

From Cash to Digital Wage Payments in the Philippines

Win-Win for Enterprises & Women Employees

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Background

The thriving digital economy in the Philippines and proliferation of new digital solutions, coupled with the government's push to drive digital payments and financial inclusion¹, provides for tremendous opportunities to deepen financial inclusion in the country. The central bank, Bangko Sentral ng Pilipinas (BSP), expects at least 50 percent of payments to shift to digital by 2023². Furthermore, digital financial inclusion may also help formalize the vast informal economy³.

However, low-income segments of the population, particularly women, risk being left behind in the digital revolution. Despite a reverse gender gap in financial access, with 39 percent of women having access to accounts versus 30 percent of men⁴, financial inclusion for women remains a challenge in the Philippines – 61 percent of women remain excluded from the formal financial system.

Moreover, enterprises, particularly small enterprises, have been slow to embrace digital wage payments – nearly 71 percent of wages are still paid in cash compared to only 28 percent through financial accounts as of 2017⁵. The COVID-19 pandemic has accelerated the adoption of digital

payments in the Philippines as the government provided economic relief payments digitally, and enterprises and customers have quickly adapted to new digital ways of operating in the wake of lockdowns.

Therefore, it is imperative to capitalize on this momentum to ensure wider adoption and usage of digital payments, particularly among low-income women, with a focus on digital wage payments for salaried workers.



¹ Speech by BSP Gov. Benjamin Diokno at the PRU Life UK Online Investment Briefing, October 22, 2020, <https://www.bis.org/review/r201110c.htm>.

² Speech of BSP Gov. Benjamin Diokno. "Philippines greenlights 'digital banks' as pandemic drives demand". Nikkei Asia. November 26, 2020, <https://asia.nikkei.com/Business/Finance/Philippines-greenlights-digital-banks-as-pandemic-drives-demand>.

³ This view has been discussed among a broad range of stakeholders in the Philippines with technical support of the ILO under its Recommendation 204 on the formalization of the informal economy.

⁴ World Bank Global Financial Inclusion Database (2017).

⁵ World Bank Global Financial Inclusion Database (2017).

Objectives & Methodology

In this qualitative research study, Women's World Banking, in partnership with the International Labour Organization (ILO), assessed the awareness, use and acceptance of digital wage payments among enterprises and workers in the Philippines. The resulting study includes an analysis of the financial behaviors and attitudes of Filipino workers, the benefits and challenges for enterprises and workers to move from cash to digital wage payments, and an assessment of the effect of digital wage payments on the financial inclusion of women workers.

To build a foundational understanding of the market context, we engaged key players across regulators (including BSP), business associations (including the Employers Confederation of the Philippines (ECOP)), financial institutions (retail banks, mobile network operators, microfinance

institutions (MFIs), cooperatives, pawnshops, and fintechs) as well as international organizations and thought leaders.

Following that, we conducted primary interviews with 12 enterprises and 50 workers across the garment, electronics, and retail sectors⁶, selected because of their importance to the economy in terms of GDP contribution as well as the high representation of women workers. While our sample of enterprises favors small enterprises, it also includes diverse perspectives from medium and large enterprises, represents geographic diversity⁷, and includes those that have digitized wage payments as well as those who continue to pay wages in cash. Our sample also included workers across the spectrum of age (16 years - 50+ years), gender, marital status, and representation of the economic sectors identified.



⁶Retail sample included registered retail businesses such as supermarket and convenience store chains, but not smaller retail businesses (e.g., sari-sari stores), many of who may be informal.

⁷Factories and employees were all located in Region 4A (NCR), Mindanao, and Northern Philippines.

Market Context

The Philippines is in a prime position to benefit from a switch to digital wage payments, with Filipino women, in particular, standing to gain from digitization.

The majority of wages are still paid in cash. In the Philippines, women's economic participation remains low with only 49 percent of women in the labor force compared to 75 percent of men. Moreover, 71 percent of women workers in the Philippines continue to receive wages in cash versus only 29 percent via financial accounts or mobile phones as of 2017⁸.

