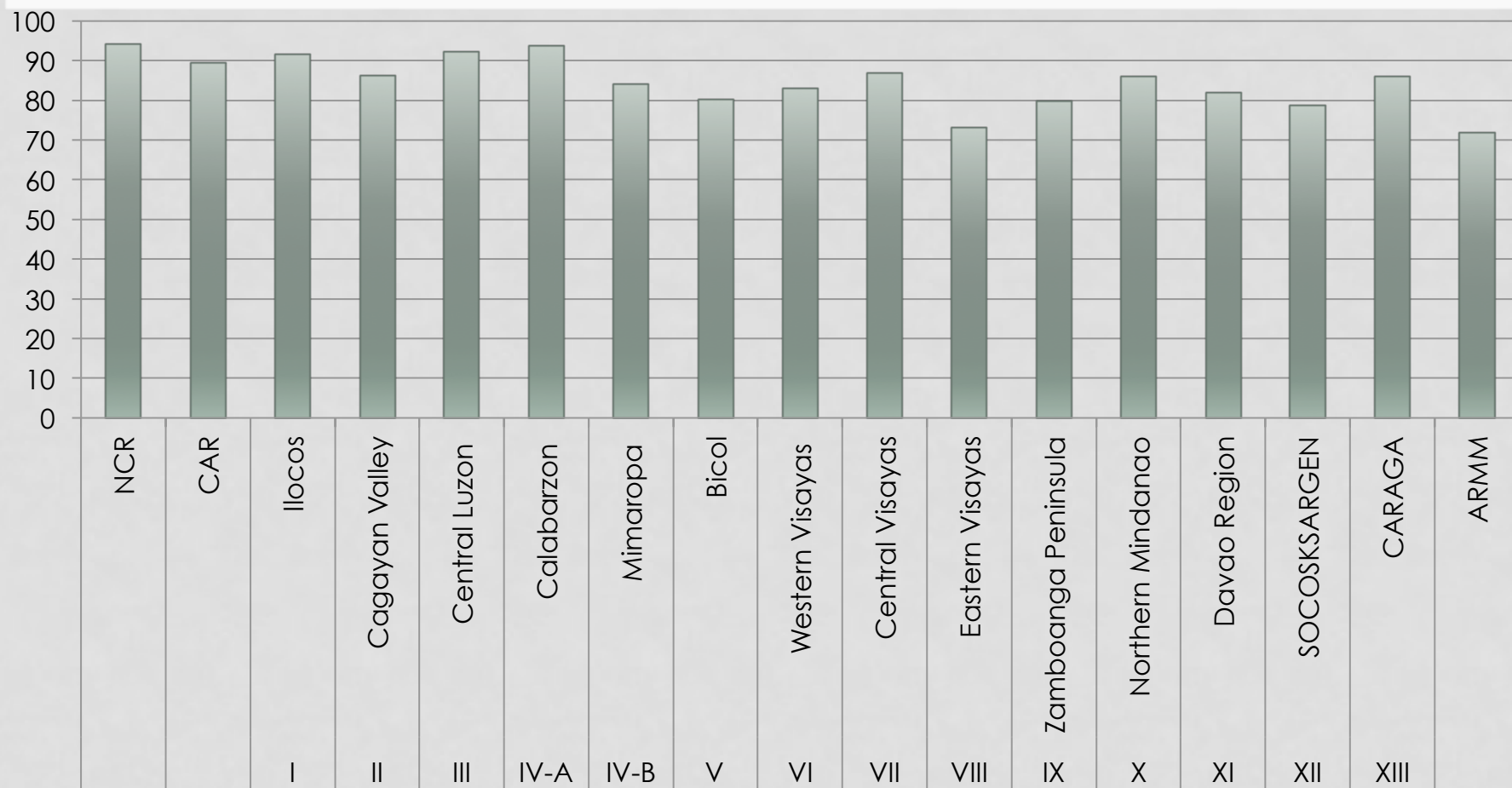
Source: Poverty Statistics, National Statistics Office

