

THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

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First Meeting 2014
11 February 2014
1:00 PM – 3:00 PM
Great Room III & IV, The Langham Hotel
Auckland, New Zealand

Meeting Paper 9-A PROPOSED 2014 WORK PROGRAM

Office of the Advisory Group Chair

- PURPOSE** For consideration.
- ISSUE** Proposed 2014 Work Program of the Advisory Group
- BACKGROUND** The Advisory Group was established in 2003, at a meeting jointly organized by the APEC Business Advisory Council (ABAC) and the Pacific Economic Cooperation Council (PECC). It was created with three major goals in mind: (a) to harness expertise in international public and private sector institutions in collaborating with the APEC Finance Ministers to develop capacity-building programs for the region's financial systems; (b) to promote public-private sector collaboration in capacity-building efforts; and (c) to ensure greater synergy among ongoing capacity-building activities and facilitate identification of capacity-building gaps through exchange of information.
- PROPOSAL** The following draft work program contains proposals on:
Objectives
Activities
Meetings in 2014
Deliverables
- DECISION POINT** Endorse the 2014 Work Program

THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

PROPOSED 2014 WORK PROGRAM

Draft as of 31 January 2014

BACKGROUND

The Advisory Group on APEC Financial System Capacity Building was established at the time of the APEC Finance Ministers' Meeting in Phuket, Thailand in 2003, at a meeting jointly organized by the APEC Business Advisory Council (ABAC) and the Pacific Economic Cooperation Council (PECC). The Advisory Group was created with three major goals in mind: (a) to harness expertise in international public and private sector institutions in collaborating with the APEC Finance Ministers to develop capacity-building programs for the region's financial systems; (b) to promote public-private sector collaboration in capacity-building efforts; and (c) to ensure greater synergy among ongoing capacity-building activities and facilitate identification of capacity-building gaps through exchange of information.

OBJECTIVES OF THE 2014 WORK PROGRAM

Following are the objectives of the 2014 Work Program of the Advisory Group:

- To advance the Asia-Pacific Financial Forum (APFF) to its next stage by launching a concrete work program and activities supported by Finance Ministers, the public and private sectors, international organizations and experts.
- To deepen the Asia-Pacific Infrastructure Partnership's (APIP) collaboration with APEC through continuation of dialogues with governments and meaningful contributions to the APEC PPP Experts Advisory Panel and the APEC Multi-Year Plan for Infrastructure Development and Investment.
- To develop a regional strategy for promoting financial inclusion that responds to new challenges through a review of the current situation in key markets using the 2014 Asia-Pacific Financial Inclusion Forum.
- To develop new regional initiatives to promote angel and venture capital and internationally recognized and accepted valuation standards.

ACTIVITIES IN 2014

A. ADVISORY GROUP PROJECTS

1. Asia-Pacific Financial Forum

At a forum convened by the Advisory Group in March 2012 in Melbourne, Australia, representatives from financial authorities, the region's financial industry and key international bodies concluded that regional financial market development and integration in the region could be accelerated through the establishment of a platform for public-private collaboration for this purpose.

This collaborative framework, named the Asia-Pacific Financial Forum (APFF) is envisioned to be a platform for public-private sector collaboration in:

- the development of robust financial markets across the region; the convergence of financial standards, regulations and practices; and connectivity for facilitating cross-border financial flows, to create dynamic and integrated financial markets that will support the region's sustained rapid growth; and
- shaping global financial regulatory reforms in support of the region's financial development goals, through coordination of views on agreed areas of common regional concern and ensuring that these concerns are adequately reflected in global financial standards and regulations.

In 2012 the APEC Finance Ministers expressed support for the holding of a symposium in early 2013 to explore the creation of the APFF. The Australian Government hosted this symposium on 10-11 April in Sydney. At their annual meeting in Bali in September 2013, the ministers welcomed the Forum's report and incorporated APFF in the official work program of the APEC Finance Ministers' Process (FMP) to help develop sound, efficient, inclusive and integrated financial markets in the region.

