



THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

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Report of the Meeting of the Advisory Group of 14 February 2011, Guangzhou, People's Republic of China

[First Draft]

Office of the Advisory Group Chair



THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

First Meeting 2011

14 February 2011

Shangri-La Hotel, Guangzhou Ballroom (3rd Floor)
Guangzhou, People's Republic of China

MEETING REPORT

*First Draft
As of 8 April 2011*

Welcome and Introduction

The meeting started at 4:30 pm. Participants included members and staffers of the ABAC Finance and Economics Working Group (FEWG) and representatives from the Japan Ministry of Economy, Trade and Industry (METI), the Japan International Cooperation Agency (JICA), the IMF, the World Bank, the Australian APEC Study Center (AASC) at RMIT University, the Foundation for Development Cooperation, State Street and Goldman Sachs.

Madame Lili Wang of ABAC China welcomed participants to Guangzhou. In her welcome remarks, she touched on the current situation of the world economy as it emerges from the crisis and deals with related challenges including excessive capital flows and rising inflation and their impact on efforts to maintain growth. She noted that while there has been recent momentum toward recovery, risks are also growing, particularly those arising from sovereign debt crisis, problem assets, fluctuations in commodity prices and protectionism. She underscored the importance of the work being undertaken by the Advisory Group in financial market development, promoting access to finance for small, micro- and medium enterprises, and strengthening financial integration and development in the region.

The Advisory Group Chair, Mr. Mark Johnson, presided over the meeting. In his opening remarks, he welcomed the participants and gave an overview of the agenda items for discussion. He acknowledged the presence of Mr. Ken Sasaji of METI, Mr. Kazuto Tsuji of JICA, Mr. Sean Craig and Mr. Changchun Hua of the IMF, Mr. Kamran Khan of the World Bank, Mr. Ken Waller from the AASC, Mr. John Conroy of FDC, Ms. Catherine Simmons of State Street, and Mr. James Shipton from Goldman Sachs.

Review of the Fourth 2010 Advisory Group Meeting in Yokohama

The Advisory Group Coordinator, Dr. J.C. Parreñas, presented the draft Report of the Advisory Group Meeting of 10 November 2010 in Yokohama.

The Advisory Group approved the Meeting Report.

Confirmation of New Advisory Group Co-Chair

The Chair introduced the new Advisory Group Co-Chair, Mr. Yoshihiro Watanabe, who was the 2009 and 2010 FEWG Chair and a previous Advisory Group Co-Chair in 2008.

The Advisory Group confirmed his appointment as one of the Advisory Group Co-Chairs.

Infrastructure Public-Private Partnership

The Chair opened the discussions by referring to the successful outcomes of the ABAC-ADB-JBIC Private Infrastructure Finance Forum that was held on November 7 in Yokohama. He underscored one of the conclusions from the discussions at the Forum that pointed to the continuing need for better information flows not just between public and private sectors, but also among private sector market participants. He also made a reference to an informal post-Forum meeting among officials and private sector participants, which confirmed the desire in the region for a structure that can facilitate such information flows, and concluded that establishing such a clear structure is the key task ahead.

Mr. Kenneth Waller of AASC reported the successful holding and conclusion of the aforementioned ABAC-ADB-JBIC Private Infrastructure Finance Forum and referred to the report submitted to the Advisory Group (*attached as Annex A*). He noted particularly that the Forum was successful in bringing together key representatives from private and public sectors and MDBs to advise on major issues, and in highlighting the size of the financing infrastructure needs and opportunities, and what may be commercialized. It also pointed to the role MDBs are playing in supporting PPPs and new mechanisms being taken by governments in the PPP space. He noted one conclusion that mobilizing private finance on the scale needed remains a primary challenge for most developing economies in the region.

Mr. Waller also reported on the informal meeting among key representatives from government, private sector and MDBs that was held subsequent to the Forum. He noted that the meeting demonstrated MDB support and the interest of private sector participants for the Asia-Pacific Infrastructure Partnership (APIP) model proposed by ABAC. MDB representatives agreed that the APIP could provide benefits, mainly by way of an extension of the work they are doing.

Mr. Waller mentioned that, in that meeting, the incoming chair of the APEC Senior Finance Officials Meeting (SFOM) from the US Treasury expressed a willingness to provide an opportunity in 2011 to further develop thinking on the APIP. Some value was seen in a top-down approach (represented by the APIP) as an adjunct to initiatives currently under way under the APEC Finance Ministers' Process, in particular the PPP mentoring scheme. The meeting touched on progress being made in the PPP environment in Indonesia and Malaysia. Private sector PPP sponsors and financiers also saw value in APIP, noting that the financing being mobilized by MDBs is relatively very small, and that standardization of documentation and processes as well as measures to develop electronic information sharing web-sites would probably do much to assist developing economies.

Mr. Waller offered the following key conclusions from these discussions with respect to APIP:

- Another general forum is unlikely to yield much more than was achieved in Yokohama in demonstrating the need for the APIP concept or a mechanism similar in purpose to the APIP concept.
- Given the massive financing gap and at best the modest developments in PPP infrastructure projects in the region, the APIP concept continues to be a valuable proposition but its utility needs to be more clearly demonstrated to the private sector.
- More work is needed to demonstrate its value to developing economies in the region which have a strong interest in promoting PPPs.

Mr. Kamran Khan of the World Bank welcomed the APIP proposal and expressed the Bank's interest in collaborating with ABAC. He noted that infrastructure needs are growing exponentially and that an enabling environment is needed to channel more private capital into public infrastructure. In this context, the APIP can play an important role, with ABAC taking the lead and utilizing its convening power to bring key private sector players to dialogue with the public sector and its unparalleled ability to offer consolidated, highly credible and unbiased views from the private sector.

He underscored the importance of focusing on demand-driven activities, going beyond workshops and forums, to be effective and offered the following suggestions on how APIP might operate:

- Efforts should be directed at achieving direct dialogue with key decision-makers and developing an advisory relationship with them involving the right types of people.
- General discussions on PPPs should be avoided and great care must be given to developing the agenda.
- There should be focus on dialogue to solve actual problems and deal with cutting-edge issues instead of report-writing.
- Smaller closed-door meetings without the presence of media would enable policy makers to feel more comfortable in freely discussing issues.

Mr. Khan expressed the view that APIP could be a valuable tool for promoting infrastructure PPP, and that the World Bank will be ready to help, participate in and co-sponsor activities. He noted that the World Bank has a deep understanding of the public sector and can serve as a bridge between public and private sectors, as well as share international experiences on how governments are dealing with key issues and provide important inputs to the dialogue.

In the discussions, participants noted the need to address information asymmetries within the private sector – such as those among underwriters, contractors, project sponsors, consultants, engineers, long-term investors and bankers, who view infrastructure PPP from different perspectives. Participants also noted the potential for the asset management sector to fruitfully participate in dialogues.

