Meeting Paper 2-A

Report of the Meeting of the Advisory Group of 4 November 2017, Da Nang, Viet Nam

Office of the Advisory Group Chair

PURPOSE For consideration.
ISSUE N.A.
BACKGROUND N.A.
PROPOSAL N.A.
DECISION APPROVE THE MEETING REPORT

First Meeting 2018
2 February 2018
17:15 – 19:00
Aquamarine Room, Hilton Auckland
Auckland, New Zealand
Welcome and Introduction

The Acting Advisory Group Chair, Mr. Kobsak Duangdee, presided over the meeting. In his opening remarks, he thanked the Advisory Group partner institutions for coming. He noted that because the APFF Caucus Meeting was held immediately in the previous session, the same participants were present, and the time for this particular meeting is very limited, the Advisory Group meeting will dispense with the usual summary of APFF Caucus Meeting discussions and will deal only with infrastructure and financial inclusion. [Due to this special case, a summary of the APFF Caucus meeting is appended to this meeting report.]

Review of the Third 2017 Advisory Group Meeting in Toronto, Canada
The Advisory Group Coordinator, Dr. J.C. Parreñas, presented the draft Report of the Advisory Group Meeting of 25 July 2017 held in Toronto, Canada.

The Advisory Group approved the Meeting Report.

Outlook for Ongoing Initiatives: Asia-Pacific Infrastructure Partnership (APIP)
The Coordinator updated participants on the activities of APIP. He mentioned that in 2017, APIP held a fourth dialogue with Indonesia, which was held on 13 March in Jakarta, in collaboration with the APFF Insurance and Retirement Income Work Stream. It was hosted by the Indonesian Government and sponsored by the Japanese Government. APIP partners also collaborated in the APFF Conference on Developing a Work Program for the Islamic Infrastructure Investment Platform (I3P), which was held on 10 October in Kuala Lumpur.

He reported that this year, the APIP developed action plans for implementation in 2017-2019, as follows:

- First, it will focus on providing feedback on the progress of Pillar 4 of the CAP.
- Second, it will provide assessments on the delivery of PPP projects in the region and lessons learnt, in collaboration with the Global Infrastructure Hub.
- Third, it will promote the collaboration of the region’s network of PPP centers with multilateral institutions.
- Fourth, it will continue its dialogues offering targeted assistance for PPP programs in interested economies.
Fifth, it will help economies establish PPP project pipelines in specific sectors, starting with waste management projects in Indonesia, the Philippines and Viet Nam.

Mr. Alberto Salas, ABAC Chile, delivered a presentation on the infrastructure challenges that Chile is facing. He highlighted the key role of infrastructure in the expansion of the economy and in the efforts to create a more equal society and catalyze economic growth. He noted that Chile has been successful in mobilizing private finance in the development of its infrastructure, citing that for the 23 years ending in December 2016, 82 contracts worth USD 19 billion were awarded.

Mr. Salas enumerated Chile’s key infrastructure-related challenges, which are as follows:

- the need to permanently monitor the public infrastructure that Chileans need;
- developing public policies to deal with any shortfalls and ensure investment levels that support them;
- designing an institutional framework to execute the necessary projects;
- the importance of having strong information systems that enable continuous monitoring of developments; and
- the development of a shared view by both public and private sectors of public infrastructure, beyond the government in power.

He also described the work of the Council for Infrastructure Policies (Consejo de Políticas de Infraestructura), which plays a key role in the development of infrastructure in Chile. The Council is an initiative that brings together people with a distinguished public and private background in the areas of analysis, design and implementation of governmental policies regarding public infrastructure. Among its 30 members are Chile’s former presidents Eduardo Frei Ruiz-Tagle, Ricardo Lagos and Sebastián Piñera, and distinguished ministers and practitioners. Established in 2013, the objective of the Council is to collaborate with those responsible for developing infrastructure policy in Chile and generate recommendations resulting from the dialogue and debate between different sectors of society.

Mr. Salas updated participants on Chile’s concession plan for 2014-2021, of which highways take up 27 percent of subsidies and interurban routes 15 percent. Other projects are airports and aerodromes, cable cars and public transportation. In his final remarks, he stressed that (a) openness to trade and international integration have played a key role in Chile’s infrastructure development; (b) Chile’s long-standing concession system (1990s) has placed it at the forefront of the development of public infrastructure in Latin America; (c) there is an expected US$8 billion in new concessions until 2021; and (d) public infrastructure spending is expected to increase to 3.5 percent of GDP from the current 2.5 percent.

