Accelerating Financial Inclusion in Asia and the Pacific

INTRODUCTION

The project, Operational Dialogue on Innovative Financial Inclusion Policies, with the theme “Accelerating Financial Inclusion in Asia and the Pacific,” was held on September 15, 2011 at the Waikiki Resort Hotel in Honolulu, Hawaii. This is a project funded by the Asia-Pacific Economic Cooperation (APEC) with the Department of Finance as the Project Overseer. The Association of the Development Financing Institutions for Asia and the Pacific (ADFIAP) was engaged by the APEC Secretariat to be the Technical Organizer for the project.

The project provided a platform for discussing the APEC financial inclusion framework and the required initiatives for its operationalization. The end-result is an action agenda aimed at advancing financial inclusion in APEC-member economies by replicating innovative financial inclusion infrastructures and policies, enhancing their effectiveness and adapting these to their respective economies. The project also aimed to define what financial inclusion means for the APEC economies (e.g., Peru and China) to have a common takeoff point in the determination of the most effective interventions for its advancement. The action agenda will be submitted to and presented in the next Finance Ministers Forum in November 2011.

Participants in the dialogue included speakers and representatives from APEC economies: Australia; China; Indonesia; Mexico; Peru; Philippines; Chinese Taipei; Thailand; USA and Viet Nam.

The APEC Secretariat tapped the Philippine Department of Finance as Project Overseer while the Association of Development Financing Institutions for Asia and the Pacific (ADFIAP) served as the Technical Organizer.

Setting financial inclusion into motion
BACKGROUND

Access to financial services is an important tool in empowering individuals to fulfill their needs and participate in business and economic activity. However, this still poses a challenge to many. New technology and regulatory reform may have helped significantly in easing the barrier, but there remains a great need to understand effective ways to promote and operationalize financial inclusion.

This inclusive growth agenda was first launched at the 17th Asia Pacific Economic Cooperation (APEC) Economic Leaders’ Meeting in Singapore in November 2009, in support of the outcomes of the 21st Ministerial Meeting and the 16th Finance Ministers’ Meeting. In their Declaration, the leaders agreed to work towards broadening access to economic opportunities and strengthening social resilience to help people better adapt to the challenges of globalization. This includes promoting inclusive finance among APEC economies where a larger segment of the population still lacks access to financial services.

Ministers specifically stated that they would direct efforts to foster inclusive growth along two broad dimensions: first, by facilitating structural adjustments so that all will benefit from growth, focusing on SME development, and enhancing the labor markets while ensuring opportunities for women workers and entrepreneurs; second, by strengthening social resilience, focusing on enhancing individual economic security, and designing incentive-compatible social safety net programs.

Ministers and officials of APEC member economies were urged to further advance the inclusive growth agenda in 2010. They were also asked to develop a multi-year program to build capacity for structural reforms and SME development, employment creation, and the development of social safety nets.

To carry out this mandate, the APEC Secretariat funded an Operational Dialogue on Innovative Financial Inclusion Policies to guide APEC member economies in the design and implementation of their policies based on the principles and best practices of inclusive finance, and link them with international and regional partner agencies.

The dialogue also offered an opportunity for policymakers to derive insights into fresh developments, innovations and reforms in policies and regulations, increase in diversity and number of stakeholders, and how APEC plays a role in creating an enabling environment.

In addition to identifying new best practices and emerging trends, the dialogue also allowed for discussion on national strategies and country experiences on financial inclusion issues and practices. Policymakers also gained a deeper understanding on how best to adopt these practices in their respective economies.

This report is the output of the dialogue. It summarizes the shared experiences of APEC member economies, and the workshop discussions with resource speakers. The report will be circulated among the workshop participants and presented to the APEC Finance Ministers.

FRAMEWORK OF PRESENTATIONS

While the event was primarily an operational dialogue, it was also recognized that before discussion of a concept or advocacy such as financial inclusion can be brought down to operational realm, there must be a good understanding of the framework for accelerating financial inclusion as a guide to productive discussions towards the said objective.

Thus, there was a presentation on the conceptual framework for financial inclusion covering the topic of integrating financial inclusion in the government’s strategic plan and formulating innovative financial policies to advance financial inclusion.

A concrete example on the Philippine experience in crafting a framework of effective financial inclusion was presented. The discussion included the sharing of the Philippine national strategy and regulatory framework aimed at removing legal and structural barriers to financial inclusion.

Among the highlights of the dialogue was the sharing of country experiences and discussions on risk protection schemes that support the advancement of financial inclusion. Resource speakers presented the experiences of Peru on the establishment of a Credit Information Bureau, China’s adoption of a Registry for Moveable Assets to expand collateral options, and the Philippines’ micro-insurance initiatives.

Having identified the needed infrastructures to fast track financial inclusion, the discussion advanced to the level of policies to sustain the momentum from the proposed interventions. Financial transparency on the part of the financial institutions and consumer protection for clients through education and literacy were presented as empowering principles towards financial inclusion sustainability.

On a regional perspective, there was a presentation on the role of the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP) in providing a platform for its 130 development finance institution members in 45 countries and territories, including APEC-member economies, to promote financial inclusion in their respective economies. Financial institutions are natural providers of financial inclusion programs, particularly access to credit and financial advice to micro, small and medium enterprises, hence, establishing their presence and their capability and willingness to be purveyors of financial inclusion programs is also relevant in any discussions on accelerating financial inclusion.
FINANCIAL INCLUSION: A CONCEPTUAL FRAMEWORK

BACKGROUND
Since the early 2000s, the term “financial inclusion” has gained global prominence among economic policy makers. Much discussion on the subject had taken place, not only within national economies, but also among nations through the various forums and studies undertaken or sponsored by international organizations such as the APEC, World Bank, Asian Development Bank, Consultative Group to Assist the Poor (CGAP), and Alliance for Financial Inclusion (AFI).

It is evident that the term “financial inclusion” has different meanings to different people and even within a country, depending on which interest group is represented in the discussion. It can refer to a savings facility, credit and debit cards access, electronic fund transfer, all kinds of commercial loans, overdraft facility, check facility, payment and remittance services, low-cost financial services, insurance (medical insurance), financial advice, pension for old age and investment schemes, access to financial markets, micro credit during emergency, entrepreneurial credit, among others.

Given these varied dimensions, there is a felt need to bring the discussion to more focused areas so that efforts to promote the concept can bring about more concrete and positive results.

This is the underlying objective for the conduct of the APEC Honolulu event on September 15, 2011 with the theme “Accelerating Financial Inclusion in Asia and the Pacific: An Operational Dialogue on Innovative Financial Inclusion Policies.”

The dialogue aims to provide a platform for discussing the APEC financial inclusion framework and the required initiatives for its operationalization to improve access to financial services among the underbanked. The presentation provided the conceptual framework for developing financial inclusion for MSMEs that focuses on its integration in the government’s strategic plan and formulation of innovative financial policies.