The Chair proposed as a way forward in 2011 the following activities, in collaboration with APEC finance ministries, MDBs such as the Asian Development Bank, the Inter-American Development Bank and the World Bank, as well as ECAs.:

- Dialogues focused on selected interested individual developing economies (one economy per session). Preferably, these would be closed-door dialogues among relevant high-level officials, the ABAC-led (APIP) advisory panel and experts from MDBs and ECAs. Each session will be tailored to maximize value for participants; session agenda will be determined after consultations with concerned ministries/agencies. Two dialogues are envisioned: (a) an Asian dialogue focused on 3 or 4 economies, proposed to be held in Tokyo, Japan sometime in early June, and (b) a Latin American dialogue to be hosted by ABAC in Lima, Peru in late August. Outcomes from the dialogues will be reported to SFOM.
- A Forum in Honolulu co-organized by ABAC with interested MDBs and ECAs through the Advisory Group, to discuss the outcomes of the Dialogues and the way forward for public-private collaboration to promote infrastructure PPP in each of the key infrastructure sectors relevant for the region, as well as in cross-border infrastructure projects. It is proposed to be held close to the date of the AFMM in November to enable interested finance ministers, deputies and senior finance officials to participate.

These activities were listed in a proposed note to the SFOM Chair that was submitted to the Advisory Group for endorsement.

The Advisory Group endorsed the way forward proposed by the Chair; noted the final report of the ABAC-ADB-JBIC Private Infrastructure Finance Forum and the report on the informal meeting with finance officials and MDBs in Yokohama; and endorsed the note to the SFOM Chair.

Capital Market Development

The Coordinator referred to the Advisory Group's recommendation in 2010 that APEC Finance Ministers and Senior Finance Officials undertake discussions with a view to compiling a package of measures to bring the development of the region's capital markets to the next level. It was recommended that these discussions focus on (a) development of wholesale securities markets exclusively for professional investors; (b) regional public-private sector collaboration mechanisms to reduce barriers to cross-border settlement; (c) use of foreign securities as eligible collateral throughout the region; (d) ways to accelerate the region-wide convergence of accounting standards, disclosure regimes and corporate governance practices; and (e) establishment of a pathfinder initiative to introduce a regional funds passport scheme.

The Coordinator reported that a number of domestic, bilateral and regional initiatives are under way toward the implementation of these recommendations in the region. Among these are the following:

- Cross-border securities collateral management: Discussions are underway involving several central banks in East and Southeast Asia regarding the use of government bonds as cross-border collateral.
- Regional funds passport scheme: At their 2010 meeting in Kyoto, APEC Finance Ministers launched the Asia Region Funds Management Passport initiative. Core participating economies (Australia, Hong Kong and Singapore) will be meeting in Hong Kong on 15-16 March to further progress this work in a policy/technical workshop. Korea and Japan are also expected to join the meeting. The Australian Treasury, which is coordinating this initiative, is currently developing the agenda and working papers on the design of the ARFMP, as well as on development and operational issues. The Treasury will be inviting a number of players from the funds management industry to attend the workshop and dialogue with finance regulators and officials with the aim of seeking their views and input into the proposed design and development of a pilot ARFMP, expected to be announced by APEC Finance Ministers in November. Another related project being undertaken jointly by the Australian Treasury and the Malaysian Securities Commission's training arm (SIDC) is a follow-up capacity building program on cross-border recognition of equivalent regulatory regimes for issuing and trading financial products and services. Participants in this training program are primarily from Thailand, Vietnam, the Philippines and Indonesia.
- ADB is holding the 3rd ASEAN+3 Bond Market Forum on 16-17 February in Kuala Lumpur. ABMF members and experts are being asked to identify regulatory information and market infrastructure through a questionnaire. At this meeting, discussions will focus on project proposals for the future, including Advisory Group/ABAC recommendations. ADB will update the Advisory Group on the results of this meeting.

Ms. Catherine Simmons of State Street reiterated the benefits of a regional funds passport scheme for both investors and governments, and its positive impact on the development of markets for cross-border funds and on regional financial integration. She noted that the most promising way forward for this scheme is to emulate the UCITS model based on agreement among participating jurisdictions on new common regulations.

Mr. Yoshihiro Watanabe of ABAC Japan reported that the Institute for International Monetary Affairs, in collaboration with State Street, will be holding a briefing in Tokyo for Japanese financial and regulatory authorities on this topic on 4 March, which will also touch on how the scheme can be implemented. He mentioned that the experience of the APEC Business Travel Card can be helpful in promoting participation in the scheme among APEC economies.

In the discussions that followed, participants noted that policy makers may easily see the advantages of the scheme, given the desirability of harnessing the large savings being accumulated in the region and the prospect of European-regulated UCITS becoming dominant in the absence of a regional alternative; regulators, however, may see it in a different light given the added burdens involved. In this context, it may be useful to consider starting with the wholesale market, where demand is expected to be strong and regulators might find it attractive to undertake initiatives.

Participants also recognized the issue of market segmentation, as well as market illiquidity resulting from shocks to the financial system, in relation to products developed in offshore markets and not traded in the markets where they are exposed. In this context, participants underscored the need to guard against unintended consequences enhancing market segmentation that may result from regulatory changes, and to understand the intersection between capital market development and regional responses to regulatory reforms. This would necessitate regional regulatory cooperation through a forum that brings together bank and securities regulators and private sector, particularly including market makers.

The Advisory Group noted the progress of efforts in capital market development and agreed to continue these efforts in coming months.

Financial Inclusion

The Coordinator presented a concept paper for the 2011 APEC Financial Inclusion Forum, which the Finance Ministers in their Kyoto Report on Growth Strategy and Finance encouraged ABAC to undertake. The paper proposed to focus 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. It was proposed that the Forum concentrate on three areas: (a) consumer and micro/small enterprise lending; (b) grassroots savings mobilization; and (c) remittances and cross-border microfinance.

The Forum is envisaged to be held sometime in early June 2011 in Tokyo, Japan. It will involve key private sector representatives and officials from finance ministries and financial regulatory agencies. The Advisory Group will coordinate preparations and engage international institutions such as ADB/ADB Institute, IDB, IFC; ECAs; development assistance agencies; industry organizations such as ABA, ADFIAP and WSBI; and key institutions involved in financial inclusion such as AFI, BWTP Network, CGAP and FDC, as well as academic institutions undertaking significant work on financial inclusion. The concept paper will be submitted to the SFOM Chair for consideration by SFOM.

The Coordinator also updated the Advisory Group on the APEC Financial Inclusion Initiative. The APEC Senior Finance Officials will kick off the initiative on February 22-23 with an inaugural workshop in San Francisco. ABAC and other participants in the Advisory Group have been invited to be actively involved in this workshop, which will discuss the design and future activities of the initiative. The Coordinator mentioned that he will be attending this inaugural workshop and will report to the Advisory Group in the next meeting to discuss where the Advisory Group might wish to be involved.

The Coordinator also referred participants to two documents that have been submitted to the Advisory Group for information. One is a document contributed by the World Savings Bank Institute entitled "Financial inclusion: how do we make it happen?" Another is a document

contributed by the Inter-American Development Bank published by the Economist Intelligence Unit entitled “Evaluating the environment for public-private partnerships in Latin America and the Caribbean: The 2010 Infrascopes.”

Mr. Ken Waller briefed the Advisory Group on the work of the AASC to support APEC’s work on Financial Inclusion in 2011. He reported that the focus of the work will be on promoting best practice principles for enabling regulatory and supervisory approaches directed toward enhancing MSMEs access to finance through banking, equity and debt capital markets and thereby to widen financial inclusion.

Mr. Waller reported that AASC plans to hold a two-day symposium in the Philippines in the second quarter of 2011, followed by an intensive training course in Melbourne in the fourth quarter. He noted that representatives of regional policy and regulatory agencies, banks and financial institutions and capital markets and international organizations and standard setting bodies will be invited to the symposium to consider policy and regulatory challenges faced by MSMEs (and their financiers) in accessing finance. The outcome will be proposals aimed at enhancing regulatory approaches to promote financial flows.

