

THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

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Meeting Paper 2-A

Report of the Meeting of the Advisory Group of 18 July 2012, Ho Chi Minh City, Vietnam

Office of the Advisory Group Chair

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THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

Third Meeting 2012

18 July 2012

Ballroom 1 & 2, Level 3, Sheraton Saigon Hotel & Towers
Ho Chi Minh City, Vietnam

MEETING REPORT

Initial Draft

As of 6 August 2012

Welcome and Introduction

The meeting started at 8:00 am. Participants included ABAC members and staffers and representatives from the Japan International Cooperation Agency (JICA), the Consultative Group to Assist the Poor (CGAP), the International Finance Corporation (IFC), the Australian APEC Study Center at RMIT University (AASC), the Asia Securities Industry & Financial Markets Association (ASIFMA), State Street, Goldman Sachs, the Asia-Pacific Credit Coalition (APCC), the Foundation for Development Cooperation (FDC) and the Banking with the Poor Network (BWTP).

Advisory Group Co-Chair Mr. Yoshihiro Watanabe presided over the meeting as Acting Chair in lieu of the Advisory Group Chair, Mr. Mark Johnson. Mr. Dang Th anh Tam, Chairman of Saigon Invest Group, welcomed participants on behalf of ABAC Vietnam. In his remarks, he noted that Vietnam is currently in the process of introducing new policies and undertaking a restructuring of the financial systems, and in this context, the discussions in the meeting would be relevant to the progress of these reforms.

In his opening remarks, the Chair welcomed the participants, conveyed regrets from the Advisory Group Chair who was unable to come, and gave an overview of the agenda items for discussion. He acknowledged the presence of Mr. Kazuto Tsuji from JICA, Mr. Eric Duflos from CGAP, Mr. Paul Luchtenburg from IFC, Mr. Ken Waller from AASC, Mr. Will Sage and Ms. Rebecca Turner from ASIFMA, Mr. Hon Cheung from State Street, Mr. James Shipton from Goldman Sachs, Mr. Thomas Clark from the APCC, Mr. Shawn Hunter from FDC and Ms. Erlijn Sie from BWTP.

Review of the Second 2012 Advisory Group Meeting in Kuala Lumpur

The Advisory Group Coordinator, Dr. J.C. Parreñas, presented the draft Report of the Advisory Group Meeting of 22 May in Kuala Lumpur.

The Advisory Group approved the Meeting Report.

Asia-Pacific Financial Forum

The Advisory Group Coordinator provided a background on the APFF, which is in line with the Advisory Group's proposal last year to help improve regulatory collaboration in support of greater financial integration, through a regional forum. He noted that in their joint statement last

year, Finance Ministers welcomed this proposal, and that, encouraged by this statement, the Advisory Group organized a discussion with regulators and the private sector early this year in Melbourne, to see how to take this idea another step forward. Among the major points he mentioned were the following:

- An APFF could help accelerate the development of financial markets, which will become increasingly necessary if the region is to continue growing in the future. It could also help create more diverse financial markets to reduce the region's vulnerability to contagion emanating from other regions.
- While there are already a number of ongoing initiatives that seek to promote these objectives, there is much more work to be done, and a very long way to go, before most of the region's financial markets can reach a level of development that can support stronger and more balanced growth and withstand the impact of contagion. With the worsening global economic situation, the need for greater efforts and collaboration to accelerate this development is growing.
- The role that APEC can play is not to duplicate what is already being done by others, such as ASEAN+3, EMEAP and ADB. APEC can utilize its strengths, particularly the strong engagement of the private sector, to identify measures that support and complement ongoing efforts, fill in gaps, and help overcome the fragmentation of the region's markets.
- There are two main areas where APEC can contribute. The first is in supporting the development, convergence and connectivity of markets, to make the region more attractive to investors, issuers and financial institutions. The second is in helping the region play a more effective role in making global standards and regulations more consistent with the region's own development goals.
- To be effective, a regional forum should remain informal and voluntary, but should have a clear work program. It is important for the Advisory Group and ABAC to collaborate with interested ministries and agencies, and to bring active and meaningful private sector participation into the process. They should also informally coordinate with other ongoing initiatives and the work of IFIs and global standard setters, several of which have signaled their interest to be involved.
- Consensus is required for this idea to advance, and more discussion will be needed, particularly on the concrete way forward, especially how to ensure that this forum will complement and not duplicate other ongoing initiatives. With this in mind, the Advisory Group is proposing that discussions be held at a symposium in early 2013. The results will be discussed with the Finance Ministers at their meeting next year in Indonesia.
- The Russian Ministry of Finance has agreed to table this issue as the main topic of ABAC's dialogue with Finance Ministers in Moscow. It is hoped that, in Moscow, the Finance Ministers will endorse the holding of the symposium, with a view to discussing and approving its conclusions when they meet again next year in Indonesia.