SUMMARY OF PRESENTATION AND DISCUSSION

What is a “National Financial Inclusion Strategy”? There is currently no internationally accepted definition for “National Financial Inclusion Strategy.” However, the Consultative Group to Assist the Poor (CGAP) has a working definition of the term, but in a microfinance context:

A publicly approved document developed through a consultative process aimed at increasing poor people’s access to finance that contains the following components:

Main Components:
- Microfinance Sector Overview
- Vision for the Sector
- Strategic Objectives
- Plan for Reform

Elaboration Process:
- Diagnostic
- Consultation
- Document writing
- Adoption
- Implementation

There are at least 38 countries that have national microfinance/financial inclusion strategies. The minimum timeline for a national microfinance strategy is four years.

There is a concern on whether a financial inclusion strategy must only focus on the micro end of the market or on SMEs as well (e.g., the MSME sector). However, there is increasing attention on the need for SMEs to have access to finance.

For example, the SME Finance Sub-Group of the G-20 Finance Inclusion Experts Group, in a November 2010 report entitled “Scaling Up SME Access to Financial Services in the Developing World,” said MSMEs have a large impact on the world economy in terms of their substantial contribution to GDP, trade and employment.

The Diagnostic Process
The formulation of a financial inclusion strategy starts with the diagnostic process that covers the political, market, regulatory, institutional, economic and social contexts.

- **Political context** – the level and seniority of government support for financial inclusion, coordination of government policies and implementation, consultation with all stakeholders, corruption and strength of democratic institutions.
- **Market context** – supply and demand for financial services, financial institutions types, business sectors, government support, capital markets, competition, geography, market access infrastructure and information, form of enterprises, governance issues.
- **Institutional context** – existence, independence, accessibility and affordability of appropriate courts and alternative dispute resolution systems, external ombudsmen, adequately resourced, skilled and experienced regulators and supervisors and existence, coverage, operators of credit bureaus and collateral/securities registers.
- **Economic context** – standard economy indicators such as GDP (per capita, by sector, real growth rate), domestic credit stock, remittance flows, industries, resources, labor force (by sector, gender), unemployment rates, inflation rates, exchange rates, foreign investments, budget position, taxation revenues and compare position globally and regionally.
- **Social context** – religion/ culture, women and youth, trust in the financial system, business and financial literacy skills and education, law and order situation.

The Consultation Process
All stakeholders should be consulted or involved in the project, including:
- Ministers and their departments
- Regulators
- Government agencies (e.g., post offices in relation to branchless banking)
• Financial institutions – all types and for all services (e.g., savings, credit, payments, leases, insurance, securities, pensions)
• Telecommunication companies
• Technology suppliers
• Stock exchanges, capital markets
• Judiciary
• Legal profession
• Industry bodies
• Commerce associations
• Sector specific associations (e.g., for women, youth)
• Consumer and small business associations
• Donors
• Investors
• Consultants who have previously advised on relevant issues

Project leaders should also consider having a statistically valid survey of household and business demand for financial products and services and assess levels of financial literacy. It is also important to look into solutions or approaches adopted by other jurisdictions bearing in mind, however, that policies should always be context-specific.

Innovative Financial Inclusion Policies

Innovative financial policies should support or remove the impediments for:

- **Innovative products:** e.g., group lending, branchless banking, hybrid debt-equity products, venture capital, private equity, bundled products (e.g., credit/insurance), “green financing” products
- **Innovative channels:** use of third parties for delivery of financial services (e.g., post offices, airtime resellers, community-based MFIs taking deposits for banks and delivery of financial services through mobile phones and the internet)
- **Innovative identifiers:** bio-metric identifiers and use of third parties for AML/CFT identification purposes

A possible approach to facilitate financial inclusion through new technologies and channels could apply these principles:

- Recognize the need for regulators and industry to collaborate with each other on a continuing basis.
- Adopt a light-handed “wait and see” approach to regulation.
- Encourage multiple regulators to communicate, collaborate and have clearly defined roles.
- Regulate by reference to activity and relevant risks rather than the type of institution performing the activity.
- Facilitate the use of third parties/intermediaries while maintaining the responsibility of financial institutions.
- Provide for flexible means of identifying clients for purposes of AML/CFT laws.
- Understand specific demand/supply microfinance issues.
- Integrate financial literacy and capability into the strategy.

**Integrating National Strategies with Global Standards and Initiatives**

The national strategy for financial inclusion should also integrate global standards and initiatives such as the G20 Principles on Innovative Financial Inclusion, International Standard Setters, client protection initiatives, Australian APEC Study Centre (AASC)/Association of Development Financing Institutions in Asia and the Pacific (ADFIAP) Suggested Best Practice Principles and Objectives to Enhance MSME Access to Finance.

The G20 Principles on Innovative Financial Inclusion were adopted during the:

- 2009 Pittsburgh Summit: G20 became the global financial architect. “We commit to improving access to financial services for the poor... promote successful regulatory and policy approaches and elaborate standards on financial access, financial literacy, and consumer protection.”
- 2010 Toronto Summit: Principles on Innovative Financial Inclusion were approved (G20 Principles). These include principles on creating an enabling policy and regulatory environment for innovative financial inclusion.
- 2010 Seoul Summit: Global Partnership on Financial Inclusion formed to: advance G-20 Principles, encourage SSBs to take account of Principles, increase access to private financial services, and strengthen means of measuring the extent of financial inclusion.
- 2011 Seoul Summit: Principles on Financial Inclusion (PFPI) came out of Multi-Year Action Plan on Development, which included a commitment to “increase access to finance for the poor and SMES” as one of its pillars.

**The G20 Principles on Innovative Financial Inclusion**

1. **Leadership:** Cultivate a broad-based government commitment to financial inclusion to help alleviate poverty.

2. **Diversity:** Implement policy approaches that promote competition and provide market-based incentives for delivery of sustainable financial access and usage of a broad range of affordable services (savings, credit, payments and transfers, insurance), as well as a diversity of service providers.

3. **Innovation:** Promote technological and institutional innovation as means to expand financial system access and usage, including addressing infrastructure weaknesses.

4. **Protection:** Encourage a comprehensive approach to consumer protection that recognizes the roles of government, providers and consumers.

5. **Empowerment:** Develop financial literacy and financial capability.

6. **Cooperation:** Create an institutional environment with clear lines of accountability and coordination within government, and also encourage partnerships and direct consultation across government, business and other stakeholders.

7. **Knowledge:** Utilize improved data to make evidence-based policy, measure progress, and consider an incremental “test and learn” approach acceptable to both regulator and service provider.

8. **Proportionality:** Build a policy and regulatory framework that is proportionate with the risks and benefits involved in such innovative products and services and is based on an understanding of the gaps and barriers in existing regulation.

