AGENDA ITEM 4

PAPER 4-B

PRESENTATION

Draft 2007 Report on Capacity-Building Measures to Strengthen and Develop Financial Systems

Office of the Advisory Group Chair
2007 REPORT
Capacity-Building Measures to Strengthen and Develop Financial Systems

Content
- Local currency bond markets
- Banking systems
- Regional financial stability
- SME finance
### Local currency bond markets

- **Public-private sector discussions:**
  - 2004 Taipei (ABAC/PECC + ABA/ACRAA)
  - 2005 Tokyo (ABAC/PECC + ADBI)
  - 2006 Washington (PECC)
- **Compendium of recommendations**
- **Moving forward**
  - Mechanism for public-private sector dialogue with individual economies
  - Promote greater synergy and public-private sector collaboration

### Local currency bond markets

- **APEC Public-Private Sector Forum on Bond Market Development**
  - May 2007, Melbourne – dialogue with Indonesia, Philippines, Vietnam
  - 2008 onwards – other APEC emerging markets
- **General Principles for Effective Bond Market Development Cooperation in the Asia-Pacific Region**
Local currency bond markets

**Recommendations**
- Endorse holding of subsequent APEC Public-Private Sector Forums
- Endorse General Principles for Effective Bond Market Development Cooperation

Banking systems

- Basel II: Need for greater cooperation among supervisory authorities between authorities & financial industry
- Regional public-private sector dialogues on banking issues
  - 2004 Santiago
  - 2005 Kuala Lumpur
  - 2006 Kuala Lumpur
  - 2007 Singapore (July 11-12)
Banking systems

Regional dialogues affirmed the importance of public-private partnership to deal with issues:
- Bank governance
- Implementation of Basel II, including cross-border implementation
- Protecting consumers of financial services
- Protection of creditor rights

Banking systems

Recommendations
- Endorse continuation of regional public-private dialogue on banking
- Capacity-building based on PPP:
  - Basel II implementation (domestic)
  - Best practices for supervisory colleges
  - Improving cross-border coordination
  - Developing financial consumer protection framework
  - Improving banking system governance
Banking systems

**Recommendations (cont’d)**

- Wider adoption of regional guidelines for informal workouts and model agreement by financial institutions + reforms/capacity-building to facilitate the operation of guidelines/model agreement region-wide

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Regional financial stability

- Since Asian financial crisis:
  - Macroeconomic, financial sector reforms
  - Regional cooperation (e.g., CMI)
- Remaining concerns about short-term capital flows, HLIs, use of derivatives
  - Information available to regulators and officials in emerging markets
- 2006 study commissioned by ABAC to improve quality of information
Regional financial stability

**Recommendations**

- Develop code of conduct for statistical agencies
- Endorse SDDS, IMF balance sheet approach, discuss PINs post-IMF surveillance
- Capacity-building to develop:
  - Investor relations services
  - Industry surveillance units

SME finance

- Joint study on SMEs’ access to formal finance (2006)
- Major conclusions:
  - Banks experienced in dealing with SMEs; not biased against
  - Key obstacles: SMEs’ lack of collateral and experience, accounting practices, high administrative/information costs, lack of projects’ attractiveness to banks
  - Government measures viewed as biased toward large enterprises
SME finance

Recommendations

- Capacity-building:
  - Non-discriminatory policies
  - Accounting practices and standards
  - Disseminating information on financing sources
  - Training to access venture capital, equity and OTC markets
  - Support (e.g., guarantee, special funds)
    - After exploring commercial possibilities

Recommendations (cont’d)

- Endorse reform of laws governing collateral (movable properties)