The Advisory Group endorsed the way forward for APIP as proposed, and thanked ABAC Chile for its presentation.

Outlook for Ongoing Initiatives: Financial Inclusion

Ms. Michelle Curry and Mr. Shawn Hunter of FDC presented a paper on inclusive growth and development within APEC. The following were discussed in the paper:

- The work of the Financial Inclusion Caucus under the auspices of ABAC was established as an FMP policy initiative in 2010, and culminates in the annual Asia-Pacific Forum on Financial Inclusion. The Forum provides an important platform for economic development experts and other key stakeholders to meet and discuss opportunities, barriers and emerging trends relevant to financial inclusion, and its progress. As an output of the Forum several recommendations were developed to provide guidance to APEC policy makers and regulators.

- The 2017 Forum was hosted by the State Bank of Vietnam in Hoi An, Vietnam. The discussions which took place at this Forum reflect the significant opportunities the digital revolution has created to enable the poor to have easier and faster access to, and increase their usage of, financial products and services. Pervasive themes within the financial inclusion agenda include the challenges brought by the rise and proliferation of fintech; how to harness the opportunities it creates while also balancing and managing the various risks it entails for all citizens, including
those outside the formal financial system and therefore typically outside regulatory frameworks and oversight. These are likewise consistently represented within the recommendations.

- The recommendations placed great emphasis on the larger role that governments and regulators need to play in creating enabling environments to facilitate digital distribution, uptake and benefits realization. Generally, it is an evidence-based observation that understanding the opportunities of digital finance in inclusive growth is one thing, and driving effective implementation and benefit outcomes is quite another, and while progress is being made, the challenge remains significant.

- The full report has been published and is now available on the ABAC website,¹ but some key recommendations include:
  - Maintaining an increased focus on agrifinance and the need for more effective coordination across the value chain including in digital innovations to protect yield and quality and secure food supply.
  - Leveraging supply chain finance electronic platforms and making these more accessible to the MSME sector, improving the conditions for KYC and cross border credit data sharing, which will enable broader-based inclusion in the opportunities that upswings in trade conditions present.
  - Understanding the opportunity of distributed ledger technologies which to be effective will need greater cross-border collaboration to achieve the required benefits of scalability but where technical and data collection and protection standards are vital.
  - Unique digital identity that will facilitate and accelerate inclusion but also will see the collection of data at the level of the unique consumer – data which does not exist today and obviously data that is essential to the understanding of real inclusion, and also to protect against the alarming trends showing over- indebtedness of the poor where it is evidenced across the region that the number of debt cycles and the number of multiple concurrent loans are increasing and are not well constrained by existing regulations.
  - Reducing cost and friction in cross-border trade and remittances, and strengthening AML and anti-fraud protocols and processes are essential steps in the value chain.
  - Creating the right measurement frameworks that represent an international standard, and increasing the focus on other elements of the ecosystem such as education and literacy, are key dependencies in the roadmap towards greater financial inclusion and as a corollary, economic growth and social inclusion.

- Further, defining and implementing the incentives, education and technology required to encourage saving behavior, particularly among the rural poor, is vital. Until such time the poor can access products and services beyond micro-credit and have the opportunities to create financial security, their inclusion prospects remain dim.

- At the level of the individual who is poor, the benefits of financial inclusion are well documented and the correlation between greater financial security (not just access to micro-credit) and improvement on all indices relating to measurement of prosperity is well established. At a macro-economic level, it is estimated that the informal economy represents circa 30-35% of GDP. The economic growth and social inclusion imperative – more growth with greater equity - across all economies would therefore be assisted by policy, structural reforms and programs that can bring to life digital financial inclusion and its benefits, such as:
  - aiding the poor to participate in a spectrum of financial instruments that build greater and inter-generational financial security;

¹ The full report can be downloaded from https://www2.abaconline.org/assets/2017/Financial_Inclusion/2017_Asia-Pacific_Forum_on_Financial_Inclusion_Summary_Report.pdf
- enabling the poor to participate in ‘real’ or formal economy opportunities as represented by employment, wage growth, superannuation, pension schemes;
- providing opportunity for the poor to accumulate productive assets; and
- promoting local investment in the MSME sector.

The recommendations emphasize the insufficiency of suggesting that policy and regulatory reforms are the sole solution. The ecosystem is a complex one and it is incumbent on all stakeholders including the private sector to create multi-stakeholder coalitions and to collaborate more efficiently and effectively on frontier development programs with clearly defined social and economic outcomes. In doing so, cohesive benefits can be achieved via well-judged and regulated piloting of responsive policies, informed by appropriate case studies and cross-border leverage of lessons taken from policy action. Greater gains can be made in the implementation of the inclusion agenda through:
- defragmenting effort and investment;
- collaborating more efficiently and effectively on market based initiatives and opportunities; and
- instigating industry or ecosystem-based dialogues with regulators on frontier development programs with clearly defined social and economic outcomes.

