

THE FOUNDATION FOR DEVELOPMENT COOPERATION



*APEC and Financial Inclusion:
A regional cooperation initiative*

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Abstract



Thinking about financial services for the poor has come a long way from the early emphasis on a single product, 'micro-credit'. This gave way to discussion of the need for a range of services, summed up in the term 'microfinance'. More recently, a concern for the 'financial inclusion' of the poor has emerged. This approach sees 'inclusion' as the policy goal and 'microfinance' as its policy instrument. Microfinance is defined broadly, including deposit and payments services as well as credit, and extending to micro-insurance and other risk management products.

The paper presents World Bank estimates of financial inclusion in various APEC and other Asian economies. These show wide variation in national rates of access to services. Many economies appear to lack financial inclusion data. We offer a single 'headline' estimate of financial inclusion, with data on specific dimensions of inclusion in an annex.

The paper discusses the diverse character of contemporary microfinance, provided by regulated financial institutions, both banks and non-banks, by private for-profit entities and public-private partnerships, as well as by voluntary sector agencies and informal entities. A growing range of products is available and foreign investment in dedicated microfinance institutions is surging, with the emergence of specialized funds, 'microfinance investment vehicles'. Economic benefits of microfinance are discussed, in terms of macroeconomic efficiency, distributional equity and financial system stability.

In 2008, ABAC (the APEC Business Advisory Council) has turned its attention to financial inclusion. It has resolved to recommend to the APEC Finance Ministers that they adopt a regional initiative on financial inclusion, in which the APEC member economies and other partners could participate according to interest, need and capacity. Finance Ministers will be asked, at their meeting in Peru in November, to adopt inclusion as a policy goal, with microfinance as instrument of choice. They will be asked to promote an enabling policy and regulatory environment in APEC economies, and to support activities including measurement, capacity-building and policy dialogues.

Special attention will be given to six key areas relevant to the progress of microfinance. These include enduring concerns in the microfinance literature (increasing diversity of institutional models for service provision, improving performance of state banks), newer issues brought forward by technological change (mobile phone banking), emerging regulatory concerns (financial identity, consumer and creditor protection) and marketing concerns (agent banking).

This set of recommendations, if accepted by the APEC Finance Ministers, will acknowledge financial inclusion as a goal of economic and financial policy. It will put microfinance into the financial policy armoury, as distinct from that of social welfare. Getting started depends on some of the APEC member economies taking up the initiative. ABAC would become a co-sponsor. Collaboration with international financial institutions would be desirable, perhaps also commercial banks. Given the likely importance of measurement as an element within the initiative, the engagement of financial regulators would be advantageous.

1. Background: from microcredit to microfinance to financial inclusion



From the late 1980s, the emergence of the Grameen Bank in Bangladesh drew attention to the role of ‘microcredit’ as a source of finance for micro-entrepreneurs. The connection between providing credit and removing poverty was intuitively appealing. It was also politically attractive. Resources could be made available through the political process, while government sponsorship of mass credit bought vote-banks. The need for micro-credit to be financially sustainable was less well understood. Also, emphasis on credit to the exclusion of other financial services obscured the need to develop organic systems of financial intermediation, commencing with grassroots savings mobilization.

For the past decade or more the simplistic idea of *microcredit* as a panacea for poverty has lost ground to a more holistic notion of *microfinance*, seen as encompassing a range of financial services needed by the poor. Unfortunately, the Nobel Peace Prize awarded to Mhd Yunus in 2006 has served to cement ‘microcredit’ ever more firmly into the popular, journalistic and political vocabularies. The continuing use of this word in the media and politics impedes a full understanding of the financial service needs of the poor and how they might best be satisfied.

More recently, the term *financial inclusion* has gained ground among microfinance professionals. ‘Financial inclusion’ focuses attention on the need to bring previously excluded people under the umbrella of financial institutions. However while ‘microcredit’ has dropped out of the professional vocabulary, ‘financial inclusion’ has not replaced the term ‘microfinance’. Thinking in terms of ‘financial inclusion’ is the most useful way of considering how poverty might be reduced through provision of financial services¹. And microfinance (using that term in a broad sense) remains the most potent weapon available for reducing financial exclusion among poor households. The broad definition of microfinance encompasses a wide range of financial services provided for the poor and their households, 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.

