

THE APEC BUSINESS ADVISORY COUNCIL (ABAC)
FINANCIAL INCLUSION INITIATIVE - PROGRESS AND IMPACT 2011-2015

A report summarising five years of policy recommendations and proposed actions to promote financial inclusion.

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FINANCIAL INCLUSION INITIATIVE - PROGRESS AND IMPACT 2011-2015

A report summarising five years of policy recommendations and proposed actions to promote financial inclusion.

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EXECUTIVE SUMMARY

The first Asia-Pacific Forum on Financial Inclusion was convened in Sapporo, Japan in May 2010 by the APEC Business Advisory Council (ABAC) in cooperation with the Ministry of Finance of Japan. Following this event, the APEC Finance Ministers noted in their Kyoto Report on Growth Strategy and Finance the outcomes of the Forum and consequently mandated ABAC to hold subsequent forums as a policy initiative under the APEC Finance Ministers' Process (FMP). Since then the Forum has been held annually in Tokyo, Japan (2011), Shanghai, China (2012 and 2014), Batam Island, Indonesia (2013) and most recently in Tagaytay City, The Philippines (2015). Each Forum is organized by ABAC in partnership with the Foundation for Development Cooperation (FDC) and has been hosted by several key financial inclusion stakeholders in the region including the Asian Development Bank Institute (ADBI), the Asia-Pacific Finance and Development Institute (AFDI), the Indonesian Ministry of Finance and the Philippines Department of Finance.

Over the years the Forum has been supported by experts representing several stakeholder groups including the Asian Development Bank (ADB), GE Capital, the International Finance Corporation (IFC), the Consultative Group to Assist the Poor (CGAP), the Japan International Cooperation Agency (JICA), the Policy and Economic Research Council (PERC), the Banking with the Poor Network (BWTP), the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP), the Asia-Pacific Credit Coalition (APCC), the China Association of Microfinance (CAM), the Institute for International Monetary Affairs (IIMA), the Organization for Economic Co-operation and Development (OECD), Barnert Global, Ltd. and the Australian APEC Study Centre.

The Forum has received sponsorship support from the Citi Foundation and is coordinated through ABAC's Advisory Group on APEC Financial System Capacity Building.

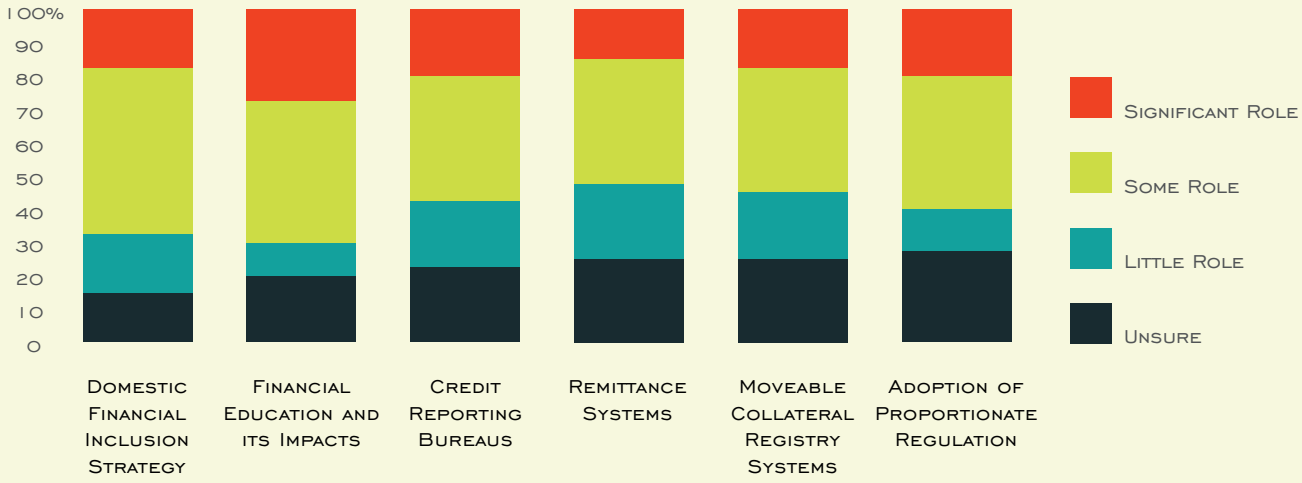
This report looks back on the past five years of the Asia-Pacific Forum on Financial Inclusion, to evaluate the progress and impact of ABAC's financial inclusion initiative and its objective to strengthen policy and regulation within APEC member economies in support of greater financial inclusion. The review includes an assessment of the extent to which recommendations produced by the annual Forum have been adopted and implemented within APEC member economies.

In reviewing the past five years of the Asia-Pacific Forum on Financial Inclusion, the authors engaged with dozens of stakeholders who provided ideas and feedback on areas of work to take forward within the group. This feedback has been collated and is also provided in this report as suggested recommendations for next steps to be considered to progress ABAC's financial inclusion initiative.[1]

The findings of the report are as follows:

- The Asia-Pacific Forum on Financial Inclusion has succeeded in achieving many of its founding objectives. The Forum itself has grown as a platform for dialogue on new channels to serve the financial needs of the unbanked and underserved, and has promoted knowledge sharing and dissemination on financial inclusion within the APEC economies.
- Substantial progress has been made on two specific issues of credit information and legal frameworks for secured lending that were identified in 2010. There has also been growing awareness around domestic level financial inclusion strategies, financial literacy and remittances. Out of the 23 initiatives listed in the APEC Finance Ministers' Cebu Action Plan and Roadmap, 5 initiatives have been part of ABAC's financial inclusion agenda since 2010.[1]
- More than 70% of respondents to the survey issued to delegates at the 2015 Asia-Pacific Forum on Financial Inclusion in Tagaytay, Philippines were aware of the Forum's work across all areas of recommendations, and more than 30% rated progress on key issues as "excellent" over the past 5 years.
- In a subsequent online survey to financial inclusion experts and practitioners, more than half of the respondents said that ABAC played a role in advancing improvements within their own member economies within the Forum's areas of policy focus. Just under 70% of the respondents indicated that ABAC had played either a significant or some role in addressing financial education and its impacts.

Figure 1: How would you rate the role of ABAC in facilitating changes / improvements in the six areas?



1. See Appendix A for an explanation of the methodology used in this report.

[1] Including frameworks for credit information systems; model language for public data sharing; investigation of a regional credit information network; accepted principles on secured transactions legislation; promoting financial inclusion and literacy; and acknowledging important role of remittances. http://www.apec.org/Meeting-Papers/Ministerial-Statements/Finance/2015_finance/annexa.aspx

Further analysis of the results of the review are contained within this report.

In addition to asking for input on the outcomes of the Asia-Pacific Forum on Financial Inclusion over the past five years, this study also sought feedback on what topics, issues or initiatives Forum participants thought should be added to the ABAC's financial inclusion agenda in order to advance financial inclusion within APEC member economies over the coming years.