The real impact of financial inclusion comes in broadening the definition and work to incorporate policy and practice that enables productive asset accumulation – land title, home ownership, business assets for MSMEs, access to credit at reasonable interest rates, and ultimately leads to the financial frameworks that capitalize MSMEs, that provide greater security than can be realized inter-generationally, removing barriers to participation in the real or formal economy, and recognize and capture the contribution of all players in an economy in its wealth creation prospects and pursuits. These outcomes conform to the priorities of the Cebu Action Plan and address a number of imperatives of the UN 2030 Social Development Goals.

The following summarizes the core areas of the financial inclusion work being led by FDC under the auspices of ABAC, including the 2017 key focus areas.

- The three pillars that define the focus for inclusive growth and development are:
  - Driving deeper and broader financial inclusion: (a) consumer protection; (b) digital finance/mobile banking; (c) accessing more, and more affordable, products and better financial security e.g. micro-pensions/micro-insurance; (d) savings and easy access to digital deposits; (e) remittances; (f) distributed ledger technology; and (g) supply chain finance.
  - Accelerating productive asset accumulation: (a) home ownership/land titles/livestock; (b) investing in home improvement; (c) increasing opportunities to dignified retirements through access to pensions/superannuation; and (d) increasing security through access to affordable insurance.
  - Enabling inter-generational wealth creation: (a) role of government in removing barriers to graduation into formal economy; (b) mobilizing investment capital towards the MSME sector; and (c) leveraging progress on financial market infrastructure to provide greater financial opportunity and benefits for the poor.

- The three enablers to create the necessary ecosystem are:
  - Data and insights: (a) credit reporting and micro-credit bureaus; (b) secured lending; (c) cross border data flows; (d) customer centricity; (e) financial / unique identifier; (f) non-financial data; and (g) unique digital identity.
- Policy and capacity: (a) microfinance regulation; (b) leveraging, with regulation, of non-traditional banking for the poor e.g. agent banking; (c) consumer education and financial literacy; and (d) institutional frameworks and safeguards.

- Research and learning: (a) collaboratories with academic and development institutions and policy think tanks; (b) pilot programs; (c) UN 2030 Sustainable Development Goals measurement frameworks; and (d) Cebu Action Plan measurement frameworks.

In the ensuing discussions, participants pointed to the synergies that can be developed with parallel work being undertaken in APFF work streams, such as microinsurance.

The Advisory Group endorsed the concepts presented for the way forward in the work on financial inclusion, welcomed the publication and dissemination of the 2017 Forum report, and looked forward to the holding of the 2018 Forum at the ADB Institute in Tokyo.

Chair’s Closing Remarks

The Chair delivered his closing remarks, thanking the sherpas of APFF, APIP and the Financial Inclusion Forum, and the ABAC members, staffers and secretariat who have supported and actively participated in the work of the Advisory Group in 2017. He also thanked ABAC Vietnam for hosting the meeting and all the participants for coming to join it.

Adjournment

There being no other matters to discuss, the Chair declared the meeting adjourned at 17:05.
APPENDIX
SUMMARY OF THE APFF CAUCUS MEETING
15:00-16:15, 4 November, AGB3, Ariyana Convention Center, Da Nang, Viet Nam

Acting APFF Chair Mr. Kobsak Duangdee (ABAC Thailand member and Secretary General, Thai Bankers’ Association) called the meeting to order at 15:10. He announced that he has been designated by the ABAC Chair to succeed outgoing APFF and Advisory Group Chair Mr. Hiroyuki Suzuki. He introduced the new Acting Co-Chair, Mr. Nobuhide Hayashi (ABAC Japan member and Chairman of Mizuho Bank), who has also been designated by the ABAC Chair. Mr. Hayashi delivered brief remarks expressing his acceptance of this role to support the Chair and requesting the cooperation of ABAC members and Advisory Group/APFF Sherpas.

The APFF Coordinator, Dr. J.C. Parrenas, presented a summary of the 2017 activities and initiatives. Following are the highlights of the summary:

- Between the 2016 and 2017 APEC Finance Ministers Meetings, 28 activities (workshops, dialogues and conferences) under the APFF, APIP and the Financial Inclusion Forum have been held across the region, in support of the Cebu Action Plan’s implementation. Another 4 activities are scheduled to take place for the remainder of the year.

