



Making Payments More Efficient for the Philippines Conditional Cash Transfer Program

Pablo Acosta, Isaku Endo, Jose Antonio Garcia Garcia Luna, Aisha de Guzman, and Yuko Okamura¹

September 2019

The Pantawid Pamilyang Pilipino Program (Pantawid Pamilya) has rapidly expanded to become the largest social protection and human development program in the Philippines. Over the last decade, the evolution of the Pantawid Pamilya was not only about its size and coverage, but also related to the program design and the quality of implementation. Payment is one of key elements which improved over time; however, severe challenges that hamper their efficiency remain unaddressed. For instance, the 4Ps has not taken full advantage of the existing payment system in the Philippines yet. The Pantawid Pamilya has great potential to increase the use of electronic payments, which significantly saves time and removes paper-based documentation. Thus, this note recommends the Government of the Philippines to develop a strategic payment reform agenda, under which 4Ps should allow beneficiaries to receive payments at any transaction account of their choice. In parallel, it is key to revisit business processes and invest in the management information system to reduce manual transactions to achieve more efficient payment. Beyond efficiency, the Pantawid Pamilya program can also strategically leverage different financial modalities/service providers to promote the financial inclusion agenda for beneficiaries. While service providers currently see the Pantawid Pamilya payout as a goodwill rather than a business opportunity, there is great potential for beneficiaries to become the customers of their products and services with a mainstream account.

Background / Introduction

Launched in 2008, the Pantawid Pamilyang Pilipino Program (*Pantawid Pamilya*) has rapidly expanded to become the largest social protection and human development program in the Philippines. With the objective to keep children in school and healthy, the program provides monthly transfers to poor households with children and/or pregnant women, on the condition that the household members comply with respective health and education conditions. The program covers about 4.4 million households, which represent around 22 percent of the total population, making the Pantawid Pamilya one of the largest conditional cash transfer (CCT) programs in the world. In 2019, the program budget amounted to 89 billion pesos (approximately US\$1.7 billion).

Over the last decade, the evolution of the Pantawid Pamilya was not only about its size and coverage, but also related to the program design and the quality of implementation. The program has established rigorous business processes and implementation arrangements, as a result of continuous efforts and commitments led by the implementation agency (Department of Social Welfare and Development (DSWD)) to address issues to improve the design and implementation of the program.

The Philippine Social Protection Note series aims to disseminate experiences, good practices, and key findings from the Philippines on the topics related to social protection. It also aims to broaden the dialogue on social protection and stimulate public engagement in moving forward the policy agenda. The views expressed here are those of the authors and do not necessarily reflect those of the World Bank.

¹ This policy note was prepared based on the findings from the Technical Assistance on Strengthening CCT Payment, which was funded by the Department of Foreign Affairs and Trade of the Australian Government.



Payment is one of key elements which improved over time; however, severe challenges that hamper their efficiency remain unaddressed. More specifically, the program was able to successfully set up a payment system to process regular payments to beneficiaries at an almost unprecedented scale. During the first few years from the program launch, delayed and irregular payment used to be one of the major bottlenecks, largely due to the nascence of the program, combined with the service coverage area of the Land Bank of the Philippines (LBP). In the Philippines, the LBP, the specialized government bank that mobilizes public funds, was the only service provider tasked with processing payout to CCT beneficiaries. However, the beneficiaries often reside in far-flung areas where it is difficult to be serviced by the LBP because of the limited service coverage areas. To tackle this challenge, the DSWD and the LBP have been making concerted efforts to expand and make the payout process effective. Since its first pilot to test a different payment mode in 2010, diversification of payment modes and conduits continued, enabling the program to pay out money to beneficiaries more regularly and timely.

After achieving regular payouts to beneficiaries, the endeavor to pursue more efficient payment mechanisms continued towards reducing manual transactions. The program used to transfer cash grants to more than half the beneficiaries through over-the-counter (OTC) payments which require voluminous paper-based documents and a long processing time for liquidation. The cash cards are limited to cash withdrawals from the ATM, without any additional functions such as saving and receiving deposits/funds from other resources. This clearly showed an opportunity that the program can shift manual to electronic payment in the future like other established cash transfer programs in the world (CGAP, 2012). By 2019, the share of payout through the cash card among Pantawid Pamilya beneficiaries increased to 62 percent, and the Government of the Philippines (under a technical working group) is currently developing a plan to change beneficiaries' cash cards from single purpose card (to which only the LBP can deposit funds and beneficiaries use ATM only) to basic deposit accounts.

This note aims to share the experience of Pantawid Pamilya's payment mechanism. It consists of four sections. Section 2 provides an overview of the payment system. Section 3 summarizes the main findings from the assessment, focusing on issues, recommendations, and a couple of examples of the next actions taken by the DSWD and the LBP. Finally, Section 4 concludes with the lessons learned.

Overview of the *Pantawid Pamilya's* Payment System

As a CCT program, the payment mechanism has been designed and developed as one of the key systems² of the *Pantawid Pamilya*, to process regular cash transfers to beneficiaries. Table 1 summarizes the overview of the program, focusing on key information related to its payment system. Under the program, beneficiary households receive health and education grants, subject to compliance with respective program conditions. Depending on household composition, monthly transfers range from PHP 500 to PHP 2,000, and grants are paid every two months. Supporting the rapid program expansion, the payment mechanism was considerably enhanced to handle voluminous transactions. The total number of payments to beneficiaries enormously increased from approximately 1.2 million in 2008 to 27 million in 2013, a number that continues approximately until today.³ In the first few years, challenges were understandably related to the basic implementation process, and payout to beneficiaries used to be delayed and irregular.⁴ Many beneficiaries experienced difficulties with receiving transfers due to common reasons, such as delay in issuing cash cards, irregularities and delay of payout, and incurring high transaction costs to go to ATM or payout locations.

The program implementation has improved over time, with continuous efforts including development of business process, training of implementers, and development of a Management Information System (MIS). Table 2 summarizes milestone achievements related to the payment mechanism. For example, the enforcement of program conditions has become more rigorous in 2010, when computation of the transfer amount was linked to the verification of beneficiaries' compliance with health and education conditions. In addition, payment became more frequent since 2011, from quarterly to every two months, responding to the demand from beneficiaries who are in need of frequent cash flow. Furthermore, in 2010, payment agencies have been diversified from the sole government agency (that is, the LBP) through the use of financial conduits such as private telecom corporations and cooperatives⁵. This chapter summarizes the main aspect of Pantawid Pamilya payment, notably institutional arrangements, payment modalities, and procedures and timeline.

² Other key systems are the Beneficiary Data Management, Compliance Verification, and Grievance Redress Systems. The Beneficiary Data Management System seeks to validate and update the profiles of the eligible beneficiaries for compliance monitoring. The Compliance Verification System is the mechanism used to check compliance of household beneficiaries with conditions on health, education, and attendance at family development sessions as the basis for payment of grants. Based on the results of compliance verification, cash transfers are made to beneficiary households.

