ASEAN FINANCIAL INCLUSION CONFERENCE

Enhancing Access to Finance for Unbanked People in the ASEAN Region

October 29-30, 2014

Yangon, Myanmar

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Organized by:

In Technical Cooperation with:

Supported By:

FOREWORD

Globally, there is a strong consensus that financial services can help reduce poverty and promote growth. A well-functioning financial system, with easy access to financial services allow people to save money safely, mitigating risk of loss through fire, theft, fraud and natural disaster; thereby smooth consumption and protect themselves against shocks; and borrow money for consumption or investment or expansion of economic activities. Additionally, in the current global economy, with increased number of migrant workers, payment services are critical in helping the migrant workers to remit money to their families and friends. Financial inclusion thus makes a significant contribution to the global and regional collective social agenda of reducing poverty and inequality. Hence, it can be viewed that it also serves as a policy lever to achieve greater welfare and more sustainable social cohesion. It can then help countries to maintain financial stability and sustainability. Financial services also facilitate trade in goods and services. Economic growth is undoubtedly strengthened when a larger percentage of the population, particularly those who are on low incomes are inclusive in the formal financial sector. Promoting the inclusion of people's economic activity into the formal financial system has been far-reachingly significance.

The World Bank states that more than 50 national-level policy making and regulatory bodies have publicly committed to financial inclusion strategies. In our ASEAN region, this commitment was made at the highest levels at the 19th ASEAN Summit in 2011, when our ASEAN leaders affirmed Financial Inclusion as an essential part in strengthening the third pillar of Equitable Economic Development, which is one of the four key pillars supporting the framework of the ASEAN Economic Community 2015. This commitment by ASEAN towards greater economic integration and the role that the financial sector plays in that regard presents an important opportunity not only for financial market development but also for advancing financial inclusion in the region, particularly for members like Cambodia, Laos, Myanmar and Vietnam, who still face significant development challenges.

As ASEAN member states achieve greater economic integration and seek to enable all members to equitably contribute to and benefit from a single economic community, the necessity of extending the frontiers of financial markets to low-income households, micro-entrepreneurs and small business is greater, accordingly. It is clear that much work remains to be done; current levels of financial inclusion are less than 30% in Myanmar and around 20% in Indonesia, the Philippines, Laos and Cambodia, respectively. The consequence is hardest felt by the poor people as the majority has access to financial services mainly through informal mechanisms and are thus denied the protection enjoyed by the users of regulated financial services.

In the last two years, Indonesia and Brunei have taken the initiatives to host a dedicated conference around Financial Inclusion and Financial Literacy, respectively. It gives me great pleasure and honor as Chair of the 18th ASEAN Finance Ministers' Meeting, to have the opportunity to organize the ASEAN Financial Inclusion Conference during the tenure of my Chairmanship. Myanmar has decided to place a special emphasis on 'Enhancing Access to Finance for Unbanked People in the ASEAN Region'. This is reflected by the design and ingredients of the 2 days' Conference, with a special plenary session on Day 2 of the Conference, where there will be a dedicated discussion on an important sub-group who are still unbanked in larger numbers; women.

Importantly, the ASEAN Financial Inclusion Conference aims to have three key outputs. Firstly, we would like to present a draft outline of Myanmar's own Financial Inclusion Roadmap Framework, upon which discussions will be built among the participating key stakeholders in the region, including ASEAN Leaders, policy makers, academicians, practitioners and relevant development partners, who will be among the panelists and audience. This will help us to finalise Myanmar's national roadmap. Secondly, we would like to capture and synthesise the key insights coming out of the presentations at the conference, and communicate these to the wider ASEAN and international community, so as to contribute to deepening understanding of the key issues for financial inclusion in the ASEAN region. Thirdly, we will use the conference proceedings to make recommendations in the form of the 'Yangon Outcomes for Financial Inclusion' to the ASEAN Finance and Central Bank Deputies' Meeting Working Group (AFDM- WG) and to the next Chair of ASEAN in 2015, with the support of ASEAN colleagues, so that our discussions over the next two days are embedded and taken forward through the formal ASEAN mechanisms.

We would like to express our sincere gratitude to all of our technical partners and sponsors, especially the UN Capital Development Fund, for their support in identifying highly the relevant experts as presenters and panelists and for all other assistances in making this conference possible. We hope you will find the presentations and discussions enlightening and that the outcomes of this conference will make an important contribution to furthering the thinking and debate around how the ASEAN region can collectively take steps to further enhance Financial Inclusion. With that, I extend my warmest welcome to you all to this important Conference.

H.E. U Win Shein
Chairman of the 18th ASEAN Finance Ministers' Meeting

CONTENT

29 Oct
Wednesday

CONFERENCE AGENDA

07.45 – 08.45	REGISTRATION
09.00	Welcoming Remarks *H.E. U Win Shein, Minister of Finance, The Republic of the Union of Myanmar*
09.15	Keynote Address *Renata Lok-Dessailien, UN Resident Coordinator, Myanmar*
09.30	BREAK AND PHOTO SESSION

10.00 Opening Plenary Session

Shifting Paradigms for Sustaining Equitable Economic Growth: Reducing Inequalities and Stabilizing Financial Systems with Greater Financial Inclusion in the ASEAN region

All eyes are on the ASEAN region, where economic growth has consistently outpaced the rest of the world. With the region's positive demographics and improvements in education, wealth is expected to further increase and the resulting consumption boom will drive economic growth on a continued upward trajectory. However, ASEAN governments are also concerned about addressing rising inequalities that have corresponded with economic growth and there is an ongoing search for new ideas and a sustainable model of development. This has been well acknowledged in the blueprint for the soon to be envisioned ASEAN Economic Community. This session addresses how Financial Inclusion can play a critical role in addressing these public policy objectives while also enhancing financial stability over time through a deeper and more diversified financial system.

Connecting the Dots: Policy Perspective Paper
Satish Mishra, UN Capital Development Fund
Feisal Hussain, UN Capital Development Fund
Hennie Bester, Cenfri

10:20 Myanmar's Response to the Shifting Paradigms: Myanmar's Financial Inclusion Roadmap Framework

This session will feature the presentation of Myanmar's Financial Inclusion Roadmap Framework which was developed in response to the 'Making Access Possible Myanmar' study which was supported by the UN Capital Development Fund and LIFT.

U Ko Ko Maung, Deputy Director, Financial Regulatory Department, Ministry of Finance of the Republic of the Union of Myanmar

Paul Luchtenburg, Programme Specialist Inclusive Finance, UN Capital Development Fund Myanmar

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10:45 National Perspectives on the role of Financial Inclusion in Sustaining Equitable Economic Development

This session will feature the views of finance policy makers from the ASEAN region and an open discussion between regional colleagues about challenges faced at national levels and on whether a regional approach can be developed to jointly address common issues.

Moderator:
U Than Lwin, Senior Consultant, KBZ Bank Ltd., Former Deputy Governor, Central Bank of Myanmar, Myanmar

Panelists:
H. E. Neav Chanthana, Deputy Governor, National Bank of Cambodia

Agustina Dharmayanti, Deputy Director, Financial Inclusion Development, Bank Indonesia

Kamisah Abdul Kadir, Deputy Director, Development Finance and Enterprise Department, Bank Negara Malaysia

Gerardo A. Butardo, Officer-in-Charge, Examination Department Bangko Sentral ng Pilipinas

11:25 Video Presentation

11:30 - 12.15 The Role of Development Cooperation in Supporting National and Regional Strategies on Financial Inclusion

Financial Inclusion is fundamental to the social agenda of reducing income inequality and poverty. This has been well acknowledged by development partners given the dramatic shift in development aid from microcredit to the broader concept of financial inclusion: the provision of a range of formal financial services, including savings, payments and transfers, insurance, and credit. This discussion features the views from key development organisations on their efforts in advancing financial inclusion and how a more coordinated and catalytic response can be achieved from the larger development partner community.

Moderator
Toily Kurbanov, Country Director, UNDP Myanmar

Panelists:
H.E. Ms Bronte Moules, Australian Ambassador to Myanmar, DFAT
Peter Brimble, Deputy Country Director, Asian Development Bank
Judith Karl, Executive Secretary, UNCDF
Abdoulaye Seck, Country Manager, Myanmar Office, The World Bank Group

12:15 – 13:45	LUNCH
13:45 – 15:45	Thematic Breakout Sessions

Session 1
Linking Financial Inclusion and the Real Economy
In light of the post-2015 development and national agenda that are focused on sustainable growth, reducing inequality and enhancing financial stability, this session will focus on generating consensus on how financial inclusion can be used as a key policy instrument as well as support and accelerate the broader AEC commitments.

Facilitator
Feisal Hussain, Senior Regional Technical Advisor, UNCDF

Presenters
Isaku Endo, Financial Sector Specialist Payment Systems Development Group The World Bank, USA
Arup Chatterjee, Principal Financial Sector Specialist, ADB
Thomas Foerch, Head of Project, Financial Sector Development, GIZ

Session 2
Leveraging Drivers and Enablers of Financial Inclusion
This session seeks to generate discussion on understanding the key drivers and enablers in the region and to achieve consensus on public policy actions that can harness and facilitate these in support of financial inclusion. Key issues include: enabling regulation, digitization, private sector participation and investment flows, migration and remittances, regional-cooperation on information and peer-to- peer exchanges

Facilitator

Gregory Chen, CGAP Manager

Presenters

Ivan Daniel Mortimer Schutts, Sr. Operations Officer, IFC

Dave Tan, Vice President of Public Policy for Asia Pacific at MasterCard

Eduardo Cabral Jimenez, Regional Coordinator for Asia, Alliance for Financial Inclusion

Dr Zaw Oo, Executive Director Centre for Economic and Social Development, Myanmar Development Resource Institute

Session 3

Taking Proactive Public Action to Catalyse Financial Markets

This session will feature a discussion on how proactive public policy and action can create market solutions to address the problems of financial access and usage to support management of financial risks and opportunities. Additionally, the importance of sequencing such policy interventions and public action that work with the grain of distinctive political-economies and political priorities of ASEAN and ASEAN countries will also be discussed.

Facilitator

Emma Tiaree, Counsellor, DFAT

Presenters

Parjiono, Director, Fiscal Policy, Ministry of Finance Indonesia

Jose De Luna-Martinez, Senior Financial Economist, World Bank

Andrew Fan, Manager, Bank Negara Malaysia

Session 4

Managing Risks at Client, Institutional and Systemic Levels

Rapid acceleration of financial inclusion, which may sometimes result in risks to both the levels of the client and the financial system as a whole– in the form of unchecked proliferation of products and services that are inappropriate to client needs and to overall instability posed to the system as a result of that, particularly in the case of excessive indebtedness. This discussion seeks to understand the risks as well as the strategies that can be developed to manage these.

Facilitator

Hajah Rashidah Sabtu, Executive Director, Autoriti Monetari Brunei Darussalam

Presenters

Tina Singhsacha, Standard Chartered Chief Representative, Myanmar

Kelly Hattel, Financial Sector Specialist, ADB

Eden Dema, Deputy Governor, Royal Monetary Authority of Bhutan

18:00 – 20:00 DINNER RECEPTION HOSTED BY MINISTRY OF FINANCE

30 Oct
Thursday

CONFERENCE AGENDA

09:00 – 09:15	OPENING ADDRESS *H.E. U Set Aung, Deputy Governor, Central Bank of Myanmar*
	Moving Beyond The Rhetoric: The Role of Finance in Women's Economic Empowerment While the arguments for why women's economic empowerment is important (e.g., promote gender equality, poverty eradication, inclusive economic growth) are solid, there is a need to move the focus on how to effectively go about empowering women in the economy. This panel seeks to examine the successes of financial initiatives concerning women's access to finance. The panel will also discuss major obstacles ASEAN women still face in getting involved in economic activities, provide outlines on prevailing gaps that needs to addressed, and propose actionable policy recommendations to enable women to become drivers of robust economic societies across ASEAN countries.
09:15 – 09:35	Keynote Paper *Dr Sandar Oo, Director-General, Central Bank of Myanmar*
09:35 – 10:30	Panel Discussion **Moderator** *H.E. Chea Seray, Director General, National Bank of Cambodia* **Panelists:** *Mia Urbano, Mekong Regional Social Development Advisor, Department of Foreign Affairs and Trade, Australia* *Dolores M. Torres, President and CEO, CARD MRI* *Daw Khine Khine Nwe, Joint Secretary General, The Union of Myanmar Federation of Chambers of Commerce and Industry, Myanmar*
10:30 – 10:50	BREAK
10:50 – 11:20	Special Rapporteur's Presentation *U Than Lwin, Senior Consultant, KBZ Bank Ltd., Former Deputy Governor, Central Bank of Myanmar, Myanmar*

	Synthesis of Conference Proceedings and Substantive Policy Implications
11:20 – 12:00	Questions, Clarifications and Feedback
12:00 – 13:30	LUNCH
13:30 – 14:00	The ‘Yangon Outcomes for Financial Inclusion’ The Chair’s proposal for collective action to accelerate Financial Inclusion in the ASEAN Region **Presenter:** *Daw Yin Yin Mya, Managing Director, Myanmar Economic Bank, Ministry of Finance, Myanmar*
14:00 – 14:30	CLOSING ADDRESS *H. E. U Set Aung, Deputy Governor, Central Bank of Myanmar*

HONOURARY GUESTS, SPEAKERS & MODERATORS

HONOURARY GUESTS
SPEAKERS & MODERATORS

09:00
Wednesday

H.E. U Win Shein

Minister of Finance of the Republic of the Union of Myanmar

March 2011 - July 2012, Deputy Minister of Transportation. July - September 2012, Deputy Minister for Finance and Revenue. Currently, Union Minister of Finance and Revenue. May 2013, became Chairman of the Myanmar Investment Commission.

09:15
Wednesday

Renata Lok- Dessailien

UN Resident Coordinator,
Myanmar

Education: BMusic, University of Ottawa, 1982
Master of Arts (Education), Columbia University, 1985
Master of Public Administration, Harvard University, 1992

Professional Experience:

2010 – Present: UN Resident Coordinator/UNDP Resident Representative, CHINA
2005 - 2010: UN Resident Coordinator/UNDP Resident Representative, BANGLADESH
2002 - 2005: UN Resident Coordinator/UNDP Resident Representative, BHUTAN
2000 - 2002: UNDP Deputy Resident Representative, MYANMAR
1998 - 2000: UNDP Deputy Resident Representative, MALI
1995 - 1998: Senior Advisor, Bureau for Development Policy, UNDP, NEW YORK
1993 - 1995: Technical Adviser, ICPD Secretariat, UNFPA, NEW YORK
1992 - 1993: Consultant (Harvard University, UNDP, UNICEF)
1986 - 1991: Programme Officer and then Assistant Resident Representative, UNDP, Vientiane-LAO PDR
1982 - 1986: Project Officer, China Section, Association of Universities and Colleges of Canada, Ottawa-CANADA

Connecting the Dots: Policy Perspective Paper

10:00
Wednesday

Satish Mishra

UNCDF Senior Policy Research Expert

Prior to heading Strategic Asia, Satish Mishra conceptualised and managed the United Nations Support Facility for Indonesian Recovery (UNSFIR) project funded by United Nations Development Programme (UNDP). His other professional experience includes high-level assignments at the Organisation for Economic Co-operation and Development (OECD), including leading the first OECD Mission to Indonesia during the Asian crisis, the United States Agency for International Development (USAID) and the World Bank in over 40 countries across Asia, Africa and Europe. Satish Mishra has a wide range of experience in managing large inter-disciplinary teams of professionals in difficult economic and political environments. He studied Economics and Politics at Oxford University and has a Doctorate in Economics from the University of Cambridge.

Connecting the Dots: Policy Perspective Paper

10:00
Wednesday

Hennie Bester

Director
Cenfri

Hennie Bester is a director of the Centre for Financial Regulation and Inclusion (Cenfri) based in Cape Town, South Africa. He specialises in the analysis of markets for financial inclusion purposes and designing policy and regulation to advance financial inclusion. Hennie has been engaged in financial inclusion market diagnostics and providing policy advice in several countries, amongst others, Brazil, China, Colombia, India, Myanmar, the Philippines, Nigeria, Peru, South Africa, and Thailand. On behalf of FinMark Trust, a DFID-funded trust operating out of South Africa to make financial markets work for the poor, he was involved with the establishment of the global Access to Insurance Initiative, the implementation partner on financial inclusion for the International Association of Insurance Supervisors (IAIS), and has worked with them, particularly in preparing regulatory guidance, since 2009. Hennie studied economics and law at the University of Stellenbosch and also holds an LL.M degree from the University of Cambridge in the UK. He is a qualified attorney and practiced for a number of years. He served as a member of the National Parliament of South Africa (1991 – 1994) and later in the Provincial Parliament of the Western Cape (1994 – 2001). He served in the cabinet of the Western Cape provincial government, first as the Minister for Business Development and Tourism, and subsequently as Minister for Community Safety. He participated in the negotiations that paved the way for South Africa's first democratic constitution. He also chaired the Constitutional Committee which drafted the Constitution for the Western Cape Province, the only provincial constitution in South Africa. Hennie lives with his wife and three children on a sheep farm in the Karoo, South Africa.

Myanmar's Response to the Shifting Paradigms: Myanmar's Financial Inclusion Roadmap Framework

U Ko Ko Maung

Deputy Director
Financial Regulatory Department
Ministry of Finance of the Republic of the Union of Myanmar

U Ko Ko Maung was born Upper Myanmar in 1968. He attended Yangon Institute of Economics and got the Degree of Bachelor of Economics (Economics) in 1992 . Then he joined Myanmar Army Armed Fortes in 1993 and attended Officer Training School. He served in Myanmar Army. Up to Deputy Assistant Quarter Master General for Budget Department in Ministry of Defence. Then he transferred to Ministry of Finance and served Financial Regulatory Department former Myanma Microfinance Supervisory Enterprise. He belongs to the Microfinance Regulation and Supervision Division with the rank of Deputy Director. He attended Seminar on Rural Development and Poverty Alleviation Strategy at Hanoi, Vietnam in 2011. He also attended Program on Strategic Leadership in Inclusive Finance at Harvard Business School , Boston, USA in 2014. He attended Regional Conference on Access to Finance Moving forward in Support of Women Entrepreneurs at Hanoi , Vietnam in 2014. He has experiences in Budgeting and Microfinance Industry.

Myanmar's Response to the Shifting Paradigms: Myanmar's Financial Inclusion Roadmap Framework

10:20
Wednesday

Paul Luchtenburg

Programme Specialist Inclusive Finance
UN Capital Development Fund Myanmar

Paul has more than twenty years of experience in Development and Microfinance and has played a variety of roles from implementer, Technical Assistance provider, funder representative, board member, and equity fund manager.

Currently based in Myanmar, Paul works as a Programme Specialist. Under UNCDF, Paul works on a number of creative projects including the MAP financial inclusion supply and demand research, which will inform the development of a financial inclusion Roadmap for the government of Myanmar. Additionally, Paul helps in facilitating MF entrants of leading regional microfinance providers, financial diaries research, and setting up a market development wholesale lending facility.

Before UNCDF, Paul served as the Senior Operations Officer for Microfinance covering the East Asia and Pacific region for the International Finance Corporation (IFC).

Among his experience implementing, Paul served as the CEO of the Microfinance Institution Angkor Mikroheranhvatho Kampuchea (MFI AMK) in Cambodia. Previous to AMK, Paul worked with world relief implementing in Cambodia and then providing TA support to the Euro Asia region.

Paul holds an MBA from Eastern University and has also been a part of the writing of a number of books and articles on microfinance and financial inclusion, including the microfinance assessment report for Myanmar.

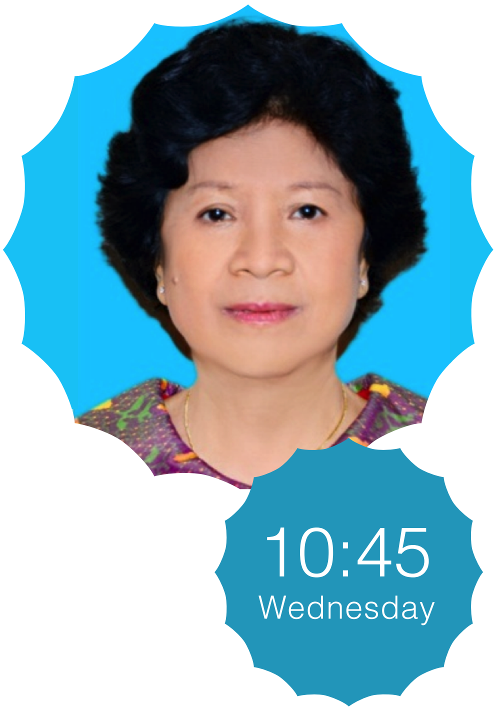
National Perspectives on the role of Financial Inclusion in Sustaining Equitable Economic Development

Moderator

U Than Lwin

Senior Consultant
KBZ Bank Ltd.,
Former Deputy Governor, Central Bank of Myanmar, Myanmar

1964, Bachelor's in Commerce and Economics, Rangoon University; 1968, Postgraduate Diploma in Economic Planning, Institute of Economics; various training courses, IMF Institute, Washington DC. With the Central Bank of Myanmar: 1966, Economist, Research and Training Department; then supervised the balance of payments statistics and analysis with emphasis on reserve management; 1997, Director; 1997-2003, Deputy Governor and Controller of Foreign Exchange. 1992, Secretary to the Steering Committee on the Establishment of a Stock Market in Myanmar. 1994-96, Technical Assistant to the Executive Director of the International Monetary Fund. 2000-02, Leader, Task Force on Fiscal & Monetary Working Group, Myanmar-Japan Cooperation Programme for Structural Adjustment of the Myanmar economy. In 2004 joined the Kanbawza Bank as Consultant; then, Deputy Chairman and currently Senior Consultant. Member, National Economic And Social Council of the President's Office; Member, Pyithu Hluttaw (Parliament) Commission on Legal Affairs; Special Issues, Member, Advisory Group (think tank), Ministry of Finance & Revenue, Myanmar.



Panelist

H.E. Neav Chanthana

Deputy Governor
National Bank of Cambodia

Neav Chanthana joined the National Bank of Cambodia (NBC) in 1993 and worked for Banking Supervision in a career spanning several management positions. She has been appointed as Deputy Governor of the Central Bank since 2004. She is a member of the NBC's Board of Directors, Chair of the Regulatory Committee for Banks and Financial Institutions, a member of the Securities and Exchange Commission of Cambodia (SECC), and Chair of the Financial Stability Unit of the National Bank of Cambodia. NEAV CHANTHANA graduated from Monash University (Economics, Accounting & Finance), Melbourne, Australia.

Panelist

Agustina Dharmayanti

Deputy Director
Financial Inclusion Development, Bank Indonesia

Agustina Dharmayanti is currently the Deputy Director on Financial Access and SME Development Department of Bank Indonesia (Central Bank of Indonesia). She is also head of division for financial inclusion Monitoring and Policy Review, team leader on monitoring the distribution channel Government to Person (G to P) pilot project program. She is involved in formulating regulation of Digital Financial Services for Financial Inclusion framework in Indonesia. She is also involved in Alliance for Financial Inclusion (AFI) Data Working Group. Before her career in Financial Access and SME Development Department, she was an international market analyst in Reserve Management Department Bank Indonesia. She received her Master of Applied Economics from Griffith University Queensland – Australia, with honours.

Panelist

Kamisah Abdul Kadir

Deputy Director
Development Finance and Enterprise Department, Bank Negara Malaysia

Kamisah Abdul Kadir is the Deputy Director of Development Finance and Enterprise of Bank Negara Malaysia, heading the SME Financing and Financial Inclusion Division. She is directly involved in designing, implementing and monitoring policies and programmes pertaining to Financial Inclusion and SME Financing. She is Secretariat member of the Financial Inclusion Working Group at Bank Negara Malaysia.

Her involvement in the SME development began since 2005 as the Secretariat member of the National SME Development Council at the Bank before the function transferred to SME Corporation Malaysia in 2008. She had the opportunity to work with the World Bank consultants in drafting the SME Masterplan 2012-2020 during her 2-year attachment at SME Corporation Malaysia as the Director of Economics and Policy Planning Division.

Her other working experience at the Bank for 20 years includes regulation/ supervision of development financial institutions and insurance industry as well as corporate strategic management. She holds Master's Science in International Development Finance from University of Manchester, UK and Bachelor of Commerce from University of Canterbury, NZ.

Panelist

Gerardo A. Butardo

Officer-in-Charge

Examination Department Bangko Sentral ng Pilipinas

Dr. Gerardo Butardo holds a Doctor in Business Administration, Masters in Business Administration and Bachelor of Science in Business Administration degrees. He is a Certified Public Accountant.

Dr. Butardo's main role at the Bangko Sentral ng Pilipinas (BSP) is enforcing banking rules and regulations through bank examination and policy initiatives. He is one of the key figures for Microfinance and SME regulations and initiatives being the former Head of the MSME Finance Specialist Group, the unit responsible for supervision of banks engaged in microfinance. Dr. Butardo was the BSP representative to the Basel Committee on Banking Supervision Workstream on Microfinance (2010) which proposed the application of Basel Principles for Microfinance Activities. Presently, he represents the BSP to the SME Finance Policy Working Group (SMEFWG) of the Alliance for Financial Inclusion (AFI) and the Basel Consultative Group (BCG) Workstream for Financial Inclusion.

Dr. Butardo is presently the Officer-in-Charge of the Examination Department III, the unit responsible for supervision of Thrift and Rural Banks which are the main providers of financial services to the MSME sector.

The Role of Development Cooperation in Supporting National and Regional Strategies on Financial Inclusion

11:30
Wednesday

Moderator

Toily Kurbanov

Country Director,
UNDP Myanmar

Toily Kurbanov was appointed Country Director of UNDP in Myanmar following a distinguished career in government and diplomacy. He was Turkmenistan's Minister of Foreign Economic Relations in 1997-1999 and Ambassador to Armenia in 2000-2003. Mr. Kurbanov joined the United Nations in 2014 and since then served in various management roles at UNDP headquarters and in Asia Pacific. Prior to his career with government and the UN, he was a banker directly involved in international trade and investment in Central Asia and Eastern Europe. Mr. Kurbanov has Masters degrees in Economics from Russian Economic Academy, and in Public Administration from Harvard Kennedy School of Government.