He mentioned that drawing on the suggestions arising from the symposium, the subsequent training course would involve policy makers and regulators from the region in considering best practice supervisory and regulatory approaches and ways to implement them. Mr. Waller welcomed collaboration of all interested partner institutions in the Advisory Group in both components of this initiative to fully reflect business and commercial practices. Funding is being sought from AusAID.

Dr. John Conroy of FDC spoke on the importance of a clear delineation between financial inclusion and SMME finance. He noted that microenterprise is essentially an informal sector activity, with characteristics and a culture quite distinct from those of firms in the SME sector, which are either formal in character, or at least capable of meeting the norms of formality. He also noted that SMEs on the borderline of the formal economy are targeted by agencies seeking to achieve their formalization, in terms of criteria such as enumeration, registration, conformity with standards and taxation. The World Bank/IFC ‘Obstacles to Doing Business’ campaign is an example of efforts to complete the formalization of the SME sector. Such activities in developing member economies are not much directed to microenterprises, although in the longer run attention will also be given to formalizing the microenterprise sector.

Dr. Conroy noted that many SMEs in APEC economies experience difficulty in accessing credit from formal sources, and in that sense are legitimate targets for financial inclusion policies, in spite of their proprietors’ having little else in common with the financially excluded poor, who are the primary targets of the financial inclusion initiative. He argued that as overlap is inescapable, there is a real need for a sensible division of labour between the SMME finance and financial inclusion’ action areas, even as the demarcation needs to be defined as sharply as possible.

Dr. Conroy suggested that SMME finance focus on access to commercial credit, including bank lending and commercialized micro-lending, for which purpose it will be deemed necessary to tap capital markets, both domestic and international, to achieve the necessary resources and growth. Financial inclusion, on the other hand, should focus on expanding access of the financially excluded to all manner of financial services relevant to their lives, including grassroots savings mobilization to reduce MFIs and similar institutions’ vulnerability to external shocks.

He suggested that in promoting financial inclusion for low-income households, care must be taken to ensure that access to external capital markets undertaken to supplement loanable funds available from local sources does not discourage local savings mobilization. He also cautioned against an approach overemphasizing financialized micro-lending and access to external capital

markets if these end up orienting MFIs toward the credit needs of the middle classes, instead of serving the financial service needs of low-income households. Dr. Conroy suggested that these low-income households also be taken into consideration with respect to the APEC Financial Inclusion Forum, with sufficient discussion of sequencing, bearing in mind the hazard of premature emphasis on consumer credit stunting savings mobilization among the people who access such credit.

Mr. Kazuto Tsuji of JICA discussed the role of the public sector in supporting potentially viable MFIs and empowering potential clients, drawing from JICA's experiences in India and Sri Lanka. In India, JICA extended official development assistance loans to the government to support efforts toward joint forest management by the state government and impoverished villagers. The project involved partnership with the Tamil Nadu Forest Department, 1,937 village forest committees, 5,979 self-help groups (SHGs) and supported the financial education and empowerment of villagers and the savings accumulation and credit delivery experimentation by them. After the successful implementation of the project, which enhanced the capacity of village clients, the National Bank for Agriculture and Rural Development (NABARD) acted as an apex institution linking SHGs to private MFIs and supporting both institutions in achieving financial sustainability jointly. The same kind of projects are being replicated in nearly 20 states in India.

In Sri Lanka, JICA provided a "two-step-type" loan to the central bank acting as an apex institution providing wholesale funds and technical support to rural development banks, which in turn dealt directly with client groups or through NGOs and similar community-based institutions. Project district offices of the central bank provided training to client groups. After the successful experience of the project, private MFIs and commercial banks began to participate in the second generation of revolving loans that were extended with support of the central bank but without further aid from JICA. The project success led to financially and socially viable microfinance in a much wider scope. As the next step, the central bank is trying to expand microfinance to more challenging areas and clients with support by JICA.

In light of these experiences, Mr. Tsuji pointed to the important role of apex institutions in supporting efforts to nurture and develop commercially viable regulated MFIs that can undertake deposit-taking activities from the general public. He noted in particular the role that apex institutions played in empowering potential clients, including those among the poorest communities, through financial education and capacity-building to promote savings and financially viable and socially responsible MFIs. As a way forward, he cited the need to study how apex mechanisms can be harnessed in various economies, and how supply-side interventions (directed to MFIs) and demand-side interventions (directed to customers) by the public sector can be synergized and undertaken in a market-friendly way to promote commercially viable and socially responsible microfinance. In the discussions that followed, participants noted the need to involve various kinds of institutions, including commercial banks and public sector institutions to promote financial inclusion, and in particular to enable more unregulated MFIs to develop into regulated institutions that can accept deposits and investments.

The Advisory Group endorsed the concept paper for the 2011 APEC Financial Inclusion Forum and its submission to the SFOM Chair; the Advisory Group's involvement in the APEC Financial Inclusion Initiative and the collaboration with the AASC in its work on financial inclusion.

Small, Micro and Medium Enterprise (SMME) Finance

The Coordinator referred to the two key issues previously recommended by the Advisory Group for APEC to address in order to promote SMME finance: (a) building robust credit information sharing systems and (b) improvement of legal frameworks for secured lending. He noted that in 2010 the Advisory Group collaborated with senior officials through the Ministry of Economics, Trade and Industry (METI) of Japan in discussing these two issues at a seminar under APEC's Ease of Doing Business work program in Sendai. He reported that these two issues were

highlighted in statements by SME Ministers and Finance Ministers in 2010. He proposed that in 2011, the Advisory Group continue its collaboration with APEC senior officials, through Japan METI, which has been tasked to lead this effort in APEC.

The Coordinator also reported that the APCC is preparing a proposal to undertake and fund an activity on SMME Finance in support of APEC's work, and discussions are still ongoing among senior officials on how to take this work forward. He mentioned that these discussions may be fairly advanced by the beginning of the second quarter, so that he may be able to report back at the next meeting with more concrete ideas on what the Advisory Group may wish to undertake in 2011.

Mr. Sasaji of METI Japan briefed the Advisory Group on further actions being contemplated by APEC to promote SMEs' access to credit. He noted that this is very much part of the APEC Leaders' Growth Strategy, which includes inclusive growth among the five growth attributes and counts structural reform and human resource and entrepreneurship development among the action plans under this Strategy. Ease of doing business (EoDB) is one of the five priority areas under the structural agenda of APEC for 2011-2015, and under this, ease of getting credit is a sub-priority area that METI Japan is responsible for developing.

Mr. Sasaji mentioned that while EoDB activities in 2010 focused on holding seminars and workshops to share information and experiences, efforts from 2011 onwards will focus on in-depth diagnostics, customized action plans and follow-up. With respect to ease of getting credit, he referred to the Seminar on Getting Credit for SMEs held in Sendai in September 2010, where government officials and legal and finance experts discussed how to strengthen legal rights and improve credit information to facilitate SMEs' access to credit.

He noted that for the next phase of activities, APEC will aim to identify tailor-made approaches for each participating economy and to offer capacity-building activities, information-sharing workshops and technical experts to help economies introduce financing facilities for movable collateral, including inventories, and to improve credit information. He reported that APEC will try to create detailed plans through consultation between participating economies.