9. **Framework:** Consider the following in the regulatory framework, reflecting international standards, national circumstances and support for a competitive landscape: an appropriate, flexible, risk-based AML/CFT regime; conditions for the use of agents as a customer interface; a clear regulatory regime for electronically stored value; and market-based incentives to achieve the long-term goal of broad interoperability and interconnection.
For many years, the Philippines had no policies on financial inclusion but there was a proliferation of subsidized government credit programs wherein the government experienced losing about 1% in gross domestic product (GDP) in terms of unpaid loans and subsidy on interest rates. These funds were used by the government to get votes thereby resulting to very high budget deficit. Some private financial institutions were using subsidized credit to finance their operations and were very dependent on cheap funds being provided by the government.

Despite the huge amount of credit funds, the poor did not benefit as funds were instead being lent by the bureaucrats to friends and political supporters. Borrowers thought that the money given to them were free and so did not pay them back.

This situation discouraged the private sector from lending to micro, small and medium-sized enterprises and focused mainly on the large market. In effect, there was weak private sector participation and lack of access to formal financial services by the poor.

In 1997, the government and the private sector stakeholders came up with a consensus and formulated a National Strategy and Regulatory Framework for Microfinance, with a vision of strong and viable microfinance institutions anchored on four Basic Policy Principles:
1. Greater private sector participation
2. Government focus on the enabling environment
3. Market-oriented strategy
4. Government non-participation in credit delivery

With this framework, there was a new paradigm shift: from fund beneficiaries to clients; from directed credit to market approach; and from donor dependence the MFIs became financially self-sufficient and self-reliant.

To ensure the adoption of these financial inclusion policies, a government body with private sector representatives was created by law to coordinate and monitor all poverty-related programs, particularly microfinance. These programs were tied with non-government institutions involved in anti-poverty programs.
The Philippines now ranks 2nd in overall microfinance business environment, 18th in investment climate, 4th in institutional development, and 1st in regulatory framework.

Technical Working Groups (TWGs) were formed to discuss and work on specific tasks. Study visits for key legislators and officials were also conducted to gain exposure on best practices, both foreign and local. Regional consultations and aggressive advocacy work were also held to give briefings on best practices on financial inclusion. These efforts were able to stop the directed credit programs.

In a Snapshot, in:
- 1993 – The National Credit Council was created.
- 1997 – The National Strategy and Regulatory Framework for Microfinance was formulated.
- 1999 – Government Directed Credit Programs were rationalized and transferred to banks on a market-oriented approach.
- 1999 – 2010 Laws, Rules and Regulations were issued.

As a result of these efforts, from only a few MFIs with minimal outreach in 1997, there are now more than 1,400 MFIs all over the country with seven million clients (from less than half a million). Commercial banks and government financial institutions are now providing wholesale funds to retail MFIs.

Moreover, the Economist Intelligence Unit Study on Microfinance 2010 ranks the Philippines among 54 countries as:
- 2nd in overall microfinance business environment
- 18th in investment climate
- 4th in institutional development
- 1st in regulatory framework

Lessons Learned from the Philippine Experience
1. Strong government-private sector collaboration is imperative for critical financial inclusion reforms.
2. Private sector ownership of the reforms ensures continuity.
3. An independent body with multi-sector representation is an effective venue/forum for continuous policy dialogues.
4. Institutionalization of the reforms through legislation and executive fiat can mitigate policy reversals.
5. Capacity building assistance is more important rather than government-subsidized credit funds.
7. Setting standards builds and develops strong, effective and sustainable private financial entities.

The Philippines is now putting more emphasis on micro-insurance and expect some improvements in this area very soon.

BACKGROUND
Credit bureaus are essential elements of the financial infrastructure that facilitate access to finance. While banks and other financial institutions would like to open up lending to MSMEs, the lack of accurate information on this economic sector prevent them from making wise credit decisions, if at all, lend to MSMEs.

This is where credit bureaus come into the picture as an essential element in financial inclusion. Credit bureaus are critical in helping lenders make faster and more accurate credit decisions.

Peru is one of the leading exponents of the credit bureau system. The Superintendence of Banks, Insurance Companies and Pension Fund Management Firms (SBS) is the organization in Peru responsible for the regulation and supervision of the Peruvian financial system.

The General Law of the Peruvian Financial System gives the SBS the mandate for an integrated registry system of financial, credit, commercial and insurance risks, which contain information on borrowers from financial entities. The Credit Information Registry’s/CRS operation is regulated by the General Law for the Financial System. For supervision and transparency purposes, the SBS has been operating, since 1993, the Public Credit Registry (CIR), which contains debtor information. In 2001, it replaced the previous system (Confidential Credit Report).

Identified as a possible solution in easing SME access to credit, the Credit Information Registry (CIR) was included among the topics in the Operational Dialogue on Innovative Financial Inclusion Policies.

SUMMARY OF PRESENTATION AND DISCUSSION
- A credit bureau is an institution that collects information from creditors and available public sources on a borrower’s credit history. The bureau compiles information on individuals and/or small firms, such as information on credit repayment records, court judgments and bankruptcies, and then creates a comprehensive credit report that is sold to creditors.
- Credit bureaus also rely on monitoring and screening of borrower behavior. Lenders share information accumulated through their lending operations with a credit bureau, which then disseminates it to other credit providers. This allows them to better assess credit risk based on a given borrower’s past payment behavior, enabling lenders/other financial institutions to make better informed lending decisions. Thus, credit bureaux serve as tools for credit risk management.
- Offsite credit risk supervision is also implemented using the following reports:
  - Quarterly reports on geographic concentration risk
  - Quarterly reports on economic groups and industry concentration risk
  - Ad hoc reports on the realignment of debtors’ credit risk classification
  - Stress tests of loan loss reserves and capital requirements

INFRASTRUCTURE TO ENHANCE FINANCIAL INCLUSION:
PERUVIAN CREDIT INFORMATION REGISTRY (CIR) AND FINANCIAL INCLUSION

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• Analysis of the evolution of credit risk and default rates, by company and type of credit
• Analysis of foreign exchange credit risk and over indebtedness risk
• Past Due, Loss Given Default (LGD), and Exposure at Default (EAD) preliminary data

• Some of the features of the Peru CIR are as follows:
  • No minimum exposure threshold: The CIR consolidates the information of all debtors of the financial system.
  • Report included as the Annex 6 of the NAM (new accounting manual) and sent (via CD or DVD) on a monthly basis.
  • Includes debtor information (4.8 MM, in data base, 5.8 MM including write-offs) and accounting records (40 MM registries). The accounts included are dynamic: they can be added or deleted with few changes on the system. Currently, the Peru CIR has over 1,000 accounts.
  • The information is consolidated and sent to private credit registries and other public sector entities.
  • The CIR also includes information on collateral and closed current accounts (default on current account payments are published on the web and on an official newspaper).

While private credit bureaus erase all gathered information after a period of five years, the public credit bureau (CIR) does not erase any archived information.

