



## APEC as a Force for Financial inclusion: A Regional Initiative

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### Summary

*The forthcoming APEC leaders meeting in Lima, Peru, in November 2008, presents a significant opportunity to place the objective of increasing financial inclusion for the poor at the forefront of current policy agendas. A proposed APEC Finance Ministers Initiative, should it be endorsed, will help achieve improved financial inclusion in APEC's developing economies. Successful progress toward this objective will help mitigate the effects of international financial sector uncertainty on the world's poorest.*

### Introduction

Following a lengthy dialogue and consultation process throughout this year in Jakarta, Moscow, Hangzhou and Kuala Lumpur, a major new Finance Ministers Initiative will be proposed at the APEC Finance Ministers Meeting in Lima in November 2008 with the aim of expanding financial inclusion in APEC's developing economies. Financial inclusion focuses attention on the need to grant previously excluded people access to a wider range of financial services, including deposit and payments services (most notably remittances) as well as credit, and extending to less familiar products such as micro-insurance and other risk management products.

### The state of financial inclusion in Asian and Pacific economies

The World Bank's Research Department has been attempting estimates of financial inclusion for a number of years. A recent report, titled *Finance for All*, pulls to-

gether comparable data for a substantial number of the member economies of the Asia-Pacific Economic Cooperation (APEC) process. The data show two main things. Firstly, that there is wide variation in access to financial services among APEC and other Asian and Pacific economies (and that a number of economies have very low access). Secondly, that report reveals that only a minority of the APEC economies are able to furnish data that can provide defensible evidence on levels of financial inclusion.

### APEC: Assisting with financial inclusion

With respect to APEC's discussion of financial sector matters, the Finance Ministers' Process (the FMP) is the APEC forum of most relevance to the issue of financial inclusion. The FMP provides a framework for the discussion of regional macroeconomic and financial sector issues, and for examination of policy priorities at the national and regional levels. Finance Ministers have previously authorised a series of 'initiatives' under the FMP. However, current initiatives do not reflect the need to increase low levels of financial inclusion that are a defining characteristic of APEC's less developed financial systems. This is a gap that may be filled as a result of the 2008 APEC process, in which the APEC Business Advisory Council (ABAC) seems likely to play an important role.

### An ABAC Initiative on Financial Inclusion

The decision by ABAC to urge the adoption of financial inclusion and microfinance as appropriate objectives in the APEC Finance Ministers' process was stimulated by recommendations from an 'Advisory Committee on APEC Financial Sector Capacity-building'. Its purpose was to give analytical depth to representations made by ABAC to the Finance Ministers\*. The Advisory Committee's recommendations, prepared for submission to the Ministers and now adopted by ABAC, were as follows:

- 'That financial inclusion as a policy goal with microfinance as an instrument of choice, be adopted by the APEC Finance Ministers as part of their agenda, and endorsed by the APEC Economic Leaders.'
- 'That the APEC Finance Ministers undertake activities to promote an enabling policy and regulatory

environment, including measurement of levels of financial inclusion in developing member economies, initiation of capacity-building activities and holding of policy dialogues, drawing from the conclusions of this report and with special attention to the following key areas that are relevant to the development of microfinance: (1) agent banking; (2) mobile phone banking; (3) increasing the diversity of service providers; (4) improving governance and management of public banks; (5) financial identity regulations; and (6) protection of consumer and creditor rights', and

- 'That the APEC Finance Ministers work closely with ABAC and the Advisory Group on APEC Financial System Capacity-Building in developing their financial inclusion agenda.'

This set of recommendations, if accepted by the APEC Finance Ministers and endorsed by the APEC Leaders, will have great significance for the status and conduct of microfinance in the APEC region and will result in increased financial inclusion. Firstly, the recommendations acknowledge financial inclusion as a goal of economic and financial policy. Secondly, they place microfinance into the financial sector policy armoury, as distinct from that of social sector policy.

## Conclusion

From the evidence in the World Bank's *Finance for All* database it is clear that much remains to be done to ensure that economies collect and publish data that are comprehensive, comparable and suitable for policy analysis. Thus, economies participating in the initiative would be encouraged to publish financial inclusion data periodically and to commit to improvements in rates of financial inclusion as a matter of public policy. The initiative would also encourage participants to document domestic initiatives designed to increase inclusion, and promote policy dialogue among participants.

Assuming that Finance Ministers authorise an initiative, getting started depends on one or more of the member economies taking up the challenge. ABAC will be positioned to become a co-sponsor. It will be desirable also to recruit 'non-member' entities with appropriate intel-

lectual and capital resources to participate. To ensure that the initiative is supported by appropriate expertise, the collaboration of an international financial institution would be highly desirable. There is also precedent for recruiting a commercial bank as a co-sponsor. Given the likely importance of measurement as an element within the initiative, the engagement of financial regulators would also be advantageous. Regional networks of institutions engaged in microfinance, such as *Banking with the Poor Network* (Asia) and *Microfinance Pasifika Network* (Pacific) might provide useful entry points for action in key economies.

A successful ABAC initiative would place financial inclusion squarely on the economic policy agenda in APEC economies plagued by financial exclusion. For this to happen, Ministers must be convinced of the benefits of inclusion and of the need to measure it for policy purposes. The key to progress will be political will, expressed in firm governmental commitments to the progressive elimination of financial exclusion. By making progress towards agreed goals, both quantitative and qualitative, APEC economies will reap the efficiency and equity benefits of growing financial inclusion. Individual ABAC members can assist by building a constituency for these efforts in their own economies. Finally, the recruitment of appropriate partner institutions will be essential to success.

*Postscript: The Foundation for Development Cooperation has been providing inputs on this financial inclusion initiative to the APEC Business Advisory Council (ABAC) throughout 2008.*

\*Contained in *Commercially-sustainable microfinance: a strategy for promoting financial inclusion in APEC*, report of a workshop jointly organised by the Advisory Group on APEC Financial System Capacity-building and the APEC Business Advisory Council. Jakarta, 23 January 2008.