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Alternative Delivery of Subsidy Funds During COVID-19

Alvin P. Ang and Ser Percival K. Peña-Reyes

Two weeks since the passage of the Bayanihan to Heal as One Act, the country continues to grapple with questions of how to distribute more than P200 billion worth of social amelioration funds to about 18 million families needing them. Leading the task is the Department of Social Welfare and Development (DSWD), which has faced challenges in downloading the subsidy due to differing databases and conflicting information on qualified individuals. These challenges are aggravated by the limited movement of people due to the Enhanced Community Quarantine (ECQ), leading to delays in fund distribution.

There are three facts that should be considered in addressing these challenges. First, the country has a large informal economy. About 56 percent of the workforce can be classified as informal, with no access to social benefits and, therefore, most vulnerable to a crisis similar to what the country is facing. About half of informal workers are self-employed, while 30 percent are wage earners in precarious work (temporary). About 20 percent are unpaid family workers. About 90 percent of these workers are in agriculture and services, while the rest are in industry.

Second, the country continues to have a low savings rate. At about 16 percent, the average savings rate for the past ten years has hardly changed, despite faster and more robust economic growth. Among ASEAN countries, the Philippines ranks seventh in savings rate, implying that most Filipinos might not have enough resources to tide them over this ECQ.

Third, there is still widespread financial exclusion among Filipinos. Financial inclusion, as defined by the World Bank, is a state where individuals and businesses have access to useful and affordable financial products and services that meet their needs (e.g., transactions, payments, savings, credit, and insurance) and are delivered in a responsible and sustainable way. Although the country ranks fifth among ASEAN countries according to the World Bank survey, only 34 percent of respondents are financially included. This is way below the ratios recorded in Indonesia (49 percent), Thailand (82 percent), Malaysia (85 percent), and Singapore (98 percent).

These facts increase the urgency to download support for affected workers. With about 70 percent of the economy in a standstill, it is difficult to pinpoint the beneficiaries of this support service. Like most ASEAN countries, Filipinos have been able to tide through low savings by borrowing money from friends and relatives. In fact, more Filipinos have used informal borrowing than the banking system by a 4:1 ratio. However, in this crisis, even families and friends are also severely affected financially and will, therefore, have difficulty sharing financial resources to others.

To facilitate downloading of funds to workers, it might be useful to consider utilizing local private financial units, such as microfinance institutions, pawnshops, payment centers, and domestic money transfers. In a 2010 study of domestic payments in the Philippines, about 95 percent of the users of these services belong to class D and E (poor and very poor). Only 5 percent belong to class ABC. The study showed that awareness of these micro channels is very high, with more than 70 percent of respondents recognizing neighborhood facilities, such as LBC, M. Lhuillier, Western Union, and Cebuana Lhuillier. More than 20 percent of them have used these services. Respondents have used the facilities mostly for sending and receiving money, as well as paying bills and loans.

There are more than 17,000 pawnshops spread across the archipelago and located in every town center. They are registered with the local government units (LGUs). Since many of their clients are in the D and E classes, they have records of them using their services. Likewise, microfinance institutions are widely spread in many rural areas. The DSWD can mobilize these various, locally based institutions by coursing the amelioration funds through them. They can utilize their existing systems for validation of beneficiaries and help unburden the LGUs in validating the beneficiaries and distributing the subsidies. The payout process can be done by batches, where beneficiaries can come to designated and approved centers.

The DSWD has already released M.O. 04-2020, which outlines the process of identification, authentication, and payment. This requires the signing of a memorandum of agreement between the DSWD and specific LGUs. The sheer number of LGUs will complicate the processes involved. Perhaps, the private sector can be involved in order to take advantage of the efficiency of their existing systems. The administrative costs to deliver the funds can be reduced, and the funds can reach the beneficiaries faster. The DSWD and the Department of Interior and Local Government (DILG) might want to consider these local financial institutions to reach beneficiaries in a faster, more efficient way.

The authors teach economics at the Ateneo de Manila University.

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