



THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

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Meeting Paper 3-A

Report of the Meeting of the Advisory Group of 11 February 2009, Wellington, New Zealand *[Second Draft]*

Advisory Group

THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

First Meeting 2009

11 February 2009

Lambton Room, The Intercontinental Hotel
Wellington, New Zealand

MEETING REPORT

*Second Draft
As of 17 March 2009*

Welcome and Introduction

The meeting started at 4:20 pm. Participants included members and staffers of the ABAC Finance and Economics Working Group, a number of other ABAC members and staffers, and representatives from the Australian Foundation for Development Cooperation (FDC), the Alliance for Financial Inclusion (AFI), the Asia-Pacific Credit Coalition and Dun & Bradstreet. The Advisory Group Co-Chair, Dr. Twatchai Yongkittikul, presided over the meeting as Acting Chair in lieu of the Advisory Group Chair, Dr. Jeffrey L.S. Koo.

In his opening remarks, the Acting Chair welcomed the participants and gave an overview of the agenda items for discussion. He acknowledged the presence of representatives from participating institutions, and thanked the meeting host, ABAC New Zealand, for the hospitality and efficient preparations for the meeting.

Mr. Gary Judd welcomed the participants on behalf of ABAC New Zealand.

Review of the Third 2008 Advisory Group Meeting in Hangzhou

The Advisory Group Coordinator, Dr. J.C. Parreñas, presented the second draft of the Report of the Advisory Group Meeting of 5 August 2008 in Hangzhou, China. Major items in the report include the approval of the Advisory Group 2008 Report and the Report of the Cusco Bond Market Forum, endorsement by the Advisory Group of continued work in infrastructure, financial inclusion, financial stability and credit reporting systems; and the preparations for the dialogue with financial regulators that took place after the Hangzhou meeting.

The Advisory Group approved the Meeting Report.

2009 Work Program

The Advisory Group Coordinator, Dr. J.C. Parreñas, presented a *summary of the work of the Advisory Group in 2008*, which included (1) the Jakarta workshop on financial inclusion, (2) the Cusco bond market forum, and (3) the dialogue between regulators and the region's finance industry with focus on the banking sector. This annual dialogue started in 2005, and last year's was the fourth.

The Advisory Group dealt with a number of issues in 2008, which included bond markets, financial stability, risk management and governance, financial inclusion, infrastructure and credit reporting systems. It also arranged to publish its 2008 report as a special issue of the ABA journal, with the cooperation of the Asian Bankers' Association. The microfinance workshop report was published by the Alliance for Financial Inclusion with funding from the Gates Foundation, and distributed widely.

The Advisory Group Coordinator also presented the proposed **2009 Work Program** of the Advisory Group. The work program will include (a) a follow-up workshop on financial inclusion, focusing on the 6 policy solutions that the Advisory Group recommended to Finance Ministers last year; (b) the 3rd public-private sector bond market forum, which the Singapore Ministry of Finance has offered to host; and (c) the 5th annual dialogue between regulators and the finance industry, which will focus on responses to the current financial crisis. The results of these dialogues will be discussed in the regular meetings, and considered for publication and wider dissemination to leaders, officials and other relevant institutions.

The work of the Advisory Group will be structured along five major themes: (a) the response to the financial crisis, which would absorb ongoing work on strengthening financial systems, risk management and governance, as well as include SME financing; (b) bond markets; (c) financial inclusion; (d) infrastructure; and (e) credit reporting systems. The Advisory Group will have as usual three regular meetings in 2009, in the course of which participants will develop the 2009 report and recommendations.

For this year, the Advisory Group is expected to include the participation of 12 major institutions. These include public institutions such as the ADB, ADB Institute, IMF, IFC and the Inter-American Development Bank, as well as private initiatives and organizations such as AFI, FDC, the Asia-Pacific Credit Coalition and the ABA.

The Advisory Group approved the 2009 Work Program as proposed. (See Annex A.)