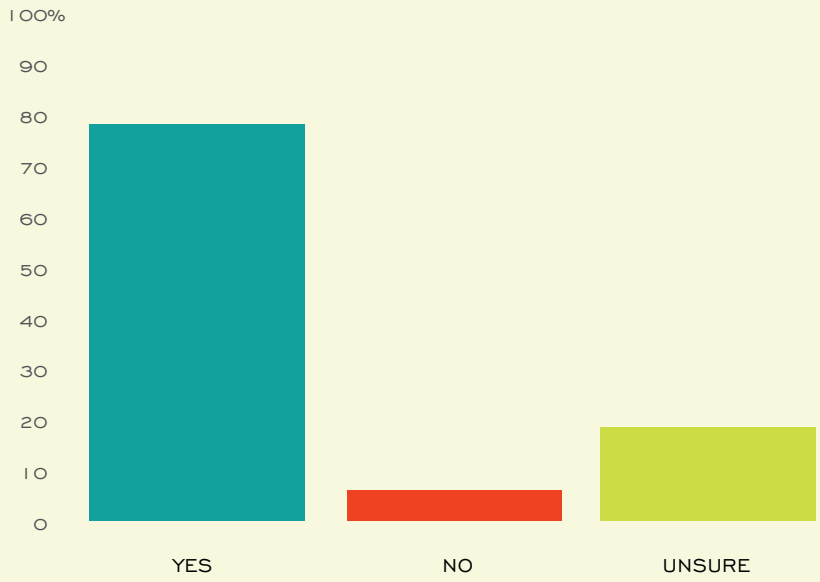
Based on feedback from respondents, this report recommends the following for consideration by ABAC to further progress its work on financial inclusion:

1. Continue to support the Asia-Pacific Forum on Financial Inclusion as the core platform within ABAC to promote knowledge sharing and best practice on financial inclusion across the APEC member economies. Although there is substantial variation in the degree of financial inclusion across APEC and the forms that it takes, each member economy has identified issues to address and areas for improvement.

2. Identify and adopt a standard definition for financial inclusion for APEC member economies. More than 75% of respondents to this study's survey supported this idea, with respondents commenting that to do so would build a common objective across APEC and concrete targets to achieve. More than 90% of respondents also thought APEC member economies should adopt a stated policy objective for financial inclusion. At the same time, each APEC member economy would retain its own emphasis and approach, taking into account its own circumstances.

More than 90% of respondents also thought APEC member economies should adopt a stated policy objective for financial inclusion.

Figure 2: Would it be useful for APEC member economies to adopt an official definition of financial inclusion?

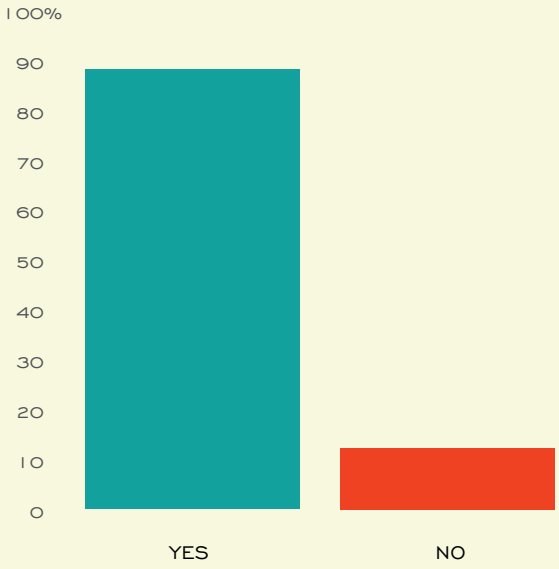


3. Develop a model code or framework for a domestic financial inclusion strategy to be considered by APEC member economies. Respondents unanimously stated "yes" when asked in a survey if it would be useful for APEC member economies to adopt a model code or framework. This code may be modelled on those drafted by expert organisations, such as the Alliance for Financial Inclusion.

4. Incorporate digital finance into ABAC's work on financial inclusion, including through the addition of identified experts on this emerging industry to the ABAC's financial inclusion Caucus. Digital finance has emerged as a rapidly increasing channel for delivery of financial services by both traditional and alternative financial service providers. More than 85% of respondents believed that APEC should investigate how the emergence of digital finance can support broader financial inclusion within APEC economies.

Digital finance has emerged as a rapidly increasing channel for delivery of financial services by both traditional and alternative financial service providers.

Figure 3: Do you believe APEC as an organisation should investigate the emergence of digital finance in support of financial inclusion?



The body of this report provides further background as to the full review and the recommendations that were elicited from the process of the review. The report also provides a full list of documents produced by the Asia-Pacific Forum on Financial Inclusion.

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1. INTRODUCTION

In May 2010 the first Asia-Pacific Forum on Financial Inclusion was convened in Sapporo, Japan by the APEC Business Advisory Council (ABAC) in cooperation with the Ministry of Finance of Japan. Following this event, the APEC Finance Ministers noted in their Kyoto Report on Growth Strategy and Finance the outcomes of the Forum and consequently mandated ABAC to hold subsequent forums as a policy initiative under the APEC Finance Ministers' Process (FMP). Since then the Forum has been held annually in Tokyo, Japan (2011), Shanghai, China (2012 and 2014), Batam Island, Indonesia (2013) and most recently in Tagaytay City, The Philippines (2015). Each Forum is organized by ABAC in partnership with the Foundation for Development Cooperation (FDC) and has been hosted by several key financial inclusion stakeholders in the region including the Asian Development Bank Institute (ADBI), the Asia-Pacific Finance and Development Institute (AFDI), the Indonesian Ministry of Finance and the Philippines Department of Finance.

Over the years the Forum has been supported by experts representing several stakeholder groups including the Asian Development Bank (ADB), GE Capital, the International Finance Corporation (IFC), the Consultative Group to Assist the Poor (CGAP), the Japan International Cooperation Agency (JICA), the Policy and Economic Research Council (PERC), the Banking with the Poor Network (BWTP), the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP), the Asia-Pacific Credit Coalition (APCC), the China Association of Microfinance (CAM), the Institute for International Monetary Affairs (IIMA), the Organization for Economic Co-operation and Development (OECD), Barnert Global, Ltd. and the Australian APEC Study Centre.

The Forum has received sponsorship support from the Citi Foundation and is coordinated through ABAC's Advisory Group on APEC Financial System Capacity Building.

The Forum agenda is focused on key thematic areas of financial inclusion and provides a platform for experts to share research, case studies and recommendations to support relevant policy makers and regulators within APEC member economies. Each year, FDC, on behalf of ABAC, has recorded the proceedings of the Forum and produced a report capturing the themes of the presentations and key recommendations.[2] Each report has been circulated widely both within and outside APEC to act as a useful resource for financial inclusion stakeholders. As an example, the report has been used at the Inter-American Development Bank (IDB) meetings in 2014 during consideration of the IDB's own initiatives on financial inclusion.

After five years of hosting consecutive Forums and producing these reports, members of the Advisory Group on APEC Financial System Capacity Building and other partners agreed it would be opportune to review the work of ABAC's financial inclusion initiative, including outcomes of the annual Forum, and to assess its impact in terms of the adoption and implementation of financial inclusion recommendations within APEC member economies.

This paper outlines the findings of the review.

2.See Appendix B for the five Asia-Pacific Forum on Financial Inclusion reports.

1.1 Objective of the "Recommendations and Actions" report

The overall goals of this review are to:

- Provide regulators/policy makers with a concise and easily accessible catalogue of the policy recommendations that have been produced as part of ABAC's financial inclusion initiative;
- Better understand the impact of ABAC's work on financial inclusion issues, including documented cases of ABAC policy recommendations being implemented;
- Identify gaps where policy recommendations have not been implemented and gain a better understanding of the challenges being faced by regulators to adopt them; and
- Produce an overview of the current policy/regulatory environment within developing APEC economies and provide guidance for the ABAC working group on financial inclusion for future priorities.

