



THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

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Despite developing Asia's impressive record of economic development and poverty reduction, it is estimated that over half of the region's households do not have access to the formal financial system. And the evidence suggests that "financial inclusion" may have deteriorated since the onset of the Global Financial Crisis, as financial markets have tightened.

It was against this background that the Asian Development Bank Institute (ADBI), the Asia Pacific Finance and Development Centre (AFDC), and the APEC Business Advisory Council (ABAC) joined forces to organize a follow-up to the ADBI/ABAC 2009 workshop on promoting financial inclusion through innovative policies. This year's event explored the contribution of financial inclusion to rebalancing growth, risk mitigation, green growth and promoting small, micro, and medium enterprise development. A special session was held on the case of financial inclusion in the People's Republic of China.

The opening session focused on the role of financial inclusion in rebalancing growth. While developing Asia has benefited tremendously from export-led growth centered on US and European markets in recent decades, Asian economies need to take up the challenge of "rebalancing growth" toward greater reliance on domestic and regional demand, as US and European markets may be sluggish for some time. In the framework of the APEC Growth Strategy, more inclusive access to finance means providing all our citizens the opportunity to thrive in the global market economy. Improving financial inclusion requires developing a national strategy, and an enabling policy and institutional environment. PRC, Indonesia, Pakistan and the Philippines are cases where important progress is indeed being achieved. Development cooperation agencies, like the Japan International Cooperation Agency, are providing important assistance in this context.

Financial inclusion in the PRC was the focus of the second session. In the PRC, rural finance is necessary as a guarantee of the development of agriculture, farmers and rural areas, as well as being a driving force for balanced development of urban and rural areas, and an effective means of promoting rural consumption growth. But access to finance is very limited in rural areas, compared with urban areas. Rural areas have few financial institution branches, insufficient competition and poor financial service. The government is endeavoring to improve access to financial services to support structural adjustment and increase domestic consumption. Commercial banks are working to provide financial services to underserved market segments by developing profitable and sustainable business models.

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The third session addressed “green microfinance”. Green microfinance can be an important tool to promote both entrepreneurship and sustainable development. The role of government is important as the private sector and banks will not take environmental issues into account sufficiently. Microloans are increasingly targeting energy efficiency and renewable energy, while micro-insurance is being offered for catastrophe and agricultural weather insurance. Development banks are making an important contribution through providing finance to micro, small and medium size enterprises for green projects. The Indian government is providing finance to microfinance institutions for climate change adaptation, soil and water conservation, sustainable agriculture, and biodiversity conservation. Similarly, in Bangladesh green microfinance is supporting renewable energy, organic fertilizer, sustainable crop selection and agricultural insurance. In Sri Lanka, the government is providing subsidies for the production of organic fertilizer, paddy storage by traditional methods, biogas and renewable energy.

Mitigating risks through microfinance was the topic of the fourth session. The poor are vulnerable to a vast array of risks like natural, health, social, economic, political and environmental risks. Microfinance institutions (MFIs) provide an array of savings, loan and insurance products to help mitigate risks and protect clients from shocks such as the Global Financial Crisis. The Philippine MFI, “Card”, is a group of mutually reinforcing institutions which offers: loans to micro-entrepreneurs; micro-savings product; micro-insurance products; credit for education, health and enterprise development; and business development services. In Cambodia, microfinance has been established since the 1990s through national and international NGOs, and the government has created policies and regulations to support the microfinance sector for promoting long term sustainability. In Malaysia a new Blueprint for the financial sector is being developed for the next decade, with a greater role being given to the financial sector as an enabler, catalyst and driver of growth. In Thailand, the government has been active through the Microfinance Master Plan (2008-2011) which supports and strengthens MFIs capacity through human resources and capacity building, the synergy of public sector support, and networking among MFIs. In Viet Nam, MFIs provide various services to mitigate the adverse impacts from natural disasters. These include emergency loans, loan rescheduling, loans to restore capital assets, and loans to start productive activities.

The fifth session discussed small, micro and medium enterprises (SMMEs) which form a key component of any effort to promote inclusive growth. Lack of access to finance is a major obstacle to the growth of SMMEs in developing Asia. In China, most of the commercial law was adopted only within the past ten years. This framework based on China’s new Bankruptcy Law and Property allows secured or asset-based lenders to structure, or restructure, their loans to minimize the risk of the borrower’s insolvency, and is an important step toward increasing credit available to SMMEs in China. In developing Asia, the lack of effective information sharing systems and the absence of information on collateral and security rights in movable property are key hurdles to lending in many economies. Singapore provides a good example where an information sharing system has been set up by an independent third-party consumer and corporate credit bureau which is membership based and driven by voluntary participation across all industries.

At the concluding session participants made suggestions for possible topics for next year's edition of the financial inclusion seminar. These included financial inclusion and gender, financial literacy, microfinance for remote agricultural areas, financial sustainability of MFIs, Islamic microfinance, loan guarantees, and the role of commercial banks.

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