

Striving for E-payments at Scale

*The Evolution of the Pantawid Pamilyang Pilipino Program in
the Philippines*



November 2013

Acknowledgments

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The Consultative Group to Assist the Poor (CGAP) works toward a world in which everyone has access to the financial services they need to improve their lives.

CGAP develops innovative solutions for financial inclusion through practical research and active engagement with financial service providers, policy makers, and funders. Established in 1995 and housed at the World Bank, CGAP combines a pragmatic approach to market development with an evidence-based advocacy platform to advance poor people's access to finance.

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Executive Summary¹

1. The Pantawid Pamilyang Pilipino Program (4Ps) is the government's flagship human development and social protection program, a conditional cash transfer (CCT) program targeting poor households with a pregnant mother and/or children between 0 and 14 years old. Paying 40 percent of the 3.9 million recipients using a card (linked to a limited-purpose account in their own name, though not publicized or used as such),² the program's primary goals are to provide short-term poverty alleviation and "to break the intergenerational poverty cycle through investments in human capital," particularly health and education.³ The primary payment service provider (PSP) is the Land Bank of the Philippines (LBP), the largest of three government-owned banks in the country, providing a cash card with which recipients can withdraw from LBP and partner automatic teller machines (ATMs).
2. While 4Ps is a government program, the World Bank, along with the Asian Development Bank (ADB) and AusAid, were the primary supporters of 4Ps at its onset. The design largely mirrors similar health- and education-focused CCTs in Latin America. The Department for Social Welfare and Development (DSWD) bases its household selection on rigorous geographic targeting and proxy means testing, aimed at minimizing leakage due to wrongly included recipients and minimizing criticisms or corruption that might accompany an opaque selection process.
3. After its rigorous targeting process, DSWD launched a pilot for 6,000 recipients in late 2007. As originally envisioned, the 4Ps pilot was to last up to five years and reach a maximum of 20,000 recipients. Yet within a few short months of the pilot's launch, then-President Gloria Macapagal-Arroyo mandated the pilot's expansion. As the program quickly grew in volume and geography, so did the challenges DSWD faced in getting payments quickly and efficiently to recipients.
4. Feeling the political pressure to rapidly expand the program, DSWD struggled to maintain rigorous targeting, monitoring, and other processes for impact evaluation and roll out, as advised by its core funder, while simultaneously making accurate and timely payments.
5. Growing from 6,000 to nearly 4 million recipient households in five years has required the government and LBP to staff up fast. As of this writing, DSWD employs more than 10,000 people to manage 4Ps, the vast majority of whom are employed at the regional level.
6. At the start of the program, the Department of Finance stipulated that DSWD should partner with only one PSP for 4Ps to "simplify processes" and recommended that DSWD choose LBP as the manager of all 4Ps payments. However, the unanticipated scale-up of the project within its first year resulted in LBP struggling to complete timely, accurate payments to all recipients every other month. LBP remained the sole conduit for two years before it contracted other conduits that could better reach remote areas.

¹ This case study is based on interviews conducted in the Philippines in August 2013. This case represents the situation with the 4Ps as of that time.

² As introduced in Bold, Porteous, and Rotman (2012), account-based payment methods can be distinguished as limited-purpose instruments or mainstream financial accounts. Whereas limited-purpose instruments transfer the grant to the recipient through a notional account, these accounts are restricted in at least one of the following ways: (i) funds cannot be stored indefinitely; (ii) funds must be withdrawn only at dedicated infrastructure; and (iii) additional funds may not be deposited into this account from other sources. In contrast, mainstream financial accounts have none of the limitations of the limited-purpose account and are typically available to nontransfer recipients as well. The 4Ps offers a limited-purpose instrument, the cash card, that recipients can use at LBP branches and LBP, Metro Bank, and Bank of the Philippines ATMs to withdraw their 4Ps payments. Recipients' names are not clearly linked to the account where the money is stored, and they cannot deposit additional funds into this account. For more information, see Bold, Porteous, and Rotman (2012).

³ "The Pantawid Pamilyang Pilipino Program. DSWD. <http://pantawid.dswd.gov.ph/index.php/about-us>

7. Originally, DSWD and LBP intended to pay all recipients via cash card. Today, five years in, the program's roster of PSPs stands at six, though LBP still holds central responsibility for managing payments and the roles and responsibilities of any related payment conduits. Only 40 percent of current recipients are paid electronically via the LBP cash card.
8. The conduits for 4Ps vary widely in their core functions—from the postal service, to a payday lender/pawnshop, to a mobile network operator (MNO)/mobile money provider—but they still offer similar accounts of the motivations and challenges they have experienced as partners to LBP in making 4Ps payments. For instance, conduits interviewed were commonly motivated by the new and large line of business that making 4Ps payments offers and were less motivated by the possibility of attracting 4Ps recipients as new clientele.
9. The majority of recipients interviewed in Nueva Ecija, Pampanga, and the National Capital Region (NCR) could read and write. Few of those recipients had used a bank or ATM before 4Ps. However, none expressed concern over not knowing how to use the ATM or over-the-counter (OTC) methods. Recipients commonly shared that security guards would help them transact when they first started using the ATMs, but they now can transact on their own. They also did not express concerns or complaints about customer service at OTC locations, especially at the rural bank and with GCASH.
10. Outside of NCR, groups reported traveling up to two hours and, in some cases, paying twice as much as the mandated PHP 100 (US\$2.25) maximum to reach the pay point. In contrast to areas outside NCR, NCR recipients could typically walk to or pay PHP 15–30 to reach an ATM. With a convenient pay point, NCR recipients were able to check if their payment had arrived (when they know the approximate date they should receive the payment) and withdraw at a time convenient to them, rather than during banking hours only. Additionally, if they experience a problem, such as the ATM capturing their card, they have easier access (in terms of distance to travel and time and money spent) to rectify the situation with the bank and their DSWD contact.
11. Some recipients in NCR discovered that if they do not withdraw their money for several payments, they can still recover those months of funds. In contrast, recipients outside NCR understood that if they do not withdraw their payments three consecutive times, they are kicked out of 4Ps.
12. In NCR, some recipients have bank accounts, which are convenient and accessible, as compared with recipients outside NCR who would have to travel an hour or more to reach a bank and pay a transportation cost that is greater than the amount they might deposit (e.g., pay PHP 160 to deposit PHP 50). Outside NCR, some women admitted “keeping money aside” at home for emergencies, though none thought of this money as “savings.”
13. From a small, donor-supported CCT pilot in 2007 to a large-scale—and still expanding—government-run program in 2013, 4Ps has both struggled with and overcome various growing pains. For its rapid growth and size, 4Ps has been able to modify its payments approach to reach its nearly 4 million recipients. Now, payments are on time, systems are in place for online reconciliation, and monitoring and evaluation and (most) conduits compete for 4Ps contracts, which have helped the program keep the quality of payments services up and costs down.
14. In a country renowned for its forward-thinking on financial access and mobile payment systems, the mobile payment system has been little used and, as mentioned, only 40 percent receive their payments electronically via cash card at ATMs. This highlights several limitations to the current payment system:
 - The payment scheme's hierarchical structure, in which LBP holds a monopoly on these payments for government yet lacks the presence to offer the solution everywhere, limits other payment conduits' ability to provide and/or develop e-payment services for more recipients.
 - The financial sector infrastructure is still not developed enough to meet the program's requirement that recipients spend no more than PHP 100 to travel to get their payment so few players can bid and none can serve the whole country.

- LBP and other payment conduits have not traditionally viewed recipients as a potential client segment to which they could cross-sell or from which they could otherwise profit.
15. Additionally, program and payment conduits interviewed largely expressed a reluctance to try to leverage 4Ps payments to facilitate financial inclusion, such as bank accounts and the option to save, among recipients, stating that financial inclusion is not a program objective, and by and large disagreeing with the notion that the poor can and do save. At the same time, the program does encourage recipients to take on credit through its 4Ps-linked Sustainable Livelihood Program, meant to “sustain and expand the socio-economic improvement of 4Ps recipients.”
 16. 4Ps payments will soon reach 4.3 million poor and vulnerable families throughout the Philippines. DSWD and LBP recognize the limitations to the payments infrastructure in the country and to their ability to offer e-payments inclusively via LBP’s card-based model. DSWD believes e-payments create a more efficient and transparent payment system on which to manage the growing program. Yet there is pressure on DSWD to look beyond even that fairly ambitious goal toward considering not only new payment models, but also additional ways to leverage the e-payment system to offer more products and services, particularly financial services such as savings, loans, and remittances, to the 4Ps population.

1. The Philippines Context

The Context for Electronic Government-to-Person Payments in the Philippines

Ranked 114 out of 186 countries on the Human Development Index in 2012,⁴ the Philippines had a GDP per capita of US\$2,588 in 2012, up from US\$1,921 in 2008. However, this has been “jobless growth,” with unemployment reaching a three-year high in April 2013 despite the Philippines being the fastest-growing Asian economy (Agence France-Presse 2013). The World Bank reported the Philippines’ adult literacy rate to be 95 percent in 2008. Thirty-five percent of the Philippines’ population was under the age of 15 in 2012, with 62 percent between ages 15 and 64. In 2012, 49 percent of the population (47.5 million people) lived in urban areas; 25 percent of the urban population lived in metro Manila.⁵

Electronic Transfers

In 2011, the Philippines had 8.1 bank branches for every 100,000 adults and 17.7 automated teller machines (ATMs). Also, 13.2 percent of Filipino adults had a debit card, and 26.6 percent had an account at a formal financial institution.⁶ Of the universal and commercial banks in the Philippines, 47 percent of bank offices are located in the National Capital Region (NCR). However, only 32 percent of thrift banks and 3 percent of rural and cooperative banks are located in NCR.⁷ Only 272 ATMs serve the 577 rural and cooperative banks, which have 2,654 offices, compared with 10,908 ATMs, of which 42 percent are off-site (separate from offices), for 36 universal and commercial banks with 5,147 offices.⁸

The Philippines has seen an increase in mobile cellular subscriptions in recent years. In 2012 the Philippines had 103 million mobile cellular subscriptions (for a total population of 96.7 million), up from 68.1 million in 2008, and even 94.2 million in 2011.⁹ GSMA reported SIM penetration to be 107 percent in 2012.¹⁰ A majority of consumers subscribe with the leading two mobile network operators (MNOs), Philippine Long Distance Co. (PLDT), which includes SMART Communications) and Globe Telecom, with 68.4 percent of prepaid subscribers using PLDT and 31.6 percent using Globe in 2012 (Visconti 2012).

In 2001, SMART Communications, in partnership with Banco de Oro, launched SMART Money, a product for sending and receiving domestic payments and buying airtime via mobile phone and accompanied by a card to pay for goods. In 2004, Globe Telecom launched GCASH, a product also used for sending and receiving money via mobile phone. A GSMA study cited “market-specific enabling factors” for mobile money to be (i) widespread reliable mobile coverage, (ii) SMS literacy, (iii) low access but clear demand

⁴ Human Development Index, 2012 rankings. <http://hdr.undp.org/en/statistics/>

⁵ World Bank. 2012: <http://data.worldbank.org/indicator>. Full references in Bibliography.

⁶ World Bank. 2011. <http://data.worldbank.org/indicator>. Full references in Bibliography.

⁷ As of March 2013. Statistics from “Regional Distribution of Banking Offices” from BSP website (http://www.bsp.gov.ph/banking/pbs_new/2.htm). Universal and commercial banks “offer the widest variety of banking services among financial institutions.” Thrift banks include savings and mortgage banks, private development banks, stock savings and loan associations, and microfinance thrift banks. More common in rural communities, rural and cooperative banks are expected to “promote and expand the rural economy in an orderly and effective manner by providing the people in the rural communities with basic financial services.” All banks in these statistics are Bangko Sentral ng Pilipinas—supervised and regulated. For more information on the definitions of universal and commercial banks, thrift banking system, and rural and cooperative banks, see <http://www.bsp.gov.ph/banking/bspsup.asp>.