The Advisory Group agreed to explore further how to collaborate with APEC senior officials in advancing its work on SMME Finance in 2011.

Regional Cooperation in Financial Regulation

The Coordinator referred to the annual dialogue among financial regulators in the region, multilateral institutions like the IMF and ADB and international bodies like the BIS, and the region's financial industry that the Advisory Group has been convening over the past six years. He mentioned that these dialogues have been held back-to-back with the annual meetings of SEACEN member central banks' directors of bank supervision, and that last year, it was held in Manila.

The Coordinator reported that in 2011, the meeting of SEACEN directors of bank supervision will take place in Colombo, Sri Lanka, and SEACEN has offered to hold this year's dialogue there on July 5-6. He suggested that, although this will be the first time that the dialogue is being proposed to be held outside APEC, due to its value as the only major dialogue on financial regulation in the region involving central banks, financial regulators, IFIs, the BIS and the financial industry, the Advisory Group accept this offer and coordinate preparations for this 7th dialogue.

Regarding the theme and topics for the dialogue, the Coordinator mentioned that consultations with various institutions involved in the G20, FSB and BCBS processes have been undertaken, and suggested the following:

- Suggested theme is “Meeting the Challenge of Growth and Stability.” The theme will focus on balancing new regulations to promote stronger financial systems with the need to facilitate growth through financing of enterprises and develop efficient and liquid financial markets in the region.
- Topics should meet the growing need to reflect views from emerging markets and regions in continuing efforts by international bodies to further develop new regulations and standards. Equally important is the need for stronger economic growth in the Asia-Pacific to help achieve sustained global economic recovery. Topics should also include issues where G20, FSB and BCBS have indicated interest in receiving regulators’ and the private sector’s views from the region’s emerging markets. In this context, the following topics may be considered for inclusion in the agenda for this year’s dialogue:
 - ♦ Keynote speeches could focus on overviews of (a) the role of Asian emerging markets in global economic recovery; (b) efforts by the G20, FSB, IMF, BCBS and others to strengthen financial stability; and (c) new financial regulations, including Basel III and the key messages from the joint FSB-BCBS Macroeconomic Assessment Group’s final report on the assessment of the macroeconomic impact of the transition to stronger capital and liquidity requirements; and (d) the global financial regulatory reform agenda in 2011 and beyond.
 - ♦ Global and regional economic and financial environment, including macroeconomic and monetary policies of major economies affecting the region, capital inflows to emerging markets, inflation and exchange rate volatility.
 - ♦ Impact of Basel III on the region’s emerging economies and where further refinement would be needed or national discretion could be considered, including impact on trade finance, SME finance, local banking systems and business models, capital markets and financial regulation and supervision.
 - ♦ Strengthening risk management and supervisory practices, including corporate governance, revision of Basel core principles and cross-border supervision of SIFIs.
 - ♦ Impact of expanding the regulatory perimeter to the shadow banking system, including the role of money market mutual funds, finance companies, ABCPs, SIVs, securities dealers and securities lending in the region’s economy.
 - ♦ Regional financial integration, including practical steps proposed by ABAC, such as use of securities for cross-border collateral management, regional funds passport initiative and removal of obstacles to cross-border settlement.
 - ♦ Financial inclusion, including remittances, grassroots savings mobilization and application of Basel core principles to supervision of microfinance.

The Coordinator also referred to the final draft of the full report of the 6th dialogue held in Manila, which has been finalized based on comments and suggestions from participants, particularly speakers and session chairs, who have indicated satisfaction with the present draft. As the summary of this report has been discussed at the Advisory Group’s meeting in Bangkok in 2010, the Coordinator sought the Advisory Group’s endorsement for this report to be publicly and widely disseminated, and for its possible publication.

Mr. Sean Craig of the IMF commented that the topics are very relevant to current discussions among regulators. He offered several suggestions for purposes of sharpening the agenda. First, the theme could be further developed to reflect more clearly the importance of obtaining private sector perspectives on how to further enhance financial stability. Second, the agenda should also more clearly articulate the objective of capturing the perspectives of emerging markets in the

region, both from the regulatory and the private sector side. Third, a more robust discussion of regional integration, including its scope and meaning for Asia as a region, which may involve discussion of monetary policy issues such as capital flows, as well as macro-prudential regulation.

Mr. Ken Waller of AASC briefed the Advisory Group on a symposium being undertaken as the centerpiece of a three part activity funded by AusAID under its Public Sector Linkages Program and by the Victorian Government. He reported that it seeks to bring together specialist speakers and moderators drawn from international financial regulatory standard setting bodies, regional financial system policy makers and regulators, major private sector financial institutions and financial system academics to consider and exchange views on major reforms in response to the global financial crisis. The symposium will consider the impact of the reforms on regional economies. He mentioned that a report of the Forum will be made available to APEC Finance Ministers for their consideration later in 2011, and sought the collaboration of the Advisory Group to promote the participation of interested Advisory Group participants in the symposium.

In the discussions that followed, participants underscored the need for developing the building blocks for regional financial integration, an important part of which is the financial market infrastructure, and the role that regional bodies such as organizations of central banks and private sector organizations in the region can play. Participants also expressed their support for the draft of the 6th dialogue report.

The Advisory Group endorsed the proposals and suggestions offered for the theme and topics of the 7th (2011) annual dialogue with regulators, the final report of the 6th (2010) dialogue and its dissemination and publication, and the collaboration with the AASC on the regional symposium on Enhancing Financial Policy and Regulatory Cooperation: Responses to the Global Financial Crisis.

Proposed 2011 Work Program

The Coordinator presented the draft 2011 Work Program to the Advisory Group for approval, consisting of activities that have been discussed under the previous agenda items.

The Advisory Group approved the 2010 Work Program as proposed. (See Annex B.)

Other Matters

The Chair informed the Advisory Group that ABAC Japan is sending the Coordinator to attend the APEC Finance Deputies' Meeting in San Francisco on 22 February and the inaugural workshop on the APEC Financial Inclusion Initiative on 23-24 February. He asked participants to endorse the Coordinator's participation also on behalf of the Advisory Group, in particular to invite collaboration from finance officials and MDBs in the Advisory Group's work on infrastructure PPP and financial inclusion.

The Advisory Group endorsed the Coordinator's participation in the APEC Finance Deputies' Meeting in San Francisco on 22 February and the inaugural workshop on the APEC Financial Inclusion Initiative on 23-24 February on its behalf.

Chair's Closing Remarks

The Chair delivered his closing remarks and thanked ABAC China and Madame Lili Wang for hosting the meeting. He also announced that the next meeting will take place in Seoul during the ABAC meeting in April, and that participating institutions will be informed of the exact date and time as soon as this information becomes available.

Adjournment

There being no other matters to discuss, the Chair declared the meeting adjourned at 6:30 pm.

ANNEX A



ABAC-ADB-JBIC Private Infrastructure Finance Forum

7 November 2010

Yokohama, Japan

SUMMARY REPORT

Introduction

The Forum was attended by about 110 participants, comprising of APEC senior finance officials, representatives from APEC Business Advisory Council (ABAC), Asian Development Bank (ADB), Japan Bank for International Cooperation (JBIC), and senior representatives of the business community and financial industry from Japan and other APEC economies. Speakers and commentators made high-quality interventions and provided detailed presentations that provided insights into major factors impacting public-private partnership (PPP) developments in the region. A copy of the program is attached to this report.