Workshop on Promoting Financial Inclusion through Innovative Policies

The Advisory Group Coordinator briefed participants on the preparations for the Tokyo financial inclusion workshop, which will focus on the six policy areas identified in the 23 January 2008 Advisory Group/ABAC Jakarta workshop. In the past few months, the Advisory Group and ABAC worked with five partner institutions (the Asian Development Bank Institute, the Alliance for Financial Inclusion, the Inter-American Development Bank, the International Finance Corporation and the Foundation for Development Cooperation of Australia) to prepare the workshop and develop the program.

The aim of the workshop is to gather the best practices in policy reforms in these six areas from developing economies. In the process, it will also expose officials from APEC to these best practices and initiate a discussion involving regulators, private sector and international institutions. The ADB Institute will host the workshop in Tokyo and has invited around 30 regulators and officials directly responsible for financial inclusion policies in Asian developing economies. The Alliance for Financial Inclusion has arranged for officials and experts who have first-hand experience in leading these successful reforms to come to Tokyo to make the presentations.

Ms. Sung-Ah Lee (Project Manager, AFI) expressed AFI's appreciation to the Advisory Group and ABAC for inviting AFI to the meeting. She noted that the workshop is attracting many experts, policy makers and practitioners in the financial inclusion policy arena and is developing to be a promising regional event. She explained that the six policy solutions that serve as focus of the workshop have mostly originated from a number of developing economies, and these have been selected to share their experiences, such as Brazil for agent banking; the Philippines and Japan for mobile phone banking; Indonesia, Uganda and Cambodia for diversifying services providers; Thailand and India for reforming public banks; and Malaysia and South Africa for consumer protection. Financial identity is an area where there are yet no success stories, but innovations are under way in some developing economies. It is especially noteworthy that these innovative policy solutions were undertaken in developing economies without the aid of technical support from developed economies.

With this as context, Ms. Lee underscored the importance of the workshop as a platform where policy makers can share their knowledge and exchange their experiences, both successful and unsuccessful, to be able to learn from experiences and mistakes. The workshop will provide an important platform for peer-to-peer learning and knowledge exchange. Each co-organizer will undertake concrete follow-up actions after the workshop. AFI will continue facilitating exchange and knowledge-sharing

activities, while also following up with individual economies on the implementation of their own policy solutions to promote financial inclusion.

Ms. Lee also updated participants on the AFI. Since the last Advisory Group meeting in Hangzhou, the AFI has started its recruitment process, selected Bangkok as the location of its headquarters, and developed grant-making templates and procedures, while expanding its network base. AFI has already received requests for assistance from several economies, including APEC members Indonesia, China and Thailand, which have submitted concrete concept notes for financial inclusion project proposals. AFI intends to continue its work with other economies. AFI has also been co-organizing various regional and global workshops similar to the Tokyo workshop, including events in Africa and Europe. AFI plans to have its first annual global policy forum in September 2009. AFI plans to continue its support for the APEC financial inclusion policy initiative led by ABAC and looks forward to a successful partnership with ABAC and APEC.

Mr. Craig Wilson (Executive Director, Foundation for Development Cooperation) provided a brief description of FDC. FDC is an independent, not-for-profit international development organization that was established in 1990. It conducts policy-oriented research, fosters public awareness, mobilises broader Australian and overseas development cooperation, and supports non-governmental development efforts. Through partnerships and alliances, FDC undertakes a range of initiatives which seek to improve the lives of poor people in developing countries, foster innovative approaches to development, and connect policy work to self-help efforts at the grass roots level.

FDC's work includes economic development and assessment, policy analysis, grass-roots community-based initiatives, strategic research, partnerships and leverage, advocacy, consulting and advisory services, project design and implementation, secretariat and network management, and training and capacity building. Its headquarters is in Brisbane, Australia, and it has an Asia regional office in Singapore and a Pacific regional office in Fiji.

Mr. Wilson also referred the participants to the FDC Briefing Note "Impact of the Global Financial Crisis on Microfinance," which has been circulated as part of the meeting papers. The paper noted that prior to the market downturn, the microfinance sector was attracting a wide range of new investors, as new products and vehicles were being designed by banks for commercial investors. Microfinance has been increasingly seen as an emerging asset class with above-average growth rates, low default rates and low correlations with global and domestic capital markets and with emerging markets' business cycles.

