



## **Inclusive Growth and Development within APEC**

October 2017

Prepared by FDC

The work of the Financial Inclusion Caucus within the APEC Business Advisory Council (ABAC) which was established as a policy initiative of the Finance Ministers' Process in 2010, 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 are 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, in summary, 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. The provocation of the rise and proliferation of Fintech; how to harness the opportunities it creates while also balance and manage the various risks it introduces, for all citizens but also for citizens who today sit outside the formal financial system and therefore typically outside regulatory frameworks and oversight, are pervasive themes within the financial inclusion agenda and are likewise consistently represented within the recommendations.

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

The full report is published and available on the ABAC website, 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 sectors, 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 is increasing and is not well constrained by existing regulation.
- **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 eco-system 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 savings behaviours, particularly amongst 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;
- 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 emphasise, however, that it is insufficient to suggest that policy and regulatory reforms are the sole solution. The eco-system is a complex one and it is incumbent on all stakeholders **including the private sector to create multi-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 eco-system 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 micro small and medium enterprises, access to credit at reasonable interest rates, and ultimately leads to the financial frameworks that capitalise MSMEs, that provide greater securities than can be realised inter-generationally, removing barriers to participation in the real or formal economy, and recognise 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 SDGs.

A summary of the core areas of the financial inclusion work being led by FDC within ABAC, including the 2017 key focus areas, is outlined in the attached graphic.

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## 2 billion unbanked globally, with approx. 1.5 billion in Asia and the Pacific

Three pillars define the focus for Inclusive Growth and Development...

### Drive Deeper and Broader Financial Inclusion

**10 Developing economies in APEC**  
represent significant number of this financially excluded  
or underserved population

- Consumer protection
- Digital finance/mobile banking
- Accessing more, and more affordable, products and better financial security e.g. micro-pensions/micro-insurance
- Savings and easy access to digital deposits
- Remittances
- DLT
- Supply Chain Finance

### Accelerate Productive Asset Accumulation

**circa USD 10 trillion**  
"Dead Capital" in poor dwellings globally

- Home ownership/Land titles/livestock
- Investing in home improvement
- Increase opportunities to dignified retirements through access to pensions/superannuation
- Increase security through access to affordable insurance

### Enable Intergenerational Wealth Creation

**30-35% of GDP**  
is the average latent value of the Informal economy

- Role of Government in removing barriers to graduation into formal economy
- Mobilising investment capital towards the MSME sector
- Leveraging progress on financial market infrastructure to provide greater financial opportunity and benefits for the poor.

... and three enablers create the necessary eco-system

### Data and Insights

**Unique customer data**  
to provide insights into consumer needs, wants and  
behaviours

- Credit reporting and micro-Credit Bureaux
- Secured lending
- Cross border data flows
- Customer centricity
- Financial / Unique ID
- Non-financial data
- Unique Digital Identity

### Policy and Capacity

**Access, education, process, policy**  
are essential components of the eco-system

- Microfinance regulation
- Leverage, with regulation, of non-traditional banking for the poor e.g. agent banking
- Consumer education/financial literacy
- Institutional frameworks and safeguards

### Research and Learning

**Action-oriented Inclusive Growth**  
to build awareness and understanding of frontier  
development models and approaches

- Collaboratories with academic and development institutions, policy think tanks
- Piloting programs
- Sustainable Development Goals Measurement Frameworks
- Cebu Action Plan Measurement Frameworks



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