1.2 Scope of the report

The scope of this report focuses primarily on the annual Asia-Pacific Forum on Financial Inclusion as this has been the core activity of ABAC's financial inclusion initiative. It is recognised that other organisations have worked on financial inclusion for a number of years, and made significant progress. Notable public sector partners in this area include: the G20 Global Partnership for Financial Inclusion (GPFI), which was conceived in 2009; the Alliance for Financial Inclusion (AFI), which represents the efforts of central banks across emerging economies to promote financial inclusion within their economies; and the World Bank's Consultative Group to Assist the Poor (CGAP) as well as the International Finance Corporation (IFC).

A number of private sector organisations work diligently in the area of financial inclusion and have contributed to promoting and advancing financial inclusion over the years. It is not the objective of this report to review the policy impacts of these organisations, or to attempt to separate the specific impacts of the Asia-Pacific Forum on Financial Inclusion from these organisations. Rather, this report reviews the specific objectives and outcomes of the Asia-Pacific Forum on Financial Inclusion over the past five years, and considers proposals for the way forward.

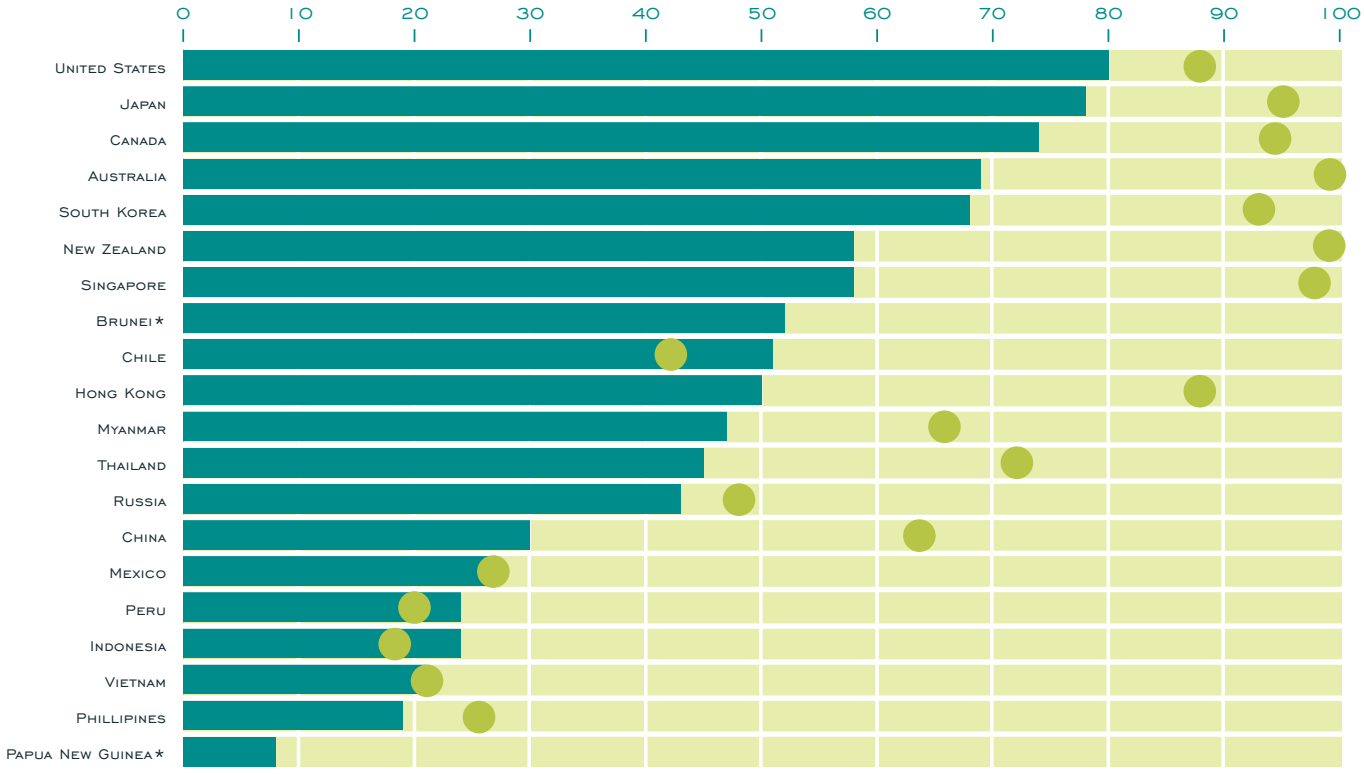
The target stakeholder base of the Asia-Pacific Forum on Financial Inclusion is unique in that it represents 21 APEC member economies across the Asia Pacific region, including several G8 economies as well as some of the least developed economies in the region.

Financial inclusion is an issue that has relevance across all APEC member economies, to a greater or lesser degree. Among the most advanced economies, the dialogue on financial inclusion has evolved since the 2009 financial crisis, which highlighted issues of financial fragility and resilience for households and businesses. Access to credit, the use and cost of cross-border payment systems and financial literacy among consumers have been highlighted as common issues in these APEC member economies.

Among the economies with less sophisticated financial systems, basic access to the formal financial system as well as take-up of financial products and services remain a core issue. From a developing economy perspective, the ability to learn from and potentially use technology from across APEC to leapfrog the expansion of financial inclusion is compelling.

As such, the diversity of the APEC membership provides a rich opportunity for knowledge and resource sharing - including expertise from both some of the most sophisticated financial systems to some of the least developed financial systems. That is the focus of the Asia-Pacific Forum on Financial Inclusion and this report.

Figure 4: Pattern of financial inclusion across APEC



ADB Financial Inclusion Index value (out of 100) incorporating 5 indicators: ATMs per capita; bank branches per capita; borrowers per capita; depositors per capita and total credit as % GDP (data 2004-2012)

World Bank data share of population 15+ with account at formal financial institution (out of 100%) (data 2009-2011)

* *No World Bank data available*

1.3 Structure of the report

The structure of this report is as follows:

Section 2 provides the results of the desktop study of ABAC's work on financial inclusion, highlighting key issues that have arisen within its core financial inclusion activity, the Asia-Pacific Forum on Financial Inclusion, over the past five years;

Section 3 presents the feedback from participants of the Asia-Pacific Forum on Financial Inclusion, including some detail on written responses;

Section 4 describes the further evaluation from experts within the APEC member economies, including the online survey and telephone based interviews; and

Section 5 concludes with a series of recommendations and pathfinder initiatives for ABAC's financial inclusion initiative and broader ABAC community to consider moving forward.

2. HISTORY OF THE ASIA-PACIFIC FORUM ON FINANCIAL INCLUSION: 2010-2014

Following the first Asia-Pacific Forum on Financial Inclusion which was held in May 2010 in Sapporo, Japan, the APEC Finance Ministers mandated ABAC to hold subsequent forums as a policy initiative under the APEC Finance Ministers' Process (FMP). Since then the Forum has been held annually.

Participants of the Forum include a wide range of stakeholders such as representatives from the public and private sectors, including financial regulators and policy makers, multilateral institutions, financial institutions and related market players, microfinance institutions, financial inclusion experts, industry organizations and private foundations. The Forum provides an opportunity for stakeholders to review the current trends, recent achievements, ongoing challenges and opportunities relative to financial inclusion in the region. By providing this platform for high-level dialogue amongst policy makers and regulators across the region, the Forum aims to strengthen their capacity as well as provide priority recommendations for policy related issues impacting financial inclusion.

The proceedings of each Forum have been recorded and summarised in a series of reports that have been released following each Forum. These reports provide an overview of each Forum's discussions and highlight the specific recommendations for policy makers and regulators to support their financial inclusion efforts.