³ 0.3 million households received quarterly payments in 2010, while 4.5 million households received payments every two months in 2013.

⁴ Share of grievances related to payment was higher in 2009 (65 percent) and decreased over time (for example, 23 percent in 2013). (World Bank 2014).

⁵ The Landbank of the Philippines remain as the sole Authorized Government Depository Bank of the DSWD, while they are authorized to competitively subcontract conduits in the areas which they are unable to serve.

Table 1: Overview of Pantawid Pamilya Payment

Program budget	PHP 89 billion in total, out of which PHP 82 billion are grants (2019)
Design and amount of grant (per month)	Education grant: PHP 300 (for Elementary) or PHP 500 (for Junior and Senior HS - up to 18 years old) per child, up to 3 children per household
Payment frequency	Every two months, six times a year. For example, beneficiaries receive grants for the compliance period February to March in May. (Payment frequency was quarterly, four times a year until 2011)
Number of payments to beneficiaries	Approximately 25.07 million payments (4.178 million households, 6 times a year) in 2018
Payment conduits	3 cash card service providers (Landbank of the Philippines, Philippine Veterans Bank and First Consolidated Bank), 27 over-the-counter (OTC) conduits, 4 cooperatives (Barbaza MPC, FICCO, MASSPEC, NATTCO) and 23 rural banks (2018).
Payment modes	Cash cards (85%) and OTC payments (15%) (2019)
Processing fee paid to payment conduits	For OTC payment, processing fee ranged from PHP 14 to 50 per transaction (2014). (For cash cards (Land Bank), only cash card issuance fee cost PHP 50.) Average processing fee was estimated around PHP 21 in 2014 (based on the data from the 2014 first payment period).
Accessibility criteria/principle	All beneficiaries should be able to claim their grant without incurring more than PHP 100 on transportation cost.

Source: Authors' compilation using multiple references/data provided by DSWD.

Table 2: Milestones in the Development and Evolution of Pantawid Pamilya's Payment System

Year	Milestones
2007	Pilot with 6,000 households. Beneficiaries enrolled in June and paid 8 months later (in February 2008)
2008	Official launch of the program with 300,000 beneficiaries. First set of beneficiaries were enrolled in April and paid 3 months later (in July)
2010	Payments linked to a compliance verification process and results. First pilot ⁶ of CCT payment by G-cash remit.
2011	Change of payment frequency from quarterly to every two months Creation of Unified Financial Management Unit (UFMU) within the DSWD central office Nationwide assessment for payment modes based on new accessibility criteria (Table 1)
2012	Transfer of cash card related functions (e.g. facilitate request for account opening, facilitate account maintenance (hold, lift, closure)) from the Pantawid Pamilya Program Office to the UFMU
2015	Review of business process and payment modes to achieve effective electronic payments
2018	Decision to move all payments to cash cards

Source: Authors' compilation with the DSWD.

Current Institutional Arrangement

The DSWD is the implementing agency of the program, and cash grant distribution to beneficiaries is provided by the LBP through themselves or through other financial conduits. In accordance with the government policies regulations, LBP, which is one of three largest government-owned banks in the Philippines, acts as the depository and disbursing bank for CCT payment, under the Memorandum of Agreement with the DSWD (DSWD and LBP 2011a, 2011b). Due to limitations in the servicing areas of the LBP, the DSWD authorizes the LBP to enter into separate agreements with qualified financial conduits to serve the CCT cash grants for distribution to beneficiaries.

With the objective to promote a concerted effort to improve CCT payments, the DSWD and LBP hold a joint platform, the National Coordination Centers (NCC) and National/Regional Action Centers (NAC/RAC). The NCC is for the executive level, chaired by the DSWD secretary and co-chaired by the LBP president and CEOs,⁷ to oversee the implementation and enhance policies and guidelines for efficient program implementation. The NAC is chaired by the DSWD program manager and co-chaired by the head of the LBP National Capital Region branch,⁸ to support the NCC by preparing reports, recommending policies, and revising guidelines to translate decisions. They also play an important role in identifying, evaluating, and approving the accreditation of conduits and resolving issues and concerns and formulating action plans beyond the RAC's authority.

⁶ The first pilot was conducted with G-cash remit in the most far flung two municipalities where beneficiaries used to spend 3 days to receive payments.

⁷ In addition, NCC members consist of three members of Pantawid national deputy project director of finance, for operation, head of LBP Agrarian and Domestic Banking Sector (ADBS) (DSWD and LBP 2011a, 2011b).

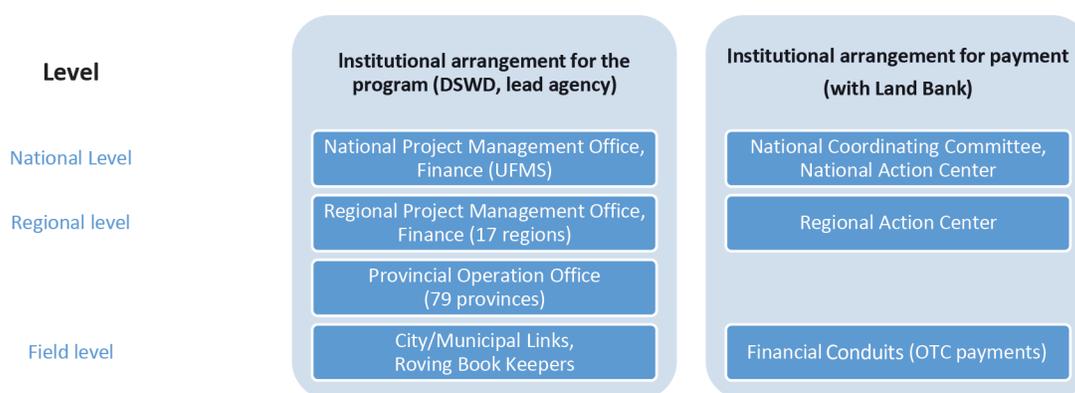
⁸ NAC members consist of the financial management specialist or financial management service director and MIS director from DSWD and the head of the LBP electronic product department.



At the regional level, RAC,⁹ which is composed of representatives from the regional offices of the DSWD and the LBP, is responsible for identifying and recommending payment modes, based on the accessibility criteria, which was set by the program in 2010. First, beneficiaries who reside in the areas where LBP branches or ATMs are accessible are automatically issued with the cash cards. In remaining areas, the RAC is requested to suggest a payment agency, which could provide payment services through over-the counter transactions.