⁸ As of March 2013. “Number of Automated Teller Machines (ATMs) and Banks with Electronic Banking Facilities.” BSP.

http://www.bsp.gov.ph/banking/pbs_new/1.2.htm and “Directory of Banks and Non-Banks.” BSP. <http://www.bsp.gov.ph/banking/directory.asp?paging=next&Start=560&Offset=20&BankName=&Address=&InstitutionTypeID=11&submit=Find&ctr=561&i=20>

⁹ World Bank. 2011. <http://data.worldbank.org/indicator>. Full reference in Bibliography.

¹⁰ GSMA Intelligence 2013: Data Dashboard. Data from Q4 2012. <https://gsmaintelligence.com/markets/2659/dashboard/>

for financial services, (iv) international remittances that provide large financial flows, (v) network of merchants already accepting credit/debit cards, and (vi) two-thirds of the Filipino population living in urban areas (GSMA 2012). While mobile money products have been in the Filipino market for over a decade, in 2011, the World Bank's Findex revealed 2 percent of adults used their mobile phone to pay bills; 12.5 percent of adults received and 7.3 percent sent money on their mobile phone.¹¹

The limited uptake may be due in part to the popularity of alternative “formal” payment services, such as pawnshops. A 2010 Bill & Melinda Gates Foundation study estimated the total size of the domestic payments market, which includes those making formal, informal, and personal direct bill payments and sending money, to be US\$3.2 billion per month by a projected 41 million people. Of this group, an estimated 23 percent use M Lhuillier and 21 percent use LBC, two of the largest pawnshops in the Philippines, compared to 1 percent using SMART Money and less than 1 percent using GCASH.

Financial Inclusion and Cash Lite Priorities in the Philippines

As a principal member of the Alliance for Financial Inclusion (AFI), the Central Bank of the Philippines (Bangko Sentral ng Pilipinas, or BSP) has committed to pursue financial inclusion, even hosting AFI-sponsored events related to financial inclusion. In 2011, BSP committed to financial inclusion “side by side with [its] role to promote financial stability” through signing the Maya Declaration, a set of commitments by developing country governments to “unlock the economic and social potential of the 2.5 billion ‘unbanked’ people through greater financial inclusion.”¹²

In addition to its work with AFI, the Philippines government agreed to join the Better Than Cash Alliance (BTCA), an initiative founded by the Bill & Melinda Gates Foundation, Citi Foundation, Ford Foundation, Omidyar Network, USAID, and Visa Inc., in 2012. BTCA is an “innovative public–private partnership that provides the expertise and resources needed to make the transition from cash to digital payments, which can increase the immediate accountability and tracking of financial flows, resulting in less corruption and theft.” BTCA identifies the shift to digital payments as potentially benefiting savings, lowering costs associated with physical cash, improving speed and security of payments, and tracking financial flows—including social welfare allowances—in real time. The cash-lite initiative complements the government’s other financial inclusion activities.

Evolution of Conditional Cash Transfers

As the Philippines experienced economic growth in the early 2000s, it still saw a rise in poverty. With the financial and technical support of the World Bank, the Department of Social Welfare and Development (DSWD) was beginning to craft a new social protection agenda in the mid-2000s when, at the urging and expense of the World Bank, a high-level delegation from the Government of the Philippines attended the 2006 Third Annual Conference on Conditional Cash Transfers in Istanbul, Turkey. Delegation members became inspired by conditional cash transfer (CCT) programs, such as Bolsa Familia in Brazil and Oportunidades in Mexico, in middle-income Latin American countries. Soon after the delegation’s return, DSWD’s new social protection reform agenda included a CCT component, the Pantawid Pamilyang Pilipino Program (4Ps). The government debated the timeliness and ambition of the DSWD-controlled program, with some representatives questioning DSWD’s capacity to carry out a complex program that had never before been implemented in the Philippines (Somera 2010).

¹¹ World Bank Findex. 2011. <http://datatopics.worldbank.org/financialinclusion/>. Full reference in Bibliography.

¹² For more information, see AFI’s website and its explanation of the Maya Declaration: <http://www.afi-global.org/maya-declaration>.

2. Overview of 4Ps

Genesis

“Even then, we had no idea how big [4Ps] would get.”—Director Rodora Babaran, National Program Manager, 4Ps

With the goal of reaching 4.3 million recipients by 2014, the 4Ps emerged from modest ambitions. Assisted primarily by the World Bank and championed at the highest levels of government, including then-president Gloria Macapagal-Arroyo, 4Ps launched in late 2007 with a small pilot aimed at testing the targeting, compliance, monitoring, and evaluation of the CCT program. The initial pilot plan aimed to reach only 6,000 recipients across four municipalities for one year, and the World Bank provided consultants and other technical assistance to DSWD to properly plan for, implement, and monitor the envisioned pilot program and complementary impact study.

As originally envisioned, the 4Ps pilot was to last no more than five years and reach a maximum of 20,000 recipients. Yet within a few short months of the launch of the initial pilot, President Arroyo mandated its expansion and growth, though there are various accounts of her motivations: while some program stakeholders claim that the embattled president saw the cash payments as a strategic political opportunity, others argue that the expansion was a necessary economic stimulus in the decade of economic shocks following the East Asian Financial Crisis of 1997 (Dadap 2011).¹³ In any case, the 4Ps payments grew from 6,000 to 300,000 recipients by the end of 2008. As the program quickly grew in volume and geography, so did the challenges DSWD faced in getting payments quickly and efficiently to recipients.

Box 1. Unique Influencers of 4Ps' Design

1. Many Options. The Philippines has the benefit of a growing mobile financial services industry and a robust and relatively competitive financial sector, providing the government with a number of institutions both capable of and interested in making 4Ps payments.

2. Large Scale. Bimonthly payments to 3.9 million recipients requires elaborate payment arrangements since no single financial service or payments provider in the country has the capacity to handle them all.

3. Geographic Dispersion. The Filipino population of 96.7 million people is spread across about 2,000 inhabited islands, of the Philippines' over 7,000 islands (World Bank 2012).^a As the program scaled to remote islands on the country, it has stretched the limits of e-payments through the card-based model, necessitating the introduction of manual payments and entrance of several additional payment service providers (called “conduits”).

4. E-payments for Efficiency Only. Unlike many other e-payments in low-income countries, 4Ps did not design its payment system with an explicit objective to provide financial access or promote financial inclusion. This may be influenced in part by the age of the program, as its design began before governments and donors widely viewed financial services as a potential component of CCT programs. Thus, the program has not considered leveraging the e-payments system for anything beyond making efficient, cost-effective payments.

a. <http://data.worldbank.org/indicator/SP.POP.TOTL>

¹³ Rapid growth and improved living standards among their populations made Southeast Asia (including the Philippines) and South Korea particularly attractive to global investors and international organizations. However, their “underlying economic weaknesses” led to investors withdrawing and an ensuing “credit crunch,” significantly affecting U.S. dollar exchange rates and equity prices and the continued high growth in these markets (IMF 1998).

Program Elements

While 4Ps is a flagship government program, the World Bank, along with the Asian Development Bank (ADB) and AusAid, also drove and supported the design and implementation of 4Ps. The design largely mirrors similar health- and education-focused CCTs in Latin America. DSWD bases its household selection on rigorous geographic targeting and proxy means testing, aimed at minimizing leakage due to wrongly included recipients and minimizing criticisms or corruption that might accompany an opaque selection process. Recipients must also comply with, and the program staff must monitor and report on via a Compliance Verification System, several conditionalities, listed in Table 1, to receive their bimonthly payments.

Table 1. 4Ps Details

Objective/Purpose of the Scheme	<ul style="list-style-type: none"> To provide short-term poverty alleviation “To break the intergenerational poverty cycle through investments in human capital”^a
Target Population(s)	<ul style="list-style-type: none"> Households that are classified as poor based on the National Household Targeting System for Poverty Reduction at the time of assessment Households that have children 0–14 years old and/or include a pregnant woman at the time of assessment^a
Requirements to Register for the Grant	<ul style="list-style-type: none"> Resident of the target poor municipalities based on national statistical estimates Economic condition equal or below the provincial poverty threshold Have children 0–14 and/or include pregnant women at the time of assessment and children 6–14 years old Agree to meet conditions specified in the program
Conditionality	<ul style="list-style-type: none"> Pregnant women received pre- and post-natal care and have a trained health professional present during childbirth Parents must attend Family Development Sessions (FDS)^b Children 0–5 years old must receive regular preventive health check-ups and vaccines Children 3–5-years old must attend day care or preschool classes at least 85% of the time Children 6–14 years old must enroll in elementary or high school and must attend at least 85% of the time Children 6–14 years old must receive deworming pills twice a year^c
Average Amount per Grant Paid	Up to PhP 1,400 (US\$31.50) per month, per household, depending on number of conditionalities met and number of children. Households receive PhP 500 (US\$11.24) for complying with health conditionalities and PhP 300 per child (US\$6.74) for up to 3 children (PhP 900, or US\$20.22 total) for meeting education conditionalities.
Payment Frequency	Bimonthly
Timing of Payments	Depends on approved annual timeline; typically last week of the month
Length of Recipient Participation in Scheme	5 years ^d
Start Month and Year	February 2008
Status as of August 2013	Mature and expanding
Number of Households Enrolled	3,967,517 (as of September 2013)

Total Number of Recipients (as of June 2013)	3,712,953 ^e
<p>a. "The Pantawid Pamilyang Pilipino Program." DSWD. http://pantawid.dswd.gov.ph/index.php/about-us</p> <p>b. FDSs are compulsory courses for 4Ps recipients. Led by the Municipal and City Links (the field-level government-employed 4Ps staff), they are held once per month for one hour and cover a variety of subjects, including children's rights, parental responsibilities, gender equality, the relationships between spouses, domestic violence, family planning, the management of time and money, community involvement, disaster preparedness, health and hygiene, and proper nutrition.</p> <p>c. The Pantawid Pamilyang Pilipino Program. DSWD. http://pantawid.dswd.gov.ph/index.php/about-us. In 2012, DSWD also introduced the Modified CCT (MCCT), an "offshoot" of 4Ps, to target families who live in the streets, are displaced with no permanent house, and are indigenous with 0–17-year-olds. The objectives of MCCT are to support immediate "family needs"; facilitate access to health and education services and job opportunities; and provide "psychosocial interventions."</p> <p>d. As the program has now been in existence over five years, the first "batch" of recipients is anticipating its graduation from the program at the end of the year. The government, World Bank, and ADB are looking into extending education benefits to those households who keep children in school through secondary school.</p> <p>e. The discrepancy between enrolled recipients and those receiving their payments is primarily due to recipients not complying with the conditionalities. Others may not have been paid for other reasons, such as errors in data management and processing.</p>	

Table 2. 4Ps Stakeholder Profiles

Role	Details
Funder	Government of the Philippines–Department of Budget and Management, World Bank, ADB
Initial Champions	World Bank, DSWD, Government of the Philippines Office of the President
Core Agency	DSWD
Program Administrator	DSWD
Other Implementation Supporters	Municipal and City Links (field-level government-employed 4Ps staff), schools and health institutions, various government departments, and commissions ^a
Payment Service Providers (PSPs)	LBP: 328 Branches, 948 LBP ATMs
Other Conduits (incl. number of 4Ps pay points)	Rural banks and cooperatives: 68
	M Lhuillier: 1,596 pay points (ML locations and offsite)
	PhilPost: approx. 1,000
	First Consolidated Bank (FCB): 61 branches, 32 FCB ATMs ^b
	GCASH Remit: 1,000 pay points (offsite locations where mobile agents are available for 4Ps payments only on specific dates, not GCASH agent locations) ^c
M&E Provider	World Bank and ADB
Technical Assistance in Design	World Bank
Gender of Current Recipients	91% women
<p>a. Government departments and commissions include Department of Education, Department of Health, National Anti-Poverty Commission, Department of Budget and Management, National Nutrition Council, Philippine Commission on Women, National Commission on Indigenous Peoples, Commission on Population, Department of Labor and Employment, Department of Agriculture, Department of Environment and Natural Resources, and Department of Agrarian Reform</p> <p>b. FCB ATM Locations. http://www.fcb.com.ph/atmpos.php?url=atm1</p> <p>c. Though replaced by M Lhuillier officially in the last bid cycle, GCASH continues to do payouts in some areas and anticipates further involvement next year.</p>	

Current Payment Scheme

Paying nearly 4 million households geographically dispersed across the Philippines on a consistent, timely bimonthly basis is a logistical exercise requiring more than 10,000 4Ps employees. These employees verify compliance; administer, monitor, and report on payments; address grievances; spot-check eligibility; manage communication among local governments, national staff, and PSPs; lead FDSs; and communicate and advocate nationally on the program's behalf. With a guideline that no recipient should have to spend more than PhP 100 (US\$2.25) in transportation costs to receive her grant, the Land Bank of the Philippines (LBP) and partnering conduits offer several thousand pay points across the country. LBP, the largest of three government-owned banks in the country, holds primary responsibility for managing payments and reporting to DSWD.

