

# THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

## Fourth Meeting 2013

3 October 2013

10:45 AM – 12:15 PM

Salon 2 & 3 (Lobby Level), Ayana Resort and Spa  
Bali, Indonesia

## Meeting Paper 4-B APEC Finance Ministers' Joint Statement

Office of the SFOM Chair

<b>PURPOSE</b>	For information
<b>ISSUE</b>	APEC Finance Ministers' Joint Statement
<b>BACKGROUND</b>	<p>The Finance Ministers convened their 20th annual meeting in Nusa Dua, Bali, Indonesia, on 19-20 September 2013. Among various statements, Ministers:</p> <ul style="list-style-type: none"><li>• committed to establish an APEC PPP Experts Advisory Panel, called on the World Bank, the ADB and the OECD to provide appropriate support and welcomed the active participation of ABAC and the Asia Pacific Infrastructure Partnership (APIP);</li><li>• echoing Advisory Group recommendations from the Batam Financial Inclusion Forum, committed to promote awareness and enhance access, eligibility and capacity of poor households and small-and-medium sized enterprises (SMEs) to interact with financial institutions, together with efforts to develop financial literacy and strengthen consumer protection, and noted that responsible and innovative approaches to promote financial eligibility of the poor and SMEs are paramount to developing an inclusive financial system;</li><li>• endorsed the launch of the APFF, reporting to the APEC Finance Ministers' Process;</li><li>• welcomed ABAC's report and recommendations on infrastructure, financial inclusion and strategies to achieve balanced and innovative growth and stronger regional financial integration;</li><li>• supported the continuation of the APIP Dialogue in 2014 and ABAC's continued contributions to APEC's financial inclusion agenda; and</li><li>• welcomed the signing of the Statement of Intent (SOI) launching the Asia Region Funds Passport.</li></ul>
<b>PROPOSAL</b>	N.A.
<b>DECISION POINT</b>	Note the JMS.

Nusa Dua, Bali, Indonesia, 20 September 2013

## **2013 APEC Finance Ministers' Meeting**

Joint Ministerial Statement

1. We, the Finance Ministers of the Asia-Pacific Economic Cooperation (APEC) economies, convened our 20<sup>th</sup> annual meeting in Nusa Dua, Bali, Indonesia, on 19-20 September 2013 under the Chairmanship of Dr. Muhamad Chatib Basri, Minister of Finance of the Republic of Indonesia. The meeting was also attended by the President of the Asian Development Bank (ADB), the Managing Director of the World Bank Group, the Deputy Managing Director of the International Monetary Fund (IMF), the Deputy Secretary General of the Organisation for Economic Cooperation and Development (OECD), the Executive Director of the APEC Secretariat, and the Chair of the APEC Business Advisory Council (ABAC).
2. As part of Indonesia's APEC 2013 theme of *Resilient Asia-Pacific, Engine of Growth*, we discussed the key economic and financial issues shaping our region's future prosperity. We are determined to place our economies on a stronger, more sustainable, and more balanced growth path.
3. We have taken a number of important policy actions that have helped to contain key tail risks, improve financial market conditions and sustain the recovery. Nevertheless, global growth is too weak, risks remain tilted to the downside, and the economic outlook suggests growth is likely to be slower and less balanced than desired. APEC is an increasingly large part of the global economy and plays a key role in driving global growth. Private demand has strengthened in the US and growth has picked up in Japan, while growth has continued in emerging market economies, although at a slower pace, reflecting in some cases the effect of volatile capital flows, tighter financial conditions, as well as domestic structural challenges. Overall, capital flows have been volatile, private investment remains subdued in many economies, regional growth disparities remain wide, global rebalancing is incomplete, and unemployment remains unacceptably high in some economies. Our actions at this meeting, particularly

our agreement on measures to facilitate infrastructure investment, demonstrate our willingness to cooperate to achieve reforms for stronger, more sustainable and more balanced growth.