The government has prioritized investment in digital payments. The government has played a critical role in driving digital payments⁹ with the advancement of policies and initiatives to foster interoperability among financial service providers (FSPs), regulate the license of digital banking services, provide guidance on issuing the Basic Deposit Accounts, digitize the core Government to People (G2P) welfare payment schemes, create a National ID system as well as promote digital wage payments through banks or e-money accounts¹⁰. All of these set the stage for a strong and more inclusive digital payments ecosystem.

COVID-19 has accelerated the adoption of digital payments. COVID-19 and subsequent lockdowns have necessitated businesses and financial service providers to adapt their

operations and customers to change their behavior to embrace digital payments. This was in large part due to the government pushing economic relief payments through digital accounts. In fact, nearly 4 million new digital accounts were opened during the pandemic¹¹. Moreover, some commercial banks and other financial institutions (e.g., rural banks and cooperatives) are innovating and investing in digital technology to adapt and modify their services and operations.

“Pre-COVID, [we had] 50-60 percent of transactions executed through digital channels. Now, we have 92 percent of transactions happen digitally or via ATM. What the pandemic has done is changed behavior of customers for the better—we’re asking ourselves now do we need all the branches?”

– Retail Bank

⁸ World Bank Global Financial Inclusion Database (2017).

⁹ Bangko Sentral ng Pilipinas. Digital Payments Transformation Roadmap 2021-2023.

https://www.bsp.gov.ph/Media_And_Research/Primers%20Faqs/Digital%20Payments%20Transformation%20Roadmap%20Report.pdf

¹⁰ <https://www.marketscreener.com/news/latest/BSP-Supports-DOLE-Advisory-on-Wage-Payment-of-Workers-through-Transaction-Accounts--31104665/>.

¹¹ <https://businessmirror.com.ph/2020/10/26/bsp-4-m-new-basic-deposit-accounts-opened-in-pandemic/>.

Market Context

MSMEs are the key to economic recovery from COVID-19. MSMEs (micro, small, and medium enterprises) make up over 99 percent of the roughly 1.4 million registered businesses in the Philippines, contributing to 63 percent of employment and 36 percent of the country's GDP¹². In response to the COVID-19 crisis, a large number of Filipinos have started businesses. According to the Department of Trade and Industry (DTI), 916,163 new businesses were registered in 2020, a 44 percent increase from the 637,567 total registrations in 2019¹³. However, the majority of MSMEs have not yet adopted digital merchant payments.

Of the sectors interviewed in this study, large and medium enterprises tended to pay wages digitally, whereas small enterprises continue to pay wages in cash. While this study only explored the three identified sectors, there is an emerging opportunity to target small and micro enterprises (comprising >99 percent of the MSME market) across various sectors with low-cost, convenient digital wage payment solutions. In addition, the informal sector is likely to have enlarged under the pandemic as well¹⁴.

“One of the issues that the pandemic has highlighted is the big informal sector in the Philippines. They fall through the cracks when designing support measures for employees and social amelioration for the poorest of the poor. [Digitization] could hasten the formalization of the informal sector.”

– Bangko Sentral ng Pilipinas (BSP)



¹²https://cpbrd.congress.gov.ph/images/PDF%20Attachments/Facts%20in%20Figures/FF2020-19_MSMEs.pdf

¹³Statement of DTI Secretary Ramon M. Lopez at DiskarTech's Ipon Galing webinar on January 20, 2021, <https://www.facebook.com/DiskarTech/videos/326140745315275/>, referred to in the Inquirenet.com article of January 21 "Pandemic gives rise to new entrepreneurs", <https://business.inquirer.net/316169/pandemic-gives-rise-to-new-entrepreneurs>. These are figures as of December 2020 and 9 percent of them were "renewals" of the registration.

¹⁴While the Philippines has not adopted the definition of informal employment by the International Conference of Labour Statisticians (ICLS), ILO estimates that the size of informal employment in the Philippines has been historically more than half of the total employment.

Market Context

The competitive landscape for payroll solutions has evolved. The Philippines is a hub for digital innovation in Southeast Asia, with over 115 fintechs operating in the market, increasing competition for low-cost financial solutions, particularly for low-income segments of the population.