In developing Asian economies ‘informal’ or ‘un-enumerated’ economic activities are of major importance as a source of livelihood for the poor, while for them the household is the primary unit of

¹ International development agencies and financial institutions have been active in developing new approaches to these problems. UNCDF published an influential ‘Blue Book’ on financial inclusion in 2005 (<http://www.uncdf.org/english/microfinance/pubs/bluebook/index.php>). The World Bank has devoted considerable resources to a research program on ‘access to finance’, within which attention is paid to financial exclusion of the poorest and to determining how access to financial services can be measured by governments. See (<http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTRESEARCH/0,,contentMDK:21285410~pagePK:64165401~piPK:64165026~theSitePK:469382,00.html>)



both production and consumption. A number of considerations impede the access of households to financial services, leading to financial ‘exclusion’. These include geographic isolation, low population densities and gender, which lead to unequal access in economies where financial sector development is limited. Particular sectors, notably smallholder and peasant agriculture, with their associated post-harvest and off-farm economic activities, pose special challenges for financial service provision. A general problem in the developing economies is the inability of many lower-income households to meet lenders’ requirements for formal physical collateral.

2. The state of financial inclusion in APEC, and elsewhere in Asia

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 together comparable data for a substantial number of World Bank member countries². Tables extracted from the report are presented below, in the body of the paper and in an Annex. They show two main things; *firstly*, that there is wide variation in access to finance among APEC and other Asian economies (and that a number of economies have very low access). *Secondly*, it appears that only a minority of the APEC economies are able to furnish data that can be adduced to illustrate particular key aspects of access.

The paper contains one ‘Headline’ indicator of financial inclusion, for the APEC economies and several other Asian economies. In addition, five ‘key’ indicators of access to financial services, only for APEC economies, are shown in the Annex. The World Bank’s work in compiling cross-national measures of access to finance is a work in progress, with progressive improvement promised to deal with patchy coverage and other data gaps and fragilities. This paper will discuss how APEC might assist in improving the availability and quality of ‘access’ data.

Table 1 presents a selected ‘Headline’ indicator and the picture of inclusion it presents across APEC and some other Asian countries. A ‘Headline’ indicator of financial inclusion is useful as a summary measure. It will usually be a ‘composite’ measure, constructed from data from a number of sources. A researcher associated with the World Bank’s ‘Access to Finance’ project notes that a Headline indicator ‘should be easy to update on a regular basis, comprehensive yet simple and transparent, and empirically robust’. Moreover, ‘such an indicator should have maximum impact and easily translate into policy’³. Table 1 shows the selected ‘Headline’ indicator, which is the percentage of the adult population in selected countries with access to an account with a financial intermediary. Researchers were able to construct the composite measure for only 15 of the 21 APEC member economies. Unfortunately, for various key measures of access, shown in the Annex, coverage is even lower.

Table 1
APEC and other Asian Economies, Composite Measure of Access to Financial Services

² See *Finance for all? Policies and pitfalls in expanding access*, World Bank Policy Research Report, 2008.

³ Stijn Claessens in *AccessFinance Newsletter*, World Bank, September 2005

APEC		APEC		APEC		Non-APEC	
Economies	%	Economies	%	Economies	%	Economies	%
Australia	n/a	Japan	n/a	Philippines	26	Brunei	n/a
Brunei Darussalam	n/a	Korea	63	Russia	69	Cambodia	20
Canada	96	Malaysia	60	Singapore	98	Mongolia	25
Chile	60	Mexico	25	Chinese Taipei	n/a	Myanmar	19
China, Peoples Republic	42	New Zealand	n/a	Thailand	59	Nepal	20
Hong Kong, China	n/a	Papua New Guinea	8	USA	91	Sri Lanka	59
Indonesia	40	Peru	26	Vietnam	29	India	48
						Pakistan	12

Note: The composite indicator measures the percentage of the adult population with access to an account with a financial intermediary. n/a means ‘Not available’

Source: World Bank (2008) *Finance for all?*

The ‘Headline’ measure shows a wide range among the APEC economies, from 8% ‘included’ in Papua New Guinea to 98% in Singapore. Among APEC economies with small minorities of financially-included people are Mexico (25%), Peru and the Philippines (both 26%), and Vietnam (29%). The PRC has 42% of adult population with access, along with other mid-range economies, Malaysia (60%), Chile (60%) and Thailand (59%). Among non-APEC economies, the range is from 12% in Pakistan to 59% in Sri Lanka.

Financial exclusion is not restricted to the developing economies. For example, the USA, with an inclusion rate of 91%, compares unfavourably with some other advanced economies. It should not be assumed that only the less developed economies could benefit from their governments giving more attention to financial inclusion. Some degree of financial exclusion occurs in *all* economies⁴. However in developing economies, where exclusion is most evident, microfinance has a special role in bringing the poor and their households within reach of financial services.

