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Report on the Review of the APEC Finance Ministers' Process

Purpose: Information

Submitted by: TWG Chair, APEC Finance Minister Process 2006
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**Senior Officials' Meeting III
Da Nang, Viet Nam
17 September 2006**

Report
On the Review of the APEC Finance Ministers' Process

Submitted by: APEC Finance and Central Bank Deputies

Purpose: For consideration by the 13th APEC Finance Ministers' Meeting

As of September 3, 2006

Introduction.

1. In preparation for 2006 FMP, at the 21st TWG Meeting, finance officials recalled the strategic review in 2001 and agreed to conduct an informal review on all aspects of the FMP. As a result, within its competence, the TWG adopted number of innovation measures and submitted the review's findings and recommendations on strategic issues to Deputies for consideration.
2. Deputies further considered the review rationales, including its legitimacy and necessity.
 - They affirmed that the review was conducted having regard to their suggestion in the 2001 strategic goals¹. In addition, the review also complements the APEC reform of the Leaders' Process since 2003.
 - They also recognized the review's necessity coming from both internal demand for re-establishment of the FMP's relevance, prominence and significance and external pressure of evolution in international macroeconomics and business environment.
3. Having further reviewed the FMP, within their vested power, Deputies endorsed number of recommendations on certain areas proposed by their officials (as ascribed in the Annex 3).
4. This submission is aimed to report to the Ministers the result of the review completed by Deputies and their officials and propose number of recommendations to further enhance the FMP's prominence, relevance and better complement to the APEC Leader's Process.

The review's findings

5. Having recognized the review's legitimacy and necessity, Deputies assessed both strengths and weaknesses of all FMP's components in light of the APEC vision, mechanisms and direction provided by the Leaders' Process.

Strategic goals of the FMP

6. Deputies assessed that the strategic goals have been appropriate for Finance Ministers' mandates, guiding activities under the FMP, and fairly-well complementary to the overall goals of APEC Leaders. However, given the developments of APEC and the evolution of international and regional macroeconomic, financial sector and business environment, it is worth revisiting the strategic goals of the FMP. Deputies propose a set of updated strategic goals as follows (as ascribed in Annex 1):

¹ In the context of the strategic review in 2001, the Deputies suggested that it would be value to review the strategic goals time to time

- Sustainable, equitable and broadly-based growth and development in the APEC region;
 - Macroeconomic stability in the APEC region;
 - Prudent public finance management;
 - Good corporate governance;
 - Stable and efficient financial markets;
 - Greater economic cooperation, integration and openness among APEC economies; and
 - Facilitation of economic and technical cooperation within the region in pursuit of the above goals.
7. Deputies also propose for periodical review on the FMP (including the strategic goals) to continuously ensure its relevance, significance and prominence (the framework for conducting a medium-term review is ascribed in the Annex 1).

Policy themes and initiatives

8. In the assessment of Deputies, since 2001, the FMP annual policy themes are falling within the mandate of Finance Ministers, being in light of the strategic goals and responsive to emerging issues and complement the APEC Leaders' Process. However, the current practice of formulating themes annually may lead to duplication, and lack of systematic and strategic approach to achieving the strategic goals of the FMP. Hence, Deputies proposes the Hanoi medium-term agenda with the aim to:
- On the one hand, balancing individual and common interests within the FMP, providing member economies with priority areas for setting up policy themes, initiatives and other activities over a medium-term, and a longer-term outlook for other stakeholders.
 - On the other hand, ensuring the flexibility for host economies in proposing policy themes in their chairmanship years by allowing it can be altered annually to reflect host economies' concerns over particular policy issues.

Private sector involvement

9. Deputies recognized that the involvement of the private sector in the FMP has been steadily improving, from the APEC Financiers' Group (AFG) to the APEC Business Advisory Council (ABAC). Given private sector's important role in the long term growth of the region and its important contribution to discussions within APEC, Deputies propose that the host economies should encourage informal dialogue between Ministers and private sector.
10. This year FMM in Hanoi has been structured having regard to the above recommendation by scheduling one hour session for the dialogue between the Ministers and representatives from ABAC.

Rename the TWG

11. Given that the group does policy rather than technical work and its name can be rather misleading, Deputies propose that the Finance Ministers' Technical Working Group should be renamed as Senior Finance Officials Meeting (SFOM).

Recommendations

12. Deputies recommend that Ministers:

- **Agree** that there is value in conducting medium-term reviews of all aspects of FMP activities every three to five years.
- **Endorse** the updated strategic goals for the FMP (as ascribed in the Annex 1);
- **Endorse** the Hanoi medium-term agenda (as ascribed in the Annex 2).
- **Agree** that the updated strategic goals and the Hanoi medium term agenda should be attached as Annexes to the Joint-Ministerial Statement.
- **Agree** that host economies should encourage informal dialogue between Ministers and private sector.
- **Rename** the Finance Ministers' Technical Working Group as Senior Finance Officials Meeting (SFOM).
- **Commend** the TWG for their efforts in conducting and innovation measures they undertake.
- **Note** that the host economy, Viet Nam has structured the 13th FMM having regard to the review's recommendations.

APEC Finance and Central Bank Deputies

September, 2006

ANNEX 1

Updated Strategic Goals of the APEC Finance Ministers' Process And Framework for medium-term review Hanoi, Viet Nam, September, 2006

Updated Strategic Goals of the APEC Finance Ministers' Process

With a view to enhancing the Finance Ministers' Process (FMP) to complement the APEC Leaders' Process, we, the Finance Ministers of the APEC economies, reviewed the FMP's strategic goals, taking into consideration the evolution of APEC's activities, and the dynamic changes in the international and regional economic and business environment.