At the DSWD central level, the Unified Financial Management Unit (UFMU), which oversees the DSWD’s major programs, plays a leading role in the CCT payment process, in close coordination with the Pantawid Pamilya National Project Management Office (NPMO), Financial Management Service (FMS), and Information and Communication Technology Department (ICTMS). Similarly, at the regional level, financial and Pantawid Pamilya staff coordinate for CCT payout, particularly for OTC payments, where they need to coordinate the Municipal Links, who are the focal points for beneficiaries, who will be then informed about the release of the CCT grant. In the case of OTC payments, financial conduits organize payouts, jointly with Municipal Links who validate beneficiaries’ identities and municipal roving bookkeepers who eventually facilitate the preparation of liquidation reports with the conduits.

Figure 1: Organizational Structure



Source: Author’s compilation based on DSWD and LBP (2011a, 2011b) and DSWD (2015).

Payment Modes¹⁰/Instruments

Initially, the LBP started as a sole service provider for the CCT payment, by issuing cash cards to beneficiaries who have access to ATMs and by organizing off-site OTC payouts to beneficiaries who live in remote communities. However, many beneficiaries are located in far-flung areas, which were hard to reach for the LBP. To address this difficulty, the DSWD and LBP jointly conducted a small pilot with G-remit in 2010 to explore options to mobilize other financial conduits in CCT payments. Thereafter, payment service providers have been diversified over years.

As of 2019, cash cards¹¹ were issued to 89 percent of beneficiaries, mostly those who live in areas that have access to ATMs (including LBPs’ and other banks’) for cash withdrawals. The DSWD reimburses the LBP up to PHP 20 for each transaction made at the ATM¹². For the remaining beneficiaries, LBP contracts out other financial conduits who will organize OTC payouts in venues that beneficiaries can reach without spending more than PHP 100. These financial conduits include countryside financial institutions (that is, rural banks, cooperative banks, or thrift banks), cooperatives and non-government organizations (NGOs); telecommunication companies (Telcos), and other conduits as may be identified and agreed by parties. The transaction fee varies depending on the contract and the areas of services (ex. ranging from PHP 24 to 75 per transaction).

⁹ RAC is chaired by the DSWD regional deputy project manager, and co-chaired by the head of the LBP regional office. Members consist of representatives from the DSWD (including the regional accountant) and LBP.

¹⁰ Payment mode is often referred to as ‘payment instrument’ in the area of payment systems of the financial sector.

¹¹ The cash card only allows cash withdrawal from ATMs, not at point-of-sale (POS) terminals or for purchases.

¹² This transaction fee aims to cover cost of withdrawals at the LBP’s ATMs and interchanges fees for withdrawals made at other ATMs. In addition, the DSWD covers the costs for producing, distributing, and re-activating the LBP cash cards. The cost of replacing cards in case of loss/damage is born by the cardholders.

However, these conduits have not yet maximized their core business operations for disbursing cash payments, due to the terms of reference, which is specifically designed for the OTC payout. In addition, in accordance with the government bidding rules, competitive bidding is done annually and cost is used as a selection criterion, making it difficult for financial conduits to invest in infrastructure requirements for electronic modalities with a medium-term (for example, 2–3 years) vision. For example, G-Cash, which is one of the largest e-money issuers, does not utilize its core operation of e-money products and infrastructures for disbursing CCT grant. Instead, like other conduits, it mobilizes physical cash at disbursing locations, without taking advantage of its mobile application for transferring money.¹³

Payment Process and Timeline

Payment is made every two months, and the payment procedure consists of four steps: compliance verification; calculation of cash grants followed by payroll generation and fund transfer; payout; and liquidation (Figure 2).

Figure 2: Payment Process and Timeline (counting from the end of monitoring period)



The first step is compliance verification. Schools and health centers monitor whether beneficiaries are complying with education and health conditions and are requested to fill out compliance verification forms every two months. Consequently, the DSWD field offices collect the forms and verify information before entering it into the Management Information System. This process takes approximately 16 days¹⁴.

The second step is to generate payroll and to transfer funding thereof. Based on the results of compliance verification, the amount of education and health grants is computed for each beneficiary household, at the DSWD central office. Consequently, payrolls are generated per region and payment mode, together with other necessary documents for transferring funds from the DSWD to the LBP. This process takes approximately 10 days¹⁵.

Hereafter, different procedures follow depending on the payment modes, notably cash card and OTC. For cash card beneficiaries, cash transfers will be deposited to beneficiaries' accounts within one week of payroll approval, completing the whole process in one and half month¹⁶, counting from the end of the monitoring period. On the contrary, payment through OTC takes an additional two months to complete the process, due to the following two additional steps.

The third step includes the preparation and the conduct of the payout to beneficiaries. The DSWD central office uploads the approved cash grants payroll in the MIS and informs the LBP and the DSWD field offices for the payout to the beneficiaries. Consequently, the DSWD field offices download the payroll data and produce hard copies for necessary documents, including payroll summary lists and acknowledgement receipts, which need to be signed during payout. Before commencing the payout to beneficiaries, this usually takes approximately 8 days because of the volume and the current information technology (IT) system and MIS used by the program. In parallel, DSWD field staff at municipal levels finalizes the payout schedules with payment conduits, and it usually takes about 4 weeks to complete the payout to all OTC beneficiaries.

¹³ G-cash only uses its telecom network for confirming beneficiaries, but not its e-money product/application for CCT payment.

¹⁴ This involves in collection of forms (3 days), submission of forms to regional offices (3 days), encoding of compliance verification forms (5 days) and approvals (2 days), and Notice of Approved Payroll Action (NAPA) Generation and Approval of NAPA (3 days).

¹⁵ This involves in payroll computation (2 days), payroll approval (5 day), printing and signing of the documents (ex. Obligation Request, Disbursement Voucher, and Payroll Summary) (1.5 days), and processing funding transfer (0.5 days).

¹⁶ Due to the multiple transfer schedules, cash card beneficiaries receive payments in their bank account either during the second week or the third week of the second months, counting from the end of the monitoring period.



The last step is liquidation, which is applicable only to OTC payments. Payment conduits prepare liquidation reports, summarizing the paid and unpaid beneficiaries, based on signed acknowledgement receipts. Within the DSWD, municipal roving bookkeepers also report the information to the regional offices, where financial officers reconcile both information from payment conduits and municipal roving bookkeepers to submit the consolidated liquidation report to the central office. This step usually takes 1 month and completes the cycle of payment.

In sum, from payroll approval, the process is complete within one to two weeks for CC payments when the amount is deposited to beneficiaries' account, while it takes at least two months for the OTC payment process, which includes coordination with payment conduits, conduct of payout, consolidation of signed documents, and producing a liquidation report. (See next section on the recommendation).

Business Process

The payment cycle consists of five processes: (a) payroll computation and generation based on reports on beneficiary compliance with program conditions; (b) payroll processing, including payroll approval and preparation of checks; (c) payroll data downloading by field offices to schedule the payout; (d) payout to beneficiaries; and (e) liquidation for the OTC payments to record paid and unpaid grants in the books of account.