4. We will implement our fiscal policies flexibly to support economic growth and jobs, while remaining committed to sustainable public finances. We reaffirm our commitments to rebalancing global demand, and to taking the necessary actions to strengthen market confidence, support growth, maintain stability and increase resilience in emerging market economies. We resolve to intensify our efforts to implement structural reforms that boost investment, address fundamental weaknesses, enhance productivity and competitiveness, increase labor force participation and employment, and address internal and external imbalances.
5. We reiterate our commitments to move more rapidly toward more market-determined exchange rate systems and exchange rate flexibility to reflect underlying fundamentals, and avoid persistent exchange rate misalignments. We will refrain from competitive devaluation and will not target our exchange rates for competitive purposes. We will resist all forms of protectionism and keep our markets open.
6. We recognize that strengthened and sustained growth will be accompanied by an eventual transition toward the normalization of monetary policies. We reiterate that excess volatility of financial flows and disorderly movements in exchange rates can have adverse implications for economic and financial stability, as observed recently in some emerging markets. Sound macroeconomic policies, structural reforms and strong prudential frameworks will help address an increase in financial market volatility. We will continue to monitor financial market conditions carefully.
7. We recognize the importance of productivity enhancing infrastructure projects in supporting the region's growth potential and we take note of the APEC Multi-Year Plan for Infrastructure Development and Investment. We acknowledge that it is necessary to enhance private sector participation in infrastructure projects in order to meet infrastructure needs in the region and are committed to supporting this by taking further actions to improve the investment climate. We will continue to coordinate our work in infrastructure financing and development with other

relevant international fora and organisations. We welcome the G20/OECD High-Level Principles on Long-Term Investment by Institutional Investors.

8. As many APEC economies are seeking to access private financing for economic infrastructure, we recognize that having clear processes in relation to the planning, prioritization, preparation, and financing of infrastructure projects is critical. This year, we continued discussions on developing new approaches to infrastructure provision, including through public-private partnerships (PPP). **We now commit to establish an APEC PPP Experts Advisory Panel (the Panel) reflecting the diversity of APEC economies to enhance infrastructure development in the region, and call on the World Bank, the ADB and the OECD to provide appropriate support (see Annex A). We welcome the active participation of ABAC and the Asia Pacific Infrastructure Partnership (APIP) in the Panel.** We welcome the opportunity to support, on a voluntary basis, a pilot PPP centre within the Indonesian Ministry of Finance. This support will assist the Indonesian Ministry of Finance in its ongoing efforts to develop the resources, skills, and capacity of their PPP Centre. We expect that by sharing the experiences of the Panel and the APEC pilot project in Indonesia, APEC member economies can improve their own capacity to design and deliver effective, bankable PPP projects. In the longer term, the Panel can support the emergence of an APEC-wide market for infrastructure investment by helping other economies to develop similar capacity, and create a regional network of PPP centres to share good practices and help align standards.
  
9. We recognize the importance of financial inclusion to achieving equality and enhancing growth potential in the region. A significant proportion of people in APEC economies still do not have access to the financial system. **We commit to promote awareness and enhance access, eligibility and capacity of poor households and small-and-medium sized enterprises (SMEs) to interact with financial institutions, together with efforts to develop financial literacy and strengthen consumer protection. We note that responsible and innovative approaches to promote financial eligibility of the poor and SMEs are paramount to developing an inclusive financial system** and to improving the effectiveness of public policy, including Government to People (G2P) transfers. We also noted during workshop discussions that there were several examples of innovative

distribution channels being implemented in APEC economies, especially branchless banking (see Annex B).