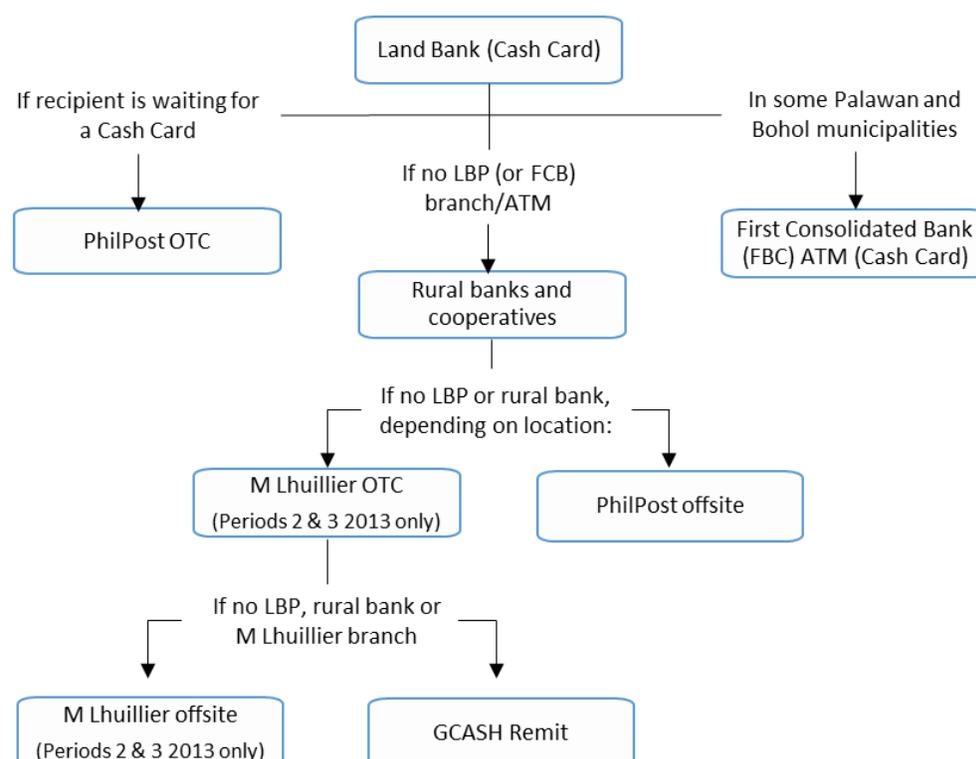
The Hierarchy of Payment Conduits for 4Ps

LBP supplies the most commonly used payment mechanism, the cash card, which recipients can use at LBP and partner bank ATMs. According to USAID's Scaling Innovations in Mobile Money (SIMM) Project, as of 2011, LBP has 328 branches nationwide that cater to 1,634 cities and municipalities. These are mostly located in cities and better-off municipalities. LBP's cash card can be used to withdraw cash from its 948 ATMs and over 9,000 Bancnet/Megalink/Expressnet ATMs nationwide. However, these ATMs are concentrated in Metro Manila and key cities in the regions with few ATMs in lower-income municipalities and rural areas.

For areas where LBP does not operate ATMs (or where ATMs are more than a PhP 100 journey for recipients), it contracts additional PSPs, called "conduits." These conduits pay recipients over the counter (OTC) or manually. First, if no ATM is available, the program will assign recipients to a rural bank or cooperative to receive their payments. If no rural bank or cooperative is available within a PhP 100 journey, recipients travel to an OTC conduit, which in 2013 included both M Lhuillier agents, some of which are at M Lhuillier pawnshops and some of which are roving agents, and GXI's GCash.¹⁴ M Lhuillier won the tender to replace GCASH in this role in two payment periods during 2013, offering a 30 percent lower transaction fee for the same OTC service. GCash won later bids in 2013, dropping its fee to match M Lhuillier. If M Lhuillier/GCash is not available, PhilPost makes payments either at a local post office or at offsite locations. PhilPost also plays a temporary intermediary role in the more accessible municipalities, making payments to recipients who have not yet received their LBP cash cards (and would otherwise use an LBP ATM). Finally, First Consolidated Bank (FCB) manages all payments in some of the Palawan and Bohol municipalities, and is currently the only other bank, and strictly in those areas, that provides cash cards to 4Ps recipients.

¹⁴ M Lhuillier is one of the largest pawnshops in the Philippines and is regulated by BSP. For more information, see <http://www.mlhuillier.com/>.

Figure 1. Hierarchy of Payment Conduits



As of August 2013, 4Ps is making payments in all 17 regions covering 79 provinces, 143 cities, 1,484 municipalities, and 40,978 barangays. In August 2013 DSWD boasted 3.9 million registered recipients and anticipated the number of registered recipients to rise to over 4.3 million by mid-2014. Of the current recipients, about 3.7 million received the last payment before this research¹⁵; 40 percent received their payments electronically through an LBP cash card, and just over 1 percent use the FCB cash card. The other approximately 59 percent received their payment in cash via one of the various other conduit arrangements, as shown in Table 3.

Table 3. Breakdown of 4Ps Payments by Payment Method for the June 2013 Payment

Payment Modality	Number of Households	Percentage of Households
LBP Cash Card	1,493,492	40
M Lhuillier Offsite	665,378	18
Rural Banks	597,852	16
PhilPost	454,120	12
M Lhuillier OTC (at a branch)	417,702	11
FCB	52,152	1.40
Cooperatives	26,585	0.70
LBP Cash Card Mobile ^a	5,672	0.15
TOTAL	3,712,953	100

Source: Department of Social Welfare and Development, 2013

a. LBP Cash Card Mobile is a portable ATM that LBD officials bring to the DSWD local office, which is sometimes closer than the nearest LBD branch.

¹⁵ The discrepancy between enrolled recipients and those receiving their payments is primarily due to recipients not complying with the conditionalities. Others may not have been paid for other reasons, such as errors in data management and processing.

Registering for the Payment Scheme

4Ps uses both a geographic targeting and proxy means testing to select households for the program. Among the poor households in program areas, eligible households—those with a pregnant mother and/or children between 0 and 14 years of age—are invited to enroll in the program by attending the community assembly organized by the Municipal or City Link, the field-level government-employed 4Ps staff. After verification following a secondary eligibility check, the Municipal Link registers the recipient into the DSWD 4Ps system. 4Ps Regional Action Centers are then responsible for selecting the mode of payment, based on the hierarchy of payment conduits, in the area and facilitating the processes by which recipients are informed about and able to receive payments.

Receiving the Payment

Recipients must comply with program conditions as verified through the Compliance Verification System (CVS) to receive cash. On a bimonthly basis, City and Municipal Links distribute CVS forms to schools and health facilities where recipient children and mothers are enrolled and registered with the program. School teachers and health facilities identify only those recipients who have not complied with program conditionalities. Municipal and City Links collect these forms and enter the data at the regional level before electronically transmitting them to the national office where recipients' conditionalities are linked with the payment system.

DSWD distributes payments to the conduits in accordance with an approved annual timeline, typically the last week of every other month. Due to an extensive payroll process that breaks bulk payments down by regions and payment conduits, DSWD's Financial Management Service currently completes over 1,400 different payroll transactions every pay period. Municipal Links inform recipients that payments have been made and where, when, and how distribution will take place. Cash card recipients need their card and personal identification number (PIN) to receive their payments, and can do so at any LBP ATM free of charge, or at a Bancnet/Megalink/Expressnet ATM, where the program "shoulders up to PhP20" of the fee.¹⁶ Manual payment recipients need their program identification card and a pregenerated acknowledgment receipt, which recipients sign to confirm they received their payment. If recipients are paid via cash card, they can withdraw at any LBP ATM at any time, using their cash card and PIN, which is a randomly generated, unique PIN for each recipient. Other OTC payments, such as at rural banks, cooperatives, PhilPost, and M Lhuillier branches also offer some flexibility in the timing of payouts, since recipients can find them any day during working hours. Offsite payments, however, which are coordinated with the local DSWD offices and Municipal Links, take place on a specific day or set of days. For these offsite payments, if recipients miss the payment distribution days, they have little recourse to receive their funds before the next payment cycle. Despite variation in payment modalities, the 4Ps payment process generally proceeds as follows.

¹⁶ LBD advances the interbank fees, then bills DSWD once every two months.

Figure 2. 4Ps Payment Process

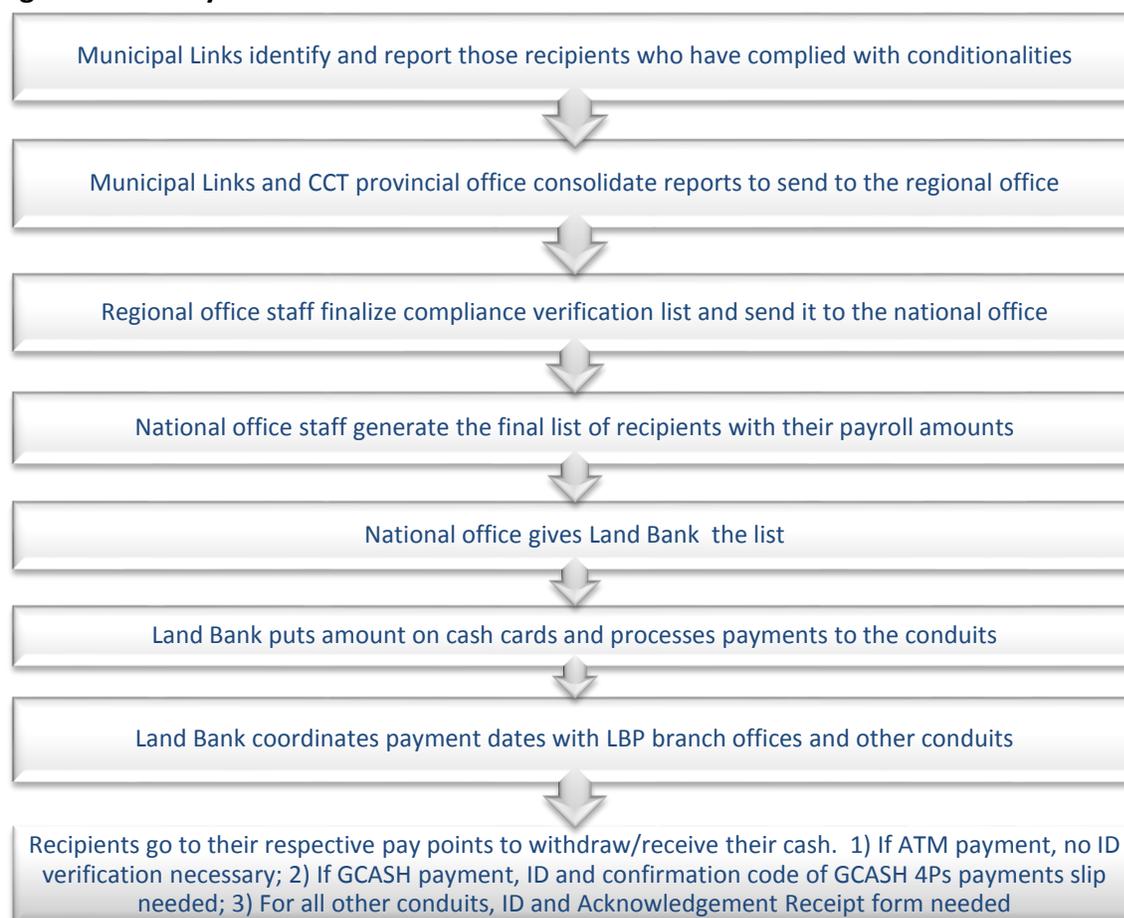


Table 4. Side-By-Side Comparison of Current 4Ps Payment Schemes

Payment Scheme Detail	Land Bank of the Philippines (LBP)	First Consolidated Bank Pitakard	Rural Banks & Cooperatives	GCASH	M Lhuillier	PhilPost
Year PSP Began Involvement	2008	2011	2011	2010–2012	2013	2012
Fees Paid by Scheme to Provider (PhP)	50 per card; 20 per interbank transaction	Free (Card) 45 per crediting to the account	50 per transaction	60 per transaction (reduced to 42 in late 2013)	42 per transaction	50 per transaction
Pay Points	Any LBP branch (328) or ATM (948)	Only in FCB ATMs or network	Branches: 68	Offsite payments in remote areas (near Municipal Links): ~1000	ML locations: Offsite: 1596	PhilPost locations: Offsite: ~1000
Payment Instrument	Cash card	FCB Pitakard	Acknowledgment Receipt (AR) Form	GCASH 4Ps payment slip (similar to AR)	AR	AR
Payment Device	ATM (typical); OTC teller (possible)	ATM (typical); OTC teller (possible)	OTC teller	Mobile phone of GCASH agent	OTC teller & offsite agents	Post office teller
Authentication Process	PIN; ID and PIN if at teller	PIN; ID and PIN, if at teller	ID	ID	ID	ID