Overall, the Pantawid Pamilya Program has established rigorous and detailed business processes, which are supported by the MIS to manage voluminous administrative and financial data for payment. As a backbone of the program, the MIS is fully functional, managing voluminous administrative and financial data, which is the basis for processing bi-monthly payments to 4.4 million beneficiary households. There are also areas for further improvement to achieve more efficient and effective use of resources, as detailed in the main findings based on the business process review, which are summarized in Table 4. Overall, two interlinked challenges, notably the high volume of manual transactions and the integration of multiple information systems/modules, are identified as root causes of the systemic issues observed across the payment process.

Manual procedures: Various segments of the payment process require a number of manual interventions and documents, making the payment process highly labor intensive. For example, every two months, the DSWD central office needs to produce more than 300 payrolls and 500 disbursement vouchers, which need to be prepared separately for every region, payment mode, and funding source. Another document that involves highly labor-intensive preparation is the Acknowledgement Receipt, which needs to be prepared for OTC beneficiaries as a proof of the receipt of transfer. Based on the discussion with the COA, the DSWD has revisited the Acknowledgement Receipt to replace it with a redesigned form while ensuring the requirement of an audit trail. The payment process using the redesigned form was piloted in July 2015, resulting in less use of manpower, an 80 percent reduction in administrative cost (for example, printing), and a two-day reduction in payroll preparation (DSWD 2015).

Management Information Systems: Other manual activities can be mainstreamed by developing modules/interfaces that should be integrated in the MIS. For example, major processes using Microsoft Excel were carried out outside of the MIS system to prepare key information on payment modes, payout schedules, and liquidation of transfers. Thus, it is recommended that modules be developed to integrate these activities into the MIS. Furthermore, due to the system's dynamic nature and to constantly improve it, there is a need for the MIS to be able to seamlessly incorporate adjustments to CCT payments and accommodate changes, and business process improvements.

Opportunities to digitize CCT payments for fast, transparent, cost-efficient, and inclusive modalities

Challenges in the current payment modalities

To increase the use of electronic payments for the Pantawid Pamilya, the existing payment systems infrastructure in the Philippines needs to be maximized. Currently, the full infrastructure of the financial sector in the Philippines is far from being used for the CCT payment – for example, the LBP has 395 branches, compared to more than 12,000 for the banking sector as a whole. In addition, the payment systems infrastructure of the Philippines¹⁸ has continued to be developed, especially inter-bank payment systems and, most recently, retail payment systems. This also is in line with ongoing efforts by the Government and the private sector to improve access to transaction accounts (bank accounts, prepaid/electronic money accounts, and so on) to help disburse payments from the Government to persons (G2P) as well as the National Strategy for Financial Inclusion (See Box 1 for more detail). For increasing access to transaction accounts, an enabling environment supported by adequate legal and regulatory framework, financial and IT infrastructures, and public and private sector commitment are critical.¹⁹ Further, a national ID infrastructure would facilitate access to transaction accounts for CCT beneficiaries who do not have accounts.

Slow progress in financial inclusion has been observed in the Philippines according to World Bank's Global Findex. In 2017, only 34.6 percent of adults had accounts; slightly up from 31.3 percent and 26.6 percent in 2014 and 2011, respectively. Account ownership in the Philippines is lagging behind the rest of ASEAN 5 countries (Indonesia – 49%, Malaysia – 85%, Singapore – 98% and Thailand – 82%) and East Asia and the Pacific Region – 71%. Wealthier adults are more than twice as likely than poorer adults to have an account. Among adults in the richest 60 percent of households in the Philippines, 45 percent have an account, against 18 percent of those in the poorest 40 percent of households. The unbanked in the Philippines cite various barriers to getting an account, including distance (41 percent), high costs (53 percent), and lack of documentation – such as I.D (45 percent). Those numbers are roughly twice the developing world averages.

There is a great potential to continue increasing the use of other electronic payments²⁰ for the Pantawid Pamilya. A key advantage of introducing electronic payments for CCT payments is to reduce manual transactions, paper work, and costs and time associated with cash disbursements such as for transporting physical cash (with security), printing, transporting and maintaining paper documents such as acknowledgement receipts, and saving time.

Box 1: Philippines' National Strategy for Financial Inclusion

The Philippines' National Strategy for Financial Inclusion recognizes the potential of government-to-person payments as a catalyst for financial inclusion. One of the strategies under Policy, Regulation, and Supervision highlights, *"Promote interoperability in technology-based solutions taking into account applicable standards and international good practices. This could be supported by an inclusive and efficient retail payment system that will catalyze the use of electronic payments (e.g., person to person/business/government (P2P/B/G, G2P/B))."* Efforts by the Government and the private sector to improve access to transaction accounts (bank accounts, prepaid/electronic money accounts, and so on) would significantly help disburse G2P payments such as CCT payments through electronic payments. However, implementing it requires a set of key conditions to be met. Such conditions are (a) governance, safety, and efficiency, (b) legal and regulatory framework, (c) payment systems infrastructure, and (d) cooperation and partnerships to leverage government payment programs.¹⁷

¹⁷ World Bank 2012.

¹⁸ The backbone of the country's payment system is PhilPaSS, a real-time gross settlement system, which became operational in 2002. Most recently, the central bank is planning to implement a national retail payment system (NRPS) which would facilitate clearing of different payment instruments. However, the framework of NRPS has not been implemented.

¹⁹ Committee on Payments and Market Infrastructures and World Bank Group (2016) Payment Aspects of Financial Inclusion

²⁰ However, it is important to note that existing CCT manuals and, often, other regulatory requirements such as procurement and audit can be an obstacle to implementing electronic payments at a larger scale.



The current payment modalities only use a small portion of the Philippines financial system and services that are currently available. A challenge of the existing arrangement for the disbursement of 4Ps benefits is that, except for ATMs, the full infrastructure of the financial sector in the Philippines is far from being used. By using this model, the possibilities for “bancarizing” a larger number of 4Ps beneficiaries with mainstream accounts are significantly reduced. First, by involving other banks and using the existing financial infrastructure more broadly, it would be possible to pay via accounts to more 4Ps beneficiaries. Second, even if the objective of DSWD for 2019 is to have 2 million 4Ps beneficiaries receiving their entitlements with an LBP Cash Card, it needs to be noted that this product is a prepaid card that is not a mainstream account, since: i) it can only be used for withdrawing cash at ATMs; ii) it cannot receive deposits/funds from other sources, iii) is not a savings account (all funds need to be withdrawn at once).

