THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

Document: AGFSCB 31-063
Draft: **FIRST**
Source: Baking With the Poor Network
Date: 4 November 2011
Meeting: Honolulu, Hawaii, USA

Fourth Meeting 2011
8 November 2011
Honolulu Suites, Sheraton Waikiki Hotel
Honolulu, Hawai'i, USA

Meeting Paper 5-B
Possible Themes for Financial Inclusion Work in 2012

Banking With the Poor Network (BWTP)

PURPOSE	For information.
ISSUE	Proposed training program "Financial regulatory supervision to effectively manage banks' risk appetite" is being proposed by the Australian APEC Study Centre (AASC) and the Asia Pacific Development Center (AFDC) to be delivered in Shanghai in 1st half 2012.
BACKGROUND	This paper describes high-level themes that offer an opportunity to increase development impact in the area of Financial Inclusion. These themes have been carefully selected from suggestions coming from global thought leaders in the field of Financial Inclusion among Advisory Group participating institutions (ALIDE, ADFIAP, BWTP Network, FDC, JICA)
PROPOSAL	N.A.
DECISION POINT	Identify possible themes for inclusion in 2012 Work Program

Discussion Starters on Themes
To be included in the ABAC Work plan Financial Inclusion Policy & Regulation in APEC

This paper describes high-level themes that offer an opportunity to increase development impact, in the area of Financial Inclusion. These themes are carefully selected from the suggestions coming from global thought leaders in the field of Financial Inclusion amongst others (Alide, Adfiab, BWTP Network, FDC, JICA)

The following themes are suggested by the above mentioned Financial Inclusion stakeholders:

1. Reaching out to the unbanked & underserved

   Main argument for this key theme is that the largest part of the Bottom-of-the-Pyramid (BOP) is still left behind and needs to be included when talking about financial inclusion. In stead of looking at the more 'productive' groups in society, such as SME, or the easier served, the so called upper-poor.
   This can include:
   - Role of Public Sector Development Banks in Enhancing Access to Finance
   - Branch less (agent) & mobile banking policies
   - Subsidized credit through state owned banks
   - Fueling inclusive growth through public-private partnership
   - Strategic alliances between public banks and microfinance institutions
   - Social enterprise finance
   - Policy & regulation preventing to reach out to excluded groups (youth, elderly, disabled, diaspora, indigenous population)
   - Integrating Financial Inclusion as key Priority in the Government's Strategic Plan and promoting inclusive growth through innovative government policies
   - Credit reporting at the base of the pyramid

2. Cross national financial services support for migrant & family back home
   - Remittances related

   - Transnational banking services (branch-less)

   Main argument for this key theme is that one of the largest excluded groups especially in the Asia Pacific region, are the migrant workers and their families back home. The scale and impact of the income generating abilities to focus towards development impact are only growing the coming years –taking aging into account for example-. Don't forget, in the East and Pacific Region over 20 million emigrants send 85 billion $ back home (growing 6% last year), and five of the ten so-called corridors are within the Asian region itself. The East Asian & Pacific region is a bigger migration hub than is the US (7 million versus 5.8 million immigrants). Taking South Asia for example, even more people, 27 million, remitting 91 billion back home (a growth of 10% last year). Last but not least, this key theme is transnational in nature, whereas APEC is so too.
   Which may include:
   - Legal recognition of 'e'/mobile money (transnational)
   - Policy implications to support transnational loans/savings, e.g. cross border micro finance
   - Securitization, diaspora bonds
   - Cross border 'credit & risk' information sharing

3. Savings & deposit mobilisation

   Main argument for this key theme is that savings (deposit taking) is grant in the aim for sustainability. Whereas the recent decennia were all about 'profit making' to become sustainable, the coming years will be all about stability of the (micro) financial system. Less dependency of foreign funds, stronger link between deposit taking and credit, but above all: most poor people need a safe place to save to grow/graduate out of poverty. Research shows that in the poorest developing countries two-third of cash is used immediately, what can be achieved with the remaining third, without a place to set it aside to? No option to build assets, guard against misfortune (bad health), provide opportunities for next generations.
   Which may include:
   - Branch less (agent) & mobile banking policies
   - Legal recognition of 'e'/mobile money (national)
   - Legal structures to mobilize deposits (increase local funding)
   - Regulation and supervision of cooperatives & Self Help Groups (SHG)

4. Financial literacy and responsible finance
   What's the use of access to finance if one does not know how to manage one's money? That's why this theme is key to sustainable financial inclusion. Banks, MFI's, cooperatives, other private sector players and governments and academic initiatives are needed to increase financial literacy and assure responsible finance.

   Which may include:
   - Regulatory framework on youth finance
   - Client protection regulation
   - Public – Private sector partnerships in Financial education
   - Social Performance Management

5. Value chain Finance
   Creating financial inclusion ripple effect through value chain finance, with a special focus on microfinance in agriculture.

   Recent gains in microfinance have yet to reach the majority of the rural poor in developing countries. Additionally, a market gap exists for small and medium enterprises (SMEs) caught between microfinance and corporate banking. Standard banking practices for analyzing risk and requirements for fixed asset collateral are critical barriers in reaching these markets. However, value chain finance – either from actors within the value chain itself or from external financial institutions – offers alternatives to these restrictive practices. The underserved market segment includes farmers, artisan cooperatives and private business that aggregate hundreds or thousands of small-scale producers.

6. Role of APEXs

   An apex institution is a second-tier or wholesale organization that channels funding (grants, loans, guarantees) to multiple microfinance institution (MFIs) in single country or region. Funding may be provided with or without supporting technical service. Apexes are an important source of local funding for microfinance. Well over US$2 billion per year of public money is being disbursed globally to microfinance through apex funds or local wholesale facilities. The funds are then disbursed by apexes to microfinance institutions (MFIs) mostly as subsidized loans, but occasionally as grants. Almost as much as is disbursed by investors and donors, according to CGAP's latest publication. Their recommendations to the improvement of APEXs are relevant and useful to public banks in APEC economies.

7. Microfinance for the alleviation of global climate change.

   Since one of the main factors that determine the livelihood of the poor and poorest in APEC economies now, is assumed to be climate (increase in natural disasters). Not only are many of the world's poor directly dependent on ecosystem services for their survival and wellbeing, also their often environmentally degrading systems which they use for income-generating activities to survive, enhance disaster risk. Leaving them even more exposed to landslides, floods and storm surges.
   Climate change is understood as a threat to which the poor are acutely vulnerable. Microfinance services are recognized as tools for helping to reduce the vulnerability of the poor. Microfinance services can provide poor people with the means to diversify, accumulate and manage the assets needed to become less susceptible to shocks and stresses and/or better able to deal with their impacts. It can do so too in vulnerability reduction and climate change adaptation among some of the poor, provided services better match client needs and livelihoods.
   Which may include:
   - Product development of savings & micro insurance dedicated for natural disasters and/or emergencies
   - 'Green microfinance' – incentives for sustainable (natural) resource stewardship