Panelist

H.E. Ms Bronte Moules

Australian Ambassador to Myanmar
DFAT

Ms Moules is a senior career officer with the Department of Foreign Affairs and Trade, and served most recently as Deputy Head of Mission at the Australian Embassy, Bangkok. Ms Moules has also previously served overseas in New Delhi, at Australia's Mission to the United Nations, New York, and at Australia's Mission to the Conference on Disarmament, Geneva. Ms Moules holds a Bachelor of Arts degree with Honours from the Australian National University.

Panelist

Peter John Brimble

Deputy Country Director
Asian Development Bank

Peter Brimble has worked extensively in Central, South-East and North Asia on industrial efficiency, investment promotion, foreign direct investment, private sector development, and public policy issues. He has carried out research on industrial and technological development, FDI, and government policy issues across the region In the past two decades, Peter has worked on trade, investment and business development issues in the Greater Mekong Subregion (GMS). He presently oversees GMS issues in the ADB Myanmar Resident Mission.

Peter joined the ADB Cambodia Resident Mission as Senior Country Economist in July 2010. In March 2014, he moved to the ADB Myanmar Resident Mission as Deputy Country Director and Principal Country Specialist.

Peter is an Economics graduate of the London School of Economics, Georgetown University, the University of Sussex, and Johns Hopkins University. His Ph.D. thesis examined the productivity performance of Thai manufacturing firms.

Panelist

Judith Karl

Executive Secretary
UNCDF

On 1 August 2014, Ms. Judith Karl joined UNCDF as Executive Secretary.

Judith served as Director of the Operations Support Group in the UNDP Executive Office from 2009 to 2014. Prior to this, she served as Senior Advisor and Chief, Central Strategy and Policy for the UNDP Bureau for Crisis Prevention and Recovery between 2003 and 2008. From 2000-2002, Judith served as Deputy Director for UNDP Washington Liaison Office.

Judith started her career with UNDP in 1988 as a Training Officer with the UNDP Training Section. She served as Assistant Resident Representative with UNDP in Mali (1992-1994) and in Cambodia (1994-1997) and subsequently became a Policy Advisor for the Operations Support Group (1997-1999) and the UNDP Bureau for Latin America and Caribbean (1999-2000).

Before joining UNDP, Judith spent seven years as a Management Consultant with a focus on redesigning business processes in the US private banking and real estate sectors. Judith holds a Master's degree in International Development Administration from New York University and a Bachelor degree from Columbia University.

11:30
Wednesday

Panelist

Abdoulaye Seck

Country Manager
Myanmar Office, The World Bank Group

Prior to this assignment, Abdoulaye Seck was the World Bank's Country Manager in Moldova, Eastern Europe where he led the preparation and implementation of the World Bank Group's Country Partnership Strategy and managed the support of the Moldovan Government's effort to eliminate extreme poverty and boost shared prosperity. He has promoted effective coordination with development partners and stakeholders to strengthen country-led development process.

Abdoulaye also served as Advisor in the Credit Risk Analysis Department of the Japan International Cooperation Agency in Tokyo from 2009 to 2011. Prior to joining JICA on external service, Mr. Seck was a Senior Economist at the World Bank where he led the dialogue with client countries on economic policies and growth strategies, development policy lending, and the implementation of the Paris Declaration on Aid Effectiveness.

Before joining the World Bank in 1993, Abdoulaye was an economist in the Ministry of Finance in Senegal, where he oversaw the preparation of national accounts, macroeconomic forecasts and economic planning. Abdoulaye holds a Master's Degree in Development Economics from the Graduate School of Economics, Statistics and Finance in Paris, France.

H.E. U Set Aung

Deputy Governor
Central Bank of Myanmar

Set Aung is a Deputy Governor of the Central Bank of Myanmar. He is also the Chairman of the Thilawa Special Economic Zone's Management Committee. Before he holds the current position, he was a Deputy Minister of the Ministry of National Planning and Economic Development of Myanmar. He was also an Economic Advisor to the President of the Republic of the Union of Myanmar, a Founder and Director of the Myanmar Development Resource Institute (MDRI) and the Secretary of the National Economic and Social Advisory Council (NESAC) of Myanmar.

He earned his Bachelor's degree and the MBA in Myanmar. Then he successfully completed his second Master's degree specialized in economics, banking and finance in Scotland, United Kingdom and his third Master's degree specialized in investment management in London before he started his Ph.D at Keio in Japan. He has been involved in many international and regional research projects related to economics, social and policy development in various countries including Myanmar, Vietnam, Cambodia, Lao PDR, Thailand, Malaysia, Bangladesh, Sweden and Japan. He has successfully completed over 40 international and regional economic and social research projects in more than 10 countries.

He has authored numerous research papers in cooperation with international and regional academic and policy institutes, including the University of Tokyo of Japan, the Institute for Security and Development Policy in Sweden, Chulalongkorn University in Bangkok, Mekong Institute in Khon Kaen of Thailand, the Stockholm Environmental Institute (SEI-Asia), and the Research Institute on Contemporary Southeast Asia of France, among others.

Dr. Sandar Oo

Director General
Central Bank of Myanmar

Employment (Current):
Director General, Central Bank of Myanmar
(Previous): Pro-Rector of Yangon University of Economics

Academic Achievement:
Bachelor of Commerce (B.Com) majoring in Banking
Master of Commerce (M.Com) majoring in Trade and Finance
Master of Business Administration (MBA)
Ph.D. in Economics

Working Experiences:
(1) Professor at the Yangon University of Economics (1986 – 2012)
(2) Pro-Rector at the Yangon University of Economics (2012 - 2013)
(3) Director General at the Central Bank of Myanmar (2013-present)

Special Assignment:
Director MBA Programme, Yangon University of Economics (2009 – 2012)
Director Myanmar-India Entrepreneurship Development Center (2011 – 2013)
Leader Myanmar Country Research Team, Economics (2011 – 2013)
Research Institute for ASEAN and East Asia (ERIA)
Member National Small and Medium Enterprises (SMEs) Development Committee, Myanmar (2009 – Present)
Member Yangon Division Industrial Zone Development Committee, Myanmar (2009 – Present)

Moving Beyond The Rhetoric: The Role of Finance in Women's Economic Empowerment

Moderator

H.E Chea Seray

Director General
National Bank of Cambodia

Serey CHEA serves in the National Bank of Cambodia since 1999. She has been promoted several times since then and now holds position of Director General of Central Banking. Serey earned her MBA major in Banking from the University of London. Before this, she obtained her bachelor degree in Accounting, Money, and Finance from the Victoria University of Wellington. During her carrier as well as academic study, she has produced various reports and studies. She is also a chairman of the first Credit Bureau of Cambodia since its inception and a president of Cambodia Economic Association as well. Serey has participated in number of seminars, workshops, and conferences as a guest speaker and resource person on a range of topics in banking, finance, and accounting. Serey is fluent in French, English in addition to her mother tongue Khmer.

09:35
Thursday

Panelist

Mia Urbano

Mekong Regional Social Development Advisor,
Department of Foreign Affairs and Trade,
Australia

Mia Urbano is the Social Development Specialist for the Mekong Regional Hub within the Department of Foreign Affairs and Trade (DFAT) of Australia. Ms Urbano provides technical and policy advice, and related capacity development for strengthening the quality of aid program outcomes in Vietnam, Cambodia, Thailand, Laos and Myanmar. Prior to joining DFAT in 2013, Ms Urbano was a senior program manager and lecturer at the Nossal Institute for Global Health at the University of Melbourne. Her areas of specialisation are gender equality and women's empowerment, social protection and social safeguards. In the area of women's economic empowerment, Ms Urbano advises partner initiatives on preventing the exploitation of migrant women workers in ASEAN, assessments of women's economic livelihoods in Vietnam, and increasing access to information for women smallholder farmers.

Panelist

Ms. Dolores M. Torres

President and Chief Executive Officer
CARD MRI

Ms. Dolores M. Torres is the President and Chief Executive Officer of CARD Bank, Inc., a member of CARD-MRI in the Philippines. In her 28 years with CARD MRI, Ms. Torres has held various positions and garnered vast experience in the areas of microfinance. She is currently responsible for the overall management of the bank and its branches. Under her leadership, CARD Bank has been consistently awarded the Financial Inclusion Champion of the Bangko Sentral ng Pilipinas for 4 consecutive years from 2011 to 2014.

Ms. Torres also helps in the management of the twelve other member institutions of the CARD MRI through sitting as board member or board adviser. In addition, she has also helped in the setting-up and implementation of microfinance for the poor various Asian countries such as Vietnam, Laos, Cambodia, Myanmar and Hongkong.

Ms. Torres holds an Executive MBA from AIM, Makati City and Key Executive Management from Harvard Business School, USA.

Panelist

Khine Khine Nwe

Joint Secretary General

Joint Secretary General, The Union of Myanmar Federation of Chambers of Commerce and Industry, Myanmar

Khine Khine Nwe (Rosaline) is the Deputy Managing Director of Best Industrial Co.Ltd, a garment manufacturing company and the Secretary General of Myanmar Garment Manufacturers' Association (MGMA).

Representing the Association, she became the first female Joint Secretary General (JSG) of the Republic of Union of Myanmar Federation of Chamber of Commerce and Industry (UMFCCI) in 2011-12 to 2012-13 and is re-elected in the same post for the new term 2013-14 to 2015-16.

She is the Chairperson of Corporate Social Responsibility and Industrial Relations Committee in UMFCCI. She is also Employers' Delegate to International Labor Conference held in Geneva for 4 consecutive years, 2011 to 2014.

She holds her Master's Degree from Yangon University, Myanmar and taught at Assumption University in Bangkok, Thailand. She is now Chairperson of Myanmar Garment Human Resource Development Center (MGHRDC) and Honorary Principal of UMFCCI Training Institute.

She is also a member of Myanmar Investment Commission. Her passion is to help develop an inclusive socio-friendly economic environment in Myanmar that will lead to equitable growth of the Nation.

Daw Yin Yin Mya

Managing Director
Myanma Economic Bank, Ministry of Finance, Myanmar

Ms. YIN YIN MYA is the Managing Director of the Myanma Economic Bank, which is a state-owned bank. Concurrently, she also serves as the Chairperson of the ASEAN Finance Deputies Meeting Working Group cum the Co-Chair of the ASEAN +3 Finance Deputies Meeting Task Force.

Prior to this position, she was a Deputy Director General of the Policy Research, Training and International Relations Department of the Central Bank of Myanmar. She was a Think Tank member at the Ministry of Finance and Revenue, before she was assigned as a Senior Advisor to the Executive Director of the Southeast Asian Constituent Office of the World Bank, during the period of 2010-2012. Throughout the late 1990s-2000s, she earned experiences as economic researcher, technical assistant to the previous Ministers for Finance and Revenue of Myanmar, and also served as Head of the International Relations Department of the Ministry of Finance and Revenue. During these years, she was a Core Group Member of Myanmar ISIS at the Ministry of Foreign Affairs, while she served as a member of Japan-Myanmar Economic Cooperation Working Group.

She holds a Bachelor of Commerce (B. Com.) degree, obtained from Yangon Institute of Economics. She studied in the Shanghai University of Finance and Economics and the Graduate School of Policy Science (GRIPS) at Saitama University of Japan for her Master's in Policy Science. She has written articles and research papers on banking and finance and participated in international fora, seminars and workshops as a lead speaker and as a panelist.

FACILITATORS &
PAPER PRESENTERS
BREAKOUT SESSIONS

FACILITATORS & PAPER PRESENTERS

THEME 1
Linking Financial Inclusion and the Real Economy

Facilitator

Feisal Hussain

Senior Regional Technical Advisor
UNCDF

Feisal Hussain is the Senior Regional Technical Advisor for Financial Inclusion at the UN Capital Development Fund. Feisal leads a team of Country Technical Advisors and Specialists to deliver financial inclusion programming in the region, while managing new regional programme to accelerate financial inclusion in the ASEAN region. Feisal also supports the global clean energy finance team to test and upscale business models to rapidly expand financial services to poor people for clean energy access in Africa and Asia.

Feisal Hussain has almost 25-years international development experience in strategic leadership, senior management, advisory and programme management roles, with a particular focus on financial services for the poor and livelihoods. Prior to joining the UN Capital Development Fund, Feisal ran a development consultancy in the UK, designing and evaluating projects for donors, not-for-profit organisations, and microfinance institutions. Before this he spent 5-years designing and project-managing economic livelihood projects globally for ActionAid International, and he served for four years as ActionAid's country director in Bangladesh. Before his role as Country Director for ActionAid, he spent several years designing and managing microfinance programmes both at the retail level and at the meso level through policy research and advocacy. His initial focus was in Bangladesh in the early 1990s, then Asia more generally through UNDP's MicroStart project, and then South Asia more especially through the microfinance think-tank South Asian Network of Microfinance Initiatives, which he helped to create in the mid-1990s.

Before joining the development sector, Feisal worked in the City of London in the late 1980s in retail banking and then in wealth management of high net-worth individuals.
Feisal holds a Masters in Development from the University of Leeds and Bachelors in Business from Middlesex University.

FACILITATORS & PAPER PRESENTERS

THEME 1
Linking Financial Inclusion and the Real Economy

Paper Presenter

Isaku Endo

Financial Sector Specialist
Payment Systems Development Group
The World Bank, USA

Remittances and Financial Inclusion in ASEAN Countries

Isaku Endo is Financial Sector Specialist in the Payment Systems Development Group, Finance and Markets Global Practice of the World Bank where he advises governments on the development of payment systems and remittances. Since he joined PSDG in 2010, he has managed and participated in a number of advisory and technical assistance programs and assessment programs of financial market infrastructures and remittances.

From 2004 to 2010, he worked at the Financial Market Integrity Unit in the World Bank where he led technical assistance programs and policy development and research projects on Anti-money laundering and combating the financing of terrorism (AML/CFT), remittances issues and access to finance, and participated in AML/CFT assessment programs.

He published a number of policy papers on remittances and access to finance issues.

FACILITATORS & PAPER PRESENTERS

THEME 1
Linking Financial Inclusion and the Real Economy

Paper Presenter

Arup Chatterjee

Principal Financial Sector Specialist
Asian Development Bank

Micro-Insurance as Emerging Microfinance Service for the Poor: Approaches to Building Resilience Against Vulnerability

Arup Chatterjee is Principal Financial Sector Specialist, Asian Development Bank. He has over twenty five years' experience in the operational, regulatory and policy aspects of the insurance sector for financial sector reforms, regulatory and supervisory oversight architecture, pension and health insurance reforms, disaster risk financing, agriculture insurance, public private partnerships, and financial inclusion (microinsurance) in Asia, Africa and Latin America. In his current role he is responsible for leading financial sector development initiatives in the area of insurance, private pensions and contractual savings. His technical assistance and program development work program focuses on insurance and pension's market development, regulations, implementation of international financial standards and supervisory capacity building, base of the pyramid opportunities and consumer protection. He has earlier served as Principal Administrator of the International Association of Insurance Supervisors at the Bank for International Settlements in Basel, Switzerland and as Joint Director of Insurance Regulatory and Development Authority, India.

FACILITATORS & PAPER PRESENTERS

14:30
Wednesday

THEME 1
Linking Financial Inclusion and the Real Economy

Paper Presenter

Thomas Foerch

Head of Project
Financial Sector Development (GIZ)

Access to financial services for small and medium sized enterprises (SME)

Thomas is a financial market professional with in depth experience across regulation, supervision, banking and microfinance.

Thomas is currently heading the GIZ (Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH) project on Financial Sector Development in Myanmar. The project focuses on sustainable access to formal financial services for SME and works closely with the Central Bank of Myanmar, the Myanmar Institute of Banking and also selected pilot banks.

Thomas held further positions with GIZ as advisor to Bank Indonesia (Central Bank of Indonesia) and as financial sector expert in the GIZ-internal research and planning division in Germany. In Indonesia, he focused on the regulation and supversion of microfinance institutions as well as commercial banks. In his role in Germany, he oversaw the GIZ financial sector portfolio in Asia.
Previous to joining GIZ Thomas worked in the financial services industry in Switzerland with a focus on investments in emerging markets. Thomas holds academic degrees in Economics as well as International Relations. He studied in Switzerland (St. Gallen and Geneva), UK (Aberdeen) and China (Shanghai).

FACILITATORS & PAPER PRESENTERS

13:45
Wednesday

THEME 2
Leveraging Drivers and Enablers of Financial Inclusion

Facilitator

Gregory Chen

CGAP Manager

Based out of Washington DC Greg Chen works to advance access to finance by helping establish new business models that leverage the changing landscape of technology and communications. Chen brings 18 years of financial inclusion experience and more than a decade of work resident in South Asia working with businesses and policy-makers.

Prior to CGAP, Chen worked for the Aga Khan Development Network, ShoreBank International, and Bank of America. An American national, Chen has lived and worked in South Asia for most of the past 12 years, with a particular focus on India, Bangladesh, and Pakistan. His academic training is in economics, and he holds a master's degree from Harvard's Kennedy School.

Paper Presenter

Ivan Daniel Mortimer Schutts

Senior Operations Officer
International Finance Corporation

THEME 2
Leveraging Drivers and Enablers of Financial Inclusion

Retailers and their role as a conduit for Financial sector development

Mr. Mortimer-Schutts is Regional Leader for Retail Payments and Digital Financial Services in East Asia. Ivan is a specialist in financial services development, with business and policy experience, having worked in the private sector, in economic and regulatory policy and with Microfinance NGOs. Ivan joined the IFC from BNP Paribas, where he led Group retail and mobile banking strategy and development initiatives for BNPP's retail operations in emerging markets. Prior to that he was head of business development for a European start-up equity broker (Self Trade / DAB) helping this company expand from France into 4 other EU markets. He joined Self Trade in 2000 from Ernst & Young Germany, where he was senior consultant advised financial institutions. In the area of policy and regulation, Ivan was in charge of MiFID implementation for BNP Paribas; He also led financial sector regulatory studies for the Groupe d'Economie Mondiale in Paris, working in partnership with the AEI-Brookings Joint Center for Regulatory Studies

Ivan has a BSc (Econ) from the London School of Economics and an MPhil in International Economics from the Institut d'Etudes Politiques de Paris (Science Po).

FACILITATORS & PAPER PRESENTERS

THEME 2
Leveraging Drivers and Enablers of Financial Inclusion

Paper Presenter

Dave Tan

Vice President of Public Policy for Asia Pacific at MasterCard
US- ASEAN Business Council/ MasterCard

Bridging the Gap for the Financially Excluded and Under-served through Electronic Payments

Dave develops and implements strategic plans at MasterCard for public policy engagement to positively shape the policy debate and outcome. This forms the important bridge between government policy and business needs for a conducive and responsive regulatory environment.

He has extensive policy experience in public and private sectors, having served in the Singapore Government for 11 years in cross-cultural environments. He held leadership positions in the Singapore Foreign Service and Ministry of Trade and Industry, as Deputy Chief of Mission of the Embassies to Egypt, Jordan and the UAE, and a negotiator of the Singapore-Jordan FTA/BIT and Singapore-Vietnam Connectivity Framework.

He holds a MSc International Relations from London School of Economics as a British Chevening scholar, and a BSSc (Honors) in Economics from National University of Singapore as a Singapore Government scholar. He built a greater insight of business fundamentals in Asia through the INSEAD Asian International Executive Program.

FACILITATORS & PAPER PRESENTERS

14:30
Wednesday

THEME 2
Leveraging Drivers and Enablers of Financial Inclusion

Paper Presenter

Eduardo Cabral Jimenez

Regional Coordinator for Asia
Alliance for Financial Inclusion

Role of smart policies and regulation in financial inclusion

Mr. Eduardo Cabral Jimenez is the Regional Coordinator for Asia of the Bangkok based, Alliance for Financial Inclusion (AFI), a global network of financial regulators and policy-makers from over 90 developing countries. Concurrently, he is also the Microfinance Advisor of the Bangko Sentral ng Pilipinas (BSP) since 2001, looking at policy and regulatory issues affecting the practice of Microfinance and Financial Inclusion.

He was previously connected with the then Central Bank of the Philippines and worked in various capacities before joining the microfinance community as a direct practitioner in 1993. He was the former Executive Director of APPEND, the oldest microfinance network in the Philippines

He is presently serving on the board of the Microfinance Council of the Philippines (MCPI), Inc, the Community Economic Venture (CEV), Inc. and in other social-development organizations in the Philippines.

Ed teaches/facilitates basic microfinance principles, concepts, governance and risk management as well as legal and regulatory issues affecting microfinance practice and operations.

FACILITATORS & PAPER PRESENTERS

14:50
Wednesday

THEME 2
Leveraging Drivers and Enablers of Financial Inclusion

Paper Presenter

Zaw Oo

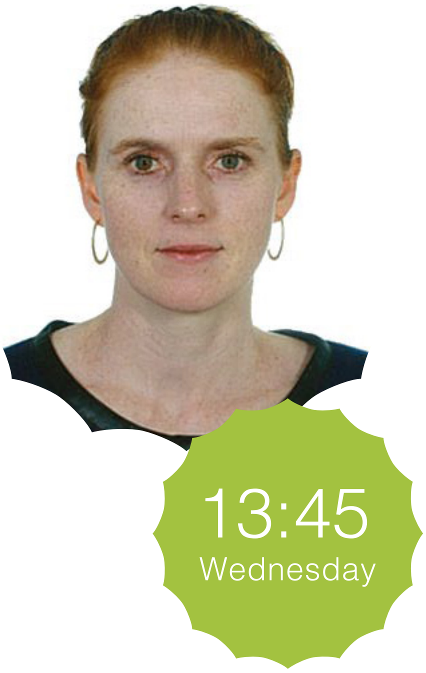
Executive Director
Centre for Economic and Social Development,
Myanmar Development Resource Institute

Financial inclusion in myanmar: role of micro-finance for migration

Zaw Oo is Economic Advisor to the President U Thein Sein of Republic of the Union of Myanmar. He is also Executive Director of the Centre for Economic and Social Development of the Myanmar Resource Development Institute, an independent think-tank dedicated to inclusive and sustainable development of Myanmar. Previously, he was a lecturer at Chiang Mai University and he returned to Myanmar in 2011 to help the country's transition after years of dedication to restoring democracy at home. He holds graduate degrees from Columbia University and American University in international development, finance and banking, and political economy.

He is also a member of the National Economic and Social Advisory Council of the Office of the President, and recently appointed as member of the Task Force on Public Service Performance Appraisal, which facilitates public feedbacks to support administrative reforms and other reform programs in Myanmar. He contributed to the development of Framework of Economic and Social Reform that guide a comprehensive set of reforms and development cooperation for 2012-15 as well as the country's successful conclusion of Paris Club agreement in January 2013. In his capacity as National Coordinator, he has successfully led Myanmar's efforts to become a member of international Extractive Industry Transparency Initiative in 2014 while serving as a principal advisor to tax reforms, SME development, civil service reform and decentralization. He is a co-author of Assessing Cease-fire Accords in Burma. Washington, DC: East West Center, 2007 and Economic Development of Burma: A Vision and A Strategy, Singapore University Press (2000) and a regular contributor to many scholarly journals and news media.

FACILITATORS & PAPER PRESENTERS



THEME 3
Taking Proactive Public Action to Catalyse Financial Markets

Facilitator

Emma Tiaree

Counsellor
DFAT

Emma Tiaree is the DFAT Counsellor Development Cooperation heading up the South East Asia Regional Hub in Bangkok. Emma oversees a portfolio of regional programs implemented from Bangkok and also the operations of the Hub which provides strategic input to DFAT's South East Asia posts on development, political and economic issues, drawing on in-depth sectoral expertise and long-term regional experience through a team of specialists based in Bangkok, Vientiane, Hanoi and Phnom Penh.

FACILITATORS & PAPER PRESENTERS

THEME 3
Taking Proactive Public Action to Catalyse Financial Markets

Paper Presenter

Parjiono

Director, Fiscal Policy,
Ministry of Finance Indonesia

The Role of the state to increase the People Capacity to Access and use of Formal Financial Services for Alleviating Poverty

Parjiono is the Director of Center for Regional and Bilateral Policy, Fiscal Policy Agency, Ministry of Finance. He has broad experience working on international matters, particularly related to ASEAN cooperation and APEC. He was the Co-Chair for the ASEAN+3 Research Group (ASEAN+3 RG) on Financial Cooperation in 2011. Currently, he is the Assistant to Chair for ASEAN Infrastructure Fund's (AIF) Board of Director and member of ASEAN Fund Advisory Group (FAG). He also serves as the APEC Senior Finance Official for Indonesia.

Dr. Parjiono owns a bachelor degree in Business Economics from Gadjah Mada University Indonesia and a master degree in Public Policy from School of Public Policy and Management, Korea Development. He also holds a PhD in Economic Growth and Development from School of Business, James Cook University at Townsville, Queensland, Australia.

14:10
Wednesday

THEME 3
Taking Proactive Public Action to Catalyse Financial Markets

Paper Presenter

Jose De Luna-Martinez

Senior Financial Economist
World Bank

The Role of Development Banks in Financial Inclusion

Mr. De Luna Martinez is a Senior Financial Economist at the World Bank Group. He is based in Bangkok, Thailand, from where he leads a wide range of financial sector projects in South East Asia. Mr. De Luna joined the World Bank in 1998 and since then has worked in more than 38 countries in various regions of the world. He is a well-known international expert on SME finance, financial sector regulation and supervision, state-owned bank reform, remittances, and agriculture finance. From 2007 to 2010, Mr. De Luna took leave from the World Bank and served as Executive Director and Chief Economist of Financiera Rural of Mexico. Early in his career, Mr. De Luna worked at the Banking and Securities Commission of Mexico and participated in the resolution of the Mexican banking crisis of 1994. Mr. De Luna holds a Ph.D. in Political Economy from the Free University of Berlin. He is author of several publications in international finance. In 2000, he received the prestigious Jacques de Larosiere Award (second place) granted by the Institute of International Finance (IIF) to the best essays in international finance.

