Think big! A regional role for Microfinance Pasifika

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Note
This paper flows from earlier work by the writer which was commissioned by the Pacific Islands Forum Secretariat. However, in its present form the paper represents his views alone. The paper is not held out as representing the policies or programs of the Forum Secretariat, nor those of Microfinance Pasifika or The Foundation for Development Cooperation. These ideas are offered in a positive spirit, in the hope of assisting Microfinance Pasifika to define its role and forward work program and to become a positive force for growth and change in the region.

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Acronyms

ADB	Asian Development Bank
APEC	Asia-Pacific Economic Cooperation
AusAID	Australian Agency for International Development
FEMM	Forum Ministers' Economic Meeting (Pacific Islands Forum)
ForumSec	The Forum Secretariat
FMP	Finance Ministers' Process (APEC)
GDP	Gross Domestic Product
IFC	International Finance Corporation (World Bank Group)
MFI	Microfinance Institution
NZAID	New Zealand Agency for International Development
PNG	Papua New Guinea
SME	Small and Medium Enterprises
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Program
US	United States of America

1. Introduction: the concept of financial inclusion

This paper has as starting point a study commissioned by the Pacific Islands Forum Secretariat[1], prepared for the 2006 Forum Economic Ministers' meeting (the FEMM), and subsequently released by the Secretariat. That study, titled *Successful microfinance in the Pacific: achieving financial inclusion*[2], was intended to be a 'good news' document, reporting promising developments and trends in the region. It drew upon fresh currents of thought in international circles, where for some years the idea of *micro-credit* as a panacea for poverty had been losing ground to a more holistic notion of *microfinance,* seen as encompassing a range of financial services needed by the poor.

Even more recently, the concept of *financial inclusion* had gained ground, although without displacing 'microfinance' as a useful tool. 'Financial inclusion' focussed attention on the need to bring previously excluded people under the umbrella of financial service institutions of all types. In turn, financial inclusion can be seen as a subset of another program of action, focussing on the need to expand *access to finance*. This last concept is broader still in scope, in that it looks at the limited access to financial services of a wider range of enterprises, including those in the formal sector. It does not restrict its scope to poorer households and the micro-enterprises of the poor, as in the case of 'financial inclusion'. However, 'access to finance' has not displaced 'financial inclusion' as an operational concept, anymore than the latter has replaced 'microfinance'. Indeed, for most members of Microfinance Pasifika, and for the great majority of the populations of Forum Island Countries, 'financial inclusion' is the most useful frame of reference for considering how poverty might be eliminated. And 'microfinance' (using that term in a broad sense) remains the most potent weapon available for reducing financial exclusion.

[1] The Forum Secretariat serves the Pacific Island Forum, whose membership has increased from the original seven founding members (Australia, Cook Islands, Fiji, Nauru, New Zealand, Tonga and Western Samoa – now Samoa) to also include the Federated States of Micronesia, Kiribati, Niue, Republic of the Marshall Islands, Palau, Papua New Guinea, Solomon Islands, Tuvalu and Vanuatu. New Caledonia and French Polynesia, previously Forum Observers, were granted Associate Membership in 2006. Current Forum Observers include Tokelau (2005), Wallis and Futuna (2006), the Commonwealth (2006), the United Nations (2006) and the Asian Development Bank (2006), with Timor Leste as Special Observer (2002). See http://www.forumsec.org/pages.cfm/about-us/

[2] Available at http://www.microfinancegateway.org/content/article/detail/35291

The role of international agencies in defining financial inclusion

International development agencies and financial institutions have been active in promoting these newer currents of thought. The UN Capital Development Fund (UNCDF) conducted international consultations before publishing an influential 'Blue Book' on financial inclusion in 2005[3]. The World Bank has devoted considerable resources to a research program on 'access to finance' issues, within which attention is paid to financial exclusion of the poorest and to determining how access to financial services can be measured by governments[4]. Also within the World Bank Group, the International Finance Corporation (IFC) supports private sector approaches to increasing access and reducing financial exclusion[5].

