

POLICY BRIEF

Assessing the Financial Resilience of Filipinos¹

Executive Summary

Despite its economy's rapid growth pre-pandemic, the Philippines continues to suffer from deeply entrenched inequality. The poorest households are also the most vulnerable to financial and employment shocks caused by the pandemic. To properly focus its poverty alleviation programs, the Philippine government needs to have a better understanding of its financially vulnerable citizens. Using World Bank financial inclusion data from 2017, this policy brief examines financial resilience across age, gender, workforce participation, income, and education. These factors paint a broad picture of disparities in financial security across different segments. While knowledge of this baseline information may allow policymakers to assess priority areas requiring intervention, a definitive understanding of the financially vulnerable and the appropriate interventions would require the conduct of more granular studies.

Context

The Philippines has benefited from one of the fastest economic growth rates in the world prior to the COVID-19 pandemic. However, that growth has not trickled down to citizens from the lower socioeconomic classes. Deeply entrenched inequality persists. For years, policymakers have contended with the challenge of making growth more inclusive for all Filipinos. Reeling from the pandemic, the country must deal with deepened structural inequalities, as households with little to no savings have also been the most vulnerable to job termination during the pandemic.

As an emerging economy, the Philippine government must contend with limited capacity and resources. It must craft policies to provide the greatest assistance to those in greatest need. Empowering the vulnerable to achieve financial resilience is key to lifting them out of poverty and helping them stay out of it. Assessing important environmental factors that build financial resilience and analyzing the characteristics of the financially vulnerable may aid the creation of better targeted interventions to curb the financial insecurity experienced by a significant proportion of the people and help them achieve upward economic mobility.

Data and Caveats

This policy brief uses the World Bank Global Financial Inclusion (Global Findex) Database for all data visualizations. Global Findex data comes from interviews of 1,000 respondents in the Philippines conducted from July to August 2017. It provides individual-level information on access, use, and perception of financial services and technologiesⁱ. The survey also asks about financial resilience, which is framed as the ability of the respondent to gather emergency funds within the next month amounting to 5% of the Philippine Gross National Income (GNI) per capita. Estimates place this at “4 weeks of pay for an average worker in the Philippines”ⁱⁱ.

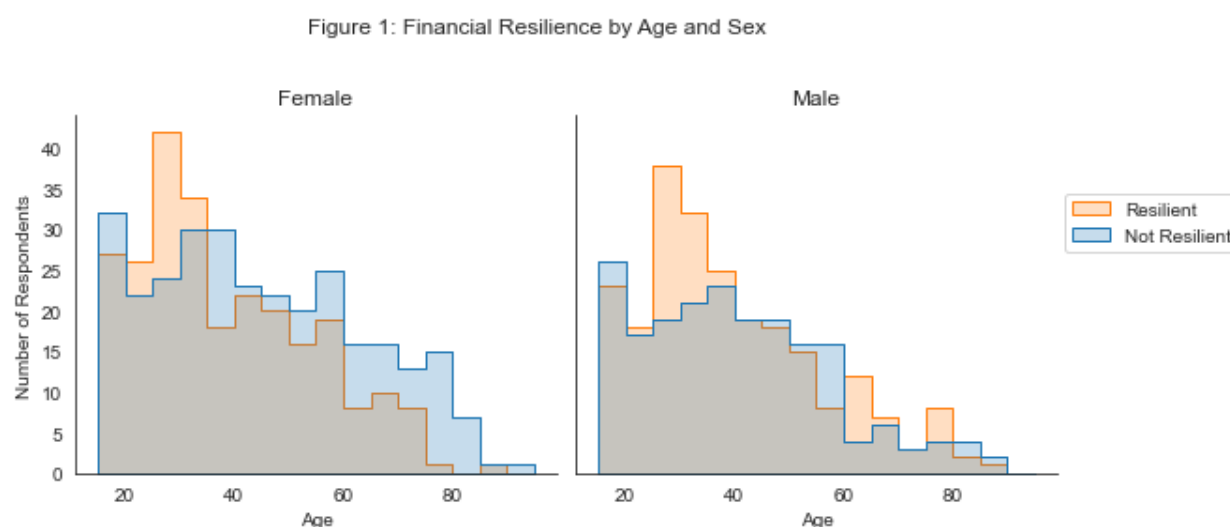
Using the Global Findex dataset to examine the determinants of financial resilience has immediately perceptible limitations in terms of the timeliness of data collection and the narrow

¹ Author: Mary Krysllette C. Bunyi, MS in Data Science for Public Policy Student, Georgetown University

proxy measure for financial resilience. There may also be concerns of measurement errors due to self-reporting. Nonetheless, conducting the interviews in the respondents' native languages lessens the risk of misunderstanding and response bias.