2.1 Scope of the Asia-Pacific Forum on Financial Inclusion

In its first report, the Asia-Pacific Forum on Financial Inclusion identified three broad areas for work and collaboration.

- First, a major purpose for the Forum was identified as providing an avenue for policy dialogue on expanding new channels to serve the financial needs of the unbanked. In this sense, the Forum began with a focus on how financial inclusion could help to mitigate poverty and promote equitable growth. Topics discussed included consumer and small-medium enterprise or micro-small medium enterprise lending (SME and MSME), grassroots savings mobilisation and remittances.
- Second, the Forum identified the need for a platform for capacity building to help policymakers and regulators address two key challenges to extending credit to SMEs and MSMES: 1. Credit information and 2. Legal frameworks for secured lending.
- Finally, the Forum aimed to promote and facilitate discussion of broader institutional and economic frameworks, conditions and policies that affect SMEs and MSMEs.

At the high level, ABAC's financial inclusion initiative aimed to regularly host public private dialogues that would validate improvements to legal and regulatory frameworks that support financial inclusion. It was felt that the formation of the Asia-Pacific Forum on Financial Inclusion would play an important role in ensuring that APEC was giving greater visibility to the importance of access to finance as part of a regional dialogue, elevating this issue relative to the historic focus on liberalising and facilitating trade and investment.

The inaugural meeting of the Forum canvassed a wide array of topics, including mobilising remittances and savings into the formal financial sector; the challenges of improving financial literacy amongst consumers; the role of traditional micro-finance institutions (MFIs) in the broader scope of financial inclusion; and the design of public policy and regulatory settings that support financial inclusion whilst also protecting consumers.

The inaugural Forum focused heavily on the challenges of determining creditworthiness as an obstacle to expanding access to credit, as well as issues of overindebtedness. An early recommendation was to encourage APEC member economies to improve information sharing and prudential lending for greater financial inclusion, including a stated preference to move toward full file credit reporting and a recommendation to complete a stock take on the prevalence of full file credit reporting amongst APEC member economies.

The documentation of the earlier Forums suggests that there has always been a strong focus on supporting the SME and MSME sector in accessing the formal financial system.

Participants in the 2011 Forum proposed that APEC work toward specific initiatives to support secured lending regimes across APEC member economies. Specifically, the idea of developing model elements for a code of security interest creation, perfection and enforcement was floated, as well as a proposal to create an international standard for recognising a broader range of assets (e.g. intangibles) for secured lending transactions and developing a model treatment of floating charges and accounts receivable financing.

2.2 Catalogue of policy deliberations and recommendations

During the early stages of ABAC's financial inclusion initiative a foundational agenda was set. While this agenda has continually evolved over time, it still revolves around a core set of issues which were identified at the first Asia-Pacific Forum on Financial Inclusion in 2010.

Taking into account the reports of all past years of the Asia-Pacific Forum on Financial Inclusion, there are six key themes that emerge in terms of issues and recommendations:

1. Development and adoption of domestic financial inclusion strategies;

2. Best practice in financial education and financial literacy, and measuring the impacts of this;

3. Identifying and implementing best practice in development of remittance systems and use of these to spread financial inclusion (including savings products);

4. Adoption of a regulatory approach that is balanced – maintaining system integrity and consumer protection while allowing for innovation and competition (particularly with regard to new technologies and non-bank providers);

5. Identifying and implementing best practice in development of credit reporting bureaus (including customer identification); and

6. Identifying and implementing particular considerations in relation to supporting MSME requirements, e.g. best practice in using movable assets as collateral and systems to support.

Figure 5 provides an overview of the recommendations that have been developed through the Asia-Pacific Forum on Financial Inclusion under each of these thematic areas of work.

Figure 5: Pattern of financial inclusion across APEC

RECOMMENDATION	SCOPE
1. Development and adoption of domestic financial inclusion strategies	
APEC is recommended to consider adopting a formal definition of financial inclusion	Can leverage off definitions from existing organisations Given the diversity in financial inclusion across APEC, a definition may help policymakers to align their goals
APEC may consider creating a model framework for domestic financial inclusion strategies that encourage development and provision of a broad range of quality financial products and services	Prudential regulatory system needs to be balanced with preservation of incentives and innovation Adequate market infrastructure around identification and credit information will support financial inclusion in rural areas
APEC can collaborate on capacity building for existing microfinance institutions	Encourage MFIs to become deposit-taking institutions Incentivise MFIs to partner with licensed institutions Increase the competencies of MFIs to engage with wholesale financial institutions
APEC can investigate elements of an enabling environment for financial services providers	Using government payments to ensure usage of open accounts Using technology to limit transaction costs Mobile banking systems, including inter-operability

Figure 5: (continues over)

Figure 5: (continued)

RECOMMENDATION	SCOPE
2. Best practice in financial education and financial literacy, and measuring the impacts of these	
APEC can undertake further research to develop the evidence base for benefits of financial literacy and what does or does not work	Financial education can be included in educational curriculum and standardised curriculum developed Public private partnerships can defray the cost of delivery under guidelines that facilitate public-private coordination
3. Identifying and implementing best practice in development of remittance systems and use of these to spread financial inclusion (including savings products)	
APEC can work to reduce the cost of remittances	Exclusivity arrangements increase costs; greater competition may lower costs and increase wider use of mobile technology Encourage greater harmonisation across APEC on interpretation of anti-money laundering (AML) and know your client (KYC) regulations
APEC can support channelling of remittances to the formal financial sector	Branchless banking infrastructure to improve connectivity MFIs to link with banks and develop lending products using remittances as guarantees for micro loans Securitisation of remittances
Broaden the use of remittance-based technology	Enable the use of open loop accounts including with non-financial institutions to distribute in non-bank locations

RECOMMENDATION	SCOPE
4. Adoption of a regulatory approach that is balanced – maintaining system integrity and consumer protection while allowing for innovation and competition (particularly with regard to new technologies and non-bank providers)	
APEC to put greater focus on access to finance, relative to historic focus on access to trade and investment	Public and private sectors work together through APEC to smooth the supply/demand cycles of micro credit APEC to leverage member initiatives on consumer protection – e.g., Guidelines of Principles for Effective Regulation and Supervision of Microfinance Operations APEC may encourage members to regulate financial service providers on the basis of activity rather than on type of institution
APEC should explore regional efforts to create financial identity	Domestic identification numbers, and/or data numbers Inclusion of MSMEs in credit reporting
APEC may consider developing a regional framework for microfinance regulation	Financial stability oversight bodies should have goal of promoting financial inclusion AML, KYC and combating the financing of terrorism (CFT) regulations need to be adapted to domestic context Agent banking may require more specific regulation or policy attention
APEC may consider specific regulatory gaps that need to be addressed	AML/CFT for agenda Protection of e-money Consumer protection balanced against fair access and data privacy issues Legal authority to regulate / supervise providers of mobile banking services

Figure 5: (continues over)

Figure 5: (continued)

RECOMMENDATION	SCOPE
5. Identifying and implementing best practice in development of credit reporting bureaus (including customer identification)	
APEC member economies should work toward full file and comprehensive credit reporting systems	APEC could assess how many member economies have functional credit reporting systems and their features There may be interest in exploring the concept of a regional reporting system such as the hub and spoke model from New Zealand to the Pacific Enable use of data sources such as utilities, rental payments and insurance for credit reporting Consider ways in which alternative data can be used to assess creditworthiness
Appropriate regulation and supervision of credit reporting bureaus	Central banks, financial supervisors and other relevant authorities should have powers and resources to oversee and regulate credit reporting systems Credit Reporting Committee guidelines issued in 2013 are recommended to be used as guidance for APEC policymakers and regulators
Increasing harmonisation of data gathering, storage and use across APEC	APEC may consider addressing the uneven progress on credit reporting across APEC member economies Potential gains from standardisation are increasing with the move toward paperless, online and digital access to data Standardisation of data may help providers develop new tools and products for lenders