Mr. Waller of the AASC noted that Australian Treasury officials have expressed support for hosting a symposium in the first half of 2013 and a proposal is under discussion with the Commonwealth Treasurer. He also observed that the APFF would be important to promote connectivity among financial markets and regulatory standards that are truly relevant for the development of the region.

Ms. Turner expressed ASIFMA's support for the APFF in the context of a multi-year framework. She underscored the need for clearly defined goals and measurable outcomes, for filling in gaps in current efforts to develop financial markets, and for getting governments and private sector

participants to be able to access existing resources in the process rather than re-inventing the wheel. She also agreed with previous comments that further efforts are needed to make international standards more relevant to the region's needs.

Mr. Cheung of State Street made three observations. First, what is needed are initiatives with tangible outcomes with measurable results. Second, the APFF could play an important role as a platform to aid in the coordination of the various international initiatives being undertaken by different institutions and organizations. Third, as the APEC Finance Ministers' Process is the glue that brings together many of the institutions involved in financial market development and integration, its support and collaboration would be critical to the success of the APFF.

Mr. Shipton of Goldman Sachs discussed the economic case for the APFF, observing that current developments have reinforced the need for Asia to develop its capital markets. He mentioned in particular the Eurozone crisis, which has strained European banks' balance sheets and led to their significant retreat from lending and finance in the Asia-Pacific, especially in the areas of trade finance, infrastructure and project finance and syndicated loans, which are all very important for economic growth in Asia and where Asia's capabilities still need to be further developed.

Mr. Shipton also noted that the development of new global standards needs to be undertaken with greater concern for unintended consequences on economic development in Asia. He cited as an example the insurance market, which is important for the development of long-term infrastructure in the region, where new global standards are being applied that would make it more difficult for insurers to invest in the region.

He suggested that the APFF be developed as a clearing house for public and private sectors and IFIs to collaborate in addressing these challenges and generating solutions that fit the needs of the region. He proposed that the APFF act as a catalyst in coordination with other international fora to highlight the unintended consequences of global financial regulatory reforms and the extraterritorial impact of measures adopted by key markets on the region, in view of the fact that capital markets are all interconnected, and to promote global standards that would catalyze, rather than retard, the development of the region. He underscored the urgency of responding to these challenges and the importance of an early establishment of the APFF.

In the ensuing discussions, participants agreed on the need to ensure that the APFF have a good start. There was agreement on the importance of clear ideas on the objectives and way forward that ABAC members should have before they hold the August 30 dialogue with the APEC Finance Ministers in Moscow. For this purpose, the Advisory Group will prepare a short briefing paper that will be circulated to Finance Ministers and ABAC before the dialogue. It was also noted that global standard setting bodies play a very important role and should be involved in the APFF.

The Advisory Group endorsed the way forward as discussed by participants for the ABAC dialogue with APEC Finance Ministers and the 2013 APFF symposium.

Financial Inclusion

The Coordinator briefed the Advisory Group on two major activities on financial inclusion. The first was the 2012 Financial Inclusion Forum, which was co-organized with the ADB Institute and the Asia-Pacific Finance Development Centre (AFDC) in Shanghai on June 25-27. The Forum drew participation from a number of leading experts, microfinance practitioners and financial regulators from more than 20 Asian economies.