Analysis & Key Findings

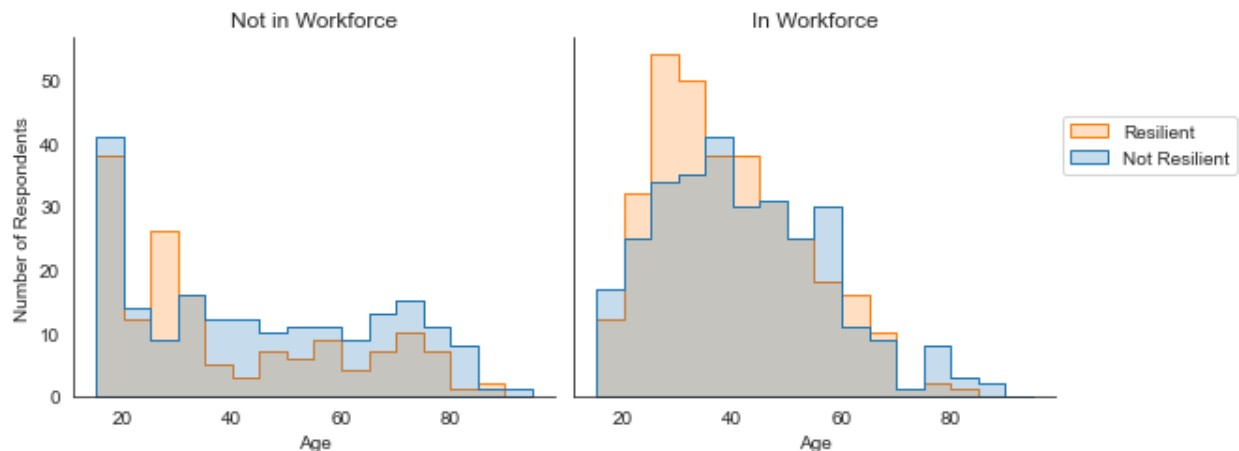
Gender gaps have been widely noted in much of financial inclusion literatureⁱⁱⁱ. For the Philippines, a similar gender divide exists (see Figure 1). However, the gap is less pronounced compared to other country-level studies that have used the Global Findex^{iv}. Nonetheless, the difference between female and male financial resilience becomes noticeably evident in retirement age, as females reported much higher proportions of vulnerability compared to their male counterparts.



Respondents aged 20 to 40 appear predominantly resilient. While a significantly higher percentage of Filipinos out of the workforce reported less resilience, those in their late 20s to early 30s were significantly more financially resilient than other groups – possibly because their exclusion from the labor force is by choice² (see Figure 2).