FACILITATORS & PAPER PRESENTERS

THEME 3
Taking Proactive Public Action to Catalyse Financial Markets

Paper Presenter

Andrew Fan

Manager
Bank Negara Malaysia

Use of data in supporting the development of enabling conditions for greater Financial Inclusion

Andrew began his service in Bank Negara Malaysia in 2008. He is currently attached to the Development Finance and Enterprise Department, where his key role in the Bank is to design and implement financial inclusion policies.

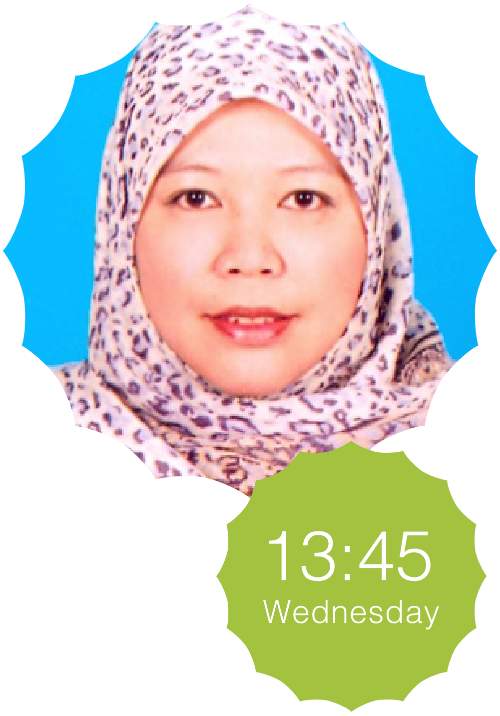
His key experiences include:

- Co-ordinating the formulation of the Bank's formulation of the Bank's financial inclusion strategies in the Financial Sector Blueprint 2011-2020.
- Co-ordinating the Alliance for Financial Inclusion (AFI) Global Policy Forum 2013 with the theme "Driving Policies to Optimal Impact".
- Review of SME Credit guarantee and SME fund strategies.

Andrew is currently a member of AFI's Financial Inclusion Strategy Peer Learning working group and is chair its Public Private Engagement sub-group.

Andrew holds an MBA from INSEAD and is a CFA Charterholder.

FACILITATORS & PAPER PRESENTERS



THEME 4
Managing Risks at Client, Institutional Asystemic Levels

Facilitator

Hajah Rashidah Sabtu

Executive Director
Autoriti Monetari Brunei Darussalam

Ms. Rashidah Sabtu is Executive Director in charge of Banking and Specialised Markets Supervision of the Autoriti Monetari Brunei Darussalam (AMBD). She has been involved in banking supervision for the last six years, and currently oversees all licensed banks and finance companies as well as peripheral financial institutions. Prior to her assignment in AMBD, she has worked with the Treasury Department of the Ministry of Finance (Fiscal) for fifteen years.

Ms. Rashidah graduated with a Bachelor (Hons) Degree in Accountancy from the University of Huddersfield, United Kingdom. She also holds a Master (Msc) in International Banking and Financial Services from Henley Business School, University of Reading, United Kingdom. She has passed all 3 levels of the Association of Chartered Certified Accountants (ACCA) examinations and has obtained her fellowship from ACCA.

THEME 4
Managing Risks at Client, Institutional Asystemic Levels

Paper Presenter

Tina Singhsacha

Chief Representative
Myanmar Standard Chartered

Education for Entrepreneurs (E4E)

Tina Singhsacha is the Chief Representative for the Bank's Representative Office in Yangon.
Tina joined Standard Chartered Bank in January 2007 in Corporate Affairs and moved to Singapore in April 2008 to join Regional CEO, SEA as his Business Planning Manager. Tina became the Chief of Staff to Regional CEO, Singapore & SEA in 2011 and was responsible for running of CEO office, Government and Regulatory Relations, Legal and Corporate Real Estate Services functions for Standard Chartered Bank Singapore.

Tina started her career with HSBC in 1995 as the management trainee and was trained on all aspects of Commercial Banking from Wholesale Banking, Global Markets, Trade Finance and Consumer Banking. She left HSBC to pursue MBA and switched career after the MBA to become a management consultant at Bain & Company in Singapore in 1999. At Bain, Tina led many strategy projects for many multinational and local companies across Asian countries from Vietnam, Thailand to Indonesia in many industries including FMCGs, Electronic and Banking. Upon her return to Thailand in 2001, Tina joined True Corporation in the Strategic Planning department and later moved to head the marketing team to help grow the broadband market and business in Thailand.
Tina has a Bachelor of Commerce from New South Wales, Sydney Australia and an MBA from Sasin Graduate International Business Administration of Chulalongkorn University, Bangkok, Thailand.

FACILITATORS & PAPER PRESENTERS

14:10
Wednesday

THEME 4
Managing Risks at Client, Institutional Asystemic Levels

Paper Presenter

Kelly Hattel

Financial Sector Specialist
Asian Development Bank

Responsible Finance - The Role of Consumer Protection in the Delivery of Financial Services

Appointed Financial Sector Specialist (Rural and Microfinance) in the Public Management, Financial Sector, and Trade Division of the Southeast Asia Department in January 2011, Ms. Kelly Hattel brings over 17 years of professional experience as a financial inclusion specialist. At ADB she is leading a technical assistance project for financial sector reform in Myanmar, lead a TA developing a national strategy for financial inclusion in Thailand and has supported teams focused on the expansion of financial inclusion in Vietnam, Cambodia, Laos and the Philippines over the past three and a half years. Prior to joining ADB, she consulted for various public and private sector agencies where she provided technical expertise and support on strategic and business development, financial and economic analysis, fund raising, project management and evaluation. She also worked to strengthen the operations of national and regional microfinance associations across Asia by conducting baseline and follow-up capacity assessments, providing direct technical support as well as developing a range of tools for MFAs on strategic and business planning, good governance, and credit bureaus. From 2001 to 2006, she was Director of the MicroFinance Network in Washington, D.C. where she managed a global association of 37 leading microfinance institutions from 28 countries; developed and implemented strategic plans and annual budgets for the network; worked with international donor organizations and private foundations to seek financial support and collaboration on microfinance activities (i.e. rural finance, consumer protection, staff incentives, and housing). She also maintained the network website, developed marketing materials, and wrote/produced all network publications. During this time she was a member of the Consumer Protection Working Group as well as the Social Performance Task Force. A national of the United States, Ms. Hattel holds a Masters degree in International Affairs (Economics and Microfinance) from the Johns Hopkins School for Advanced International Studies in the USA; and a Bachelors degree in International Studies and Law from the American University in the USA.

FACILITATORS & PAPER PRESENTERS

14:30
Wednesday

THEME 4
Managing Risks at Client, Institutional Asystemic Levels

Paper Presenter

Eden Dema

Deputy Governor
Royal Monetary Authority of Bhutan

Managing the Twin Responsibilities of Inclusion and Stability

Ms.Eden Dema is the Deputy Governor of the Royal Monetary Authority of Bhutan(RMA) responsible mainly for Financial Regulation and Supervision, Currency management, Payments Systems, Financial Intelligence Unit (FIU), Central Registry and Administration & Finance Departments of RMA. Besides, she is also the Chairperson of the Credit Information Bureau of Bhutan (CIB), Executive Director of the Financial Institutions Training Institute of Bhutan(FITI). She has 21 years of work experience in the central bank and has played a major role in developing the regulatory and supervisory framework for the Bhutanese financial sector .She has also established the CIB, FIU and FITI in Bhutan. Recently, she was elected as the Co-Chairperson of the Financial Inclusion Strategy Working group of Alliance for Financial Inclusion(a global sharing network of financial inclusion policymakers) given her wide experience in the area of financial inclusion. She is a well-known speaker in financial sector subjects in various national, regional and global events.

She holds a certificate in Economics from the IIAP(L'ENA) in Paris, France(1999) and BA Economics from University of New Delhi, India(1992).

PAPERS

Satish Mishra
& Feisal Hussain
UN Capital Development Fund
Bangkok

Hennie Bester,
Jeremy Gray,
David Saunders
& Christine Hougaard
Cenfri
South Africa

I. INTRODUCTION

This discussion paper focuses on the potential for financial inclusion to be mainstreamed into public policy decisions as developing country governments, international aid organisations and global firms work towards a sustainable and integrated development framework for the post-2015 World.

Two decades of instability in the international finance and commodity markets has highlighted the need to build a pathway out of poverty for millions of households that are among the most vulnerable. There is increasing talk in policy circles about financial inclusion being used as a preferred policy to enable poverty reduction and growth in coming decades. It's thought that such inclusion could lay the ground to move households out of poverty without necessarily sacrificing the high growth with equity that characterised earlier development in ASEAN.

These policy insights are being reinforced by new data, collected from poor households about their own financial decisions. The data seems to suggest that financial inclusion does not always follow economic growth but that, conversely, inclusion can help trigger growth. For countries aspiring to graduate from Less Developed Country status and to break out of the middle-income trap, financial inclusion adds a potent policy complement to more traditional policy levers.

This paper argues that policy-makers and governments should move towards incorporating comprehensive financial inclusion programs into their sub-national, national and regional development strategies. The ASEAN integration process offers a framework for the design and implementation of such regional financial inclusion programs. Such programs could benefit both more and less developed economies, as well as financial markets across ASEAN.

The paper draws on the disaggregated data from the UN Capital Development Fund's (UNCDF) Making Access Possible (MAP) programme[1] and the World Bank's FinDex, insights from CGAP's Human Centred Design (HCD) project, as well as on perspectives from preliminary consultations with selected Ministry of Finance and Central Bank officials from the member states of ASEAN and the ASEAN Secretariat. It also benefits from insights from key stakeholders dedicated to expanding financial inclusion in the region, particularly in the least developed countries[2] .

This paper is UNCDF's contribution to the 2014 ASEAN Financial Inclusion Conference, hosted by the Union of the Republic of Myanmar as the current Chair of ASEAN. It forms part of UNCDF's policy research and advocacy agenda through its SHIFT programme (Shaping Inclusive Finance Transformations). SHIFT is a financial-market facilitation, technical assistance and funding facility that was recently established for the ASEAN region, in cooperation with the Australian Government.

II. NEW CHALLENGES, PRESSURES AND EMERGING PUBLIC POLICY CONCERNS WITHIN ASEAN AND DEVELOPING ASIA

Governments across the globe are facing new challenges all the time and they are facing them with far less fiscal and human resources than they enjoyed in the closing three decades of the last century. The UN's Post-2015 development discussions illustrate that many of these challenges are shared. However, the distinct political economy, culture and history that shape the particular set of pressures faced by governments in the ASEAN region, especially those in the least developing and lower-middle income countries, are highlighted below.

The sharp rise in inequality will lift fewer people out of poverty:

The developing economies of Asia have attracted enormous attention over the last four decades because of the way they were able to combine high growth with relatively low levels of inequality and rapid poverty reduction. These growth drivers were seen to be spearheading the 'rise of the rest', in a wholesale remake of the global economy. However, a series of shocks, including the Asian Economic Crisis of the late 1990s and the Global Economic Crisis of 2008-09, have contributed to economic instability, and have served to lower expectations that Asia will be able to repeat the spectacular successes of the past. Growth rates are now significantly lower than in the 1980s and 1990s[3] and inequality has risen sharply again over the last two decades. This rise in inequality means that growth will yield lower poverty reduction and less employment creation than was the case previously. The ongoing economic recession in many developed economies, following the 2008/9 financial market meltdown, further illustrates for Asia the dangers of over-reliance on exports to markets characterised by unsustainable levels of consumption and debt. Fortunately, following the Asian Economic Crisis, many countries within ASEAN have already reoriented their trade towards neighbouring, intra-Asian markets.

There is a growing vulnerability to poverty in the face of diverse and unpredictable shocks:

A large proportion of the population has escaped poverty but remains situated just above the poverty line [4] and is thus highly vulnerable to financial shocks, health problems, food price rises and natural disasters. Over the past decade, governments have often responded to such shocks by providing social safety nets to prevent people falling back into poverty. Such social protection has helped counteract the worst potential effects of these problems. However, located just above the poverty line, low-income households remain vulnerable.

Opportunities to reap the demographic dividend through healthier and educated young people risk turning into a liability:

It's clear that Asia should invest in its young people to raise productivity and attract further investments in the real economy. If these investments are made wisely, these young people will represent an important 'demographic dividend'. However, if managed poorly, these young people could just as easily become a 'liability', reinforcing the cycle in which households and countries are unable to break out of their respective middle income traps.

The consequence of sub-national inequalities need to be carefully managed:

There are increasing worries that economic integration and liberalisation of financial markets, both globally and through the AEC, will lead to narrow impervious corridors of spectacular growth surrounded by a hinterland of poverty and near stagnant sub-economies. Finding ways to ensure that regions and groups are not excluded from the benefits of growth are looming large in policy makers' minds, as they seek to reduce the risk of future social tension.

Governments are being asked to do much more with fewer resources:

Governments are expected to deliver a wider set of economic and social welfare results than ever before. However, the environment within which they are operating is far from ideal: declining state resources for capital investments, transfers and revenue-expenditures; decreasing foreign aid flows, mobile capital flows and supply chains; and higher domestic consumption that puts a downward pressure on domestic savings. All of these factors are putting pressure on the fiscal resources of the State and limiting its fiscal leeway to act.

Governments are under pressure to find new solutions to real economy problems for the many, not just the few:

The rise of a well-informed, urbanising middle class, across much of developing Asia, has required governments to formulate policy under much greater public scrutiny and higher expectations than ever before. The economic shocks of the last two decades have led to major social and political reform in many countries in the ASEAN region, with the result that governments are now concerned about human development and the quality[5] of economic growth as much as about its quantity.

There is less confidence in assumptions about drivers of growth[6] and in traditional approaches, leading to a search for new, forward-looking policy instruments:

During the 1980s and 1990s, governments achieved growth through raising investment to GDP ratios. Today, there are concerns about the diminishing returns of such investments and there is a clear shift towards promoting education and innovation. For example, Indonesia has raised public expenditure on education dramatically to 20% of the total budget, while Cambodia has also begun prioritizing the development of its human capital. Other public policy concerns include how best to cement partnerships with the private sector and with communities in order to expand the financial space needed for change.

ASEAN countries, especially the CLMV and lower middle-income members, are in search of forward looking policy instruments to complement current levers and to help them address the full range of challenges and public policy concerns

III. VALUE OF FINANCIAL INCLUSION AS A COMPLEMENTRY POLICY OF CHOICE TO PROMOTE GROWTH WITH EQUITY

With these goals in mind, there are many reasons to believe that financial inclusion could and should become a policy instrument of choice for developing countries generally, and within developing Asia and in ASEAN countries in particular.

There is growing evidence that inclusive financial sector development impacts economies in ways that contribute to a reduction in poverty and inequality. Firstly, such development drives growth, which provides a conducive environment for the reduction of poverty and inequality. Secondly, the availability of appropriate and affordable financial services leads to improvements in the welfare of poor people by enabling them to save and utilize their money more efficiently and effectively. This in turn is able to drive broader financial sector development and thus economic growth by mobilizing savings and investing in the growth of the productive sector. The institutional infrastructure of the financial system also contributes to reducing contracting and transaction costs, which in turn accelerates economic growth.

Research has shown that in countries with developed financial intermediaries, the income of the poorest quintile grows faster than average GDP per capita, income inequality falls more rapidly, infant mortality reductions are larger and child enrolment in primary schools increase.[7] The global financial inclusion agenda recognizes these potential benefits as well as the fact that diverse providers are required, combined with a robust regulatory environment and enabling infrastructure.

Policy-makers, regulators and supervisors are recognizing that high levels of financial exclusion pose a risk to political stability and impede economic advancement.

"A key challenge is how to create the broader interconnected ecosystem of market actors and infrastructure needed for safe and efficient product delivery to the poor."[8]

Increased availability of data through comprehensive consumer-focused surveys like FinScope and FinDex, as well as new integrated data and analysis such as MAP, are generating new national data that allows for disaggregation of the adult population into discrete segments with differing profiles, needs, behaviour and usage of financial services, across products and providers, for each segment. When overlaid with the supply-side picture (formal and informal providers and channels across product markets), such methods create a multi-dimensional picture that will help policy makers formulate a road map for financial inclusion of each sector.
Additionally, the growing body of behavioural research through, for example, projects such as Financial Diaries and Human Centred Design, are complementing national level surveys and data sources to paint a more nuanced picture of household behaviour over time.

Taken together, these offer six distinct but, in many ways, complementary, insights into how financial inclusion can be a trigger for growth and help solve a number of the public policy challenges faced by ASEAN governments in the post-2015 world, especially the least developing and lower-middle income countries in the region:

Leveraging the contribution of the smallest economic agents for national saving and investment:

Financial inclusion is an instrument that allows even the smallest economic actor to contribute to national savings and investment. For example, in Myanmar the source of just over half of all credit is informal. These funds are not deposited in the formal financial system, and thus there is no scope reaping the benefits for investment at a national level. In contrast, the Royal Government of Thailand established Village Funds linked to State Financial Institutions (SFIs), which have begun to leverage low value contributions at the local level for national investment. The Village Funds contribute 5% of national savings (9 billion baht) from 5.3m adults, more than half the number of savings clients. The average value of these … s less than half that of the national average,

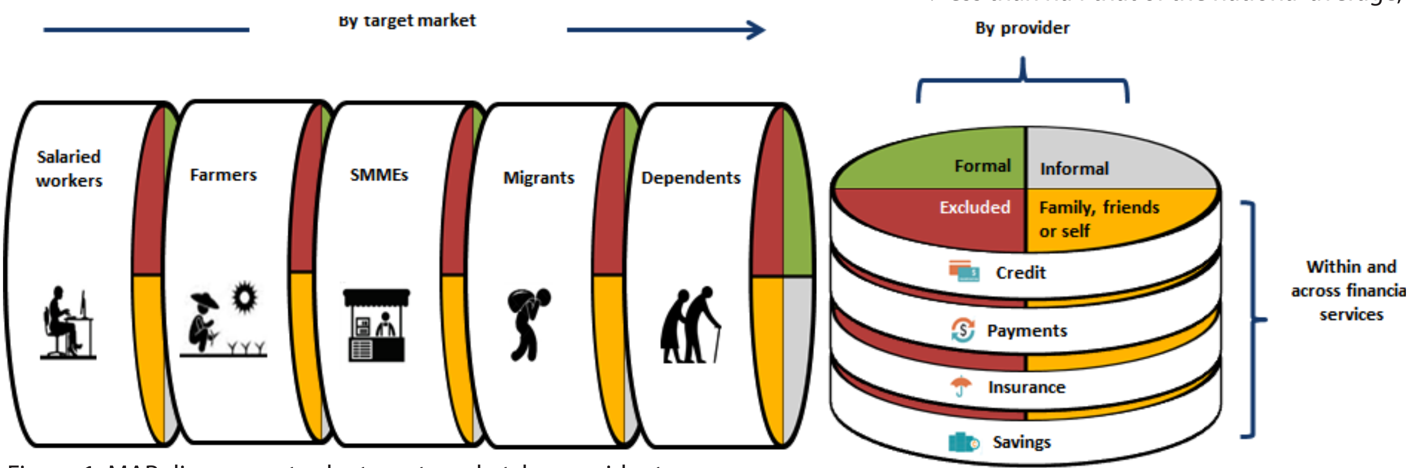


Figure 1: MAP disaggregates by target market, by provider type and across different types of financial services
Source: authorsfor

suggesting the power of the Village Fund to leverage low-amount savings at local level.

Creating an income and consumption ladder out of vulnerability:

By allowing poor and just-above-the-poverty-threshold households to manage risks associated with consumption, prices, health and natural disasters through the availability of finance at a much lower cost than traditional forms of informal money lending, financial inclusion helps build an income and consumption ladder along which poor households can find a pathway out of vulnerability.

This pathway is not limited to cost reductions, however, but also relates to other opportunities created by financial inclusion. Access to multiple types of financial services allows individuals to use appropriate financial products for specific needs, while a constrained product offering leads to incorrect use of products that can hamper progress along the income and consumption ladder. For example, MAP Myanmar finds that more than three quarters of those that use regulated financial services use only one financial service. Although the traditional focus of financial inclusion policies in Myanmar has been on credit, risk mitigation (savings and insurance) products can be just as important to growth and welfare. In fact, the absence of these undermine the productivity gains of increased credit. For example:

• 21% of formal enterprises in Myanmar report that they use either savings or credit to mitigate insurable risks, rather than insurance. Savings and credit are an important source of capital financing for these enterprises, and so using these to mitigate risks reduces the scope for these enterprises to use savings and credit for productive uses.
• 48% of Myanmar farmers indicated that they experienced crop losses. In the absence of insurance products, 42% of farmers who have experienced agri-related risks rely on credit to cope with the impact of those risks, 10% on savings and 22% indicated that they would need to sell assets or reduce expenditure.
• 31% of adults in Myanmar indicated that they were affected by health risks the previous year. Of those who have experienced illnesses, the majority of individuals have relied on credit (47.7%) followed by the sale of assets or reduced expenditure (27%) or have relied on savings (22%). Appropriate insurance therefore has the scope to directly impact on welfare.

Extending the reach of the state in building human capital:

Financial inclusion can complement public approaches to build human capital. By empowering consumers and reducing vulnerability, financial inclusion can allow even poor households to take a long view of human capital investment in education and health, which in turn raises skills and productivity. This is different from more familiar forms of poverty alleviation and social protection measures such as cash transfers, commodity subsidies or even traditional forms of micro-credit that focus on ensuring households move above the national poverty line.

The governments of Thailand and Myanmar both have health and education as policy objectives. However, households still face significant out of pocket expenses in these two areas. For example, qualitative demand-side research in Myanmar shows that health and education expenses rank amongst the most significant expenditures for adults. Of those respondents who reported spending money on education, the average spent 15-20% of their monthly income on education. Similarly, respondents indicated that healthcare costs constituted close

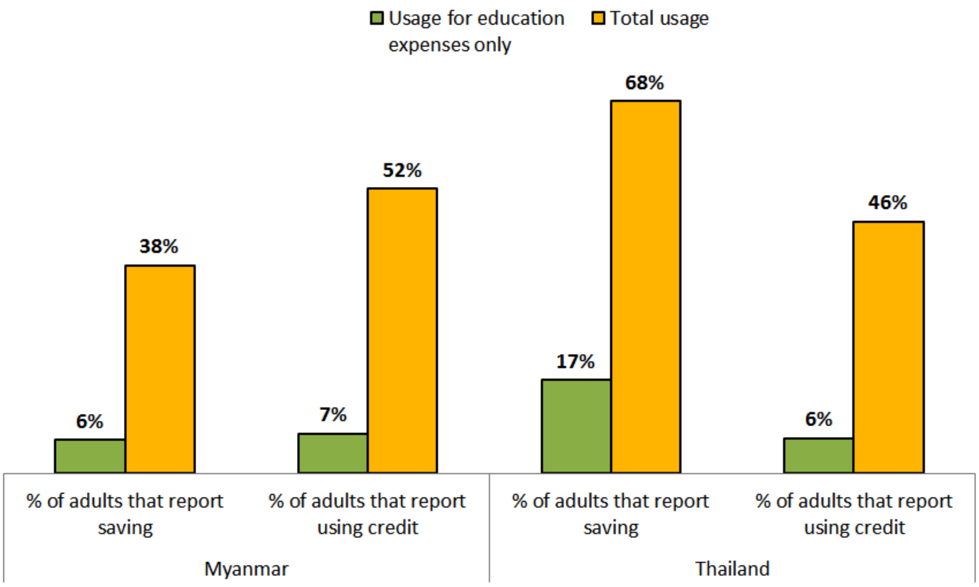


Figure 2: Proportion of adults in Thailand and Myanmar that use savings and credit for education expenses
Source: FinScope, 2013, 2014

to 10% of their monthly income[9] . Financial services can extend the reach of the State in the provision of these fundamental services:

The case of health.

The MAP analysis in Myanmar and Thailand reaffirmed that most adults, both rich and poor, rely on a range of financial services to mitigate health-related risks, despite public spending on health. For example, even with the implementation of the Universal Health programme (locally known as the "30-baht" scheme) by the Royal Government of Thailand in 2001, adults still need to cover out-of-pocket expenses, for example for medicine and transport costs. Only 8% of all adults reported having health insurance, and, even among the wealthiest groups, such insurance was limited. The result is that adults still rely on credit and savings to manage out of pocket expenses. 53% of savers indicated that they set aside money for future medical expenses.

In Myanmar, FinScope revealed that no adults have health insurance. Consequently, of the 31% of adults that reported that they had experienced an illness that required medical attention in the last year, 69% reported relying on credit and/ or savings to cope with the out of pocket expenses. In the absence of health insurance and/or sufficient public coverage, 11% of all adults in Myanmar reported saving for a medical emergency and 13% reported using credit.

The case of education. Likewise, despite the availability of free public education in several countries, households continue to incur out of pocket expenses to send children to school. Qualitative demand-side research conducted in MAP Thailand and Myanmar revealed that adults are willing to invest in education and will often prioritise such expenses in the household budget. FinScope data shows that a substantial proportion of adults that reported saving and having credit, reported doing so for education purposes (see Figure 2). This holds across target markets. Thus field data suggests that, given the opportunity, households will use savings, insurance and credit to improve their health and educate their children, thereby lifting the human resources of the nation through their individual efforts.

The result is that financial services play a complementary role to public provision in helping households to take a long term view of human capital investment in education and health, which in turn can raise skills and productivity. Financial inclusion is thus reaffirmed as a complementary objective to social welfare and growth policy objectives.

Enabling social mobility:

Financial inclusion also has the potential to promote business start-ups and micro and small enterprise development. This supports the emergence of a domestic entrepreneurial class that can fill the 'missing middle' common to much of developing Asia. Yet, not all micro and small enterprises can be treated alike as shown by MAP Myanmar.[10] Disaggregated data enables policymakers to identify where different types of SMMEs operate, understand their behaviour, demographic characteristics and current financial usage. This allows for tailored policies to promote enterprise development and social mobility.