# INDICATOR III: LEVEL OF URBANIZATION



Source: National Statistics Office

# INDICATOR IV: FUNCTIONAL LITERACY RATE, 2008

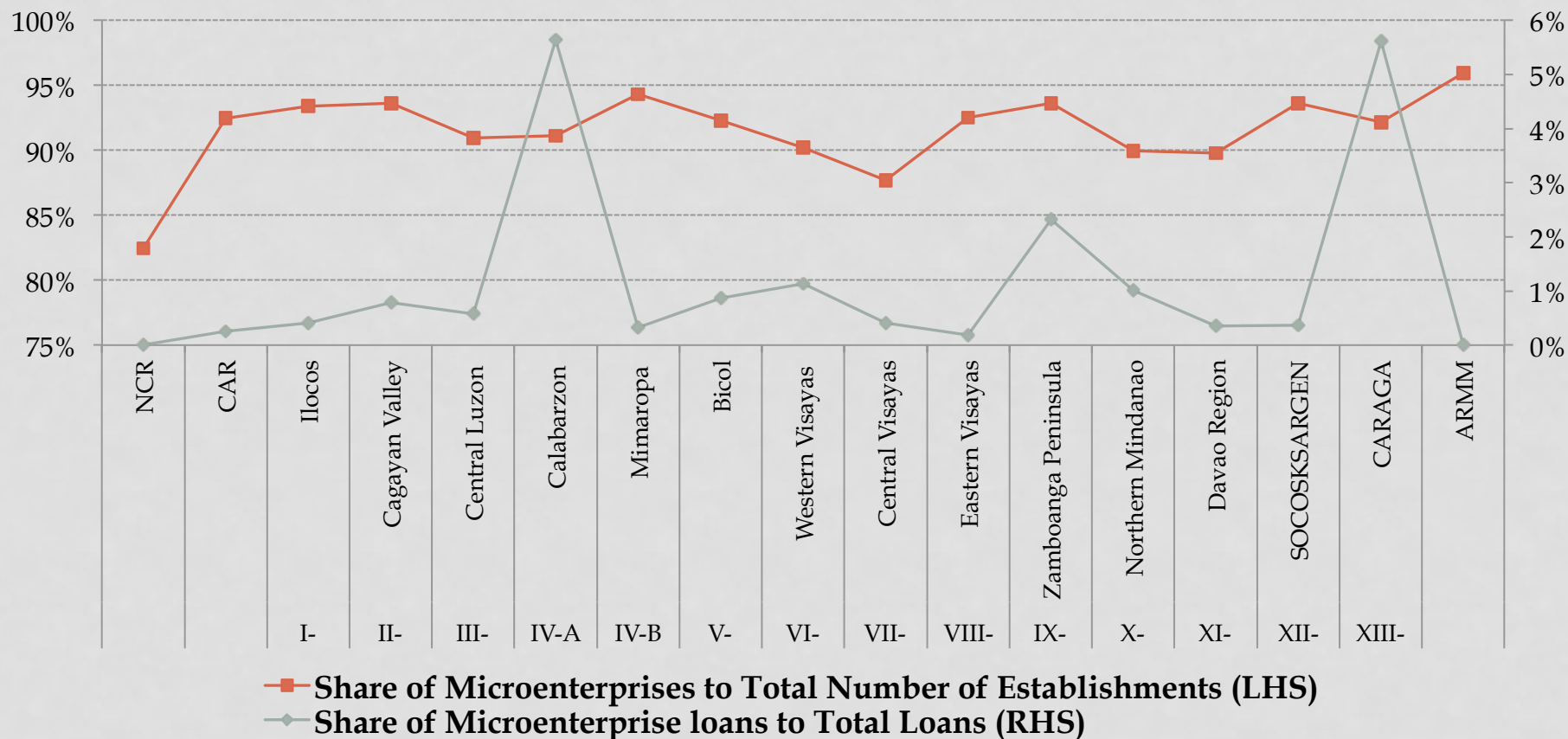


Notes: 1) Includes 10-64 years old  
2) The national literacy rate is 86.4.