- Activities related to promoting SMEs’ access to finance focused on credit information, secured transactions and insolvency. APFF has been bringing international experts to share knowledge on credit bureaus, collection of consumer data, modernization of secured transactions laws, and collateral registries. This year APFF provided this assistance to policy makers and local advisers in Brunei, China, Philippines, Thailand and Vietnam. APFF is also undertaking dialogues on supply chain finance, focused on ensuring access to working capital for SMEs while complying with KYC rules and the use of new technologies and innovation.

- Significant work on financial inclusion has also been undertaken, including the holding of the 2017 Asia-Pacific Forum on Financial Inclusion, which was hosted by the State Bank of Vietnam.

- Ongoing work on fintech is focused on how it can be used to expand access to finance. This year, APFF established a platform for industry to help update regulators on the fast moving developments. A seminar was convened with ADB last July in the Philippines and a workshop held in October in Thailand.

- Work on capital markets has focused on addressing the lack of liquidity of local currency bond markets, which has been a major issue due to the lack of a diverse investor base and hedging instruments. APFF also focused on encouraging membership in the Asia Region Funds Passport and this year a dialogue in Taipei with relevant financial supervisory and regulatory officials was convened. APFF is also helping to enable the use of derivatives and title-transfer repos, and held dialogues with regulators in Thailand and China.

- The Cebu Action Plan called for a roadmap for financial market infrastructure and this year, APFF completed a first draft based on initial discussions with industry and regulators through conferences in Korea and the Philippines. This roadmap is geared to reducing costs and risks and increasing connectivity, in order to improve liquidity in local currency bond markets. This year APFF gathered together international organizations, regulators and industry participants to identify key issues that need to be addressed, and submitted a draft roadmap for discussion to Finance Ministers.

- On infrastructure, work is being undertaken on two initiatives. On the supply side, APIP and APFF are bringing in the private sector to help governments develop bankable projects in waste management systems. This year, a dialogue with Indonesia was held and next ones are being discussed with the Philippines and Vietnam.

- On the demand side, the focus has been on expanding the long-term investor base, particularly insurers, pension funds and Islamic financial institutions. This year, meetings in Canada, Hong
Kong China, Malaysia and Thailand were held to identify ways to address obstacles. APFF is developing a work program to tap into a new source of investment for infrastructure, which are Islamic financial institutions. A work program is currently being developed to address various obstacles to cross-border investments related to alignment of definitions, design of hedging instruments and tax treatment among others.

- Work on financial resilience has focused on two issues, microinsurance and disaster risk financing. APFF collaborated with international organizations, regulators and industry to develop a draft roadmap for expanding the coverage of microinsurance in APEC. The draft roadmap, which is one of the deliverables under the Cebu Action Plan, was submitted to APEC Finance Ministers and proposed for discussion and consideration in 2018.

A presentation on the work of APFF related to retirement and long-term investments was delivered by Mr. Makoto Okubo of Nippon Life, Sherpa of the work stream dealing with this issue. Highlights of the presentation were as follows:

- The APFF is seeking “triple wins” through its work on retirement income and long-term investment, as follows: (a) Consumers receive high and stable returns for long-term savings. (b) The financial sector is able to access deeper capital markets for infrastructure investment. (c) Governments obtain relief from large contingent fiscal liabilities. These can be achieved by addressing the pension/protection gap, the infrastructure/investment gap and the regulatory/accounting gap.

- To address the pension/protection gap, APFF is focusing on promoting (a) mandatory provisions and scalable retirement systems; (b) tax incentives to promote long-term saving products; and (c) product/distribution innovation and financial awareness.

- To address the infrastructure/investment gap, APFF focuses on (a) promotion of infrastructure as a defined asset class; (b) increased fiscal spending by Asian sovereigns within macroeconomic parameters suitable for developing economies; and (c) adoption of various financing vehicles, with a broader public-private partnership framework to promote long-term infrastructure investment.

- To address the regulatory/accounting gap, APFF is focusing on raising awareness about the negative impact of bank-centric regulations applied to the insurance industry, short-term-oriented economic regimes and “One-size-fits-all” models. Key remaining accounting issues include the unit of account, scope for “variable fee approach” and issues related to transition.

In the ensuing discussions, participants confirmed the importance of developing local currency bond markets and convincing regulators to find ways to treat infrastructure as a defined asset class, and address the impact of Basel bank capital rules on long-term investment.

The meeting was adjourned at 16:05.