Summary of key points

- Substantial infrastructure investment during the next decade amounts to \$8 trillion in Asia and the Pacific to support current levels of economic growth and achieve balanced and sustainable growth.
- Since the infrastructure investment demand is huge, public sector investment alone cannot meet the infrastructure challenges. Therefore, PPPs in developing and managing infrastructure are important.
- Emerging Asia's savings rates are exceptionally high. Yet, mobilizing them to help build infrastructure necessary for long-term prosperity is an urgent challenge. In this respect, infrastructure funds and local institutional investors such as pension and provident funds can channel Asian savings to help finance PPP infrastructure projects. Multilateral Development Banks (MDBs) like ADB and Export Credit Agencies (ECAs) like JBIC can support this process through credit enhancement tools and expertise.
- Many PPPs have been undertaken in Asia and the Pacific over the past two decades. Significant PPPs are being undertaken by major Japanese corporations in rail, water and environmental sectors – including in developed and developing economies.
- Based on lessons learned from these PPPs, APEC economies have improved their PPP policies and procedures. For instance, important changes have been introduced to promote PPPs in Indonesia. The Philippines is reviewing new PPP policies and approaches. Malaysia has identified the development of PPPs in its 10th Malaysia Plan. India's PPP case was quoted during the Forum as an example of successful PPPs useful for Asia and the Pacific.
- Major constraints impeding PPP development in some economies were outlined. They include inadequate depth of capital markets, the dearth of good quality projects, inadequate regulatory frameworks, and concerns with transparency, political and country risk, exchange and interest rate risk.

- MDBs such as ADB and the World Bank and ECAs actively support PPP developments, using credit enhancement products. They also support APEC economies in building capacities and in developing PPP projects.
 - The ADB has a strategy to enhance urban development in the Asia-Pacific region and this will involve major PPP infrastructure investment.
 - The infrastructure challenge for developing Asia is one of the most daunting we face today. It involves far more than just the size and cost of infrastructure demands.
 - The Forum confirmed that all stakeholders must work diligently to be innovative, yet financially responsible, in mobilizing Asian savings in order to deliver successful, sustainable and robust infrastructure projects.
 - The Forum confirmed a need for solid partnerships among all stakeholders - governments, MDBs like ADB, ECAs like JBIC, and the private sector - in delivering and managing complex PPP projects.
 - Moving forward, the Forum underscored the importance of regular dialogues among governments, MDBs, ECAs and the private sector to further discuss PPP issues and constraints objectively.
 - There was a high degree of confidence in the evolving ABAC processes to develop the Asia-Pacific Infrastructure Partnership (APIP) and support to take this concept forward in 2011.
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Detailed Summary of the Forum

Opening Session

- Mr. Mark Johnson, Chair, Advisory Group on APEC Financial System Capacity Building, provided an introduction to the forum. In his opening remarks, he noted the wealth of experience of the people attending, the value of sharing that experience and asked that participants consider what next steps ABAC might promote to move forward in its deliberations on the role of the private sector, academia and MDBs in supporting infrastructure in the region.
- Mr. Takehiko Nakao, Director General, International Bureau, Ministry of Finance, Japan, delivered the welcome remarks and expressed gratitude to the organizers. He mentioned that the APEC Finance Ministers' Meeting (FMM) was not only concerned about macroeconomic issues but also gives importance to infrastructure finance. Due to the high demand for financing infrastructure, private sector involvement is needed and governments should provide an enabling environment to allow the sector's active participation in PPP projects for the long-term.

- Mr. Haruhiko Kuroda, President, ADB, gave the main keynote address and explained that substantial infrastructure investment during the next decade totalling \$8 trillion exists in Asia and the Pacific region to support current levels of economic growth. Private participation through PPPs is essential and private investment is expected to cover about 40% of total costs, according to ADB's estimate. Meeting the financing demands for infrastructure would require strong legal and regulatory frameworks, development of domestic capital markets and the channelling of private savings through pension and mutual funds. Multilateral development banks (MDBs) like ADB and export credit agencies (ECAs) like JBIC can support this process through credit enhancement tools and expertise. Currency mismatches have been problematic in many PPP projects. Continued development of domestic capital markets and encouraging local currency lending will help address this problem. For example, local pension funds could be tapped as a source of long-term local currency funding. The ASEAN+3 Asian Bond Markets Initiative has been working to deepen domestic capital markets and promote local currency bond issues for widening both issuer and investor bases. The pilot \$700 million Credit Guarantee and Investment Facility is expected to be operational by 2011 within ASEAN+3. He briefly explained ADB's major infrastructure initiatives such as the Asia Infrastructure Project Development Company, the Asian Training and Research Initiative for Urban Management, the Cities Development Initiative for Asia and Water Financing Program. He called for being innovative, yet financially responsible, in mobilizing Asian savings to deliver successful, sustainable and robust infrastructure projects. He also called for maintaining solid partnerships among all stakeholders in delivering and managing complex PPP projects.
- Mr. Hiroshi Watanabe, President and CEO, JBIC, delivered the second keynote speech and emphasized the importance of infrastructure development for balanced and sustainable growth. He underscored the importance of developing efficient energy supply chain systems, implementing energy savings programs, and establishing environmentally sustainable economic structures with low greenhouse gas emissions. MDBs and ECAs play a significant role in processing PPP projects and JBIC as a public sector financing institution provides financing packages for PPP projects that induce private sector participation.
- Mr. Tatsuo Tanaka, Group CEO, Global Banking and Deputy President, The Bank of Tokyo-Mitsubishi UFJ, Ltd., shared his views on PPP infrastructure financing in the context of private banking institutions. Since infrastructure projects have become larger, financing amounts have increased and this has created opportunities for public-private collaboration, where MDBs and ECAs can provide additional financing with longer tenure and shared risks.

Session 1: Infrastructure Finance in Asia and the Pacific (Opportunities, Challenges, Technology and Greenhouse Gas Implications)

- The session chair, Mr. Yoshihiro Watanabe, introduced speakers representing JBIC, the ADB, Mitsubishi Corporation, Hitachi Ltd., and commentators representing UEM

Group and White and Case. A representative from the Australian Treasury provided the concluding comments.

- The first presentation was given by Mr. Fumio Hoshi, Senior Executive Director, JBIC. He elaborated on the major infrastructure finance challenges such as the need for establishing appropriate PPP frameworks, hitting the right balance between profitability and public service obligations of PPP arrangements, and pursuing appropriate risk sharing, including political risks.
- The second presentation was delivered by Mr. Ashok Sharma, Senior Director, Office of Regional and Economic Integration, ADB. He elaborated on the (i) demand for infrastructure; (ii) mechanisms to promote PPP; and (iii) ADB's initiatives to support PPP. He highlighted the need for cooperation and emphasized the need for dialogues among stakeholders in order to discuss PPP issues, resulting in acceptable arrangements.
- The third presentation was given by Mr. Nobuaki Kojima, Executive Vice President and Group CEO, Global Environment Business Development Group, Mitsubishi Corporation. He presented the demand for water and energy infrastructure, the dearth of bankable projects in some developing economies, the lack of depth in some capital markets, the fundamental importance of risk mitigation and the legal and regulatory frameworks which govern PPPs. He noted the need for government support to encourage the increasing use of renewable energy in the region and the need for a deeper appreciation of the challenges relating to long-term water and energy availability in economies in the region.
- The last presentation was given by Mr. Toshihide Uchimura, Chief Strategy Officer, Global and Transportation Business, Hitachi, Ltd. Industrial and Social Infrastructure Systems Company. He presented the benefits to both the public and private sectors of PPPs in rail procurement, the factors in determining project feasibility and special purpose financing model arrangements; and the need to have a mitigation mechanism brought about by the following factors: (i) shrinking project finance capability of the private sector; (ii) high margin for the private sector; (iii) difficulties of obtaining longer tenor debt; and (iv) difficulties of refinancing.
- Tan Sri Datuk Dr. Ahmad Tajuddin Ali, Chairman, United Engineers Malaysia (UEM) Group Berhad, mentioned that in the case of Malaysia, the government clearly defines its role and areas for PPP undertakings. He discussed recent developments in the context of the 10th Malaysia Plan, which identifies the private sector as the engine of growth with 52 privatization and PPP projects under consideration, with emphasis on services delivered by the privatized entities, and the requirement that projects are to be subject to key performance indicators and revisions to tariffs to be subject to a reward and penalty system. This will require government review of the existing contracts to develop PPP model contracts that will adequately cover the present requirements.