The symposium report recommended that public-private collaboration focus on a number of specific issues where tangible progress can be achieved over two or three years. Five work streams were established to address these issues, namely (a) insurance and retirement income; (b) trade and supply chain finance; (c) lending infrastructure (credit reporting and secured transactions reform); (d) capital markets (repo, OTC derivatives clearing, investor information and regulatory mutual recognition); and (e) financial market infrastructure and cross-border practices. In addition, APFF will also examine linkages and structural issues, involving a group of leading institutions and experts.

For 2014, APFF aims to advance its work through activities designed to:

- develop an APFF Interim Report containing a detailed work program with concrete deliverables that can be achieved over a 2- to 3-year time frame through public-private collaboration across work streams;
- obtain the collaboration of public sector agencies, regulatory authorities and institutions that have responsibility for adopting, implementing and enforcing measures leading to achievement of the deliverables, as well as multilateral, regional and standard setting bodies and other institutions that can support this process;
- engage relevant private sector firms, organizations and industry associations to participate in collaborative activities with the public sector toward the achievement of the deliverables;
- obtain the endorsement of this work program by the APEC Finance Ministers; and
- kick-start the next phase (implementation of the work program), which is actual collaboration among relevant public and private sector and international bodies to achieve each of the identified deliverables.

These activities include the following:

- individual work streams' meetings, workshops, seminars and dialogues, including public and private sectors and relevant international bodies;
- research activities and analyses to help develop the work stream work plans and the APFF work program;
- drafting of individual work streams' work plans and the APFF Interim Report;
- holding of a conference to finalize the APFF interim report (July, Seattle);

- holding of a conference to launch the implementation phase (September, Hong Kong);
- regular progress reports to the FMP; and
- participation in relevant FMP seminars and discussions, in particular the following:
 - Seminar on *Improving Financial Services for Regional Real Economy*, 27-28 March, Qianhai, Shenzhen; and
 - Seminar on *Long-term and Stable Financing for Infrastructure Development*, 26-27 June, Dalian, Liaoning; and
- outreach to individual officials and regulators, institutions or regional/international organizations.

For more detailed information, please refer to Annex A (APFF Work Program)

2. Asia-Pacific Infrastructure Partnership

At a 2010 forum convened by ABAC, ADB and Japan Bank for International Cooperation (JBIC), in collaboration with Japan's Ministry of Finance, the Advisory Group and ABAC proposed the establishment of the Asia-Pacific Infrastructure Partnership (APIP). This aims to provide a regional platform for governments, the private sector and relevant international institutions, to frankly and objectively discuss complex matters related to infrastructure facing each economy.

In 2011, APIP undertook dialogues with the governments of Mexico, Peru and the Philippines, and a forum with APEC Deputy Finance Ministers. The APEC Finance Ministers subsequently endorsed APIP at their meeting in Honolulu. In 2012, APIP dialogues were held with the governments of Vietnam in July and Indonesia in October. In 2013, further dialogues were held with the governments of the Philippines in January (second dialogue), Thailand in February and Indonesia and Malaysia in December. As a follow-up to various dialogues, ABAC funded 5 studies on issues identified by governments as topics where they would welcome additional advice.¹

In addition to these, APIP representatives actively participated in a number of conferences organized by APEC member governments.² A number of APIP representatives also participated in two workshops organized by the FMP and hosted by the Government of Indonesia in 2013 – the *APEC Workshop on Infrastructure: Toward a Common Framework of Project Readiness to Increase Infrastructure Investment in APEC Region* held on 22-23 April in Makassar and the *APEC Second Workshop on Infrastructure and Indonesia-OECD International Seminar: Enhancing the Role of Institutional Investors in Infrastructure Financing*, held on 28-29 August in Palembang.

In 2013, the Advisory Group and ABAC recommended that APEC Finance Ministers establish a regional framework under a multi-year initiative to coordinate capacity building

¹ These were: (a) comparative study of legal frameworks to protect the long-term interests of pension funds investing in PPPs; (b) comparative study of contractual clauses to provide for the smooth adjustment of physical infrastructure and services through the lifecycle of a PPP project; (c) best practice in design of PPPs for social infrastructure, particularly in health care and education. (d) comparative study of best practice taxation measures to support PPPs and (e) ways to evaluate externalities of PPPs.