Specifically, the market for payroll solutions is quickly evolving. While banks have traditionally dominated payroll accounts, they have focused on serving large enterprises (>200 employees) who are early adopters of digital wage payments. Banks view payroll accounts as a loss leader, particularly in serving the low-income segment, although digital banking is quickly reducing cost barriers.

However, banks are operating in an increasingly competitive landscape. Mobile network operators and fintechs are rapidly entering the market with lower cost payroll solutions with easier account opening requirements, which could be effective in reaching these untapped segments, particularly small enterprises and the sizable informal sector

“For the lower end – where salary payments are smaller and affinity to smartphones is high – there’s a strong case to make salaries go to e-wallets.”

– Mobile Money

“Wage payments are not high value transactions. These are low value transactions. With digital, now the cost is lower – 20 percent lower than the branch – so I’m now prepared to serve lower wage earners because the cost of digital is lower.”

– Retail Bank

who have been late adopters of digital technology. Some are also entering into partnerships with banks to offer such solutions. At the same time, MFIs and cooperatives, who have traditionally served the low-income segment, are also quickly digitizing and exploring ways to adapt and remain relevant. Thus, financial service providers are cooperating even as they compete for the payroll market.

Therefore, the market is ripe in the Philippines to reach wage-earning women who still receive salaries in cash with innovative digital payment solutions to shore up their financial security and prosperity as well as help them to recover and build resilience in the wake of COVID-19.

Key Findings

Financial Attitudes and Behaviors

In the Philippines, women hold the bulk of household responsibilities and ultimately make budget decisions. Family members often hand over their earnings to the female head of household. Women manage the finances and decide how to allocate budget resources across household needs and expenses.

Savings is perceived as important, but continues to be a challenge especially given COVID-19. While there is clear recognition of the importance of savings to build resilience, savings behavior is not a consistent practice – workers face tight budgets and must prioritize other expenses and save whatever is left over, if any.

Those who do save prefer to save in cash at home. Saving at home is convenient and easily accessible, thus very few workers save through formal financial services. However, a few enterprises have supported workers to establish cooperatives to foster formal savings.

While most workers recognize the convenience of digital payments, the majority still pay for expenses in cash. Primary expenses such as rent, food, and other necessities (50-60 percent of budget), bills (15 percent), remittances (20-25 percent), and any savings (0-15 percent) are paid for in cash. However, use of mobile money or bank transfers to pay bills, and pawnshops as a means to transfer money (remittances) is increasing, especially during the COVID-19 pandemic.

“If ever there’s an emergency, especially now during COVID, if I didn’t have savings, I wouldn’t have any expendable money, especially when people don’t have jobs right now. Even if the pay is small, one should set aside money, even if it’s just PHP 1000.”

– Female, 22, Electronics

Perceptions & Use of Financial Institutions

Banks are perceived as trustworthy, but inaccessible while digital service providers are perceived as accessible but untrustworthy. Workers who use financial services typically use MFIs, cooperatives, or pawnshops. While banks are seen as a trustworthy and secure place to save, workers feel that banks are for the wealthy and onerous requirements make the account opening process difficult. Digital solutions are convenient and accessible, with easy onboarding processes, but inexperience and lack of trust hinders widespread adoption.

Key Findings

Use of financial services is limited to salary payments and ATM withdrawals. Even those workers who receive digital wages typically withdraw cash from the ATM immediately. There is limited use of digital financial services for other transactions such as e-commerce, or uptake of other financial solutions such as loans, insurance, etc.

Lack of trust, lack of accessibility, and lack of relevant use cases are the most common reasons for not using digital payments. Lack of trust in digital financial services, due to inexperience or perception of fraud, is the key barrier to uptake in the Philippines. The second key barrier is the nascent digital ecosystem in terms of merchant payments, bill pays, and other daily transactions, which means that workers cannot access and conveniently use digital payments in their daily lives and must resort to cash payments.

“[A bank] is a luxurious place for them, and it seems like there’s an invisible barrier between them and the bank. I actually told [employees] to open a bank account before, but they said no. They are really scared.”