3. The diverse character of contemporary microfinance

Contemporary microfinance is becoming an extremely diverse enterprise, extending far beyond the conventional NGO model of microfinance institution (or ‘MFI’). Any financial institution can ‘do’

⁴ For example, in the UK, the Blair government commenced a series of initiatives on financial inclusion from 1997. See HM Treasury, *Financial inclusion: the way forward*, 2007. Available at hm-treasury.gov.uk



microfinance if it is prepared to make the necessary investments, and bankers are increasingly willing to do so. Microfinance services are being provided by regulated financial institutions, both banks and non-banks. Services are offered by private, for profit, entities and public-private partnerships, as well as by voluntary sector agencies and informal entities. Foreign capital investment in dedicated microfinance institutions is reported to be surging, with the emergence of specialized funds, ‘Microfinance Investment Vehicles’⁵. These vehicles channel funds to bankable microfinance service providers. For the most part this is still not strictly commercial capital, the ‘surge’ being driven by the substantial and growing resources of socially responsible private investors.

Services provided by contemporary microfinance include the wide range of microfinance ‘products’ mentioned above. For many purposes it is more useful to categorize microfinance by the products on offer than by the characteristics of providers. For financial inclusion to increase, diversity is desirable in terms of delivery models, and ownership and governance structures, as well as in products. Innovations in information technology offer enormous possibilities for reducing transaction costs and overcoming the disabilities of distance and low population density. Innovative approaches to service delivery are stimulated in some cases by innovative financial sector regulation, based on growing understanding of the special characteristics of microfinance.

It is now orthodoxy that, while there may be a continuing role for sustainable and un-politicized public sector financial institutions, governments themselves should not lend, nor provide resources for lending. Neither should governments (or donors) ‘package’ micro-credit schemes into projects in other sectors without regard to their validity as financial sector initiatives. Clearly some public initiatives do more harm than good. However, political realities intrude and Asian economies continue to show numerous examples of good policy and practice co-existing with bad, cheek-by-jowl⁶.

Experience suggests that governments may support microfinance directly, by providing judicious support, or indirectly by providing a supportive policy and regulatory environment (including freedom to price loans and deposits according to risk and market conditions). There is a diversity of experience in policy as well as in products and the institutional aspects of microfinance. There are multiple paths to increased financial inclusion.

4. The equity, efficiency and stability benefits of microfinance

In APEC circles, at least, the argument for supporting financial inclusion has hitherto revolved primarily around issues of equity. Microfinance enters Ministerial communiqués and Leaders’ declarations in connection with calls for ‘shared prosperity’ in the face of the pressures of

⁵ See the CGAP Brief on *Microfinance Investment Vehicles* at <http://www.cgap.org/p/site/c/template.rc/1.9.2734>

⁶ For example, Indonesia and the Philippines show examples of best practice, one in micro-banking institution development, the other in regulatory regime, while both have politically-driven credit programs.



globalization⁷. However, aside from equity the case for financial inclusion can also be made in terms of economic efficiency and financial system stability, even if not with equal force in all three cases.

a) Efficiency

With respect to economic efficiency, higher levels of financial inclusion in Asian economies contribute to financial deepening, an important concomitant of economic development. There is real significance for financial sector development in the extension of savings facilities to millions of poor householders. This is true no matter how small the mean balance of their accounts. The poor, especially in the developing economies, can demonstrate a surprisingly high propensity to save. This is particularly true if they have access to safe, liquid, deposit facilities bearing positive real rates of interest. Extension of financial services to the poor, especially deposit-taking services, lays the foundation for a cumulative process of financial deepening.

A second contribution to economic efficiency applies particularly in the developing economies. It concerns their competitiveness in international trade. Much discussion of trade-promoting strategies focuses on the unrealized export potential of the SME (small and medium enterprise) sector, while the much larger (in terms of numbers employed) micro-enterprise sector is typically seen as having little export potential. For this and other reasons, APEC officials have in general proved chronically indifferent to micro-enterprise development for the developing member economies⁸.

This unbalanced view, the result of partial and mistaken analysis, is based on the presumed capacity of one set of actors (SMEs) to engage directly in export trade and the presumed absence of any significant *direct* contribution to exports from the micro-enterprise sector. Such an analysis neglects the substantial *indirect* contribution of micro-enterprise actors to overall economic efficiency and export capacity.