Payment Scheme Detail	Land Bank of the Philippines (LBP)	First Consolidated Bank Pitakard	Rural Banks & Cooperatives	GCASH	M Lhuillier	PhilPost
Reconciliation Process	Electronic	Electronic	Electronic	Electronic	Electronic	Manual
Financial Inclusion/Store of Value	No: Store of value technically possible, but highly discouraged/not used	No: Store of value technically possible, but highly discouraged/not used	No	No: Store of value technically possible through mobile money platform, but not used	No	No

3. Evolution of 4Ps Payment Scheme: Design and Implementation Processes¹⁷

“A lot was at stake if it failed for the Government, for DSWD and for the World Bank. So the World Bank did a lot of handholding. It sent several consultants to look after the program and give advice on policy and implementation issues. They helped design everything, the system for compliance, for targeting, for monitoring...everything.”—Director Rodora Babaran, National Program Manager, 4Ps

“The systems were still not in place [when the program expansion was announced] and it compromised the research, but we had to do it.”—Director Rodora Babaran, National Program Manager, 4Ps

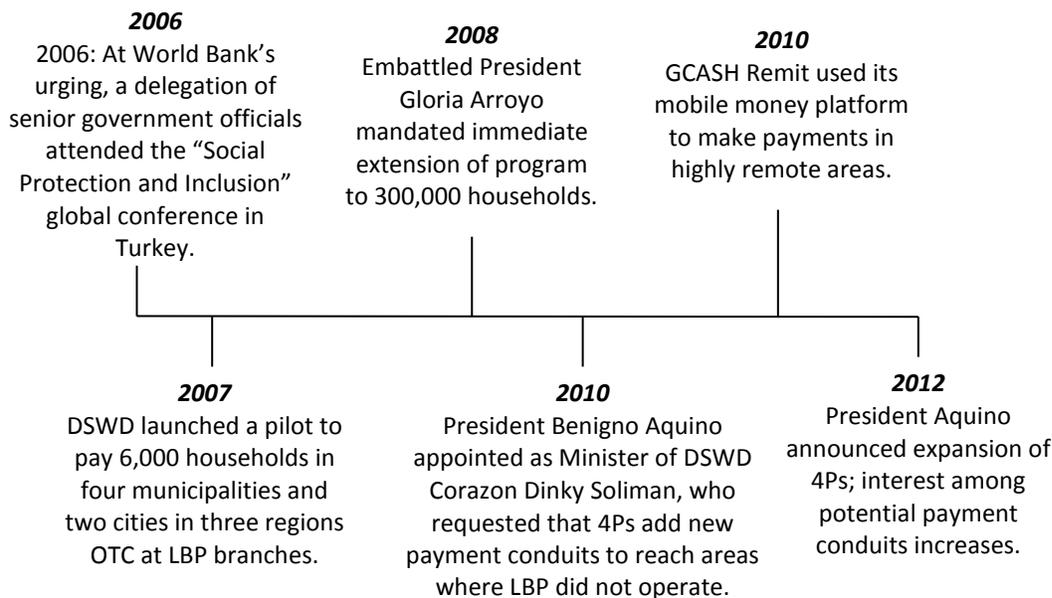
Feeling the political pressure to rapidly expand the program, DSWD struggled to maintain rigorous targeting, monitoring, and other processes for impact evaluation and roll-out, as advised by its core funder, while simultaneously making accurate and timely payments. At the start of the program, the Department of Finance stipulated that DSWD should partner with only one PSP for 4Ps to “simplify processes” and recommended that DSWD choose the LBP as the manager of all 4Ps payments.

4Ps used LBP for two years before adding other conduits, out of necessity to get payments to recipients in remote areas. Originally, DSWD and LBP intended to pay all recipients via cash card. Today, five years in, the program’s roster of PSPs stands at six (including GCASH) and growing, though LBP still holds central responsibility for managing payments and the roles and responsibilities of any related payment conduits. Only 40 percent of current recipients are paid electronically via the LBP cash card.

¹⁷ This list is not indicative of all steps taken in designing the 4Ps’ payment system, but an illustration of particularly critical steps.

Designing 4Ps

Figure 3. 4Ps Design to Implementation



Key Steps in Design

1. Gained Buy-In and Support from Key Stakeholders. After the senior government officials returned from the 2006 "Social Protection and Inclusion" conference in Turkey, they worked with DSWD and the World Bank to design the various components of 4Ps. Prior to project implementation, DSWD, National Economic Development Authority, National Anti-Poverty Commission, Department of Finance, Department of Budget and Management, Department of Health and Department of Education established an interagency committee to plan the program and coordinate roles.

2. Designed Enrollment, Verification, and Compliance Rules and Processes. Aside from providing income support to extremely poor households that would encourage them to increase investments in their children's human capital, 4Ps designers hoped 4Ps would effectively identify the poorest households through well-designed targeting, monitoring, and evaluation. Targeting took place through a two-part system, the National Household Targeting System for Poverty Reduction in which poor areas were first selected and then proxy-means test identified eligible households. When the survey was introduced in 2009, it identified 5.25 million households living below the poverty line. After being deemed eligible, recipients were enrolled through a two-check verification process, starting with an oath of commitment at a community assembly and a secondary eligibility check before payments began. In addition, a CVS was created to quickly input compliance check data that would provide the basis for payroll.

3. Chose One Payment Service Provider Partner to Manage Delivery of All Payments. Regulation in the Philippines stipulates that government financial contracts be managed through one of the country's three government-owned financial institutions. As such, DSWD partnered with LBP, the largest of the three potential partners to distribute 4Ps payments. Given this mandate and the small intended size of the pilot, DSWD did not consider any other PSP options.

4. Selected E-Payment Mechanism. Even with a small pilot of 6,000, 4Ps from its conception planned to deliver payments through LBP cash cards. The cash cards would function like a prepaid card such that recipients could make withdrawals at any LBP ATM, but the card would offer no additional functionality.

5. Sensitized Local Staff and Recipients About Program and Payment Method. Early on, DSWD created several channels of communication with local government and other stakeholders. They held town hall meetings to gain input on the plans for the pilot and created local advisory boards to help facilitate pilot set-up and management.

6. Piloted. Pilot implementation commenced in the last quarter of 2007 covering 4,589 households in four municipalities and two cities in three regions—Caraga, Region X (Northern Mindanao), and NCR. The government intended to extend payments to 6,000 households in those regions within the first year, with the potential to reach up to 20,000 households over a five-year pilot period.

Steps Not Taken

1. Expansion or Contingency Plan. When the program quickly expanded from 6,000 to 300,000 in 2008, DSWD found itself lacking the capacity and processes necessary for such a rapid expansion. It had no contingency plans or strategy in place to mitigate the risks inherent in an unplanned, politically driven scale up of the program. As a result, the program had to target and select recipients and program locations with less technical rigor than originally envisioned.

2. Payment Feasibility Study. With a policy mandate to partner with only government-owned financial institutions, and the recommendation from the Department of Finance to facilitate payments by working with only one PSP, DSWD was not in a position to consider multiple options for payments. It also did not ever fully consider whether LBP could successfully implement its card-based payment scheme, either at the pilot level or, eventually, at scale.

3. Consider Multiple Payment Options. Beyond a feasibility study, DSWD also never considered its various options for administering 4Ps payments, in terms of PSP type or payment modality.

Lessons from the Pilot

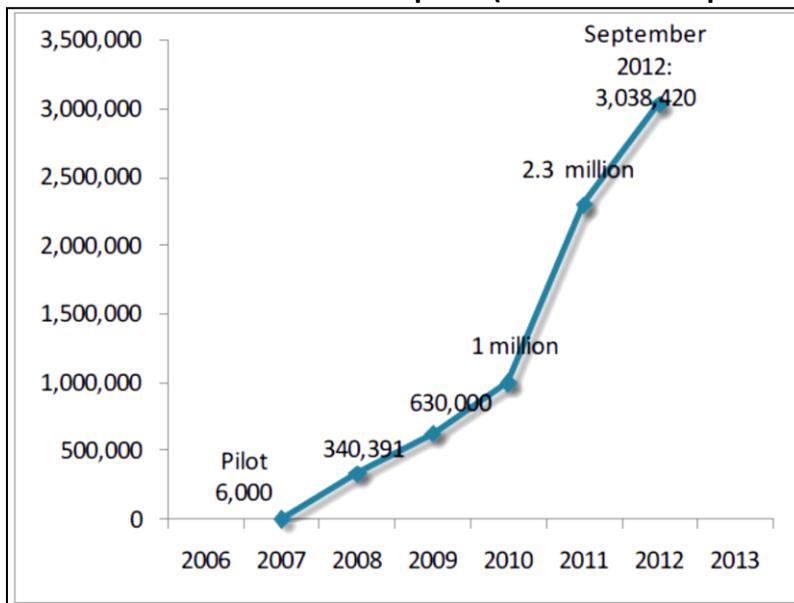
When an instruction from the president to immediately scale up the program derailed the original pilot plans, the expansion of the program revealed two critical challenges to the 4Ps payment scheme. First, the cash cards could not work for all recipients everywhere. There were many places where recipients had little or no access to LBP ATMs. Second, LBP could not sufficiently service payments for all recipients of the program. Where ATM withdrawals were impossible or impractical, LBP decided to allow OTC payments via branch tellers, which according to Marilyn Tiongson, Vice President at LBP and Head of its Card Center, was *“a disaster, as recipients without bank branch experience queued with regular branch customers, causing not only massive lines for payments, but also in some instances frightened regular customers who thought there was a run on the bank.”* LBP did not have sufficient systems or human resources in place and no human resources to manage the program, which resulted in several problems, including huge delays in the payouts, DSWD sending its employees to LBP to help it with data management on payout days, and massive delays in recipients receiving their cash cards. As LBP worked to get more ATMs in remote areas, it also enlisted partner rural banks to help administer payments.

Implementing 4Ps Payments

Moving from 6,000 to 3.9 million 4Ps recipients in five years has required constant adjustment, growth, and learning across a wide variety of partners at the national and local levels. The program and its

partners have not only needed to develop systems to track and deliver payments, but to also track compliance with the payment conditionalities and regularly report against those. As a result, 4Ps has required a massive amount of resources and capacity building to implement the payments scheme.