RECOMMENDATION	SCOPE
6. Identifying and implementing particular considerations in relation to supporting MSME requirements, e.g. best practice in using movable assets as collateral and systems to support	
APEC to serve as a platform to work on an improved legal and regulatory environment for secured lending	Undertake a survey of global best practice on secured lending regimes and use this to develop model elements for a code of security interest creation, perfection and enforcement Collaborate with multilateral institutions to create a global standard for recognising a broader range of assets Development of model elements for code of security creation, perfection, floating charges
Create an international standard for recognising a broader range of assets for secured lending	APEC is recommended to support member economies incorporating Elements of APEC Model Code of Secured Interest Creation, Perfection and Enforcement to resolve issues such as: ● Unclear perfection rules or lack of coverage for certain types of collateral ● Untested or non-transparent legal systems ● Treatment of floating charges ● Licensing for non-bank lenders in the market
Host public-private dialogues to validate improvements to legal and regulatory frameworks	As outlined in the Cebu Action Plan[3]

3. *http://www.apec.org/Meeting-Papers/Ministerial-Statements/Finance/2015_finance.aspx*

2.3 Evaluating the Asia-Pacific Forum on Financial Inclusion against objectives

Five years on, ABAC's financial inclusion initiative has met or exceeded several of its founding objectives through the annual Asia-Pacific Forum on Financial Inclusion. Specific programmes of work have been undertaken and recommendations adopted by the APEC Finance Ministers; particularly in the areas of credit reporting and MSME financing. This section of the report provides more detail on how the recommendations of the original Asia-Pacific Forum on Financial Inclusion have evolved over the past five years, and progress that has been made in that regard.

Key agenda item: enhanced credit reporting to expand financial inclusion

As described above, the Asia-Pacific Forum on Financial Inclusion has brought forth a great interest in APEC undertaking work on credit bureaus and credit reporting. The literature and evidence suggest that full file credit reporting can be a critical enabler of sustainably providing the poor or the unbanked with access to credit, yet many APEC member economies do not have mechanisms under which credit information can be shared amongst providers. Most APEC member economies also have credit reporting systems that are primarily negative-only reporting systems, rather than the full file reporting approach as is suggested by best practice.

At the 2011 Asia-Pacific Forum on Financial Inclusion, three specific recommendations were made in support of advancing the credit reporting standards and credit bureau quality in APEC member economies. These were to:

1. Adopt full file credit reporting systems

2. Include MSMEs in credit reporting systems

3. Incorporate non-financial data to support broader access for credit reporting

Over the course of 2012 to 2015, stakeholders within ABAC developed an Asia-Pacific Financial Forum Credit Information Sharing Action Plan to advance these recommendations. Work on this Action Plan was undertaken within the Asia-Pacific Forum on Financial Inclusion. The Action Plan specifically aimed to address the needs of member economies with a lower degree of financial inclusion. The plan identifies measures to compile necessary resource materials; engage member economies; and support building the capacities of the public and private sectors in relation to full file credit reporting and credit reporting systems.

In September 2015, the APEC Finance Ministers agreed to take this work forward through key action items in the Cebu Action Plan.

- Establishment of a Financial Infrastructure Development Network within the Asia-Pacific Financial Forum to establish legal frameworks for Credit Information Systems (CIS), develop model language for regulations governing the sharing of public data with CIS among participating economies, and evaluate the benefits of and pathways to a common data format / dictionary for APEC based on the data collected by CIS.
- Evaluate the benefits and challenges of linking the CIS database of APEC members, forming a regional credit information network, and using credit information to support cross-border trade and investment.

Key agenda item: financial architecture for SMEs and MSMEs

With ABAC traditionally having a strong focus on areas of policy development to support sustainable growth of the private sector, financial inclusion for SME and MSME enterprises has always been high on the agenda for ABAC's financial inclusion initiative.

Through the Asia-Pacific Forum on Financial Inclusion, many gaps have been identified in the architecture across APEC member economies that would help ensure SMEs and MSMEs have appropriate access to credit, including working capital. Issues include the lack of security registry systems that allow liens to be registered and searched; unclear rules or coverage on certain types of collateral for borrowing such as moveables, receivables or intellectual property; the absence of pledged security; untested or nontransparent legal systems; treatment of floating charges and lack of licensing for non-bank lenders in the market.

Over the course of 2012 through 2015, work was progressed through the Forum on SME and MSME access to finance that incorporated all of the above recommendations. More specifically:

- Work was undertaken to survey secured lending regimes and develop model elements, with an ABAC model code drafted and socialised at the 2015 Asia-Pacific Forum on Financial Inclusion and progressed through the Asia Pacific Financial Forum (APFF).
- An Asset Valuations work stream commenced to develop a global standard for recognising a broader range of assets for secured lending. A template of best practice has been drawn up and socialised with members.
- Work was done to revitalise the UNCITRAL code and other standards to develop a model treatment of floating charges and accounts receivables financing.
- Public-private dialogues have taken place in a number of APEC economies to validate the work being done and test the probability of improvements under a model code and framework.

The 2015 Cebu Action Plan recognises and adopts the output of many elements of this work program. The Action Plan specifically calls out the need to promote an enabling environment for MSMEs, including trade, supply chain and alternative financing mechanisms. The following key action items are articulated:

- Reform and develop secured transactions systems and insolvency frameworks;
- Pursue good practices and internationally accepted principles on secured transactions legislation;
- Establish and develop effective modern collateral registries with single, central, online notice filing systems and comprehensive coverage of security interests on moveable assets within the economy;
- Support capacity building in local economies to assist implementation of secured lending reforms to maximise capital access to SMEs; and
- Facilitate digital, mobile and innovative working capital management techniques such as Bank Payment Obligations.

Other recommendations: financial inclusion strategies, literacy, remittances and regulatory approaches

While specific action items have been adopted by APEC Finance Ministers in relation to credit reporting and financial architecture for SMEs and MSMEs as above, the work programs on some of the other original recommendations has been more general in nature.

Financial literacy

Financial education and literacy remains an issue and a matter of strong interest across all APEC member economies to varying degrees. As an example, a feature speaker at the 2015 Asia-Pacific Forum on Financial Inclusion was Sir Sherard Cowper-Coles, the Chair of the newly created Financial Inclusion Commission in the United Kingdom, on the eve of the release of their first report. While not representing an APEC member economy, Sir Cowper-Coles was able to articulate where lack of financial literacy has fed into a decline in financial resilience in the UK, providing insight that resonated with many Forum participants.

Remittances

Many aspects of remittances also remain on ABAC's financial inclusion agenda, including the cost of remittance transactions, the increasing challenge of providing remittance services under KYC/AML global regulations and the potential to leverage remittances to help promote a pro-savings culture amongst the poor.

The Cebu Action Plan acknowledges the challenges across remittances, and encourages the G20 Plan to Facilitate Remittance Flows to develop and share a plan to reduce the average cost of remittances to 5% of a transaction.

Regulatory and policy settings

And finally, the development of a suitable regulatory framework that promotes innovation and inclusion while affording sufficient protection to consumers has remained on ABAC's financial inclusion agenda and has been regularly discussed at the Asia-Pacific Forum on Financial Inclusion.

