

THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

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26 April 2011

14:00 – 16:00

Crystal Ballroom, Lotte Hotel
Seoul, Republic of Korea

Meeting Paper 5-A

Workshop to Promote SMME Finance/Financial Inclusion through Strengthening of Credit Information Systems, Legal Frameworks for Secured Lending and Microsavings

Asia-Pacific Credit Coalition/PERC

PURPOSE	For consideration.
ISSUE	Holding of a workshop to promote SMME Finance and financial inclusion through strengthening of credit information systems, legal frameworks for secured lending and microsavings.
BACKGROUND	<p>The Advisory Group agreed during its previous meeting in Guangzhou to collaborate with and support APEC senior officials in their work on facilitating SMMEs' access to credit under the Ease of Doing Business initiative of APEC. Particularly, the Advisory Group agreed to contribute to follow-up activities after the 2010 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. The Advisory Group will aim to support APEC plans in 2011 to identify tailor-made approaches for economies 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. The Asia-Pacific Credit Coalition and PERC have offered to play an active role in developing the agenda and identifying resource persons.</p> <p><i>Arrangements are being discussed to hold the workshop in conjunction with the 2nd APEC Financial Inclusion Forum (discussed under Agenda Item 4), forming a combined event.</i></p>
PROPOSAL	To hold a workshop as described in the attached program.
DECISION POINT	Endorse the program for the workshop.



PROPOSAL TO COLLABORATE WITH THE ADVISORY GROUP IN HOLDING A WORKSHOP TO PROMOTE SMME FINANCE/FINANCIAL INCLUSION THROUGH STRENGTHENING OF CREDIT INFORMATION SYSTEMS, LEGAL FRAMEWORKS FOR SECURED LENDING AND MICROSAVINGS

Date: September or October 2011 (exact date TBD).

Location: Tokyo, Japan

Purpose: Bring together key government and regulatory stakeholders, private sector financial services firms, and thought leaders to survey impediments to financial inclusion at both the consumer and SME level, develop strategies for regulatory and sectoral measures to remove such impediments, to facilitate financing to the concerned groups, and to stimulate inclusive and balanced growth throughout the APEC region.

Audience: Regulators and policymakers from APEC economies, specifically targeting stakeholders with issue area knowledge and responsibility for lending regulations and credit information policy in finance ministries, justice ministries, financial supervisory agencies and central banks. ABAC and other interested partner institutions in the Advisory Group will assist in identifying attendees.

Management and Funding: Funding and hosting is currently being discussed with interested partners in the Advisory Group in conjunction with the 2nd APEC Financial Inclusion Forum, with the Workshop and Forum forming a combined activity. Additional sponsorships will be sought from private sector firms with an interest in the issue, multilaterals and other public institutions. Management will be shared among ABAC, co-organizing institutions, APCC and PERC, with the Advisory Group playing a coordinating role. APCC and PERC will actively contribute to program development, identification of resource persons and participants, and seeking additional sponsorships.

Program Outline

ISSUE AREA 1: INFORMATION SHARING & PRUDENTIAL LENDING IN THE CONSUMER AND SMME SECTORS.

Regulators throughout the region are concerned to balance two important policy goals: ensuring an adequate supply of credit to foster financial inclusion and ensure balanced economic growth, while also guarding against the extension of excessive levels of credit, leading to over-indebtedness and potential credit quality risks that could negatively affect the longer term strength of financial institutions. To achieve this balance, the role of modern, full-file credit information systems has become increasingly appreciated as a central component of government policy. Modern credit bureaus play a role not only in assuring that information is available to allow lenders to properly underwrite new credit extensions, avoiding loans that are likely to default, but also play a role in encouraging credit extension to borrowers who have demonstrated habits of dependable repayment, thus incentivizing the proper handling of credit and the building of a good “credit record.” Full-file bureaus can also serve the goal of creating level informational playing fields among potential creditors, bringing the benefits of competitive pricing to borrowers, and breaking down barriers to new credit entry. Still, important policy issues remain concerning the adequate protection of consumer and SME financial information, the ownership and structure of credit bureaus, and how the use of information can best be turned toward encouraging the responsible extension and use of credit.

Session 1: Main Elements of Information Sharing

Consumer and commercial credit reporting: variations in model:

- Public Credit registry vs. Private Credit Bureaus
- Voluntary vs. mandatory sharing

- ❑ Comprehensive vs. fragmented; full-file vs. negative only
- ❑ Ownership structure
- ❑ Consumer and Commercial: similarities and differences
- ❑ Case studies and experiences in establishing bureaus
- ❑ Considerations for Regulators

Attendees will be presented outline of main legal and regulatory elements of various models of credit reporting. Supporting materials, including model language, will be provided.