The second activity was the APEC Conference on Improving Efficiency of Strategies for Financial Literacy, held on June 26-27 in St. Petersburg. A summary of the outcomes of the Shanghai Forum's financial literacy session was presented in this conference. The Conference

also provided the basis for a special policy statement on financial literacy by the Finance Ministers. The Russian Ministry of Finance has circulated a draft of the policy statement and requested comments and inputs from finance ministries, IFIs and ABAC.

In response to the invitation from the SFOM Chair for ABAC to provide inputs, the Coordinator submitted for the Advisory Group's consideration a text to insert in the statement. This text is based on the outcomes of the Shanghai Forum's discussion on financial literacy. He explained that the proposed text itself is short, as the draft statement already endorses the OECD High-Level Principles, which contains references to the collaboration of the private sector in financial education. The proposed additional paragraph focuses on issues not yet covered by the principles, which are: (a) the ability of the private sector to help develop new models of financial education that are much more cost-effective compared to current classroom-type models being used and more responsive to the rapidly evolving landscape of financial services; and (b) ideas on guidelines to encourage greater private sector engagement in financial education in a way that avoids potential conflicts of interests.

Mr. Hunter of FDC presented a summary of the outcomes of the Financial Inclusion Forum. Key points are as follows:

Approaches to promoting financial literacy. The utilization of new technologies such as mobile banking is often regarded as crucial to the scaling of microfinance services to reach the unbanked. However, financial education and increasing financial capability are rapidly becoming priority issues as the industry comes to learn that access is not enough for the poor, and that understanding the services available to them is equally important. The success of effective financial capability building requires the attention of multiple stakeholders including policy makers and regulators, the traditional banking sector, microfinance institutions (MFIs) and educational institutions. By making financial education a priority, regulators have an opportunity to provide important support to the industry's health and growth.

Promoting and facilitating financial capabilities for children and youth is important to create financially responsible citizens for the future. Child-friendly regulation and certification for child-friendly banking are examples of ways to realize this. Financial education should be included in the curriculum of educational institutions and teachers unions should also be engaged to secure their support. A standardized financial education curriculum could be developed in line with the interests and needs of children, teenagers and young adults.

Traditional financial education programs are expensive, and new economically viable and efficient methods of delivery are important. The use of public-private partnerships is particularly important as a way of sharing costs and increasing outreach. Governments could also play an important role by defraying the costs to deliver financial education training and simultaneously developing a better understanding of consumers and their levels of financial capability.

Effective promotion of financial literacy and education requires a multi-stakeholder approach with governments playing an active role leading and coordinating activities such as policy orientation, raising awareness and providing data. Greater coordination and alignment of stakeholders are also necessary to ensure efficient delivery and impact. Further guidelines are needed to better facilitate this as they will help the industry define and understand the concepts of financial education and product marketing.

Greater involvement of financial institutions in financial education programs is needed. Financial education programs should be combined with access to adequate banking services to build financial capability; thus making financial institutions an important partner in promoting financial literacy. Financial institutions should also pay special attention to the development of

products which meet the needs of their clients, noting the need to be cognizant of the distinction between financial education and product marketing.

Financial identity. There exist significant challenges for lower income segments to build the reputational collateral necessary to access formal lines of credit. The main challenges associated with this include establishing a financial identity and building financial histories. Information sharing can contribute to financial inclusion and help to bring people into the mainstream financial system by using alternative data such as utility payments, cell phone bills and rental and remittances payments.

Many economies manage financial identity through national identification data (ID) numbers. However, there are other unique non-financial ID sources which can also provide useful data on individuals for the purpose of establishing financial identity. Using multiple data sources to determine financial identity helps to overcome the difficulty of identifying individuals over the course of many life phases (e.g., name changes after marriage and divorce). Further collaboration with third-party sources (i.e. utilities, telecommunications companies) is needed to explore this potential to deliver positive identity proofing.