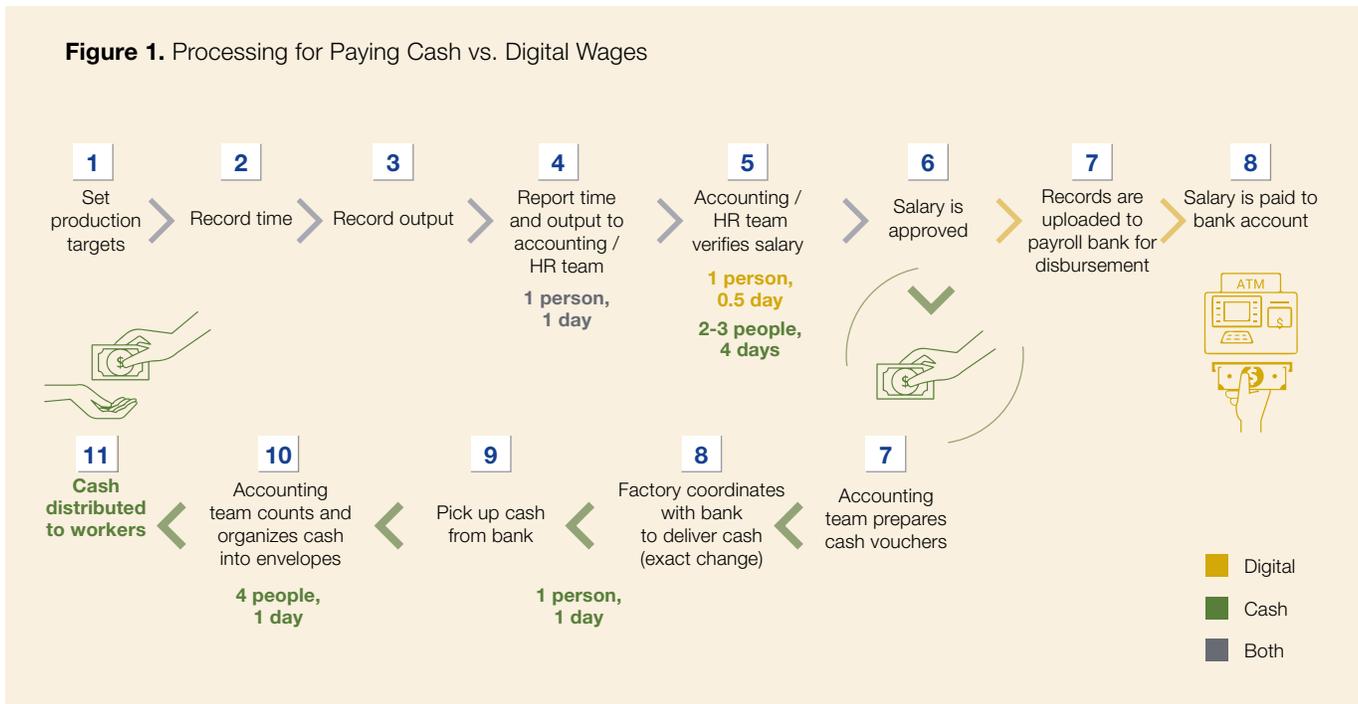
– Garment, Small, Cash

Benefits and Challenges of Wage Digitization

For a small enterprise (10-99 employees), paying wages in cash requires 12-16 person-days more per month in staff time than paying wages digitally through bank transfer. While many enterprises in the Philippines have adopted biometric scanning to efficiently track time and productivity, small enterprises paying wages in cash still rely on manual processes (e.g., time sheets) to calculate wages. Therefore, manually calculating workers’ wages takes 2-3 people up to 4 days (8-12 person-days) while digital processes cut this time to 1 person, 0.5 days. For digital wage payments, once the salary is approved, the records are uploaded to the payroll, and wages are immediately disbursed into a bank account (1 person, 0.5 days). Cash disbursement requires additional steps for the enterprise to coordinate with the bank to get the cash (1 person-day) and organize cash for disbursement (4 person-days). Thus, disbursing cash wages takes 14-18 person-days per month to complete whereas disbursing digital wages takes only 2 person days per month (see *Figure 1*).