Figure 4. Annual Growth of 4Ps since Inception (Number of Recipients in Millions)



Source: Department of Social Welfare and Development, from Reyes et al. (2013).
http://dirp4.pids.gov.ph/ris/dps/pidsdps1309_rev.pdf

Implementation Highlights

These highlights reflect some critical steps taken during the five year implementation of 4Ps, but because the program has expanded so rapidly, they are not necessarily indicative of a specific implementation process per se. While some sequences took place, many of these steps occurred in tandem, out of necessity.

1. Enroll Recipients. The program’s technical and targeted process for selecting recipients aimed at ensuring scientific rigor to evaluate the impacts of 4Ps, as well as at reducing the potential for leakage through inaccurate targeting. However, when the program unexpectedly expanded, DSWD admitted that it was unable to continue to uphold the level of rigor in recipient enrollment as originally envisioned. It had mandates to grow the program so quickly that “many steps in the process were skipped.”

2. Recipient Sensitization and/or Training. Municipal Links ensure that recipients know how, when, where, and by whom they will be paid, including ensuring that recipients receive their cash card, where applicable.

3. Verify Compliance. The CVS has many components, including submission of compliance data by school and health facilities, to local consolidation of data, to reporting to the national office to prepare for payroll. Should there be a discrepancy or reporting error in the CVS, it can take several months to resolve.

4. Choose Payment Mechanisms and Partners. Within two years of attempting to administer payments via LBP and some rural banks, DSWD and LBP finally started to feel the pressure to explore alternative delivery channels for 4Ps payments. *“In the beginning some people would have to travel for three hours on a motor-boat or pay PhP500 in travel to get their payment of PhP 1,400. In the remotest regions, they would have to walk through the mountains for one day, so we had to get creative.”* In 2010, when Corazon Soliman took the helm of DSWD under President Aquino, a new plan was introduced to add more conduits, cemented by a new accessibility rule that recipients should not have to spend more than PhP 100 each way to receive their payments. Regional Action Centers composed of DSWD Regional Directors and the LBP regional counterparts decide the payout method and conduit in each area, depending on the length and cost of travel time. Interestingly, by the time these new rules emerged, 2.3 million people were already being paid, albeit with delays and challenges, through the LBP and rural bank PSP set-up.

5. Pilot Test New Payments Mechanisms. Any institution interested in bidding for payout partnership must first pilot test its payment mechanism, which DSWD believes has been helpful in reducing challenges to payment mechanisms as more conduits have entered. For example, DSWD and GXI reportedly had a bigger vision for using the GCASH remit mobile money platform for payment. But in pilot testing, GCASH discovered that, at the time, too few recipients had mobile phones, plus GCASH mobile money agent penetration was not very deep in the country. As a result, the only difference between GXI and a LBP OTC payment is that for GCASH it uses a slightly different payment slip, which includes a reference code that agents use to process the payment on the mobile money platform. Even still, FMS staff claimed that because of the increased capacity to successfully deliver payments in more remote areas, *“adding in GXI, even if wasn’t what they originally envisioned, was already a tremendous improvement.”*

6. Bid for Payments. Feeling that the GXI’s fee was too high (PhP 75 or US\$1.69) per transaction compared to PhP 20 (US\$0.45) for interbank transaction fees, LBP implemented a competitive procurement process aimed at getting the lowest price with the best service. Bids take place frequently: in the past two years, LBP has conducted two rounds of biddings per year, focused regionally, which amount to bidding for a series of upcoming payments. Yet the frequent biddings, while successful in lowering the transaction fees for payments, require a lot effort and management. As a result, the program intends to go to one bid per year.

7. Staff Up. Moving from 6,000 to 4 million recipient households in five years has required the government and LBP to acquire more staff capacity as quickly as possible. As of this writing, DSWD employs more than 10,000 people to manage 4Ps, the vast majority of whom are employed at the regional level.

Challenges to Implementation

Challenge 1: Political Pressure. As an unexpected centerpiece of the country’s social policy, the expansion of 4Ps has become a top priority for two presidential administrations. Under President Arroyo, the mandate to scale up immediately posed serious risks to the integrity of the impact research being conducted as a component of the pilot, and also required modifications in processes and priorities among a small, frenzied staff. Under President Aquino, systems have improved but the political pressure is still present. He announced in 2012 his intention to include “anyone eligible” for 4Ps in the program, which is currently estimated to be 4.3 million out of the 5.2 million households in the National Household Targeting System database.

Challenge 2: Adding Potential PSPs. Competition and interest among potential conduits has not always been strong. In fact, DSWD staff explained that in the early stages of the program, very few parties were interested in being a provider for 4Ps. They would attempt competitive bids that would prove fruitless as GXI would be the only bidder. Even using the GXI solution was sometimes difficult to implement, since the World Bank stipulated in its loan agreements with the program that the World Bank must also approve additional PSPs. Only when President Aquino announced continued expansion plans for the program—coupled with a steady rise in the country of new technologies for remittance and mobile money services—did it pique the interest of potential conduits. The level of technology in the country was also improving at the time, and DSWD changed to regional bids to allow smaller financial institutions to compete.

Challenge 3: LBP Communications. Communication with and quality control of LBP was a major challenge for DSWD for several years. In the beginning of the program, DSWD would communicate directly with the regional branches to coordinate payments, resulting in delayed payments that were cumbersome to manage and process. When LBP decided to put up a central CCT management office in early 2012, meaning someone was accountable at the headquarter level, processes became much more organized and efficient. They had frequent meetings and joint reviews of terms of references (TORs) for conduits, created a feedback loop, and handled cash card concerns through only one office, not many.

Challenge 4: Staff Capacity and Training. The program requires a massive amount of staff to manage the 4Ps system; most of these staff have been added in the past three years, primarily at the regional level. Yet staff capacity has had to develop even as systems are being developed, instituted, and even modified or changed altogether. Today, the program believes that there is a need to augment skills of officers and staff and build capacity to deal with emerging trends and issues around technology.

Challenge 5: Delays. Payment delays, though less of concern now, were frequent for several years, which led to speculation of adverse effects given the program focus on reducing extreme poverty by providing resources for consumption. There are reports of recipients creatively using their card or participation in the program as collateral for lenders who, at high interest rates, reliably help them smooth consumption.

Challenge 6: Constant Changes in Payment Technologies. Staff and recipients have had to adjust to multiple changes in conduits and payment mechanisms in each municipality, particularly with the increased competition among payment conduits and the evolving payment system hierarchy managed by LBP. For instance, with two regional bids per year over the past two years (due to extensive revisions to the conduit TORs), a PSP could change after only three payments, potentially requiring different forms, processes, and locations for payment. Also, once LBP builds its ATM network in a region, any payment conduit currently operating there must automatically cease, and the program switches recipients to the LBP cash card.

Challenge 7: Monitoring Compliance of Conditionalities. Given the tracking and reporting on various conditionalities, compliance monitoring requires sufficient capacity to provide accurate and timely reports. Because local government institutions from schools to health facilities to the Municipal Links vary widely in quality and capacity, ensuring quality control of compliance monitoring is a challenge as the program grows.

Challenge 8: Timely Grievance Redress. Thirty percent of complaints that the Municipal and City Links and DSWD received at the beginning of 2013 were about challenges with the payments system, such as

faulty cards or ATMs or rude service at a conduit. More often, payments complaints stem from disputes over the amount of the payment itself, such as a recipient claiming they qualified for a higher payment than she received that period. Payment complaints are second only to complaints about targeting, in which families complain that they have been wrongly excluded from the program, or less often, claims that families have been wrongfully included.

Table 6. Types of Grievances Received

Grievance Category	% of Total
Targeting	44
Payment	31
Appeals	10
Compliance Verification	8
Others	4
Misdemeanor	1
Project Office/ML/PL	0.4
Registration	0.3
External Pressure	0.2
Health Services	0.2
Education	0.03

For the First Quarter of 2013, out of a total 26,194 grievances.

Source: Department of Social Welfare and Development, 2013.

4. Stakeholder Experiences and Perspectives

Despite its modest beginnings at a social policy pilot in 2007, 4Ps is today the centerpiece of the Philippines’ social protection agenda, reaching 3.9 million households and accounting for 79 percent of DSWD’s total expenditure with a PhP 44.25 billion (US\$994 million) budget for 2013.¹⁸ Such rapid expansion has not occurred without growing pains, as the core stakeholders described in in-person interviews and questionnaire responses.

DSWD

Even as a small pilot, DSWD designed 4Ps payments to include electronic transfers via cash card. While DSWD is motivated to keep payments electronic, as it minimizes leakage and makes the payment and reporting process transparent and efficient, it is not necessarily a primary objective of the program: currently less than 40 percent of payments are made electronically via cash card.

Select 4Ps staff responding to a questionnaire summarized four core motivations for this particular payment system:

- **Minimize Leakage.** The program believes clear and transparent targeting and efficient payments through an electronic system will help ensure that the majority of the resources for 4Ps will be used efficiently and correctly. In 2013, funds for transfer payments made up 71 percent of the total 4Ps program’s allocated budget.

¹⁸ “Financial Stewardship.” Department of Social Welfare and Development, 2013. <http://www.dswd.gov.ph/downloads-2/financial-stewardship/>

- **Promote Dignity of the Recipient.** Staff have received reports of recipients having heightened “status” because of they hold cash cards and/or have the experience of being able to transact at a bank. At a more fundamental level, the program believes that cash grants empower the poor to make healthy investments in their futures or the futures of their children.
- **Maximize Other Developmental Benefits.** The focus of the program overall is centered on human capital investment and smoothing consumption.
- **Required by Policy or External Mandate.** As mentioned, DSWD did not explore any options for PSP partner or payment service mechanism at the start of the program. It adhered to rules and recommendations made by the regulators to contract with LBP for 4Ps.

One respondent indicated that the only obstacle faced, which they indicated they underestimated, in the payment implementation was the capacity of the program staff. However, in in-person interviews, more challenges came to light, including the following:

- **Quality Control of PSPs.** FMS at DSWD reported that there have been instances in which DSWD completes its payroll but LBP experiences delays making payments onto cards to the offsite conduits. The 4Ps dedicated staff at LBP, present since 2011, along with regional and national action committees, have improved such delays.
- **Managing the Bulk Payments.** Most of the recipients (2.2 million) do not receive the grants electronically. These recipients have to present acknowledgment receipts to get their money OTC, which means creating and printing 2.2 million sheets of paper each pay period.
- **Coordination and Communication.** The overall payment process can take several weeks, given the number of recipients paid through a variety of conduits, all dependent on the reporting and data management of local partners and staff. With more than 10,000 4Ps employees required to manage the program, keeping lines of communication open and functioning is no easy feat.
- **Resolving payment issues/discrepancies.** When problems do arise, 4Ps offers a grievance redress system to resolve any issues a recipient may face. However, it can take several months to fix problems with payments, such as receiving the wrong amount.

Significantly, there seems to be substantial pressure on 4Ps to show that it is efficient and cost effective. For instance, even though expenditures on payments distribution seem relatively low when considering the transaction fee on a single transfer, total bank service fees for the 4Ps account for over 13 percent of the total 4Ps operating budget. DSWD holds multiple competitive bids to minimize transactions fees charged by PSPs.

Table 7. Transaction Fees per Conduit

Conduit	Fee	Percentage of transaction value ^a
LBP	PhP 50 (US\$1.12) per card; after 3 years, the program pays a PhP 100 (US\$2.25) card renewal fee. PhP 20 (US\$0.45)/transfer for interbank transactions	0.7
Rural Banks and PhilPost	PhP 50 (US\$1.13)/transfer	1.8
GCASH	PhP42 (US\$0.95)/transfer ^b	1.5
M Lhuillier	OTC: PhP 24 (US\$0.54)/transfer Offsite: PhP 42 (US\$0.95)/transfer	0.9 1.5
First Consolidated Bank	Cash Card is free PhP 45 (US\$1.01)/transfer	1.6

a. Estimate based on total possible transaction value of PhP 2,800 (US\$63.01).

b. GCASH’s fee as of pay period 4 2013. GCASH’s previous fee was PhP 60 (US\$1.35) per transaction.

Although the program believes “one day all recipients will be paid via cash card,” there is little incentive to push for a shift to electronic payments until LBP expands the network of ATMs or creates new POS options that allow recipients to withdraw their payments conveniently, or at least within the PhP 100 travel criteria set by DSWD.

