

THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

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Outcome of the symposium “Financial Inclusion – Regulations to Support MSME financing availability”, 27/28th June, 2011, Manila

Australian APEC Study at RMIT University

<i>PURPOSE</i>	For information
<i>ISSUE</i>	N.A.
<i>BACKGROUND</i>	N.A.
<i>PROPOSAL</i>	N.A.
<i>DECISION POINT</i>	Note the report.

**Advisory Group on APEC Financial System Capacity Building
Third Meeting 2011. Lima 23rd August 2011.**

Item 5: Financial Inclusion

Presentation on the outcome of the symposium “Financial Inclusion – Regulations to Support MSME financing availability”, 27/28th June, 2011, Manila.

Presentation by Ken Waller, Director, Australian APEC Study Centre at RMIT University.

Introduction

In November 2010 APEC Ministers announced the launch of an APEC initiative on financial inclusion to identify concrete actions that financial policy makers can take to expand the reach of financial services to the underserved. The Advisory Group noted that the symposium supported that initiative and the three initiatives adopted by ABAC.

The two-day symposium was the first component of a two- phased initiative. The second component will be a capacity building training program for senior regulators to be convened in Melbourne in the 1st Q 2012.

(The full report of the symposium is in the final stages of drafting and will be provided to Advisory Group members separately).

The primary focus of the symposium was to develop best practice proposals for regulatory and supervisory approaches based on participant expert experiences, international standards, and identified challenges that would give banks and financial institutions as well as capital market players a higher level of comfort in financing MSMEs while also addressing the challenges facing MSMEs in accessing finance.

Around 70 participants and speakers attended included representatives from Australia, Indonesia, New Zealand, Peru, Philippines, Thailand and Vietnam and from India. Central bank, securities and insurance agencies, development banks, commercial banks, academics, NGOs, the IMF, IFC and ABAC participated in a highly interactive event.

The symposium was funded by the Australian Aid Agency, Ausaid, and jointly organized by the Australian APEC Study Centre and the Association of Development Finance Institutions in Asia and the Pacific.

Background

G20 Leaders (and APEC Leaders) have agreed there should be a significant scale-up of SME access to finance in the developing world and G20 have also focused on principles to support financial inclusion and which are being developed through the Global Partnership for Financial Inclusion announced at the G20 Seoul Summit 2010.

The Basel Committee has provided guidance to banking supervisors “Microfinance activities and the Core Principles for Effective Banking supervision”. Both the G20 and the Basel Committee have highlighted the principle of “proportionality” which is to “build a policy and regulatory framework that is proportionate with the risks and benefits

involved in such innovative products and services and is based on an understanding of the gaps and barriers in existing regulation”.

The Basel microfinance principles noted that the tailoring of the core principles requires “a proportional regulatory and supervisory framework that does not add significant costs to microfinance activities across different institutional types and that is also suitable for small microfinance institutions”. A similar approach is adopted by FATF Guidance in relation to AML/CFT.

Key findings of the symposium

Economy experiences discussed at the symposium highlighted the specific challenges and regulatory responses in the Philippines, Indonesia, Peru, Vietnam, Thailand and India. The full report of the symposium will outline developments and challenges /responses of those participating countries; it is hoped that this will provide useful guidance to APEC economies generally.

Overarching themes of the symposium were:

- MSMEs are a key driver for economic growth
- Access to finance is a major constraint to the development of MSMEs in emerging economies
- Sound regulatory policies and laws could go a long way to alleviating that constraint; (see below on proposed regulatory approaches)
- Much can be learned from the policies and regulatory responses of the participating emerging economies including importantly in the use of new technologies and intermediaries for the provision of financial services;
- The use of third party intermediaries by financial institutions is critically important for financial inclusion and should be supported by regulatory agencies;
- Non-bank credit institutions, their role and the scope of their permitted activities should be clearly defined by regulation; the use of third parties and agents to accept deposits is to be encouraged;
- Organisations financing MSMEs have diverse funding sources and diverse funding products such as leasing and factoring are to be encouraged, as well as credit and capital markets in servicing the needs of MSMEs; venture capital as a funding mechanism could be developed if banks held equity in MSMEs;
- Second board listings are unlikely to be attractive to MSMEs, given the complexity of listing rules;
- Mutual funds could be encouraged as a source of funding
- New technologies in servicing MSMEs will require a light touch regulatory approach – space is needed to avoid the stifling of innovation and financial system regulators should keep abreast of innovation in the payments system and in new forms of delivery of financial services.

Regulatory approaches

- Institutions providing similar financial services to MSMEs should be regulated in the same way;
- Financial inclusion requires judicious, supportive and proportionate regulation which encourages innovation, market based solutions and competition;
- Interventions by governments should avoid market distortions;

- There are arguments for liberalising entry by allowing microfinance institutions to transform into banking institutions;
- The trend is to be more flexible in regulatory standards for microfinance – but with an understanding of what differentiates microfinance from other financial services;
- The detail of regulatory policy must always be specific to the economy context;
- Regulation should not stifle innovation;
- The first priority of microfinance regulatory policy should be good governance and regulation of intermediaries;
- The second priority should be to support credit bureaus, collateral registers and a regulatory environment that supports information sharing between financial intermediaries; a third priority is financial literacy;
- Microfinance institutions should not be deposit-taking institutions in their own right but should be agents for high quality, prudentially regulated banks so that MSMEs have the full ambit of regulatory protection.

Concluding comments

The final report will propose 23 best practice objectives and principles that could be considered by the Advisory Group as a contribution by ABAC to APEC Leaders' call to improve MSME access to finance. Those proposals will be provided under the following headings:

- General regulatory principles
- Definition of MSME
- National strategy
- Financial services and providers
- Intermediaries
- Innovation
- Collateral and credit information bureaus
- Consumer/small business protection
- Government support for MSMEs
- Legal Framework (and taxation)

The report will be a basic document for the proposed training program to be convened in early 2012. It is intended that regulators and policy makers from the region, international agencies, standard setting bodies, development banks and commercial banks and ABAC will be invited to participate in that program.

The objective will be to assess the veracity of the proposals and to develop further, the way in which regulators are interpreting proportionate regulatory responses with a view to making recommendations to APEC Ministers and Leaders that will achieve the objective of enhancing the regulatory environment in promote financial inclusion across the region.

Recommendation

The Advisory Group note that the final report of the symposium will be provided shortly to members; that subject to comments they may have, the report be considered for inclusion in the Group's papers to ABAC to be provided to the annual meeting of Finance Ministers and Leaders in Honolulu in November.