² These were (a) the *International Conference on Scaling Up Infrastructure Investment in Asia-Pacific* hosted by the Ministry of Finance of the Republic of Indonesia on 2 October 2012 in Bali, Indonesia; (b) the *Second Asia-Pacific Forum* organized by the Russian International Affairs Council and the Russian APEC Study Centre on 12-13 October 2012 in Moscow, Russian Federation; and (c) the *Roundtable and Public Forum on APEC's Regional and Global Opportunities* held on 21-22 October 2012 in Jakarta, Indonesia.

and sharing of best practices in infrastructure finance, with the collaboration of the APIP. This recommendation became reality with the launch by APEC Leaders of the Multi-Year Plan on Infrastructure Development and Investment (MYPIDI) and the establishment by Finance Ministers of the APEC PPP Experts Advisory Panel, which will be responsible for assisting interested member economies in improving coordination and developing capacity to build bankable project pipelines through PPP Centers. A Pilot PPP Center was set up in Indonesia. Both the MYPIDI and the APEC PPP Experts Advisory Panel designated APIP as the channel for private sector involvement in these activities.

APIP plans to focus on the following in 2014:

- **Dialogues with interested economies.** Discussions will be held with interested economies to undertake dialogues in their respective capitals with the APIP private sector panel in collaboration with multilateral institutions (ADB, IDB, IFC, OECD and WB).
- **Active participation in the APEC PPP Experts Advisory Panel.** APIP plans to actively participate in the activities of the Panel, particularly in providing advice and inputs to the Pilot PPP Center in Indonesia and PPP Centers to be established by other member economies in the future that would lead to the development of a robust pipeline of bankable projects in the region.
- **Inputs to the APEC Finance Ministers' Process' work on infrastructure.** APIP aims to actively participate and provide private sector inputs to discussions in the FMP's two infrastructure-related workshops in 2014, which are as follows:
 - Seminar on *Public Sector's Role in PPP Modality* (enabling environment, risk allocation in PPP modality and PPP Centers' experience sharing), 21-22 May 2014, Fuzhou, Fujian Province, People's Republic of China
 - Seminar on *Long-term and Stable Financing for Infrastructure Development*, 26-27 June 2014, Dalian, Liaoning Province, People's Republic of China

3. 2014 Asia-Pacific Financial Inclusion Forum

The first APEC Financial Inclusion Forum, convened by the Advisory Group and ABAC and hosted by the Japanese Ministry of Finance on May 2010 in Sapporo, Japan, focused on how to provide enabling environments to extend the reach of microfinance, improve its commercial viability, and increase private investment in MFIs. In their *Kyoto Report on Growth Strategy and Finance*, APEC Finance Ministers noted its outcomes and consequently mandated ABAC to hold subsequent forums as a policy initiative under the FMP.

The second Forum, hosted by ADB Institute in Tokyo on 6-8 September 2011, focused on new channels to serve the financial needs of the unbanked, and how APEC can harness regional public-private cooperation to promote the sustainability and expansion of undertakings using these new channels. The third Forum, hosted by the Asia-Pacific Finance and Development Center (AFDC) in Shanghai, China, on 25-27 June 2012, dealt with the common basic elements of an enabling environment to promote financial inclusion - financial literacy, financial identity, proportionality of regulations and consumer protection. In addition, discussions on linking microfinance to remittances were undertaken.

The fourth Forum was hosted by the Ministry of Finance of the Republic of Indonesia on 11-12 June 2013 in Batam Island. It focused on the role of innovation in promoting financial inclusion, and how regulators and policy makers can promote its positive contribution to expanding access to finance with respect to mobile and branchless banking, retail payment systems, remittances, legal frameworks for secured lending, financial identity and data flows, institutional frameworks, financial education and consumer protection.