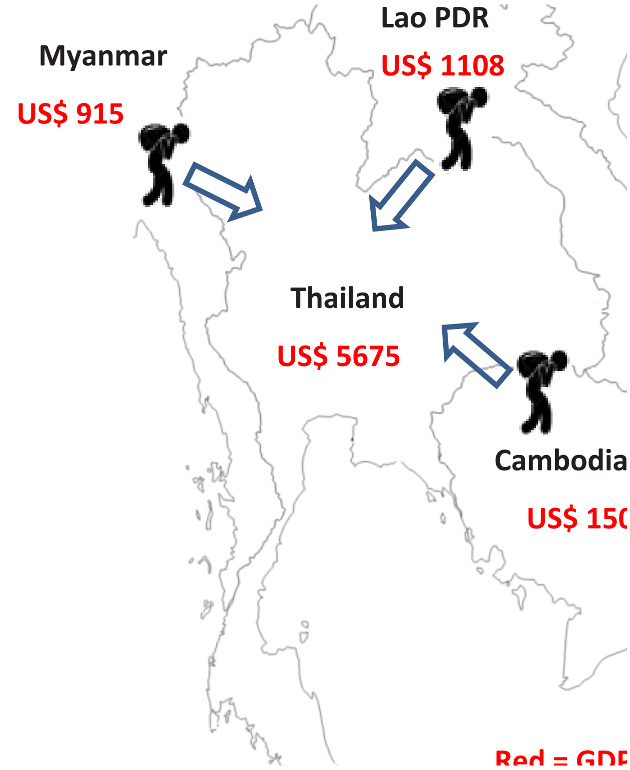
Leveraging remittances for growth, rural development and redistribution:

Most countries within ASEAN, as well as parts of developing Asia, are in the midst of a historical economic and social transformation, spearheaded by the migration of labour out of agriculture to industry and from one occupation to another. Moreover, the creation of an international market for labour has led to an expansion of migrant labour overseas. Disaggregating by target markets shows that remittance receivers or dependents are one of the largest groups of adults in many poorer countries, as well as in poorer regions within countries. Thus their consumption, driven by remittances, can be a major driver of growth in these areas. This is clear in countries like the Philippines, where remittances have become a major contributor to consumption, investment and government revenue. Financial inclusion helps unlock the power of remittances as a mechanism for the redistribution of wealth from higher to lower-income regions in ASEAN, both within countries and across countries.

• Within countries: In Thailand 5.7 million adults (11.15% of the adult population) derive their primary source of income from remittances. These adults are mainly rural (72%), female (68%) and poor (67% earn less than THB 6000 per month). More than two-thirds (67%) of these remittance receivers reside in the poor rural north and northeast regions of the country. Thus MAP Thailand finds that remittances play a key role in enhancing the welfare of this group and in redistributing wealth from richer, urban regions to support the consumption economy in these regions.

• Across countries: Figure 3 shows that the GDP per capita of Thailand is about five times that of its neighbours - Myanmar, Lao PDR and Cambodia. There are a significant number of migrants from these countries working in Thailand. The transfer of wealth to the poorer regions – through remittances, but also through inward investment in small enterprises and repatriation of savings by workers abroad – is critical for ASEAN to stimulate both equitable investment and consumption across countries. For example, FinScope Myanmar (2014) reports that 2.91 million Burmese receive remittances from abroad, 29% of which receive their remittances from Thailand. An estimated 2.5 million of the migrants in Thailand are undocumented[11] . By implication, they do not have access to formal financial services in their country of work. Thus, policies to enhance formal access to such services for undocumented migrants and to facilitate the seamless rollout of innovative cross-border financial products and channels can have a positive impact on both sending and receiving economies.

Figure 3: GDP per capita for Cambodia, Lao PDR, Myanmar and Thailand IOM, 2010



Source: World Bank Databank

Turning infrastructure corridors into economic corridors:

With a new emphasis on the relationship between geography and economics and the promotion of new urban growth centres and SEZs, a major policy issue is how to shorten the time between infrastructure investment and complementary economic activity. Since large scale infrastructure raises inequality, infrastructure corridors need to be quickly turned into economic corridors[12] .

In the context of ASEAN connectivity, financial inclusion can reduce the time taken to turn infrastructure corridors into economic ones by allowing micro and small enterprises to participate in ancillary activities resulting from infrastructural investment and new supply chains. This in turn reduces the risk of a rapid increase in horizontal economic inequality that has been a trigger for social conflict in many parts of the world.

Taken together, insights from the new data offer a powerful case for the potential of financial inclusion to address some of the key policy concerns for governments, especially in the least developing and lower middle income countries. The following diagram illustrates the value of financial inclusion as a public policy choice as it relates to each of the emerging public policy concerns within ASEAN set out in Section 2.

IV. FINANCIAL INCLUSION APPROACHES AND POLICY IMPLICATIONS IN ASEAN

Financial inclusion supports the AEC Blueprint on Equitable Development: The evidence suggests that financial inclusion allows individuals and households to participate in the national economy, manage consumption and health risks, expand small businesses that create jobs, and contribute to national savings and government revenue. This in turn helps to raise consumption levels, enhance the size of the domestic market, expand the fiscal space and allow a smart state more freedom of action in the promotion of human capital and better governance. By allowing the poor, as well as the rich, to move up the economic ladder, it can be a powerful, market-friendly, tool to manage latent social conflict. This, in turn, helps to drive larger volumes of FDI and long-term investment in technology and infrastructure. Seen in this light financial inclusion is tailor made to drive the Third Pillar of the AEC Blueprint on Equitable Development.

Evolving the thinking and practice on financial inclusion: The recognition of the role and value of financial inclusion highlights the need to think beyond financial inclusion as microfinance - with its exclusive supply-side credit and savings focus and to recognise the importance of placing consumers and their financial needs within the larger financial ecosystem, within which both clients and suppliers operate. We need to think about the many different methods of financial inclusion to and how they can help achieve critical national economic and social objectives. Figure 5 illustrates the evolution in financial inclusion thinking and practice.

Appreciating differences in inclusion and stages of market development:

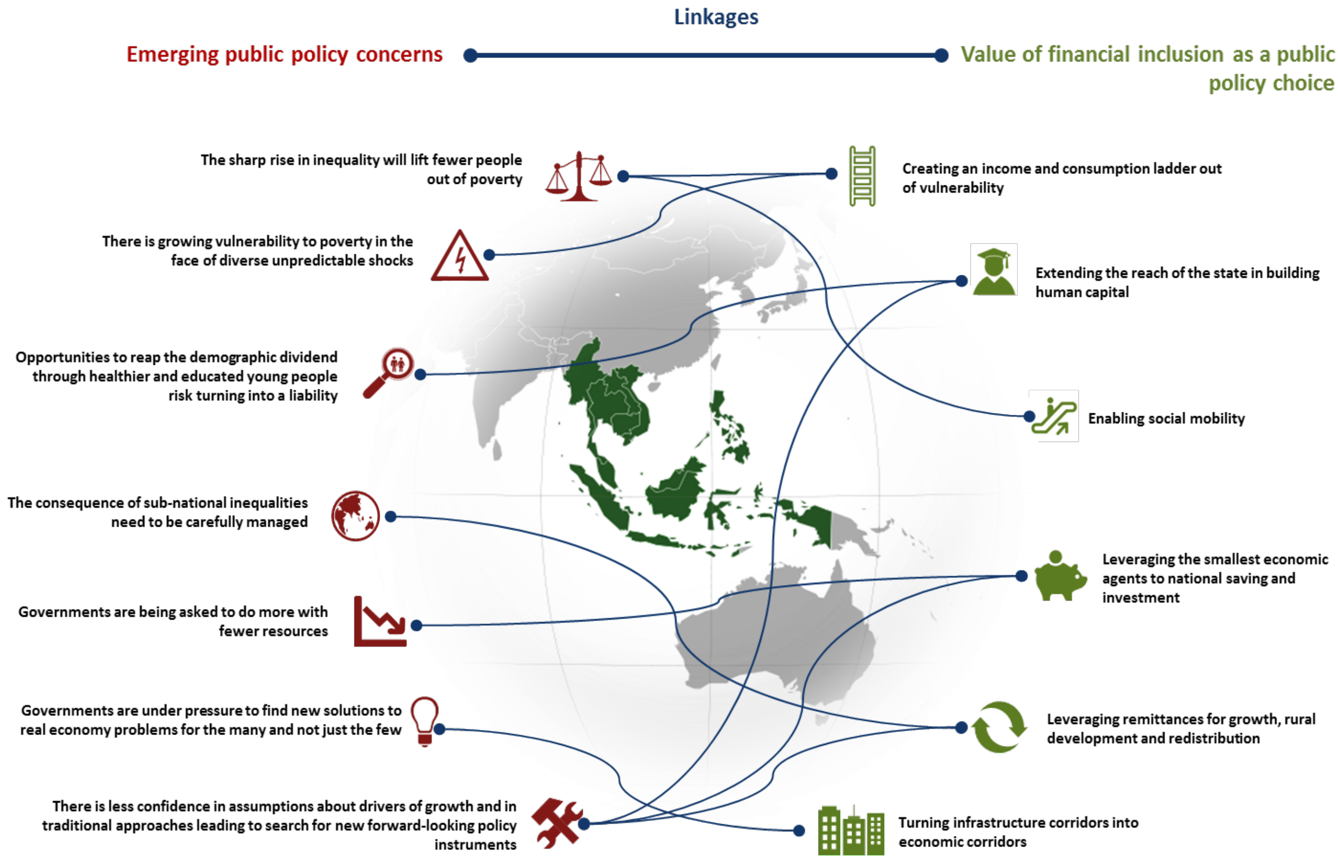
The approach to financial inclusion will, however, be country and region specific. Although ASEAN is one region in terms of its aspirations and planned future orientation, captured in the ASEAN Blueprint and the AEC Road Map, it is also a group of countries more diverse than those found in, for example, the European Union. [13]

Differences in financial inclusion rates:

Figure 6 illustrates the variance in the levels of financial inclusion across the ASEAN countries drawing on the Global Findex dataset. At the basic level, rates of financial inclusion vary significantly, from Singapore, where virtually 100% of the adult population has an account at a formal financial institution, to Cambodia, where formal penetration is less than 5%.

Differences in policy orientation and stages of market development:

Figure 4: Linkages between emerging public policy concerns and the value of financial inclusion as a public policy choice
Source: Authors' own



The differences between the various countries in terms of financial inclusion, and financial sector development more broadly, would suggest that policy approaches to encourage financial inclusion and garner the resulting economic and social benefits must be tailored to each country's specific circumstances. This is already seen in practice, with different groups of countries at different levels of development following different approaches to financial inclusion. The financial inclusion patterns currently suggest three clusters of countries in the ASEAN region shown in Figure 7,that may, in part, be a reflection on their policy approach to date.

Figure 7 plots the level of financial inclusion in each cluster of countries against the extent to which financial inclusion (FI) policy is integrated into the mainstream policy agenda. The policy approaches applied in the three clusters differ in a number of ways:

• Microfinance-focused. In contrast to the other ASEAN countries, the graph shows that Myanmar, Cambodia and Vietnam have much higher levels of credit than savings (Lao PDR has almost equivalent savings and credit). This may relate to the fact that the focus within the CLMV (Cambodia, Lao PDR, Myanmar and Vietnam) countries remains primarily on microfinance and developing enabling regulatory environments for the expansion of credit:

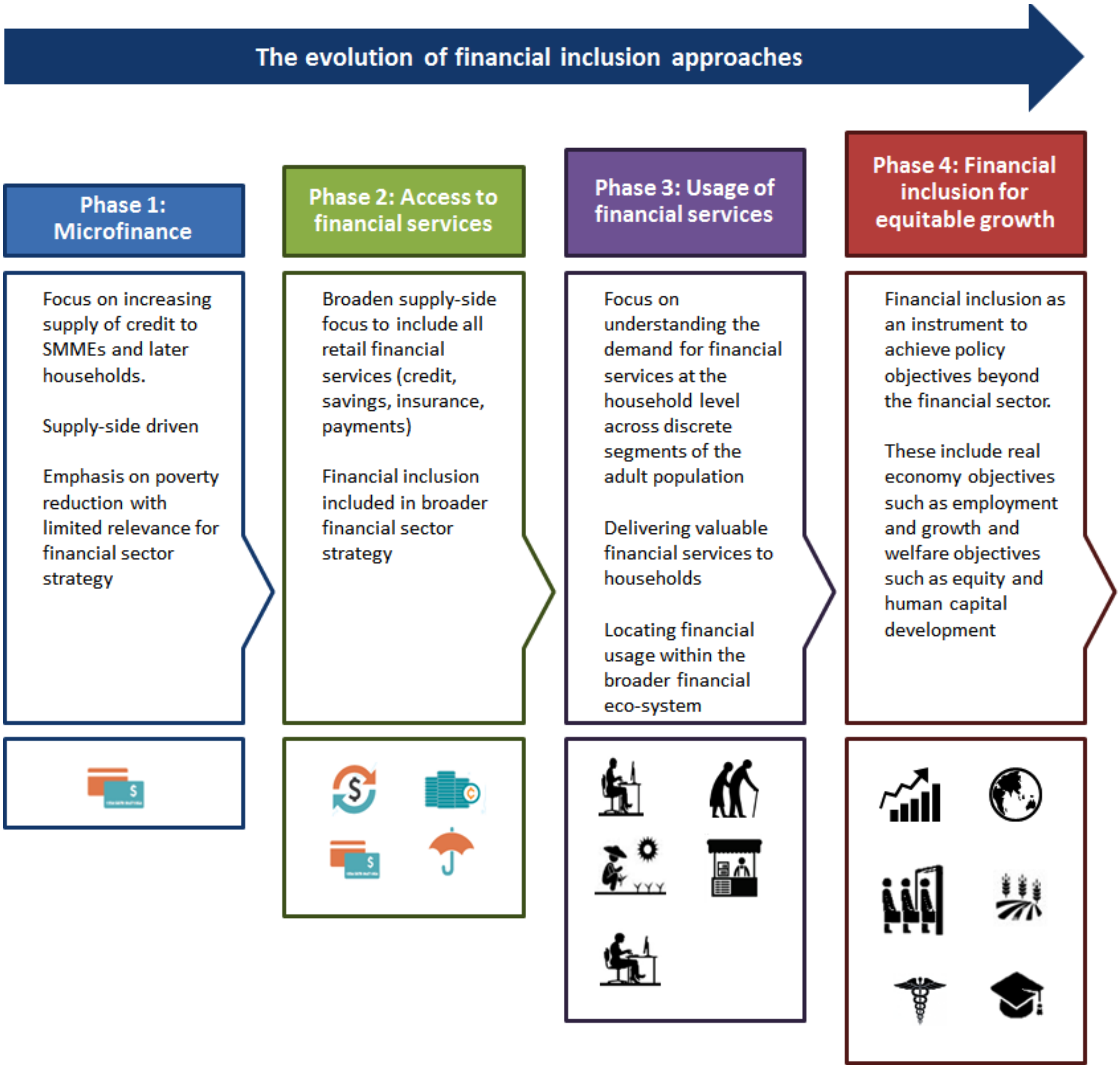
o Vietnam has focused on the restructuring of the People's Credit Fund (PCF), launching new PCFs in rural areas, and building a sustainable microfinance system targeted at low-income households and micro and small businesses.

o The Royal Government of Cambodia (RGC), based on the rapid growth of the microfinance sector since the early 1990s, has established a Microfinance Strategy.

o Myanmar has given special priority to financial inclusion in the form of microfinance with the appointment of a Microfinance Supervisor and a new Microfinance Business Law in 2011.

o In the Lao People's Democratic Republic, poverty reduction is promoted through Lao's National Growth and Poverty Eradication Strategy (NGPES), which pushes for financial

Figure 5: The evolution of financial inclusion approaches
Source: Authors' own



sector reform especially for microfinance suppliers.

• A national financial inclusion drive. In contrast, the policy approach in Indonesia, the Philippines, Thailand and Malaysia encompasses a broader focus on financial inclusion across multiple financial services as part of financial sector development:

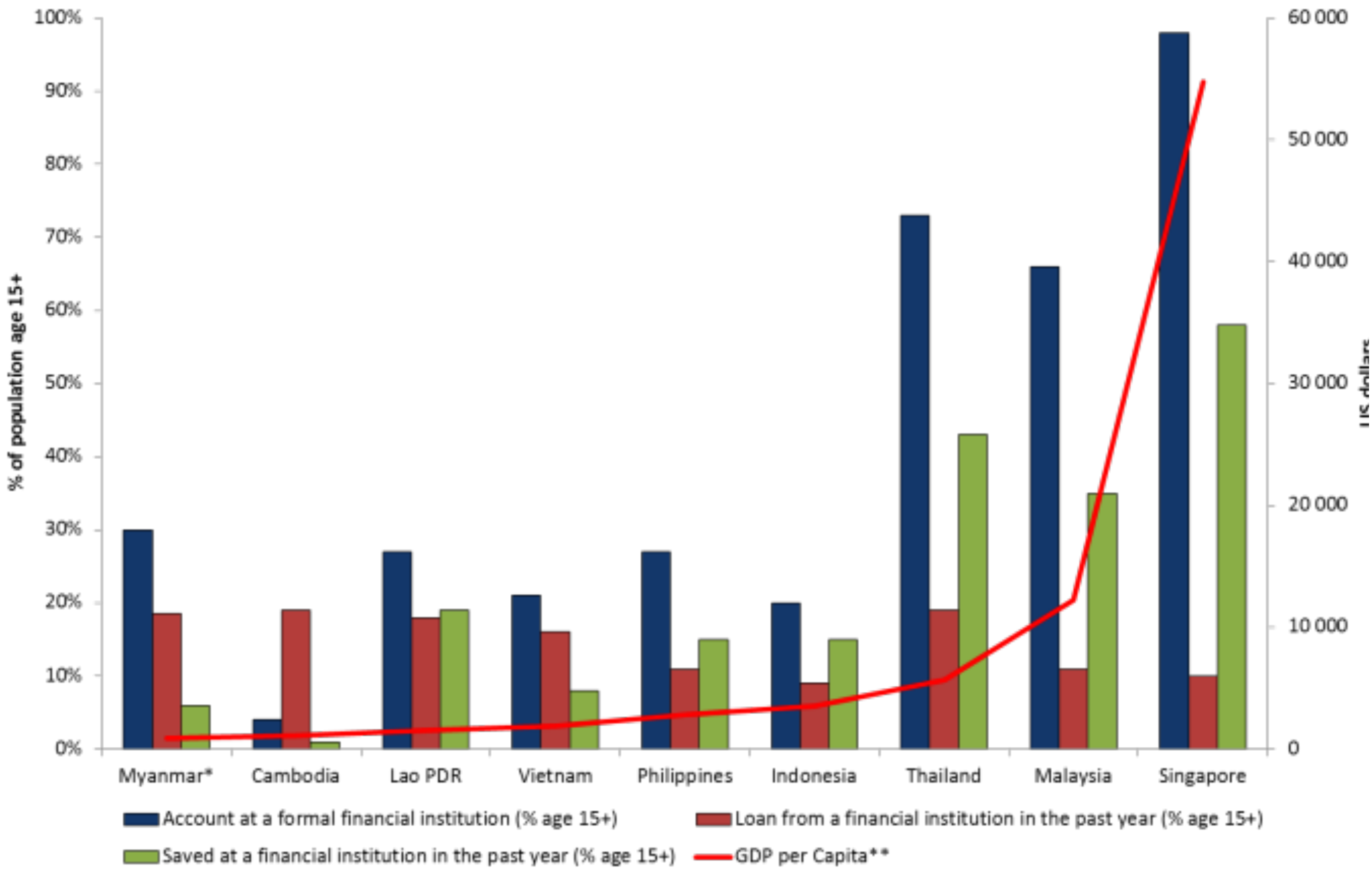
o Thailand's Financial Inclusion Master Plan consists of three planks: improve the range of providers of payments, credit, savings and insurance, in order to expand supply, raise demand through financial education and improve the quality of financial regulatory infrastructure, based on improved data and regulatory reform.

o Indonesia has developed a National Financial Inclusion Strategy around the three goals of equitable development, poverty reduction and financial system stability. The country has also committed to expanding the culture of savings as part of their Maya declaration.

o The Philippines might not have an explicit overarching financial inclusion plan, but has developed both a microfinance and micro insurance regulatory framework and is one of the leading countries in the provision of mobile payments.

o Financial inclusion is included within Malaysia's Financial

Figure 6: Percentage of adult population using financial services vs. GDP per capita, selected ASEAN countries
Source: Global FinDex, MAP Myanmar



Sector Blueprint 2011-2012. As part of their Maya Declaration commitments, Bank Negara Malaysia aims for 90% of the 837 sub-districts in Malaysia with more than 2000 adults to have at least one physical financial services access point by 2014 and 95% of the adult population to have access to the formal banking sector.

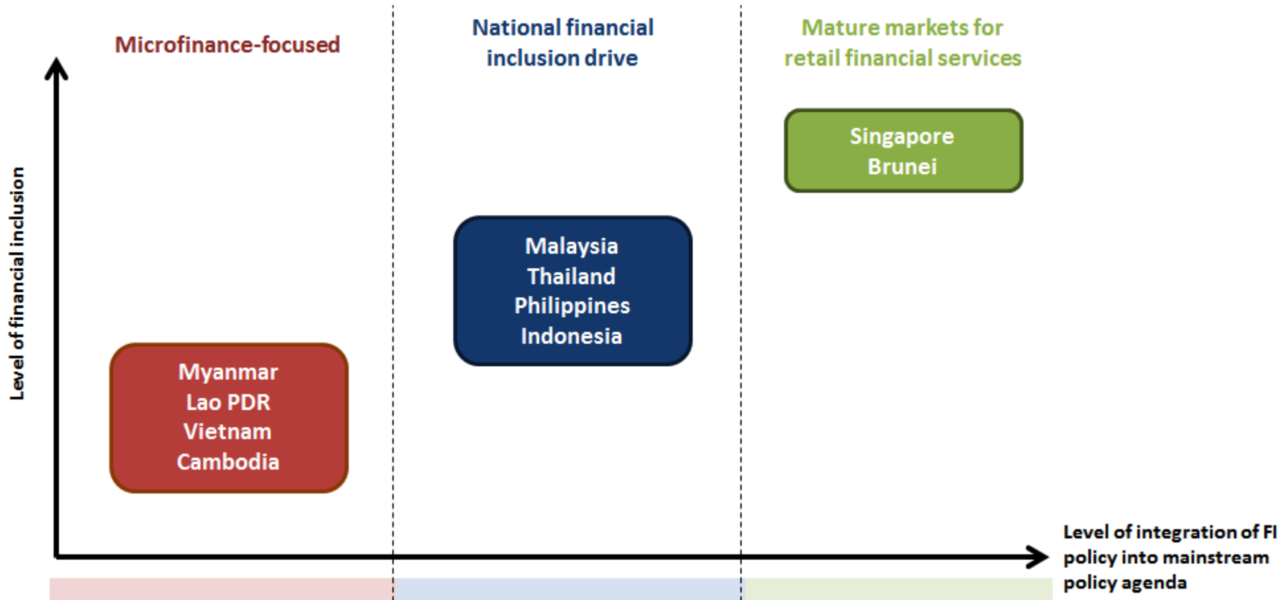
• Mature markets for retail financial services: Singapore and probably Brunei, on which no data is available, constitute a third category of mature markets where most households utilise multiple financial services.

Reconciling financial integration with financial inclusion priorities: Financial integration remains the overriding policy orientation in ASEAN, driven on the one hand by the fear of financial instability and, on the other, by the more conventional views about drivers of growth (investment, large enterprises and multinational companies, trade etc.). This approach may not fully hold in the post-2015 world. The integration of a range of financial services, from banking to insurance and capital market development, is a way to reduce the risk of financial instability and improve the regulatory effectiveness of central banks. The result is a focus on the internal consistency and viability of the regulated financial sector, rather than on the extension of formal regulated channels of financial services to those currently excluded. However, enabling those people to take opportunities to save, invest, and better manage the financial resources they have, may prove just as important as a trigger for growth and transmission of welfare.

Financial integration without inclusion risks not only future growth prospects but also the creation of an artificially protected silo, rather like a luxury gated housing community. As yet, there is no ASEAN wide approach towards rapid financial inclusion beyond its SME promotion window in the context of the AEC's Third Pillar on equity.

Navigating through the political economy: Singapore is one of the richest countries in the world while Myanmar is one of the poorest. Indonesia is the fourth most populous country and an archipelago of over 17000 islands, whereas Lao is a landlocked country with just over 6 million people. Some have experienced the trauma of prolonged civil war and social conflict, whereas others have enjoyed relative political and social stability. Some are highly open market economies while others are still heavily controlled by the state and a central planning apparatus. And all operate within a contested space where interests, priorities and resources have to be negotiated

Figure 7: Policy orientation and stages of market development across ASEAN countries
Source: Authors' own



	Microfinance-focused	National financial inclusion drive	Mature markets for retail financial services
Focus	Expansion of credit	Access to multiple financial services	Value
Integration of FI policy	Peripheral to financial sector	Part of overall financial sector development	Fully integrated
Key indicator	Take-up of credit	Broader level of access	Usage of multiple financial services

and shared. All these differences present both opportunities and constraints to the rapid expansion of financial inclusion across the region.

Moving from best practice and generic templates to best fit solutions based on evidence and national visions: If financial inclusion is to be the policy choice for developing Asia and ASEAN in the 21st Century, then the formulation of financial inclusion strategy will need to be tailored to the location, community, national development orientation, and stage of market development of each individual country.

V. THE WAY FORWARD

This paper argues that financial inclusion policy can and should be an essential policy pillar in the quest for equitable growth in ASEAN. A number of ASEAN countries have already made great strides towards increasing financial inclusion but may now need to accelerate these efforts through more focused policy frameworks. Others have barely moved beyond the promotion of credit through state-owned financial institutions.

The above is not unusual given the enormous internal diversity of ASEAN. However, the diversity itself also provides an opportunity to design more coordinated and regionally integrated financial inclusion that help to cement the complementarity between the financial sectors of the more developed and less developed parts of ASEAN. Such an approach is not only in line with the core objectives of the ASEAN Economic Community but also uses the latest thinking, decades of policy experience and comprehensive new field data to design and monitor a policy instrument that could combine high growth with equity and sustained poverty reduction.