The leaders of APEC (the Asia-Pacific Economic Cooperation process) have been calling for some years for 'shared prosperity' in the face of the pressures of globalization. Following an initiative by Mexico, the themes of 'micro-banking' and 'micro-enterprise development' were taken up by APEC in 2002. At their meeting in 2002, the APEC Leaders endorsed Mexico's initiative in these terms:

> 'We agreed that micro-financing is crucial for the expansion of microenterprises, and we praise efforts to develop and promote market-based micro-finance to assure micro and small businesses and entrepreneurs have access to capital. We agreed that government action should create an enabling policy environment and a legal and regulatory framework for the growth and expansion of sound and sustainable micro-financing intermediaries, fostering their gradual and full integration into the domestic financial system'.

In 2003 the term 'financial exclusion' was adopted into the APEC vocabulary, when the annual meeting of Ministers responsible for Small and Medium Enterprises (SMEs) endorsed microfinance as 'an instrument to reduce the "financial exclusion" often experienced by micro-enterprises in the APEC economies'[6]. In a later section of this paper I will suggest how APEC's processes might offer a pathway for Pacific microfinance to be advanced, using 'financial inclusion' as a theme for international dialogue and co-operation.

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[3] Download the Blue Book from http://www.uncdf.org/english/microfinance/pubs/bluebook/index.php

[4] see http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTRESEARCH/0,,contentMDK:21285410~pagePK:64165401~piPK:64165026~theSitePK:469382,00.html

[5] www.ifc.org/ifcext/mekongpsdf.nsf/AttachmentsByTitle/FMDFactsheet/$FILE/A2F-Factsheet.pdf

[6] I have documented APEC's engagement with microfinance and financial inclusion in a paper from which these quotations are drawn. See John D Conroy (2005) 'APEC and Financial Exclusion', **Asia-Pacific Development Journal**, 12 (1), pp 53-79. See http://www.microfinancegateway.org/content/article/detail/21775

2. Successful microfinance in the Pacific

Summary of the argument

The study titled *Successful microfinance in the Pacific*[7] described some models of innovative microfinance in a number of Forum island countries. It concluded that a number of promising experiments were underway. These went well beyond the conventional models of service provision by voluntary 'microfinance institutions' (MFIs), such as the highly-publicised 'Grameen Bank' model. Microfinance services were also being provided by private, for profit, entities and public-private partnerships, as well as by private and state commercial banks. Services offered were not confined to 'micro-credit' but included a wide range of microfinance 'products', all of which were contributing to the reduction of financial exclusion. The study described innovative approaches to service delivery and financial sector regulation and commented on a palpable 'hunger' for access to deposit services, evident across the region.

Among the conclusions were that 'micro-credit' is not the answer to raising the living standards of Pacific peoples whose economic activities are still to a greater or less extent rooted in traditional agriculture and fisheries, but that 'microfinance' is part of the answer. Such people need access to a range of financial services. Among these the value of deposit services has been greatly underestimated. Instead of focussing on microcredit or even microfinance, Pacific governments would do better to set financial inclusion as an overriding policy goal and to view this goal through the lens of financial sector policy. The report suggested that Forum Economic Ministers should think *systemically*, and consider how their countries' *financial systems as a whole* could be made more inclusive.

For achieving greater inclusion, the study recommended that diversity is desirable in terms of products, delivery models and ownership and governance structures. Innovations in information technology offer possibilities for reducing transaction costs and overcoming the disabilities of distance and low population density. Governments may support microfinance by directly providing judicious support, or indirectly by providing a supportive policy and regulatory environment. But some public initiatives do more harm than good; governments should not lend, nor provide resources for lending. Neither should governments 'package' microcredit schemes into projects in other sectors without regard to their validity as financial sector initiatives. Finally, some regional initiatives are desirable, to generate and share information relevant to the effort to establish sustainable microfinance processes in Forum island countries.