Source: National Statistics Office

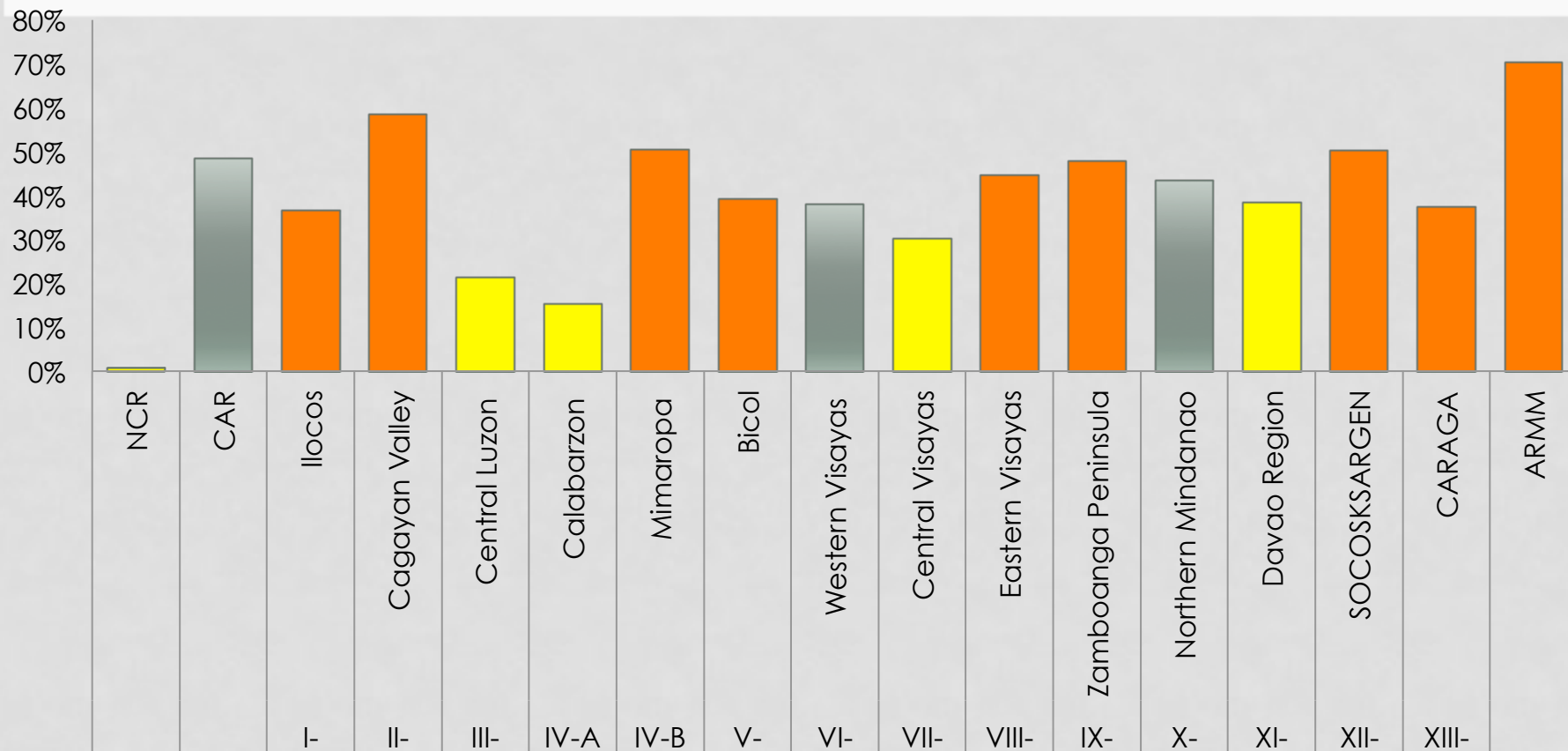
# INDICATOR V: MAIN SOURCE OF INCOME (ENTREPRENEURIAL ACTIVITIES)

## Share of Microenterprises, 2012



Sources: Bangko Sentral ng Pilipinas and Department of Trade and Industry

# INDICATOR VI: SHARE OF AGRICULTURE IN TOTAL EMPLOYMENT, 2012



Legend: Yellow columns – High IFI region; Gray – Medium IFI Region, and Orange – Low IFI region  
Source: Bureau of Agricultural Statistics

# CONCLUSION AND RECOMMENDATION

- Regional-wise results comport with the findings of cross-country studies (income, poverty incidence, and literacy rates)
- On a more distinct note, Low IFI regions in the study appear to have:
  - extrication between the availability of financial services and its actual utilization.
  - predominance of entrepreneurial activity as the main source of income and high share of employment to agriculture.

# CONCLUSION AND RECOMMENDATION

- Promote financial literacy
- Strengthen the institutional presence and develop of innovative financial instruments
- Decentralization of development
- Support Islamic banking



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THANK YOU