Micro-enterprises in the developing Asian economies are mainly household-based. They are the most numerous units of production as well as the largest source of employment in those economies. It is true that micro-enterprises, especially the typical 'survival' enterprises of the poor, make little direct contribution to exports. Nonetheless in some economies, for example Chinese Taipei, there are well-established supply-chain relationships in export industries which reach down into the household-based micro-enterprise sector. Lower wage rates paid in that sector can be a factor in the international competitiveness of industries where such relationships prevail.

⁷ The expression originated from the APEC Leaders' *Shanghai Declaration* of 2001.

⁸ Under Mexican leadership in 2002 SME Ministers accepted that micro-enterprises are qualitatively distinct from small and medium enterprises. They agreed that micro-enterprise requires a separate and distinct policy regime and set up a Micro-Enterprise Sub Group (the MESG) under the aegis of the SME Working Group from 2003. The MESG laboured under severe disadvantages until it was folded back into the SME Working Group in 2007 and ceased to operate independently. While administrative efficiency is offered as a justification, there is also a history of incomprehension and/or hostility towards micro-enterprise on the part of some officials in the SMEWG. The failure of some member economies to contribute micro-enterprise expertise to the Sub-Group's deliberations also hampered its effectiveness.



However, the most important, if indirect, contribution to export promotion by micro-enterprises consists in their capacity to supply wage-goods and services to the industrial workforce. For developing economies to exploit comparative advantage in manufacturing based on low labour costs, it is necessary for workers to have access to low-cost wage-goods and, particularly, services. It is the comparative advantage of micro-enterprise to produce such goods and services, which can form a substantial proportion of the consumption basket of manufacturing workers. By meeting the consumption needs of the formal sector workforce, micro-enterprises act to reduce wage pressures in the export sector and thereby assist to maintain its international competitiveness.

Financial inclusion of micro-entrepreneurs increases the productivity and profitability of their activities by funding their capital requirements and increasing their capacity to supply the consumption needs of industrial workers. In addition, greater financial inclusion of the industrial workers themselves can also contribute to export competitiveness. By accessing deposit services, industrial workers can be assisted to accumulate savings while efficient domestic funds-transfer services can reduce the transaction costs of remittances to families. By increasing the net rewards of participation in the industrial workforce, such services tend again to reduce wage pressures in the export sector and thereby act to maintain its international competitiveness.

Finally, increased financial inclusion and the micro-enterprise activity it supports have the potential to ameliorate the impact of necessary market-opening measures on those who might otherwise bear the brunt of the costs of adjustment. In the case of the APEC economies, support for policies to increase financial inclusion could increase the political feasibility of moving towards the Bogor goals for trade liberalization. In the meantime, given the proliferation of less comprehensive trade agreements, having access to financial services increases the capacity of low-income households and micro-enterprises to withstand the shocks of adjustment imposed by international treaty obligations.

b) Equity

Rising levels of financial inclusion contribute to distributional equity. First, micro-enterprise conducted at the household level provides income to poor and low-income people in the developing Asian economies. It is a mechanism that enables the benefits of economic growth to flow to poor and low-income people, and to facilitate their participation in that growth. Action to improve the productivity of micro-enterprises, including increasing their access to financial services, will have direct distributional benefits, because these enterprises are the major source of non-agricultural employment in developing APEC economies. Additionally, female-headed households are overrepresented among the poor and stand to gain disproportionately from access to financial services and micro-enterprise opportunities.

There is a school of thought which questions whether providing financial services directly to the poor is the best way to help them. Instead, 'improving access for small firms and for nonpoor entrepreneurial households can be a powerful mechanism for helping reduce poverty'⁹. This is said to be because such access makes for better-functioning labour and product markets and more productive investment, and leads in turn to better employment and higher wages. But this is a 'credit-centric'

⁹ See, for example, *Finance for All?* Pp. 18-19.



argument. It takes insufficient account of the benefits that flow to the poor via their access to the full range of microfinance services, especially deposits and payments (including remittances). The argument for financial inclusion of the poor, and for the equity benefits of their being 'included', depends largely on their use of financial services other than credit.

c) Stability

Rising levels of financial inclusion achieved through the expansion of microfinance services have a small, though positive, influence on financial system stability. The microfinance sub-sector is likely to be more stable in the face of external shocks than the broader financial sector of which it is (albeit small) a part. This effect is likely to be more significant in less developed financial systems, where the banking system dominates the financial sector and where the scope for microfinance is relatively larger (as in Indonesia at the time of the Asian financial crisis). In at least one notable case, that of Bank Rakyat Indonesia (BRI), the relative stability of microfinance kept a pivotal commercial bank afloat while its competitors floundered.