Potential significance of the FEMM

As mentioned above, the study *Successful microfinance in the Pacific* was prepared for the Forum Economic Ministers' Meeting (FEMM). This is a policy-making body charged with supporting national economic development strategies through regional policy dialogue and co-operation, and with providing advice to the Forum Leaders. The FEMM

[7] Referenced at footnote 2, above

aims to achieve a ‘common regional stance on international issues’ a ‘collaborative approach to dealing with common constraints, including sharing of capacities’ and the ‘sharing of experiences, focusing on lessons learnt (economic reform processes)’[8]. Since lack of access to financial services is a ‘common constraint’ upon the majority of Forum island populations, this should entitle financial inclusion to a place on the FEMM agenda. However the FEMM has not so far considered financial sector issues in terms of the exclusion of its people from access. This in turn may explain an apparent failure to see any relationship between the finance sector and the microfinance sub-sector. The assumption, perhaps unconscious but certainly unexamined, is that microfinance is something for the social welfare sector (or perhaps *samting bilong ol meri tasol*[9]).

3. Finance and microfinance: never in the same breath

The FEMM has given attention to financial sector reforms at its recent annual meetings. Ministers have also considered microfinance from time to time. But it is disappointing that these two topics have never been mentioned in the same breath, even on occasions when both have been incorporated into the annual ‘Forum Economic Action Plan’. Unfortunately there is no evidence that the Economic Ministers see any organic connection between ‘finance’ and ‘microfinance’. Ministers regard financial sector issues as part of a Pacific macroeconomic reform agenda and accept that financial reform is essential for economic growth. But they appear to regard microfinance as simply a device for stimulating micro-enterprise and as a means of elevating the economic status of women. Of course microfinance is both of those things and much else besides, but (like the gender issue) it commonly appears in official thinking as something ‘tacked-on’, an afterthought.

Some of the outcomes of recent FEMM meetings can be cited to show that Ministers have yet to ‘connect up the dots’ between finance and microfinance. The Forum Economic Action Plan 2003 was commendable in giving particular attention to ‘economic disparities’, lack of opportunity and poverty, and in seeing ‘micro-credit’ as an instrument for their amelioration. But there was no substantive discussion of domestic financial sector issues at this meeting, and certainly micro-credit was not discussed in any such context.

The Economic Action Plan of 2004 focussed primarily on issues of institutional reform. There was some discussion of financial sector matters, including deficiencies in the regulation and supervision of financial institutions, as well as the need to protect consumer rights. Then, the last sentence of the 2004 Plan reads as follows:

> **‘***Micro-credit*
> *‘Ministers noted the success of micro-credit schemes in the Pacific and endorsed the continued development of such schemes’.*

[8] See the Forum Secretariat website at http://www.forumsec.org/pages.cfm/economic-growth/economic-growth-work-programme-1/forum-economic-ministers-meeting-femm-1/
[9] in *tok pisin*, ‘it’s just women’s business’

This statement is revealing, both by reason of its positioning and its lack of context. Micro-credit was appended to the Plan without any link to the broader discussion of institutional reform, including the discussion of financial sector issues. Instead it appeared to be simply a 'tacked-on' item. There was one positive outcome, in that Ministers tasked the Secretariat to prepare a report on microcredit in the region, with a view to developing policies to assist its development. In the following year, Forum Secretariat presented the draft report to the FEMM as an 'out-of-session' (i.e., non-tabled) paper. This paper was commendable in that it expanded the scope of the discussion beyond 'micro-credit' to 'microfinance' and focussed attention on a broader range of financial services for the poor. Despite this, microfinance did not find its way into the 2005 Action Plan.

With assistance from UNDP, an external consultancy was then commissioned to enlarge upon the 2005 Secretariat paper, and at the 2006 FEMM the report, *Successful microfinance in the Pacific* was made available as an 'out-of-session' paper. In the face of a very full agenda, Ministers appear to have been unable to give attention to this paper and there is no reference to microfinance in the 2006 Action Plan. However FEMM 2006 did give some consideration to domestic financial sector issues. The updated Action Plan referred again to regulation and supervision deficiencies and reaffirmed Ministers' commitment to financial sector reform. They agreed to commission 'a scoping study…for the development and adoption of best practice models on financial regulation'. Once again, however, Ministers failed to make any connection between the domains of finance and microfinance. FEMM discussions have not yet canvassed the possibility that models of financial regulation might be designed, inter alia, to facilitate microfinance and financial inclusion.

