Advisory Group on APEC Financial System Capacity Building

2017 Report on Capacity Building Measures to Strengthen and Develop Financial Systems

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Summary of Recommendations

The Advisory Group on APEC Financial System Capacity Building has been focused on promoting structural reforms as a way to ensure sustained, inclusive and balanced growth in the region. Recognizing the importance of these reforms, APEC Finance Ministers launched the Cebu Action Plan in 2015 and called for greater public-private collaboration to advance its implementation through the Asia-Pacific Financial Forum (APFF), the Asia-Pacific Infrastructure Partnership (APIP), the Asia-Pacific Forum on Financial Inclusion and the work of other international organizations participating in the Finance Ministers’ Process. This report provides an update on the progress of these and related initiatives.

DEVELOPING FINANCIAL MARKETS TO SUPPORT SUSTAINED, BALANCED AND INCLUSIVE GROWTH

The APFF is an initiative that is focused on promoting the contributions of the financial industry and financial markets to the achievement of sustained, balanced and inclusive growth, by serving as platform through which the public and the private sectors can collaborate toward this end. Since its establishment, various public and private sector stakeholders, including the international organizations participating in the FMP and some finance ministries, central banks and financial regulatory agencies, have come together to jointly progress a number of initiatives under the Cebu Action Plan.

Recommendations

- Encourage relevant officials and regulators to collaborate with APFF’s capacity building activities in:
  - promoting deep and liquid bond, repo and derivatives markets;
  - modernizing credit information, valuation, secured transactions and insolvency systems;
  - developing pilot programs for cross-border supply chain financing; and
  - expanding long-term investors’ roles in infrastructure development.

- Support APFF’s efforts to develop a regional platform for public-private dialogue on harnessing fintech to create inclusive, sound and efficient financial systems.

- Encourage senior finance officials to work with APFF in 2018 to finalize the roadmaps envisioned in the CAP for:
  - developing the region’s financial market infrastructure;
  - expanding the coverage of microinsurance; and
  - promoting greater private sector participation in disaster risk financing and insurance.

- Encourage more economies to host discussions on the Asia Region Funds Passport.
(ARFP) where APFF can convene experts from regulatory, industry, multilateral and academic institutions.

- Encourage relevant authorities to collaborate with APFF in finalizing in 2018 a work program for the Islamic Infrastructure Investment Platform (I3P) to help expand cross-border investment by Islamic financial institutions in infrastructure.

**CREATING A ROBUST PIPELINE OF BANKABLE INFRASTRUCTURE PROJECTS**

Throughout the years, the APEC FMP has undertaken various activities to promote the development of a pipeline of bankable infrastructure PPP projects in the region. With the development of platforms and tool kits that can be harnessed in assisting economies to this end, the key issue looking ahead is how this concentration of expertise and resources can be harnessed to achieve tangible results in terms of concrete PPP projects being brought to the market in developing economies and a robust pipeline of such projects being created. This year, APIP and APFF stakeholders initiated a new approach based on a program of dialogues with selected economies targeting a specific sector where there is an urgent need for infrastructure and where successful initial projects can serve as models for the design of similar projects that can be the beginnings of a future project pipeline.

**Recommendation**

- Support sector-specific dialogues and capacity building activities in interested economies that seek to leverage the expertise in international and specialized organizations like the ADB, OECD, World Bank Group, Global Infrastructure Hub, Sustainable Infrastructure Foundation and the private sector through ABAC, APIP and APFF, starting with PPPs in waste management. These activities should aim for helping relevant agencies launch successful initial projects that can serve as models for similar ones and catalyze the creation of a pipeline of bankable PPP projects in the sector.

**EXPANDING ACCESS TO FINANCE**

The Asia-Pacific Forum on Financial Inclusion is a policy initiative under the APEC Finance Ministers Process that has been entrusted to the APEC Business Advisory Council (ABAC). While the Forum provided an opportunity for stakeholders to review the current trends, recent achievements, ongoing challenges and opportunities relative to financial inclusion in the region; its primary purpose was to provide priority recommendations to policy makers and regulators to enable greater financial inclusion throughout the APEC region. The agenda for the 2017 ABAC Asia-Pacific Forum on Financial Inclusion provided a platform to facilitate discussions amongst nearly 200 key financial inclusion stakeholders to develop recommendations in a collaborative forum, for policy reform and strengthening. The full details of these recommendations will be included in the Forum report which will be disseminated to APEC stakeholders in October 2017.