- Mr. Arthur M. Mitchell, Senior Counselor, White & Case LLP, mentioned that while governments have a monopoly on the development of the right institutional framework for PPPs, they need to involve the private sector in the process. He posed 15 PPP-related questions that governments should consider: (i) Will existing legislation, particularly in the Philippines, be used or will a new PPP law be enacted? (ii) Have international best practices been considered (i.e. UK, Ireland, Australia, Netherlands, South Africa and Canada)? (iii) Does the PPP framework cover critical phases, such as (a) identification of PPP projects on a multi-year plan, (b) preliminary analysis and prioritization of PPP projects, and (c) structuring of PPP projects? (iv) What is the applicability of public procurement laws and do they need to be amended? (v) What is the relationship between the central government and the local government units with respect to PPPs? (vi) What is the legal authority of the local government to grant contracts? (vii) Is there any sector-specific procurement legislation supplementing the general procurement regime? (viii) Does the relevant legislation state or restate the fundamental principles for tender procedures—equal treatment, transparency and competition? (ix) Does the law require the contracting authority to be independent and impartial? (x) How are conflicts dealt with? (xi) When and how can a ‘competitive dialogue’ with the contracting authority be used? (xii) How does the contracting authority deal with ‘abnormally low’ bids? (xiii) What procedures are available for the losing bidder to appeal and what is the role of the courts? (xiv) Can and do the courts issue injunctions and how quickly can disputes be resolved? (xv) Are there any specific investment protections available for foreign investors and financiers?
- Mr. Leslie Williams, Senior Adviser, Regional Engagement Unit, International and G20 Division, Australian Treasury, provided the concluding comments. He mentioned that Australia presented a report to APEC Finance Ministers on breaking the log jams in PPPs which addressed the question why few PPPs move forward. The said report concluded that policy departments lacked hands-on experience and, as a consequence, there was a reluctance to authorize projects. In response, Australia, in cooperation with the World Bank and Singapore, will launch in 2011 the PPP mentoring scheme, which will aim to give practical advice and technical assistance to policy makers and add value to PPP processes in the region. Participants in the forum were invited to be part of the mentoring process.

Session 2: Infrastructure Funds, PPP Partnership among APEC Economies, MDBs, ECAs, and the Private Sector, and PPP Infrastructure in Indonesia

- Drawing on the expertise clearly evident in the first session, Mr. Mark Johnson, the session chair, noted the huge intellectual property that had been applied to the issues and challenges raised in the first session. He noted that the focus of the second session was to consider what more the private sector can do to improve the environment for PPPs without detracting from the momentum clearly being demonstrated by the MDBs and other agencies. He noted that the speakers and commentators were people of deep expertise and well suited to advise in framing a response.

- Mr. Takaaki Naito, Senior Managing Director, Nomura Securities, noted that developed economies would be the major investors in roads through 2030, while developing economies would be major investors in electricity. Key reasons why Japanese investors were reluctant to invest in infrastructure funds included country and exchange rate risk, a lack of reliable information and the low liquidity in currency exchanges and in secondary markets in some economies.
- Mr. Freddy Saragih, Director, Fiscal Risk Division, Fiscal Policy Office, Ministry of Finance, Republic of Indonesia, discussed PPP opportunities and challenges in Indonesia. Indonesia has established the Indonesia Infrastructure Guarantee Fund (IIGF) to provide support for infrastructure development. It aims to: (i) improve the creditworthiness and quality of PPPs by establishing a clear framework for project appraisal and for guarantees; (ii) to improve governance on guarantees; and (iii) facilitate deal flow for contracting agencies by providing guarantees to well structured PPPs. The World Bank assisted in the design of IIGF and is supporting the establishment of a credit guarantee facility which will expand the coverage of IIGF. In addition, Indonesia was involved in extensive consultations with international experts in formulating the IIGF. This will serve as the government's single window for appraising and structuring of guarantees and is designed to make the government's guarantee process consistent, transparent and efficient. To qualify for IIGF, PPPs must be of high quality and meet commercial tests.
- Mr. Robert Prieto, Senior Vice President, Fluor Corporation, observed that few firms can adequately deal with political risk. The Indonesian government has shown political will to provide a facility which would help develop a sustained climate for PPPs. Economies needed to determine priorities and would need quality staff to manage processes. He emphasized the high demand and the corresponding high risks in engaging in PPP. He also mentioned the need to recognize that not all projects and geographical locations are the same. Thus, no common approach is applicable. In the end, he noted that there is a need to (i) create a climate for sustained use of the PPP model; (ii) understand which financing approach will work best for each project; (iii) know PPP priority, focusing on "ready to go" projects that have been costed; (iv) reduce non-financial barriers (such as legal and administrative including approvals); (v) understand how PPP commitments made by government will be accounted on government books; (vi) identify risk mitigation opportunities; (vii) understand private sector needs in PPP projects; and (viii) form true partnership with the private sector.
- Mr. Garry Bowditch, Director, SMART Infrastructure Facility, University of Wollongong, noted that PPPs had not reached their potential in the region. The complexity of PPPs required sound relationships and understanding between relevant parties and that is the rationale for the proposed forum – the Asia Pacific Infrastructure Forum. Such a structure would allow parties to discuss and consider complex matters. He mentioned that he had helped create an independent model in Australia and that a similar structure contributed to better understanding between parties on the risks and the issues they

faced. It also provided a forum in which they developed ideas and this proved to be useful to the Australian government. A forum in the region would be a serious initiative but not audacious given the size of the PPP challenge in the region.