10. We remain committed to promoting free and open trade and investment. We recognized that trade finance instruments can help facilitate trade and can support SMEs that trade internationally. We discussed the impact of the global financial crisis on the availability and cost of trade finance in APEC economies. We recognize the benefit from trade finance programs managed by international financial institutions during and after the global financial crisis, and support further exploration to strengthen these initiatives. We welcome the study by APEC Policy Support Unit based on its survey on the recent trends in trade finance in the region. We recognize the work of the Basel Committee to ensure appropriate risk weights for financing activities, including trade finance. We also noted that SMEs face a number of obstacles in accessing finance related to their limited resources and perceived risks by lenders. We encourage financial institutions to enhance trade financing and continue to support trade in the Asia Pacific region.
11. Improvements to financial management systems through treasury systems and budget reforms, including spending reviews, are direct mechanisms that can enhance the efficiency of our ministries and our budgets. As such, we welcome the voluntary sharing of information that has occurred amongst our finance and treasury officials on these matters (see Annex B).
12. We recognize a need to intensify our individual efforts to introduce best practices in disaster risk financing (DRF), including fiscal contingency planning, and developing risk transfer instruments available through insurance and capital markets. We welcome the OECD survey report on DRF practices among APEC members. This work will complete the G20/OECD work and the operational framework for DRF and insurance, developed by the World Bank and several APEC economies. We look forward to more experience sharing, with the help of the OECD, the ADB, the World Bank, and the relevant international organisations, to explore effective approaches that can facilitate the implementation of key priorities identified in the survey.

13. We note that climate change has a significant impact on the environment, social and economic prosperity. In this regard, we support the operationalization of the Green Climate Fund (GCF).
14. We are pleased with the ABAC symposium hosted by Australia, which explored the creation of an Asia-Pacific Financial Forum (APFF). While recognizing the role of official standard setting bodies in providing regional consultation and input on international financial standards, we believe that the APFF, reporting to the APEC Finance Ministers' Process, can make a valuable contribution in deepening public-private collaboration toward the development of sound, efficient, inclusive and integrated financial systems in the region.
15. We welcome ABAC's report and recommendations on infrastructure, financial inclusion and strategies to achieve balanced and innovative growth and stronger regional financial integration (see Annex B). We support the continuation of the APIP Dialogue in 2014 and ABAC's continued contributions to APEC's financial inclusion agenda.
16. We note the progress in the development of Asia Region Funds Passport, including the formation and on-going development of a framework document that sets out its voluntary guiding principles and basic arrangements. We welcomed the signing of the Statement of Intent (SOI) in Nusa Dua, Bali, Indonesia, on 20 September 2013 by some economies that will potentially become members of a pilot group launching the Passport and publicly consult on the detailed rules for its implementation in accordance with the timeline set out in the SOI.
17. We thank Indonesia for successfully hosting the APEC Finance Ministers' Process this year. We will meet again for the 21<sup>st</sup> APEC Finance Ministers' Meeting in the Hong Kong Special Administrative Region, People's Republic of China, in September 2014.

Annex A: APEC PPP Experts Advisory Panel and Pilot PPP Centre

Annex B: Report of 2013 APEC Finance Ministers' Process Initiatives

Nusa Dua, Bali, Indonesia, 20 September 2013

## **2013 APEC Finance Ministers' Meeting**

Joint Ministerial Statement

### **ANNEX A**

#### **AN APEC PPP EXPERTS ADVISORY PANEL AND PILOT PPP CENTRE**

##### **Infrastructure to underpin future growth**

We the Finance Ministers of the APEC economies acknowledge that investments in quality infrastructure can provide a solid platform for enhanced growth and development across the APEC region, but that such investments require a long term commitment to reform by governments. We understand that improving the operation of infrastructure markets is crucial to addressing growing infrastructure gaps and raising the productive capacity of our economies more generally. Infrastructure spending by governments must be carefully focused towards projects with good financial and social returns. Private sector resources can potentially play an important role in supplementing government spending in order to achieve individual APEC economies' infrastructure (and budgetary) objectives.