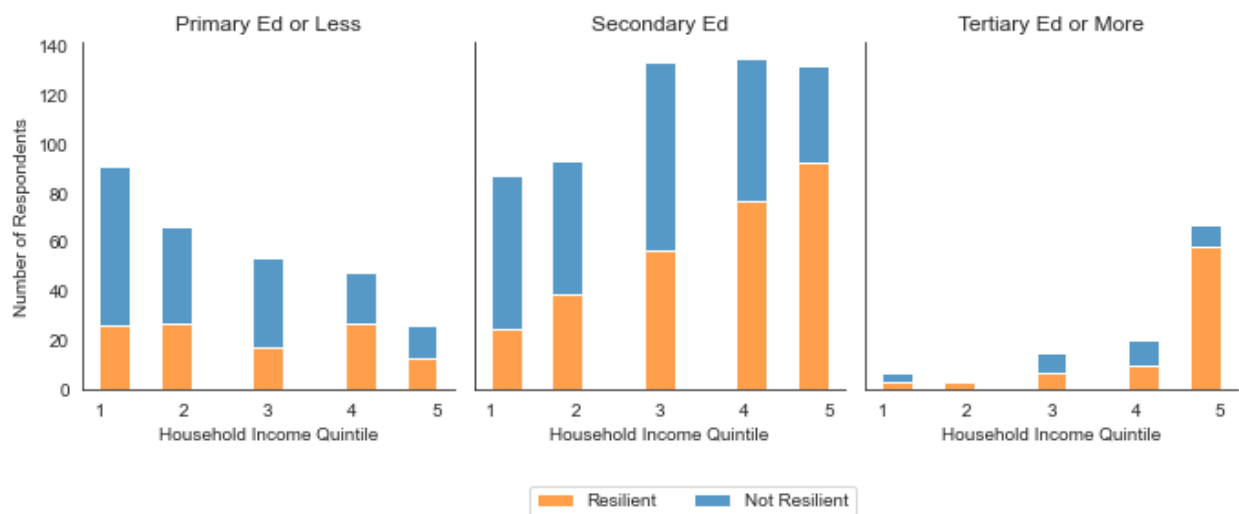
² The labor force comprises both the employed and the unemployed job seekers. It excludes unpaid workers, family workers, and students. (Source: World Bank via <https://data.worldbank.org/indicator/SL.TLF.TOTL.IN>)

Figure 2: Financial Resilience by Age and Workforce Participation



As expected, richer households tend to report higher financial resilience (see Figure 3). However, the proportion of financially vulnerable among the highest socioeconomic class is a surprising result (at 30%). Examining the interaction between education and income level shows that the educated tend to be more financially resilient. However, they also tend to belong to the higher socioeconomic classes.

Figure 3: Financial Resilience by Income Quintile and Education



Policy Implications

As noted in the caveats, the validity of this policy brief's findings is limited by the survey's narrow proxy measure for financial resilience as well as its timeliness. The COVID-19 pandemic has most likely surfaced financial vulnerabilities that would not be apparent at the time of the survey. Thus, the primary recommendation would be to jump off from this baseline information to conduct further research into the drivers of financial resilience and vulnerability.

Knowledge of this baseline information may also allow policymakers to assess priority areas requiring intervention. For instance, policymakers could consider designing social safety net programs targeted towards improving the financial strength of households in the lower income quintiles. Healthcare coverage may also be reassessed to determine the extent of out-of-pocket payment required from poorer beneficiaries. Enhancing micro-credit opportunities may likewise help the entrepreneurial poor tap into additional funding sources that would allow them to earn income and become more self-sufficient.

To craft appropriate financial inclusion initiatives, policymakers must have a clear and detailed picture of who the financially excluded are and why they are excluded. More granular consumer finance surveys can provide insights into these factors. A more adequate assessment of financial resilience may emanate from the introduction of additional demographic variables relating to home ownership, employment status, and industry as well as information across other dimensions of financial resilience.

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- ⁱ Demirgüç-Kunt, Asli, Leora Klapper, Dorothe Singer, Saniya Ansar, and Jake Hess. (2018). The Global Findex Database 2017: Measuring Financial Inclusion and the Fintech Revolution. Washington, DC: World Bank. Ref: PHL_2017_FINDEX_v02_M. Accessed at <https://microdata.worldbank.org/index.php/catalog/3311> on 9 March 2021.
- ⁱⁱ Kempis, M., & Morduch, J. (2020, May 21). How resilient are we? A dive into the global data on how people deal with unexpected shocks. Retrieved March 10, 2021, from <https://www.financialaccess.org/blog/2020/5/21/how-resilient-are-we-a-dive-into-the-global-data-on-how-people-deal-with-unexpected-shocks>
- ⁱⁱⁱ Sahay, R., & Cihak, M. (2018). Women in Finance: A Case for Closing Gaps. Staff Discussion Notes, 18(05), 1. doi:10.5089/9781484375907.006
- ^{iv} Hussain, A. B., Endut, N., Das, S., Chowdhury, M. T., Haque, N., Sultana, S., & Ahmed, K. J. (2019). Does financial inclusion increase financial resilience? Evidence from