The 2014 Forum will be hosted again by AFDC in Shanghai on 19-20 March under the joint auspices of ABAC, ADBI, AFDC and FDC, in collaboration with the Ministry of Finance of the People's Republic of China, with Citi Foundation acting as sponsor. This forum will deviate from the thematic approach of previous ones and will seek instead to review the current trends, recent achievements, ongoing challenges and opportunities for financial inclusion and discuss how these developments are impacting different markets. Through this review process, the Advisory Group aims to identify new priorities for future initiatives to further support financial inclusion.

As in previous forums, the outcomes of this event will be translated into a report that will be published in printed and electronic form, submitted and presented to the APEC Finance Ministers and Deputy Ministers, and disseminated to a wide range of officials, regulators, experts and industry leaders across APEC economies and beyond.

4. Angel and Venture Capital Finance

In 2012, the Advisory Group initiated work to develop ideas on promoting venture capital finance to spur innovation in the region's emerging economies. A workshop was held in Kuala Lumpur on 21 May 2012, involving experts, investors, fund managers and venture managers to discuss how the policy and regulatory environment affects the development of venture capital in APEC emerging markets and how this might be enhanced. This workshop enabled the Advisory Group to identify several crucial roles that governments can play in promoting a dynamic ecosystem for financing innovation:

- catalyzing angel and venture capital through support programs;
- providing an enabling legal and regulatory environment that will encourage the flow of more private sector resources into venture capital; and
- creating, maintaining and enhancing the fundamental conditions that encourage entrepreneurship and innovation.

In 2013, the Advisory Group recommended the development of government-encouraged funds of funds within APEC for seeding and growing a private sector-led angel and venture capital ecosystem in the region and that interested economies and multilateral institutions collaborate with ABAC and private sector firms to initiate this process.

Work in 2014 will seek to advance this concept through collaboration with multilateral bodies, experts and industry practitioners.

5. Promoting Internationally Recognized and Accepted Valuation Standards

In 2013, the Advisory Group considered the case for Internationally Recognized and Accepted Valuation Standards and the role of the International Valuation Standards Council (IVSC) as the global standards setter. Valuation plays an important role in financial markets as the basis for investment decisions, measuring performance and disclosure in financial reporting and contributes to the development and stability of financial systems. This role can be enhanced by addressing important challenges, including a fragmented professional and regulatory landscape, the multiplicity of bodies producing regulations related to valuation and the lack of professional infrastructure and common benchmark for the profession.

In 2014, the Advisory Group aims to undertake discussions to develop recommendations on how to address these challenges.

B. 2014 REPORT ON FINANCIAL SYSTEM CAPACITY-BUILDING

This report, which will be finalized in July 2014, will incorporate the results of the above-mentioned projects as well as of discussions during the meetings of the Advisory Group and present recommendations to APEC Finance Ministers on the following areas: (a) promoting the development and integration of the region's financial markets; (b) expanding the private sector's role in infrastructure finance; (c) financial inclusion; (d) angel and venture capital finance; and (f) promoting internationally recognized and accepted valuation standards.

MEETINGS IN 2014

The Advisory Group will have its regular meetings on the following dates and venues:

- 11 February, Auckland, New Zealand
- During the period 4-7 May, Santiago, Chile (*exact date yet to be announced*)
- During the period 7-10 July, Seattle, USA (*exact date yet to be announced*)
- During the period 5-8 October, Beijing, China (*exact date yet to be announced*)

Meetings and events related to the various projects of the Advisory Group will be announced separately.

DELIVERABLES

The above activities are geared toward the following deliverables:

1. Successful completion of (a) APFF activities (to be announced); (b) APIP Dialogues and related activities (to be announced) and (c) the 2014 Asia-Pacific Financial Inclusion Forum.
2. Complete reports on the conclusions of these activities (*those related to activities completed before the APEC Finance Ministers Meeting to be forwarded to the Finance Ministers beforehand through ABAC*).
3. Endorsement of the APFF Interim Report by APEC Finance Ministers and launch of its implementation.
4. Inputs into the work of the APEC FMP through participation in its various activities.
5. 2014 Report on Financial System Capacity-Building in APEC (*to be submitted to the APEC Finance Ministers before their 2014 meeting through ABAC*).

ANNEX A: APFF Work Program
(To be attached after finalization)