The Forum Economic Action Plan in 2007 devoted much attention to the regulatory requirements of regional integration and again included a discussion of financial sector reform. It referred once more to deficiencies in the regulation and supervision of financial institutions. Ministers also canvassed the desirability of regional approaches to some financial sector problems. There was no reference to financial inclusion as a problem, nor was microfinance mentioned. If anything, the topic seemed to have slipped even further below the Ministerial radar screen.

More positively, however, during the first half of 2007 UNDP and the UN Capital Development Fund (UNCDF) have mounted a 'financial services sector assessment' in the five 'least developed' Forum island countries[10]. According to FDC, 'the assessment will identify constraints and opportunities to achieve financial inclusion whereby the majority of the population, particularly poor and rural communities, enjoy access to a range of unsubsidized financial services'. We must hope that this study will establish some momentum for a 'financial inclusion' philosophy to become accepted in Pacific policy circles, including the FEMM.

[10] Kiribati, Samoa, Solomon Islands, Tuvalu and Vanuatu.

4. Sector and sub-sector, finance and microfinance

It is fair to say that FEMM documents so far give no hint that microfinance could be seen legitimately as a subsystem within the broader financial system. There is no suggestion that microfinance might usefully be incorporated into financial sector policy. There is no recognition that microfinance should be subject to essentially the same disciplines as are imposed on the broader financial system. Nor is it understood that institutions offering microfinance services need to be linked progressively and organically into national financial systems. There is no acceptance of the idea that it would be useful to include financial inclusion and microfinance within the broader Forum economic and financial reform agenda. Nor is it accepted that the broader financial agenda would be more effective and equitable for such an inclusive approach.

There is a conventional objection to the arguments of the previous paragraph. It runs as follows: if the assets and liabilities of microfinance service providers were incorporated into the consolidated balance sheets of the various Pacific island financial systems, they would be insignificant in relation to total assets and liabilities employed. This would still be true even if the microfinance activities of regulated financial institutions (micro-loans advanced, micro-deposits held) were separately reported. So in terms of this conventional monetary yardstick, microfinance activities can safely be disregarded for purposes of financial sector policy.

This conventional view might have some force if issues of equity and participation were also to be disregarded. Indeed, using conventional measures of financial deepening (for example, the ratio of financial institutions' assets to GDP) it is easy to imagine a scenario in which a sub-set of the population (call it the 'urban/modern sector') engages ever more deeply with the processes of financial intermediation while the majority (call it the 'rural/subsistence sector') remains substantially excluded from financial services. Under this scenario, the measured degree of 'financial deepening' would increase at a rate the monetary authorities might find very satisfactory (if, that is, they were prepared to ignore the dimension of inclusiveness). But financial sector policy *should* also take into account this non-monetary dimension. Central bankers are traditionally concerned with structural aspects of the financial sectors they oversee, and there are encouraging examples of central bank concern for inclusiveness in the Pacific (notably in Papua New Guinea). It's just that *in practice* attention tends to be focussed on the monetary aggregates, and this bias is reflected in the approach to financial sector reform taken by the FEMM.

5. A role for Microfinance Pasifika

Microfinance Pasifika has multiple objectives[11] including capacity-building, networking and the promotion of good microfinance practice, and seeking influence over the policies and practices of governments, monetary authorities and other financial sector entities. The advocacy role is listed last among its functions and this paper will not argue that advocacy should be the principal task of the Network. However it will suggest how and where advocacy efforts might best be applied.

It is already true that the members of Pasifika lobby at home for access to resources and to negotiate regulatory issues. To the extent that Microfinance Pasifika can help to determine and disseminate principles of regulatory best practice, domestic microfinance service providers may be empowered by the support of the broader Network in their dealings with government and regulatory agencies. However the most significant advocacy function of Pasifika may prove to be an international or regional one. The purpose of this paper is to argue that the Network should adopt as policy the view that microfinance is an integral part of the broader financial system, as is argued in section 4 (above). It should accept the policy implications that flow from this[12], and should press this view upon decision-makers throughout the region.