The 2015 Cebu Action Plan recognised the need for these areas to remain on the agenda, and undertook to continue promoting financial inclusion and literacy through the Asia-Pacific Forum on Financial Inclusion. It also encourages member economies to consider domestic strategies that promote financial inclusion and literacy.

3. FEEDBACK FROM THE 2015 ASIA-PACIFIC FORUM ON FINANCIAL INCLUSION

This review was able to identify a number of areas in which ABAC's financial inclusion initiative has made progress on key agenda items within APEC. At the same time, the impact of these efforts within APEC had not been tested within APEC member economies.

Formal feedback was collected from Forum participants and stakeholders as to the relevance of the annual Forum, its overall impact, and suggestions for focus areas where practical progress can be made going forward.

With this in mind, part of the agenda of the 2015 Asia-Pacific Forum on Financial Inclusion was devoted to seeking this feedback with a view to evaluating the following:

1. *Had participants seen progress being made on financial inclusion broadly – and areas of identified work within the Forum more specifically?*
2. *If progress has been made, did participants feel that APEC had played a role in that progress, either in part or in whole?*
3. *How do participants now view the relevance of the original agenda as set by the first Forum in 2010?*
4. *Should the agenda evolve – what issues should be dropped, added or remain on the agenda?*

3.1 The 2015 Asia-Pacific Forum on Financial Inclusion

The 2015 Asia-Pacific Forum on Financial Inclusion was held in Tagaytay, Philippines, in March 2015, with a record 150 participants representing both the public and private sectors. The opening session of the Forum flagged the intention to seek feedback from participants as outlined above, and a presentation was made that summarised the key points of ABAC's financial inclusion initiative and work plan from 2010 onward.

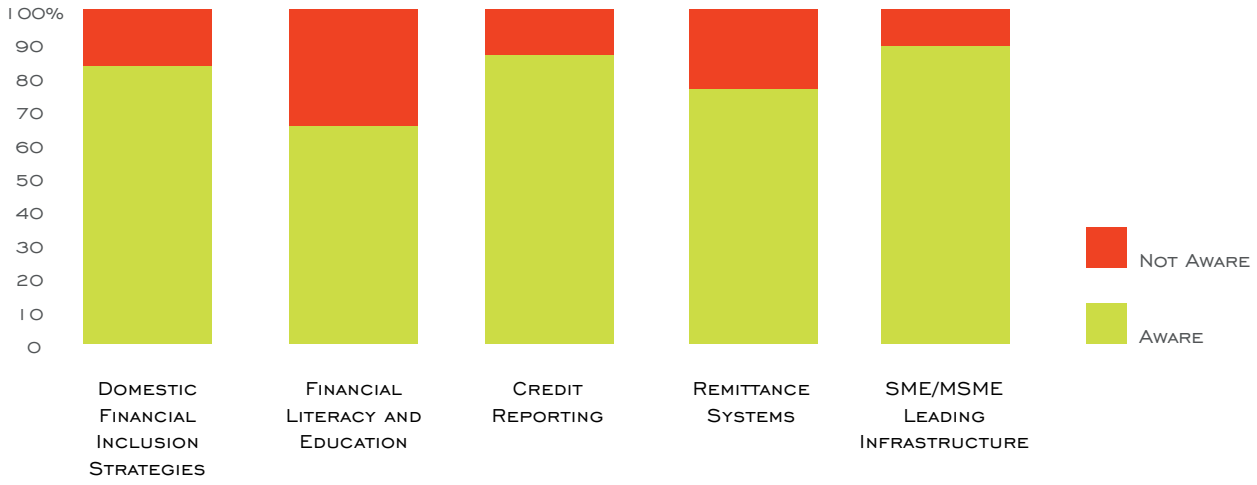
A paper-based survey was distributed to participants. The Caucus received over 40 completed surveys, or about a 30% response rate. Responses covered 19 of the 22 APEC member economies.

Discussion during that panel and subsequent panels were also noted, and were documented as part of the 2015 report of the Asia-Pacific Forum on Financial Inclusion which was published in June 2015.

3.2 Outcome of survey at the 2015 Asia-Pacific Forum on Financial Inclusion

Overall the survey results indicated that there is very strong awareness of ABAC's financial inclusion agenda as it has been progressed through the annual Forum; in particular the credit reporting bureau and secured lending infrastructure work streams. More than 70% of respondents were aware of ABAC's work across all major areas of the agenda.

Figure 6: Are you aware of the work that ABAC is doing in these areas?



In terms of impact within economies, more than 60% of respondents indicated that "excellent" or "some" progress had been made on financial inclusion strategies, financial literacy, credit reporting, remittance systems and SME lending infrastructure.

Of the major thematic recommendation areas, respondents indicated that least progress has been made on financial literacy, with 20% of respondents indicating that there had been "not much" progress in their economy.

Figure 7: How much progress do you feel has been made in these areas within your economy?



In written responses on the questionnaire, respondents indicated a strong interest in greater uptake on financial inclusion strategies as part of ABAC's financial inclusion initiative. Awareness of the potential role of domestic financial inclusion strategies was particularly high as the Forum took place in the Philippines, where the government was working toward the launch of their own domestic strategy which formally took place in July 2015. In addition, the Deputy Governor of the Bank of Papua New Guinea (PNG) provided a detailed presentation of the domestic financial inclusion strategy being implemented in PNG.

Finally, respondents gave very clear and positive feedback on the evolution and expansion of the Forum itself as a platform for discussion, and the role that the Forum has played in contributing to broader awareness, education and sharing of best practice in financial inclusion.

3.3 Other feedback collected at the 2015 Asia-Pacific Forum on Financial Inclusion

In addition to the formal survey undertaken at the Forum, there was significant discussion on the outcomes of the Forum and future agendas, as participants were aware of the formulation of the Cebu Action Plan in 2015.

It was confirmed at the Forum that initiatives on credit bureau reporting and infrastructure for structured lending would progress as Pathfinder Initiatives. This was viewed as having a positive impact.

In light of the success of these two work streams in advancing to concrete actions, discussions at the 2015 Forum turned to additional areas of work or focus for similar elevation to Finance Ministers in the future. Suggestions included:

1. Agreement on a definition of financial inclusion for APEC economies, and a stated objective of reducing the disparity of financial inclusion across APEC. This suggestion was made with a view to returning to the founding principles of the ABAC's financial inclusion initiative – to ensure that the APEC agenda remains focused on both "pro-growth" initiatives relating to MSMEs as well as "pro-poor" initiatives focused on the poor and unbanked within the financial inclusion space.
2. Investigation of potential to adopt an APEC "model code" or "model framework" for a domestic financial inclusion strategy that can be used by all APEC member economies as best practice benchmark. An APEC model strategy would utilise recommended strategies and frameworks developed in other forums such as AFI.
3. Testing the appetite for APEC to look at how utilising digital technology can promote financial inclusion. Digital includes both the platforms and channels for delivering financial products and services, as well as the products and services themselves. The continued spread of digital delivery is a whole-of-industry change that requires a holistic strategic approach. It is also particularly relevant in APEC given the deeper penetration of mobile services relative to banking and finance services in many member economies. There are also many cross-border issues around security (platforms, data, transmission) that APEC is well placed to investigate and work through.

The continued spread of digital delivery is a whole-of-industry change that requires a holistic strategic approach.

The clear intent of participants to evolve the Forum's agenda beyond 2015 raised questions as to the appetite for the broader stakeholder network to engage with these topics and undertake the required work. It was noted that efforts should continue in avoiding duplication with work being done by other well-placed organisations.