At a national level, ASEAN countries could benefit from the following initiatives:

• Integrating financial inclusion as a central pillar of their overall development policy: In the face of mounting development challenges, countries can no longer afford to treat financial inclusion as a tool of financial sector development only. Its ability to enlist the smallest actors in the economy in the pursuit of the largest growth and development objectives, and to distribute income and opportunity across borders and regions, should make it a central pillar of post-2015 development policy.
• Developing comprehensive financial inclusion policies: The transformative power of financial inclusion lies in its ability to deliver a full spectrum of financial services to households - payments, savings, insurance and credit - that are appropriate to their needs. Simply focusing on the provision of a certain type of credit to a small fraction of the population cannot possibly realise the full benefits of this policy instrument. Countries should capture the breadth of the financial inclusion opportunity in their national policies.
• Targeting financial inclusion initiatives based on a sound market understanding: The new data-based evidence shows

that different target markets within a country require very different financial services delivered by different kinds of financial services providers. Countries should develop a keen understanding of their populations to be able to disaggregate target markets and target policies to the specific needs of each target market. This is likely to deliver better results with fewer resources.

At a regional level, ASEAN could advance the benefit of financial inclusion through the following:

• Understanding and facilitating cross-border financial flows at a household level: The power of cross-border remittances to boost household consumption should be maximised across the region to reduce regional income disparities. Greater equity between countries will enhance regional stability and growth. Such policies should not only deal with financial services, but should also provide access to formal financial services to undocumented migrants.

• Understanding and facilitating cross-border financial flows at the financial institution and real-economy enterprise levels: ASEAN can provide a setting to supplement traditional forms of finance such as aid and commercial capital with non-traditional forms of finance (such as impact investments and crowdsourcing) into micro and small enterprises that are likely to be the new drivers of growth and employment.

• Common measurement and indicators: As financial inclusion approaches develop rapidly across the region, governments will be able to benefit from comparative analysis of the outcomes of policies approaches. This can be facilitated by regionally agreed indicators and targets.

• Mutual support: Some countries in ASEAN have more experience with, and expertise in, financial inclusion than others. The common goal of ASEAN to achieve equitable growth will be enhanced through sharing of experiences and developing regional centres of excellence that can serve as examples to the entire region.

ACKNOWLEDGMENTS

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ENDNOTES

[1] Developed and implemented in partnership with FinMark Trust and Cenfri.

[2] UNCDF(2014), "Financial Inclusion in ASEAN",

[3] Kanbur, Rhee and Zhuang (2014) summarise developing Asia's remarkable economic performance as follows: "During 1990-2010 the region's average per capita GDP in 2005 PPP terms increased from $1602 to $4982. The proportion of the population living on or below the poverty line fell from 54% in 1990 to 22% in 2008. Taking the 2$ per day poverty line the poverty rate declined from close to 80% to about 45%." (p.1-2). Yet this impressive growth performance has been accompanied by exceptional increases in inequality. As Kanbur et al point out 12 countries in developing Asia that contain around 82% of the population in 2010 faced rising inequality of per capita expenditure or income measured coefficient." This trend is worrying because the region has been historically marked by low levels of inequality compared to most other parts of the world. Yet in recent years Latin American inequality has declined while developing Asia's has risen sharply.

[4] Martin Ravallion from the World Bank (2012) report summarised the situation as follows: "The developing world as a whole has made considerable progress in fighting extreme poverty but the 663 million peple who move above the poverty lines are still poor by the standards of the middle and high income countries. This bunching up just above the extreme poverty line is indicative of the vulnerability facing a great many people in the World. And at the current rate of progress around 1 billion people would live in extreme poverty in 2015". This is a sanguine message for developing Asia where the largest numbers of the absolute poor live.

[5] World Bank (2000), "The Quality of Growth". Also see a whole generation of UNDP's Human Development Reports and the recent controversy in India following the publication of Amartya Sen and Jean Dreze's book (2014) "India, the uncertain glory".

[6] See William Easterly (2001), "The elusive quest for growth" for just one well known example. More recent work by the ADB and the World Bank is focused on growth diagnostics where they attempt to identify binding constraints to growth in particular situations.

[7] Thorsten Beck, Asli Demirgüç-Kunt, and Ross Levine. "Finance, Inequality and Poverty: Cross-Country Evidence." World Bank Policy Research Working Paper 3338, June 2004.

[8] Ehrbeck, et al, 2012:1.

[9] This is a phenomenon across ASEAN: according to the World Bank Databank, in 2012 the average total expenditure on health in ASEAN was 4.1% of GDP. Of this 2.3% was from private expenditure and 1.8% from State expenditure.

[10] For example: MAP Myanmar distinguishes between formal and informal SMMEs and shows that they have different characteristics and exhibit different types of financial behaviour. Formal enterprises accounted for 2.5 million self-employed adults and reported nearly twice the average income of their 4.7 million informal counterparts (USD 224 vs. USD 133 per month). Formal enterprise owners were also more likely to live in urban areas (75% vs. 48%) and to have higher levels of tertiary education (26.9% vs. 1.5%). Given the different profiles, financial needs differ substantially between these different types of SMMEs. For example: formal

enterprises' average loan size is substantially higher than that of both farmers and informal enterprises in Myanmar and monthly repayments make up a smaller proportion of their monthly income. This indicates a greater capacity for credit and, it would seem, growth.

See, for example, the IFC's (International Finance Corporation) categorisation of SMEs as either aspirational or survivalist. Aspirational SMMEs have ideas and want to grow their businesses. Survivalist SMMEs are driven to start a business out of desperation due to unemployment.

[11] IOM, 2010

[12] There have been many assessments of the GMS programs. For the problems of establishing economic corridors see Masami Ishida and Ikumo Isono (2012) "Old, new and potential economic corridors in the Mekong region" as well as several papers on the subject by ERIA.

[13] Jayant Menon (2012), "Narrowing the development divide in ASEAN", ADB, working paper 100.

REMITTANCE MARKETS AND FINANCIAL INCLUSION IN ASEAN

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ABSTRACT

The importance of remittances to economic development has been widely discussed and studied. More recently, the link between remittances and financial inclusion has received more policy attention. In order to facilitate the flows of remittances, the market for remittances must be developed with transparency and consumer protection, adequate legal and regulatory framework, development of payment system infrastructures, market conditions and competition, and risk management. These key principles for creating a safe and efficient remittance market are identified in the CPSS-World Bank General Principles for International Remittance Services. The 2011 ASEAN Bali Concord III affirmed its commitment to strengthening efforts to promote inclusive and sustainable economic growth. The Chair's statement of the 19th summit highlighted regional cooperation and commitment to improve remittance flows. This paper will discuss how remittance markets can be improved to facilitate remittances transfers and make remittances work better for financial inclusion in ASEAN.

INTRODUCTION

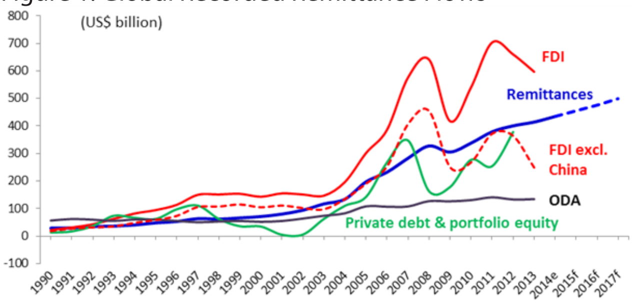
Remittances, defined as cross-border person-to-person payments of relatively low value, play a significant role in contributing to economic development and also to financial inclusion when the link between remittances and financial inclusion is strengthened.

Remittances are an important source of foreign currency for many developing countries. In order to facilitate the flows of remittances, the market for remittances must be developed with transparency and consumer protection, adequate legal and regulatory framework, development of payment system infrastructures, market conditions and competition, and governance and risk management. The CPSS-World Bank General Principles for International Remittance Services (hereafter the General Principles) provide a set of principles that provide guidance to achieve the public policy objectives of developing safe and efficient international remittance services (see Annex A). ASEAN has been enjoying dynamic economic activities and growth. However, when it comes to remittances, a few analyses have been conducted and much attention is needed to improve remittance markets in the region.

GLOBAL TRENDS OF REMITTANCE FLOWS AND COSTS

Global remittance flows continue to grow steadily. Officially recorded remittances to developing countries are expected to reach $435 billion in 2014 and rise further to $454 billion in 2015 (see Figure 1). The size of remittance flows is approximately three times larger than official development aid.

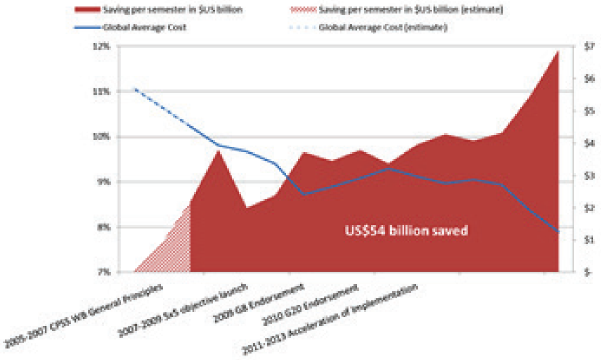
Figure 1. Global Recorded Remittance Flows



Source: Development Prospects Group, the World Bank

An average cost of sending remittances (US$200), an indicator of safe and efficient international remittance services and market, has come down to below 8 percent from 10 percent in 2009. Since the global commitment on reducing the cost of sending remittances by 5 percentage points in 5 years (the 5x5 objective) in 2009, estimated over US$54 billion have been saved by a reduction of remittance costs (see Figure 2).

Figure 2. Remittance Cost Reduction and Savings



Source: Remittances Prices Worldwide, the World Bank

REMITTANCE MARKETS IN ASEAN

ASEAN is a community of more than 625 million people living in ten countries in one of the most dynamic regions of the world. ASEAN's economic growth has been remarkable in the past decade. In 2013, its Gross Domestic Product (GDP) was US$ 2.4 trillion, growing by 5.1 percent from 2012. With its economic growth, needs and opportunities for jobs continue to grow in the region. According to the World Bank, total recorded inflows of remittances to ASEAN countries amounted to US$52 million in 2013. The Philippines, Vietnam and Indonesia are three largest remittance receiving countries in terms of amount. When it comes to the relative size of remittances proportionate to GDP, the Philippines and Vietnam are the two largest receiving countries where remittances accounted for almost 10 percent and 6 percent of their GDP, respectively (see Table 1).

Table 1. Recorded Remittance Inflows to ASEAN countries, 2010-14e (US$ millions)

	2010	2011	2012	2013	2014e	Share /GDP 2013 (%)
Brunei Darussalam	..	..	..	..	..	..
Cambodia	153	160	172	176	176 1	.2%
Indonesia	6,916	6,924	7,212	7,615	8,353	0.9%
Lao PDR	42	110 5	9	59 5	9	0.5%
Malaysia	1,103	1,211	1,320	1,396	1,590	0.4%
Myanmar	115	127 5	66	566	566 .	.
Philippines	21,557	23,054	24,610	26,700	28,382	9.8%
Singapore	.. .	.	.. .	.	.. .	.
Thailand	3,580	4,554	4,713	5,690	5,935	1.5%
Vietnam	8,260 8	,600	10,000	11,000	11,403 6	.4%
Total	41,725	44,741	48,651	53,201	56,463	..

ASEAN has a diverse set of remittance sending and receiving countries. Brunei Darussalam and Singapore are predominantly remittance sending countries, while Indonesia, Lao PDR, the Philippines, Vietnam are receiving countries. Cambodia, Malaysia and Thailand are mix countries.

The remittance markets in many ASEAN countries are still underdeveloped. The World Bank's Global Payment Systems Survey 2010 illustrates only two countries have consumer protection regimes for financial services. Only the Philippines have the best practices code of consumer protection for remittance services. In terms of transparency, four countries legally require RSPs to disclose fees of remittance services. Five countries require RSPs to disclose foreign exchange rate. Exclusivity arrangements with other RSPs are allowed in all countries but Indonesia.

ASEAN has diverse levels of payment system infrastructure developments among member countries. Payment systems infrastructures are a critical component to achieve safe and efficient remittance services markets. ASEAN 5 (Indonesia, Malaysia, the Philippines, Singapore, and Thailand) have advanced national payments system infrastructures and the other member countries (BCLMV) are currently modernizing their payment system infrastructures. For cross-border payments, a regional infrastructure has been developed. In 2006, Asian Payment Network was established to facilitate cross-border payment transactions (see Box 1). A few bank and non-bank RSPs have been using this infrastructure for cross-border remittance transfers. A Malaysian MSB, for example, uses this infrastructure to send remittances via the MSB's bank account to a bank account of the remittance recipient in Indonesia where the recipient account is credited immediately. Currently, ASEAN central banks are exploring integration of payment systems in the region. A majority of remittances, however, are sent on cash-based remittance products.

Box 1. Asian Payment Network (APN)

APN was established in 2006 with the leadership of the central banks of leading ASEAN nations (Indonesia, Malaysia, Singapore and Thailand) with a view to creating a regional cross-border transaction network in Asia. Non-ASEAN nations (South Korea, China, Australia, and New Zealand) joined the network since 2010. Currently, the network has expanded to 10 nations including The Philippines and Vietnam.

APN is working on standardizing ATM services (such as cash withdrawals, balance enquiry, POS, and remittances). The organization is seeking to apply the system to debit and credit cards, money transfers, and mobile banking services.

Source: NTT DATA, Press release January 8, 2014

Market conditions for international remittance services in ASEAN countries also vary. Malaysia and Singapore have markets with a high level of competition among Remittance Service Providers (RSPs) – both banks and non-banks - where the costs of sending remittances are low. These RSPs typically provide competitive proprietary remittance services in addition to the services of international money transfer operators (MTOs) such as Western Union and MoneyGram. Indonesia's remittance market is rapidly changing where all non-bank RSPs must be incorporated and licensed. More

RSPs are rapidly entering the market as licensed remittance companies. On the other hand, Cambodia, Lao PDR, and Myanmar only allow banks to provide remittance services. Banks in these countries provide remittance services as agents of international MTOs. In these markets, a limited number of bank branches, exclusivity agreements with international MTOs, and large flows outside the markets seem to have negative impacts on the level of competition.

Large remittance flows take place outside regulated channels in the ASEAN region. A study by ILO, for example, shows that only 6 percent of remittances from Thailand to three neighboring countries (Cambodia, Lao, and Myanmar) are sent through regulated channels (banks). The study illustrates the most frequently used channel is unregulated alternative remittance services (58 percent). A few news articles also describe a widespread use of unregulated channels for remittances to Myanmar due to excess bureaucracy, a lack of transparency regarding fees, a lack of payment systems infrastructures in rural areas and a lack of trust in banking systems. It is important to note that such large flows of remittances through unregulated alternative remittance systems not only undermines efforts for financial inclusion but also poses a risk of abusing such channels for illicit purposes.

INITIATIVES AND REFORMS IN THE ASEAN REMITTANCE MARKETS

ASEAN central banks have made efforts to improve remittance markets. At the regional level, ASEAN Working Committee on Payment and Settlement Systems (WC-PSS) leads agenda for regional harmonization of payment and settlement systems. A study conducted by WC-PSS identified the challenges of a lack of standardization of remittances, varied efficiency in the markets and the existence of unregulated channels that make consumer protection difficult. The study recommends the adoption of policies to promote the use of regulated channels, as well as greater transparency of remittance charges in enhancing consumer protection. It also recommends that central banks encourage the participation of regulated non-bank remittance service providers that could enter into rural unbanked areas.

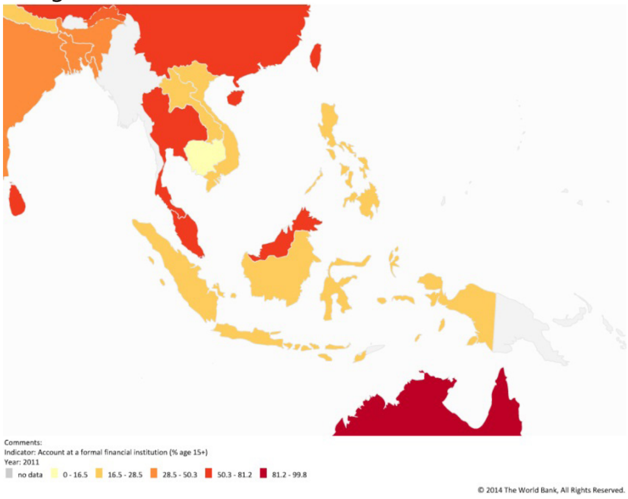
A number of countries have undertaken reforms of remittance markets. Indonesia conducted the assessment of its remittance market against the General Principles, following its commitment as ASEAN chair in 2011 and the G20's commitment on improving remittance markets and cost reduction. Indonesia enacted Fund Transfer Act of 2011 to improve the regulatory and supervisory framework of its remittance market. Under the new regulatory framework, besides banks, only licensed remittance companies (and no more individuals) can provide remittance services. Bank Indonesia also issued a regulation on consumer protection for payment services in 2014. Malaysia also enacted Money Services Business Act of 2011 in order to enhance the regulatory and supervisory framework of MSBs (which include RSPs). The central bank further introduced a principal agent arrangement for MSBs in order to increase efficiency and effectiveness of the regulatory regime. In the Philippines, in 2010, Bangko Sentral ng Pilipinas (BSP) implemented PhilPaSS Remit, which is a gateway to its Real Time Gross-Settlement (RTGS) system, in order to facilitate international remittances through banks with low costs. In 2012, the Central Bank of Myanmar permitted banks to provide international remittances.

REMITTANCES AND FINANCIAL LINCLUSION IN ASEAN

Remittances contribute to financial inclusion in a number of ways. A reduction of the cost of sending remittances can lead to increased receipts of remittances and could contribute to growth and poverty reduction. The impacts of remittances on development can also be enhanced through measures to improve consumer protection, awareness raising of financial services among senders and recipients, the use of remittance information for lending purposes, and broaden access to financial services for senders and recipients. Empirical studies illustrate that increases in savings deposits, in particular of 'commitment savings', led to increased investment and higher household expenditures. The World Bank report to the G20 recommends initiatives that would foster savings behavior of remittance recipients, among others, by creating incentives for them to hold part of their funds in savings accounts. Innovations in remittance services and retail payment systems have also been growing in order to reduce inefficiencies in traditional remittance services, in particular cash-based products, and increase the use of electronic payments through accounts. Further, more remittance flows through regulated channels would increase the size of the remittance market which can bring more competition.

The status of financial inclusion is also diverse in ASEAN countries. According to the Global Financial Inclusion Database, a majority of adults in Malaysia (66.17%), Singapore (98.22%) and Thailand (72.66%) have accounts at regulated financial institutions (see Map 1). In the rest of ASEAN countries, a majority of adults do not have accounts at regulated financial institutions. In terms of accounts usage, approximately 15 percent of adults (age of 25 or older) use accounts to receive remittances in the Philippines (13.5%) and Thailand (17.40%). However, in many ASEAN countries, accounts are not used to receive remittances. Therefore, the link between remittances and financial inclusion appears to be still modest in the ASEAN region.

Map 1. Account at Regulated Financial Institutions in ASEAN (% age 15+) (2011)



Source: Global Findex, the World Bank (2011)

CONCLUSIONS AND AVENUES FOR POLICY ACTION

Remittance markets in ASEAN countries are diverse in terms of sending and receiving countries, payment system infrastructure and market conditions. Only a few countries have consumer protection regimes for financial services. ASEAN 5 countries have advanced payment systems infrastructures while BCLMV countries are currently modernizing payment systems. Competition in some remittance markets appears to be constrained by exclusivity agreements between international MTOs and local RSPs. Large remittance flows outside regulated channels are a source of concerns for a lack of consumer protection, possible abuse for illicit purposes, and undermining financial inclusion efforts. Over the past few years, the central banks of ASEAN countries have made efforts to improve and harmonize payment systems and enhance remittance flows within the region.

There are, however, still many challenges to be addressed in each remittance market in order to achieve safe and efficient remittance markets and for strengthening the link between remittances and financial inclusion. Below are avenues for priority policy actions for the authorities to consider.

• Undertake an assessment of each remittance market against the General Principles. The assessment will identify issues and challenges in the market and provide a set of recommendations for authorities and remittance service providers to achieve the public policy objectives of achieving safe and efficient international remittance services. This would also support the recommendations by WC-PSS. Given diverse markets in ASEAN, the assessment would significantly help authorities with regulatory reforms in each jurisdiction and help harmonize remittance markets in the region.

• Engage with and support banks and non-bank RSPs in promoting opening and using accounts (transaction accounts, savings accounts) for remittance senders and recipients. This would help foster financial inclusion through remittance services.

• Promote financial literacy among remittance senders and recipients. Financial literacy enables remittance senders to make an informed choice of remittance products and channels. A number of projects have demonstrated positive impacts of financial literacy of remittance users.

• Promote innovations in retail payments (e.g. new instruments, new business models, access points) in order to address inefficiencies in the remittance services, especially in rural areas, since outreach of traditional RSPs is limited in rural areas.

ACKNOWLEDGMENTS

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MICROINSURANCE AND OTHER FINANCIAL PRODUCTS ADDRESSING INCREASING VULNERABILITY

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ABSTRACT

Vulnerability for the poor is an everyday reality. Besides suffering daily deprivations they are often exposed to risks ranging from illness, death of a breadwinner, fire or theft to the adverse consequences of crop failures and natural disasters, which can rapidly erase hard won gains and make the escape from poverty harder to achieve. A relatively new option for the working poor to manage risk is expanding access to insurance and capital market solutions for poverty reduction beyond the combined impact of public safety nets and existing informal mutual support systems. By designing innovative products in terms of coverage, timeliness, accessibility and affordability and leveraging on technology it is now possible to bring risk transfer benefits to the household level and thereby enable underserved communities to build financial resilience through wealth creation.

This paper discusses about the financial products that can meet the needs and preferences of the poor in managing their risks. As an integral component of the broader financial inclusion agenda, closer attention needs to be paid to crafting enabling policies and regulations that incentivizes the development of scalable and sustainable insurance and risk transfer products appropriate for the poor and their efficient delivery, while offering a high degree of consumer protection and trust.

INTRODUCTION

Risk and vulnerability is a major brake on human and economic development. Shocks such as natural disasters, economic recession, adverse weather conditions, sickness, and personal tragedies can destroy people's livelihoods and disrupt the provision of nutrition, education and healthcare needed in order to avoid a lifetime of chronic poverty. They also tend to be vulnerable for the low income population as they have a limited asset base to fall back on when shocks strike, limited capacity and risk management tools to manage risks, and limited access to formal institutions for financial services. Low income households also confront a variety of simultaneous shocks. This is a key point to take into account when designing strategies to increase resilience. For example, climate change related shocks have a multiplier effect in accelerating ecosystem degradation and making agricultural production more risky. Moreover, it is not just the direct impact of the shocks that undermine the well-being of poor and vulnerable people. The possibility of shocks creates risk - and the low-income people must acquire coping mechanisms in order to survive. Without effective financial protection products, the low-income people often develop negative survival strategies that perpetuate poverty.

INFORMAL RISK COPING STRATEGIES

In order to reduce their vulnerability to unmanageable risks, low-income households are most likely to resort to non-reversible coping strategies including the sale of land or livestock or withdrawal of children from school. Where these consumption smoothening mechanisms are inadequate, they self-protect by exercising caution in making production decisions. For example, traditional crops will be favored over riskier but more profitable new varieties, and wage labor will be favored over riskier but more profitable entrepreneurial activities. While this may help in preventing a slide into absolute destitution, at the same time it forecloses promising opportunities to break free from poverty.

Given their exposure and vulnerability to shocks, the decisions of low income households on how to allocate and use cash, land and labor generally reflect not only available opportunities, but also the need to minimize exposure or vulnerability to shocks. Whether or not successful, such strategies can undermine people's ability to move out of poverty by preventing or discouraging them from taking the risks involved in pursuing new opportunities

NEED FOR AN INCLUSIVE APPROACH

Insurance and other innovative financial instruments, from savings to credit and remittances, can enhance resilience and help the low income people to maintain and accumulate assets as well as adapt to changing circumstances. In particular, the resulting reductions in risk can help in stimulating growth by encouraging them to engage in higher risk/ higher profit activities. Risk reduction and management can also enable low-income people to avoid falling back on coping strategies that can irreversibly impoverish themselves.

However, access to formal financial services remains very limited among poor low income households. Bringing this population under the umbrella of financial protection through insurance and other risk transfer solutions is not only a cost; it is an investment that societies cannot afford not to make. The economic and social returns are very high – not just in terms of social policy and equality, but also in growth and multidimensional poverty reduction. Participation of millions of low – income segments of the population in the growth process as active agents is not only good for them but also for the national economy and microinsurance promote this objective.

SAVINGS, CREDIT AND REMITTANCES

Most formal credit and savings products provide limited coverage equivalent to the amount that a household has saved or can repay and are not useful for consumption smoothening because they may be approved only after considerable waiting time, carry high transaction costs, or specifically given for production purposes. In the same vein, many commonly found savings products are of little use to those who wish to save because of precautionary motives, e.g., some savings deposits may only be withdrawn after a waiting period or, as is common in the majority of credit-focused microfinance schemes, a fixed percentage may be held as collateral to secure a loan.

Remittances play a positive role in preparing for and in coping with vulnerabilities. Households that receive international remittances tend to rely more on cash reserves during shocks to food security and less on selling productive assets such as household assets or livestock. International remittances from high-income countries tend to be more important in enhancing ex-ante preparedness for disasters, having housing built of concrete rather than mud and have greater access to communications, which can help in coping during natural disasters

MICROINSURANCE

In contrast, microinsurance can provide low-income households with a greater degree of protection because the risk is pooled over a large number of people, at a much lower cost or premium per person. The cost of insuring against an uncertain event is considerably lower than self-insuring through savings, and is small relative to a household budget. What type of insurance will work depends importantly on whether realized shocks are idiosyncratic (household-level shocks such as death, injury or unemployment) or covariate (community shocks such as natural disasters or epidemics) at the level of the community. Idiosyncratic shocks are frequent but have little impact on consumption, suggesting the practice of inter-household risk pooling, while negative covariate shocks are almost always associated with consumption declines. The common microinsurance products that are available are elaborated in Table 1. Credit life insurance happens to be the largest selling microinsurance product.