Given the Pacific region's small population and great size, bilateral and multilateral agencies suffer diseconomies of scale in administering their programs and in finetuning them to the circumstances of individual small states. They may welcome the opportunity to consult with an umbrella body of practitioners (Microfinance Pasifika) in a significant area of development cooperation. These agencies, notably the World Bank, IFC and ADB, AusAID and NZAID, are key to supporting the macroeconomic and financial reform agenda adopted by the Pacific Forum. They could support an approach to financial reform that assigns an appropriate role to microfinance and financial inclusion within that regional reform agenda. This could translate into financially inclusive policy reform within the Pacific Forum and its member countries.

Microfinance Pasifika can work with international agencies, and regional entities such as Forum Secretariat, to establish financially inclusive policies in the Pacific. It could do that without accepting the suggestions I make below. However I propose that Microfinance Pasifika should go a step further. In addition to lobbying Forum governments, Forum Secretariat and regional donors, it should attempt to involve APEC (the Asia-Pacific Economic Cooperation process) in its campaign.

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[11] The Mission of Microfinance Pasifika is:
a. To strengthen institutions providing microfinance services by improving their efficiency, sustainability and outreach
b. To promote the development and delivery of diverse and appropriate microfinance products and services
c. To encourage partnerships and links between microfinance stakeholders in the Pacific, and stimulate innovation and creativity
d. To promote transparent reporting and best practice in microfinance
e. To influence the policies and practices of governments, monetary authorities, financial sector
See http://www.microfinance-pasifika.org/About_Us.html

[12] Not all of these implications are comfortable for MFIs, as explained in section 9, below.

6. APEC as a platform for promoting financial inclusion: How and why

APEC is an intergovernmental grouping established in 1989 to facilitate economic growth, trade and investment, and capacity- and community-building in the Asia-Pacific region. It has 21 member economies located on and within the Pacific Rim. These economies cover a wide span of development, ranging from transitional economies such as Viet Nam (GDP per capita of round $660) to developing market economies in Asia including Indonesia (with GDP per capita $1,580) and Thailand ($2,960) and in Latin America, such as Chile ($8,570). Advanced market economies include the US ($44,000), Australia ($36,000) and New Zealand ($24,600)[13]. Of Forum member countries, only Australia, New Zealand and Papua New Guinea (GDP per capita $660) are APEC members[14].

Thus among the Forum island countries only PNG is a member, while Australia and New Zealand have both APEC and Forum membership. However the Forum Secretariat has 'Observer' status with APEC, representing the small Forum island countries that cannot aspire to individual membership. Forum Secretariat officials acting as observers 'participate in APEC meetings and have full access to documents and information related to these meetings. The observer groups provide partnership, expertise and insight that assist APEC to attain its goals and implement its initiatives'[15]. But that is not the only option for the Forum to benefit. Individual Forum island countries, by virtue of their Forum membership and their location at the heart of the APEC's geographic region, are appropriate candidates for 'non-member' participation in various APEC activities. They could apply for, or be invited, to participate in relevant activities of APEC.

APEC is a process, rather than an organization, and the process has many facets. The member economies[16] engage in policy coordination and cooperative activities at the official and ministerial levels in a wide range of sectors, from environment to telecommunications and from fisheries to financial systems. With respect to financial systems, the APEC Finance Ministers' process (FMP) is the most relevant, and it is in this forum that the issue of financial inclusion could most appropriately be introduced.[17]

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[13] Data from the APEC site at http://www.apecsec.org.sg/apec/member_economies/general_economic_indicators.html

[14] the full membership consists of Australia, Brunei Darussalam, Canada, Chile, China, Hong Kong (China), Indonesia, Japan, Republic of Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, Philippines, Russian Federation, Singapore, Taiwan Province of China, Thailand, United States of America and Viet Nam.

[15] see 'APEC Observers' on the APEC site, www.apecsec.org.sg

[16] In APEC jargon, the members are 'economies' and not 'countries'. This is because of political sensitivities, given that China, Hong Kong and 'Taiwan Province of China' are all members. Forum members on the other hand are all 'countries'. In this paper, APEC members are referred to as 'economies' and Forum members as 'countries'.

[17] Issues relating to microfinance and micro-enterprise development have been taken up in the past by other APEC forums, including the SME Ministers' meeting and indeed the APEC Leaders' meeting itself. See the paper referenced at footnote 6, above.

