

SENIOR FINANCE OFFICIALS' MEETING (SFOM)
SUMMARY OF THE SESSION & DISCUSSION

Day 1, 22 May 2013
Manado, North Sulawesi

Now, we are at the end of the first day of our meeting.

I would like to thank all the speakers and participants for making today's discussion so interesting.

- let me summarize what we have discussed in the first day of our meeting.
- In **the first session**, we discussed the economic outlook and financial stability in the region.
- As the outlook for the global economy is still weak and uncertain, **the APEC economies are also facing short-term risks** (such as developments in the Euro Area and possible policy backtracking, and the US in budget sequester and debt ceiling) **and medium-term risk** (i.e. low growth or stagnation in Euro Area, delay in comprehensive fiscal reform in the US and Japan, and high level of investment in Emerging Market and Developing Economies) that may complicate current and future APEC growth and development.
- In this regard, **some policy priorities** were suggested for APEC economies, such as:
 - (i) achieving a better fiscal, financial, and monetary policy mix for advanced economies; and
 - (ii) greater regional cooperation to facilitate structural reforms and sustain build on growth, particularly through productivity improvements. And to also strengthen local financial systems and institutions to better facilitate the absorption of capital inflows, such as infrastructure investment, and to prevent asset price bubbles, for emerging market and developing economies.

- In addition, developing economies also need to focus on domestic policy needs and vulnerabilities, among others on productivity enhancements, investments in infrastructure, human capital and governance, to sustain strong growth.
- The challenge for the region is to build on and sustain sources of growth. While trade is no longer the main driver, we should focus our effort to develop new growth models, in particular related to strengthening domestic private consumption. But since it relates to structural adjustment of the economy, it needs to be done over the mid to long term. In that context, there have been suggestions to promote infrastructure investment in the region. Increased Infrastructure investment would not only strengthen the growth but also help in rebalancing private sector demand, as well as addressing the challenges of channeling capital flows to productive sectors of the economies in the region.
- For **Disaster Risk Management**, APEC economies welcomed current work from the OECD on disaster risk management as one of the priorities to be reported to the Finance Ministers' Meeting in September.
- The report on Disaster Risk Management would be a valuable input for APEC economies in relation to the roles of financial authorities in financing and managing the impacts of disasters, as it would provide a wide-range of information on: (i) various initiatives taken by Member Economies on disaster management; (ii) best practices and lessons to be learned from Member economies' different experiences; and (iii) challenges in implementing disaster risk management among member economies. The Chair would like to invite members that have yet submitted their responses to the OECD survey to do so as soon as possible.
- The SFOM noted some concerns about further strengthening the report on disaster risk management, among others: (i) the importance of collaboration between national authorities and international participation in managing disaster risk; and (ii) the importance of considering budget strengths and contingent liabilities related to disaster. In this regard, the meeting noted that budget surplus can support sufficient capacity to finance risks related to disaster

- In **the Infrastructure investment session**,
- Given the size of the infrastructure challenge in APEC, we discussed the desirability of pursuing a multi year infrastructure agenda. We were concerned, however, to ensure that such an agenda went beyond simply a statement of intentions or investment principles - and was grounded in concrete actions by economies.
- We noted advice from the World Bank about the importance of economies having in place a range of complementary institutions that can support the broader objective of creating an investment environment that is conducive to increased involvement in infrastructure by the private sector.
- We also noted the importance of ensuring that we bring together in a complementary way the infrastructure discussions that are currently taking place in the SOM and Finance channels.
- We discussed the proposal raised by China during the Finance Deputies meeting in February to create a roadmap to better guide the range of infrastructure related capacity building support that is available to APEC economies. Indonesia proposed that a Multi Year Plan on Infrastructure development and Investment (MYPIDI) be developed to give effect to this Road Map proposal that would include the Finance track, the Investment Expert Group, the Economic Committee, and the Group on Services. To progress this, and to ensure that members views are adequately reflected, Finance Deputies and the SOM Chair will circulate a draft Joint Letter to get members views on the proposed key aspects of the MYPIDI.
- With regard to the proposal of creating an APEC infrastructure panel and a Pilot PPP Centre, Indonesia and Australia will draft a detailed joint paper - in consultation with the World Bank and other APEC members and international organizations - for the consideration by Finance Ministers in their September discussion.
- In **the financial inclusion session**, one of the innovations that play a significant role in increasing financial access and broadening outreach is delivery channel

innovation. In APEC, we need to develop guiding principles so that we can implement, optimal – and innovative - delivery channels. The first workshop on financial inclusion provided a basis for us to further develop the principles.

- The main principles of the guiding include business models, infrastructure, regulatory framework, risk management, consumer protection, coordination and collaboration, and monetary and supervision mechanisms.
- All of those main principles would help APEC economies to develop innovative delivery channels.
- I would like to inform that tomorrow we have a workshop on financial inclusion in this venue, the workshop theme will be "promoting financial eligibility of poor household and SMEs through innovative approaches to enhance financial inclusion". The main purpose of this workshop will be a stocktaking of international best practices in innovation to increase the financial eligibility of poor household and SMEs.

Tomorrow we will discuss the other SFOM meeting agenda items, such as trade finance, treasury and budget reform, a report from the Sydney Asia Pacific Financial Forum and a Report about the Asia Regions Fund Passport initiative.