Access to a diverse set of microfinance services is important for poor people and household level business. For small and medium enterprises (SMEs) access to credit is particularly important. However, the majority of SME entrepreneurs do not have access to the formal financial sector. This is partly due to their lack of credit information or financial identity which is necessary to access credit. Another issue is the fact that movable assets are often not taken as collateral. Taking movable assets as collateral for SME lending has the potential to make a great impact on financial inclusion. The challenge remains, however, on how to best capture this data.

Regions that have greater access to financial services tend to have greater private sector involvement in credit reporting. So it is very much a matter of public and private sector involvement (credit bureaus). Credit information systems which involve private sector players tend to have a wider outreach. However, consumer protection (i.e. the confidentiality of personal data) also needs to be assured, making the involvement of governments equally important for the development of standards and supervision.

Throughout the region the majority of loans provided are by informal lenders. These informal lenders are also far more capable of reaching the poor, which make up the overwhelming majority of the region's financially excluded population. A key issue for policy makers is to determine how to incorporate these important players in data made available to credit bureaus. This is a critical challenge for regulators, and one which is necessary to overcome in order to achieve true financial inclusion and protect against, for example, over-indebtedness. The development of relevant incentive structures is likely a key element to the solution to this challenge.

While some companies (e.g., telephone companies) or utilities (e.g., water or electricity companies) may not see value in sharing their customer data, there is growing evidence of the business case for them to be more open to this. Some case studies have suggested that rental payment rates improved when clients were informed that it was included in their credit history. Rent and cell phone payments are considered to be the top two of non-financial data streams to have a huge potential for increasing financial inclusion. As such, regulators should seek to include important partners such as companies and utilities in order to achieve greater financial inclusion.

Microfinance regulation. An increasing number of actors are now entering the financial inclusion space. This creates many opportunities as well as challenges. More specifically, there is a need to further assess the informal economy to determine the potential to "work with it" rather

than attempt to “fix it” for the benefit of greater financial inclusion. Further exploration of this approach, as well as other new models, are important steps to reach the financially excluded rather than a continued focus on trying to modify current models which are proving inadequate to the needs of the financially excluded.

Within financial regulation and among industry players more broadly, a renewed focus on the client is needed; particularly on those who are currently excluded or unbanked. Policies that are created for service providers need to enable them to deliver products that are geared to the actual needs of those clients. All consumers need the same level of protection regardless of who their provider is. Not all microfinance providers fall under the same regulatory authority, resulting in the greater importance of self-regulation.

However, finding the right balance between self-regulation and formal regulation is difficult. Key challenges are the development of policies on disclosure, fair treatment and effective recourse mechanisms and grievance channels which are also applicable for those not banked by the formal banking sector such as non-government organizations (NGOs), MFIs, cooperatives and non-bank financial institutions (NBFIs). Adequate supervisory capacity to enforce regulation is of equal importance as to the focus on the needs of the financially excluded.

With regard to supervisory capacity, it is suggested that financial sector stability oversight bodies should have the goal of promoting financial inclusion and specific consideration should be given to the development of government councils for financial inclusion.

Effective prudential regulation is necessary to protect regulated financial institutions as well as their clients. Non-prudential regulation, such as regulation for consumer protection, is also very important. However, non-prudential regulation, such as anti-money laundering (AML) and combating financing of terrorism (CFT), can potentially slow the progress of financial inclusion by, for example, stipulating Know Your Client (KYC) requirements which can exclude the poor.

The growth and development of the financial industry tend to move faster than regulation. This is particularly the case with technological innovations, such as mobile banking. The current state of the industry in this regard highlights five key areas where further regulation is required: (a) The industry needs more specific regulation on agent banking (regulation determines which agents are allowed, specifies the role of non-bank agents and non-bank issuers of e-money providers need to be held liable for actions of their agents). (b) Specific requirements are needed for AML and CFT. (c) Protection of e-money is needed. (d) Consumer protection (specifically consumer understanding, data privacy and security) must be upheld. (e) There should be a legal authority to regulate and supervise providers of mobile banking services.