Moreover, the current payment modalities often cause negative experiences with financial services among CCT beneficiaries. Partly due to the limited usage of the existing financial infrastructure in the country, 4Ps beneficiaries very often do not have a good experience such as a long line waiting for ATMs on payout dates. Such experiences include the costs incurred and time spent to get to the closest payout location (and back to their homes), and the time it takes for them to receive their entitlements once they have reached this location. This would create a negative first-hand experience among 4P beneficiaries on dealing with a financial institution, which in turn will become an obstacle to behavioral changes for financial inclusion.

The existing arrangements also carries high overhead costs. The current institutional arrangement has LBP as a ‘customer’ of DSWD to provide CCT payment delivery services, instead of DSWD as an account holder who uses LBP as its ‘customer’. DSWD pays fees to LBP for its services per payment and services. In addition, LBP hires and manages hundreds of conduits, which entails very significant amounts of administrative work for both LBP and DSWD. Since such administrative work also relies on paper documents, the cost of administration tends to much higher than using electronic system and documentation.

Finally, by involving only one bank in the payment delivery mechanism it is not possible to ascertain other important aspects such as: i) whether the existing arrangement is the most efficient one in terms of the time and effort that it takes for the grants to reach the 4Ps beneficiaries; ii) whether the existing arrangement is the most cost-effective one for the Program, in terms of total costs incurred (overhead costs on both DSWD and LBP besides fees paid to LBP, conduits, etc.).

Box 2: Retail payment systems in the Philippines

PESONet and InstaPay are interbank retail payment systems already in operation in the Philippines. The two systems are operated by the private sector and are regulated and overseen by the BSP.

Both PESONet and InstaPay can handle large volumes of payments. One important difference between the two is that in InstaPay, payments are processed and credited to beneficiary accounts in real-time, while in PESONet this occurs at the end of each processing cycle. Currently there are several such cycles in each day. However, real-time availability of funds comes at a cost: for the party ordering the payment, it is more expensive to send a payment via InstaPay than through PESONet.

Because of these characteristics, PESONet appears to be better suited for payments like those of 4Ps: bulk payments of individual low-value that can be processed in a planned manner, so that the funds reach the destination account in the date planned.

Moreover, as per BSP Circular No. 980 of 2017, each payee being paid through PESONet or InstaPay must receive the full value of the payment transaction in his/her account. Clearly, this is of utmost importance for social grant recipients.

As of late November 2018, there were a total of 47 direct participants (commercial banks and thrift banks) in PESONet. In 2018, which was its first full year of operations, PESONet already processed approximately 6 million payment orders.

Digitizing CCT payments by addressing legacy institutional arrangements and payment modalities

The Pantawid Pamilya has now a unique opportunity to significantly improve the CCT payment modalities by addressing challenges caused by legacy institutional arrangements and introducing digital payments by maximizing the Philippines payment systems infrastructures. Three solutions can be explored in order to achieve fast, transparent, cost-efficient, and inclusive payment modalities and significantly reduce paper work in the current processes. Three approaches are introduced below for future Pantawid payment delivery mechanisms – 1) A Straight-Through mechanism, 2) Straight-Through payment delivery mechanism with supplementary cash disbursements of social grants and 3) a gradual migration to the Straight-Through mechanism.

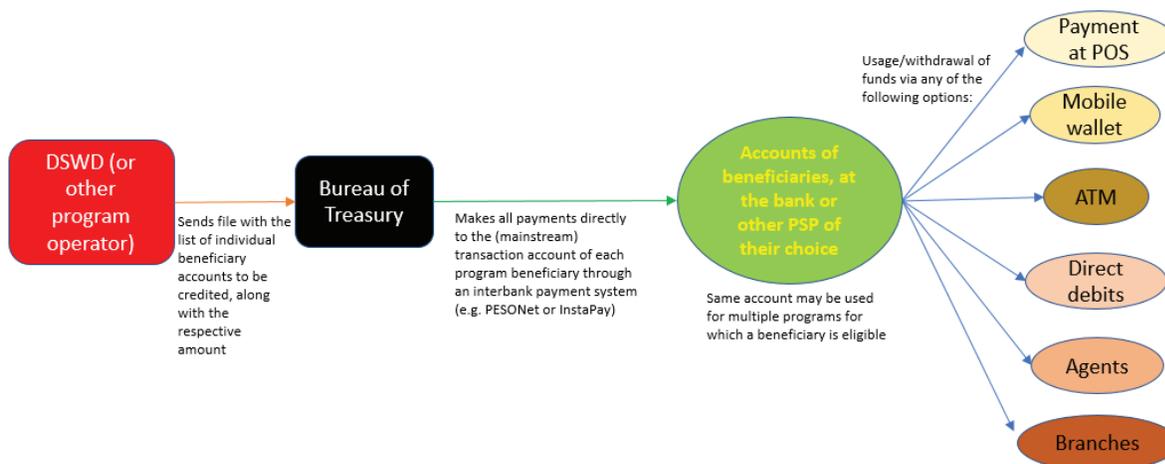
Key revisions to the current arrangements are:

- Allowing more financial institutions (banks, e-money issuers) for CCT beneficiaries to choose from
- Simple modification of GAA for more financial institutions in payment delivery
- Transforming the relationship between DSWD and LBP – DSWD as an account holder at LBP from DSWD contracts with LBP
- Using the existing payment system infrastructures under the National Retail Payment System
- Achieving as much automation as possible to avoid operation errors caused by manual processes
- Leveraging ongoing financial inclusion initiatives including financial literacy and education under BSP²¹

A Straight-Through payment mechanism with key critical institutions

A straight-through payment delivery mechanisms only involves key critical institutions to make the CCT payment and other types of G2P payments (e.g. UCT payments) happen from upstream to downstream payment processes. Payment orders would be channeled through an interbank payments system. In the Philippines, there are several interbank payment systems already in operation. Box 2 discusses one of these systems, PESONet, which is a system oriented to the retail market and that appears to be well-suited for the type of payments that are made as part of 4Ps (i.e. large number of payments of individual low value).

Figure 3. A straight-through payment delivery mechanism for social assistance programs



²¹ The BSP organizes Financial Empowerment Seminars (FES) for students, government agency employees, and private sector workers. In addition, it provides resource persons and learning materials. FES modules consist of (1) Financial Planning, (2) Saving, (3) Budgeting, (4) Borrowing, (5) Investing, (6) Fraud and Scams, and (7) Consumer Protection.



The main features of this Straight-Through mechanism include:

- First and foremost, **it promotes consumer choice**: Social grants beneficiaries would be able to choose the bank or other payment service provider (PSP) where they want their grants to be deposited. This in turn promotes banks and other PSPs eventually looking at these beneficiaries as their customers. In addition, the quality of services could be improved by competition among financial institutions.
- It promotes transparency**, as no intermediaries are involved throughout the payment flow: payments go directly from the Treasury to beneficiary accounts.
- The time it takes for the beneficiary accounts to be credited with the grant amounts is **highly predictable**.
- It is **the least costly alternative** in terms of processing costs: the only cost is that of the interbank payments system processing the payments.
- Through increased automation, it can lead to **savings in other administrative costs** of the social assistance program.