On this basis, the decision was taken to solicit further feedback from a broader range of stakeholders and experts.

4. EVALUATION FROM APEC MEMBER ECONOMIES

From June 2015 through August 2015, efforts were made to validate the responses above made by Forum participants, and to test the appetite for additional work streams as suggested by discussion at the Forum.

This was done through an online survey, followed up with in depth telephone interviews with seven senior individuals involved in formulating policies and regulations that support financial inclusion in APEC member economies. This section of the report details the overall response.

4.1 Description of survey and results

An online survey was sent to approximately 100 senior practitioners and policymakers working in the microfinance and/or financial inclusion space. The survey focused on eliciting feedback from the APEC member economies with the lowest rates of financial inclusion as measured by the share of the adult population with a bank account at a formal financial institution (Figure 4, page 8). There were 40 responses received, covering 10 of the APEC member economies all of which are in the bottom half of the rankings for financial inclusion.

The survey included multiple choice questions as well as providing space for free-form comment. Respondents were invited to expand upon answers provided in the multiple choice sections. Of the respondents, 60% indicated that they work in the public sector, while 32% are in the private sector and 8% consider themselves academics.

This survey largely validated the results of the paper survey undertaken at the 2015 Asia-Pacific Forum on Financial Inclusion in terms of practitioners' and policymakers' views on progress with the six main areas of work undertaken as part of ABAC's financial inclusion initiative. Amongst these respondents, more than 60% indicated that progress was either "good" or "excellent" across all six areas. The exception was in movable collateral registry systems, where 60% of respondents reported little progress.

Unsurprisingly, this set of respondents was somewhat less enthusiastic in relation to the direct role that APEC may have played in this process. Still, more than 50% of respondents credited APEC with playing either "some role" or a "significant role" in facilitating changes in the nominated areas for financial inclusion initiatives.

APEC's contribution was most strongly recognised in promoting financial literacy and in credit reporting, representing the important role played by creating a platform for dialogue and knowledge-sharing across the private, public and non-for-profit sectors.

In written comments, respondents supported the importance of the nominated areas in terms of promoting financial inclusion. They also saw value in ABAC's role as facilitating dialogue, knowledge-sharing and information or research. The opportunity to further disseminate the findings and work of ABAC in this area was highlighted through a number of respondents who had not been involved in the Forum.

As noted in the executive summary, survey participants were enthusiastic in supporting the idea of APEC adopting an official definition of financial inclusion, a stated policy objective and a model code or framework for domestic financial inclusion strategies.

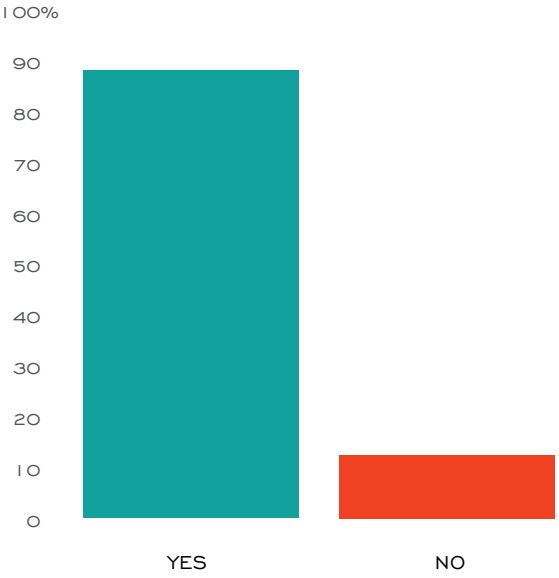
Figure 8: How would you rate the role of ABAC in facilitating improvements in the six areas?



As one respondent wrote, "Knowing what you want makes tackling the challenge clearer and easier." Another respondent noted the importance of consensus-building in order for international organisations to agree a single framework. Several respondents mentioned the importance of individual APEC economies being able to adapt any model framework to suit their own context and requirements.

Finally, there was overwhelming support amongst survey participants for APEC to investigate the emergence of digital finance, including platforms, channel, products and services and the ability of these innovations to further support financial inclusion.

Figure 9: Should APEC investigate digital finance ... in support of financial inclusion?



> "Knowing what you want makes tackling the challenge clearer and easier."

In further written comments, respondents called on APEC to help guide a regional dialogue on how to continue to develop the financial ecosystem that will extend financial inclusion, including through digital means. Supporting knowledge sharing was raised in the context of regulatory frameworks, technological developments and infrastructure requirements and best practice for domestic financial inclusion strategies as well as financial literacy.

Respondents to the survey felt there is a great need for continued exploration as to how to transition customers to a cashless financial system, including elements such as building up trust in digital platforms and ensuring customer data is protected in the digital environment. Initiatives that could help further the collaboration between mobile network operators and financial institutions on digital platforms, financial services and financial products was also viewed as helpful.

4.2 Description of telephone interviews

Following from the online survey, a select group of financial inclusion experts and regulators were interviewed in depth to discuss the evolution of financial inclusion in their economies. Interviews were undertaken with representatives in the Philippines, China, Malaysia, Vietnam, Papua New Guinea and Mexico.

All interviewees highlighted significant progress in the expansion of financial inclusion in their economies over the past five years. A number of economies have seen significant improvements in the data, for example from the Findex reports. Most of the respondents were able to connect increased financial inclusion with higher growth in household income and reduced poverty in their economies.

> Most of the respondents were able to connect increased financial inclusion with higher growth in household income...

The role of ABAC and APEC in continuing to promote the objectives of financial inclusion were cited as helpful, with one interviewee stating that merely having financial inclusion on the agenda is valuable, and will lead to gains in member economies. Another interviewee felt that ABAC's commitment to promote financial inclusion was creating more awareness among the emerging economies within APEC of the need for policy change. The contacts made between policymakers, business groups and regulators in ABAC makes this a unique forum to identify partners in this area.

In identifying the key catalysts that have led to improved financial inclusion, all interviewees pointed to a leading role taken by government in a variety of aspects:

- Support for growth of micro-credit to the rural poor, sometimes undertaken by development banks;
- Build-up of necessary infrastructure to improve credit reporting, for example by requiring financial institutions to report their customer lending data while also improving the protections around data security and privacy; and
- The constructively coercive role that government can play by setting out a vision for improving financial inclusion, and getting buy-in from the private sector to develop new and innovative approaches that can work toward meeting this objective.

At the same time, respondents noted that servicing poor and underserved or unbanked customers can be expensive – whether due to remoteness, the small size of typical transactions or the implicit costs of educating new-to-bank customers. Respondents also noted that usage remains a challenge, particularly in relation to the update of digital financial services in communities where a transition away from a cash-based system has only just begun.

The interviewees echoed the feedback from the online survey in terms of the interest in having ABAC take up a greater focus on digital finance as part of its financial inclusion initiative. There was also interest in the adoption of domestic strategies for financial inclusion, ideas for capacity building among microfinance institutions and the continuation of knowledge exchange.

Alignment of standards for credit information bureaus and domestic retail payment or electronic payment systems were nominated as specific areas of work where it was felt that ABAC's financial inclusion initiative could make a contribution.

4.3 Outcome of feedback from APEC research process

Through the process of extensive review and stakeholder consultation, this report is able to validate both the success of ABAC's financial inclusion initiative through the annual Asia-Pacific Forum on Financial Inclusion over the past five years as well as nominate new items to include on its agenda going forward.

It is clear that stakeholders view the annual Forum as a valuable platform for dialogue, ideas and knowledge-sharing. Tangible outcomes are starting to be seen in terms of policy formulation and development in key areas that were identified at the inception of the Forum in 2010.