For small and medium-sized enterprises (SMEs) involved in the global supply chain make them increasingly interdependent and globally integrated with potential accumulation of risk. A single catastrophic event has the potential to trigger multiple supply chain-related losses and liabilities when production assets and public infrastructure are damaged. For SMEs, the risks of natural catastrophes is particularly high given their small market share, weak bargaining power, and poor disaster preparedness. They can address this risk by obtaining business interruption or contingent business interruption insurance cover.

Table 1: Common Microinsurance Products

Products	Coverage	Benefits
Health	Hospitalization, primary care and critical illness	Hospitalization for named Illness, Insurance and Diseases
Credit Life	Life protection bundled with microcredit	Protects lender for credit loss due to untimely death of borrower
Life	Endowment, Term life Funeral Disability	Provides death coverage for a specified amount for fixed term or fixed cash payout on survival Provides death coverage for a specified amount for fixed term Protection for fixed funeral costs Expenses for as treatment well as lost income.
Pensions	Investments/ contributions	Annuity
Non-Life	Accident and disability Huts/ Homes	Monetary benefits in the event of accident/ disability Indemnification against losses to assets and properties
Micro Small Medium Enterprises (mSMEs)/ SMEs	Business assets, stocks. Business interruption	Indemnification against losses to assets and properties
Agriculture	Crop loss due to weather related events, death of livestock	Compensation of loss of yield, pestilence, catastrophes

INNOVATIVE FINANCIAL PRODUCTS

Financial innovations, in recent years, have demonstrated the potential to improve household risk management, including index insurance for hedging weather, price and other agricultural risks. These products are designed to diversify key sources of risk, and have the feature that payouts are based on observable, exogenous events, eliminating adverse selection and moral hazard as sources of market failure. There is also much innovation in rural finance in rural savings, credit, equity financing, value chain financing, remittance transfer and remittance-based investment products.

SOCIAL PROTECTION

Many countries are strengthening social protection programs to reduce vulnerability of poor and low income households, particularly in the informal economy. By providing a safety net, social protection can cushion the impact of price spikes on consumers and is a valid alternative to policies to protect the poor in the short term from the adverse effects of price volatility. For example, conditional cash transfers typically target very poor families and seek to combine short-term poverty alleviation or improved nutrition with the long-term objective of breaking the cycle of inter-generational poverty by making transfers conditional on school attendance or immunization of children.

Microinsurance does not compete with nor replace public social protection. It is most effective when embedded into a comprehensive social protection framework that goes beyond public social protection measures and includes informal, private, and other public risk management strategies of preventive measures, mitigation, and suitable coping strategies.

COMMUNITY BASED INSURANCE

Community based insurance has demonstrated promising results for poverty reduction. Community-based health insurance (CBHI) schemes run by mutuals and cooperatives pool risk for covering healthcare costs. Such schemes are well positioned to monitor behavior and enforce contracts while at the same time reaching clients overlooked by many formal insurance schemes. They lower retail costs, compared with schemes that insure individual members and reduce adverse selection by insuring people with varying levels of risk as a group.

DISASTER RISK FINANCING

The concentration of catastrophe risks in Asia, and the expected increase in frequency and severity of climate related disasters pose fiscal challenges to policymakers in developing countries. The gap between the total amount of economic losses from catastrophe or disaster events and insured losses can so wide that the ability of governments to step in as insurers of last resort may not be relevant anymore, as even they cannot finance the gap without a hit to the countries' GDP. Governments are seeking to strengthen ex ante and ex post finance disaster risk financing (DRF) options to ensure that populations, businesses, and governments have the resources necessary to manage the adverse consequences of disasters, thereby ensuring financial and economic resilience.

DRF instruments reduce financial exposure to disaster-related losses by transferring/ sharing risk through specifically designed financial mechanisms. Ex ante DRF instruments include setting aside reserves; establishing contingent credit; and developing various kinds of risk transfer products, involving insurance, reinsurance and parametric insurance, along with capital market solutions such as catastrophe bonds. Ex post DRF instruments include recurrent and capital budget reallocations, domestic and external credit, tax increases, and donor assistance. The main advantage of ex-ante instruments lies in the fact that financing is secured before a disaster strikes, thus providing near immediate liquidity for emergency response and early recovery. In contrast, ex post instruments can take time to mobilize or cannot be quickly accessed. Countries must also develop a suite of products tailored to address social risk management problems in a commercially sustainable fashion.

Rising insurance penetration is a key indicator of improved risk transfer—the higher the insurance gap, the higher the cost to the taxpayer. A 2012 study of the Society of Lloyd's analyzing seven recent natural catastrophes in five economies—the Peoples Republic of China, Japan, Thailand, the United Kingdom, and the United States—found that an increase in insurance penetration of 1 percentage point reduces the damage borne by taxpayers by approximately 22%. It also found that economic activity returned to pre-catastrophe levels long before reconstruction was completed. Using non-life insurance in economies underinsured for natural disasters will significantly reduce both damages themselves and recovery costs—costs which governments bear and taxpayers pay.

PUBLIC PRIVATE PARTNERSHIPS

New forms of public-private insurance partnerships (PPPs) hold the key to financing disaster, agriculture and health risks. PPPs especially those involving insurance/ reinsurance and capital market solutions, are being used by governments to identify, assess, mitigate, transfer and finance risk events and prepare stakeholders for the consequences of uncertainties (see Figure 1).

Figure 1: Loss Financing Mechanisms for Disaster Risks

Loss Financing Transfer -Disaster insurance/ reinsurance -Catastrophe bonds -Exchange traded instruments -Weather derivatives -Catastrophe pools	**Conventional Insurance** -Emergency loans from multilateral organizations or through pre-arranged facilities -Reconstruction loans
Prevention Funding -Prevention and mitigation funds -Development funds: municipal. social etc. -Mitigation loans -Prevention loans -International aid	**Loss Financing** -Self financing -Calamity funds: reserve funds -Transfers of government budget -Development funds -Reformulation of existing loans -International aid -Contingent credit

High frequency/Low Severity

NEW TECHNOLOGY

With the advent of mobile money, microinsurers are developing new and affordable products. The Mobile Money for the Unbanked (MMU) platforms can be used to reduce delivery costs, for example, mobile money can let customers enroll and make premium payments remotely, saving both time and money. The most common use of the mobile channel is to support premium collection through payment reminders or self-payments via the mobile device

Satellite information has an enormous potential to help insurance scale up across the developing world by bringing together climate science, economics and remote sensing expertise to focus on providing scalable datasets that can be used in modeling insurance programs, particularly agriculture insurance.

LOSS DATA

Technology on its own, however good, is not enough. Good data, good technology, and good users are all part of the same package. In the absence of any one element, the results are going to be seriously compromised. Lack of historical loss data that help in the development of pricing models is one factor that can hold back development of risk transfer markets in Asia, along with the high cost of, often proprietary, risk modelling. The industry not only needs to utilize new technology, they also need to develop new skillsets and actuarial resources (both tools and experts) required to model and analyze the data.

ENABLING POLICY AND REGULATIONS

While absolute poverty in Asia has been falling substantially in recent years, persistent risks and shocks, ranging from macro shocks such as high food prices to micro shocks such as drought or harvest failure, have left millions of people in a perpetual state of vulnerability to poverty. As a consequence, development policies are increasingly moving from fighting current poverty to reducing such future vulnerability to poverty.

Public institutions, including financial sector supervisors, can play an important role by crafting an enabling framework that enhances the scale, quality and sustainability of diverse and relevant financial services at affordable rates to the excluded population. This responsibility could range from developing the necessary institutions and market infrastructure for a modern financial system to strengthening the foundation of the economy. An enabling policy and regulatory framework should be proportionate with the risks and benefits involved in innovative products and services and should take into account the gaps and barriers in existing regulation. In addition, the regulatory framework should reflect international standards, national circumstances and support for a competitive landscape. The intention should be to expand the insurance market through innovations in distribution and product structure, and the use of new technologies, to reach unserved segments of the population. A key area of focus should be on offering a high degree of consumer protection and trust through prudential supervision

CONCLUSION

Growing financial vulnerability in poor households requires a thoughtful and vigorous response in the form of innovative, sustainable, and large-scale solutions. Access to insurance is an important component of financial inclusion policy and a key weapon in the fight against poverty. The choice of risk financing and transfer instruments should be based on a rigorous disaster risk assessment, establishing expected levels of loss for hazards of varying type, intensity and return period. A range of financial instruments can then be applied, selecting the most appropriate option on the basis of a range of factors including the scale of funding required for each layer of loss, the speed with which disbursement of funding is required, and the relative cost-effectiveness of alternative instruments for specific layers of loss. The challenge is to reduce the level of risk facing households while helping build their individual and collective capabilities.

Current demand constraints include issues around limited awareness of insurance and other risk management products, weak financial literacy, mistrust in risk transfer products and budgetary constraints. Supply constraints include legal and regulatory gaps, disaster risk, loss and financial data limitations, and insurance industry capital requirement deficiencies. In consequence, in the aftermath of a disaster, both at the level of the country as well as the individual, countries have insufficient access to financing to facilitate timely early recovery and reconstruction efforts. Implied funding delays can significantly exacerbate the indirect and secondary consequences of disasters.

Governments in the region need to take a leading role in promoting the use of innovative risk financing and insurance tools as well as developing the necessary legal and regulatory frameworks to support the introduction of a full menu of risk transfer instruments in the long term.

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FINANCIAL INCLUSION:
DON´T MISS OUT ON SMALL AND MEDIUM SIZED ENTERPRISES

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ABSTRACT

This paper[1] focuses on Financial Inclusion under the premises of contribution to economic development. Hence, Financial Inclusion is a means to an end, namely economic growth, job creation and poverty reduction Following this logic, access to financial services for Small and Medium Sized Enterprises (SME) does currently not always receive the attention it deserves. The paper discusses the challenges in SME Finance and the roles and responsibilities of the involved players. Concluding, the paper focuses on guiding principles for government interventions in the support of SME-Finance.

FINANCIAL INCLUSION – WHAT FOR?

Financial Inclusion shall enable individuals and enterprises to participate in the formal financial sector. However, participation in the financial sector is not enough to justify government intervention and the use of taxpayer´s money. Financial Inclusion is not an objective in itself. It is a mere means to an end – to a policy end. What is achieved through Financial Inclusion is the important aspect. The most cited such objectives are: a) economic growth, b) job creation, and c) poverty reduction.

Governments are by definition accountable to their people and should be able to clearly state what public funds are used for. Interventions in the financial sector are often subject to especially harsh review – also because of the recent financial crises and the history of misconduct, also in Microfinance. Thus, government intervention also with respect to Financial Inclusion should have clear and transparent objectives as well as a specific set of indicators that allow measuring the success of the interventions. Hence, let us have a look how Financial Inclusion can hold up to the ultimate objectives of economic growth, job creation and poverty reduction.

When looking at Financial Inclusion, we are looking at a wide range of target groups and also financial services. Financial Inclusion is in general attributed to individuals, micro-enterprises as well as Small and Medium Sized Enterprises (SME) and to their inclusion into the formal financial sector. There is still a long way to go. It is estimated that roughly 85% of all enterprises in emerging markets suffer from credit constraints[2]. Only half of adults worldwide have an account at a formal financial institution[3].

When speaking of Financial Inclusion, people tend to think of Microfinance first. Hence, how does Microfinance contribute to the stated objectives of economic growth, job creation and poverty reduction?

The impact of microfinance is subject to controversy. While the inclusion of Micro-Enterprises in the formal financial sector can prove its contribution through individual success stories, the overall impact on economic growth and job creation remains in doubt. So far, academics have not been able to proof the alleged positive impacts of microfinance.

The track record of SME to the stated criteria of economic growth, job creation and poverty reduction is significantly better. Politicians, academicians and developmental economists are of the view that enhancing small and medium business development is a good strategy to contribute and promote economic development.[4] Small businesses create worldwide almost half of new jobs in the economy[5]. The fact that the role of SME in an economy appears to increase with country income level indicates that SME are themselves a driver of economic growth[6]. Academic literature links the growth of SME to the access to financial services[7].

In the following, this paper will focus on the challenges related SME Finance as well as role and responsibilities of the involved players in overcoming these challenges.

1 This paper´s findings, interpretations and conclusions are entirely those of the author and do not necessarily represent the views of GIZ.

2 Stein, Goland and Schiff (2010)
3 Demirguc-Kunt and Klapper (2012
4 Kongolo (2010)
5 Edmiston (2004)
6 International Finance Corporation (2009)
7 See also Beck (2013)

WHY IS SME FINANCE CHALLENGING?

Access to financial services is one of the most cited constraints to growth by owners of SME[8] . It is however only one of several constraints on enterprises´ growth. Enterprises also need non-financial support such as training in business skills and access to marketing information so that they can expand to take advantage of both domestic and international markets.

SME are no homogenous group. They are usually defined by having between 50 and 300 employees, as well as assets and annual sales between USD 3 million and USD 15 million[9]. This market segment is referred as "missing middle" as it often is neither served by the banking sector nor by microfinance institutions.

SME require a set of financial services. These include lending products (short to long term), deposit and savings products, transactional products as well as advisory products. These needs of SME are not adequately met – especially on the lending side. Just the credit gap of formal SME in emerging markets is estimated to equal USD 750 billion[10]. How can financial institutions neglect such a substantial customer segment? In a nutshell, the answer is that banks see SME as too risky and not profitable. High transaction costs and information asymmetry create a market situation in which demand and supply are unable to meet. The market fails.

WHAT WAY TO GO?

Financial needs of SME can only be met in a sustainable way via the commercial banking sector. Financing needs are simply too vast to be met on a non-for-profit or subsidy basis. Hence, ways to attract banks to the SME segment need to be found. This implies overcoming the market failures related to information asymmetry and transaction costs. Unfortunately, there is no off the shelf solution that can be applied for all countries. Specific framework conditions and specific challenges require specific solutions. Nevertheless, economic theory and international good practice suggest following roles and responsibilities for the key players involved in SME Finance:

Let´s focus first on the SME themselves. SME cite access to financial services as one of their major obstacle to growth. While it is easy to complain about the access to financial services, it can be difficult to contribute to a solution. Business plans, audited financial statements and transparency reduce the information asymmetry and allow banks to better analyze the credit worthiness of the SME. It is also the responsibility of SME to get familiar with the various provider and financial services on offer. Hence, if SME do not do their homework, they cannot expect anybody to lend them money.

Banks are often the scapegoat of the lack of access of formal financial services to SME. And yet, there are indeed areas needing change and adjustment if banks want to approach SME Finance. This customer segment is different from the "usual" bank client that is large business customers and retail customers. It therefore also requires different treatment. Product design, loan technologies, designated SME lending department
or qualification of staff are some of the aspects bank should have in mind when doing business with SME. Hence, SME Finance is no rocket science, but it requires substantial efforts from banks in order to be successful.

While research has been able to identify which government interventions have not worked over the past decades in the SME Finance market, they are still struggling to define exactly, which policies can work under which circumstances[11]. It is, however, clear, that the government can play a crucial role in overcoming the market failures attached to SME Finance and therefore enabling banks and SME to enter into business. The financial infrastructure, such as credit information bureaus, payment systems or high quality reporting standards, can help overcoming information asymmetries.

The government is furthermore responsible for controlling three of the most cited obstacles by banks, namely regulatory obstacles, weak legal frameworks and macroeconomic factors[12] . Controlling these aspects can create the right set of incentives for banks and enable them extend their services and products also for SME.

An extensive amount of resources has been invested by governments into subsidized schemes for SME-Financing - especially providing subsidized credits as well as the set up of credit guarantee schemes. These instruments have a very mixed performance, in some cases evening preventing sustainable markets to develop. Scholars agree that subsidies, when used wisely and targeted, can support the development of a market[13].

Neither SME, nor banks, nor the government is a homogenous group and coordinating development efforts within and among them can be challenging. This coordinating task is nevertheless with the government. Meaning the government needs to not only manage and coordinate its own involved agencies, ministries and institutions (such as Ministry of Finance, Central Bank or SME Development Agencies), it also is the only institution that has the possibility to take over such a leading, guiding and coordinating role for all involved players.

WHAT CAN DEVELOPMENT PARTNERS DO?

Development partners cannot replace but only add to national efforts towards financial inclusion for SME.

SME Finance is high on the agenda of various development partners. Both financial as well as technical support is being ~~provided. Based on their experience and core competences,~~ development partners tend to have specific areas of activities.

8 International Finance Corporation (2009)
9 International Finance Corporation (2009)
10 Stein et al. (2010)

11 Beck (2007)
12 International Finance Corporation (2009)
13 Global Partnership for Financial Inclusion and International Finance Corporation (2011)

Support areas range from specialized technical input to the involved national players to the facilitation of international exchange of good practices, to financial support.

Any support to SME Finance has to take the involved actors and their relationships into consideration. Support that only targets one group of players, ie SME or banks or the government, will have limited effect. Complex change processes require interventions on several areas of the system, in this case the financial and private sectors.

One example to illustrate such support from development partners is the support provided by the German Government in Myanmar. Deutsche Gesellschaft für Internationale Zusam menarbeit (GIZ) GmbH is implementing on behalf of the German Government the project "Banking and financial Sector Development". This project aims at enhancing the access to credits for SME via the banking sector, thereby closely aligning with national policies and strategies. In order to achieve this objective, the project supports on the one side the Central Bank in developing and enforcing enabling regulatory framework for the banking sector. Currently, interest rate caps, collateral requirements and limitations on loan tenure make don´t allow banks to engage with SME in a sustainable, ie profitable, way. Furthermore, the project supports the implementation of international financial reporting standards, aiming to overcome information asymmetries in the market. Support to bank training providers and to selected pilot-banks assists banks to venture into SME Finance. A refinancing line of KfW, the German development bank, as well as support to SME and business service providers by another GIZ project are complementing these efforts in a holistic way.

CONCLUSIONS

Given the substantial actual as well as potential contribution of SME to economy, SME Finance does not always get the attention it deserves. The contribution which SME can make to economic development needs to be recognized by the governments from the beginning and be considered as integral part of the economic development process. Access to financial services is one major bottleneck for SME´s growth, which the government can help overcome.

The following hypotheses may help governments in unleashing the potential of SME:

1. A clear objective and measurable indicators are needed in order to guide the support for SME Finance.
Proceeding without such objectives and indicators governments risk losing focus. SME Finance is only means to an end, namely economic growth, job creation and poverty reduction.

2. Only the government can take over the role to guide and coordinate the SME Finance efforts.
Given the number of actors and the complexity of change processes involved, both ownership and guidance is needed. No other player than the government has the position to take over such a role.

3. Only the market can close the SME Finance gap.
Government efforts are crucial to create and develop enabling market conditions and to overcome market failures. Eventually, however, only the financial market, ie the commercial banking sector, has the power to cater for the financing needs of SME. Hence, government interventions should not focus on closing the credit gap directly but on making markets work efficiently as well as enabling and incentivizing others to do so.

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THE RETAIL ROAD TO SCALE IN PAYMENT SERVICES
HOW SERVING THE NEEDS OF THE TRADITIONAL RETAIL SECTOR CAN ACCELERATE FINANCIAL INCLUSION
EXAMPLES FROM INDONESIA

Ivan Mortimer-Schutts

EAP Digital Financial Services

Finance & Markets Global Practice

World Bank Group

ABSTRACT
Better access to finance for traditional retailers can enhance the sustainability of new payment services and support rural economic development. Traditional retailers and their suppliers constitute a significant portion (e.g. 20% of GDP) of developing countries' economies. They are an important group for which to promote financial access. But their reach into the broader economy also makes them an important vector for broader financial inclusion. They are the crossroads of the cash economy that generates the largest portion of daily transactions in the economy.

Non-bank innovations in payments need to focus more on bridging this gap to unlock economies of scale and overcome the low usage rates that still undermine their full potential.

Financial supply chain services are being extended to small retailers. Linking new payment networks to them can be mutually beneficial. Policy makers should encourage private sector actors to combine these areas of innovation in order for alternative payment networks to achieve scale and generate productivity gains in the important retail sector.

INTRODUCTION
Payment innovations can support financial inclusion. In developing markets with limited banking systems, non-bank payment systems have emerged to provide specific transaction services to banked and unbanked clients alike. Most frequently, these services are used to top-up mobile credit, make person to person transfers and pay bills, such as electricity. In some countries, these services are beginning to be used for business and retail transactions that have far greater potential to generate scale and economic gains for the economy.

Retailers are a key to gaining scale in payments. Together with their suppliers and customers, retailers account for an overwhelming majority of regular payment volume. Mobile and non-bank solutions are not yet serving this market at scale in under-banked markets. In some countries this market segment is also not served by the banking sector.
Financial inclusion of the retail sector can also lead to welfare enhancing gains. Access to capital and appropriate business services are needed for retailers to improve productivity. Innovations in technology are enabling retailers to benefit from economies of scale that were once normally the preserve of vertically integrated retailers.

Inertia in this cash-dominated part of the economy creates significant disincentives to switch to electronic payments. To overcome these barriers, other non-payment sources of value for retailers and their partners can be leveraged to break the vicious cycle that keeps cash firmly in place.

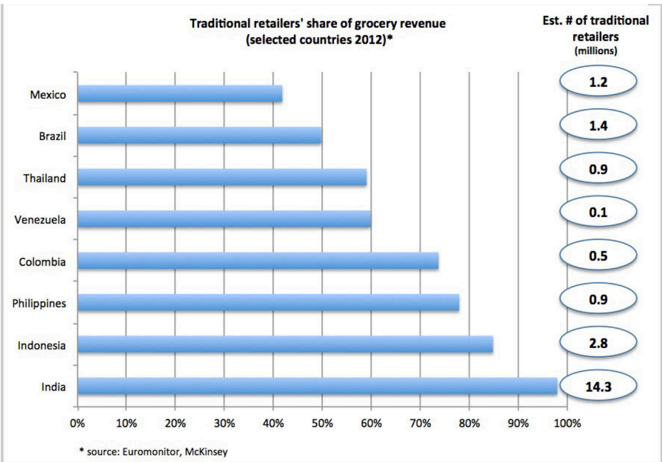
Gradual adoption of digital technology throughout the retail sector can help to break the cycle. Digital integration along the supply chain - for invoicing, sales management and credit - can provide the additional sources of value needed to make the business case for retailers in this important sector to join the formal financial sector and enhance success of new electronic payment and financial services.

TRADITIONAL RETAIL IN DEVELOPING MARKETS
Traditional retail refers to small and independent shop-keepers that operate on a stand-alone basis. They cover a wide range of enterprises, from small independent mini-markets, to traders in a wet market, to mobile street hawkers and kiosks. They are often family run and sometimes – especially in developing countries - not formally registered as businesses. Modern retail, in contrast, refers to organized or larger scale shops, mini- markets and supermarkets that use scalable logistics, purchasing, marketing and other operations to drive efficiency. They are often vertically integrated with distribution entities and more often source product direct from producers.

In most developing economies, traditional retailers make up a large portion of the market, both in terms of turnover and number of outlets. In Indonesia for instance, research suggests that the overall food and retail sector accounts for about 20% of GDP. Of this, a significant proportion relates to turnover just in the traditional retail sector. They also reach a large portion of consumers, usually being visited for frequent low value purchases for daily consumption. In South East Asia, many of them are located in "wet markets" where households as well as restaurants source goods on a daily basis.

They source goods on a frequent basis from a range of suppliers, depending on the goods they stock. The smallest retailers may only hold very limited stock, replenishing it from sales on a daily if not even intra-day basis. Smaller retailers often purchase stock at local wholesalers – some of which also operate supermarkets. Other traditional retailers obtain stock directly from distributors. Sample based research indicates that most retailers rely on a combination of suppliers.

Figure 1: traditional retail revenue market share and # of outlets



There is also wide variation in the range of goods that such retailers sell. Some of the smallest, such as kiosks, may only sell cigarettes and drinks or snacks. Larger outlets may sell a range of fresh produce, foodstuff and packaged goods. As consumption of packaged goods – foodstuffs as well as household goods such as personal care products and cleaning materials – expands, consumer good companies invest more in developing distribution structures to supply traditional retailers. Often these involve layers of middlemen and agents.

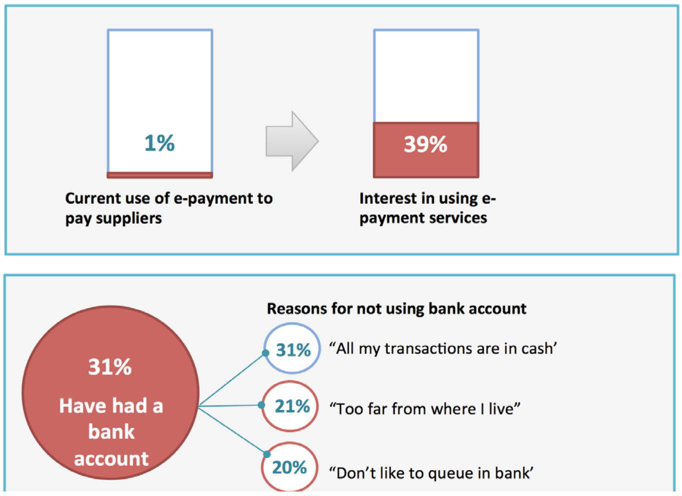
Limited access to finance for small retailers

Research into the financial behavior of small retailers suggests that few have access to suitable financial servicesi. When they do have a bank account, they still may not use formal sector payments and financing in their daily operations. Most payments to suppliers are made in cash. They infrequently if ever have card acceptance facilities and are unlikely to receive payment from consumers electronically.

Retailers finance stock purchases and investments mostly through retained earnings or by borrowing from family or other informal channels. Many traditional retailers also run other businesses with which finances are combined.

Operating other businesses can help to diversify income streams and risks and often generates economies of scope from fixed assets and relationships in local markets.

Figure 2: Retailer interest in e-payments, Indonesia



Some retailers get access to trade credit provided by distributors and consumer goods companies. Retailers may for instance be allowed to pay for stock at the time of the next delivery, providing them with one stock's cycle of credit. Sample surveys suggest that credit terms of 7 to 21 days are common among those retailers that do get credit. This practice helps packaged goods companies to keep their products on shelves even if retailers are liquidity constrained. Not all distributors provide credit. Few if any have organized credit programs. Those that do more closely manage credit may demand some form of collateral or security, although this applies more to distributors and wholesalers than small and informal retailers.