The CIR contains information divided into clients, accounts and additional information. ID numbers are according to SBS Code, Cluster Method Invocation (CMI) registry, tax registry, and enterprise registry. Clients can be companies or individuals while businesses can be classified by gross sales scale or by economic sectors. Client characteristics are also captured in terms of borrower identification (full name, gender, marital status), economic activity, country of residence, credit exchange risk, economic group, type of loans and by status (current, past due, or legal collection), among others.

The CIR data validation process involves a series of steps aimed at generating accurate and reliable credit information for the consumption of both public and private users. The data initially come from financial institutions, as follows:

1. Data reception
2. Integrity validation (data are returned to financial institutions, if found unacceptable)
3. Data loading
4. Account reconciliation (relevant discordance with balance checked here)
5. Identification validation
6. SBS Code generation
7. Data in observation
8. RCD_OK & RCD_OBS
9. Financial system consolidation
10. Send back to users

Credit information registries or credit bureaus offer many benefits to microcredit and financial inclusion:

1. Readily available and reliable source of information on the credit history of potential and current clients.
2. Plays an instrumental part in the credit evaluation process.
3. Provides up-to-date information on clients’ credit payments.
4. Assists in analyzing the character of clients and their likelihood to pay.
5. Includes information on debt written off, regardless of how long ago it happened.
6. Enables a better assessment of over-indebtedness risk – one of the main sources of risk microfinance institutions face.
7. Reveals clients’ debt that might have not been disclosed in the application date.
8. Shows lines of credit and hence potential future credit exposure.

9. Necessary for an effective credit monitoring process.
10. Monthly updates allow for the development of early warning systems and subsequent corrective actions to be taken.
11. Timely identification of late payments at other institutions or a sudden and significant increase in debt levels.
12. Identification of how the credit composition of a client’s loans changes (e.g., consistent increase in cash withdrawals from credit cards and non-decreasing loans might reveal a liquidity problem)
13. Allows for the development of internal risk models

Credit bureaus play a very critical role in the development of a more aggressive financial infrastructure that would help MSMEs access to finance. The Peru experience serves as an inspiring model that could be replicated in APEC member economies and promote financial inclusion to benefit a significant segment of the region’s economies.
REGISTRY FOR MOVABLE ASSETS: 
EASING SME ACCESS TO CREDIT

BACKGROUND
One of the major constraints to access to finance is the inability of SMEs to comply with the collateral requirement of financial institutions, specifically the mortgage of hard collaterals as security for loans. Banks cannot accept inventory or rolling stock such as inventory, livestock, accounts receivable, equipment and machinery as collateral as the borrower can move these elsewhere, sell them or pledge them again to secure other credit accommodations during the term of the loan.

The Movable Assets Registry will facilitate the granting of loans to small and medium-sized companies. The creation of the registry will make it easier to offer such loans because a security interest created in personal property can be recorded in the registry. It thus provides a reliable legal basis for confirming the existence of the security and its priority with respect to the security of other creditors, as well as a way of giving public notice of the creation of the security.

The personal property that can be used as collateral includes cars, machinery, equipment, electrical devices or other forms of property as allowed by law. The loan thus secured may be used to purchase assets and can be repaid in installments.

Identified as a possible solution in easing SME access to credit, the Registry for Movable Assets was included among the topics in the Operational Dialogue on Innovative Financial Inclusion Policies.

SUMMARY OF PRESENTATION AND DISCUSSION
• The need for a legal and institutional framework for the modern collateral law system allowing non-possessory pledges as collateral to secure loans to improve access to financing by SMEs, such as automobiles, changing pool of assets such as inventory, intangible and future-acquired assets such as accounts receivables and intellectual property rights.
• The Pillars of Modern Movable Collateral Law Framework:
  (a) broad scope of permissible collateral;
  (b) ease of creation;
  (c) centralized publicity system for pledged assets;
  (d) clear priority rules; and
  (e) effective enforcement
• Advantages of filing in the Registry:
  • enables lenders to take non-possessory pledges against all types of moveable assets, tangible or intangible, presently-owned or future-acquired;
  • reduces risk of lenders due to transparency of pledges in movable collaterals;
  • provides the prospective pledge information needed to make sound lending decisions; and
  • establishes benchmark by which priority rules can be applied
• Characteristics of Modern Moveable Collateral Registries:
  • Notice of Filing for the purpose of notifying the presence of a pledge and securing priority lien;
  • Single, centralized registry archive for pledges of all kinds of movable property;
  • Web-based filing and searching;
  • Unique identification of notices;
  • Maximum transparency and minimum restraints on access to information
• Benefits of Modern Movable Collateral Registry:
  • Accuracy as the user enters the information;
  • Speed as filing and searching is instantaneous;
  • Accessibility due to 24/7 access from any place;
  • Cost effective as it entails low cost and fees;
• Simplicity due to minimal requirements;
• Rule-based decisions which standardizes practices and standards for all users resulting to certainty of outcome/results
• The China Experience
  • Before 2007: Collateral legal system prior to 2005 was severely inadequate to support SME borrowings using movable assets as collateral due to restrictive scope of permissible collateral; excessive formalities required for creation of pledges; absence of a centralized publicity system; lack of clear priority rules and slow and costly enforcement
  • Post 2007:
    - 2005 Property Law introduces key elements of modern movable collateral law, specifically the expansion of permissible collateral to include inventory and receivables and establishment of centralized, modern receivables registries;
    - Issues not addressed by the Property Law: lack of clear legal guidance on key issues such as effect of registration, priority rules and enforcement mechanism and the highly fragmented nature of the movable collateral registry system

Identified as a possible solution in easing SME access to credit, the Registry for Movable Assets was included among the topics in the Operational Dialogue on Innovative Financial Inclusion Policies.
Micro-insurance supports microfinance and plays a critical role in paving the way for micro, small and medium enterprises to access financial products of financial inclusion.

This is done by requiring retail sellers of insurance policies to either register a Mutual Benefit Association (MBA) or team up with a regulated insurer. The focus is strictly on sustainable insurance provided by private providers, distributed by financial institutions which are close to the poor, and paid for by low-income people who see insurance as a good value proposition (referred to as “the paying poor”).

The new rules are being rolled out through road shows along with a broad financial literacy campaign. It has been pointed out that it does not just involve clients, but also regulators and those in the industry that need a different mindset: “Insurance is not just for the rich.”

One aspect of the whole process that stands out is the integration of client protection right from the beginning. The current problem is not just misunderstanding of insurance by poorer Filipinos, but outright mistrust. Simple, plain-language contracts and early claims settlement would be a good starting point to building more trust. Consumer protection and client rights and benefits are central messages in the campaign.

In the Philippines, the three essential ingredients of responsible finance – industry standards, access-friendly regulation, and financial capability initiatives – are all evident in the micro-insurance sector.

With the micro-insurance trend dominating the financial market, there is an increasing supply of micro-insurance providers, delivery mechanisms and enabling environment to cope up with the increasing demand for innovative products, financial literacy campaigns and client protection schemes.