There are several reasons why. Financial inclusion is a relevant issue for APEC economies themselves, and especially for those at lower levels of financial development.[18] However the issue is not addressed in current APEC Finance Ministers' initiatives. Secondly, the primary role of APEC from its inception has been to maintain the momentum of economic growth in the broader region of which the Forum island countries are a part. For this purpose APEC has evolved effective processes of 'economic and technical cooperation' between member economies (processes which APEC calls '*ecotech*'). These relationships are qualitatively different from the conventional aid relationships to which Forum island governments are accustomed. The involvement of small Pacific states in a new APEC Finance Ministers' initiative tailored both to their concerns and to those of low-income APEC economies would introduce them to resources and expertise not otherwise available to them. Exposure of Pacific governments (and the FEMM) to the APEC Finance Ministers' process could prove a powerful catalyst to their adoption of a systemic approach to the issue of financial inclusion. It could also strengthen their commitment to the broader program of macro- and financial reform.

7. An APEC Finance Ministers' initiative for financial inclusion

At least one procedural mechanism already exists for the APEC Finance Ministers to give attention to financial exclusion. This mechanism is currently being used to progress a set of 'policy initiatives' within the Finance Ministers' process. Each of these originates with, and is sponsored by, one or more of the APEC economies. In some cases 'non-member' entities with interest or expertise in the subject-matter have been recruited as sponsor/participants. Such 'non-member' entities include international financial institutions (World Bank, ADB) and even a commercial bank.

Appendix A lists some of the current member-sponsored initiatives in the APEC Finance Ministers' process. They include activities for financial sector capacity-building (e.g., financial regulator training, sponsored by ADB and the US) and some more wide-ranging initiatives (e.g., one dealing with 'financial sector reform' and sponsored by five member economies). The initiatives reflect particular concerns, including the need to make domestic financial systems more resilient in the face of external shocks and to reduce 'behind the border' barriers to international trade that originate in domestic financial systems. For less-developed APEC economies, emphasis is given to developing and diversifying capital markets, reducing excessive reliance on banking systems for the mobilization and intermediation of savings. But 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. Since Forum island countries share this characteristic, there is scope for collaboration between APEC and the Forum in a new APEC Finance Ministers' initiative directed to the measurement and increase of levels of financial inclusion.

[18] Nor is it irrelevant to the high-income member economies. An article in a recent issue of Time magazine (27 August 2007) describes the emergence of alternative service providers to supply financial services to some 40 million adult Americans without bank accounts.

Getting started depends on one or more APEC member economies making the proposal for a 'financial inclusion' initiative and perhaps recruiting one or more 'non-members' with the necessary resources and expertise. Ideally, the initiator of such a project should be the Forum's sole APEC member, Papua New Guinea. PNG has probably never taken the opportunity to initiate such an activity within APEC, for understandable reasons. These include the limited capacity of its small bureaucracy to cover the extensive APEC work program, which poses a heavy burden for larger economies than Papua New Guinea. In addition, it is not realistic to expect that PNG could provide more than a nominal financial contribution to the costs of such an exercise.

However a 'financial inclusion' initiative might provide the opportunity for PNG to take a more active role in APEC processes, in support of a cause that should appeal to PNG government by reason of its relevance to national concerns and relatively non-technical nature. To ensure that the initiative is supported by appropriate expertise, the collaboration of an international financial institution and one or more other APEC member economies would be essential. UN system agencies have not previously been involved in the Finance Ministers' process, but the expertise of entities such as UNCDF and the UNDP Pacific Centre in regard to financial inclusion and the Pacific region suggest that a new precedent might be set in this case. There is also precedent for recruiting a commercial bank as a co-sponsor. One or other of the major Australian banks active in the Pacific region should be joined into the activity. Another possible banker-sponsor is CitiGroup, which is active in support of financial inclusion in the Asian region and is associated with a nascent Asian network of institutions interested in the subject.[19] Microfinance Pasifika should consider how to go about informing the Government of Papua New Guinea of the value of a 'financial inclusion' initiative within the Finance Ministers' process. It should also consider how to interest other potential sponsors. Forum Secretariat, as an APEC observer, could play a crucial role in briefing Forum governments and encouraging their participation in activities associated with a FEMM initiative on financial inclusion.