**Recommendation**

- The Advisory Group encourages relevant authorities in APEC member economies to study the report and conclusions of the 2017 Asia-Pacific Forum on Financial Inclusion and adopt or implement its recommendations as applicable to their
respective markets.

**IMPROVING VALUATION PRACTICES IN APEC**

In the light of the impact of valuation on a wide range of economic and business areas, there is a need to ensure that the valuation profession has the capacity to undertake its work in a professional and credible manner that gives a central role to standards, ethics, independence and objectivity, competence and transparency. The key components of such a framework include the availability of a robust regulatory regime appropriate across all asset classes, the presence of strong professional organizations, access to reliable information, availability of education and training and the profession’s adherence to widely accepted valuation and professional practice standards, followed by appropriate and visible enforcement.

**Recommendation:**

- The Advisory Group encourages APEC member economies to host discussions with ABAC, the International Valuation Standards Council (IVSC), valuation professional organizations (VPOs), experts from industry and other relevant bodies on improving the quality of valuation practices and professionals.
Since its establishment in 2003, the Advisory Group on APEC Financial System Capacity Building has been focused on promoting structural reforms as a way to ensure sustained, inclusive and balanced growth in the region. Especially since the Global Financial Crisis (GFC), its reports have repeatedly cautioned against overreliance on monetary and fiscal stimulus and advocated the rebalancing of economic growth strategies in Asian emerging markets away from a heavy emphasis on exports and savings toward a greater role for domestic consumption while developed economies focus on repairing government and household balance sheets. Such a rebalancing not only would have re-launched developed and developing economies on a more sustainable growth path; it would also have helped rebalance trade across the Pacific.

In its 2009 report, the Advisory Group made the following observation:

One key issue that has emerged from the crisis is how to enhance the capacity of the region to achieve economic recovery. Over the years, developing Asia-Pacific economies have grown rapidly through an export-oriented strategy that was supported by robust consumption growth in advanced markets, particularly in North America. Expansionary fiscal and monetary measures have temporarily blunted the adverse impact of the crisis, but as these measures are not meant to be sustained over a long period, full economic recovery will hinge on the re-emergence of demand from households and firms.

The capacity of advanced economies to soon revert back to their previous roles as principal providers of final demand for the global economy is now in doubt, with consumers expected to undergo a long process of de-leveraging to rebuild savings, while the corporate sector re-sizes and restructures in the face of changing patterns of demand and banks repair their balance sheets. Continuing growth of unemployment amidst uncertainty over the sustained recovery of asset prices over the coming months will likely exacerbate these trends. Given these prospects, developing economies will need to seriously re-examine their strategies, as the export-driven growth model becomes less viable under current conditions.

There is considerable potential for inducing the growth of domestic demand in developing economies, particularly in Asia, where there is a considerable pool of savings and financial systems remain relatively healthy. In many of these economies, however, domestic consumption and investment are constrained by various factors. Unlocking the region’s huge savings will require reforms and capacity-building in a
number of areas to broaden the economic base, expand consumer finance, facilitate the
growth of infrastructure and mobilize domestic savings to provide more local-currency
funding for public projects and corporate expansion. The success of this undertaking
will not only promote recovery, but will also help address the imbalances that have led
to trade frictions in the region and provide a more sustainable basis for global
economic growth in the future.

The insufficiency of progress toward this rebalancing has resulted, on the one hand, in the
weakest recovery of developed economies from a crisis in modern times even as
considerably elevated public sector debt levels stand to dampen their future growth
prospects. Export-dependent developing economies, on the other hand, have seen their
growth levels come down dramatically from the high rates of previous decades and found
themselves outperformed by other developing economies with more balanced
compositions of consumption, investment and export growth. Persistent trade imbalances
have become a target for critics of globalization and are now at the center of a political
debate that shifted toward protectionism in 2016, making the task of rebalancing even
more critical for ensuring continued public support for APEC’s vision of free and open
trade and investment.

Nevertheless, the APEC Finance Ministers have clearly recognized the importance of
rebalancing in the wake of the GFC, with their calls for sustained, balanced and inclusive
growth, their endorsement of the Kyoto Report on Growth Strategy and Finance, and the
launch of the Cebu Action Plan. The work done under the Finance Ministers’ Process
through these years have focused on initiatives that would create a broader base for
economic growth in developing economies.