In conclusion, it can be stated that micro-insurance supports microfinance and plays a critical role in paving the way for micro, small and medium enterprises to access financial products of financial inclusion.
FINANCIAL TRANSPARENCY AND CLIENT PROTECTION: THE CASE OF THE PHILIPPINES

BACKGROUND
Consumer protection seeks to level the playing field between suppliers and consumers of financial services. Retail customers have less information about their financial transactions than do the financial institutions providing the services, which can result in excessively high interest rates paid, lack of understanding about financial options, and insufficient avenues for redress. Such an information imbalance is greatest when customers are less experienced and products are more sophisticated.

Efforts to expand financial inclusion by reaching out to the unbanked/underbanked sector encourage tens of thousands of these new customers to enter the market annually. Although many financial institutions adopt practices to ensure they are well served, some have used their information advantage to increase profits at the expense of consumers who may find themselves over-indebted, under-insured or without a return on their investment.

SUMMARY AND DISCUSSION
Consumer Protection is an interactive process tackling both the duties and responsibilities of providers, as well as the rights and privileges of clients. Providers are responsible for financial transparency and full disclosure of the details of transactions and the adoption of fair business practice. They should be open to competition to encourage continuous improvement of product and service offerings. On the other hand, clients have the right of protection from fraud and unfair business practices, education and awareness, and entitled to redress mechanisms.

The three-pronged approach towards financial transparency and consumer protection require:
- A conducive legal and regulatory environment;
- An effective and implementable grievance mechanism; and
- Financial literacy and education of consumers

In the Philippine setting, financial transparency and consumer protection are anchored on the three-pronged approach:
- Laws and Regulations are in place such as the Consumer Act of the Philippines, the Truth and Lending Act, Law on Secrecy of Deposits and the General Banking Act;
- Implementation of grievance mechanism in the form of Complaints and Grievance Units within Government Regulatory Agencies and Mediation and Reconciliation/alternative dispute resolution bodies within Financial Institutions;
- Public Awareness via Public Information desks in government agencies; financial literacy campaigns by Government and Microfinance/Financial Institutions; provision of Financial Education as part of the Business Development Services of Microfinance Institutions

The move to accelerate financial inclusion comes to full circle with the move to empower people through financial transparency, education and literacy for a well-informed constituency.

FINANCIAL INCLUSION IN ASIA-PACIFIC: THE ROLE OF ADFIAP AND ITS MEMBER-DEVELOPMENT FINANCE INSTITUTIONS

Micro, small and medium enterprises (MSMEs) play an important role in the economies of most countries as they are vital for employment generation and poverty alleviation. Rightly considered as the backbone of economies, MSMEs support both micro and large industries through linkages in the value chain and contribute to export earnings.

One of the critical elements for MSME survival and growth is access to finance. However, MSMEs are faced with the problem of lack of access to formal financing instruments designed for their particular needs, which serves as a major drawback to their development and sustainability.

The MSME sector in general is regarded as risky by banks and development financial institutions (DFIs). This is attributable to lack of information on MSMEs that is complete, updated, accurate, useful and accessible which are essential to sound credit decisions and better portfolio quality for banks and DFIs.

Since banks and DFIs play a critical role in MSME access to finance, the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP) continually supports all financial inclusion efforts to make MSMEs viable credit risks of banks and DFIs in line with its mission of advancing sustainable economic, environmental and social development in the region. ADFIAP member-DFIs are, in fact, already involved in these initiatives with most DFIs already being used by their State owners as catalysts for financial inclusion programs.

Since banks and DFIs play a critical role in MSME access to finance, ADFIAP continually supports all financial inclusion efforts to make MSMEs viable credit risks of banks and DFIs.
Having shared their countries’ experiences on the operationalization of their financial inclusion framework, strategies, schemes and policies, the Presentors also recommended action plans to address implementation issues and concerns for the guidance of other APEC-member economies who intend to replicate their financial inclusion initiatives.

SUMMARY OF RECOMMENDATIONS OF PRESENTORS

Financial Inclusion: A Conceptual Framework
The critical points that must be addressed in developing an implementable national strategy for MSME financial inclusion are the following:

1. Diagnose the financial inclusion issues in all context.
2. Collaborate and communicate with Government and ALL stakeholders.
3. Define the MSMEs to be covered by the financial inclusion strategy.
4. Ensure the financial system legal framework supports financial inclusion.
5. Ensure there are appropriately resourced and skilled regulators with clearly defined responsibilities.
6. Evaluate results and be open to changing course.

Crafting Frameworks for Effective Financial Inclusion: The Philippine Experience
The following action plans have to be taken into account to enhance the financial inclusion framework:

1. Adoption of microfinance techniques in agriculture if the country is frequently visited by natural calamities such as typhoons;
2. Developing techniques in providing the enabling environment for the "missing middle" (microfinance clients graduating to small enterprises);
3. Institutionalizing micro-insurance coverage for the informal and low-income sectors due to the huge demand;
4. Operationalizing a comprehensive credit information system and a moveable collateral registry system.

Credit Bureaus
The following recommendations and plans of action were identified to make the Credit Information Registry an effective vehicle towards easing MSME access to credit:

1. Since credit bureaus are indispensable tools used by financial institutions to support their retail lending business, full support of the government is critical to ensure that relevant policies leading to the establishment of said bureaus be effected and implemented.
2. Credit bureaus must establish credit information registries to help address the fundamental problem in financial markets known as "asymmetric information" which means that the borrower knows the odds of repaying his or her debts much better than the lender does. The inability of the lender to accurately assess the credit worthiness of the borrower contributes to higher default rates and affects the profitability of the financial institution.
3. Financial institutions must be able to access web-based credit information. It is therefore important that the borrowers/clients have a working infrastructure – e.g., internet facilities, hardware and software which most MSMEs cannot afford to put up. Technical assistance and information sharing is a key element to address this concern.
4. There must be a strong collaboration of credit bureaus with civil registries and other government and private agencies in order to have a more comprehensive source of information regarding individuals and firms that would make credit bureaus and credit information registries reliable sources of data that would help mitigate credit risks among banks and other lending institutions.