Bank BRI is one of the largest commercial banks in Indonesia. It is one of only three (of seven) state-owned banks to survive the crisis without amalgamation, although its overall financial situation was not strong, due to the high level of non-performing loans in its corporate division. BRI's microfinance activities were conducted through village-level 'Units', organized in a separate Unit division (known now as the 'Unit Microbanking system'). Units offered a restricted range of services tailored to the needs of small rural customers, including the *Simpedes* savings account and the *Kupedes* loan product. A substantial proportion of these clients, particularly on the deposit side, could be classed as microfinance customers.

BRI's Units performed strongly throughout the crisis, with its *Kupedes* borrowers continuing to make over 97 percent of the instalments that fell due in the period from mid-1997 to mid-1999¹⁰. Savings mobilised through the Units grew dramatically over this period, doubling from Rp 8.3 trillion at the end of October 1997 to Rp.17.7 trillion at the end of June 1999. This seems to have been largely a flight to safety, even though all savings held in commercial banks had been guaranteed by Bank Indonesia. It is notable that the state banking sector in general did not record deposit growth comparable to that of BRI.

The BRI Unit Division's performance in the face of the crisis put the seal on its reputation as one of the most efficient and profitable rural financial institutions in the developing world. Its strong repayment performance came at a time when the Indonesian commercial banking system as a whole had non-performing loans estimated at 60 % of portfolio. BRI's deposit-taking operations, serving small and micro clients through the Unit network, provided the lifeblood of liquidity for the bank as a whole throughout the crisis. This helped to prop up the larger BRI entity in the face of heavy losses incurred by its corporate lending.

¹⁰ Patten, Richard H. 1999. The East Asian Crisis and Microfinance: The Experience of Bank Rakyat Indonesia through June 1999. Draft paper. Bank Rakyat Indonesia, Jakarta. July.



In part, this extraordinary performance might be explained by the fact that microfinance borrowers are less ‘trade-exposed’. This might render them less vulnerable to external shocks and more likely to maintain repayments during a crisis than SME or corporate borrowers. This was evident in several countries of Southeast Asia during the events of 1997-98¹¹. Such behaviour may also reflect the importance micro-borrowers place on continued access to credit. It is notable that BRI did not close its *Kupedes* lending window at any time during the crisis, even when normal bank lending was paralysed. Consequently, BRI’s small and microfinance borrowers, anxious to maintain their access to credit under crisis conditions, maintained high repayment rates¹². This may appear to turn normal banking logic on its head. A bank, by continuing to lend under adverse conditions, actually encourages repayment¹³.

Taking financial inclusion seriously: ABAC and the APEC Finance Ministers’ Process

As suggested by the ‘Headline’ indicator of financial inclusion in table 1, above, some proportion of economically active persons in every APEC and Asian economy, even those with high average incomes, has no access to institutionally-provided financial services. In developing economies the proportions of people who are financially ‘excluded’ are substantial indeed. Achieving higher levels of financial inclusion can then be seen as a major task of financial development in such economies.

Setting the discussion in the context of ‘inclusion’ focuses attention on a systemic problem (exclusion) rather than on a policy tool (microfinance). It emphasizes the goal rather than the instrument. It also involves focussing less on problems of poverty and gender and restating the problem as a financial sector issue, while not diminishing the seriousness with which poverty and gender issues are regarded.

Serious examination of the potential for financial inclusion through microfinance should dispel certain misconceptions, still current in some APEC quarters. These include the notion that microfinance is just 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.

¹¹ See Paul McGuire and John D Conroy, *Effects on Microfinance of the 1997-98 Asian Financial Crisis*, at <http://www.microfinancegateway.org/content/article/detail/1565>

¹² Patten, op cit., f/n 10

¹³ The argument is that microfinance lending funded by savings mobilization is likely to be a relatively stable element within a banking system suffering external shocks. However, the emergence of microfinance investment vehicles (noted above in section 3 and footnote 5) may introduce greater volatility. Leaving aside investment capital sourced from ‘socially-responsible’ investors, cross-border capital flows originating from commercial investment houses for which microfinance is seen simply as a new ‘asset class’ will be subject to the general volatility of capital markets.