Session 2: Legal Concepts and Regulatory Considerations for Credit Reporting

Developing a legal and regulatory system for credit reporting: key concepts and factors to consider:

- ❑ Models of regulation given regulatory capacity
- ❑ Common law contract based systems vs. elaborated legal frameworks
- ❑ Universal Access for Regulated Lenders: Level Playing Fields and Quality of Credit Information
- ❑ Case studies

Short policy briefs on regulatory options for monitoring and enforcement; benefits and disadvantages of various models of credit bureau architecture and ownership.

Session 3: Consumer concerns and consumer protections

Detailed methods of identifying consumers and protecting their information

- ❑ Establishing financial identity: the use of National ID and alternatives
- ❑ Key elements of consumer rights as a component of credit bureau efficiency and data quality
- ❑ Examples of Regulatory Enforcement: US FTC Enforcement under the FCRA, others.
- ❑ Regulatory discipline vs. private right of action

Examples of how OECD Fair Information Principles are translated into regulation will be presented

Session 4: Information Sharing for Risk Based Analytic Services and for SMME Financing - Risk based approaches to financial services

How regulations and regulators can facilitate credit scoring:

- ❑ Scoring demystified: what is it and how is it done
- ❑ Structuring information sharing rules to facilitate a the development of a scoring and analytic services sector
- ❑ SMME Credit Scoring

Examples of how analytic products facilitate lending for consumer and businesses, and examples of the uses of analytic products.

ISSUE AREA 2: LEGAL ARCHITECTURE TO PROMOTE SME FINANCING.

The APEC Leaders in their 2010 Declaration noted the importance of securing access to financing for SMEs, and of undertaking reform in lending systems to achieve that goal. As noted by ABAC's 2010 Report to the Leaders, one of the most significant areas requiring reform is in the legal rules around secured lending. The following sessions will explore regional best practices and opportunities in reforming the legal architecture around secured lending, specifically rules for filing and perfecting security interests in collateral, ease of diligence and completeness of lien registries, and why these issues are important for incentivizing credit availability to SME's on reasonable terms. The role of licensing and market access in facilitating credit will also be explored.

Session 5: Current Gaps in the Legal and Regulatory Architecture for SME Finance - Secured Lending

Achieving predictability and transparency in secured lending:

- ❑ The role of security interests, collateral and credit registries in commercial lending
- ❑ Voidable conversion/preference in bankruptcy
- ❑ The "Hidden Lien" Problem
- ❑ Establishing Broad classes of Eligible Collateral as a means of Expanding SME Liquidity
- ❑ Licensing models and diversity of the credit sector.

Challenges in the region to SME lending and examples of legal reforms to fill the gaps

Session 6: Current Gaps in the Legal and Regulatory Architecture for SME Finance - Turnaround and Rehabilitation

How regulations and regulators can facilitate turnaround of SME's facing temporary liquidity constraints.

- ❑ Structuring around temporary illiquidity: DIP Financing, priming liens, and other legal tools

Examples of how special provisions in secured lending laws can incentivize the extension of rehabilitation and turnaround financing

ISSUE AREA 3: MICROSAVINGS MOBILIZATION.

As savings has been shown to be a core aspect of a crucial financial services and an access to non-depreciating liquid assets, the expansion of savings options to lower income segments is a key pillar of financial inclusion. The emergence of deposit taking institutions outside the mainstream banking sector has been emerging to fill this gap. This rise of microfinance and other non-bank savings institutions presents both regulatory opportunities to expand access and regulatory challenges. A workshop on elaborating a regulatory framework for microfinance deposit taking institutions and for promoting grassroots savings can facilitate the stable and inclusive development of these services.

Session 7: Licensing and formalization

- ❑ What are the preconditions in the market for licensing of microsavings institutions?
- ❑ What are the preconditions for a firm/organization for its licensing as a microsavings institution?
- ❑ How can unregulated microcredit institutions be encourage to provide savings services and how should they be brought into the regulatory framework?
- ❑ What regulatory frameworks in licensing and disclosure allow for a diversity of savings services providers while protecting deposits?

Session 8: Deposit regulation and capital requirements

- ❑ What thresholds are optimal for deposit regulation, in terms of size, services provided?
- ❑ How should minimum capital requirements be determined? Should different rules govern different types of deposit institutions?
- ❑ What supervisory frameworks can protect depositors from MFI deposit runs or MFI credit risks?