Registry for Movable Assets
Based on the discussions that ensued, the following imperative policies/actions were identified to make the Registry for Moveable Assets an effective vehicle towards easing MSME access to credit:

1. There is a need to improve the legal framework for the use of movable assets as collateral by addressing, among others, the issues on lack of clear legal guidance on the effect of registration, priority rules and enforcement mechanism. Parties should be able to address their rights and obligations in a lending agreement that includes definitions of guarantees and covenants, events of default, and remedies. Priorities among the different creditors should be clarified, such as favoring the first creditor registered with top priority for claiming collateral in the event of debtor default.
2. The secured transactions registry system needs to be web-based for easy public access. Information technology must be used to optimize the system's accuracy, speed, accessibility, and cost effectiveness. Clients need to be able to register secured transactions directly into the database and be confident that when they conduct their own searches, they are receiving up-to-date and accurate information.
3. The secured transactions registry system has to be fully integrated such that there should be one agency/body who is responsible for its implementation for consistency and proper accountability. The establishment of said bureaus be effected and implemented.
4. The fundamental quality of a secured transactions system is transparency of security interests in movable property. If lenders know what security interests exist on property they may want to use as collateral, their risk is lowered. This subsequently allows them to lend more and at lower rates. The purpose of the registry is to provide that transparency by publicizing the security interest. When a financier publicly registers an interest in movable property, it is entitled to priority on the property as of the date of registration. The design of the registry should address publicity of interests and establishment of priority.
5. A speedy, effective, and affordable enforcement procedure is essential for creditors to benefit from the full value of the collateral. To achieve this, regulations should introduce summary enforcement proceedings and simplify administrative procedures so that the secured creditor can quickly and effectively exercise their right on the collateral.

Microinsurance
To sustain, if not step up the gains achieved in the microfinance arena, the following action plans are recommended:

1. Promote public-private partnerships by consensus building.
2. Build on the conducive policy and regulatory environment.
3. Support product innovations through relaxed regulations.
4. Build capacities of providers and delivery channels.
5. Increase public awareness on importance of risk protection.

Financial Transparency
While financial inclusion of the unbanked/underbanked is the buzzword in the financial circle, it is imperative that this trend be supported by policies and action plans that would ensure financial transparency and protection of the rights of consumers to maintain equilibrium of benefits to all stakeholders. This can be done through the following:

1. Expand financial literacy to all stakeholders and not only focusing on clients
2. Widespread adoption of Alternative Dispute Resolutions (ADRs) at the institution and local government levels
3. Basic financial education at the primary levels
A workshop was conducted to gauge participants’ understanding of financial inclusion and solicit their views on how to advocate and advance financial inclusion in their respective economies. The participants were grouped according to the countries they represent and were requested to colloquially answer four guide questions.

The objective of the workshop is to summarize, integrate and transform the highlights of the Operational Dialogue discussions into an Action Agenda that will serve as the participants’ “Back Home Action Plan” to promote the financial inclusion advocacy and initiatives in their respective countries. It is important that they themselves craft the “Back-Home Action Plan” so they will have a sense of ownership, making them responsible for building on the gains from the Operational Dialogue.

This first Operational Dialogue is envisioned to be the launching pad for continuing dialogues leading towards the fruition of furthering financial inclusion in APEC-member economies.

Below are the guide questions and a summary of the reply to each:

1. Taking into account the discussions this morning, how would you define Financial Inclusion from the point of view of APEC?
   Financial Inclusion is a holistic and dynamic process involving various interventions aimed at drawing the unbanked and underbanked into the formal financial system and giving them sustainable access to financial services and risk protection to empower them to become financially independent and productive contributors to the overall economic development goals of APEC member economies.

2. What do you think are the three key issues or concerns that need to be addressed to effectively implement financial inclusion policies that would accelerate financial inclusion in APEC economies?
   a. Lukewarm commitment from key stakeholders, both private and public sectors, to seriously and sustainably embrace the advancement of financial inclusion.
   b. Need to create an enabling environment for financial inclusion to thrive and become sustainable through government directed strategy; implementable and tenable legal and regulatory policies; public awareness, financial literacy and education.
   c. Lack of regional and national database platform to promote effective communication channels and encourage networking among APEC member economies on the sharing of good practices, credit information, market opportunities, support systems and new technology, among others.

3. What are your suggested courses of action to enable APEC to address said implementation barriers?
   a. Financial inclusion “buy-in” from all key stakeholders, such as solid commitment by central government at the highest level demonstrated by clear, effective and implementable policies; incorporation of financial inclusion strategy in the medium-to long-term goals, plans and programs of financial institutions; and initiation by industry associations and trade support institutions of public awareness campaigns, capacity building/enhancement on access to finance and financial literacy and education;
   b. Creation of a Regional Financial Inclusion Center or Hub or a similar concept that would be the umbrella organization for initiating, promoting, advancing, monitoring and sustaining financial inclusion initiatives such as credit information bureau, registry for movable assets and micro-insurance, in APEC member economies through close coordination with and among key stakeholders such as government, financial institutions and industry associations, trade support and like-minded institutions.
   c. Forge cooperation among APEC member economies in giving their mandate to the proposed Financial Inclusion Center or Hub for the sourcing and gathering of information and statistics for it to function as an effective and efficient regional database platform

4. What are the “lessons learned” or “good practices” that the APEC member economies should pursue to serve as springboard for financial inclusion initiatives in your respective countries? Which among these would be relevant topics for the next Financial Inclusion Forum?
   a. Top-down approach to financial inclusion initiated by government-driven strategy and supported by all key stakeholders, particularly financial institutions as providers of financial inclusion products and services as well as MSMEs as client-beneficiaries
   b. Adoption and maintenance of an accurate and effective automated credit information system, including a financial identification system, accessible to all providers of financial services
   c. Adoption of innovative financial inclusion schemes such as the registry for moveable assets to address SME access to finance bottlenecks, foremost of which is lack of real estate collaterals; and diversification of financial products to include micro-insurance.

The Operational Dialogue sought to provide a platform for coming up with an APEC definition of financial inclusion. Given this perspective, the APEC financial inclusion framework was discussed to identify the required initiatives for its operationalization and improve access to financial services among the unbanked and underbanked.

The one-day dialogue succeeded in putting across certain “best practices” for promoting financial inclusion within a vital sector of the world economy – the MSME sector – which has a large impact in most economies in the Asia-Pacific region in terms of gross domestic product, employment, international trade and commerce. So important is the MSME sector in the region that any policy or program that effectively addresses development constraints of the sector (e.g., lack of access to financial services and formal credit) directly impacts on the general welfare of the population.

Much was learned from the discussions, especially by economies that have yet to adopt a strategy framework for innovative financial inclusion policies for MSMEs as evidenced by the crafting of this Action Agenda that was collegially discussed and agreed upon by the participants from nine APEC member economies during the workshop.

1. Proposed APEC definition of financial inclusion;
2. Identification of three priority issues or concerns that need to be addressed to effectively implement financial inclusion policies that would accelerate financial inclusion in APEC economies;
3. Suggestions on the courses of action to take to enable APEC to address the identified implementation barriers;
4. Identification of lessons learned or “good practices” that the APEC economies should pursue to serve as springboard for financial inclusion initiatives.

The participants’ “Back-Home Action Plan” is to serve as “Champions of Financial Inclusion” in their respective countries and as such, bring home with them the various innovative financial inclusion initiatives being implemented in other APEC member economies for replication, taking into account the recommendations to further enhance these initiatives.

The participants will also champion the pursuit and fruition of the Action Agenda which they themselves crafted during the workshop as part of their “Back-Home Action Plan”.