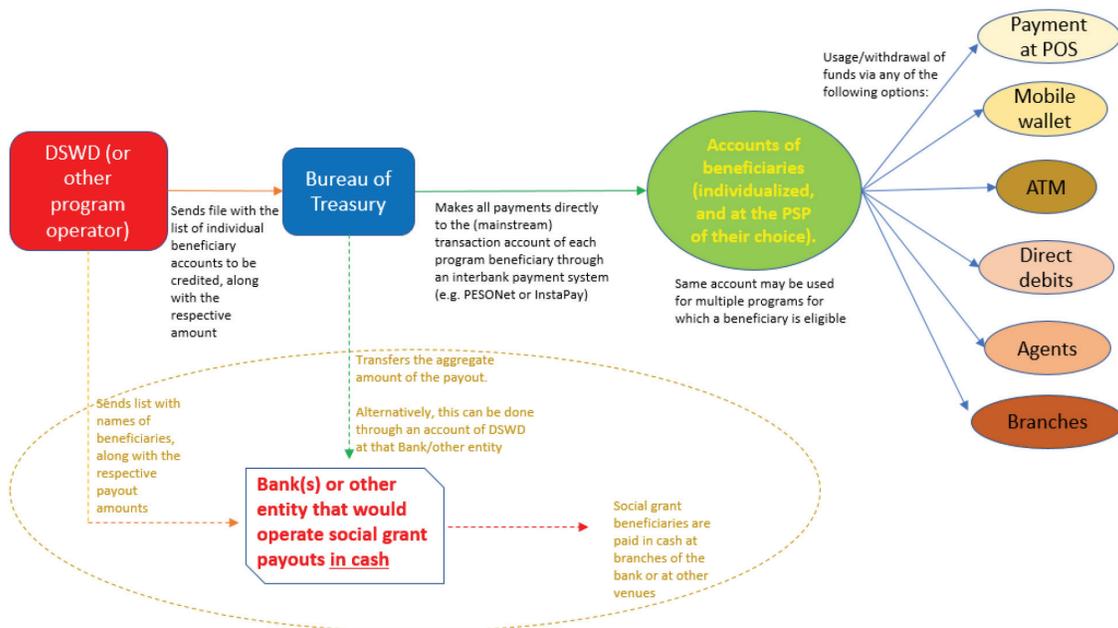
In addition to a robust interbank payments system, other elements that are needed for the Straight-Through mechanism to operate at its best include:

- The Treasury having direct access to the selected interbank payments system**: while this is desirable, it is not crucial. Direct access can be replaced in a relatively straightforward manner with indirect access via the BSP or another bank (who would then execute payments on behalf of Treasury).
- Existence of “basic deposit accounts”**: these accounts typically have simplified know-your-customer (KYC) requirements, no minimum amount to open the account, no minimum monthly balance, low fees, etc. The BSP already issued regulation on this matter (Circular 992 of 2018).
- Good financial infrastructure**: having enough branches, ATMs, bank agents, more electronic payment acceptance, etc., so that social grant beneficiaries can access the funds in their account easily and conveniently.

Straight-Through payment delivery mechanism with supplementary cash disbursements of social grants

In case the existing financial infrastructure is deemed insufficient, it should be noted that the Straight-Through payment delivery mechanism can co-exist with cash disbursements. Recognizing existing challenges of a lack of payment systems infrastructures and available payment options in remote areas, payment delivery in cash can co-exist with electronic payment delivery mechanism.

Figure 4. Straight-Through payment delivery mechanism with supplementary cash disbursements of social grants

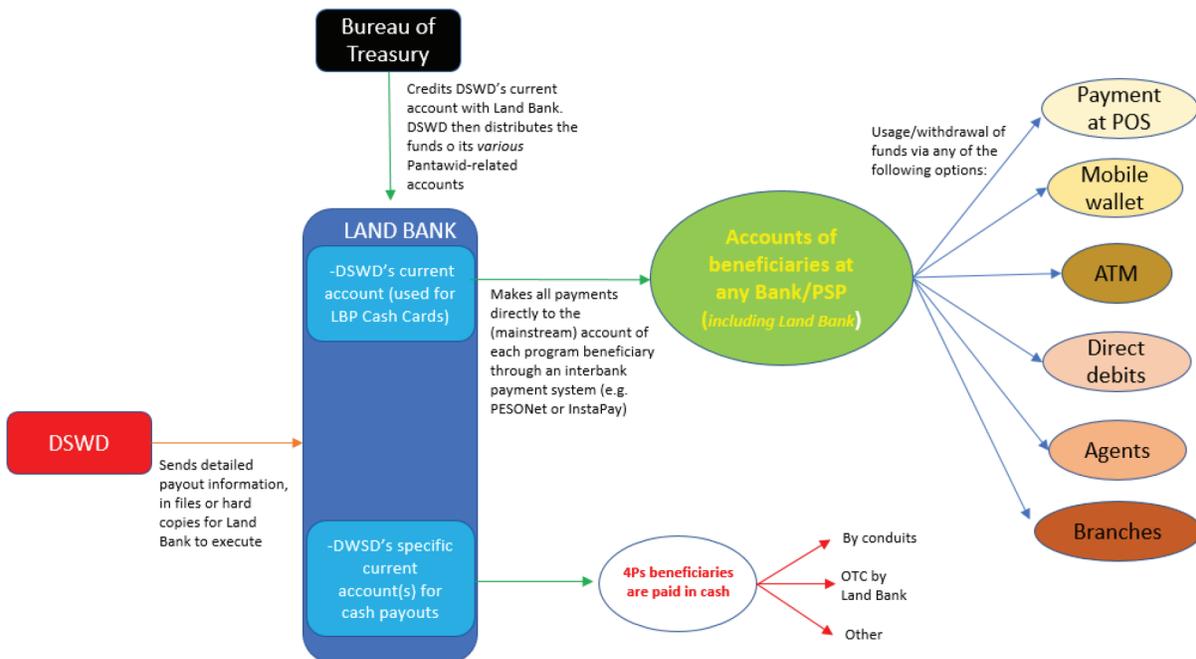


Gradual migration to the Straight-Through payment delivery mechanism

Other adjustments can be made if there is a need or desire by DSWD to migrate gradually to the Straight-Through payment delivery mechanism. Among other possibilities, DSWD may wish to keep relying for some time on the accrued know-how in LBP for what concerns the delivery of 4Ps grants to beneficiaries. Also, for example, the Bureau of Treasury may need some time to adjust its systems so that it can make payments directly to the individual accounts of 4Ps beneficiaries.