Key Findings

Figure 1. Processing for Paying Cash vs. Digital Wages



Thus, there is a potential business case for digitizing wage payments, especially for small enterprises. Assuming that managerial staff earns PHP 28,000/month (USD \$583) and cash wages take 12-16 person-days more per month than digital wages, the process of disbursing cash wages costs the enterprise PHP 11,200-14,933 more per month (USD \$233-\$311) than digital wage payments. While this research focused on digital wage payments through bank accounts (bank transfer), emerging innovative digital payroll solutions can further reduce the time (to minutes) and cost burden. These models should be further studied to build the business case and encourage adoption of digital wage payments by smaller enterprises.

“There is a difference in the time range in receiving the cash or the salaries because it’s digital. Before, it took a little bit of time to do that because of the processing.”

– Electronics, Large, Digital

Key Findings

While both enterprises and workers recognize the benefits of digital wages, certain challenges remain. From the worker perspective, digital wage payments are instantaneous, safer than cash, and helpful in preventing overspending. However, there is still a heavy reliance and preference to withdraw wages in cash from an ATM to conduct daily transactions given the lack of infrastructure to support the widespread adoption of digital payments (e.g., the ability to use for merchant payments). Furthermore, issues with technology (e.g., ATM outage) foster distrust and reluctance in adoption of digital wage payments by workers.

“As HR, I really want to shift to the ATM card, but we couldn’t reach the bank requirement of the minimum of PHP 200,000 credit limit monthly, and you need that to open a payroll.”

– Garment, Small, Cash

“For me, I prefer receiving my salary via ATM because I can avoid overspending. When you have cash on hand, you tend to buy unnecessary things.”

– Female, 26, Retail

From the enterprise perspective, digital wage payments simplify accounting processes, increase time and cost efficiencies, and provide more accuracy and transparency. However, burdensome account opening and maintenance requirements and employee resistance to switching remain drawbacks. In fact, some enterprises who were paying digitally switched back to cash payments during COVID-19 lockdowns because employees could not access ATMs (see *Figure 2*).

Figure 2. Summary of Benefits and Challenges of Digital Wage Payments

	BENEFITS	CHALLENGES
Worker	<ul style="list-style-type: none"> - Safer than cash - Prevents overspending - Get wages instantly - Ability to save more 	<ul style="list-style-type: none"> - Still need to transact in cash - Lack of accessibility of ATMs - Tech and ATM problems - Lack of trust
Enterprise	<ul style="list-style-type: none"> - Simplified and centralized accounting - Time saving - Increased accuracy 	<ul style="list-style-type: none"> - Burdensome account maintenance requirements - Some switched back to cash due to COVID restrictions - Risk of employees pawning ATM cards

Recommendations

To drive widespread adoption and usage of responsible digital wage payments, there are three key areas to cultivate.

1. Enhance and strengthen the digital payments ecosystem.

- Strengthen the digital payments infrastructure. The government should build on its successes to now ensure that digital payments are accepted widely throughout the Philippines (e.g., merchant payments, bill pays, etc.), particularly in rural areas (e.g., sari-sari stores). Furthermore, there is a need to increase access points (e.g., through agent banking) throughout the Philippines, particularly in the rural areas, to ensure everyone has easy and convenient access to affordable financial services.

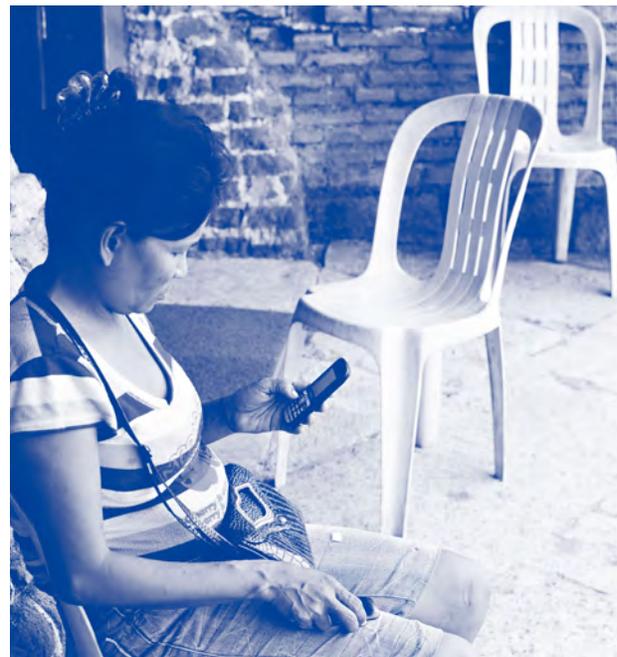
- Promote opening and usage of Basic Deposit Accounts. While millions of new accounts have opened during the pandemic, financial institutions view these accounts as unprofitable unless it leads to cross selling of additional services. Thus, these accounts risk remaining dormant (simply used for cash withdrawal). Further research to understand the behavioral challenges to usage, combined with access to and education on additional financial services (e.g., loans, insurance etc.) will help deepen financial inclusion for workers.