The next Financial Inclusion Event can build on the actions forged in this Operational Dialogue via discussions on the status of the APEC member economies’ operationalization of their “Back-Home Action Plan.” The degree of commitment to the implementation of this plan will serve as an indicator on how APEC’s new inclusive growth agenda is moving forward and at what pace.
APPENDIX

DIALOGUE PROGRAM

0900-AM PROGRAM BRIEFING
Ms. Cecilia M. Barra, ADFIAI Consulting

0905-AM INTRODUCTORY REMARKS
Financial Inclusion in Asia and the Pacific: The Role of ADFIAI and Its Member Development Financing Institutions
Speaker: Mr. Octavio B. Peralta, Secretary General, ADFIAI

0920-AM FINANCIAL INCLUSION - A CONCEPTUAL FRAMEWORK
Advancing Financial Inclusion through Integration in the Government’s Strategic Plan and Formulation of Innovative Government Policies
Speaker: Mr. Rosamund Clare Grady, Professor of Law, University of Sydney

0940-AM OPEN FORUM

1000-AM PHOTO SESSION

1010-AM NATIONAL STRATEGIES AND REGULATORY FRAMEWORK TO REMOVE LEGAL AND STRUCTURAL BARRIERS IN FINANCIAL INCLUSION
Crafting Frameworks for Effective Financial Inclusion: The Philippine Experience
Speaker: Mr. Gil S. Beltran, Undersecretary, Department of Finance, Philippines

1030-AM OPEN FORUM

1045-AM INFRASTRUCTURE TO ENHANCE FINANCIAL INCLUSION
Credit Information Bureau - Payee Experience
Speaker: Mr. Jorge Magno, Deputy Superintendent of Risk Supervision of Banking, Insurance and Private Pension Funds - BSI
Facilitator: Mr. Octavio B. Peralta, Secretary General, ADFIAI

1120-AM OPEN FORUM

1140-AM INFRASTRUCTURE TO ENHANCE FINANCIAL INCLUSION
Registry for Movable Assets - Easing SME Access to Credit
Speaker: Ms. Suze Liau, Legal Consultant to the World Bank and Expert on the Secured Transactions Law in China
Facilitator: Ms. Corazon D. Conde, ADFIAI Consulting

1200-NOON OPEN FORUM

1330-PM FINANCIAL INCLUSION AND MICROINSURANCE
Case Study in the Philippines
Speaker: Mr. Joselito S. Almario, Director, Fiscal Policy Planning Office
Facilitator: Ms. Arlene S. Orencia, ADFIAI Consulting

1350-PM OPEN FORUM

1410-PM FINANCIAL TRANSPARENCY AND CLIENT PROTECTION
Case Study in the Philippines
Speaker: Mr. Joselito S. Almario, Director, Fiscal Policy Planning Office
Facilitator: Ms. Arlene S. Orencia, ADFIAI Consulting

1510-PM WORKSHOP
Formulation of Action Agenda to Accelerate Financial Inclusion in APEC Economies
Facilitator: Mr. Arsenio L. Pascual VII, ADFIAI Consulting

1630-PM CLOSING REMARKS
Ms. G.S. Bhatia, Undersecretary, Department of Finance, Philippines

1640-PM HANDING OVER OF PLAQUES AND CERTIFICATES OF ATTENDANCE

PARTICIPANTS AND ORGANIZERS

CHINA
TING TING SHEN
Senior Staff
Ministry of Finance, China
Contact No. (010) 68515126
Email: shentingtina@mof.gov.cn

MS. JIE WU
Section Chief
China Banking Regulatory Commission, China
Contact No. 010 68111279876
Email: angelawu@cnbrc.gov.cn

INDONESIA
KINDY RINALDI CH/HR
Deputy Director
Ministry of Finance, Indonesia
Contact No. +62 21 381-7758
Email: kindy@depkeu.go.id

MEXICO
M R. JOSE JESUS RODRIGUEZ ESQUIVEL
Deputy Director of Analysis
Vice Ministry of Finance
Contact No. 52 5368-81966
Email: jose_rodriguez@hacienda.gob.mx

PHILIPPINES
MR. ARSENIO L. PASCUAL VII
Chief of Division, International Economy Division
International Finance Policy Office
Department of Finance, Philippines
Contact No. (632) 400-3011 or (63916) 300-8666
Email: arcurt@dof.gov.ph / dof.apex@yahoo.com

MR. GERARDO A. BUTARDO
Deputy Director
Bangko Sentral ng Pilipinas
Contact No. 632 708-7397
Email: gbarardo@bsp.gov.ph

MS. MARIA LOLITA CAPODich
Consul, Consulate General of the Philippines
Honolulu, USA
Contact No. (1 800) 595-5316
Email: honolulucap@hawaii.com

CHEMIE TAIPEI
MS. SHU-LI YEN LIN
Deputy Director
National Treasury Agency
Ministry of Finance
Contact No. 886 22328056
Email: linli@mail.nra.gov.tw

MS. YI RONG WU
Finance Manager
Financial Supervisory Commission
Contact No. 886 22960835
Email: yiwu@fsc.gov.tw

THAILAND
MS. PORNWASA SIRINUPONGS
Director, International Financial Policy Division
Fiscal Policy Office
Ministry of Finance
Contact No. 662298560
Email: wasa@mof.go.th

USA
MR. ALEN PAUL
Public Information Officer
Pacific Islands Development Bank
Hagatna, Guam, 96910
Contact No. (671) 477-0047
Email: arap@pacificdb.com

MR. JOHN ESPA
Secretary, Pohpepi State Government
Pohpepi State Government, Pohnpei FSM
96941, USA
Contact No. (671) 320-2235
Email: john.espa@yahoo.com

VIENT NAM
NGO HOANG KIEU NGA
Deputy Director
Ministry of Finance, Viet Nam
Contact No. 84-644-2220-2838 ext. 7024
Email: nhphoangkieu@yahoo.com

PROJECT OVERSEEER TEAM
(from the Department of Finance, Philippines)

MA. TERESA S. HABITAN
Assistant Secretary, Domestic Finance Group
& Legislative Liaison
Contact No. (632) 523-5678; (632) 523-3825
Email: rahabitan@dof.gov.ph

MR. JOSE LUIS LAMIT
Director, Fiscal Policy Planning Office
Contact No. (632) 524-0607 or (63927) 216-6686
Email: joselamit@dof.gov.ph

MR. ARSENIO L. PASCUAL VII
Chief of Division, International Economy Division
International Finance Policy Office
Contact No. (632) 400-3011 or (63916) 300-8666
Email: arcurt@dof.gov.ph / dof.apex@yahoo.com

MR. FERDINAND ORTILLA
Economist
Email: ortillaferdie@yahoo.com

MR. RYAN TAMBENGCO
Economist
Email: ryantambengco@gmail.com

ADFIAP TECHNICAL ORGANIZERS/FACILITATORS

MR. OCTAVIO B. PERALTA (Speaker/Facilitator)
Secretary General
Association of Development Financing Institutions in Asia and the Pacific (ADFIAP)
Philippines
Contact No. (632) 844-9901/916-1672
Email: odpafiap.org