Figure 5 shows the revised model, in which LBP maintains some of its current roles to cope with the two potential problems mentioned in the last paragraph. The mechanism in chart 4 is consistent with the General Appropriations Act requiring DSWD to use a government depository institution to channel 4Ps funds. Changes to the 4Ps Implementing Rules and Regulations would be needed, however.

Figure 5. Gradual migration to the Straight-Through payment delivery mechanism: Land Bank maintains part of its roles



It is important to note that further adjustments are also possible. To improve 4Ps' payment delivery mechanism it would nevertheless be critical to preserve the essential elements of the Straight-Through model discussed above with Figure 3, i.e. consumer choice, minimizing the number of intermediaries, transparency, etc.



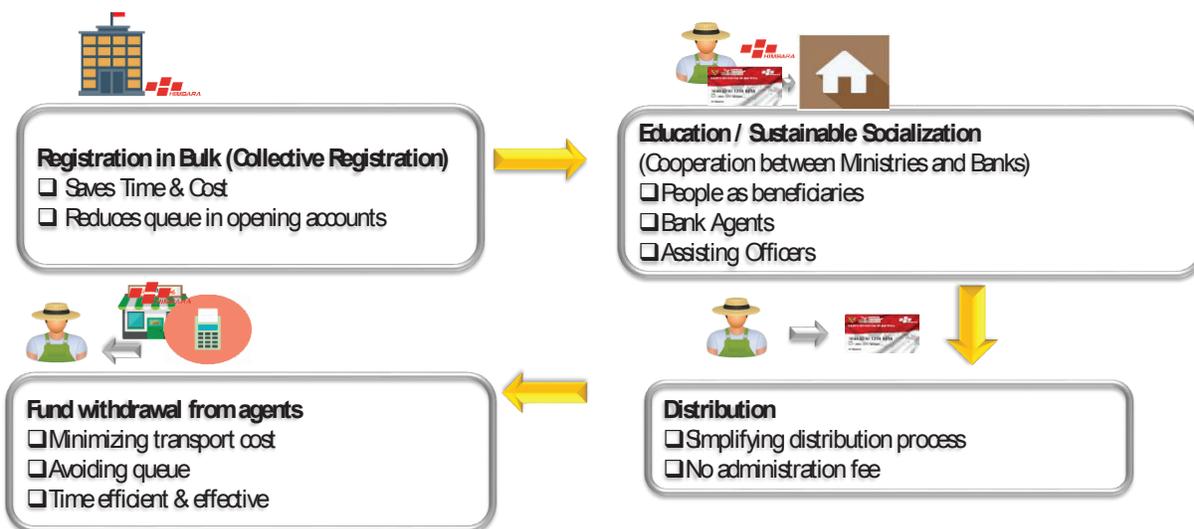
Box 3: Digitizing payments for conditional cash transfer program (PKH) in Indonesia

Indonesia’s overall payment systems have continued to be developed in the past decades. More recently, Bank Indonesia has intensified its efforts to promote the use of electronic payment instruments. In 2015, Bank Indonesia upgraded its systemically important payment and settlement systems (BI-RTGS and BI-SSSS) and its clearing house (SKNBI). In addition, a series of regulatory reforms have accelerated introductions of new payment services and agent banking. Key regulatory reforms are Bank Indonesia regulation on electronic money (2009) and revisions to the regulation (2014 and 2016), and OJK regulation on Laku Pandai (branchless banking) in 2014.

In November 2016, President Jokowi launched the National Strategy for Financial Inclusion together with a presidential regulation on financial inclusion. Government-to-Person (G2P) payments are considered as one of the quick wins (specific presidential regulation to digitize social assistance payment was issued in 2017). Since G2P payments such as PKH (the national conditional cash transfer program) would significantly contribute to an increase of access to transaction accounts, high-level commitment to shifting G2P payments from paper-based (cash) to digital accounts (e.g. bank accounts, e-money accounts) would help facilitate PKH payments as well as other program to reach 10 million in a more transparent and efficient manner if the payment systems infrastructure in Indonesia were ready.

The Government of Indonesia used four State-owned banks – Himbara banks (Bank Mandiri, BNI, BRI and BTN) for full digitization of CCT payments. Himbara (State-owned bank association) developed an automated clearing house. Himbara banks’ ATMs and POS terminals are interoperable under this network.

Himbara banks opened new accounts for all PKH beneficiaries, regardless of existing accounts), and distributed so-called ‘combo cards’ – debit card with a combined e-money function. A debit card function is used for PKH and the e-money for other subsidy programs. Himbara banks leverage their bank agents for expanding access points for PKH payments in addition to ATMs.



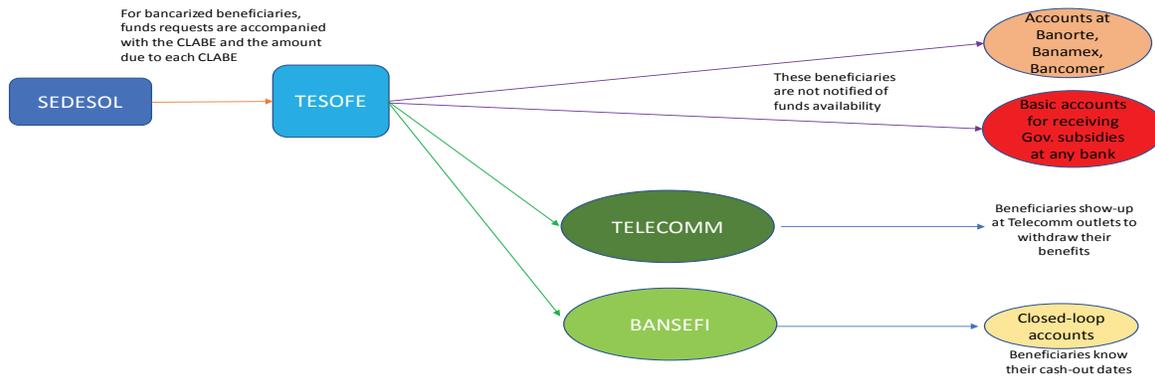
Box 4: Examples of social protection payment delivery mechanisms throughout the world

Turkey

The Social Assistance System (ISAS) is a management information system (MIS) that handles multiple programs and enables all social assistance processes to be carried out electronically—this includes applications, investigations, payments, monitoring, accounting, auditing, and other processes. ISAS is integrated with 22 public institutions and the e-Government Gateway. Citizens can enter the system using their national ID cards to make queries and submit applications. As of early 2016, 34 million citizens were registered in the database. This integrated approach has seen a simplification of the application process (from 30 application forms to 1). Beneficiaries have a choice of payment delivery mechanisms—payments at home for the elderly and/or disabled or through transfers to any bank account in the system.

Mexico

In 2018 the Pension for the Elderly Program paid a basic pension to senior citizens ages 65 and older that were not entitled to a contributory pension from social security institutions. The payments from this program are made by the Treasury (TESOFE) to the account of choice the beneficiary, or in cash for those that live in areas without financial infrastructure, as per the chart below.