8. What an APEC Finance Ministers' initiative might look like

As suggested in the previous section, a new APEC Finance Ministers' initiative should be directed to the measurement of, and increase in, levels of financial inclusion in APEC member economies and 'non-member' Forum island countries. It would discuss and agree criteria for the measurement of inclusion. It would encourage participating economies to estimate their current levels of financial inclusion, employing the agreed criteria. This exercise would require participants to generate data which experience has shown are frequently unavailable or unsatisfactory in World Bank member countries. Participants would be encouraged to publish such 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

[19] See 'Singapore hosts international summit on financial inclusion' at http://www.citigroup.com/citigroup/press/2007/070627c.htm

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 them. Microfinance Pasifika should do some preliminary work on an agenda and work plan, in preparation for a campaign to interest potential sponsors and the Forum Secretariat in the initiative.

9. Afterword: implications for non-commercial service providers

I feel it is necessary to point out that, if we argue that microfinance should be considered part of the financial system, this has some strong implications for MFIs and other non-commercial providers of financial services. They may not be comfortable with all of these implications.

Forum island governments are committed to operating competitive market economies and liberalised financial systems. In the financial services industry, as elsewhere, responding to the stimulus of competition is the surest way to bring down costs and improve services. However, most operators of non-commercial microfinance services originated in the social welfare or voluntary sectors, where they were accustomed to receiving support from a variety of agencies, private and governmental, local and foreign. With the emergence of 'microcredit' as a panacea for poverty it was natural that some should have expanded into financial services as an extension of their charitable work.

Operating in a financial services environment has required a massive cultural shift, one that many voluntary agencies have struggled to manage. In fact, there has been a tendency for some MFI practitioners (with Fiji as a case in point) to believe that their operations should be exempt in various ways from the rules of a liberalised and competitive financial system. But if microfinance service providers are to operate within such a financial system they should not expect special privileges, such as direct subsidies to their lending operations, or access to government guarantees on their loans, or protection from the competition of commercial financial institutions[20]. Microfinance providers should not believe that the world (or more specifically, the government) owes them a living. In addition, MFIs need to be wary about getting caught up in the 'project trap', where donors insert dysfunctional financial service elements into projects in fields such as agriculture, micro-enterprise development or women's empowerment.

[20] This not to say that there are no legitimate forms of direct financial assistance, including subsidies, that governments can give to MFIs. Start-up costs and capacity-building costs are examples where direct assistance may be appropriate. Governments can be even more helpful if they refrain from undercutting MFIs by using government non-financial agencies to provide subsidised credit to people who might otherwise be served by MFIs.

This is stern advice, perhaps unpalatable to some microfinance operators. Such organisations typically came into the field because of concern for the unmet financial service needs of the poor. But the hard truth is that eventually commercial operators will invade the field, because they see that MFIs have uncovered market demand and have proved up approaches to financial service provision that can be adopted by commercial institutions. Under such circumstances, non-commercial operators must either meet the commercial challenge, or withdraw to 'niche' markets (population sub-groups which for a variety of reasons cannot be served on a commercial basis) or depart the field altogether. It comes as a shock to MFI practitioners and government officials engaged in financial services to realize that their activities (and their jobs) cannot be justified if commercial operators are able to deliver services more efficiently.

Appendix A

13th APEC Finance Ministers' Meeting
Joint Ministerial Statement 7-8 September 2006, Ha Noi, Viet Nam

Extracts from Annex B

Policy Initiatives Review

a) Voluntary Action Plan for Supporting Freer and More Stable Capital Flows: The Policy Dialogue on Savings and Capital Market Development (New Zealand, Chile, Vietnam)

The first workshop under the *Policy Dialogue on Savings and Capital Market Development* was held on 1 September 2006 in Hanoi. The *Policy Dialogue* is a multi-year initiative that contributes to the *Voluntary Action Plan on Freer and more Stable Capital Flows* (proposed in 1997 and endorsed by Ministers in 2000). The first workshop examined the relationship between savings and the development of strong and liquid capital markets.

