

ABSTRACT: Financial Inclusion, a new microfinance initiative for APEC

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Microfinance is not a new topic of discussion within APEC, but it needs a fresh start. Discussion of microfinance has withered as a consequence of false starts in the Economic Committee and the SME Working Group between 2002 and 2007. That ABAC has chosen to give attention to the subject at this first meeting of 2008 is a most welcome development. The purpose of this paper is to suggest how ABAC might succeed in steering APEC's exploration of microfinance out of the blind alley into which it has strayed, and in getting microfinance onto the agenda of the Finance Ministers' process.

The way forward may lie in ABAC's agreeing to adopt the related concepts of financial 'inclusion' and 'exclusion' as a framework for analysis and action. These terms encapsulate a very important reality. The fact is that some proportion of economically active persons in every economy has no access to institutionally-provided financial services. And in the APEC developing member economies the proportions of 'financially-excluded' people are very substantial. In truth, low levels of 'financial inclusion' are a defining element of the financial systems of many APEC economies. Microfinance, broadly defined as the provision of a wide range of financial services to poor and low-income people, is a powerful tool for achieving higher levels of 'financial inclusion' in such economies. Microfinance is also revealing substantial commercial opportunities and attracting growing private capital flows.

A new initiative, with a different emphasis from previous discussions and in a forum more central to APEC, is necessary to revive APEC's exploration of microfinance. To launch a successful initiative, it will be helpful to redefine the problem for which microfinance is seen as a solution. This could be done by focussing less on problems of poverty and gender and more on issues of financial exclusion. Such an approach restates the problem as a financial sector issue, while not diminishing the seriousness with which poverty and gender issues are regarded. Instead, setting the discussion in a context of financial inclusion would focus attention on a systemic problem (exclusion) rather than on a policy tool (microfinance). It would emphasize goals rather than instruments.

Such an approach might enable microfinance to claim a place on the agenda of the FMP. Finance Ministers must be persuaded to take up financial inclusion as a policy goal integral to their agenda of financial system development and capacity-building. This would assist in dispelling misconceptions, still current in some APEC quarters, which impede the serious consideration of microfinance. These include the notion that microfinance is no more than a passing fad, or that it is at best a peripheral social welfare measure. Expressions of support for microfinance can therefore be 'trotted out' periodically to assuage concerns about the need for 'shared prosperity', although microfinance itself has no place in the economic reform agenda. Such misconceptions must be dismissed.

Examining how to eliminate financial exclusion, through the creation of sustainable institutions, appropriate legal and regulatory frameworks and supportive policy environments is an appropriate agenda item for the Finance Ministers' Process (FMP). This paper discusses possible modalities for an FMP initiative to increase levels of financial inclusion in member economies, with microfinance as the principal policy tool. It also considers where ABAC might find allies to support such an initiative. These include commercial banks (for example, Citi Asia Pacific's regional financial inclusion program) and international financial institutions (including the World Bank 'Access to Finance' program). Regional networks of microfinance service providers (such as Banking with the Poor and Microfinance Pasifika) might provide useful entry points for action in key economies.

An FMP initiative could be directed to the measurement of, and increase in, levels of financial inclusion in member economies. Common criteria would have to be agreed for measurement. Economies would commit to publishing comparative data and to improving their performance progressively, with microfinance as a central policy tool. Case-studies of innovation, examination of national policy frameworks, policy dialogue and collaborative capacity-building would assist economies to improve their performance in providing sustainable financial services, accessible to all.