South Africa

All 8 social assistance programs are handled by the South African Social Security Agency (SASSA). Seven of these programs disburse money to nearly 12 million individuals. SASSA makes payments almost exclusively via bank accounts, for which it uses a single PSP. This PSP is a private technology provider that partnered with a small bank to provide mainstream accounts, with open-loop debit cards. The selection of a single PSP, even if through a competitive bid, has been contentious and has resulted in numerous lawsuits. It has also resulted in technological dependency from this PSP. From the perspective of beneficiaries, the fact that the account is issued by a small bank with very limited physical presence is inconvenient for customer service aspects that require face-to-case interaction, such as replacement of physical debit card or changing the card PIN.

Russia

All citizens 14 years old and above are being given a Unified Electronic Card (UEC) to provide them with a wide range of electronic services, including the payment of social assistance programs and retirement pensions. It also has applications for the preferential usage of other government and municipal services such as transportation (i.e. for recording discounts that are later reimbursed to the card) and medical services. To a large extent the UEC is also a citizen ID, as the citizen’s information embedded in the card allows determining that individual’s entitlements in relation to government and municipal services. The UEC is an open-loop prepaid card that can be used to make electronic payments.



Way Forward

The Government of the Philippines and key stakeholders should develop a strategic reform agenda considering a larger impact on poverty reduction, in particular, women empowerment and financial inclusion. The policy objectives of the Pantawid Pamilya, women empowerment and financial inclusion are well aligned. Coordination among key agencies such as DSWD, DOF, and BSP is critical for such reforms and developmental impacts.

4Ps should allow beneficiaries to receive payments at any transaction account of their choice. By allowing beneficiaries to choose an account, it is expected that they will more repeatedly use the same account for their needs. This will also help maximize the use of the Philippines existing payment system infrastructures – e.g. PesoNet. This is in line with the objectives of Philippines Financial Inclusion initiatives as well as the National Retail Payment System Framework. The current 4P's payment mechanism should be changed to allow the use of other types of multi-purpose transactions account – basic deposit account, current and savings accounts and e-money accounts. The current single purpose cash card has an extremely limited function that only allows beneficiary to receive only for 4Ps and withdraw cash from ATMs.

In order to enable CCT beneficiaries to choose a transaction account of their preference, LBP's dominance in CCT payment delivery should be changed. In the absence of one mode or one service provider that can cover the whole beneficiaries nationwide, the geographic challenges remain, particularly in very remote areas where the poor beneficiaries reside without easy access to financial services. It is inevitable that the program needs to continue to make different arrangements, combining multiple modes and contracting multiple service providers who have a comparative advantage in respective localities and are interested in extending their operation. In engaging financial conduits, there are often limitations related to government bidding regulations, which often makes interested bidders hesitant to invest in electronic modalities due to the short contract period and least cost selection criteria.

The Government and stakeholders could develop a plan to gradually shift the payment mechanism from the LBP cash card to mainstream accounts as recommended above. By shifting the payment mechanism to the Straight-Through mechanism, the Government (especially DSWD) could significantly save program costs, increase transparency, speed and accountability. The Straight-Through mechanism would also help reduce paper-based documents from the program. The reform of CCT payments would reduce or even eliminate tasks of LBP and DSWD beyond their mandates under the current CCT program and the Philippines payment systems infrastructures and the private sector can provide more efficient solutions to the challenges that the current program faces.

Taking more advantage of payment system infrastructure is key to moving to electronic the payments from the Pantawid Pamilya. Benefiting from the development of a payment system and technology, there are good global practices resulting in CCT programs that successfully saved transaction costs significantly and achieved more efficient payment. However, the Pantawid Pamilya has not taken full advantage of the existing payment system in the Philippines yet. Given that mobile infrastructure is already available and that the payment system continues to be developed, the Pantawid Pamilya has great potential to increase the use of electronic payments, which significantly saves time and removes paper-based documentation. The Philippines could even go further to achieve a straight-through payment delivery mechanism in which maximizes the use of an interbank payments systems which are already operational (See Box 2 for more details). Exploring different options requires a concerted effort among the key partners, including the DSWD, the LBP, the Central Bank, and the concerned financial conduits, to make sure that the implementation arrangements meet a set of key conditions, not only the readiness of the payment system but also the legal and regulatory framework.

In parallel, it is key to revisit business processes and invest in the MIS to reduce manual transactions to achieve more efficient payment. By its design and nature, the CCT entails multiple steps and is implemented based on voluminous administrative and financial data, often tending to make its operation highly labor intensive. The review of the Pantawid Pamilya payment business process and MIS identified a number of segments/activities that involve manual transactions, which can be improved by simplifying the form and integrating the activities in the MIS. Moving forward, there has been ongoing effort to discuss the MIS across agencies, to ensure harmonization of the MIS/data between the DSWD, the LBP, and the financial conduits for a seamless business process, to take the program implementation to the next level.

Beyond efficiency, the CCT program can strategically leverage different financial modalities/service providers to promote the financial inclusion agenda for beneficiaries. The CCT and financial inclusion agenda are in line with the poverty reduction objectives and exit strategy. However, the current CCT payment delivery mechanisms have little contribution to financial inclusion. While service providers currently see Pantawid payout as a goodwill rather than a business opportunity, there is good potential for CCT beneficiaries to become the customers of their products and services with a mainstream account. For example, CCT beneficiaries can open a transaction account at a financial institution such as a basic deposit account, electronic money wallet for CCT payment services. This will increase the chances for poor households to keep using the same account for other financial services such as payments, remittances, and savings, which results in a win-win situation for all concerned parties.

References

DSWD (Department of Social Welfare and Development). 2014. "Operations Manual of Pantawid Pamilya Pilipino Program" (including Finance Management Sub-Manual).

———2015. "Updates on Cash Grants Payroll and Distribution Improvements."

———Multiple years. "Pantawid Pamilya Information System Payment Data."

DSWD (Department of Social Welfare and Development) and LBP (Land Bank of the Philippines). 2011a. "Memorandum of Agreement, Cash Transfer Program."

———2011b. "Implementing Rules and Regulations for the Cash Disbursement for the Pantawid Pamilyang Pilipino Program."

Sunar, Felicidad. 2012. "Partnership for an Effective Mode of Payment: Documentation of G-Cash Remit as Used in Pantawid Pamilyang Pilipino Program."

World Bank. 2011. "The Global Payment Systems Survey 2010"

———2012. "General Guidelines for the Development of Government Payment Programs."

———2014. "Grievance Redress System of the Conditional Cash Transfer Program in the Philippines."

———2015. "Making Payment More Efficient for the Philippines Conditional Cash Transfer Program: Pantawid Pamilya Pilipino Program."