The paper mentioned that the lack of liquidity resulting from the crisis has affected the flow of capital into microfinance, and customer deposits have decreased due to food and fuel price increases that are depleting profit margins in micro-enterprises and consumer surplus in low-income households, particularly in urban areas. Nevertheless, the impact of the crisis has been uneven, given the varying levels of dependency of economies on trade and foreign direct investment and diversity of capital sources among MFIs. Top-tier MFIs are likely to be less affected than smaller ones that are still dependent on charitable donations and foreign aid.

The paper disclosed the results of a survey by Standard and Poor's, which concluded that the current period of slower growth will encourage MFIs to improve operating discipline, risk management and internal controls. MFIs are reacting in various ways, such as increasing interest rates, scaling back expansion plans, expanding their equity base and staying close to their clients. The paper advised MFIs to remain focused on portfolio quality, continue enhancing risk management processes, and to work closely with IFIs, development agencies and other investors to ensure continued flow of capital.

Dr. John Conroy (Consultant, Alliance for Financial Inclusion) reiterated a number of key statements from previous discussions on financial inclusion during the Jakarta workshop and subsequent meetings of the Advisory Group, which were as follows:

- Financial inclusion is an element in the process of financial sector development. Financial Inclusion is an economic imperative, not a social welfare measure. For both of these reasons, the Advisory Group is directing its recommendations to the Finance Ministers' Process (FMP), via the ABAC Finance and Economics Working Group, rather than to any other Ministerial grouping.

- Financial inclusion is the process of making formal financial services available, on a sustainable basis, to those presently excluded from them. In developing APEC economies, those excluded are primarily low-income households and their micro-enterprises. However, in such economies, other sections of the population may also be financially excluded. Indeed, some sections of the populations of all APEC economies are excluded from formal financial services. Poor people need an array of financial services, including deposit services, payments and remittances, micro-insurance and credit.
- Savings deposits are the primary and most valuable service from which the poor are excluded. In this respect, as in many others, households and their micro-enterprises are very different from SMEs, for which access to credit is a primary need.
- ABAC in 2008 accepted that financial inclusion is an important financial policy goal, with microfinance as the most effective policy instrument for the achievement of that goal. ABAC has further agreed to consider how financial inclusion might be increased through enhancing the outreach and sustainability of microfinance. ABAC is currently working with a number of institutions under the umbrella of the Advisory Group to study the adoption of new and improved operational methods and technologies in six main areas that will be the focus of the Tokyo workshop.
- Microfinance is not a panacea to reduce suffering in the present disturbed economic climate, and micro-credit is still less so. Under present circumstances it would be counterproductive to set up 'instant' micro-credit institutions to shovel out loans to the poor. It would be better to give them money to stimulate consumption rather than to debase the credit culture by making political loans which are likely to experience low repayment rates. Politically-inspired efforts to expand micro-credit rapidly are unlikely to prove sustainable, and consequently unlikely to make any lasting impact on rates of financial exclusion.

Discussions that followed the presentations focused on a number of issues. First, a view was put forward to the effect that the public sector should consider allocating more resources for the microfinance sector as part of the response to the global financial crisis. Second, the participation of other industries aside from the financial sector in initiatives to promote financial inclusion, such as the telecommunications industry, would be helpful in identifying and reducing barriers to the growth of microfinance. Third, there are other issues, such as legal reforms leading to the recognition of certain assets as collateral, that can in addition to the six policy areas already mentioned above will help expand the role of the banking sector in promoting financial inclusion. Fourth, anti-money laundering laws and regulations have, as an unintended consequence, a negative impact on the ability of low-income clients, such as migrant workers without proper identification documents, to access banking services.

The Advisory Group endorsed the workshop. The Acting Chair thanked the AFI and FDC for sharing their views and, together with ADBI, IFC and IDB, for their collaboration in organizing the workshop. He tasked the Advisory Group Coordinator to arrange for a report of the workshop to be presented at the next meeting.

Update on Improving Credit Reporting Systems

In his introduction, the Advisory Group Coordinator referred to the Advisory Group's 2009 recommendation to the Finance Ministers that APEC promote full-file, comprehensive reporting to private credit bureaus that address concerns about privacy, identity and restricted distribution of confidential data. He noted that at the Advisory Group's last meeting in Hangzhou, participants agreed to consider further steps, including advocacy and research activities and to explore other related issues.