To effectively tap private finance, we recognise that a range of reforms to processes and institutions will be required. It is vital to create supportive investment conditions for the private sector in order to increase its involvement in crucial economic infrastructure development in the region – including through innovative methods such as public private partnerships (PPPs). For many APEC economies, the reforms to achieve necessary institutional settings are challenging and will require a long term commitment by governments. In this regard, we take note that a multi-year focus on infrastructure by APEC can provide economies with a supportive environment aimed at sustaining progress in this area. Broad areas of focus could include:

- A solid regulatory framework to foster a business-friendly environment;
- Integrated planning mechanisms;
- Government capacity to identify and generate a pipeline of bankable infrastructure projects; and
- Development of a financing and funding environment to encourage long term investors.

We believe it is important to match our words with actions at both a regional and local level. We commit to establish an APEC PPP Experts Advisory Panel (the Panel) reflecting the diversity of APEC economies to enhance infrastructure development in the region, and call on international organisations (such as the World Bank, the Asian Development Bank (ADB), and the Organisation for Economic Cooperation and Development (OECD)) to provide appropriate support. We welcome the opportunity to support, on a voluntary basis, a pilot PPP centre within the Indonesian Ministry of Finance. This support will assist the Indonesian Ministry of Finance in its ongoing efforts to develop the resources, skills, and capacity of their PPP Centre. We expect that monitoring the experience of the Panel and the APEC pilot project in Indonesia will

help APEC member economies improve their own capacity to design and deliver effective, bankable PPP projects.

### **Voluntary APEC PPP Experts Advisory Panel**

The Panel will be a repository of skills that will bring to life good practices in the APEC region, and help channel technical assistance to developing economies seeking such assistance.

The Panel's initial role will be to provide guidance and support to a pilot PPP centre, including through mentoring key staff and providing strategic advice. The Panel will also:

- assist the development of key, high level organisational aspects of the pilot PPP centre, including its structure, responsibilities and governance arrangements;
- meet regularly with the pilot PPP centre to provide guidance, support and mentoring on processes and technical issues arising in its establishment and ongoing work;
  - **To be convened by the chair and held in the margins of APEC Finance Minister stream meetings, workshops, Asia-Pacific Infrastructure Partnership (APIP) meetings or other relevant forums.**
- act as a communication channel for the Panel and pilot PPP centre to the region on work undertaken; and
- **coordinate with APEC Business Advisory Council (ABAC) and APIP in soliciting broad private sector policy advice, including through the APIP dialogues with individual governments.**

In the longer term, the Panel can support the emergence of a connected APEC-wide market for infrastructure investment by helping other economies to develop similar capacity, while understanding that economies will tailor their own centres to reflect different institutional arrangements. The APEC PPP Centres can then be linked into a regional network of PPP centres to share good practices, build capacity, and help align standards.

The Panel could comprise, on a voluntary basis, selected experts from APEC economies with developed PPP processes and institutions. Indicative foundation members might include:

- the current and next chair (on a rotating basis) of APEC (Indonesia and China) and representatives from across APEC regions;
- **a representative from the ABAC and APIP;** and
- representatives from the World Bank, the Asian Development Bank and the OECD.
  - Panel secretariat services (i.e. meeting preparations/support) could be provided by one of the international organisations (such as the World Bank or the ADB).

The Panel will report back to APEC Finance Ministers on progress of the pilot project. An appropriate independent body could be asked to undertake an interim review of the Panel and the pilot PPP centre after two years, and report the results to APEC Finance Ministers. A full report to Ministers could be made after four or five years to provide sufficient time to achieve results.



If reviews of the pilot PPP Centre show that it is successful, the Panel could provide guidance and support to the roll out of similar PPP Centres in other APEC economies that also wish to develop a similar capacity – or to improve the effectiveness of their existing arrangements.

### **PPP Centre in a pilot APEC economy**

A PPP Centre will be created as a pilot project within Indonesia's Ministry of Finance to identify a pipeline of bankable PPP projects within that economy and overcome problems with domestic coordination on a project by project basis. Its key roles will be to:

- provide technical expertise to the economy for any stage of the project cycle, covering technical, economic and financial questions;
- ensure coordination by developing and reviewing project structures, removing bottlenecks, filling gaps and identifying problems in the delivery of particular infrastructure projects; and
- assist to raise the capacity of relevant entities in the economy to develop PPPs.