There is a clear sense that the Asia-Pacific Forum on Financial Inclusion is a unique event in terms of the diversity of economies that participate, as well as the collective representation of policymakers, regulators, private sector participants and non-governmental organisations. Thus, while a number of groups have been formed to support the advance of financial inclusion across individual APEC member economies and groups of economies, stakeholders are supportive of the continued convening of this Forum. Drawing upon and collaborating with other groups working on financial inclusion is encouraged and supported, however.

There is a clear sense that the Asia-Pacific Forum...is a unique event in terms of the diversity of economies that participate...

5. PRESENTATION OF RECOMMENDATIONS

This concluding section of the report will summarise the findings of the review, and present recommendations for consideration by ABAC and its stakeholders for ABAC's financial inclusion initiative.

5.1 Impact of ABAC's financial inclusion initiative since 2010

Since its founding in 2010, ABAC's financial inclusion initiative has achieved the following:

- Created a Secretariat that is run by the Foundation for Development Cooperation (FDC) with ongoing financial support from the Citi Foundation;
- Formed a Caucus of financial inclusion experts who collaborate with the Secretariat to inform the agenda of the Asia-Pacific Forum on Financial Inclusion and the work required to advance ABAC's financial inclusion objectives;
- Successfully convened the annual Asia-Pacific Forum on Financial Inclusion from 2011 onward that has become a recognised platform for dialogue and knowledge sharing on financial inclusion, with rising participation providing an indication of its increasing relevance and reach over time amongst APEC member economies;

> ...the annual Asia-Pacific Forum... has become a recognised platform for dialogue and knowledge sharing...

- Published reports annually documenting the dialogue and recommendations of the annual Forums, with evidence that these reports have been utilised across APEC as well as within other groups to stimulate discussion on initiatives and reforms;
- Worked successfully within the Advisory Group on APEC Financial System Capacity Building and other work streams within ABAC to advance specific policy reform objectives on credit reporting and lending infrastructure for SMEs; and
- Elevated key, specific recommendations up through the Finance Minister's process to be included in the 2015 Cebu Action Plan.

5.2 Recommendations for future action

Based on the findings in this review and through stakeholder consultation, the following steps are recommended to the Advisory Group on APEC Financial System Capacity Building to further progress ABAC's financial inclusion initiative:

- Continue to support the Asia-Pacific Forum on Financial Inclusion as the core platform within ABAC to promote knowledge sharing and best practice on financial inclusion across the APEC member economies. Although there is substantial variation in the degree of financial inclusion across APEC and the forms that it takes, each member economy has identified issues to address and areas for improvement;
- Develop and adopt a standard definition for financial inclusion for APEC as an organisation. At the same time, each APEC member economy would retain its own emphasis and

approach, taking into account its own circumstances. Any definitions should focus both on "pro-growth" initiatives primarily aimed at SMEs and "pro-poor" initiatives primarily aimed at access by the unbanked;

- Develop model code or framework for a domestic financial inclusion strategy to be considered by APEC member economies. This code may be modelled on those drafted by expert organisations, such as the Alliance for Financial Inclusion; and
- Increase the focus on digital finance within ABAC's financial inclusion initiative, including by adding experts on this emerging industry to the Caucus. Digital finance has emerged as a growing channel for delivery of financial services by both traditional and alternative financial service providers. This area of work should focus on sharing experiences and building toward best practice, in addition to addressing cross-border issues such as development of model standards and frameworks.

6. APPENDIX A

Several streams of inquiry were undertaken to compile this report. First, the authors undertook a desktop review of the past five years of recommendations made through the Asia-Pacific Forum on Financial Inclusion .

This summary was presented to participants in the March 2015 Asia-Pacific Forum on Financial Inclusion held in Tagaytay City, Philippines. Paper-based surveys were handed to each participant with a request to complete the survey. The convenors of the Forum received 40 completed surveys.

The authors then initiated a paper-based survey of participants of the most recent Forum that took place in Tagaytay, Philippines in March 2015.

In May 2015, an updated version of the survey reflecting the consensus outcomes of the Tagaytay Forum was developed, and distributed to a wider audience which also included participants from previous Forums to seek further feedback. A number of individual experts were also consulted through in-depth telephone interviews to discuss the specific circumstances within their economies.

Through these two surveys extensive feedback on the Asia-Pacific Forum on Financial Inclusion and its outcomes was gathered from more than 80 individuals. Finally, the authors undertook extensive telephone interviews with a selected subset of respondents, in order to elicit more in-depth and qualitative feedback.

Overall, about 80 experts of and practitioners in financial inclusion who have been either directly or indirectly involved with the Asia-Pacific Forum on Financial Inclusion have provided feedback to this review.

7. APPENDIX B

Following are the five reports of recommendations resulting from each year's Asia-Pacific Forum on Financial Inclusion. Each of these reports can be downloaded from the ABAC website at: https://www.abaconline.org/v4/content.php?ContentID=22611571

2015 (Tagaytay City, The Philippines), *Developing the Lending Infrastructure for Financial Inclusion*.

2014 (Shanghai, China), *Realizing Financial Inclusion in Asia: Achievements and Challenges*.

2013 (Batam Island, Indonesia), *Financial Inclusion, Innovation and Regulation: Meeting the Challenges of Policy Reform and Capacity Building*.

2012 (Shanghai, China), *Approaches, Regulations and Cross-Border Issues*.

2011 (Tokyo, Japan), *Expanding Financial Access through Regional Public-Private Cooperation*.

8. ABOUT THE AUTHORS

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Amy Auster is a thought leader and strategic advisor to business executives and policy-makers, with deep expertise in the Asia Pacific region and the financial services industry. A respected researcher and commentator, she has worked in Australia, Asia, the US, South America and Eastern Europe.

Prior to her current roles at leading think tanks, including the Foundation for Cooperation Development (FDC), Ms Auster worked as an economist, strategist and senior executive for ANZ Banking Group, Merril Lynch and JPMorgan. Published research and strategic work have focused on the impact of Asia's economic ascendency; the evolution of banking and finance in the Asia Pacific region; models for private sector participation in infrastructure development; and public sector finance including tax policy.

Ms Auster is Executive Director of the Australian Centre for Financial Studies, the Sydney for RMB Committee, the Deakin University Public Policy Forum Advisory Committee, the Australia China Business Council, and the Australian American Leadership Dialogue.

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Eduardo C. Jimenez is Microfinance Advisor to Bangko Sentral ng Pilipinas (BSP), looking at policy and regulatory issues affecting the practice of microfinance and financial inclusion. He has served in this position since 2001. He was also Asia Regional Coordinator of the Alliance for Financial Inclusion (AFI), up to December 2014.

He has also served as an advisor to the Department of Finance and the Cooperative Development Authority of the Philippines in crafting the Philippines' Performance Standards for Microfinance Practitioners. Mr Jimenez is a board member of two microfinance NGOs in the Philippines and is active with the Microfinance Council of the Philippines (MCPI), the national network of microfinance practitioners.

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THE APEC BUSINESS ADVISORY COUNCIL (ABAC) was created by the APEC leaders in 1995 to advise APEC on the implementation of its agenda and to provide the business perspective on specific areas of cooperation. ABAC is comprised of up to three members from each of APEC's 21 member economies, representing a range of business sectors. ABAC holds an annual dialogue with the APEC leaders and engages in regular discussions with APEC ministers in charge of trade, finance, and other economic matters. For more details, visit www.abaconline.org.

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