Implementing Partners—Field-Level DSWD Staff

Municipal and City Links prefer payments to be made based on what is easiest for recipients (so they don’t have to deal with as many complaints and issues). In NCR, City Links thus prefer cash cards since they allow recipients more access to their payouts (with more ATM locations and no set business hours like a bank branch has). A financial analyst from NCR also highlighted the card’s benefit of having a paper trail and the ease with which the program (and, when necessary, recipients) can track payout activity. Additionally, since the analyst manages payout logistics, she also appreciates how the ATMs attract smaller crowds than when the payouts were at LBP branches.

The financial analyst sometimes encounters challenges with the “operational team”—City Links and Municipal Links. City Links and Municipal Links do not comply with all the documentation requirements the analyst needs to process payments. When asked about the program’s potential to expand financial services opportunities to recipients the analyst suggested that (i) in theory, recipients should withdraw their entire payment if they really need it (as opposed to leaving some in the account as savings) and (ii) recipients should still budget for future education and other expenses, but this would be more easily done (from her perspective, managing the logistics of the payments) if they find their own ways to save. In the case of recipients in rural areas, for example, a bank account is not likely a useful place for them to keep their money if the nearest bank is far away and expensive to reach.

Municipal and City Links all experience recipients receiving less than they expected, whether due to computational differences—e.g., if City Links or Municipal Links do not complete the necessary paperwork on time—or due to recipients not being aware of or not complying with the conditionalities. In Nueva Ecija, Municipal Links shared that it can take up to eight months or a year to recover funds that should have been disbursed but were not. One Municipal Link estimated around 25 percent of recipients in his area experience this problem each pay period. The field staff also reported that DSWD schedules a separate payout date for retroactive payrolls.

Payment Service Provider—LBP

“Maybe they will become banked eventually, but we have to understand that these are the poorest of the poor.”—Domingo Galsim, CCT PMO-manager at Land Bank of the Philippines

LBP involvement in 4Ps continues to evolve as it works to uphold its commitment to manage all payouts. It tightly controls the payment system and hierarchy of conduits involved. Also, as the proportion of e-payments decreases, LBP spends more time managing new and/or growing payments partnerships. For instance, it has created a procurement management committee within the bank specifically for 4Ps bidding processes, which happen as frequently as twice per year.

LBP noted only two core motivations for its involvement as PSP for 4Ps: corporate social responsibility (CSR) and responding to a policy mandate. To be sure, when asked about the business case for offering payments, it indicated that a business case existed only at a strategic level, that there was no direct financial benefit foreseen other than general branding. The absence of a business case for involvement

is not entirely surprising: not only is the 4Ps recipient population not a priority client segment or one ever traditionally served by the bank, but the program itself highly discourages any sort of store of value on the card or its use beyond withdrawing cash. Recipients are not considered clients of the bank, although the card itself is technically linked to an account in the recipient's name. Even the card does not offer much functionality—it can be used for cash out only. And while, technically, it is possible to leave some money on the card, this “never happens,” at least not by choice.

LBP did not note many challenges to implementing the payment system. In fact, it noted only two: infrastructure constraints and technology failures, but neither were unanticipated or underestimated. Yet smooth payment processes have not always been the norm. Before building a partnership model for payments based on conduits serving more remote municipalities, LBP reportedly struggled to meet its obligations: payments, cash card distribution, data reconciliation, and reporting were all frequently delayed.

With dedicated staff and oversight from the national and regional action committees, in an in-person interview, however, LBP admitted that “the degree of difficulty is very high all around” from managing procurement and reporting, to soliciting and managing the frequent bidding process. There is significant pressure to accredit as many conduits as is necessary to meet the growing payments volumes.

Beyond managing the conduit relationships and bulk transfers of money to conduits or in payments onto cash cards, LBP's responsibilities are relatively light compared to those of other stakeholders. For instance, recipients paid by LBP cash card do not need ID verification to withdraw their payments from ATMs (unlike those receiving their payments at offsite or OTC pay points). Also, DSWD local staff spot-check to verify IDs, ensure recipients have their cards, and know how to use them; LBP is not required to do this.

Payment Service Provider—Conduits

Although the conduits for 4Ps vary widely in their core business—from the postal service, to a payday lender/pawnshop to an MNO/mobile money provider—they offered similar impressions of the motivations and challenges they have experienced as partners to LBP in making 4Ps payments.¹⁹ For instance, conduits interviewed were commonly motivated by the new and large line of business that making 4Ps payments offers, though are less motivated by the possibility of attracting 4Ps recipients as new clientele. Also, the three offsite payment conduits (Globe, PhilPost, and M Lhuillier) all faced similar challenges, including the following:

- **Security.** Although DSWD will provide security during payouts, conduits have to go to great expense to transport cash payments to extremely remote areas.
- **Proximity.** As the program expands to more households in more regions, finding ways to get payments to people in a timely and cost-efficient manner has grown increasingly difficult.
- **Bulk of Transfer.** The size of the payroll can bog down the payment system, resulting in offline payments that are harder to reconcile.
- **Liquidity.** Maintaining the proper amount of liquidity for each payment, despite advance notice from DSWD to LBP on payout amounts, locations, and dates, is still a challenge. This can

¹⁹ The perspectives shared in this section reflect those of the representatives of the conduits present for the interview conducted in August 2013. Not all conduit institutions were available for interview or to respond to the survey.

sometimes occur because lines of credit or other cash advances offered by LBP may not match the amount of the payment.²⁰

M Lhuillier

“We evaluated our experience of the first payout and it was so risky; if you have one million pesos on your back, you are a target. So we paused and decided not to bid the next time around.”—Cecille Lumapas, Financial Services Division Manager, M Lhuillier

M Lhuillier decided to compete for 4Ps payments for both strategic and financial reasons: It felt it would be good CSR and also making payments is a core component of its business model. It pilot tested its payment solution in December 2011 and joined the May 2013 bidding process, which it won with a competitive transaction fee of PHP 42. It administered a sizable portion of the June and September 2013 payments, second only to the use of cash cards.

While staff have reportedly enjoyed the feeling of being involved in 4Ps, overall the experience has been more difficult than M Lhuillier originally envisioned. M Lhuillier originally thought it could leverage its 1,600 branch network to pay recipients, but many of the offsite payments take place where there is no M Lhuillier branch nearby. Eventually, it decided to partner with local government units to make payouts closer to recipients, “such as at a community basketball court.” Second, security is also a major concern, and M Lhuillier explains the risk its employees bear when they set out to make payments. It could not find an insurance company to help shoulder the risk of staff traveling in remote parts of the country with cash to distribute on pay days. Third, while it has not had to build new systems for data management and reconciliation, it experienced difficulties doing online reconciliation as it makes payments in many places with no internet connection. Instead, it downloads all files sent by LBP to the closest agent and then takes them to the barangays and reconcile at the end of the day. Finally, it reported facing political pressure from local politicians trying to exploit the payment scheme.

M Lhuillier believes that if it had more opportunity to serve recipients at its branch locations, the value proposition for partnering as a conduit would have increased substantially.

Globe: GXI

“If not for our system, the payments would still be delayed. Since 2011, the payments have been up to date.”—Paulo Baltao, President of GXI

Globe, through its GCASH mobile money service, has been the longest running offsite conduit partner for 4Ps payments. GCASH originally approached the program in 2010 to offer mobile money payment services, on hearing about the logistical feats taking place to make payments. Namely, Globe learned about problems making payments in Palawan in which the program needed to rent the governor’s helicopter to fly in cash. Payouts were reportedly late because of delays in renting the helicopter. When it did finally fly the money in, “staff worked for 3 days to pay the 10k recipients in a place with no hotels.” In response, GCASH piloted a payment mechanism using its mobile money platform and began officially making payments in 2011.

Globe was motivated to join 4Ps as an opportunity to test and subsequently prove that the platform could be successful for government payment purposes; it thought it would be valuable CSR; and while it

²⁰The Financial Management Service within DSWD completes payroll to LBP via bulk transfers based on region, enrollment period, and payment type. LBP then extends lines of credit to all payment conduits except for PhilPost, which receives an advance of cash. Unused monies are returned to LBP.

noted an interest in gaining new clients and cross-selling, it admitted that neither has picked up as a result of the partnership. Yet Globe seems to enjoy a stronger business case for involvement than some other conduits: it has charged the highest transaction fee of any conduit associated with the program, starting at PhP 75 per transaction in 2011, lowered to PhP 60 in 2012.

Its involvement marked the beginning of significant improvements in payments management at LBP, according to DSWD, LBP, and GCASH itself. Notably, it offered DSWD access to its operations center where it can view payments online and in real time. When the mobile network is online and the system works, it does reconciliation in real time.

But Globe was also forthcoming about the challenges it has faced, including security, noting that “there are bandits who know when we are coming so we had to devise secret ways to get the money to the recipients, and also provide security and food to recipients who may have traveled a long way and need to wait a long time for their payment.” As for the business case, despite relatively high transaction fees, it claims that “in many cases, what we have earned is much, much less than what we have spent”; there are unclear or unfair competition rules in the “labyrinth of decision making” that LBP undertakes to choose conduits, claiming that rural banks need to neither compete to make payments nor physically leave their branches for the same; and there is a lack of capacity of program staff in certain cases to administer the program in a transparent and fair way. As one GCASH representative noted, “some DSWD regional offices are influenced by politics in the area. In other cases, the lines of communication between DSWD and the Municipal Links are too weak. The head doesn’t know what the hands are doing.”

PhilPost

“If they go to the remote, we go to the remotest.”— Senior Representative, PhilPost

PhilPost joined 4Ps as a conduit in April 2012 as an effort to improve the institution’s viability in the wake of a rapidly declining postal business. At the head office, management sees its involvement in 4Ps payments as a potentially effective way to rebuild its presence. Earning PhP 50 per transaction, PhilPost attempts to leverage its existing post office network throughout the country to help deliver payments. It claims that “most of our letter carriers know our recipients: many of them are relatives of post masters and post men.”

However, security and systems are major challenges for PhilPost. For instance, during payouts, it partners with local police and the military, and like GCASH and M Lhuillier, it has stories of making secret treks through mountainous areas to make payments in remote areas. Also, PhilPost does not have an electronic system to manage its liquidation processes or payment reconciliation. To make payments, LBP has to advance PhilPost cash, which it then distributes to various post offices, which is logistically cumbersome.

At the branch level, one PhilPost manager in Pampanga explained that 4Ps was assigned to him; he did not request the assignment. Still, he sees serving 4Ps as a “social service” and he helps ensure that *“the program benefits really reach those who are entitled to them, unlike through the ATM where we are not sure it is already others [e.g., money lenders owed money by recipients] who are getting the money.”*

Rural Banks

One rural bank in Nueva Ecija recently joined as a conduit for the program one year after submitting the request and LBP approving it. The bank had proposed serving 1,000 recipients and currently serves over 3,800.

LBP provides the rural bank with a line of credit, but the line of credit for a recent payout covered only PhP 3 million (US\$67,416) of the PhP 7.5 million (US\$168,539) the bank paid out. Still, the bank manager reported not having cash flow or liquidity challenges thus far. Nor does the bank have trouble having the correct denominations on hand, since it uses PhP 100 and PhP 500 notes and does not need small denomination notes.

The largest cost the rural bank has incurred since becoming a conduit is the “incentives” it pays its staff to stay after business hours ahead of payments to prepare the paperwork and to sort the cash into common payout amounts. Preparing the paperwork and reconciling payouts is particularly time consuming. The bank manager cited office supplies as the other costs incurred for 4Ps. The bank manager finds the primary challenge so far to be managing the payout dates around days when the bank expects its regular customers.

Despite some challenges and additional costs, the bank chose to work with 4Ps primarily for the fees it earns, and for potential new customers. The bank has not seen an increase in the number of customers as a result of 4Ps so far, but it is wondering whether it is permitted to “sell” bank services while recipients are waiting in line for their payments.