Recognizing the APEC principles of voluntarism, consensus-based decision-making, flexibility, differentiated timetables for developed and developing economies and pathfinder initiatives, as well as the strengths and unique characteristics of the FMP, we agreed to promote sound and credible policies to achieve the following set of updated strategic goals:

- Sustainable, equitable and broadly-based growth and development in the APEC region;
- Macroeconomic stability in the APEC region;
- Prudent public finance management;
- Good corporate governance;
- Stable and efficient financial markets;
- Greater economic cooperation, integration and openness among APEC economies; and
- Facilitation of economic and technical cooperation within the region in pursuit of the above goals.

The framework for Medium-term review

They also agreed that there would be value for conducting a review of all aspects of FMP activities, ranging from strategic goals (if necessary) to policy initiatives, every three to five years. In this regard, they endorsed the framework, including procedures, components and criteria for the medium term review as follows:

Review Procedure

- The review should be conducted within a cycle year of the FMP, starting from the first TWG meeting with the establishment of a working group on the FMP review, ending before the Ministers Meeting.
- The working group should consist of troika members and other voluntary members, in which troika members should take the lead and the host economy of the year should take the coordinating role.
- The working group should utilize any working and communicating mechanisms which they feel effective and convenient to carry out their works.

- The output of the review should be presented in a review report which provides findings on the FMP's strengths and weaknesses, and recommendations for enhancing the FMP's effectiveness and efficiency.
- Review's findings and recommendations should be discussed at the TWG level, further considered by Deputies before submitting to Ministers for adoption.

Review Components

In recognizing the interactive and systematic nature of the FMP, the medium-term review should evaluate all aspects of the FMP, including the following issues:

- Strategic goals of the FMP.
- FMP's development of policy themes and priority areas, and policy initiatives.
- The structure and format of the FMM and related meetings
- Coordination and collaboration between AFMP and other APEC fora, including the APEC Secretariat
- Private sector involvement.
- Involvement of International Financial Institutions.

Review Criteria

In conducting the medium-term review, FMP's aspects (including the strategic goals) should be evaluated based on the below criteria:

- Complement to the APEC overall objectives.
- Recognizing Finance Ministers' respective responsibilities across the APEC region.
- Responsive to the evolution of international economic and business environment.
- Providing the framework for guiding work programs/ policy themes of the FMP.
- Respecting the original reason for FMP's establishment by APEC Leaders²
- Taking into account the APEC principles.

² APEC Leaders in 1993 called for the convening of the first Finance Ministers Meeting to consult on broad economic issues including macroeconomic developments and capital flows, APEC LEADERS ECONOMIC VISION STATEMENT, Blake Island, Seattle, 20 November, 1993

ANNEX 2

Hanoi medium-term agenda for the APEC Finance Ministers' Process Hanoi, Viet Nam - September, 2006

In pursuit of the strategic goals of the FMP, we, the Finance Ministers of the APEC economies, recognized that individual and common interests should be respected. We also acknowledged that a medium-term agenda covering possible priority policy areas is essential for developing policy themes and other activities for the FMP to provide member economies and other stakeholders with a consistent, focused and longer-term planning framework and outlook.

With a view to enhancing the FMP's effectiveness and efficiency, we agreed on the Hanoi Medium-Term Agenda which provides the following possible priority policy areas:

- Public Finance Management: promoting efficiency and sustainability in public finance; good fiscal management, including fiscal reform, fiscal decentralization and fiscal risk management.
- Corporate governance and development: encouraging the adoption of best practice in corporate governance; and strengthening the legal frameworks for corporations including insolvency regulations.
- Financial sector and capital market development: financial sector reform; financial services liberalization; securities (including bonds) markets development; SME financing; financial crises prevention and resolution; remittance systems (formal and informal); money laundering and terrorist financing.
- Macroeconomic development, including fiscal and monetary policy.
- Emerging challenges such as the economic consequences of aging, health pandemics, and developments in energy and raw materials markets.

Based on the medium-term agenda, we encouraged:

- Policy themes to be selected from a set of policy areas provided by the medium-term agenda.
- Multi-year horizon to enhance more focused discussion and continuity across years.
- New initiatives that would be based on policy areas set out in the medium-term agenda.
- The FMP policy agenda be developed taking account of the work programs of other fora and other parts of APEC, including the Economic Committee and the Committee on Trade and Investment, and recognizing the advisory role of ABAC, to ensure complementarity of themes and avoid unnecessary duplication with other fora and across APEC.

In order to make the medium-term agenda practical and effective, host economies may, in consultation with other members, propose policy themes complementing the medium-term agenda to address the newly arising issues/emerging challenges in the region or meeting common interests in domestic policy reform.

ANNEX 3
List of Recommendations endorsed by Deputies
As the result of the FMP Review

Issues\Recommendations	Proposed solutions	
	Endorsement	Effective time
(1)	(2)	(3)
Coordination and Collaboration with the APEC Leaders' Process		
Taking the lead on macroeconomic reporting by requesting the IFIs to provide macroeconomic reports in advance of the Finance Ministers' Meeting. The reports should focus on macroeconomic developments and future projections for the APEC region, and afterward would be forwarded to Leaders for reference/information (with IFIs' logos).	Endorsed by 13th Deputies' Meeting	2007 FMP
Form an informal troika of current, past and future TWG chair and troika members shall communicate mainly through email. The current TWG Chair shall represent the troika to address other APEC fora on the main outputs/outcomes and forward work plan of the FMP and be able to take issues back to the FMP.	Endorsed by 13th Deputies' Meeting	2007 FMP.
Invite equivalents from SOM and EC to attend TWG and Deputies meetings; and TWG Chair office attend relevant SOM and EC meetings	Endorsed by 13th Deputies' Meeting	2007 FMP