In 2008, ABAC has accepted that eliminating financial exclusion has a place on the agenda for economic and financial reform in the APEC economies. It has resolved to recommend accordingly to the APEC Finance Ministers, proposing an initiative on financial inclusion for the APEC 'Finance Ministers' Process' (the FMP). The FMP has authorized a number of financial sector initiatives in which the member economies and other partners participate according to interest, need and capacity. ABAC is currently co-leading one such FMP initiative, the *APEC Public-Private Dialogue on Bond Market Development*.

The Bond Market initiative allies ABAC with the 'commanding heights' of Asia-Pacific economies. By contrast, an FMP financial inclusion initiative would ally ABAC with the grass roots of those economies. Such a duo of activities would have a pleasing symmetry: ABAC in action at both the 'commanding heights' and 'the base of the pyramid'. In either case, the implications are huge: the one promising to generate billions by strengthening domestic-currency bond markets, the other aiming to bring hundreds of millions of excluded people within reach of basic banking services.

5. The ABAC initiative on financial inclusion and microfinance

The decision by ABAC to urge the adoption of financial inclusion and microfinance as appropriate elements in the APEC Finance Ministers' process was stimulated by recommendations from the Advisory Committee on APEC Financial Sector Capacity-building. This committee was set up by ABAC with PECC (the Pacific Economic Cooperation Council) as a resource for the FMP. The Advisory Committee's recommendations¹⁴, 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

¹⁴ Contained in *Commercially-sustainable microfinance: a strategy for promoting financial inclusion in APEC*, Report of a workshop jointly organized by the Advisory Group on APEC Financial System Capacity-building and the APEC business Advisory Council. Jakarta, 23 January 2008



banking; (3) increasing the diversity of microfinance service providers; (4) improving governance and management of public banks; (5) financial identity regulations; and (6) protection of consumer and creditor rights.

- ‘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, will have great significance for the status and conduct of microfinance. Firstly, it acknowledges financial inclusion as a goal of economic and financial policy. Secondly, it puts microfinance into the financial policy armoury, as distinct from that of social welfare. The goal is to be the creation in APEC economies of a facilitating policy and regulatory environment for financial inclusion, with particular emphasis on the *measurement* of levels of financial inclusion, as a guide to policy.

The six special topics noted for intensive study include enduring concerns in the microfinance literature (increasing diversity of institutional models for service provision, improving performance of state banks), newer issues brought forward by technological change (mobile phone banking), emerging regulatory concerns (financial identity, consumer and creditor protection) and marketing concerns (agent banking).

6. Activities, objectives and participants for an APEC initiative

Activities should probably begin with discussing and agreeing criteria for the measurement of inclusion. Participating economies would be encouraged to estimate their current levels of financial inclusion, employing the agreed criteria. The World Bank’s *Finance for All* database is discussed above (section 2) and in the Annex. From this evidence 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 inclusion as a matter of public policy.

The initiative would encourage comparative surveys of national policy frameworks for the elimination of financial exclusion. It would encourage participants to document domestic initiatives (governmental, private-for-profit, voluntary, public-private and donor-sponsored) designed to increase inclusion. It would encourage policy dialogue and the exchange of experience among participants and would conduct capacity-building exercises for officials and finance professionals. While the ABAC recommendation refers specifically to ‘developing’ member economies, it would not be inappropriate for developed economies to participate, contributing to methodological and policy dialogue and perhaps committing to eliminate their own remaining pockets of financial exclusion.



Assuming that Finance Ministers, who are to meet in Peru in November, will authorize an initiative, then 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 intellectual 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 be advantageous. Regional networks of institutions engaged in microfinance, such as *Banking with the Poor* and *Microfinance Pasifika*, might provide useful entry points for action in key economies.

ANNEX: Key Measures of Financial Inclusion in APEC Economies

The summary or ‘Headline’ measure of inclusion, table 1, is discussed above in the body of the paper. But there is a need for more specific indicators. This annex includes indicators of the use of key financial services and of barriers to accessing such services. Coverage here is restricted to those APEC economies for which data were available. Data for other Asian economies are available in *Finance for All*. In compiling the report, researchers surveyed banks to enable estimates of use of loan and deposit services (table 2). Bank regulators were surveyed to calculate branch and ATM penetration across economies (table 3). In the case of table 2, the loan and deposit data are available for only 9 of the 21 APEC economies.

Data available for these nine economies permit calculation of numbers of loan and deposit accounts per capita, while loan and deposit size data can be expressed in terms of GDP per capita. The data set in table 2 is incomplete, even for the nine participating economies. An indicator of levels of financial development (private credit as a proportion of GDP) is provided while GDP per capita data signal overall levels of development.