One area where the Advisory Group has advocated action since its establishment is the
development of capital markets, especially local currency bond markets, which play
critical roles in financial stability, the funding of long-term projects such as infrastructure,
supporting lenders through asset securitization in making more credit available to
MSMEs, and increasing investment opportunities for institutional and retail investors.
Various conferences convened by ABAC in collaboration with Advisory Group
stakeholders have identified the lack of depth and liquidity of bond markets as the main
challenge, and measures to address this, including market participants’ access to hedging
instruments; increasing the diversity of issuers and investors; enhancing the availability,
quality and timeliness of information; developing the clearing, settlement, payment and
custody systems; and promoting cross-border portfolio investment.

Another area is the financial infrastructure that enables bank and non-bank lenders to
provide more credit to MSMEs. This includes credit information systems, which allow
transaction data of individuals to be collected, ideally from a wide range of sources
including financial institutions and utilities companies, and transformed into information
that lenders can use to serve the needs of business owners, especially those who do not
have physical collateral. It also includes secured transactions and insolvency ecosystems
that should provide a legal framework, institutions such as collateral registries and
supporting services that give lenders sufficient confidence to accept a wide range of assets
from inventories and accounts receivable to intellectual property as collateral. In addition, the emergence of advanced technology in finance (fintech) has opened up new opportunities for MSMEs to access new sources of financing.

Infrastructure development is also a key element in economic rebalancing, as it increases connectivity and efficiency within the economy, expanding access to opportunities in global trade and value chains for MSMEs, particularly those in geographically peripheral and rural areas far from traditional centers of business activities. While there is no lack of funding for infrastructure projects in the private sector, however, there is a lack of bankable projects that can attract private sector funding, due to insufficient capacity in many developing economies’ public sector to bring such bankable projects to the market.

Addressing this challenge would require a combination of legal and policy reforms that would reduce political, regulatory, demand and other risks that investors typically face in less developed markets, providing mechanisms that would compensate for those risks, and additional financing that would make private investment in a project commercially viable. Given the complexity of infrastructure financing, the limited translatability of models across sectors and across economies and the political sensitivity of infrastructure, capacity building initiatives to help public sector officials gain expertise in designing bankable projects across sectors will require intensive and combined efforts from multilateral and specialized institutions and the private sector.

Broadening developing economies’ entrepreneurial and consumer base will require expanding access to finance to low-income individuals, households and micro-entrepreneurs, a still substantial number of which are unbanked or unreached by formal financial services. Developing financial inclusion strategies that include providing the enabling policy and regulatory environment, harnessing technology, collaborating with the private sector, and ensuring consumer protection and education needs to be promoted in the region through capacity building and the sharing of knowledge and experiences.

While access to credit is important for promoting grass roots enterprises that create jobs and increase incomes, as well as enabling low-income households to invest in education and basic needs such as housing and health, financial inclusion strategies should also address access to other financial services, including savings, investments, insurance and pensions. Insurance and pensions play an important role in the growth of domestic consumption, since lack of access to the safety net they provide is a major factor that compels people to forego consumption in favor of savings.

These are issues to which ABAC and other stakeholders from the private and public sectors as well as international and multilateral organizations in the Advisory Group have called the attention of policy makers and regulators through various dialogues, conferences and consultations and through its annual reports to APEC Finance Ministers over the years. The Finance Ministers have responded very positively to these reports by creating official policy initiatives providing platforms for public-private collaboration in advancing solutions to challenges – the Asia-Pacific Forum on Financial Inclusion in 2010, the Asia-Pacific Infrastructure Partnership in 2011, and the Asia-Pacific Financial
Forum in 2013. As part of the APEC Finance Ministers’ Process, these initiatives have been given key roles in the implementation of the Cebu Action Plan. ABAC is managing these initiatives in collaboration with various stakeholders through the Advisory Group. This report provides an update on the progress of these and related initiatives.

I. DEVELOPING FINANCIAL MARKETS TO SUPPORT SUSTAINED, BALANCED AND INCLUSIVE GROWTH

The APFF is an initiative that is focused on promoting the contributions of the financial industry and financial markets to the achievement of sustained, balanced and inclusive growth, by serving as platform through which the public and the private sectors can collaborate toward this end. Since its establishment, various public and private sector stakeholders, including the international organizations participating in the FMP and some finance ministries, central banks and financial regulatory agencies, have come together to jointly progress a number of initiatives under the Cebu Action Plan. These include work that has been started in previous years in the following areas:

- Collaboration in capacity building to assist interested economies in developing their financial infrastructure, in particular credit information, secured transactions and insolvency systems to facilitate and expand MSMEs’ access to credit;
- Regional workshops to help relevant agencies, financial institutions and global supply chain participants identify barriers to trade and supply chain finance, innovative solutions to address these challenges and opportunities for collaboration;
- Regional public-private sector dialogues on advanced technology in finance (fintech), particularly in the areas of lending, payments and regulatory technology (regtech) to promote collaboration among regulators, industry participants and experts in developing balanced regulatory approaches;
- Workshops to assist relevant stakeholders in interested economies, including regulators and industry participants, in identifying and addressing legal, policy, regulatory and market issues to enable the effective use of repurchase agreements (repos) and over the counter (OTC) derivatives for the purpose of improving the depth and liquidity of bond markets;
- Collaboration with regulators and industry to assist in progressing and increasing membership in the Asia Region Funds Passport;
- Advice to regulators of interested economies in implementing the APFF self-assessment templates to improve availability and quality of information for capital market investors in three key areas: issuer disclosure, bond market data and investor rights in insolvency;
- Development of recommendations for expanding the role of the pension fund and insurance industries as long-term investors in infrastructure projects and capital markets;
- Discussions and conferences to address policy and practical barriers to the expansion
• Encourage relevant officials and regulators to collaborate with APFF’s capacity building activities in:
  o promoting deep and liquid bond, repo and derivatives markets;
  o modernizing credit information, valuation, secured transactions and insolvency systems;
- developing pilot programs for cross-border supply chain financing; and
- expanding long-term investors’ roles in infrastructure development.

- Support APFF’s efforts to develop a regional platform for public-private dialogue on harnessing fintech to create inclusive, sound and efficient financial systems.

- Encourage senior finance officials to work with APFF in 2018 to finalize the roadmaps envisioned in the CAP for:
  - developing the region’s financial market infrastructure;
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- Encourage more economies to host discussions on the Asia Region Funds Passport (ARFP) where APFF can convene experts from regulatory, industry, multilateral and academic institutions.

- Encourage relevant authorities to collaborate with APFF in finalizing in 2018 a work program for the Islamic Infrastructure Investment Platform (I3P) to help expand cross-border investment by Islamic financial institutions in infrastructure.

II. Creating a Robust Pipeline of Bankable Infrastructure Projects

Throughout the years, the APEC FMP has undertaken various activities to promote the development of a pipeline of bankable infrastructure PPP projects in the region. This work
has resulted in the development of platforms and tool kits that can be harnessed in assisting economies to this end. These include the creation and expansion of a network of PPP centers in several economies that can serve as hubs for the accumulation, transmission and dissemination of knowledge on PPPs in these economies from 2013 onwards, the compilation of best practices based on the conclusions of various conferences and dialogues into the Implementation Roadmap to Develop Successful Infrastructure PPP Projects in the APEC Region in 2014, and the launch of the Cebu Action Plan in 2015, which defined a multi-year plan for advancing key deliverables and for closer cooperation among ADB, OECD, WB, the Global Infrastructure Hub, the Sustainable Infrastructure Foundation and the private sector through ABAC, the APIP and APFF.

With these elements in place, the key issue looking ahead is how this concentration of expertise and resources can be harnessed to achieve tangible results in terms of concrete PPP projects being brought to the market in developing economies and a robust pipeline of such projects being created. This year, APIP and APFF stakeholders initiated a new approach based on a program of dialogues with selected economies targeting a specific sector where there is an urgent need for infrastructure and where successful initial projects can serve as models for the design of similar projects that can be the beginnings of a future project pipeline.

At a High-Level APEC conference held in Tokyo,2 participants alerted the Advisory Group Chair to the growing need to accelerate the development of infrastructure to deal with the exponentially growing volume of waste being generated. This challenge is particularly acute in the Asia-Pacific region, which is expected to produce 1.4 billion metric tons of municipal solid waste annually by 2030.3 With the revenue gap in financing for the municipal solid waste sector having reached an estimated US$40 billion, governments are keen to create adequate political, economic and regulatory conditions that enable the flow of investment in waste management solutions from private investors, multilateral development banks and other sources of capital, and to promote improved capacity on the

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2 APEC High Level Meeting on Overcoming Barriers to Financing Waste Management Systems to Prevent Marine Litter, 28-29 September 2016, Mita Kaigisho Conference Center, Tokyo, Japan.

part of the public sector to develop bankable projects.