Regulatory approaches to financial inclusion should embrace the concept of proportionate regulation. The main principles behind proportionate regulation for financial inclusion are: (a) regulation should encourage market development; (b) regulatory initiatives should be subject to cost/benefit analysis; and (c) the regulatory environment should create incentives for market players to more actively engage in financial inclusion.

Consumer protection. Microfinance faces a number of contemporary issues which are often highlighted in the media, such as harsh collection practices, over-indebtedness, high fees and debate on its overall impact on alleviating poverty. To address these issues, collective action and the promotion of international standards is important. Some initiatives such as the Social Performance Task Force and Microfinance Transparency (SMART) Campaign, are global initiatives being undertaken to achieve greater responsible microfinance. These initiatives recognize the potential of microfinance to reach out to the financially excluded, and also

function to indicate significant risks and ways to manage those risks. Regulators' input into such initiatives is necessary, not just to acknowledge their importance and promote inclusive finance practices, but also to create linkages with regulatory frameworks.

Noting the above mentioned industry-led initiatives, it is important to recognize that self-regulation and regulation go hand-in-hand. Regulation on consumer protection helps the fair player in the market from unfair competition. For example, price transparency is very hard for an MFI by itself alone to implement, and if others are not following these rules, that MFI will likely be uncompetitive. As such, external regulation is needed for this instead of self-regulation. This is also the same with over-indebtedness. The market cannot be protected by an individual MFI acting alone, or a couple of institutions. Regulation is needed to oversee these important aspects. A key point to acknowledge is that, if regulators pay attention and are seen to be actively engaging with clients in an effort to better understand what is going on, self-regulation will improve.

Established generic laws for consumer protection are useful, but these laws are not adequate on their own for large parts of the financially excluded population. One issue which limits their effectiveness is the fact that supervising bodies are often divided by provider type and do not contribute to the same client protection for everybody (banks, cooperatives, NBFIs, NGOs and MFIs). Regular client protection regulation for commercial banks typically does not apply to most MFIs, which often target a larger and more vulnerable part of the population.

The challenge is often lack of coordination between these multiple sector authorities and supervisors, lack of capacity and often lack of interest, since financial inclusion and client protection are not often regarded as a priority. Establishing a certification process would support the implementation of client protection for the poor. Another reason why general client protection laws often fail is that claims are often too small to justify the transaction costs of a legal process should a case be taken to court. As such, regulation on mandatory recourse procedures or grievance channel is important to addressing this.

In order to achieve a fully financially inclusive world, philanthropic funds will not be enough. Private sector involvement and contribution is essential to achieving this goal. Therefore, it is important that microfinance makes reasonable returns to attract private sector investment. A key challenge to overcome is the additional cost to MFIs of tracking their social performance and who pays for this. Also, a balance will need to be met to manage donor/philanthropic funds, which are typically tied to a social mission, with private sector funds, which have a commercial mission.

The private sector also needs to understand the long-term business case of ensuring consumer protection and social performance so that they too can weigh in their support for this cause when making investment decisions. Regulators can also support with standards for client protection such as: "Do no harm;" "Ethical business practice;" and "Do good." While all industry standards typically observe points first and second, the third is less recognized. Regulators can play an important role in promoting this third standard by providing incentives.

Facilitating cross-border flows of microfinance. An estimated 220 million migrants worldwide are sending money back home. In 2012, global remittance flows totaled more than US\$395 billion, 40% of which was remitted to rural areas. Most of this money is remitted cash-to-cash with relatively limited use of formal channels. It is further estimated that migrant workers globally currently save almost US\$400 billion as well. Both the remittances and savings of migrant workers represent a huge untapped market.

Remittance flows across the Asia Pacific have greatly increased in recent years and are expected to continue increasing, particularly when taking into account the region's

demographic developments (i.e., East Asia's ageing population, increased urbanization and greater dependence on foreign workers). As such, cross-border microfinance following the migration patterns represents a significant opportunity for financial inclusion by formalizing the informal remittance and savings channels and developing innovative product designs based upon the actual needs of the clients (i.e., migrants and their families).