Let me remind you that we will have cultural dinner after this session.

The organizer will have further announcement regarding the transportation, and other arrangement.

Thank you.

SENIOR FINANCE OFFICIALS' MEETING (SFOM)
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Day 2, 23 May 2013
Manado, North Sulawesi

Distinguished Delegates, Colleagues, Guest, Ladies and Gentleman,

We have now completed our meeting. The meeting has produced valuable inputs, recommendations, and initiatives that can be put towards achieving our targeted deliverables, and strengthening cooperation among APEC member economies.

- let me summarize what was discussed today.
- In **the trade finance session**.
- The SFOM noted that the APEC PSU plans to issue a paper on trade finance based on a member economic survey that will examine recent trends in trade finance, conditions in APEC economies, and possible actions that countries could consider taking to improve the trade finance environment.
- SFOM noted the important role that private markets can play in trade financing, and that while it was important to keep Finance Ministers informed, there was probably less scope for APEC as an organisation to take specific actions. It also noted the importance of avoiding bias in the narrative of the survey
- SFOM welcomed the suggestion that the APEC PSU should engage with relevant international organizations in drafting its paper on trade finance, and suggested that the paper could benefit from inclusion of key aspects of ADB's trade finance program in closing knowledge gap as the best examples in improving trade finance in the region.
- The SFOM discussed whether APEC economies had experienced a decrease in trade finance during the global financial crisis. As many APEC economies traditionally relied on Europe for Trade Finance, SFOM also discussed possible

impacts from reduction in European Banks' lending to the trade finance in APEC economies.

- It was noted that there are signs that the trend of APEC economies' reliance on European banks has been decreasing. This can be a challenge as well as an opportunity for the region. The challenge is how APEC economies can find a solution to filling the trade finance gap. In this regard, two things need to be considered: the first, substitution; and the second, the market function of trade finance.
- The issue of whether Asian banks have been able to increase their share of global trade finance as funding from European Banks has declined was also discussed. The role of European bank has been diminishing in the APEC region. Claims for developed European economies as a share of total foreign claims to APEC economies has fallen during period of 2008-2012. Asian banks are stepping up in providing trade credit to the region.
- SFOM also discussed the current issues and challenges facing SMEs in the region. SMEs have not been able to benefit from the abundant global liquidity and low cost of trade financing, due to lack of collateral and audited financial statements are considered as high risk by the banks. The SFOM noted that roles that governments and international organizations can play in addressing financing issues facing by the SMEs.
- In **the treasury and budget reform session**,
- The SFOM noted the significance of treasury and budget reform. The reform is important element that enables well-functioning financial management, better transparency, accountability, and easing decision making process.
- The development of IFMIS could also create opportunities for further reform within the treasury and budget areas, cash management, debt management, fiscal reporting, and financial auditing.
- For spending policies, efforts toward a more efficient spending policies, among others: internally, it is aimed to enhance program effectiveness on basis of impact measures, to improve consistency of portfolio of programs within and

across sectors, value for money, and to strengthen consistency in design, execution, and reporting. Externally, the global crisis has also emphasized the important for strengthening fiscal consolidation through efficient spending policies.

- SFOM noted that in the last recent years, the common interest on IFMIS development has strengthened the cooperation among APEC economies and international organization.
- The SFOM also noted that the implementation of spending review need to take into consideration wide aspects, the first, specific types of evaluation that include institutionalized process, consequence for outputs and outcomes under alternative funding level, identification of saving options, in line with budgetary decisions, and involvement of central budget agencies; the second, emphasize fiscal objective that include reallocation of expenditure, functional review, and strategic review; the third, apply multiple techniques; and the fourth, focus on the objective to improve the quality of public services.
- The activities of review should also orderly sequenced, and supported by cross government coordination, to ensure comprehensive analysis, as well as sufficient and timely data provided.
- As take aways from this session, SFOM noted that:
 - First, the lessons leant from APEC member economies' experiences can be valuable references for further developing treasury and budget reform.
 - Second, realizing variation in design of spending review among members, APEC member economies could also benefit from rich approaches that the region has, through sharing knowledge, capacity building development, and/or technical assistance in the region.
 - Third, the best practices from APEC member economies is also crucial for peer learning that may be directed to discussing different tools among member economies and also information exchange among APEC economies.

- and Finally, our next workshop in Lombok in Treasury and budget reform will try to elaborate on how APEC, under Finance Ministers' process, could frame this issue that has strong relevant to Finance Minister and expected to bring broad impacts to our treasury and budget system.
- on **other business**, SFOM welcomed the results from Sydney Symposium and looking forward to further progress in exploring the possible establishment of Asia Pacific Financial Forum that could serve as a dialogue platform between public and private sector
- SFOM also welcomed the progress being made by the working group on Asia Regions Funds Passport and looking forward to further progress that can be reported to Finance Ministers considering the importance of this initiative to a better financial integration in the region.

Finally, please allow me to thank all of you again for your thoughtfulness and willingness to share your knowledge and experiences during the meeting.

I now officially close this meeting.

Thank you and have a very good afternoon, and I look forward to seeing you at the next Meeting.