Dr. Michael Turner (President of the Information Policy Institute and representing the Asia-Pacific Credit Coalition) made a presentation on the impact of comprehensive credit reporting on the price of credit, credit access and growth, default rates and economic growth. He distinguished between three major types of reporting systems currently in use:

- *Negative reporting system* (as used in Australia and New Zealand): This encompasses applications (not approvals), delinquencies (over 60 days), defaults and bankruptcies. The system is purged every 5-7 years and is used only for credit assessment.
- *Fair file reporting system* (the D&B model): This includes all negative data, account type, lender, date opened and credit limit. Like negative reporting systems, it is used only for credit assessment.
- *Full-file credit reporting system* (as used in the US): This includes all negative data, all fair file data, account balance, number inquiries, debt ratios (revolving to total debt), average age of account, delinquencies (over 30 days) and portion of accounts repossessed or written off. The data is public record and becomes obsolete in 7-10 years. The system is used both for credit assessment and for marketing purposes.

Dr. Turner noted that fair credit reporting benefits consumers, lenders and the economy as a whole. Consumers benefit from reduced probability of over-extending, fairer prices, reduced credit discrimination and credit offers that reflect credit risk and credit capacity. Lenders benefit from reduced delinquencies and defaults under Basel II and sustainable and affordable growth into new markets. The economy benefits from better financial services efficiencies and affordable growth in domestic consumption.

He explained that there has been extensive research outlining why reporting matters, identifying three generations of studies. The first generation (WorldBank, IDB, Pagano and Jappelli) explained how the existence of credit bureaus increases private sector lending and lowers national financial sector risk. The second (Barron/Staten, IDB, Miller and Galindo) confirmed that comprehensive data leads to wider lending but lower default rates than negative only data, and that wider lending is particularly beneficial to small business. The third generation (Information Policy Institute) established that broader participation by lenders and comprehensive data improves financial performance.

Dr. Turner underscored the following conclusions based on various studies, including studies on credit card interest rates, home ownership, mortgage rates, debt profile, performance target trade-off and default rates in the US; loan delinquencies in Japan; default rates in Brazil, Argentina, Colombia and Hong Kong; fairness of access in the US and Colombia; and capital productivity in Australia:

- Better information results in better lending, lower defaults rates and better access, for both developed and emerging economies.
- Comprehensive data improves economic growth.
- Comprehensive data reduces discrimination in lending and improves mainstream access for the under-served both in developed and emerging economies.
- Non-financial data helps the young access mainstream credit on a fairer basis.
- The D&B model has no impact on privacy or identity fraud.

Mr. Damian Karmelich (Director for Marketing and Corporate Affairs, Dun & Bradstreet) made a presentation on lessons from Australia's path to positive credit reporting. In 2004 Dun & Bradstreet began a campaign for reform of Australia's consumer credit reporting laws, recognizing the significant benefits to borrowers and credit providers arising from positive credit reporting. Those benefits include improved access to credit for under-served sections of the community, including small and medium sized enterprises, a capacity to both increase lending and reduce default rates, and increased competition in both credit reporting and lending industries reducing the overall cost of credit to borrowers.

In response, the Australian Attorney-General referred the matter to the Australian Law Reform Commission (ALRC) for review. After extensive stakeholder consultation the ALRC recommended that Australia shift to a positive credit reporting model. The ALRC model would increase the number of data elements held by a consumer credit report but limit permissible purposes to credit assessment.

The Australian Government is currently considering the ALRC recommendations and issues related to implementation. Key lessons from this process are as follows:

- *Lesson 1 – Shift in focus from over-indebtedness to free flow of credit:* The primary concern of legislators and regulators in the current environment is the need to get sustainable credit flowing. This is a significant shift from concerns of eighteen to twenty-four months ago which were focused on perceived consumer over-indebtedness and the role of positive reporting in driving further credit growth. The changed environment reflects a unique opportunity to highlight the urgency of shifting to a positive credit reporting model and its value in responding to the current credit contraction in member economies.
- *Lesson 2 – Convince established domestic lenders of the benefits:* One of the core groups initially nervous about a shift to positive reporting in Australia were the established domestic banks. While each organisation had its own unique perspective, generally there was a concern that positive reporting would enable global banks to enter the Australian market and make use of bureau data to target the domestic banks' most profitable customers. There are two responses to this concern. Firstly, by ensuring the permissible use of the data extends only to credit assessment, and not marketing, lenders are prohibited from accessing bureau data to identify potential customers. Secondly, extensive data from sources such as Dr Michael Turner demonstrates that positive reporting increases the overall level of lending. While this may impact market share figures, the aggregate impact is to increase lending for all organisations, including domestic banks. In Australia the domestic banks have now recognised these two realities and are active proponents of positive credit reporting through the Australian Retail Credit Association (ARCA).
- *Lesson 3 – Demonstrate the benefit to small business:* Small and medium sized enterprises are significant winners from positive reporting due to the reliance by many small businesses on consumer credit to finance business growth. Recent studies in the United States illustrate this point. Both government and lenders are currently focused on the need to improve access to, and the price of, small business credit. Both groups in Australia have come to recognise the role positive reporting can play in assisting small business credit access and this has become a major driver of the need for reform.
- *Lesson 4 – Engage stakeholders:* There are a number of stakeholders that have concerns about a shift to positive credit reporting. While each of their concerns can be addressed it is important to do so through a process that seeks to build consensus. Such an approach ensures that all views have been tested and that appropriate strategies developed. A consultative process also assists government by clearly identifying challenges before they become critical political issues.
- *Lesson 5 – Empirical based approach:* There are many claims and counter-claims about the benefits of positive credit reporting. The role of empirical research to support D&B's arguments has been critical in convincing the lending community and government of both the need for, and benefits of positive reporting. In Australia two pieces of research developed by Dr Michael Turner have been critical in advancing the debate. The first provided evidence of the benefits of positive reporting. The second provided insight into the challenges arising from the implementation process; in effect providing a roadmap to reform. The use of this research has provided confidence to key decision-makers that the arguments in favour of reform have been well tested and documented.

Mr. Karmelich concluded by underscoring the importance of engaging stakeholders and doing research to support the process, and noting that this process has been in place for five years culminating in the Australian Government currently considering proposals to introduce a form of positive reporting in Australia. He offered to provide any further information on D&B's Australian experience to ABAC.

During the discussion, participants noted the importance of this issue for SMEs.

The Acting Chair thanked Dr. Turner and Mr. Karmelich for their views. He asked the Advisory Group Coordinator to take note of the presentations and discussions and to continue working with the APCC and other interested parties in further developing collaborative work on this issue.

3rd APEC Public-Private Sector Forum on Bond Market Development

The Advisory Group Coordinator informed the participants that the Advisory Group and ABAC are currently working with the APEC Senior Finance Officials to hold the 3rd bond market forum, which will be hosted by the Singapore Finance Ministry and Monetary Authority of Singapore. This is an initiative under APEC that the Finance Ministers have asked ABAC to undertake, in collaboration with the Advisory Group. He also reported that the Senior Finance Officials have requested ABAC to broaden the focus of the forum to include the issue of how to broaden the institutional investor base.

The Acting Chair requested the Advisory Group Coordinator, who will be attending the 5th APEC Senior Finance Officials' Meeting in Singapore, to work with officials in developing the program, and to report to the Advisory Group at the next meeting. He also emphasized that the Forum is one of the Advisory Group's major projects, and encouraged those available to come to Singapore to participate and ensure its success.

Strengthening Banking Systems and Promoting Lending to SMEs

The Advisory Group Coordinator reported to the participants on the 4th SEACEN/ABAC/ABA/PECC Public-Private Dialogue for the Asia-Pacific Region that was held on 18-19 July 2008. He referred to the circulated draft Executive Summary of the Dialogue Report and to the full initial draft report, noting that comments from speakers are still being awaited prior to the production of the final draft for endorsement at the next meeting. The Advisory Group Coordinator highlighted some of the conclusions related to Basel II implementation and corporate governance:

- Many banks are implementing Basel II by improving risk management infrastructure to create competitive advantages, but they are facing challenges in implementing the advanced approaches. There is also considerable divergence in implementation across the region, and this is impeding smooth cross-border supervision.
- The full benefits of Basel II can only be attained if it is well-understood, well-integrated with financial structures, institutional practices and supervisory systems, and adapted to local conditions. It is best undertaken as part of an overall financial development program, to address highly fragmented banking systems, underdeveloped capital markets, and weak risk management and governance in domestic financial institutions.
- Corporate governance is a joint effort, where authorities promote standards, while the private sector promotes a culture of good governance. Regulatory frameworks alone cannot guarantee financial stability, and strong corporate governance is the first line of defence against any impending crisis.
- The crisis called attention to several related issues that should be addressed. These include: the regulatory use of ratings; the underestimation of risks in structured products; the pro-cyclical impact of Basel II; how to address risks not fully captured by Pillar I, e.g. liquidity risk; and the ability of directors to spot major market deterioration, understand risk exposures, ensure that actual practices match governance mechanisms, and know whether management is hiding risks from the board.

The Advisory Group Coordinator also called attention to the draft program for this year's dialogue that will take place in Thailand on 27-28 July 2009, and requested early comments from participants. He noted the proposal to focus on how to deal with the consequences of the crisis. The concept is based on addressing three issues: first, how to update regulatory regimes in view of financial innovations and globalization of markets; second, how to ensure that improvement of regulations goes hand in hand with improvement of industry standards; and third, how to improve monetary policy coordination, in view of the role that excess global liquidity played in the creation of asset price bubbles and the crisis.

Following this concept, sessions would be devoted to monetary policy, bank regulation and supervision, governance of financial institutions, valuation of assets under conditions of market stress and credit rating and reporting practices. In addition, there would be sessions on how to address the

needs of vulnerable sectors through the financing of small and medium enterprises and financial inclusion strategies, as well as facilitate infrastructure finance.

Public-Private Partnership (PPP) for Infrastructure Development

Advisory Group Co-Chair Mr. Mark Johnson of ABAC Australia referred to the adoption of the common principles for formulating guidelines for PPP by the APEC Finance Ministers last year. He noted that this is the culmination of a lot of work, but there are many underlying issues that need to be addressed. He proposed further work under three important themes.

The first is the information asymmetry between the public and private sectors, with the private sector having a considerable information advantage, which has had the effect of discouraging the private sector from engaging more broadly in infrastructure partnerships. Given this situation, it would be important to foster an environment where governments can be reassured of a constructive and confidential dialogue and industry can provide input and perspective without risk of loss of financial benefit or intellectual property.

The second theme is the need to develop broader and deeper capital markets, given that infrastructure projects are generally long-life assets earning revenues in local currencies. While Asia has the capability and financial depth to fund infrastructure, the dominance of bank finance has encouraged a short-term perspective on construction, without adequate regard for long-term risk management over the very long life of infrastructure assets, and prevented the proper valuation of infrastructure and the apportionment of risk to parties most capable of managing it. Deeper and more liquid bond markets and the formation of a yield curve with coverage and depth going beyond short- and medium-term government bonds will entail the development of a broad issuer base.

The third is how to promote a more active role for IFIs in the provision of long-term funds in local currencies, for example by combining their robust credit standing to raise long-term debt and by promoting long-term swap markets to help refresh local balance sheets and eliminate currency mismatch of infrastructure revenues generated in local currencies.

Mr. Johnson also made a reference to various bilateral efforts to address infrastructure-related issues and stressed the need to move to a multilateral approach to bring skills and financial resources to developing economies. He called the attention of participants to the paper *The Case for an Asia Infrastructure Partnership* circulated as part of the meeting documents, and invited consideration of key ideas presented in this paper in developing a regional approach to infrastructure PPP, which are as follows:

- The Asia Infrastructure Partnership will forge a framework that addresses the essential ingredients towards infrastructure planning and project execution through genuine partnership among governments, international financial institutions and the private sector. This will involve a clear articulation of regional infrastructure adequacy and identification of critical areas to be addressed. This process will ultimately produce a list of major projects that represent regional priorities based on extensive consultation and participation of international financial institutions, regional governments and private sector participants.
- The Asia Infrastructure Partnership must actively identify ways of building up the range of financing options offered by capital markets through addressing policy and regulatory impediments to further innovation and even greater market participation. Creating alternatives to commercial bank lending is an imperative, such as for example local currency denominated bonds and asset backed securities. The objective is to attract more investors from within the region and ultimately from international markets.
- Activities of such a regional infrastructure partnership could include the following: (a) commissioning an infrastructure adequacy assessment of the region and identifying gaps and major investment requirements, along with a framework for private sector participation in infrastructure; (b) working with governments to address the shortage of 'private finance friendly' infrastructure projects through comprehensive infrastructure adequacy assessments based on rigorous and independent feasibility analysis to better support market-based judgments on

suitability of private sector participation along with appropriate debt and equity structures; (c) advocating and engaging governments and stakeholders to implement policies that further enhance domestic savings pools in the region through development of long-term savings institutions and best practice governance structures for pension funds and insurance institutions; (d) establishing a working partnership among government, business and IFIs to develop viable alternatives to commercial bank lending for long-term investment in the region; and (e) engaging governments, community stakeholders, media, non-government organizations and the private sector on the dissemination of case studies and international experiences on the respective roles of public and private capital and expertise, when and how it can be best deployed towards achieving the best possible public policy outcomes.

The Acting Chair requested Mr. Johnson to continue working with interested groups on this issue and to report back to the Advisory Group at the next meeting.

Regional Response to the Economic Crisis

The Advisory Group Coordinator referred participants to the paper on the ADBI's research agenda on the global economic crisis. This resulted from brainstorming sessions in which ABAC and other Advisory Group partners, including the IMF, BIS and the ADBI played important roles. He noted that a broad research agenda has been developed, and that there are several topics where the project can contribute to the work of the Advisory Group, particularly the topic of financial reform and regulation and the regional and global architecture.

The Advisory Group agreed to continue its collaboration with ADBI and IMF by continuing to provide inputs into ongoing research, and to request presentations of the results of these studies once they are completed.

Next meeting

The Acting Chair announced that the next regular meeting of the Advisory Group will take place in conjunction with the 2nd 2009 meeting of ABAC in Brunei Darussalam. The exact date and time of the Advisory Group meeting will be announced as soon as this information becomes available from the ABAC Secretariat.

Adjournment

There being no other matters to discuss, the Acting Chair thanked the participants, as well as ABAC New Zealand and the staff for the excellent preparations, and declared the meeting adjourned at 6:00 pm.

THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

First Meeting 2009

11 February 2009

Lambton Room, The Intercontinental Hotel
Wellington, New Zealand

MEETING REPORT ANNEX A

2009 WORK PROGRAM

As approved on 11 February 2009

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 2009 WORK PROGRAM

Following are the objectives of the 2009 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 undertake public-private sector dialogues in key areas of the Advisory Group's work.
- To identify possibilities of collaboration among participating organizations and between public and private sectors.
- To exchange information and updates on current initiatives by participating organizations and promote greater synergy among them.

ACTIVITIES IN 2009

A. PROJECTS

1. Workshop on Promoting Financial Inclusion through Innovative Policies, Tokyo, 31 March – 3 April 2009

The Advisory Group is co-organizing this workshop with ABAC, the Asian Development Bank Institute (ADBI) and the Alliance for Financial Inclusion (AFI) in collaboration with the Inter-American Development Bank (IDB), the International Finance Corporation

(IFC) and the Foundation for Development Cooperation (FDC). The workshop will be hosted by the ADB Institute in Tokyo on 31 March – 3 April. The objectives of this workshop are (a) to provide a basis for the design of a policy initiative on financial inclusion that will be proposed to the APEC Finance Ministers; (b) to develop training materials based on presentations that can be used in capacity-building activities; and (c) provide a peer-to-peer learning and knowledge-sharing platform among policy makers that will enhance their capacity to develop an innovative and enabling policy environment for financial inclusion.

2. 3rd APEC Public-Private Sector Forum on Bond Market Development, Singapore, Mid-July 2009

At their meeting in Hanoi on 7 September 2006, APEC Finance Ministers welcomed a proposal submitted by ABAC that the Advisory Group facilitate in-depth discussions with individual economies on how the public and private sectors can collaborate to develop their respective bond markets (with special attention to corporate bond markets).