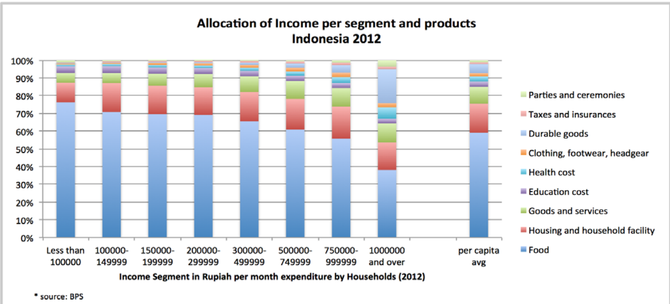
Competition and productivity in the retail sector

Competition from modern retail often generates policy concerns. Many countries, such as India and Indonesia as well as advanced economies such as France, impose restrictions on modern and large-scale retailers as a means to protect the "social fabric" provided by small and local retailers. V ertical integration and economies of scale have enabled large retailers and supermarkets in some countries to dominate the retail trade, exercising significant market power over both suppliers and consumers. In many advanced economies, by some measures modern retail accounts for upwards of 80% of sales.

Efficiency gains from scale and better operations are one reason for the success of modern retail. Measured by output per worker, modern retail tends to be more productive than traditional retail, contributing to economic growth. In a competitive market, this form of market development can pressure some traditional retailers to improve their own businesses while others go out of business. But it can also translate into greater choice, lower prices and hence greater purchasing power for consumers. Savings in the retail prices of consumer goods and foodstuffs can have an important impact on the poor given that they spend a disproportionate amount of their income on food.

Other research suggests that competition from modern retail is also driven by consumer preference. Y ounger and especially urban consumers tend to prefer modern retail outlets. But for some products and contexts, research suggests traditional

Figure 3 Consumer expend by income segment



retailers often compete successfully by concentrating more on fresh local produce as well as by changing their sourcing arrangements, purchasing goods from modern retail based wholesalers and so-called cash and carry stores.
Innovations in supply chain services and finance can help traditional retailers improve their productivity. Technology is enabling even small retailers to access to simple tools and operating systems that can help to improve efficiency through better management of inventory and sales. Consumer goods companies and distributors are increasingly inter-linked through ERPii systems such as SAP , enabling them to optimize logistics and planning. They bring this form of automation all the way to the doorstep of small retailers, often equipping their sales force with handheld devices that review past orders, and place new ones while on site. Packaged products and even fresh produce are increasingly linked to barcodes that help the entire supply chain keep track of stock and manage prices. Where many of these management tools were once the preserve of organized retail, they are now more often being adapted to the needs of smaller and traditional retailers.

RETAILERS AND PAYMENT SYSTEMS DEVELOPMENT

Traditional retailers serve a large portion of the population on a regular basis. Although there is wide variation, a typical small retailer might serve 20 to 40 customers a day. Some of these clients will be regular customers. Frequent and repeat interactions with this number of clients can enable retailers to be influential in facilitating (or obstructing) changes in financial behavior. Retailers that accept electronic payments and use them in their daily business with suppliers can have a multiplier effect on overall adoption and usage in their vicinity.

Consumer payments are a critical source of volume for payment system development. In all markets, these flows - albeit sometimes small in value - make up the majority

Figure 4: relative share of payment volume

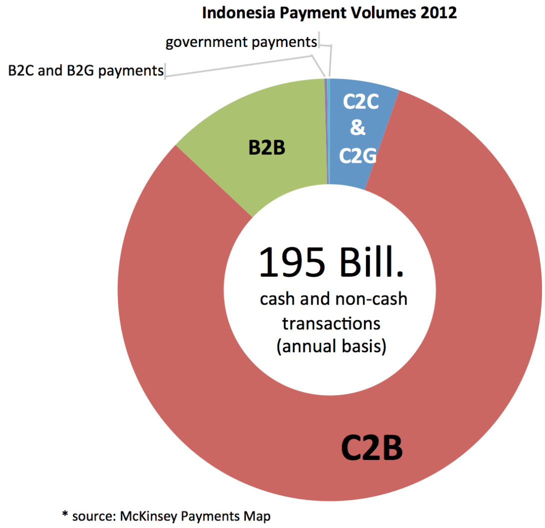
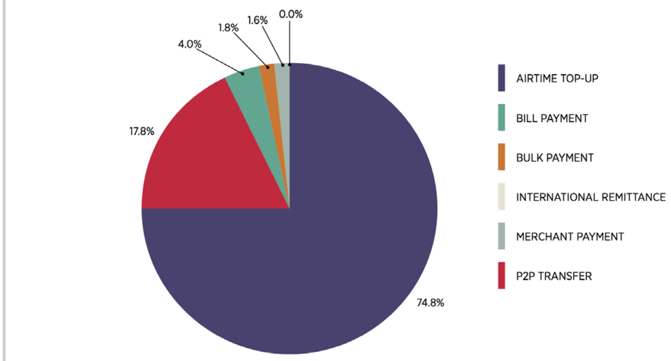


Figure 5: GSMA mobile money payment usage



Source GSMA 2014

of payment volume. Utility and bill payments, as well as cash transfers, are also important retail payment services. But retailers' payments are needed to expand volume and frequency of usage to a tipping point where the economy reaps greater benifits from economics of scale.

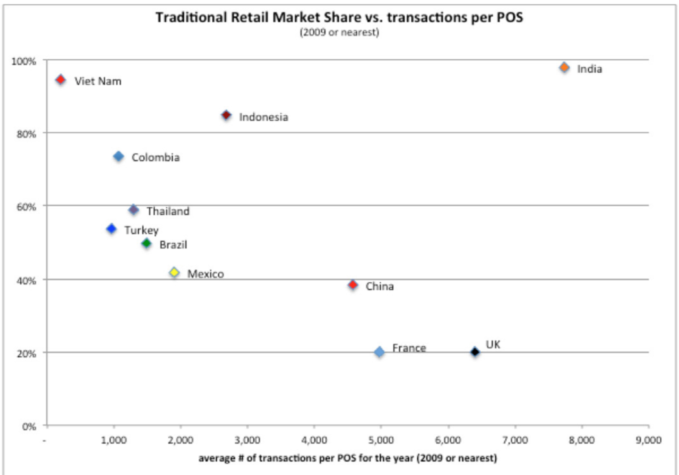
To date, traditional retailers have not been big users of electronic payment services. There are several reasons for this. One is cost. In 34 traditional card based models, merchants pay a merchant service charge to accept consumer payments. In some markets this can be about 3% of the payment value. For small amounts, even in developed markets, these fees are often prohibitive. Efforts have been made to establish lower tariffs for low value payments.

Another reason for low usage is that consumers are either not equipped with cards or are just not in the habit of paying with them. Without some incentive to switch from cash, even a market with many card holders can continue to process a large portion of retail payments in cashiii. The costs of cash withdrawal – both in fees and inconvenience – augment when consumers have greater purchasing power and when they receive salary or wages electronically. This encourages use of electronic payments. But so far these incentives are less applicable to lower income consumers and those that receive income in cash.

In addition to cost disincentives, traditional retailers have little business incentive to adopt electronic payments. Modern retailers with a large portion of their operations already digitized and automated are more likely to accept electronic payments. Minimizing cash handling not only helps to minimize the cost of idle cash but can also address fraud issues. In contrast, traditional retailers and sole traders that use little (if any) technology to support their business gain less (or no) marginal benefit from investing in systems and operations to accept electronic payments.

Retailers also are at one end of a big portion of business-to-business payments. Small retailers may make anywhere from

Figure 6: traditional retail and penetration of card payments



Sources: World Bank Payments Report 2009, Euromonitor, Impact of Organized Retailing on the Unorganized Sector

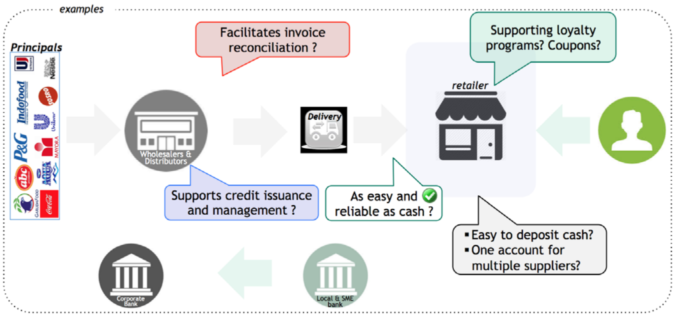
a handful to 30 or 40 individual transactions per week depending on the size of their business and the structure of their supplier networks. This quickly adds up to a significant volume that distributors, consumer goods companies and banks are usually keen to transfer from cash to electronic forms. Doing so can help to reduce operational costs and controls. More importantly it can help optimize sales, logistics and marketing for distributors.

Digital services can increase the marginal benefits for retailers of adopting non-cash payments. Internet payment models and competition from non-banks in the payments arena have spurred initiatives that extend digital services to traditional retailers. With reference to above, as retailers adopt digital technology to solve their core business problems – ordering, credit, stock management, sales etc. – the marginal benefits from digitizing payments also increase. It can become easier to pay suppliers electronically if trade credit is disbursed electronically. And incentives for retailers to accept non- cash payments from consumers are increased if those funds can then in turn be used easily to pay suppliers.

BRIDGING THE GAPS

Payment innovations can be adapted to the needs of retailers and their suppliers, helping boost productivity and financial inclusion.

figure 7: non-payment needs of retailers & suppliers



Historically, payment services have been developed to meet specific needs, such as inter-bank transfers (RTGS), retail payments (card schemes), recurrent bill payments (direct debit), etc.. More recent payment and infrastructure innovations have begun to break down these silos. Digital payment structures and open networks now enable payment services to be
adapted to specific needs and circumstances of end users and to be embedded in bespoke processes.

Service providers that link payments, credit and distribution together can help address the gap. A few key examples are of note:

(1) Technology and service companies are providing simpler and less costly tools to retailers to more effectively manage their stock and sales. Distributors and consumer goods companies support this because it enables them to better manage their own sales and get feedback from the market about product preferences and pricing.

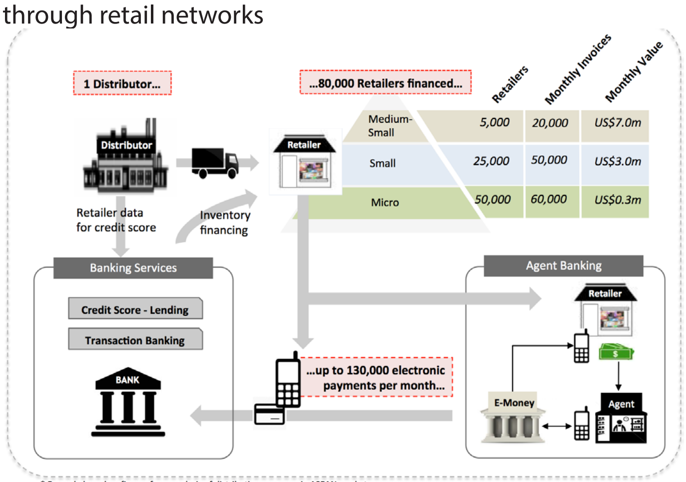
(2) Payment integrators help overcome fragmentation between inter-bank infrastructure, card schemes, mobile operators, and the invoicing and ERP standards used by different consumer goods companies. They can enable clients of different banks to pay suppliers at different banks electronically and capture and process invoice data needed to facilitate distributors' accounting and reconciliation.

(3) Alternative lending models, combined with customer analytics, are helping to provide and manage credit through new distribution models. Small value and remote lending for SMEs or for trade finance is beginning to reach retailers. The

more that digital traces or indicators of the business of small retailers and their distribution partners become available, the more new financing models can help to alleviate the need for distributors to manage trade credit. This can help to optimize the way working capital is financed in the economy and direct it to more productive activities.

Retail distribution chains can have a big leverage effect on financial inclusion. Through a few consumer goods and distribution companies, many traditional retailers can, at scale, be provided with a first level of financial services. They then

Figure 8: Example of leverage effect on financial inclusion through retail networks



* Example based on figures from analysis of distribution company in ASEAN market

form a bridge to end consumers that in many countries are in parallel being provided with new account and payment instruments. Combining innovations in payments, supply chain management and lending can at the same time contribute to greater productivity in this important part of developing market economies.

POLICY IMPLICATIONS

Policy makers can encourage financial sector innovation to better serve the needs of small retailers and their customers. Different actors – banks, mobile operators and distributors have different roles to play, different business models that serve or impact retailers. But they rely on integration between operations, payments and finance to achieve greater development impact. Policy makers influence parts of the infrastructure – payment networks, industry standards, lending - that set the terms on which collaboration of this kind operates. Open standards and infrastructure, built to meet the needs of consumers and the retail sector can go a long way to supporting this kind of development.

Areas for policy debate include:

(1) What rules and incentives should be set for collaboration between different payment networks? With increasing variety in payment providers and models, no single institution can properly serve the diverse needs of consumers, small businesses, corporates etc. But infrastructure and market practices can be developed that help these different service providers to work together for the benefit of the economy. Finding the right balance between private sector business incentives and economic benefit starts with dialogue that includes end users such as traditional retailers.

(2) How should policy facilitate and encourage auxiliary financial and non-financial service development? Innovations in many markets are now rendering financial and payment services more pertinent to the needs of small businesses. V ariety and refinement to these services, and ensuring they have a route to market will help to reach economies of scale and reduce the incidence of low usage rates.

(3) What features of tomorrow's business environment should industry standards anticipate? Supply chain integration, procurement, B2B sales networks and tax and e- invoicing standards are all rapidly evolving and being more broadly adopted in advanced and middle- income countries alike. They will have a fundamental impact on the way that payments and finance integrate with and support a variety of industries, including government procurement and the retail sector. If designed well, greater digitization of the supply chain can use these initiatives to accelerate financial inclusion as well as address competition policy issues by creating more open market places and payments infrastructure.

CONCLUSIONS

The retail sector should be a focus for expansion of financial services. Coordinated payment, lending and distribution service developments can have an important impact on this sector while providing a boost to the use of electronic payments. Moreover, accelerating the adoption of payments by traditional retailers is critical to reaching the economies of scale needed for meaningful financial inclusion.

The traditional retail sector can take advantage of technology and business innovations to improve productivity and better respond to the rise of modern retail. Distribution and consumer goods companies have strong incentives to help extend or improve the efficiency of supply chain services, financing and payments for small retailers. This motivation should be leveraged in order to make an additional contribution to financial sector development and inclusion.

Policy makers should take steps to facilitate the development of financial and payment services that meet the needs of traditional retailers. With appropriate incentives for payment network integration, retailers can help accelerate adoption and more regular usage of electronic payments by consumers. The impact on retailer sector productivity can also be very important. This will be of added significance in countries concerned about the impact of modern retail development on traditional retailers and their role in employment and rural economies.

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i See IFC research on Indonesia conducted by Spire Research, 2013 (available on request)
ii Enterprise Resource Planning
iii Germany is an example of an advanced
country with high bank penetration where cash payments at retailers are still very common.
Proceedings of the ASEAN Financial Inclusion Conference 29-30 October, 2014, Yangon Myanmar

FINANCIAL INCLUSION IN ASEAN: BRIDGING THE GAP FOR THE FINANCIALLY EXCLUDED AND UNDERSERVED THROUGH ELECTRONIC PAYMENTS

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Vice President

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MasterCard

ABSTRACT

This is a world that is very connected for some, but not for all. When economies grow, not everyone benefits. Individuals and whole communities can be left behind with no access to formal financial services and electronic payments. The main problem is not that they have nothing to save or don't want to use financial services, but rather that they are not profitable customers, so banks and other service providers do not try to reach them.

This paper seeks to share insights and case studies on: promoting financial inclusion; the important role that governments play in promoting access and closing the gap between access and usage; and leveraging mobile technology. Interoperability of e-money wallets and payment systems is crucial for people with very limited resources. The adoption of established international standards and best practices can shorten the transition curve, help keep costs low and ensure a more efficient deployment of scarce resources.

INTRODUCTION

The 18th ASEAN Finance Ministers' Meeting in April 2014 in Nay Pyi Taw under the leadership of Myanmar Union Minister of Finance U Win Shein agreed to enhance a financial inclusion system which aims to help all people in the region get access to financial services. This builds on existing efforts in promoting financial inclusion as mandated by the ASEAN Leaders in 2011 to explore new and innovative initiatives that will boost access to finance and the financial security of people throughout the region and enhance economic activities.

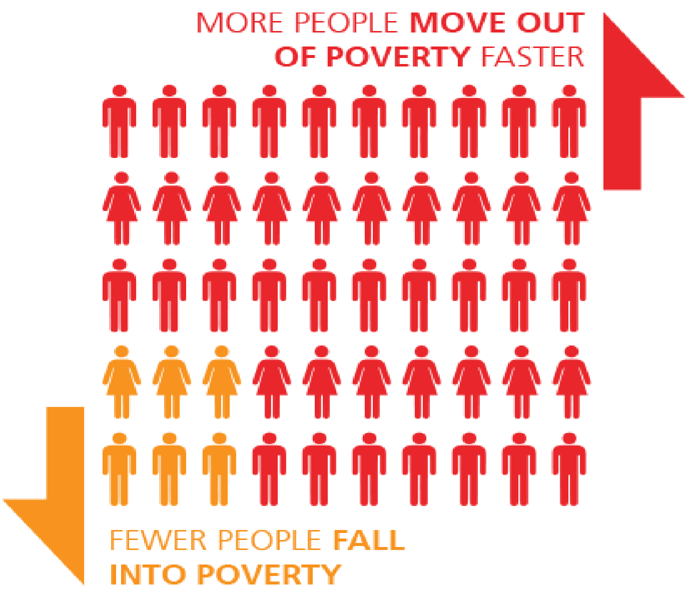
The importance of finance inclusion rests on its potential value for the millions of individuals, households and microenterprises in ASEAN that are now either fully or partially excluded. A simple first step, such as opening a bank or e-money account for receiving salary or social benefits, can begin a transformation that will ultimately enable them to manage their day-to-day life more productively, shield them against risks, and support them in achieving major life goals like education, home and business growth.

BENEFITS OF FINANCIAL INCLUSION

According to the Bill & Melinda Gates Foundation, every few years, somewhere between 10-30% of world's poorest households manage to escape poverty. During that same period, however, roughly an equal number of households slip below the poverty line. In many such situations, the most important buffers against crippling setbacks are financial tools such as personal savings, insurance, credit, or cash transfers from family and friends.[1]

Without access to the formal financial system, they must rely on their own extremely limited informal and semi-formal savings and borrowing to finance educational and entrepreneurial investments, thus making it harder to alleviate income inequality and spur broad-based economic growth.

Financial inclusion is a stabilizer. It provides more and better tools to pay for social needs, including education and healthcare. It also mitigates economic shocks that increase socio-economic instability.



THE COST OF CASH AND THE BENEFITS OF DIGITIZING PAYMENTS

The burden of cash usage on national economies is substantial, representing as much as 1.5% of Gross Domestic Product (GDP).[2] There are hidden costs to continued cash use. Households face costs throughout the cash lifecycle in the form of fees and time spent accessing cash. For businesses, theft presents the largest source of costs. And although the government spends money producing and distributing cash, by far the greater impact of cash is on missing tax revenues – known as the Tax Gap.

The Opportunities of Digitizing Payments (2014)[3] report by the World Bank Development Research Group, Better Than Cash Alliance and Bill & Melinda Gates Foundation to the G20 Global Partnership for Financial Inclusion demonstrates that digital payments have many benefits, both to senders and receivers. Moving from cash-based to digital payments has the potential benefits of making payments more efficient by:

- Lowering the cost of disbursing and receiving payments
- Increasing individuals' risk management capacity
- Increasing control over the funds received
- Increasing security of payments and reducing the incidence of crimes associated with them
- Increasing the transparency of payments, and thus making it less likely for there to be leakage between the sender and receiver
- Increasing the speed of payments
- Providing a first entry point into the formal financial system

BANKING

A point of entry into financial inclusion is by addressing safety concerns in the use of cash. Security is perceived as the main benefit a bank can offer. Another benefit of banks is the interest that they offer on the money kept in bank. Communicating safety and interest on money can potentially encourage the financially excluded to start using banks and also encourage the financially underserved to use banks more often than cash.

The generally low household and disposable income amongst the financially excluded and underserved can be a main hindrance for not having a full bank account. These groups either do not meet the minimum requirements for opening and maintaining a bank account, or the bank fees can be intimidatingly high relative to their low income and bank balances.
Banks will continue to play an important role in driving financial inclusion, by adapting their infrastructure and offering services like mobile banking and agent banking to cost efficiently serve the financially excluded and underserved. But the role of innovative non-bank companies cannot be ignored. New business models, innovations and products are needed that are economically not viable for banks to produce given their existing infrastructure and customer base.

E-MONEY / PREPAID CARDS

A prepaid electronic payment card can either be topped by the cardholder with cash or, in some cases, by the employer or social welfare benefits office. It allows the cardholder to:

- Buy goods and services electronically at the point of sale – wherever it is accepted at home or abroad
- Purchase goods and services securely, online over the internet
- Pay money to other people, family or friends
- Withdraw cash from ATMs
- Use it as a 'lite' savings solution in lieu of a bank account

Using this card is safer, faster and more convenient than cash.

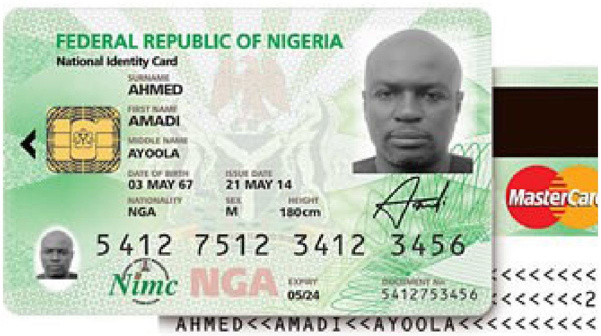
ROLE OF GOVERNMENT IN FINANCIAL INCLUSION

The role of government is especially important since a coordinated shift to electronic payments will result in cost savings more likely to be realized sooner and more of the benefits are likely to come faster. There is considerable research to suggest changes in consumer behavior are 'sticky', i.e. once a consumer becomes familiar with an electronic payment instrument they are more likely to continue to use it.
The key is not only access to financial services but usage of services – only 23% of adults in the bottom 40% regularly use their account to receive and hold funds; 12% make electronic payments (starting with peer-to-peer, bill payments); less than 10% have insurance or formal savings account with a financial institution
The government can play an important role in promoting access to electronic payments, and closing the gap between access and usage of electronic payments.

Case Study: Nigeria National eID marks largest financial inclusion program in Africa

Nigeria officially launched its National eID pilot program on 28 August 2014 that will see biometric-based verification cards with an electronic payment solution issued to 13 million citizens. Upon completion of the pilot program, the National Identity Management Commission (NIMC) plans to introduce more than 100 million cards to Nigeria's 167 million citizens.

The eID card forms a key component of the Nigerian Identity Management System that maintains a central database and provides proof of identity. With 13 applications including prepaid payment technology and biometric identification technology, the eID card will provide millions of Nigerians – the majority of whom have never had access to a banking product – with the security, convenience and reliability of electronic payments.



Using the card as a payment tool, Nigerians can deposit funds, receive social benefits, save or engage in many other financial transactions that are facilitated by electronic payments with the extra security assurance that biometric verification provides.

It also supports the e-government initiative by providing an optimized common platform for citizens to easily interact with the various government agencies and to transact electronically.

A key source of cash in a market is how funds are disbursed for payments, such as social benefits, wages, tax refunds, procurement of goods and services, etc. Governments can play a leadership role through the use of government-to-person (G2P) and government-to-business (G2B) electronic payments, and encourage business-to-person (B2P) electronic payments.

Case Study: United Arab Emirate's Wage Protection Scheme (WPS)

The UAE wanted to initiate an electronic salary transfer system

Figure 1: A Conceptual Model for Government Payments

that provides a convenient salary disbursement method while reducing the irregularities in salary disbursal, in particular for unbanked migrant workers. In 2009, the UAE Government passed a law imposing electronic wage payments on all companies incorporated in the country.

The WPS system creates a database of wage payments in the private sector to guarantee the timely and full payment of agreed-upon wages. C3 Card, an electronic payroll service provider company, was chosen to implement a safe and convenient multipurpose payment solution that ensures timely salary payments through traceable electronic transactions instead of cash or check payments.

There is no charge to the employee to withdraw his salary at ATMs using the C3 payroll prepaid card. The cardholder can also pay for goods and services, and enjoyed a range of expanded services such as remittances, mobile top-ups, utility bill payments, etc.

Case Study: Myanmar is forging ahead on the electronic payments agenda

Myanmar Orient Bank and Innwa Bank are two banks that pay staff via a salary card so that all staff will own bank accounts and debit cards. The Paung Daw Oo orphanage, operated by a monastery in Mandalay, hopes to increase financial literacy and inclusion among its staff by issuing salary payment cards. The large upscale grocery chain, CityMart, is also known to pay employees via a salary card.