2. Promote adoption of innovative digital wage payment solutions among small enterprises.

- Continue to develop the business case for payroll solutions for MSMEs. While many enterprises are not yet using the innovative payroll solutions launched by fintechs and other nonbank

digital service providers, it will be important to understand the business impact and potential cost impact of these new models and demonstrate a business case to incentivize smaller enterprises to offer these solutions to workers.

- Tap employers' and workers' organizations to advocate for and promote digital wage payments. Aggregator organizations have wide reach and should be leveraged to supplement existing communication channels and amplify the benefits of digital wage payments across their membership as well as provide support for their members to transition to digital wage payments.



Recommendations

3. Enable women to actively use financial services to deepen financial inclusion

- Identify and promote peer-to-peer ambassadors and leverage FSPs, enterprises, and trade unions to build digital and financial capabilities to enhance adoption by workers.

Building trust and experience is critical to ensure broad uptake and usage of digital financial services. To do so, financial service providers can leverage early adopters of mobile payments within enterprises to educate their peers on how to use digital payments as well as consumer protection through learning-by-doing and step-by-step visual trainings.

To promote use of these accounts more broadly, awareness campaigns should also be considered,

leveraging key influencers and prominent national figures, to educate customers and incentivize financial service providers to offer low-cost accounts with simple account opening and maintenance processes.

- Embed relevant use cases to ensure customer “stickiness” with digital payments.

As the number of accounts opened increased in the wake of COVID-19, there is a need to ensure that customers remain part of the financial system and use their accounts effectively. Building relevant use cases such as merchant payments and remittances along with behavioral nudges will be critical to ensure that the use of formal financial services goes beyond ATM withdrawals and becomes a sustained habit.



Target Personas

In addition to the global recommendations, our research identified two segments of workers that will benefit from digital wage payments to deepen financial inclusion. To successfully transition to digital wage payments, enterprises will need tailored solutions to address the unique needs of each segment.

Figure 3. Persona - “Digital Dolores”

Employment Experience

- Recently joined (1-3 years)
- Motivation is primarily for independence and source of income
- Works for a medium to large sized factory
- Wages are paid in either cash / digitally



Demographics

Age: 22-30 | **Marital Status:** Unmarried / recently married

Children: None | **Household:** Parents

Recommendations

- *Build relevant use-cases such as money transfer remittances, e-commerce, mobile top-ups, savings etc.*
- *Communicate accessibility and convenience of digital financial services*
- *Focus on financial literacy and financial capabilities such as budgeting, saving etc.*

Household Budget / Expenses

- Limited expenses – some rent, limited food expenditures
- Feels the burden to contribute to household expenses (e.g., supporting younger siblings' education) but not in charge of financial decision making in the household

Attitude to Financial Services

- More intentionality to save due to less household expenses
- Seeks financial advice from family members
- Sees the bank as a place to save, but saves mostly informally

Pain Points

- Familiar with digital technology but needs to be convinced of benefits of mobile financial services / digital accounts
- Negative experience (either personal or anecdotal) results in lack of confidence in digital financial services

“Digital Dolores” is young, unmarried, and has migrated from her hometown for a job (see Figure 3). She typically works for a medium to large size enterprise where her wages are paid digitally, and is a recent employee (1-3 years). She feels the burden to contribute to the household expenses (e.g., to support younger siblings' education) but she is not in charge of the financial decision-making in the household. She is familiar with digital technology, especially using e-commerce and other delivery services during the pandemic, but is not yet convinced of the benefits of digital financial services. Therefore, she withdraws her salary from ATM/e-money cashing counters and still primarily transacts in cash.