Recipients

The nationally scaled program serving over 3.9 million recipients reaches people of diverse backgrounds in rural, peri-urban, and urban areas with different climates and economic activities. In Luzon alone, recipients interviewed vary in their economic activities, from relying on a single harvest season of rice, to benefiting from two harvest seasons and a fairly reliable income from fishing. Given the diversity, their seasonal financial needs also vary, depending on harvests, holidays, and the availability of seasonal contractual work.

Our focus group and individual discussions with recipients in the program between one and five years included the following:

- Recipients in LICAB and Pampanga in the Province of Nueva Ecija receiving their payments with cash cards at ATMs, through a rural bank and M Lhuillier
- Recipients in Floridablanca in Pampanga receiving their payments through PhilPost
- Recipients in Caloocan City and Quezon City in the NCR using cash cards with stationary and mobile ATMs

The majority of recipients could read and write and few of those recipients had used a bank or ATM before 4Ps. However, none expressed concern over not knowing how to use the ATM or OTC methods. Recipients commonly shared that security guards would help them transact when they first started using the ATMs but they now can transact on their own. The interviewed recipients also explained they keep their randomly generated PINs the bank gives them on a piece of paper wrapped around their ATM cards, so they do not lose or forget their PINs (or change the PIN from the randomly assigned number). They also did not express concerns or complaints about customer service at OTC locations, especially at the rural bank and with GCASH.

Rather, recipients outside NCR most commonly struggle with the time and cost to reach their pay point. Some recipients who travel long distances prefer OTC, such as GCASH, because of the customer service and assurance that they will receive their money when they arrive. They found ATMs to be less reliable. Problems with ATMs, such as it being offline, cards being “eaten” by the machine, and money not coming out, could require recipients to spend the time and the money traveling back to the ATM once it is fixed. However, other recipients prefer the ATM because of its availability on any day and at any hour, and one recipient stated that she prefers the ATM because then “at least we are updated in the technology.” Table 7 shows one group’s comparison of the three payment methods they have used over the course of their nearly five years in the program.

Table 8. Comparison of Payment Methods (one group in Pantabangan, Nueva Ecija)

	ATM	GCASH	M Lhuillier
Distance	1.5–2 hours one way	1.5 hours one way	1.5 hours one way (same town as GCASH)
Cost	PhP 160 (US\$3.60) round trip	PhP 170 (US\$3.82) round trip on boat and bicycle, PhP 200 (US\$4.49) round trip in car	PhP 170 (US\$3.82) round trip on boat and tricycle, PhP 200 (US\$4.49) round trip in car
Top advantage	Anyone can get the money (so can send someone else if sick). This also is a security concern that came up later because if lose card and PIN, anyone can get the money.	Good customer service and convenient location	Get receipt. (Did not get this for GCASH—DSWD changed the acknowledgment receipt to provide a receipt stub for recipient as well as M Lhuillier and DSWD)
Top disadvantage	Long line—first come, first serve. Even though these women travel far, they are not given any priority.	“No problems.”	Do not get priority in line.

Source: BFA interviews with focus group August 2013

In contrast to most recipients interviewed outside NCR, the NCR recipients preferred ATMs. In the program for five years, these recipients had started by withdrawing their payments at LBP branches. The recipients cited the long lines, distance (time and cost), and limited hours of bank operations as key constraints. Additionally, they would have to wait for their City Link to inform them of payments and claimed that withdrawing OTC requires two forms of ID—their 4Ps card and a government issued ID (which was not the case in the other areas visited, and not mentioned by program staff). In contrast, with ATMs, the recipients interviewed said they can walk or, in some cases, pay PhP 15 to 30 (US\$0.34 to US\$0.67) for public transportation to check if their payment has arrived (when they know the approximate date they should receive the payment) and withdraw at a time convenient to them, rather than within banking hours only. If they experience a problem, such as the ATM eating their card, they have easier access (in terms of distance to travel and time and money spent) to rectify the situation with the bank and City Link.

For cash card holders using ATMs, most preferred to use LBP ATMs, for which they do not pay a fee. Although DSWD has committed to covering up to PhP 20 (US\$0.45) for recipients using other ATMs, recipients interviewed reported that they still pay up to PhP 20 to withdraw from non-LBP ATMs. In Nueva Ecija, group members reported paying PhP 10 (US\$0.22) to check their balance (not a service covered by DSWD), then PhP 10 to withdraw their cash at non-LBP ATMs. The cost in NCR is lower for

the recipients interviewed, about PhP 13 (US\$0.29). Additionally, if recipients experience a problem with the non-LBP ATM, such as the card capture, it takes longer for the recipient to recover her card and cash. NCR recipients also said that, although they wait in longer lines at the LBP ATM, the ATM is in a mall so they are able to take care of other errands as well.

Some recipients in NCR discovered that if they do not withdraw their money for several payments, they can still recover those months of funds. For example, one woman gave an example of an “exceptional case” where she waited for a new cash card for a year, at which time she withdrew about PhP 30,000 (US\$675). Though an exceptional case, this story came in sharp contrast to cash card recipients in Nueva Ecija. In one instance, when asked whether they withdraw all the money at once or leave a little behind, a woman answered that if she leaves money behind, the government will think she does not need the money and will take the money away. Another woman in Nueva Ecija who had previously received money through the cash card indicated that if recipients do not withdraw their payments three consecutive times, they are kicked out of 4Ps. In fact, DSWD used to remove recipients from the program if they did not claim their payment three consecutive times, but the policy is no longer in place. The cash now remains for the recipient until she withdraws it.

In NCR, particularly the group who appeared to be most aware of being able to keep money in their 4Ps account, some recipients also revealed that they have bank accounts that are convenient and accessible, as compared with recipients outside NCR who would have to travel an hour or more to reach a bank and pay a transportation cost that is greater than the amount they might deposit (e.g., pay PhP 160 to deposit PhP 50). Indeed, one woman in Nueva Ecija who is 1.5 to 2 hours away from a bank branch aspires to save in a bank, but it does not make financial sense in her current situation. Rather, some women admitted “keeping money aside” at home for emergencies—none in Nueva Ecija called it saving and, in fact, when asked if they “save” the women laughed. The recipients also reported borrowing as a common way to cover emergencies if they do not have money on hand. In contrast, women in NCR save and can access their money in bank branches or from ATMs, paying little or nothing for transportation.

5. Lessons Learned from the 4Ps Experience

From a small CCT pilot in 2007 to a large-scale—and still expanding—government-run program in 2013, 4Ps has both struggled with and adjusted to growing pains. For its rapid growth and size, 4Ps has been able to modify its payments approach to reach its nearly 4 million recipients. Introducing other payment conduits has lightened the burden on the LBP, which struggled to get the payments to recipients in an efficient and convenient way. Now, payments are on time, systems are in place for online reconciliation, monitoring and evaluation, and (most) PSP conduits compete for 4Ps contracts, which has helped the program keep the quality of payments services up and costs down.

Still, only 1.5 million of 3.9 million recipients (around 40 percent) receive their payments electronically via cash card at ATMs, providing a limited-purpose account²¹ and highlighting several limitations to the current payment system in a country renowned for its forward thinking on financial access and cash lite systems. First, the payment scheme’s hierarchical structure, in which LBP holds a monopoly on e-payments yet lacks the presence to offer the solution everywhere, limits other payment conduits’ ability to provide and/or develop e-payment services for more recipients. Second, the financial sector infrastructure is still not developed enough to meet the program’s requirement that recipients spend no more than PhP 100 to travel to get their payments. Third, LBP and other payment conduits have not

²¹ See footnote 2.

traditionally viewed recipients as a potential client segment to which they could cross-sell or from which they could otherwise profit.

Although the program still pays over 50 percent of its recipients manually, the 4Ps experience to date offers insights for other government-to-person (G2P) programs, particularly those with the potential to or on the verge of scaling up.

Scope Creep and Political Pressure. Starting in 2008 with 6,000 recipients and ramping up to 3 million by 2011, 3.9 million by 2013, and still aiming to reach 4.3 million by 2014, 4Ps has had to scale quickly to respond to political pressure and demands to quickly serve the entire country's poor. Yet program staff admitted that the policy mandate to scale the program came as a surprise, and was something for which they were unprepared. This led to de-emphasizing certain aspects of the targeting and monitoring and evaluation processes, core components of a rigorous and well-funded pilot; to delays and errors in data collection, recipient enrollment, and on-time payments during rapid program growth; and to program staff asking what they might have done differently to anticipate the government's demands.

Government-Driven, Donor-Supported. Although 4Ps is largely "government-owned"—with the program running within a government agency and government funds committed to the operations and actual CCT payments—the World Bank, ADB, and AusAID have influenced the design and implementation of 4Ps, shaping its objectives, processes, and procedures. This influence helped secure the necessary funding to launch and scale the program, yet also posed certain limitations. Technical consultants seconded from the World Bank to DSWD shaped the program design and systems and donors still must approve certain decisions, such as the selection of payment conduits, and require frequent reporting, as part of the loan agreement. The 4Ps staff interviewed did not find the donor involvement to be obstructionist or obtrusive in any way—indeed, frequent reporting helps legitimize the program and creates a transparent system for skeptics of the program. Through technical assistance and financial support, the donors have played an important role in driving the program through the challenges of expansion, which has helped provide a technical and operational safety net as the program has transitioned to government ownership.

No Focus on Financially Inclusive E-Payments. LBP and its current payment conduit partners have not traditionally considered 4Ps recipients as a target client segment. Rather, they see their involvement as corporate social responsibility. Beyond some indication of interest among rural banks and cooperatives, none of the current PSPs seems to have actively considered whether 4Ps recipients are a client segment it would like to try to capture. This is surprising in a country renowned for its financial inclusion efforts. Yet 4Ps has never had a financial inclusion focus. The program's objectives center around consumption smoothing and specific human capital investments of the poor; some program staff still believe that the poor are too poor to save, or more cynically, if a recipient saves, she is not poor enough to be part of the program. However, a more nuanced view of the financial lives of the poor is emerging in the Philippines, along with the increased competition for conduit contracts and new technologies available to develop appropriate goods and services. As more opportunities for business model development arise, thinking around the 4Ps recipients as a target market and how to use the e-payments system to offer recipients additional value may be evolving, as a number of newly proposed or launched initiatives aimed at extended financial services to 4Ps recipients have recently emerged.

Market Readiness to Provide E-Payments. Despite a robust financial sector, government commitments to advanced payment systems and a growing mobile money sector, program observers might still question the readiness for universal access to mobile phone or other e-payment services in the country.

The population is spread geographically across at least 2,000 islands, and many current and potential future recipients are located outside of a PHP 100 distance to the nearest 4Ps payout point (as set by DSWD). Mobile money payments would seem a natural solution to this challenge, given that the Philippines boasts 105 percent cell phone penetration, and MNOs claim 100 percent network coverage. However, GCASH struggled with its original 4Ps mobile money solution when it found that only 20 percent of the recipients in its payout areas had a phone. (The 4Ps system of requiring each conduit to pilot test its payment solution before bidding for a contract has helped ensure effective mechanisms are employed for each payment.) Conduits interviewed insisted that MNOs need to create stronger and more reliable network coverage. As Cecille Lumapas of M Lhuillier stated, *“MNOs have a big role to play in shaping the cashless ecosystem. They have to build their networks first, and only then will there be a new story to tell on e-payments in this country.”* Even if mobile-based solutions were technically possible, LBP’s current control of the payment scheme would limit the ability for MNOs to offer mobile-money-based payments, particularly at scale.

Increasing Competition for Contracts, Despite High Costs and Risks. The 4Ps payments contract has become a sought-after business in the Philippines, particularly given announcements for further expansion of the program in both length of recipient involvement in the program (beyond five years) and number of recipients (and thus volume of payments). The increased competition has resulted in decreased transactions fees. Originally receiving a 2.8 percent fee per transaction, GXI, after a contract renegotiation, charged a 2.1 percent transaction fee per payment and received no other compensation. M Lhuillier won its contract by charging 1.5 percent transaction fees, replacing GXI’s GCASH at 2.1 percent. Yet payment conduits all offered similar stories about the substantial risks they face and costs they incur to deliver cash payments to recipients in “offsite” locations, stating that in many instances they incur much higher costs than they receive in revenue. The pressure to reduce costs further may have its limits: M Lhuillier has decided to “pause and re-evaluate” the 4Ps partnership, and GCash has reemerged as a conduit. Yet, this time, GCASH lowered its fees to PHP 42, to match M Lhuillier.