Concluding Session

- The Chairman commended the breadth of knowledge and the expertise that speakers and commentators had brought to the Forum. He noted the various prisms through which officials, financiers, contractors and MDB representatives had viewed PPPs and the challenges, and believed that mutual interests of the parties had been recognized. He then recapped the forum's discussion and raised two questions: (i) whether the existing model, rules and regulations are still appropriate in the context of PPP; and (ii) whether information from the governments, private sectors and financial institutions is disseminated efficiently and their capacities utilized efficiently. He then noted the following: (i) There is a need to ensure that capacities are being utilized efficiently. (ii) Some economies do lack skills to undertake PPPs. (iii) Country risks, political risks, exchange rate and interest rate risks are key factors constraining PPP development. (iv) All risks are not transparent and trust is a critical element in the value chain. (v) Development of processes, which contributed to greater trust, is an aspiration we should all aim for.
- To close the forum, Mr. Gempachiro Aihara, ABAC Chair, offered his sincere gratitude to ADB and JBIC for sponsoring a highly successful forum. He noted that APEC's theme for 2010 was to promote sustainable growth, and that while APEC's traditional focus was on trade and investment, it was necessary to address other issues. Infrastructure is a special area. ABAC had proposed that the Asia-Pacific Infrastructure Partnership be launched as a pathfinder initiative, and now that the Kyoto report had been published, he believed that ABAC should be encouraged by the importance that APEC Finance Ministers placed on infrastructure as a key aspect of the ongoing agenda. He believed the Forum to be a milestone in the development of infrastructure in the region.



ABAC-ADB-JBIC Infrastructure Finance Forum

7 November 2010

Yokohama Bay Sheraton Hotel and Tower, Nichirin IV

Yokohama, Japan

13:30 – 17:30

PROGRAM

13:00 – 13:30 Registration

Opening Session

13:30 – 13:40 Welcome Remarks
Mr. Takehiko Nakao, Director General, International Bureau, Ministry of Finance, Japan

13:40 – 13:55 Keynote Address
Mr. Haruhiko Kuroda, President, Asian Development Bank (ADB)

13:55 – 14:05 Keynote Address
Mr. Hiroshi Watanabe, President and CEO, Japan Bank for International Cooperation (JBIC)

14:05 – 14:15 Keynote Address
Mr. Tatsuo Tanaka, Group CEO, Global Banking and Deputy President, The Bank of Tokyo-Mitsubishi UFJ, Ltd.

Session I: Infrastructure Finance in Asia and the Pacific (opportunities, challenges, technology and GHG implications)

Session Chair: Yoshihiro Watanabe, Chair, ABAC Finance and Economics Working Group

14:15 – 14:25 PPP Finance: Principles and Challenges for Further Development
Mr. Fumio Hoshi, Senior Executive Director, JBIC

14:25 – 14:35 Private Infrastructure Finance in Asia and the Pacific – Challenges and Opportunities - ADB Perspective
Mr. Ashok Sharma, Senior Director, Office of Regional Economic Integration, ADB

14:35 – 14:50 Public-Private Partnership on Water and Power
Mr. Nobuaki Kojima, Executive Vice President and Group CEO, Global Environment Business Development Group, Mitsubishi Corporation

14:50 – 15:00 Public-Private Partnership on Rail Procurement
Mr. Toshihide Uchimura, Chief Strategy Officer, Global and Transportation Business, Hitachi, Ltd. Industrial and Social Infrastructure Systems Company

- 15:00 – 15:35 Open Forum
 Commentator 1: Tan Sri Datuk Dr. Ahmad Tajuddin Ali, Chairman, UEM Group Berhad
 Commentator 2: Mr. Arthur M. Mitchell, Senior Counselor, White & Case LLP
- 15:35 – 15:45 Concluding comments: Mr. Leslie Williams, Senior Adviser, Regional Engagement Unit, International and G20 Division, Australian Treasury
- 15:45 – 16:00 Coffee Break

Session II: Infrastructure Funds, PPP Partnership among APEC Economies, MDBs, ECAs, and the Private Sector, and PPP Infrastructure in Indonesia, the Philippines and Viet Nam

Session Chair: Mark Johnson, Chair, Advisory Group on APEC Financial System Capacity Building

- 16:00 – 16:10 Introduction by the Session Chair: PPP Partnership among APEC Economies, MDBs, ECAs, and the Private Sector
- 16:10 – 16:20 Infrastructure Funds and Pension Funds
 Mr. Takaaki Naito, Senior Managing Director, Nomura Securities
- 16:20 – 16:35 PPP Opportunities and Challenges in Indonesia
 Mr. Freddy Saragih, Director, Fiscal Risk Division, Fiscal Policy Office, Ministry of Finance, Republic of Indonesia
- 16:35 – 17:15 Open Forum
 Commentator 3: Mr. Robert Prieto, Senior Vice President, Fluor Corporation
 Commentator 4: Mr. Garry Bowditch, Director, SMART Infrastructure Facility, University of Wollongong

Concluding Session

- 17:15 – 17:25 Summary of Discussions
 Mr. Mark Johnson, Chair, Advisory Group on APEC Financial System Capacity Building
- 17:25 – 17:30 Closing Remarks
 Mr. Gempachiro Aihara, Chair, APEC Business Advisory Council



THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

2011 WORK PROGRAM

Final Draft

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 2011 WORK PROGRAM

Following are the objectives of the 2011 Work Program of the Advisory Group:

- To develop specific proposals on capacity-building that can be endorsed to the APEC Finance Ministers, particularly in areas where public-private partnership would be helpful.
- To advance capacity-building efforts through public-private sector dialogues in key areas of the Advisory Group's work.
- To collaborate with relevant APEC fora and participating organizations in successfully undertaking activities, particularly with respect to the implementation of Advisory Group recommendations.

ACTIVITIES IN 2011

A. ADVISORY GROUP PROJECTS

1. 2nd APEC Financial Inclusion Forum

The first APEC Financial Inclusion Forum convened by the Advisory Group and ABAC in 2010 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 welcomed the outcomes of this Forum and ABAC's initiative to set up subsequent discussions.

The 2nd APEC Financial Inclusion Forum, with the theme of *Expanding the Frontiers of Microfinance through Regional Public-Private Cooperation*, will focus 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 Forum will be held sometime in mid-2011 in Tokyo, Japan. It will be undertaken in collaboration with APEC finance ministries and financial regulators; international

institutions; development assistance agencies; industry organizations, key institutions involved in financial inclusion and academic institutions.

2. Asia-Pacific Infrastructure Partnership: Asian and Latin American Infrastructure PPP Dialogues and Infrastructure Forum

In 2010, the Advisory Group and ABAC proposed the Asia-Pacific Infrastructure Partnership (APIP) as a model for a regional structure enabling parties to frankly and objectively discuss and consider complex matters facing each economy. This model, which will involve key officials engaged in infrastructure PPP, private sector experts, and MDBs and ECAs, will utilize ABAC's network of senior private sector experts from a wide range of fields relevant to infrastructure PPP as members of an ABAC private sector advisory panel. Coordination will be undertaken by the Advisory Group.

The Advisory Group will undertake activities to demonstrate the effectiveness of this model. Activities will involve the following:

- Dialogues focused on selected interested individual developing economies (one economy per session). These would be closed-door dialogues among relevant high-level officials, the ABAC advisory panel and experts from MDBs and ECAs. Each session will be tailored to maximize value for participants; session agenda will be determined after consultations with concerned ministries/agencies. Two dialogues are envisioned:
 - an Asian dialogue focused on 3 or 4 economies, proposed to be held in Tokyo, Japan sometime in early June, and
 - a Latin American dialogue to be hosted by ABAC in Lima, Peru in late August. Outcomes from the dialogues will be reported to SFOM.
- A Forum in Honolulu to discuss the outcomes of the Dialogues and the way forward for public-private collaboration to promote infrastructure PPP in each of the key infrastructure sectors relevant for the region. It is proposed to be held close to the date of the AFMM in November to enable interested finance ministers, deputies and senior finance officials to participate.