In response to this and the proposal for collaboration from the Japanese Government, which is undertaking a joint project with Indonesia to develop waste-to-energy projects, APIP and APFF stakeholders participated in a dialogue to contribute insights to the Indonesian central and local governments and relevant supporting institutions on the best way forward. Solid waste management systems are critical for Indonesia given its archipelagic geography, its stage of economic development and urbanization and the accelerating growth of solid waste production that is rapidly outstripping capacity to manage this waste. This dialogue came at a time when Indonesian cities are looking for solutions to this issue and exploring a variety of actions, including improving basic collection, waste-to-energy projects and new technologies for vertical integration.

The dialogue brought to the table together with the private sector key institutions with which APFF and APIP are actively collaborating in the area of infrastructure finance. These included the Asian Development Bank (ADB) the World Bank Group (WBG), the Global Infrastructure Hub (GIH), the Sustainable Infrastructure Foundation (SIF), and bilateral development agencies, among others. By focusing discussions on the most important concrete and practical issues to address key obstacles to the flow of private sector investment in Indonesian solid waste management projects, this dialogue aimed to contribute to the development of models that can help catalyze the growth of PPPs in waste management in Indonesia and across the region.

The dialogue allowed participants to identify specific key challenges in designing and implementing effective waste management approaches through public private partnerships in Indonesia, as well as to recommend ways to meet these challenges. Private sector participants shared their experiences with actual waste management projects in other developing economies and how they dealt with challenges in these markets. The conclusions of the dialogue report were seen as a basis for developing technical guidelines to help government officials of major Indonesian cities in designing waste management projects.

The Japanese Government has decided to provide financial support for the development of technical guidelines in Indonesia, dialogues and training seminars for relevant local government officials in cooperation with several ministries, and invited APIP and APFF to help involve private, public and international experts in the development of the guidelines and the seminars. Discussions with the Philippine, Vietnamese and Mexican governments are also ongoing to hold dialogues on PPPs in waste management in the near future.

**Recommendation**

- **Support sector-specific dialogues and capacity building activities in interested economies that seek to leverage the expertise in international and specialized organizations like the ADB, OECD, World Bank Group, Global Infrastructure Hub, Sustainable Infrastructure Foundation and the private sector through ABAC, APIP and APFF, starting with PPPs in waste management. These activities should aim for helping relevant agencies launch successful initial projects that can serve as models for similar ones and catalyze the creation of a pipeline of bankable PPP projects in**
III. Expanding Access to Finance

The Asia-Pacific Forum on Financial Inclusion is a policy initiative under the APEC Finance Ministers Process that has been entrusted to the APEC Business Advisory Council (ABAC). While the Forum provided an opportunity for stakeholders to review the current trends, recent achievements, ongoing challenges and opportunities relative to financial inclusion in the region; its primary purpose was to provide priority recommendations to policy makers and regulators to enable greater financial inclusion throughout the APEC region. The agenda for the 2017 ABAC Asia-Pacific Forum on Financial Inclusion provided a platform to facilitate discussions amongst nearly 200 key financial inclusion stakeholders to develop recommendations in a collaborative forum for policy reform and strengthening. These recommendations, which are outlined below, will be further detailed in the Forum report which will be disseminated to APEC stakeholders in October 2017.

The Asia-Pacific Forum on Financial Inclusion was hosted by the Asia-Pacific Economic Cooperation (APEC) and the State Bank of Vietnam and organized by the Foundation for Development Cooperation (FDC) and the APEC Business Advisory Committee (ABAC) in partnership with the Citi Foundation, the Asian Development Bank Institute (ADBI), the Asian Development Bank (ADB), the Vietnam Bank for Agriculture and Rural Development (VBARD) and the World Saving and Retail Banking Institute (WSBI). Additional support for the Forum was provided by the International Finance Corporation (IFC), the Alliance for Financial Inclusion (AFI), Deutsche Bank and the GIZ Regulatory Framework Promotion of Pro-poor Insurance Markets.

Madam Nguyen Thi Hong, Deputy Governor of the State Bank of Vietnam, opened the Forum remarking that despite the achievements made for financial inclusion globally, many challenges remain. These challenges include a broad range of issues such as the lack of formal financial services, gender inequalities, income gaps, development disparities, low levels of financial literacy and education, the quality of regulatory frameworks for consumer protection and supervision, insufficient investment for financial infrastructures and the cyber security threats in the digital age. To overcome these challenges, Madam Hong encouraged stakeholders should seek opportunities to collaborate, develop effective financial inclusion strategies and learn from the lessons and experiences of other economies.