The Responsibilities and Treatment of PSP(s). The program relies on several payment conduits to manage varying volumes of timely payments, and claims that it wants to add as many new conduits as necessary as the number of recipients continues to rise. Managing the payment systems and partnerships within LBP has become a complex process, with LBP clearly laying out the roles and responsibilities for each type of conduit and setting the processes for the entire payment system. Yet, several conduits complained about the “hierarchy” and “labyrinth of decision making” that control the competition for 4Ps contracts, claiming that LBP provides preferential treatment to rural banks and cooperatives, which typically do not have to compete for the business, receive higher transaction fees, and do not have to incur the travel and security costs to administer offsite payments (because recipients travel to the rural banks to receive their payments). While the systems help maintain order across an increasing array of providers, it is important to note LBP’s advantageous position: it has never competed to act as PSP for 4Ps, and once it creates a presence in a certain 4Ps district or municipality, the previous conduit automatically loses those payments.

Massive Capacity Required, and Continual Legitimization. To successfully run the various components of the complex 4Ps—targeting, compliance verification, enrollment, training, data collection, reporting, payroll, monitoring and evaluation, administration, and internal and external communications—the program requires substantial resources (US\$86.2 million budgeted for 2013 alone) and staff capacity (nearly 10,000 employees). Amid the day-to-day management of the program, the 4Ps experiences constant pressure to prove its legitimacy as a transparent system that is neither being corrupted by political interests nor creating a nation of indolent citizens. At the same time, there is increasing interest

to leverage the large, well-targeted, efficiently run system to offer additional products and services to the previously underserved and excluded populations.

Benefits of Literate Recipients Comfortable with New Payment Methods. The majority of interviewees among recipients could read and write.²² Through stories that emerged from the interviews, it is clear that their literacy helps them to understand how to use the ATM, in the case of cash card recipients, and how to read and sign the acknowledgment receipt and ensure it is for the correct amount, in the case of OTC recipients. If recipients understand the project requirements and can read literature on the program as it evolves, the potential for reduced fraud and reduced number of complaints increases.

Whether because they were literate or because they had access to security guards (not employed by the program) and program staff who helped them make transactions, recipients interviewed did not express concerns with learning how to withdraw their money despite the fact that few recipients have used a bank or ATM before 4Ps. Recipients shared that security guards would help them transact when they first started using the ATMs, but they now can transact on their own. They also did not express concerns or complaints about customer service at OTC locations, especially at the rural bank and with GCASH.

Graduating Recipients into Financial Services. Although 4Ps discourage the use of financial services, particularly savings, the staff appear more comfortable with the provision of credit, particularly linked to graduation. As the first round of recipients prepare to “graduate” from the program, 4Ps has created several mechanisms to “sustain and expand the socio-economic improvement of 4Ps recipients” through a Sustainable Livelihoods Program. The program aims to ensure recipients’ sustainability of income after exit from 4Ps through the provision of noncollateral and interest-free loans. As of March 2013, the program provided a total of 117,388 recipients with loans amounting to PhP 912.9 million (US\$20.5 million). Out of the aforementioned, the program served 19,064 recipients from January to March 2013, amounting to PhP 159.6 million (US\$3.6 million) in loans. Also, from January to March 2013, MFIs and other formal lending institutions funded a total of 24,554 recipients through a Provision of Capital Assistance program. The willingness to provide and promote credit calls into question the program’s widely held view points on the capacities of the poor to also save. It may indicate a latent willingness to consider the extent to which access to an array of financial services would benefit recipients.

6. Conclusion: The Future of 4Ps Payments in the Philippines

4Ps payments will soon reach 4.3 million poor and vulnerable families throughout the Philippines. DSWD and LBP recognize that there are still several limitations to the payments infrastructure in the country and to their ability to offer e-payments via LBP’s card-based model inclusively. DSWD believes e-payments create a more efficient and transparent payments system on which to manage the growing program. Yet there is external pressure on DSWD to look beyond even that fairly ambitious goal toward considering not only new payment models, but also additional ways to leverage the e-payment system to offer more products and services, particularly financial services such as savings, loans, and remittances, to the 4Ps population. Thus, the future of 4Ps payments may look radically different than

²²While the government’s National Statistical Coordination Board reported the 2008 literacy rates in Metro Manila and Central Luzon, where recipients were interviewed, to be among the highest in the country at 99.2 percent and 97.8 percent, respectively, the government reported the national literacy rate to be 95.6 percent, with the national literacy rate for women being 96.1 percent. The region with the lowest literacy rate by over 10 percentage points is the Autonomous Region of Muslim Mindanao, with a literacy rate of 81.5 percent. (See “Simple Literacy of the Population 10 Years Old and Over.” National Statistical Coordination Board. http://www.nscb.gov.ph/secstat/d_educ.asp)

its current vision, which is to get every recipient paid via LBP's limited-functionality cash card. Here are some possible directions the program may be headed.

Potential for Financial Access

There are still conflicting views about the extent to which the poor can and should save, in general, but particularly out of any portion of their grant, illustrated by one DSWD interviewee's remark that land production or any financial asset building is "an unwise use" of the payment. This aversion to facilitating even limited financially inclusive elements into the 4Ps payments system may stem from the program's pressure to prove its legitimacy and its ability to effectively target those most in need of the grant. If it is perceived as reaching the people who are not the very poorest, then it will be subject to (even more) public scrutiny.

Even still, with the electronic system, 4 million recipients are interacting regularly with a wide variety of financial service providers, including commercial banks, rural banks and cooperatives, postal service (who could and may try to do postal banking), payday lender (M Lhuillier), and mobile money (GCASH). As such, there is increasing interest in seeing 4Ps leverage its payments network to provide additional goods and services to recipients. Technically, there is the ability to store value on the cash cards, but with severe limitations, including being highly discouraged from it.

Beyond Efficiency: New Thinking on E-Payments

Clearly, getting money to recipients on time and at pay points within PhP 100 of their homes has become the number one objective of the payment system. More recently, however, new thinking on payments and financial inclusion has started to influence the program. The Central Bank, Department of Management and Budget, and other government agencies have committed to creating a national payments infrastructure that would facilitate cash lite systems in the country. And donors, nongovernment organizations, MNOs and financial services providers are thinking of creative ways to tap into the financial inclusion opportunities inherent in the program.

Some new payments approaches being tested or proposed include the following:

- *Biometrics.* In ARMM in Mindanao, a particularly vulnerable and unstable area in the Philippines, the program switched from LBP cash cards to biometric ID for payment authorization, after the program discovered severe fraudulent activities (people withdrawing money with cards that did not belong to them). As reports increase of recipients pawning their 4Ps cards, using them as loan collateral, or organizing groups to delegate one person to take a set of cards to make several withdrawals, the program may increasingly turn to biometrics to verify recipient identities.
- *Smarter Cards.* BSP granted First Consolidated Bank special approval to offer debit cards that recipients could use at local merchants, increasing the cards' functionality. During an experimental payout, recipients were able to transact directly with the merchants by swiping their cards through the point-of-sale (POS) device, eliminating the need to withdraw the cash from an ATM. While the small merchant network in this instance created a challenge, the initiative points to an opportunity to consider a merchant POS network that minimizes the use of cash.
- *Mobile Money.* Several initiatives are also promoting linking mobile money services to the program, including the following:
 - BPI/Globe BankO—In 2012, BankO, the Philippines' first mobile-based microfinance-focused savings bank, offered a special mobile-based savings product to 4Ps recipients to use to save after they have received their transfer: a low-cost account that requires just PhP 50 (US\$1.12) for an opening deposit. BankO has also partnered with DSWD to experiment with a livelihoods program that gives recipients a financial boost upon program graduation in the form of a PhP

10,000 (US\$225) that is deposited into a BankO mobile savings account. Outside of G2P payments, BankO also launched a mobile-money-based payroll service for employees with the local government in the Bulacan region.

- SMART Money—In August 2013, mobile money operator SMART announced a new initiative that may be evidence of a shift toward linking 4Ps with mobile-based financial services. Supported by USAID, BSP, the PLDT-Smart Foundation (PSF), DSWD, and the Department of Agriculture, the program offers a savings and loan program to recipients who open up a SMART airtime reseller business (i.e., becoming an airtime dealer). In the program, 4Ps recipients can voluntarily open a mobile-savings accounts with SMART e-money through an auto-deduction from the monthly allowance they receive from 4Ps. Aside from the opportunity to open an “airtime loading business,” recipients will be “building a credit history in order for them to access to microfinance” through LBP loans (Philippines News Agency 2013). However, DSWD has decided to “abstain from participating” in this venture, as announced by the Office of the National Program Manager in September 2013.
- USAID SIMM—USAID’s SIMM program in the Philippines is advocating for a new mobile money solution to 4Ps payments. It proposed using mobile money to distribute CCT grants to recipients not reached by existing electronic distribution methods (LBP Cash Card, GCASH Remit). In their proposal, each recipient would receive a SIM and an ATM/debit card from the mobile money service provider. Recipients with access to mobile phones could use the SIM to withdraw cash from mobile money cash merchants using mobile phones. Recipients who prefer not to use mobile phones or those without mobile phones could still withdraw cash using their ATM/debit cards from mobile money cash merchants with POS devices. In both cases, recipients could choose to save their money securely in their mobile money accounts, send money, buy airtime load, and pay bills at less cost and greater convenience.

Despite the new interest in and direction toward mobile money, there is still one major limiting factor: according to DSWD, only 14 percent of CCT recipients nationwide have at least one mobile phone per household. As expected, in urban areas, penetration is higher at 20 percent, although still a minority, but in rural areas penetration is only at 11 percent.

How and whether 4Ps is able to successfully adopt and integrate new approaches to payments remains to be seen. Indeed, other than the SIMM proposal, none of the new solutions proposed would lead to a fundamental change in the PSP or LBP hierarchy-based payment scheme. However, as the program expands from 3.9 million to 4.3 million recipients within the next year—and with new thinking pushing the boundaries of the outlook on payments in the country—the program will likely face mounting pressure to shift further toward e-payments.

Annex 1: List of Interviewees

Name	Title	Institution
Rodora Babaran	National Program Manager	4Ps, DSWD
Mary Antoinette Duero	Financial Analyst V	4Ps, DSWD
Leah May G. Apostol	Financial Analyst III	FMS 4Ps, DSWD
Jeaneth del Fonso	Financial Analyst II	FMS 4Ps, DSWD
Marlowe Popes	Monitoring and Evaluation Officer	4Ps, DSWD
Melville Teodosio	Monitoring and Evaluation Officer	4Ps, DSWD
Marilyn Tiongson	Head of Card Center	Land Bank of the Philippines
Domingo Galsim	LANDBANK CCT-PMO Manager	Land Bank of the Philippines
Cecile Lumapas	Financial Services Division Manager	M Lhuillier
Cathy Quioas	Money Transfer Services Division Manager	M Lhuillier
Gilson Ramoneda	Business Development Officer	M Lhuillier
Jonathan Lopez	Business Development Officer	M Lhuillier
Paolo Baltao	President	GXI
Clint Erestain	Government Accounts Head	GXI
Not Provided	Senior Representative	PhilPost
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Annex 2: Acronyms

4Ps	Pantawid Pamilyang Pilipino Program
ADB	Asian Development Bank
AFI	Alliance for Financial Inclusion
BSP	Bangko Sentral ng Pilipinas (Central Bank of the Philippines)
BTCA	Better Than Cash Alliance
CCT	Conditional Cash Transfer
CSR	Corporate Social Responsibility
CVS	Compliance Verification System
DSWD	Department of Social Welfare and Development
FCB	First Consolidated Bank
FDS	Family Development Sessions
FMS	Financial Management Service
LBP	Land Bank of the Philippines
NCR	National Capital Region
OTC	Over-the-Counter
PSP	Payment Service Provider
SIMM	USAID's Scaling Innovations in Mobile Money Project

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