Expert speakers at the workshop put forward a set of policy recommendations to initiate a virtuous cycle of savings and capital market development which may contribute to increased economic growth. Regulation, tax incentives, fiscal policy, and market information were presented as potential policies to help initiate this cycle……………

b) APEC Finance and Development Program (AFDP) (China and the World Bank)

With support from APEC member economies and international financial institutions, Asia-Pacific Finance and Development Center (AFDC) has continued its efforts on capacity building in the fields of finance and development. Focusing on issues of regional concern, AFDC has organized four training workshops by the end of August, with a total of 195 delegates from 15 APEC economies participating. There will be two more training workshops, named "Bank Risk Management" and "Corporate Bond Market", in November, 2006 in Shanghai, China. Besides face to face training activities, AFDC has successfully delivered its 4 training workshops to Mongolia, Vietnam, and several cities in China through the Global Distance Learning Network (GDLN) of World Bank. More than 200 local participants joined the workshops……………… Information about AFDC can be found on the website www.afdc.org.cn.

c) Deepening Prudential Regulatory Capacity in Non-Life Insurance (Australia and the US)

This initiative to run a capacity building training course for non-life insurance regulators was endorsed by the 21st TWG meeting in Quang Ninh, Vietnam, in December 2005. The proposal will be undertaken in close collaboration with public and private sectors. The training course will take the form of a six day intensive format in Melbourne, Australia, in the first half of 2007. The initiative will be supported by the Melbourne APEC Finance Centre, which has recently been created in the Australian APEC Study Centre, funded by the State Government of Victoria, Australia. At the 13th FMM, Finance Ministers welcomed the establishment of the Centre.

e) APEC Financial Regulators Training Initiative (FRTI) (US and the ADB)

The Financial Regulators Training Initiative has made significant progress in achieving its objectives of strengthening content and management of the national training programs and developing regional programs for junior and mid-level banking supervisors and securities regulators. Since the inception of Phase II in 2001, the Initiative has trained more than 1,600 participants from APEC economies in 32 regional and 13 national courses. Thus far in 2006, three regional seminars on bank supervision have been held: a Bank Analysis and Examination School in April, in Manila, Philippines; a Risk-Focused Supervision and Risk Assessment program in July, in Perth, Australia, and an Operational Risk Management session in August, in Kuala Lumpur, Malaysia. A fourth program, The Fundamentals of Interest Rate Risk Management session will be held in Hong Kong, China in November. Two seminars were conducted under the securities regulation component of this training initiative: Regulation of New Products in May, in Kuala Lumpur, Malaysia and Investigation and Enforcement held in July, in Manila, Philippines. The seminar on Risk Management and Internal Controls will take place in Chinese Taipei in October.…………….

f) APEC Financial Institutions Dealing with SMEs (Incombank, Viet Nam)

The Industrial and Commercial Bank of Vietnam (Incombank), the host of the 3rd Annual Meeting served as a secretariat for cooperation activities among MOU signatory members for the period of July 2005 to July 2006. The 3rd Annual Meeting took place in Hanoi on 26 July, 2006, providing opportunity for signatory members to review recent cooperation activities, and discuss the possibility of strengthening the cooperation among MOU members on a multilateral basis.

After the Annual Meeting, Incombank hosted a conference on July 27 on "Strengthening support and cooperation for the development of APEC SMEs" with the participation of approximately 200 delegates from MOU members, institutions and individuals related to and interested in SME financing. The conference focused on two major themes including "Improving financial access for SMEs" and "Fostering business development services for SMEs"…………..

h) Reform of Financial Sector Initiative (Australia, Indonesia, China, Japan and Vietnam)

The initiative on Reform of the Financial Sector received endorsement at the APEC Finance Ministers' TWG meeting in Gwangju on June 17, 2005. The overall aim of this initiative is to discuss how member economies have developed and implemented reforms and strategies to strengthen their financial sectors.

A policy dialogue in the form of a 2-day workshop was held in Shanghai, China on 3-4 July, 2006 to exchange views on how APEC economies have developed and implemented reforms to improve financial frameworks. A second workshop, which will be held in Lombok, Indonesia, on 29-30 November 2006, may focus on capacity constraints to further development and other issues that have been identified, including possible capacity building activities. The final report on the initiative will be submitted to the APEC Finance Ministers' Meeting in August 2007.