It is understood that differing institutional arrangements and approaches in APEC economies – including financial and legislative constraints – will impact on the optimal design features of PPP centres in individual economies.

It is also understood that Governments may also need to think carefully about ensuring appropriate risk allocation in publicly commissioned infrastructure that involves the private sector. The issue is not just about offloading or shifting risk to either party, but about ensuring that risk is assumed and managed by the party best placed to do so.

The pilot PPP Centre will develop an appropriate level of financial and governance expertise in assessing and prioritising projects (including financial arrangements that mobilise public, private and donor resources) at a domestic level.

**To support the work of the Panel, we invite APEC economies, international organisations, and ABAC to participate voluntarily in this initiative.** Possible roles include:

- APEC economies with established infrastructure/PPP agencies could volunteer the contribution of their officials to work alongside pilot economy officials, or to receive staff secondments from the pilot economy to 'learn by doing' in the established infrastructure/PPP agency.
- International Organisations (such as the World Bank, the ADB and the OECD) could assist local officials to design the structure of the pilot PPP centre and help to productively channel offers of technical and capacity building assistance.
- **Importantly, the pilot PPP Centre will also establish more regular links and consultation with private sector specialists from organisations such as ABAC and APIP, and relevant domestic organisations.**

Nusa Dua, Bali, Indonesia, 20 September 2013

## **2013 APEC Finance Ministers' Meeting**

Joint Ministerial Statement

### **ANNEX B**

#### **REPORT OF 2013 APEC FINANCE MINISTERS' PROCESS INITIATIVES**

##### **FINANCIAL INCLUSION**

Two APEC workshops on Financial Inclusion were held during 2013 (Jakarta on 27-28 February and Manado on 23-24 May). Several common themes arose from these discussions which can be used as a reference in planning and implementing innovation in distribution channels, especially branchless banking, in APEC economies. These were the need:

- (i) to foster commitment of financial institutions to attend to the needs of the unbanked;
- (ii) to promote the development of sustainable business models and suitable products;
- (iii) for adequate infrastructure, including technology, and robust legal frameworks that can provide services efficiently and effectively;
- (iv) to develop a balanced, comprehensive regulatory framework that can promote financial inclusion;
- (v) to enhance risk management frameworks through identifying and mitigating specific risks;
- (vi) to develop customer protection frameworks to secure trust and to support demand for innovative financial services, complemented with a comprehensive financial education program;
- (vii) to strengthen collaboration and coordination amongst the stakeholders to improve effectiveness; and
- (viii) to develop clear and necessary requirements to regulate operational permits according to international standards and with the support of adequate monitoring and supervision mechanisms to ensure the program is in compliance with prevailing rules and regulations.

**Asia Pacific Financial Inclusion Forum (ABAC, Indonesia, ADB)**

**Innovation promotes financial inclusion by significantly reducing the costs and increasing the efficiency of financial services being offered to low-income households and small enterprises. The 2013 Asia-Pacific Financial Inclusion Forum held at Batam Island, Indonesia on 11-12 June**

2013 and convened by ABAC, the Asian Development Bank (ADB) Institute and their partner institutions and a training program hosted by the Australian APEC Study Centre at RMIT University identified various measures that can help governments harness innovation to promote financial inclusion.

Mobile and branchless banking is a key enabler to increase access to financial products and services and represents a significant opportunity to bank the unbanked. However, it is a multidimensional issue involving elements such as: domestic policies for financial inclusion, financial products and services development, regulatory frameworks, cooperation amongst stakeholders and consumer perspectives. As such, the development of mobile and branchless banking services requires a holistic approach to address challenges from multiple angles. APEC Finance Ministers received a full report on the key findings of the Forum.