ATTY ALBERTO B. REYNO (Facilitator)
Managing Director
ADFIAP Consulting
Philippines
Contact No. (632) 917-535-2457
Email: acurt@dof.gov.ph

MS. CORAZON D. CONDE (Facilitator)
Head, ADFIAI Consulting, Philippines
Contact No. (632) 917-535-2457
Email: aconsulting@adfiap.org

MS. CECILIA M. IBARRA
Head, Programs and Projects
ADFIAP Consulting, Philippines
Contact No. (632) 917-540-8900
Email: aconsulting@adfiap.org

MR. FERNANDO ORTILLA
Economist
Email: ortillaferdie@yahoo.com

MR. RYAN TAMBENGCO
Economist
Email: ryantambengco@gmail.com

Ministry of Finance

Fiscal Policy Office

Director, Fiscal Policy Planning Office

MR. JOSELITO S. ALMARIO
Contact No. 62.21.381-7758
Email: jse@bi.go.id

Ms. Cecilia M. Ibarra, ADFIAI Consulting

Contact No. (632) 400-3011 or (63916) 300-8666
Email: acurt@dof.gov.ph / dof.apec@yahoo.com

International Finance Policy Office

Chief of Division, International Economy Division

MR. ARSENIO L. PASCUAL VII
Contact No. (632) 523-5678; (632) 523-3825
Email: rahabitan@dof.gov.ph

Deputy Director

Ministry of Finance

Economist

Economist

Email: acurt@dof.gov.ph / dof.apec@yahoo.com

International Finance Policy Office

Chief of Division, International Economy Division

Mr. Arsenio L. Pascual VII
Contact No. (632) 523-5678; (632) 523-3825
Email: rahabitan@dof.gov.ph

Deputy Director

Ministry of Finance, Viet Nam
Contact No. 84-644-2220-2838 ext. 7024
Email: nhphoangkieu@yahoo.com

Even more, the ADFIAI Consulting team, headed by Ms. Arlene S. Orencia, is on hand to facilitate discussions and ensure smooth proceedings.
SPEAKERS

GIL S. BELTRAN is the Undersecretary for Domestic Finance Group (DFG) of the Philippine Department of Finance and concurrent Executive Director of the National Credit Council (NCC). The DFG handles fiscal policy and the NCC handles financial inclusion policies and strategies. Mr. Beltran has held various posts at the World Bank as Alternate Executive Director from January 2003 to January 2005; and Advisor to Executive Director, from February to May 1995 and from August to November 1990. He has a Master of Arts degree in Development Economics from Williams College, Williamstown, Massachusetts and a bachelor’s degree in economics from the University of the Philippines. He has been a Visiting Lecturer at the University of the Philippines College of Public Administration from 2006 to the present. Contact No. (632) 523-5671 Email: gbeltran@dof.gov.ph or gil_beltran@yahoo.com

ROSAMUND CLARE GRADY is an international lawyer with 30 years of private and public sector experience in the design, drafting and review of retail financial sector laws and related policy development and regulatory systems. She has a vast experience being an independent senior legal consultant in developing countries, a banking and finance regulatory partner at the international commercial law firm Mallesons Stephen Jaques, and a commercial law policy specialist with the Australian Government. Her consultancy clients include the World Bank, the Asian Development Bank, and the United Nations Development Program. She is also an Adjunct Professor of Law at Sydney University, Australia. Ms. Grady has qualifications in law and economics, and a Master of Public Administration degree from Harvard University. Email: gradyros@gmail.com

SU LIN HAN is a Senior Fellow at Yale Law School, The China Law Center. Born in Beijing, China and an American lawyer with extensive experience in corporate and financing laws, Ms. Han has been a legal consultant to the World Bank and the Asian Development Bank on financial reform-related projects in China. She actively participated in the World Bank’s secured transactions reform/access to credit project in China which provides assistance to national legislature, the National People’s Congress, and the country’s central bank, (People’s Bank of China) to create historical new laws in the realm of property rights and secured financing. She has also worked as a corporate attorney at Wilmer, Cutler & Pickering in Washington, D.C. and the Hong Kong office of Cravath, Swaine & Moore in New York. Ms. Han is an alumnus of the Boalt Hall School of Law of the University of California at Berkeley in 1991. Contact No. 860.5737632 Email: sulinhan@chinesesecuredfinance.com

JORGE MOGROVEJO is Deputy Superintendent of Risks of the Peruvian Superintendence of Banking Insurance and Pension Funds (the Peruvian Financial Regulator). He is in-charge of seven departments: Market and Liquidity Risk, Credit Risk, Operational Risk, Bureau of Credits, Price Vector of the Pension Funds, Anti-Money Laundering Risk, and Conglomerate Risk and Monitoring of the Process of Supervision. Mr. Mogrovejo is also a member of the Board of Directors of The Peruvian Superintendence of Securities. A senior economist and lawyer, he obtained degrees from the Catholic University from Lima, Peru, and a Master in International Affairs, major in Economic Policy Management in Columbia University in New York. Contact No. (511) 6309000 ext.1694 Email: jmorgro@gmail.com

JOSELITO S. ALMARIO is Director for Fiscal Policy Planning of the Philippine Department of Finance and concurrent National Credit Council (NCC) Deputy Executive Director. He was instrumental in the formulation and development of the Philippine National Strategy and Regulatory Framework for Microinsurance in the Philippines. He provides overall guidance and direction in the implementation of the Development of Microinsurance Project with the Asian Development Bank and the Microinsurance Innovations Program for Social Security (MIPSS) with the German International Cooperation (GIZ). These will involve the issuance of appropriate measures for the establishment of a conducive environment for microinsurance, institutionalization of industry standards, development of microinsurance products and conduct of a microinsurance literacy and advocacy campaign in the Philippines. He is also a director and committee members in various government entities involved in microfinance and microinsurance operations. Mr. Almario was recently designated as the government’s representative to the ASEAN Expert Panel on SME Finance. Contact No. (632) 524-0607 or (63927) 216-6686 Email: itoyalmario@gmail.com

OCTAVIO B. PERALTA is the Secretary General of the Association of Development Financing Institutions in Asia and the Pacific (ADFIAF) and concurrently of the World Federation of Development Financing Institutions (WFDI). He has extensive international exposure, having worked on various capacity-building programs and training events with multilateral development organizations and having served as a resource person on sustainable development banking and finance in many meetings and conferences. He is an Edith-World Bank Fellow, an alumnus of Japan’s Association of Overseas Technical Scholarship, and a Professional Director and Fellow of the Institute for Corporate Directors in the Philippines. He is also a member of the United Nations Environment Programme Finance Initiative’s Asia-Pacific Task Force Outreach Group. Contact No. (632) 844-9090/816-1672 Email: obp@adfiaf.org