Table 2, APEC Economies, Use of Loan and Deposit Services

Economies	Loan a/cs per capita (number)	Loan-income ratio	Deposit a/cs per capita (number)	Deposit-income ratio	Private credit/GDP	GDP per capita
Chile	418	1.6	1045	0.46	0.694	4591
Malaysia	329	2.95	1250	0.92	1.352	4164
Mexico	----	-----	310	0.46	0.181	6121
Papua New Guinea	----	-----	120	2.48	0.147	617
Peru	78	2.45	316	0.74	0.248	2247
Philippines	----	-----	302	1.77	0.405	989
Russia	54	4.23	1892	0.07	-----	3022
Singapore	513	3.84	1671	1.62	1.159	21492
Thailand	248	4.56	1423	0.83	1.044	2309

NOTE: Economies listed are those for which data are available. Loan/deposit accounts per capita refer to the number of loans/deposits per 1,000 people. Loan/deposit-income ratio refers to the average size of loans/deposits as proportion of GDP per capita. Private credit to GDP is the ratio of claims of financial institutions on the private sector as a proportion of GDP. N/a means data 'Not available'.

Source: World Bank (2008) *Finance for All?*

The measures of banking 'penetration' (table 3) deal with numbers of bank branches and ATMs and are geographic (related to the surface area of each economy) and demographic (related to population size). Once again, these variables are listed alongside the indicators for financial development and overall development status.

Table 3, APEC Economies, Branch and ATM Penetration

Economies	Geographic branch penetration (No.)	Demographic branch penetration (No.)	Geog. ATM penetr'n (No.)	Demog. ATM penetr'n (No.)	Private credit/GDP	GDP per capita
Australia	0.77	29.86	1.66	64.18	0.879	26062
Canada	1.56	45.6	4.64	135.23	0.967	26380
Chile	1.98	9.39	5.06	24.03	0.694	4591
China, PRC	1.83	1.33	5.25	3.8	1.236	1094
Indonesia	10	8.44	5.73	4.84	0.236	971
Japan	34.82	9.98	397	114	1.115	34010
Korea	65.02	13.4	437	90	1.197	12634
Malaysia	7.39	9.8	12.4	16.44	1.352	4164

Mexico	4.09	7.63	8.91	16.63	0.181	6121
New Zealand	4.19	28.04	7.53	50.36	1.101	19021
PNG	0.2	1.64	-----	-----	0.147	617
Peru	0.89	4.17	1.24	5.85	0.248	2247
Philippines	21.4	7.83	14.52	5.31	0.405	989
Russia	0.19	2.24	0.53	6.28	-----	3022
Singapore	636.1	9.13	2643	37.93	1.159	21492
Thailand	8.71	7.18	20.69	17.05	1.044	2309
USA	9.81	30.86	38.43	120.94	1.628	37388

NOTE: Economies listed are those for which data are available. Geographic branch/ATM penetration refers to the number of branches/ATMs per 1000 KmSq. Demographic branch/ATM penetration refers to the number of branches/ATMs per 100,000 people. Private credit to GDP is the ratio of financial institutions' claims on the private sector to GDP. N/a means 'Not available'

Source: World Bank (2008) *Finance for all?*

Surveys of banks conducted by *Finance for All* enabled estimates of barriers to accessing cheque and deposit services (table 4) and barriers to SME loans (table 5), as well as barriers to payments services (table 6). Since bank response was voluntary, the data are patchy in that the market share of responding banks for loans and deposits varies substantially across economies.

Table 4 presents a number of measures describing the 'accessibility' of services (measure #1) and their affordability (#2 to #7) as perceived by the potential customer. There are also measures of the 'eligibility' of potential customers (#8, #9). The convenience with which business units or service points of the bank are approached is a factor in 'accessibility'. The minimum charges levied for services influence 'affordability', while the documentary requirements ('red tape') for opening an account speak to the issue of 'eligibility'. Data are available for ten of the 21 economies.