The Asia-Pacific Forum on Financial Inclusion has provided an important opportunity for stakeholders to gather and develop partnerships, programs and new ideas to support their financial inclusion efforts. The following sections of this report provide a brief overview of each of the topics discussed along with a summary of the specific recommendations for the consideration of APEC policy makers and regulators.

1. Defining Financial Inclusion

Financial inclusion is a multi-dimensional concept and as such it is not easy to define or to measure. While there is wide consensus that it is a key component of human wellbeing and has a positive effect on economic growth and development, there is no common definition of financial inclusion. Each economy is unique and determines its definition depending on
the specific characteristics of its financial sector and national priorities. Even so, it is essential to have a definition of financial inclusion as it provides the parameters for strategy development, target setting, measurement of progress and impact assessment.

Key conclusions:

- As a multi-stakeholder development issue, regulators need to engage with multiple stakeholders, including practitioners and other government agencies, to develop a shared understanding or definition of financial inclusion. Achieving this will enhance strategy development, execution and measurement. However, the creation of a universal standard should not delay nor displace the focus each economy needs to give to the local ecosystem.

- Regulators should seek to adopt a framework for defining financial inclusion which includes all of its key dimensions including access, usage and quality.

- A framework for defining financial inclusion should include considerations for several relevant aspects including providers (formal and informal), delivery channels and products. The framework should also promote customer centricity and identify clear target groups.

2. Agrifinance

Agriculture remains a major source of livelihood for the majority of population living in rural areas in developing countries. Improving both public investments in agri or agri-aligned sectors and private investments are vital. Specific policy support is required from the government to enable solutions that will improve access to finance for farmers. With the impacts of climate change becoming more prevalent on the agriculture industry, policies which support climate resilience are also increasing in their importance.

Key conclusions:

- The focus on agri-technologies and finance supply chains needs to be urgently increased to meet food supply needs and to de-risk current threats – such as climate change – to agricultural production.

- Agriculture still remains a major source of livelihood for the majority of population in the Asia-Pacific region. Policies should be formed which support the resilience of clients in agriculture value chains against potential climate-related shocks.

- Technology platforms for agrifinance have the potential to provide significant benefits, including reducing costs and increasing yields. Regulatory frameworks need to be structured that support the implementation of such technologies.

- Much of the agriculture sector within APEC economies is almost entirely cash-based. Regulators need to prioritize methods which will enable the digitization of the economy as a way to significantly increase efficiency, cost-benefits and provide secure and traceable transactions.
3. Distributed Ledger Technology (DLT) Across Financial Services: Prospects and Emerging Policies

Advanced technologies like the Distributed Ledger Technology (DLT) can play a major role in re-shaping the future of financial services. However, these new technologies and the new business models that they create may not comfortably fit within existing regulatory categories, which could eventually cause an imbalance between inclusiveness, innovation and risks to inhibit the benefits that society could have received. To facilitate better outcomes, a better understanding is needed of the prospects and implications of DLT, related emergent financial services models and the legal and regulatory considerations.

Key conclusions:

- Regulators need to be open to distributed ledger technology and work with the relevant stakeholders to understand its potential for financial inclusion and associated risks. DLT should not, however, be considered a “one-size-fits-all” application and should be examined within the local context of the economy to determine how it can be most appropriately integrated.

- Proportionate regulation is important to balance innovation with trust and market integrity. Regulators also need to consider how to achieve fair and equitable competition; particularly as DLT solutions would likely co-exist with formal banking channels and leverage on each other.

- Attention is needed on cross-border harmonisation of similar regulatory approaches to DLT applications to support scalability of solutions and to minimise risks of fragmentation of regulatory approaches that can result in unintended barriers.

- Appropriate governance frameworks are needed that can promote technological interoperability with traditional payment systems, appropriate scalability and support transparency for data collection to facilitate monitoring and regulatory/policy calibrations.

4. Financial Education

Financial education is a major issue impacting many APEC economies. Financial literacy can help spur economic growth by improving management of savings and investment. Although many economies in have experienced strong economic growth, financial literacy in remains low. Financial literacy is increasingly important as technology brings financial services to people who have not previously had access to financial services; consumers and small- and medium-sized enterprises need financial education to understand how to securely and effectively utilize the new financial services. Financial education can also help strengthen retirement planning and mitigate the challenges faced by aging societies.

Key conclusions:

- Regulators need to consider ways to work effectively with the industry to develop and implement new methods of reaching target audiences for financial education. Some examples of such collaborations include incorporating financial education into school curriculums or introducing financial training programs within workplaces.
Each economy should develop their own financial inclusion strategy. These strategies should include considerations for the many different models needed for different target groups (i.e. adults vs youth) as well as economy-specific elements based on the local context and needs.