Regulators should aim to move migrant workers from cash-to-cash transfer, to account-to-account transfers. Financial education, of both the migrant and his/her family, is crucial to accomplish this as a way to increase awareness of formal channels and strengthen financial literacy. Another important measure would be to allow recipients' remittances to be considered as an income stream, to help establish credit and credit history.

Linking microfinance with remittances is particularly challenging. Effective partnerships are a key to addressing this challenge since remittance companies are unable to offer services to the migrant's family and financial service providers (often MFIs and NBFIs) cannot make the transfer or remit the payment transaction for the migrant living abroad. Postal office networks are important partners to tap this market, as well as MFIs, especially for cost reduction and building sustainable business models. To reach the scale needed for the region, telecommunications and mobile money solutions are crucial as well.

To reach the necessary scale, mobile money solutions need to work through agent networks, particularly telecommunication networks. These network agents need to be recognized as banking agents and have clear regulation on KYC and AML compliance requirements. With regard to the regulatory considerations for using mobile money to scale up to reach all pockets of society, key enablers from the private sector standpoint are: concrete regulations for telecommunication companies, clarity from financial regulators (i.e., license requirements to be allowed to work as an agent) and proportionate regulation regarding KYC and AML compliance requirements for agents..

Another issue regarding the facilitation of cross-border financial services is the need for cross-border data flow, following migration. Cross border migration of businesses and individuals do not accumulate any credit history in the host economy and remittances are not considered as income (in home economies). This makes assessing creditworthiness of migrant workers and their families difficult, if not impossible.

An efficient financial system infrastructure is very important to enable the necessary services for safe and affordable international payments. Remittance costs are still too high for many migrant workers. A World Bank estimate highlights that if the cost of remittance transfers is reduced by 5%, migrants and their dependants could save US\$15 million. To achieve greater financial inclusion, regulators could examine the following aspects of international remittances to determine ways by which costs might be reduced: market transparency (cost of remittance transfer); efficient infrastructure; assure remittance services are sound, predictable and non-discriminatory; create competitive market conditions; and appropriate governance.

Ms. Sie of BWIP noted that a main theme emerging from the discussions in the Financial Inclusion Forum is the importance of putting the client at the center of considerations. She also noted that further efforts are needed to reach the majority of the world's population, especially those who are underserved by the financial sector, and to provide them with adequate financial education and client protection to prevent problems such as over-indebtedness. She emphasized the importance for the success of financial inclusion efforts of all stakeholders, including regulators, the private sector and non-government organizations, to adopt more flexible attitudes, such as for example allowing greater leeway for non-regulated institutions on the part of regulators and a more long-term view on the part of the private sector.

Mr. Waller of AASC emphasized the importance of bridging regulatory gaps to enable the harnessing of new technologies to deliver financial services to the underserved, as well as of addressing regulatory implications of linking utility companies and the delivery of financial services in rural areas.

Mr. Clark of APCC referred to the work done by the Advisory Group on promoting lending to micro-, small and medium enterprises (MSMEs) through a more robust legal infrastructure for secured lending and credit information. He stressed the importance of a balanced approach that will promote regulatory transparency and greater certainty for lenders, and of involving key stakeholders in promoting reforms and capacity building, including relevant regulators and officials in ministries and agencies responsible for law, justice and civil code reforms.

Mr. Duflos of CGAP observed that APEC can provide a platform for learning for governments and regulators given the diversity of experiences and situations across member economies. He noted as an example, that while 94% of the population classified as suffering from poverty in Japan have access to formal accounts, the corresponding figures for Indonesia and the Philippines are only 8% and 4%, respectively. He also briefed participants on CGAP's major priorities in its work on financial inclusion, which are (a) improving understanding of the needs of different clients; (b) helping the private sector to innovate and reduce transaction costs for poor people, such as through branchless banking regulations and business models; (c) improving regulatory and supervisory capacity; and (d) ensuring that industry is acting in a responsible way.