Table 4, APEC Economies, Barriers to Cheque and Deposit Services

Indicators	# 1	# 2	# 3	# 4	# 5	# 6	# 7	# 8	# 9
Economies	Locations to open deposit a/c (1, 2, 3)	Min. initial deposit, Cheque a/c	Min. initial deposit, Savings a/c	Min. balance Cheque a/c	Min. balance Deposit a/c	Annual fees, Cheque a/c	Annual fees, Savings a/c	Docs to open Chq. a/c	Docs to open Saving a/c
Australia	2.59	0.00	0.00	0.00	0.00	0.16	0.10	3.0	3.0
Chile	2.42	4.33	0.00	0.00	0.00	3.38	0.42	4.42	1.58
China, PRC	3.0	0.00	0.01	0.00	0.00	0.00	0.00	1.00	1.00
Indonesia	2.53	9.54	3.03	6.14	0.65	2.80	0.66	3.18	2.66
Japan	1.75	0.00	0.00	0.66	0.00	0.02	0.00	2.03	1.24
Korea	2.11	3.32	0.01	0.00	0.01	0.06	0.00	1.94	1.20
Mexico	2.18	1.11	0.62	0.90	0.67	0.43	0.18	2.80	2.18
Peru	2.0	1.66	0.53	0.00	0.00	1.44	0.50	2.42	1.87
Philippines	2.0	14.54	11.88	14.54	11.88	0.00	0.00	3.17	2.20
Thailand	2.48	6.74	0.41	0.31	0.31	1.29	1.29	1.23	1.23

NOTE: Economies listed are those for which data are available. *Physical access indicator (#1)* : Locations to open deposit account take value 1 if possible only at headquarters, 2 if possible at headquarters or branch, 3 if at HQ, branch or other outlet. *Affordability*

indicators (# 2, 3, 4, 5, 6, 7): Minimum balance to open/maintain a cheque/savings account is the minimum amount required to open/maintain such an account. Annual fees to maintain a cheque/savings account. Costs expressed as percentage of per capita GDP. Eligibility indicators (# 8, 9): Number of documents required to open a cheque or savings account. N/a means 'Not available'. Source: World Bank (2008) *Finance for all?*

Table 5 is concerned with barriers in the path of potential SME borrowers, such as limited access or opportunity to apply for loans, large minimum loan sizes and high fees and lengthy processing times. Data are available for ten of the APEC economies. Variables considered include the number of modes of service available for filing applications, as an indicator of accessibility (from headquarters, to branches and agents, and electronic and phone procedures). Minimum loan size and loan fees are expressed as percentages of GDP per capita.

Table 5, APEC Economies, Barriers to Payments

Economies	Cost for international funds transfer (% of \$250)	Fee for ATM use (% of \$100)	Economies	Cost for international funds transfer (% of \$250)	Fee for ATM use (% of \$100)
Australia	8.05	0.00	Mexico	8.66	0.40
Chile	20.00	0.00	Peru	6.68	0.24
China, Peoples Republic	2.67	0.12	Philippines	2.27	0.00
Indonesia	2.83	0.00	Thailand	4.97	0.00
Japan	13.24	0.00			
Korea	7.05	0.22			

NOTE: Economies listed are those for which data are available. Cost to transfer funds is the amount banks charge for international transfers, expressed as a percentage of \$250. Fee for ATM use is the fee banks charge customers for use of an ATM card, expressed as a percentage of \$100. N/a means 'Not available'.

Source: World Bank (2008) *Finance for all?*

Table 6 is concerned with barriers to payments services, specifically the international remittance of funds and the domestic use of ATM services. Costs of these services are estimated as a percentage of \$250 (for the remittance) and \$100 (for the ATM transaction).

Table 6, APEC Economies, Barriers to loan services: SME loans

Economy	Locations to submit application (of 5)	Minimum Amount SME loan %GDPpc	Fees SME loan % of Min. amt	Days to process SME loan	Economy	Locations to submit application (of 5)	Minimum Amount SME loan %GDPpc	Fees SME loan % of Min. amt	Days to process SME loan
Australia	5.0	10.06	1.29	7.19	Korea	3.78	16.99	0.29	2.73
Chile	5.0	121.70	1.09	13.87	Mexico	4.20	87.80	1.61	9.86
China, Peoples Republic	2.0	-----	0.00	40.00	Peru	3.21	54.35	0.16	3.71
Indonesia	3.10	1853.19	1.46	9.68	Philippines	2.36	916.66	1.41	33.29
Japan	3.42	11.75	0.00	10.14	Thailand	2.00	3.21	0.94	23.74



Note: Economies listed are those for which data are available. Locations to submit loan applications, score is out of five possibilities, including physical offices, electronically and by phone. Minimum loan size is the smallest SME loan available, expressed as % of GDP per capita (GDPpc). Loan fee is expressed as % of minimum loan size. Days to process is the typical waiting period for approval of an SME loan. N/a means data 'Not available'. **Source:** World Bank (2008) *Finance for all?*