### **APEC BUSINESS ADVISORY COUNCIL (ABAC) ASIA PACIFIC FINANCIAL FORUM (ABAC, Australia)**

The Asia Pacific Financial Forum (APFF), established by ABAC, is a regional platform for public-private collaboration to help accelerate the development of integrated financial markets.

The symposium was held in Sydney, Australia on 10-11 April 2013. The symposium identified linkages and priority issues in the development of lending and capital markets, market infrastructure and institutions to mobilize long-term savings that APFF can help address. The symposium contributed to deepening public-private collaboration in the development of sound, efficient, inclusive, and integrated financial systems in the region.

## **TREASURY AND BUDGET REFORM**

The APEC workshop on Treasury and Budget reform jointly sponsored by Indonesia and the APEC Secretariat, was held on 2-3 July 2013 in Lombok, Indonesia. APEC member economies welcomed the exchange of knowledge and experience among APEC officials on reform initiatives. We note the key themes that emerged from the workshop discussions, including:

- (i) Institutional coordination, particularly between Ministries of Finance and Central Banks, as well as other government agencies and ministries, is an important component for all aspects of treasury and budget reform. Strong relationships between fiscal and monetary authorities can be underpinned by information exchanges, consultation and coordination. Many countries support this relationship with clear rules and arrangements among authorities, such as through Memoranda of Understanding to ensure clear accountabilities and/or protocols;

- (ii) The need to consider various elements of risk in managing treasury and budget systems, such as liquidity risk, political risk and the volatility of government revenue and expenditure flows;
- (iii) The importance of using the results of treasury and budget reform to improve and inform budgetary decisions;
- (iv) The importance of Government Financial Report in enhancing fiscal transparency and promoting long term fiscal sustainability; and
- (v) For spending reviews, performance measures supported by sound methodology and program budget structure are important for improving budget allocation and efficiency over time. These performance measures also provide valuable inputs for governments in their budget policy decision making.

APEC economies welcome the voluntary sharing of information and lessons learnt amongst member economies and international financial institutions on appropriate reforms. This will engender a constructive dialogue to indentify and encourage ongoing reform within our region.

#### **ASIA PACIFIC INFRASTRUCTURE PARTNERSHIP (ABAC)**

Since 2010, ABAC has created a regional structure to enable governments and the private sector to frankly and objectively discuss complex matters related to infrastructure finance and enhance the understanding of the issues and risks they face. This structure, the Asia-Pacific Infrastructure Partnership, involves key officials, experts from multilateral development banks, and senior private sector experts from a wide range of fields relevant to infrastructure PPPs.

In 2013, APIP Dialogues were hosted by the Philippines and Thailand. Finance Ministers were provided with a briefing on the outcomes of these discussions. ABAC will continue this valuable dialogue as part of the 2014 APEC Finance Ministers' process.

#### **APEC FINANCIAL REGULATORS TRAINING INITIATIVE (ADB)**

Endorsed at the APEC Finance Ministers' Meeting in 1998, the Asia-Pacific Economic Cooperation Financial Regulators Training Initiative (APEC FRTI) provides a systematic, integrated, and sustained approach to improve the quality and efficiency of financial supervision and regulation. APEC FRTI is the longest running APEC Finance Ministers' initiative. The ADB serves as the APEC FRTI Secretariat.

In addition to technical and secretariat support, the ADB has continually provided financial support for FRTI activities. ADB has so far financed 7 technical assistance projects totaling \$US 6.5 million to support APEC FRTI.

Since 2001, 4,263 financial regulators and supervisors have been trained in 105 training seminars. These included 58 banking supervision seminars, 45 securities regulation seminars, and 2 short training programs.

In 2013, six seminars—three for banking supervisors and three for securities regulators—have been organized and 277 financial supervisors and regulators have been trained (five more seminars are expected to be organized this year with additional financial support from the Republic of Korea). Requests for training in new learning areas followed the global financial crisis. The FRTI responded by expanding into new topics—including those relating to cross-border supervision and information technology.