Mr. Luchtenburg of IFC noted recent developments in the Asia-Pacific, such as the opening up of Myanmar, that are focusing attention on the role of financial inclusion in promoting development. He discussed the development of the SMART Campaign involving both regulators and the microfinance industry, as it moves toward the process of certifying compliance by organizations, which has proven useful to funders and investors in choosing organizations to support with the intention of promoting the interests of the client. He also noted consumer finance as an area where there is great potential for financial literacy due to both its huge size and relatively high incidence of abuse. He encouraged participants to support the SMART Campaign.

Mr. Tsuji of JICA expressed his agreement with the outcomes of the Financial Inclusion Forum as reported and made observations on three issues:

- Regarding financial literacy and education, he noted the need to analyze the segmentation of clients (e.g., youth, elderly, the poor, women, the unbanked or underserved, micro, small or medium enterprises, etc.) in order to develop more appropriate designs, approaches and roles of the public/private sectors for financial literacy and education programs. He also highlighted the importance of designing such programs in a way that takes into account the irrational behavior of most clients and of focusing on poverty reduction.
- On proportionate regulation, he stressed the importance of educating the public, particularly in economies where politicians' responses to crises and market failures tend to be oriented toward more popular measures that are not necessarily the most appropriate or effective.
- On cross-border remittances, he pointed out the similarities of financial inclusion issues with those in case of government-to-person (G2P) payments in terms of how to relate remittances and payments to micro savings and how to scale up the volume of remittances and payments in order to improve the business case for financial intermediaries.

In the ensuing discussions, participants touched on the importance of avoiding politicization of client protection and of the need for consumer protection and financial education to go hand in hand. It was also noted that regulatory issues related to financial inclusion will also need to be discussed in the broader context of the development and integration of the region's financial markets, which is being proposed to be the focus of the APFF.

The Advisory Group endorsed the outcomes of the Shanghai Financial Inclusion Forum and the proposed revisions to the draft APEC Finance Ministers' statement on financial literacy. The Advisory Group also agreed on the way forward for the work on financial inclusion as discussed during this meeting.

Asia-Pacific Infrastructure Partnership

The Coordinator updated the Advisory Group on the progress of APIP since its endorsement by the Finance Ministers in November 2011 in Honolulu. He highlighted the following:

- The APIP private sector advisory panel has grown to 38 members.
- Follow-up actions to the dialogues last year with Mexico, Peru and the Philippines have been undertaken, in the form of research projects addressing several issues where governments requested further advice.
- The next dialogue, which is with the Vietnamese government, will take place on July 20 in Hanoi, to be hosted by the Ministry of Finance and to include other ministries involved in infrastructure development.
- Discussions are ongoing with the governments of Indonesia, Russia and Thailand on the scheduling of further dialogues. The Indonesian finance ministry has proposed that the dialogue be held back-to-back with a major APEC infrastructure forum in Jakarta, and further details are expected to be available by the next meeting in Vladivostok.

Mr. Waller of AASC briefed the Advisory Group on the preparations for the dialogue with the Government of Vietnam. He informed participants that among key issues to be discussed in the dialogue are (a) policies and mechanisms on mobilizing private capital for infrastructure investment (based on international experience and current situation in Vietnam); (b) development of PPPs, including selection of projects and implementation, bidding documents and selection of private investors, and the use of incentive mechanisms such as tax and land; (c) financing tools which can support fund mobilization for PPP projects; and (d) technical assistance needs for capacity building in policy making, regulation and implementation in promoting infrastructure finance.

Mr. Waller reminded participants that it was agreed at the first meeting of 2012 to fund, under the ABAC Research Fund, five pieces of research on major issues that arose in APIP dialogues during 2011. The three projects undertaken by Mr. Richard Foster has been completed and submitted to the Advisory Group and ABAC. These are:

- Comparative Study of Contractual Clauses to Provide for the Smooth Adjustment of Physical Infrastructure and Services through the Lifecycle of a Public-Private Partnership (PPP) Project;
- Best Practice in Design of Public-Private Partnerships (PPPs) for Social Infrastructure, particularly in Health Care and Education; and
- Comparative Study of Frameworks to protect the Long Term Interests of Pension Funds Investing in Public-Private Partnerships.