3. The 7th ABAC/ABA/PECC/SEACEN regional public-private dialogue on strengthening financial systems, Colombo, 5-6 July 2011

The Advisory Group, together with ABAC, PECC, ABA and SEACEN, has supported this dialogue over the past five years by providing suggestions on the program and speakers from within its network. Participants in this dialogue will include senior representatives from SEACEN member central banks and banking supervisory bodies, key regulatory bodies in the wider Asia-Pacific, international and regional financial institutions, the IMF, the Asian financial industry and experts from academe, research and consultancy. This year's dialogue comes at a time when the G20, FSB, BCBS and other relevant institutions are seeking regional inputs to help in crafting effective measures that will strengthen financial stability and promote growth. As in previous years, the report of the dialogue will be made publicly available and submitted to relevant officials.

4. Collaboration on SMME Finance with APEC Senior Officials

The Advisory Group will collaborate with APEC Senior Officials, particularly through the Japan Ministry of Economy, Trade and Industry (which is charged by APEC to lead work on this topic as part of its Ease of Doing Business initiative), to progress APEC's work on SMME Finance. This will build on the Advisory Group's active collaboration with APEC Senior Officials in the holding of the 21 September 2010 APEC Seminar on *Getting Credit for*

Small and Medium Enterprises held in Sendai, Japan. Details will be worked out with METI and relevant ministries from other participating economies during the course of the year.

5. Collaboration on Asia Region Funds Management Passport (ARFMP) Initiative with APEC Senior Finance Officials

This initiative, which was proposed by the Advisory Group and ABAC in 2010, was launched by the APEC Finance Ministers in November 2010 in Kyoto as a vehicle for discussions that can lead to an APEC pathfinder initiative to establish a regional funds management passport scheme. The Advisory Group will collaborate with APEC Senior Finance Officials, particularly through the Australian Treasury (which is charged by APEC to lead work on this topic). Details will be worked out with the Australian Treasury and other participating finance ministries during the course of the year.

6. Collaboration on the APEC Financial Inclusion Initiative with APEC Senior Finance Officials

This initiative, which was proposed by the Advisory Group and ABAC in 2009 and 2010, was launched by the APEC Finance Ministers in November 2010 in Kyoto. The Advisory Group will collaborate with APEC Senior Finance Officials, particularly through the US Treasury (which leads APEC work on this topic) on activities, in addition to the APEC Financial Inclusion Forum. Details will be worked out with the US Treasury and other participating finance ministries during the inaugural workshop of the initiative, which will be held on 23-24 February 2011 in San Francisco.

7. Collaboration on regulations to support MSME Financing with the Australian APEC Study Centre at RMIT University and the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP)

AASC is working with ADFIAP in collaboration with other groups to support APEC's work on Financial Inclusion in 2011 including the work of the Advisory Group. The focus of the work will be on promoting best practice principles for enabling regulatory and supervisory approaches directed toward enhancing MSMEs access to finance through banking, equity and debt capital markets and thereby to widen financial inclusion.

A two-day symposium is proposed in the Philippines in the 2nd Qtr 2011, followed by an intensive training course in Melbourne in the 4th Qtr 2011. Representatives of regional policy and regulatory agencies, banks and financial institutions and capital markets and international organizations and standard setting bodies will be invited to the symposium to consider policy and regulatory challenges faced by MSMEs (and their financiers face) in accessing finance. The results of the symposium will be considered as inputs to Advisory Group discussions in 2011. The Advisory Group will collaborate with AASC and ADFIAP to promote wide private and international participation in these activities.

8. Collaboration on a symposium on enhancing financial policy and regulatory cooperation with the Australian APEC Study Centre at RMIT University

The symposium will bring together specialist speakers and moderators drawn from international financial regulatory standard setting bodies, regional financial system policy makers and regulators, major private sector financial institutions and financial system academics to consider and exchange views on major reforms as they are emanating from international standard setting bodies in response to the global financial crisis. The symposium will consider the impact of reforms on regional economies. A report of the Forum will be made available to APEC Finance Ministers. The results of the symposium will be considered as inputs to Advisory Group discussions in 2011. The Advisory Group will

collaborate with AASC to promote wide private and international participation in these activities.

9. Collaboration with other Advisory Group participating institutions

Several participating institutions in the Advisory Group have indicated that they intend to undertake activities that may be of interest for the Advisory Group to be directly involved in. The ADB is currently undertaking work on capital market development and integration in Asia that relates to several recommendations made in 2010 by the Advisory Group and ABAC. The ADB Institute is planning a joint activity on financial inclusion with the Asia-Pacific Finance and Development Center (AFDC) to be held in China sometime this year. As the Advisory Group had collaborated with these two institutions' financial inclusion conference in Shanghai in 2010, both have indicated that they would welcome the Advisory Group's continued collaboration in 2011.

The Advisory Group will consider how it may collaborate with these institutions in subsequent meetings this year.

B. 2011 REPORT ON FINANCIAL SYSTEM CAPACITY-BUILDING

This report, which will be finalized in August 2011, 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 how to accelerate progress in the following areas: (a) infrastructure public-private partnership; (b) financial inclusion; (c) promoting capital market development; (d) capacity-building for regulatory reforms in the region's developing economies; and (e) SMME finance.

MEETINGS IN 2011

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

- **Regular meeting (First): February 14, 2011, Guangzhou, People's Republic of China**

To finalize the work program; discuss the preparations for activities in 2011; undertake initial discussions of key issues under the work program and identify steps to develop work on these issues until the next regular meeting.

- **Regular meeting (Second): During the period April 27-29, Seoul, Republic of Korea**
(exact date yet to be announced)

To discuss preparations for the financial inclusion forum, the Asian and Latin American Infrastructure PPP Dialogues and the public-private dialogue on financial systems and discuss proposals on capacity-building.

- **Regular meeting (Third): During the period August 22-25, Lima, Peru** *(exact date yet to be announced)*

To discuss the results of the financial inclusion forum, the Asian and Latin American Infrastructure PPP Dialogues, the public-private dialogue on financial systems and other activities; to finalize the report on completed activities and to finalize proposals on capacity-building to be forwarded to the APEC Finance Ministers.

- **Regular meeting (Fourth): During the period November 7-9, Honolulu, USA** *(exact date yet to be announced)*

To discuss the future agenda and arrangements for the Advisory Group.

DELIVERABLES

The above activities are geared toward the following deliverables:

1. Successful completion of (a) the 2nd APEC Financial Inclusion Forum; (b) the Asian Infrastructure PPP Dialogue; (c) the Latin American Infrastructure PPP Dialogue; (d) the Honolulu Infrastructure PPP Forum; and (e) the 7th Asia-Pacific public-private dialogue on strengthening financial systems
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 as well as any other relevant channel*).
3. Successful completion of (a) collaboration on SMME Finance with APEC Senior Officials; (b) collaboration on Asia Region Funds Management Passport (ARFMP) Initiative with APEC Senior Finance Officials; (c) collaboration on the APEC Financial Inclusion Initiative with APEC Senior Finance Officials; (d) collaboration on regulations to support MSME Financing with AASC and ADFIAP; and (e) collaboration on a symposium on enhancing financial policy and regulatory cooperation with AASC.
4. The launch of the Asia-Pacific Infrastructure Partnership (APIP)
5. 2011 Report on Financial System Capacity-Building in APEC (*to be submitted to the APEC Finance Ministers before their 2011 meeting – through ABAC as well as any other relevant channel*).