Financial education needs to focus as much on knowledge and awareness about finance and its products, as it does on building trust in fast-moving developments in areas such as digital and mobile finance if financial inclusion using these more dynamic technologies will be achieved.

5. Creating an Enabling Environment for Micro-financial Products and Services

Client-centric financial products and services which are designed to address the constraints and challenges faced by different types of clientele are essential to successful financial inclusion strategies. Agencies aiming to achieve financial inclusion through responsive product design are generally lacking in adequate information regarding customers’ demand, knowledge and perception about the financial products and services on offer. They are also faced by the challenge of creating a regulatory environment that allows ease of access to services for a diverse set of clientele in an efficient and cost-effective manner. Policy makers and regulatory bodies are also challenged by the need to regulate and supervise a range of financial service providers. The goal of sustainable financial inclusion through the provision of client-focused financial products and services to micro finance clients requires responsive policy and an enabling regulatory environment that can support product design and innovation, regulate and supervise a range of service providers and delivery channels.

Key conclusions:

- The last three decades have seen a significant increase in the number of products and services becoming available; and the rise of fintech and digital has created even greater opportunities than ever before. In order for regulators to keep up with the fast-moving developments of new technologies, they need to ensure regular interaction with market players.

- Eligibility for access is a major barrier for inclusion which can largely be addressed through new technologies such as bio-metric card systems that can reach the mass of population. Regulators have an important role to play by ensuring that regulations enable the necessary investment and innovation takes place as the industry increasingly moves towards digital solutions.

- Regulators should encourage the development of new products that address asset creation and risk-mitigation such as investment tools linked with savings and a wider range of affordable and effective insurance products.

- Enhanced monitoring and supervision will result in greater trust and confidence among consumers. This should include processes which will enable prompt action on unfair practices, improved consumer protection and grievance redress mechanisms.

6. Developing Microinsurance Roadmap for APEC Emerging Economies

The Microinsurance Roadmap (MIR) is being developed to provide the APEC Finance
Ministers with practical guidance to assist policy makers and regulators expand access to microinsurance products and develop greater awareness among consumers about the benefits of insurance. As part of the MIR’s development cycle, stakeholders are invited to provide inputs on several aspects of the roadmap such as specific elements which can contribute to increasing access to inclusive insurance, resources, both public and private, that can be drawn to support the MIRs implementation, methods to engage the government sector to secure their support for the MIR and approaches to implement the roadmap considering sub-regional grouping, economy contexts, and maturity levels of various financial inclusion environments.

**Key conclusions:**

- In order for the APEC Microinsurance Roadmap to be successful, governments need to champion it locally and ensure an enabling environment as well as specific incentives to support implementation through the private sector.

- Governments can also play a lead role in promoting awareness among consumers to help them understand the value of insurance and to better determine which products would be most suitable for their needs.

**7. Online Supply Chain Finance: Key Challenges and Policy Requirements**

Supply Chain Finance (SCF) is a way to organize and optimize financial services by leveraging the commercial and social relationship on a chain. In recent years, more and more SCF players are moving to the Internet-based platforms in the Asia Pacific Region. This has proved to be useful for scaling up credit and other financial services to MSMEs, rural and agricultural businesses, suppliers, distributors and traders, etc. There are several key challenges relating to SCF, including the need for specific legislative, policy or regulatory reforms to expand access; particularly to rural and agricultural clients.

**Key conclusions:**

- Governments need to establish the necessary legal foundations for the use of receivables and inventory as collateral, and to provide creditors with appropriate priority and enforcement rights. Achieving this may require reforms in secured transaction law, insolvency law, e-commerce law and laws relevant to the digital transfer of documents.

- Regulators should seek to develop a friendly business environment for both banks and non-deposit taking lenders to originate, underwrite and manage SCF services efficiently. In particular, regulators should not place undue constraints on SCF business models.

- Regulators should encourage the creation of electronic finance platforms by different players. Where necessary, business associations and government development agencies can also set up market level platforms that operate on an open and commercial basis. Government support for MSME finance can be channeled through such platforms in a commercially sustainable way.

- Regulators should promote cross-border SCF which will in turn help to deepen regional trade and economic integration. Among others, regulators should develop
practical KYC and other data transfer requirements. Credit reporting information also needs to be made available to the cross-border SCF players.