With this segment, the relevant use cases to embed with digital wage payments include money transfer (remittances) as she sends money to her family, mobile top-ups and e-commerce, as she spends a lot of time on social media and shopping, and savings to help support her family, prepare for emergencies, and plan for her future. It is important to communicate to her the accessibility and convenience of digital financial services and consumer protection mechanisms. Finally, she is familiar with digital technology but there is a need to enhance her digital financial capabilities, through leveraging influencers that she may be familiar with, to build her skills in budgeting, saving, using financial services, etc., and to ensure she recognizes the benefits of financial services in managing her financial health and building her financial resilience.

Target Personas

Figure 4. Persona - “Hesitant Honoria”

Employment Experience

- Have more years of experience in her job at same factory (5-10+ years)
- Either referred to the job or as a result of having no other opportunity
- Works for a smaller factory
- Wages are paid mostly in cash

Household Budget / Expenses

- Responsible for decisions in the household; Manages household budget and expenses
- Main expenses include: rent, utilities, food and necessities, remittances



Demographics

Age: 30-50 | **Marital Status:** Single / Married / Partnered
Children: 2-4 | **Household:** Spouse, children, and sometimes elder parents

Recommendations

- Build relevant use-cases such as savings, bill pays
- Communicate that digital accounts are safe, reliable, less time consuming means of saving
- Focus on building digital and financial capabilities – step-by-step training on how to conduct transactions

Attitude to Financial Services

- Prefers having cash-on-hand
- Sees the bank as a place for the rich
- Saves only after all expenses are paid
- If she saves, she saves informally at home, in a piggy bank or a hidden location

Pain Points

- Little-to-no experience using mobile / digital financial services
- Limited awareness of digital transactions
- Lack of trust in digital
- Inability to save
- Time poor

“Hesitant Honoria” is older, married, and has children (see Figure 4). She has been with her employer for many years and desires stability in her job. She typically works for a smaller enterprise, where she receives cash wages. She is responsible for the financial decisions in the household. She prefers to have cash on hand and sees the bank as only a place for the rich – if she does save, she saves informally at home. She still uses a feature (analog) phone, and has little-to-no experience in using digital financial solutions and therefore distrusts such solutions. She is time poor, given her responsibilities at her job and at home, and feels she is unable to save given the myriad of expenses she has to manage.

With this segment, one should focus on embedding relevant use cases such as bill pays and savings to digital wage payments that are most critical to her managing her household expenses. It is important to communicate to her that digital accounts are safe, reliable, and more efficient means of transacting and saving, as she does not have a lot of time. To build her trust and confidence, she needs “high-touch” support with detailed, step-by-step guidance on how to conduct digital transactions. Thus, leveraging her peers within the enterprise to introduce her to digital financial solutions (e.g., inviting her to join a cooperative) will be particularly important to ensure a positive experience with digital transactions because a negative first experience will impact her perception and further erode her trust in such services.

Conclusion

In the Philippines, there is a two-way dynamic. The acceleration of digital payments is driving digital wage payments, and in turn, digital wage payments are lowering the hurdle to adoption and usage of e-wallets and other digital solutions. Now is the time to capitalize on this momentum and drive digital wage payments to deepen the financial inclusion of Filipino workers.

Moving from cash-based to digital wage payments is a win-win for both workers and small enterprises if such solutions are accompanied by a strong and inclusive digital payment ecosystem, incentives for small enterprises to adopt digital payroll solutions, and building digital financial capabilities to foster trust among workers. Ultimately, for digital wage payment solutions to be successful they must be tailored to women workers to ensure digital payments are accessible, affordable, and widely adopted and used throughout the Philippines.

By doing so, workers will deepen their access and engagement with digital financial services thereby building their security and prosperity, and ultimately their resilience to recover from economic shocks (e.g., from COVID-19). Enterprises will benefit from cost savings and time efficiencies that come with transitioning to digital wage payments, leading to increased productivity and business growth.

While this study focused on the three key economic sectors for women in the Philippines (garment, electronics, and retail), it has wider implications for other sectors, particularly the informal sector, that could lead to greater formalization of the economy and deeper financial inclusion of Filipino workers.