The central objective will be a dialogue among interested economies, private sector market players and experts from international public and private sector organizations, aimed at identifying aspects in the policy and regulatory areas which could be addressed by authorities to enhance the environment for bond market development, and in particular, corporate bond issuance. The dialogues would also aim to identify capacity building initiatives, which might include public/private partnerships to build the environment conducive to bond market development.

The Australian Treasury hosted the first Forum on 8 May 2007 in Melbourne, back-to-back with the 2nd Senior Finance Officials Meeting (SFOM2), focusing on the bond markets of Indonesia, the Philippines and Vietnam. The Peruvian Ministry of Economy and Finance hosted the 2nd Forum on 9 July 2008 in Cusco, as part of the 4th APEC Senior Finance Officials' Meeting (SFOM4), focusing on the bond markets of Peru, Mexico and Chile, as well as on international and regional capacity-building efforts and public-private sector collaboration. The Ministry of Finance of Singapore will host the 3rd Forum in Singapore in mid-July at the time of the 6th APEC Senior Finance Officials' Meeting (SFOM6).

3. The 5th ABAC/ABA/PECC/SEACEN regional public-private dialogue on strengthening financial systems, 27-28 July 2009

The Advisory Group, together with ABAC, PECC, ABA and SEACEN, has supported this dialogue over the past four 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 BIS, the Asian financial industry and experts from academe, research and consultancy. The dialogue will touch on responses to the financial crisis, financial regulatory reform, the implementation of Basel II, promoting SME finance and other related issues.

4. Enhancing the environment for public-private partnership in infrastructure in developing APEC economies.

The Advisory Group is currently discussing with various institutions the possibility of collaborating on this project, including research and involvement of government officials, private sector experts and representatives of the investor community.

5. Enhancing capacity within the region to undertake measures in response to the global financial crisis.

The Advisory Group is currently promoting collaboration among several participating institutions, such as ABAC, the ADB Institute and the IMF to identify ways to enhance capacity to respond to the global financial crisis. The Advisory Group will consider possible initiatives that would help address challenges in this area.

6. Improving credit reporting systems within the region.

In 2008, the Advisory Group began work on improving credit reporting systems in the region, which has been championed by the Asia-Pacific Credit Coalition. In its 2008 Report, the Advisory Group recommended promoting full-file and comprehensive reporting to private credit bureaus within the region. This year, the Advisory Group will consider ways to promote the implementation of this recommendation.

B. 2009 REPORT ON FINANCIAL SYSTEM CAPACITY-BUILDING

This report, which will be finalized in August 2008, 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) development of corporate bond markets; (b) strengthening banking systems and promoting the financing of SMEs; (c) financial inclusion; (d) public-private partnership in infrastructure; (e) regional response to the global financial crisis; and (f) the improvement of credit reporting systems.

MEETINGS IN 2009

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

- **Regular meeting (First): February 11, 2009, Wellington, New Zealand**

To finalize the work program; discuss preparations for the financial inclusion workshop, the bond market forum and the public-private dialogue on financial systems; 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 May 11-15, Brunei (*exact date yet to be announced*)**

To report on the results of the financial inclusion workshop, discuss preparations for the bond market forum and the public-private dialogue on financial systems and discuss proposals on capacity-building.

- **Regular meeting (Third): During the period August 25-27, Ho Chi Minh City, Vietnam (*exact date yet to be announced*)**

To finalize the report on completed activities and finalize proposals on capacity-building to be forwarded to the APEC Finance Ministers.

DELIVERABLES AND TIMETABLES

The above activities are geared toward the following deliverables:

1. Successful completion of (a) the Workshop on Promoting Financial Inclusion through Innovative Policies (b) the 3rd APEC Public-Private Sector Forum on Bond Market Development; and (c) the 5th SEACEN/ABAC/ABA/PECC regional public-private dialogue on strengthening financial systems.

2. A complete report on the conclusions of these activities (*to be submitted to the APEC Finance Ministers before their 2009 meeting – through ABAC as well as any other channel*).
3. 2009 Report on Financial System Capacity-Building in APEC (*to be submitted to the APEC Finance Ministers before their 2009 meeting – through ABAC as well as any other channel*).