8. Digital Identity

As finance, payments and personal money-management increasingly become all-digital, one thing is clear: creating, managing and protecting digital identities for individuals has become a critical need. Discussions and collaborations between stakeholders is crucial to understand the diverse perspectives of the pioneering digital identity initiatives around the world, best practices and key areas of focus. Discussion and debate is also needed to identify who, in the increasingly complex digital world, is best placed to manage the new type of digital identities everyone will need and how regulatory and legal frameworks need to adapt.

Key conclusions:

- Regulators need to understand that the ability of individuals to be able to prove their unique identity in real time, on location as well as remotely, is fundamental to realising the full value that sits across the financial inclusion spectrum.
- Regulators should make it a national priority to design and universally roll out digital identity and authentication mechanisms, with due consideration to privacy and data security.
- Regulators need to seize the short-term opportunity to make national digital-identity frameworks interoperable, in support of:
  - lower cost to provide financial services
  - reduced friction in cross-border trade and remittances
  - enhanced AML, KYC and prevention of terrorism funding
  - better data flows

Recommendation

- The Advisory Group encourages relevant authorities in APEC member economies to study the report and conclusions of the 2017 Asia-Pacific Forum on Financial Inclusion and adopt or implement its recommendations as applicable to their respective markets.

IV. Improving Valuation Practices in APEC

In the light of the impact of valuation on a wide range of economic and business areas, there is a need to ensure that the valuation profession has the capacity to undertake its work in a professional and credible manner that gives a central role to standards, ethics, independence and objectivity, competence and transparency. The key components of such a framework include the availability of a robust regulatory regime appropriate across all asset classes, the presence of strong professional organizations, access to reliable information, availability of education and training and the profession’s adherence to widely accepted valuation and professional practice standards, followed by appropriate and visible enforcement.

The Advisory Group’s work in promoting high quality valuation practices and professionals
across member economies has been led by the International Valuation Standards Council (IVSC) and involves valuation professional organizations (VPOs) across the region, experts from industry and other relevant bodies. This work focuses on (a) promoting region-wide convergence of valuation practices; (b) exploring the valuation landscape in Asia Pacific economies; (c) discussing model valuation architecture, associated best practice, the role of commonly accepted valuations standards and of VPOs; (d) recording strengths, weaknesses and impediments to improving valuation practices and identify where there is need to develop and/or reinforce valuation infrastructure; (e) prioritizing opportunities to enhance existing landscape and implementation challenges; and (f) outlining the development process for member economies that lack valuation infrastructure.

Stakeholders have since completed work on two documents, which are now both available online. The first is the audit of the valuation landscape in APEC’s 21 member economies, covering various asset classes. The second is the template of best practices, which describes various options for establishing best practice landscapes for valuation practices in member economies. Roundtables were convened in Malaysia and Papua New Guinea in 2016 to discuss best practices.

Recently, interest has been generated across a number of economies by the issue of International Valuation Standards (IVS) 2017 in February this year. IVS 2017 represents a major update of the international valuation standards promoted by IVSC as the benchmark to be adopted when valuing tangible and intangible assets both in-economy but, more particularly, on a cross border/boundary basis. The response has been most positive and fits well with the agreed strategy to establish a common set of standards across the 21 APEC economies and to support the development of a robust valuation profession to ensure the delivery and use of such standards. A copy of IVS 2017 has been circulated for members’ reference and information.

The Working Group continues to receive requests for workshops and roundtables to address, in particular, in-economy valuation challenges and issues. These largely focus on the desire of economies to provide further financial assistance and support to their SME communities and as a result legislation and initiatives that are being introduced around secured lending. This often involves the use of intangible assets as collateral and this is unchartered ground for many banks and financial institutions. The Working Group has already held seminars and fora in Thailand, Philippines and Indonesia to explain and elaborate how to approach the valuation of such collateral and believe that working with FIDN there is scope for a structured program of dialogues across many of the APEC economies, including in this year APEC host, Vietnam.

**Recommendation**

- The Advisory Group encourages APEC member economies to host discussions with ABAC, the International Valuation Standards Council (IVSC), valuation

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4 This may be downloaded from [http://www2.abaconline.org/assets/2016/3%20Shenzen/Resource_Material_-_APEC_Valuation_Landscape.pdf](http://www2.abaconline.org/assets/2016/3%20Shenzen/Resource_Material_-_APEC_Valuation_Landscape.pdf).

professional organizations (VPOs), experts from industry and other relevant bodies on improving the quality of valuation practices and professionals.