Mr. Waller noted that these papers provide sound recommendations for consideration by APEC economies. The papers contribute to good practice PPPs and promote regional interest in private sector involvement in PPPs in infrastructure. He informed participants that these papers will be made available at the website of the AASC. Mr. Waller also noted in addition that two other pieces of research commissioned under the ABAC Research Fund are still currently being undertaken.

The Advisory Group noted the planned activities for the remainder of 2012 and for 2013 and the preparations for the dialogue with the Vietnamese Government. The Advisory Group also certified that the three research

papers on infrastructure PPP presented are excellent and responsive to the needs for advice expressed by the public sector, and endorsed them to ABAC for final approval of payment to the researcher.

Financing Innovation: Promoting Angel and Venture Capital in APEC

The Coordinator updated participants on the ongoing work on financial innovation. He noted the holding of a successful workshop in KL, which resulted in the proposals for promoting angel and venture capital through a combination of support programs, providing enabling legal and regulatory environments, and enhancing fundamental conditions for entrepreneurship, which are contained in Paper 6-A.

The Coordinator reported that preliminary discussions with senior officials have been conducted. They have suggested to discuss further steps after the Vladivostok Summit has clarified the way forward for APEC's work on innovation, and that these steps may include joint seminars and activities in conjunction with one of the APEC senior officials' meetings next year.

Mr. Paul Lee of ABAC Canada encouraged the Advisory Group to endorse the recommendations.

Tan Sri Azman Hashim of ABAC Malaysia suggested that ABAC initiate a business matching programme among angel capitalists in APEC economies with SMMEs and carry out capacity building programmes to promote financial literacy especially among the SMMEs. He proposed that ABAC Malaysia and ABAC Canada collaborate to identify the best way to move these activities forward.

The Advisory Group agreed to move forward in collaborating with APEC senior officials and in undertaking further activities to promote the development of angel and venture capital, as discussed.

2012 Advisory Group Report on Capacity-Building Measures to Strengthen and Develop Financial Systems

The Coordinator presented the draft 2012 report of the Advisory Group, with the following recommendations:

- Discussions on the Asia-Pacific Financial Forum (APFF) should be held at a symposium with active participation by finance ministries and other relevant agencies from APEC economies in early 2013. It is proposed that the outcomes of this symposium be reported to and considered by the Finance Ministers at their meeting next year in Indonesia.
- The Advisory Group welcomes ongoing efforts to develop the Asia Region Funds Passport (ARFP) and closer collaboration with finance officials in further developing this work.
- APEC Finance Ministers should continue supporting the APIP Dialogues, to collaborate in further expanding these dialogues in 2012 and 2013, and to include in their 2012 joint statement a call for intensified public-private sector collaboration in infrastructure finance.
- APEC Finance Ministers should develop a multi-year agenda for financial inclusion, focused on financial literacy, financial identity, consumer protection, cross-border microfinance and effective and proportionate regulatory frameworks for financial inclusion.
- Model elements for an APEC code of security interest creation, perfection and enforcement should be developed. Public and private dialogues should be continued in order to validate improvements. Capacity-building should be undertaken, encouraging collaboration among relevant ministries.
- Commercial credit information in the region should be developed. Efforts should focus on availability, quality, access and reuse of public sector data; disclosure and compliance;

regulatory framework for data sharing; access to bank information; and financial literacy of MSMEs.

- APEC should collaborate with ABAC and the Advisory Group to develop public-private partnership mechanisms to help governments catalyze angel and venture capital, provide enabling environments for financing business activities across various stages of innovation, and ensure the fundamental conditions for entrepreneurship and innovation.

The Advisory Group endorsed the report for attachment as annex to the ABAC Report to APEC Finance Ministers.

Chair's Closing Remarks

The Chair delivered his closing remarks and thanked ABAC Vietnam for hosting the meeting. He also announced that the next meeting will take place in Vladivostok during the ABAC meeting in September, and that participating institutions will be informed of the exact date and time as soon as this information becomes available.

Adjournment

There being no other matters to discuss, the Chair declared the meeting adjourned at 10:00 am.