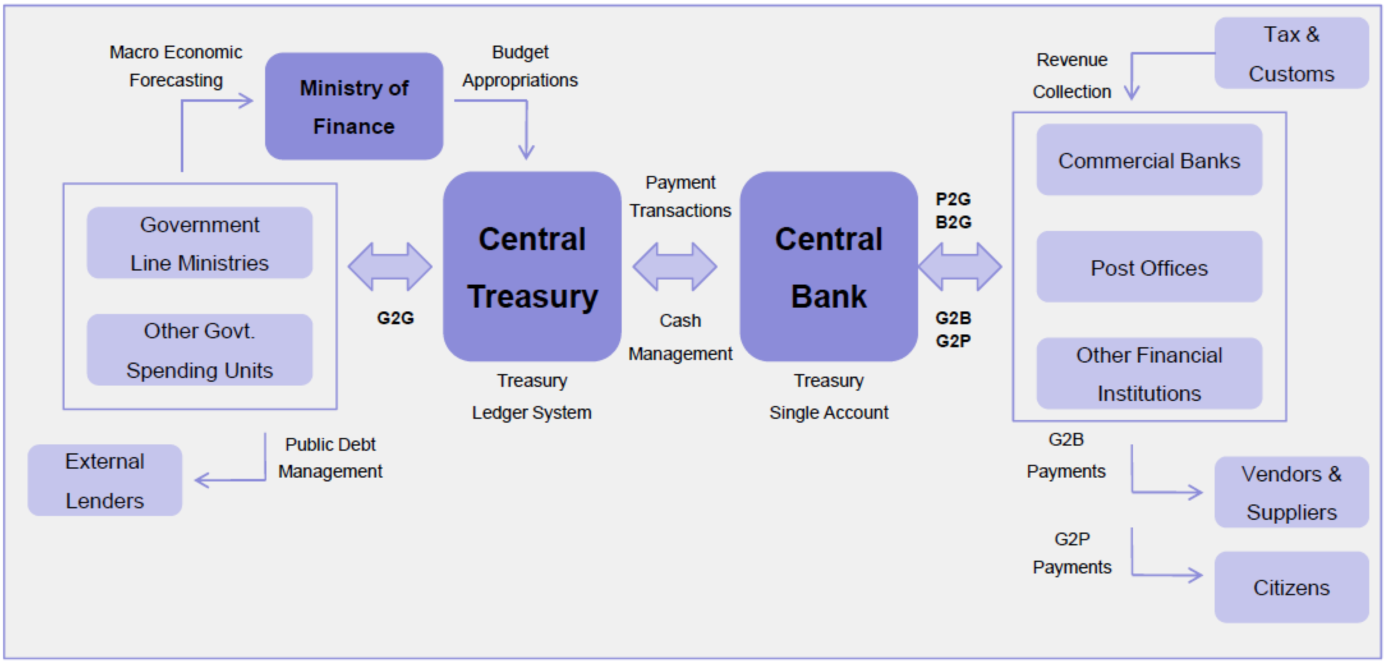
Other companies have simply opened bank accounts and debit cards for all employees and directly deposit paychecks into the employees' bank accounts.

Reasons for going electronic are to increase transparency, streamline and quicken payment processes, as well as avoid employees seeing how much their peers are paid.

Governments can also play a leadership role through the acceptance of person-to-government (P2G) and business-to-government (B2G) electronic payments, such as e-government fees, taxes, social security contributions, etc.

LEVERAGING MOBILE TECHNOLOGY

Technology is reducing delivery costs and expanding reach. Deep penetration of telecommunications infrastructure and upgrading of payments systems are enabling transactions in poorly served geographic areas at costs well below traditional branch-based banking. Several countries around the world



have already had success with mobile financial services not just for the foundational needs but also moving people up the hierarchy through more sophisticated solutions like lending and savings.

Case Study: Mobile Money Solution

M-Pesa, the mobile money solution in Kenya is a success story of offering financial services through a mobile phone. The solution initially started as a domestic remittance service that gave a better option to urban workers to send money home to their families in rural areas, but has gradually expanded into offering savings and loans. Between 20-30% of Kenya's GDP is now estimated to flow through this service and two-of-three adults report using mobile payments.

Case Studies: Mobile Point-of-Sale (mPOS)

mPOS is a compact card reader that can be plugged into smartphones and tablets, and functions as a card acceptance terminal over 3G or Wi-Fi connection. Payments made via mPOS are as safe and secure as those made via the traditional POS as data is encrypted according to the highest industry security standards. Its lower cost is typically about one-sixth the cost of a traditional POS.

Small merchants and businesses that are inherently mobile (such as insurance agents) that have never accepted card payments are turning to mPOS solutions that help expand their customer base and sales. Vietnam's iconic Ben Thanh market in Ho Chi Minh City now accepts mPOS payments, enabling consumers to pay using payment cards for the first time in its 100-year history.

INTEROPERABILITY IS CRUCIAL FOR PEOPLE WITH VERY LIMITED RESOURCES

Interoperability is very important for financial inclusion. The prevalence of multiple disconnected networks increases costs and inconvenience for local consumers and businesses, especially for a segment of the population that has very limited resources.

In many cases, solution providers are realizing that a closed loop design significantly limits their utility. Here, 'closed loop' means that the mobile money solution requires both the sender and receiver of the money to have an account with the mobile money provider; sending money to a receiver of another mobile money scheme is not allowed. Therefore, many solution providers are transitioning to 'open loop' solutions. M-Pesa is now offering open loop payment cards linked to their mobile wallets. And mobile money is not the only place where this transition to 'open loop' is happening. Transit payment systems globally (e.g. Suica Card in Japan, Octopus Card in Hong Kong, Metro Card in New York) are already recognizing the benefits of open payment solutions and are transitioning towards them.

ADOPTION OF ESTABLISHED INTERNATIONAL STANDARDS AND BEST PRACTICES TO SHORTEN THE TRANSITION CURVE

In recognition of the diversity in the economic and social environment, the adoption of established internationally recognized standards and best practices as the foundation for interoperability can:

- Shorten the transition curve
- Help keep costs low
- Ensure a more efficient deployment of scarce resources

An open and competitive electronic payment system is crucial to encouraging the investment and innovation needed to offer the range of services that meets the diverse financial clusion demands.

CONCLUSION

The role of government is especially important in effecting a coordinated shift to financial inclusion. The government can play a leadership role in promoting access and usage of electronic payments.

The government can establish an enabling environment by:

- Adopting established international standards and best practices as the foundation for interoperability
- Maintaining an open and competitive electronic payment system
- Simplifying and harmonizing regulatory requirements across government agencies, in particular, between the Finance Ministry, Central Bank and ICT Ministry

www.mastercardcenter.org/financial-inclusion

ACKNOWLEDGMENTS

We appreciate the constructive dialogue and partnership between the ASEAN Finance Ministers, Central Bank Governors and US-ASEAN Business Council to advance inclusive growth and financial inclusion in the region.

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ROLE OF SMART POLICIES AND REGULATION IN FINANCIAL INCLUSION

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ABSTRACT

A big percentage of the world's adult population continues to be excluded from the financial system. Regulators and policy makers are looking at financial inclusion practices and models to make the entry of these unbanked and under banked people smoothly, and for the long haul. Regulators are also now accepting the notion that financial inclusion and financial stability must be viewed as complementary. As financial inclusion expands and becomes mainstreamed in the financial system, appropriate regulations and policies need to be set in motion to support its growth. Policies and regulations need to be contextualized, adaptive and responsible thus making them SMART and dynamic. This paper aims to highlight some areas of concerns when regulations are made to support the growth of financial inclusion. A number of smart policies and regulations supporting the expansion of financial inclusion are also taken up in this paper.

INTRODUCTION

The World Bank has reported that an estimated 2.5 billion of the world's 4.7 billion adult population are excluded from accessing basic financial accounts and services (1). According to the same report, 80% of these financially excluded adults who are living under USD2 per day, lack a bank account because of poverty, costs, travel distances and often burdensome requirements needed to open a basic bank account. The Global Findex further reported that within the South Asia and East Asia/Pacific regions, only 33% and 55% of adults, respectively, have an account at a formal financial institution. Except for Sri Lanka which reported around 70% of its adult population having access to bank accounts, the rest of the reported South Asian countries have not even breached the 40% mark. In the East Asia/Pacific region, five countries (Lao PDR, Philippines, Vietnam, Indonesia and Cambodia) have reported that access to bank accounts by its adult population range from 27% to 4%. Four countries (Mongolia, Thailand, Malaysia and China) have reported that 78%, 73%, 66%, and 64%, respectively of their adult population have bank accounts.

The traditional available delivery channels and financial products have not been able to address this particular segment of the market. This large untapped market should be approached with new business models and paradigms, taking into consideration that this huge under-banked and unbanked population provides a source of vast opportunities.

Given this stark reality, governments within the region and elsewhere, as well as the international donor community and a number of socially responsible private sector institutions are finding ways to close the gap. It is widely perceived that an inclusive financial system not only helps in smoothing the cash flows of the poor by addressing consumption requirements, health, educational and related concerns but also provides opportunity to access the relevant financial products needed by them.

Access to financial services is not just an issue of the poor. It is also an issue of anyone in society who are finding great challenge to avail of the products and services being offered by the financial institutions for whatever reasons, legal or otherwise. Access to financial services also hinders the Micro, Small and Medium entrepreneurs to expand their existing businesses and improve their life styles.

What is Financial Inclusion?

The ACCION-Center for Financial Inclusion defines financial inclusion as 'a state in which all people who can use them have access to a full suite of quality financial services, provided at affordable prices, in a convenient manner, and with dignity for the clients; Financial services are delivered by a range of providers, most of them private, and these reach everyone who can use them, including disabled, poor, rural, and other excluded populations (2). The above written definition is generally also accepted and subscribed to by a number of known practitioners, governments and the international donor community.

As financial inclusion has become a buzz word in the last couple of years. The United Nations in the early 2000s defined the goals of financial inclusion as follows:

• Access at a reasonable cost for all households to a full range of financial services, including savings or deposit services, payment and transfer services, credit and insurance
• Sound and safe institutions governed by clear regulation and industry performance standards
• Financial and institutional sustainability, to ensure continuity and certainty of investment
• Competition to ensure choice and affordability

It is noteworthy to mention that the private sector, with its inherent flexibility and agility, is well placed to respond to the vast opportunities brought about by the unbanked and under banked market. Furthermore, the private sector has the capacity to innovate and develop new, sustainable, viable and replicable business models with less bureaucratic challenges. The regulators, as financial inclusion enablers, should lead the way in providing the appropriate legal, supervisory and regulatory environment that would see the flourishing and growth of the providers. Regulators, to a large extent should follow the market, not to stifle it but cause the growth of providers with minimal, or no risks at all that would pose to the financial system. Regulators must assure the private sector players that when 'financial inclusion friendly regulations' are issued, these regulations are there for the long haul to support the private sector players in providing the appropriate products and services relevant to the needs of the financially excluded. Regulators must assure the providers of financial services and the general public about its seriousness in strengthening the practice of financial inclusion in the market.

The traditional forms of products and services to some extent are hindering the participation of a vast number of potential users, and not just the entrepreneurial poor. As appropriate products and services become available, and are actively used by the previously excluded users, their protection and redress mechanisms, if needed to be exercised, should be operational as well. Previously unbanked and under banked users, who are now becoming sophisticated in the use of the products and services are generally wary of the banking sector due to several factors. There is a need to assure these new users that rules, regulations, systems and procedures are well-placed and functioning to further increase their acceptance of the financial system.

It is hoped that both the regulators/policy makers and the private sector players, and other stakeholders look at some creative moves such as: Public-Private Engagement/ Partnerships to address poverty issues, proportionate regulations, 'thinking beyond the box' solutions through technological advancements and/or agency set-ups, conduct of financial literacy and education, etc.

SMART FINANCIAL INCLUSION POLICIES AND REGULATIONS

Whenever policies and regulations are discussed, there is a subtle thinking that policies stifle and retard the spirit of 'thinking beyond the box'. Generally, people tend to think that regulations kill creativity; it is has always been associated with action verbs such as STOP, NO and PRESERVE what is there. Some people normally tend to think that rules and regulations are a boring set of parameters dictating 'black and white' prescriptions.

The Alliance for Financial Inclusion (3) or AFI has this tagline: 'Bringing Smart Policies to Life'. This means that AFI is committed to birthing into the sector, policies that are smart and contextually relevant; these policies are contextualized, adaptive, and responsible in the changing environment. But how does AFI bring these smart policies into life, thus permeating and strengthening the financial inclusion eco-system? AFI does its work through its member regulators and policy makers from the developing world. AFI facilitates and popularizes smart policies and regulations established and being implemented by its member countries.

AFI is a global network of financial policymakers from developing and emerging countries working together to increase access to appropriate financial services for the poor. AFI provides its members with the tools and resources to share and implement their knowledge of policies that increase access to financial services for the poor.

AFI's member regulators, now numbering over 121 from 95 countries are at the frontline looking at the following policy areas:

• Balancing Inclusion, Integrity and Stability
• Consumer Empowerment and Market Conduct
• Digital Finance Services
• Financial Inclusion Strategy
• Measuring Financial Inclusion
• SME Finance
• Other Financial Inclusion Policies affecting micro-credit, micro-savings and micro-insurance

How do we want to see these regulations and policies impact financial inclusion eco-system then? What do we want to convey to the financial players and other stakeholders when policies are crafted and implemented? How do we protect the financial system in general and, specifically, the new users of financial products and services?

Policies and regulations do not operate in a vacuum. Policies impact the general financial system of the economy; they influence the providers of financial products and services thus impacting the prospective users of these services and products. These regulations indirectly affect also other providers and other stakeholders who may not be directly interacting with the financial system.

Given the above premises, what should we expect from smart regulations then? Let me forward three (3) areas of concerns that regulators and policy makers should take into

consideration:
Conducive Environment / Eco-System

The issuance of regulations and policies by the regulators and policy makers must produce a more robust and conducive 'financial inclusion friendly' environment, thus resulting to expanded financial inclusion over time, new products and services focused on the financially excluded are availed of and popularized in the market. The eco-system must see the adoption of technologies and models that are geared toward the elimination of identified barriers experienced by those previously excluded. Furthermore, new modes of delivery of services and products must be allowed to exist alongside the conventional delivery models and mechanisms, without endangering the integrity and stability of the whole financial system.

Allowing branchless banking / mobile banking, agency relationships, other new types of providers, like the non-bank institutions, to deliver low risk / low value products focused on the low-income clients must be tempered with appropriate regulations that would protect their prospective users. Appropriate consumer/deposit protection regulations and redress mechanisms must be made known and presented in a simple understandable medium to everyone in the system.
Regulators, policy makers and other concerned government institutions should endeavor to design, craft and produce a National Strategy for Financial Inclusion. The development and approval of such document must take into account the participation of the private sector players and other stakeholders. Furthermore, the Strategy should consider the paramount objective of ensuring financial and market stability in a prudent and appropriate manner. The Strategy document must highlight a sound regulatory framework that would strengthen market development and private competition.

Culture of Trust

As the formerly unbanked and under banked clients enter the financial market through their use of inclusive finance products, services, providers and new technologies, the ample protection of these new entrants should be ascertained. Financial product users, whether long-term users or new entrants, need to be continuously assured of their paramount importance and their rights as participants in the financial system. Regulators, in partnership with the regulated institutions and other stakeholders must ensure that duly approved consumer protection laws and regulations are strictly adhered to by everyone concerned. The duly approved consumer protection laws, rules and regulations must be presented in plain, simple and easily understandable means and medium. There must be consumer protection rules and guidelines, clearly laid out that would cover issues arising before, during and after a service or product has been availed by the users from the financial providers.

As a general rule, most financial consumer protection laws and regulation ensure that consumers are:

1. Able to make informed decisions
2. Protected from unfair or deceptive practices, and
3. Given access to recourse mechanisms to resolve issues and disputes

Regulators, with inputs from the regulated institutions and other stakeholders must ensure that dispute and redress mechanism are set up and clearly accessible to the complainants. The appropriate regulator/s, as part of its mandate, should also do market studies regularly to ensure that responsible financing and practices are done by the providers of services.

On a very practical note, providers of services should be encouraged to subscribe and implement generally accepted client protection principles like the 7 Client Protection Principles espoused by the SMART Campaign of the Center for Financial Inclusion (4). Corollary to this, financial institutions should also adopt some form of social performance management or SPM which is a process of managing an organization to achieve a social mission. As CGAP (5) puts it, there is no single formula for successful SPM but the industry has recognized a set of core management practices that constitute a strong SPM. At the heart of SPM is the notion that the customer is at the center of all strategic and operational decisions.

The World Bank, in partnership with OECD, the FSB Task Force on Consumer Protection and others published the "Good Practices on Financial Consumer Protection" guidelines which can be used as an assessment methodology tool. This guideline has now been adopted by at least 16 countries.

Regulators can encourage various interest groups focused on consumer rights and protection to conduct and promote activities that would strengthen financial education and literacy, disclosure and transparency, ethical lending practices and fair recovery practices among others.

Certainty and Continuity of Regulations

As mentioned earlier, regulations and policies do not operate in a vacuum. At times, when new regulations are issued, financial service providers, generally, are the first to react with a 'knee-jerk' response. The regulated institutions, of course, will follow the prescribed rules and regulations, knowing that the concerned regulator is doing its job of protecting the system from a macro prudential perspective.

The financial service providers, as they take on their share of addressing financial inclusion challenges and barriers, need to be assured that regulators are imbued with a certain degree of flexibility to regulate and supervise new business models with new assumptions and paradigms. The fusion of modern technologies, especially the adoption of mobile/internet with that of various gadgets, pose a lot of opportunities and risks to the financial sector and regulators must be 'one step ahead' of the providers. Regulators need to follow the market so that regulations and issuances are contextualized to the requirements of the providers.

Some players and other stakeholders in the inclusive finance eco-system are also looking to see 1) inter-operability work among providers 2) credible and functioning credit bureaus and registries, and 3) efficient and safe retail payment system. These supporting infrastructures, when set in motion and functioning rightly will definitely make the financial system more efficient and sustainable, redounding to the benefit of the final users.

SOME SAMPLES OF ENABLING REGULATIONS

A number of laudable regulations and policies have been studied and proven to be working. A sample of these regulations, as compiled by The World Bank, in its Financial Inclusion Strategies Reference Framework (6) is seen below:

Options for Policy and Legal Reforms	
Options	**Notable examples**
Regulation (or voluntary private sector commitment) for accessible financial accounts	EU, India, South Africa, UK
Responsible Finance: - Consumer Protection Frameworks - Dispute resolution systems	Australia, Indonesia, Malaysia, New Zealand, Peru
Non-bank financial institution regulation, licensing, supervision: - including for microfinance, leasing, and factoring - reforms to enable agents to deliver financial services - proportionate regulation and supervision of small depository institutions, e.g. financial cooperatives	Brazil, Egypt, India, Mexico, Pakistan
Laws and regulation enabling**:** **-** operations of electronic money and mobile banking	Philippines, Pakistan, Mexico

The above list is no means complete because the space and time in this paper cannot allow further elaboration. Nonetheless, the following country cases can be further examined:

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2. India - http://www.cgap.org/blog/indias-unique-id-could-be-about-generate-big-boost-access

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FINANCIAL INCLUSION IN MYANMAR: ROLE OF MICROFINANCE FOR MIGRATION

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ABSTRACT

In the recent years, the concept of financial inclusion has become recognized well and realized that the unbanked population required a broad range of financial services not only having saving and credit but also to enabling them to conduct their financial lives more efficiently. Microfinance has already contributed to a great deal of impact on poverty reduction in Myanmar, and it has a potential role to promote financial inclusion as well. In Myanmar, microfinance sector has recently experienced a significant surge in terms of its coverage; however, its desired mission of financial inclusion needs to be properly developed and designed in order to contribute maximum benefit to the unbanked people.

In the developing world, microfinance is used as a financial tool to expand credit access to unbanked population such as providing loans to poor with the aim of generating savings, investment and microenterprise development. Since migration is an emerging phenomenon in the developing countries in the age of globalization, microfinance was often used to mitigate untoward effects of migration on the poor and as a result, linkages between migration and microfinance increased recently.

Like many other developing countries, Myanmar produces millions of migrants working in the neighboring economies particularly in Thailand and Malaysia. Majority of migrants send remittances back home to support their families; there is an unofficial estimate of the amount of remittance approaching nearly one billion US dollars. Such huge flow of remittances pose greater challenge against macroeconomic stability since almost all of these transactions rely upon informal money transfer systems called hundi (based on trust, convenience or familiarity. Besides, these flows are thought to be somewhat linked with illicit transactions across the border, therefore, it presents another source of instability along ups and downs of large flows.

In this regard, addressing the gaps in financial inclusion for migrant populations and their dependent communities not only fulfill the developmental objectives of unbanked populations but also the greater objectives of financial sector development. Toward these objectives, a new initiative to target and support migrant populations in Myanmar through innovative microfinance solutions can serve as a pilot project to formalize the remittance and extend credit access to unbanked communities under financial inclusion agenda.

INTRODUCTION

Microfinance has already contributed to a great deal of impact on poverty reduction elsewhere and also in Myanmar, and it certainly contribute toward broader goal of financial inclusion. The utility of this role is particularly suitable for Myanmar where its financial sector is still underdeveloped and less than 20% of population have access to formal financial services. Meanwhile, Myanmar has recently experienced a significant surge of microfinance institutions in terms of its coverage; it is therefore very important that the agenda for financial inclusion needs to be properly developed and designed in order to contribute maximum benefit to the unbanked people through microfinance services.

In the developing world, microfinance is used as a financial tool to expand credit access to unbanked populations such as providing loans to the poor with the aim of generating savings, investment and microenterprise development. In the recent years, microfinance institutions (MFIs), with the support of development community, are targeting migrant households with a range of microfinance services, including providing remittance services and loan products. There is a growing awareness that migration and microfinance have important interactions:

- some households use microcredit as an advance credit to be repaid with expected remittances from family members abroad;
- other households use microfinance loans to finance the costs of migration;
- migration is often used as a coping mechanism to manage debt when the poor loses livelihood following economic downturns or natural disasters;
- migrants' families save money, remit their savings and invest in rural microenterprises.

These interfaces highlight that linking migration and microfinance has the potential to expand opportunities for migrants and their families, as well as for their communities and countries. In particular there are evidences that microcredit can support migration as a development strategy. Since migration is an emerging phenomenon in the developing countries in the age of globalization, microfinance was often used to mitigate untoward effects of migration on the poor and as a result, linkages between migration and microfinance increased recently.

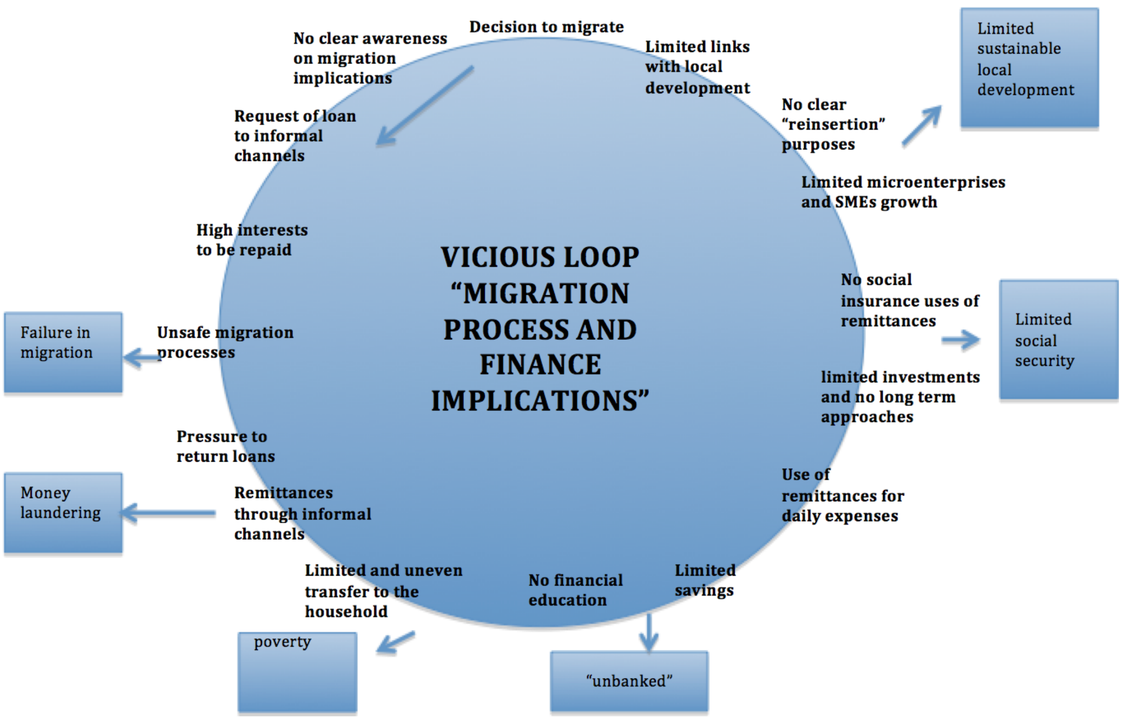
This paper explores the pattern of migration in Myanmar, and how microfinance and its innovative financial tools can be essential to make migration developmental, not detractive, in the promotion of inclusive growth in the country. The paper begins with a careful analysis of how the current process of migration is heading towards unsustainable vicious cycle of welfare loss, human resource depletion and dependency unless systematic intervention to break the cycle. On the other hand, the paper also contends that there is a possibility of making migration a virtuous circle to contribute the current short-comings of Myanmar's economic transition: from brain drain to brain gain, linking domestic supply chains with global value chains, sustainable investment, financial inclusion and innovation. The key is the role of government to not only creating a conducive environment but also supporting an active policy of transforming migration process beneficial to the country's larger national goals.

MIGRATION IN MYANMAR: A VICIOUS LOOP?

Like many other developing countries, Myanmar produces millions of migrants working in the neighboring economies particularly in Thailand and Malaysia. The wages in Thailand is higher than what workers can find in Myanmar. The number of migrant workers in Thailand from Myanmar has risen to more than 2 million, under 3 categories: registered workers, those who go through national verification and those who are recruited directly and formally from Myanmar. About 80% of the migrants from Myanmar go to Thailand. The second destination is Malaysia, but from time to time difficulties in securing required entry documents have been noticed. The inflow remittances in 2013 to Myanmar are 3 billion USD (World Bank, 2013).

With the large numbers of migrants population outside of the country, remittance matters a lot to households and county of origin's economy. Remittances are important addition to household finances for basic consumption, education, health or generate investments etc. Thus, the remittance flows

Figure 1: Vicious Cycle of Migration - Causes and Consequences



from the migrant workers abroad to Myanmar are large and constitute important additions to household finances and important resources to the future growth of local communities and the entire Myanmar.

Majority of migrants send remittances back home to support their families; there is an unofficial estimate of the amount of remittance approaching nearly one billion US dollars and such huge flow of remittances pose greater challenge against macroeconomic stability since almost all of these transactions rely upon informal money transfer systems called hundi (based on trust, convenience or familiarity. Besides, these flows are thought to be somewhat linked with illicit transactions across the border, therefore, it presents another source of instability along ups and downs of large flows.

A large number of migrants are ended up with mystery due to unsafe migration. They are trapped in the vicious loop. The following diagrams summarize the vicious cycle of unsafe migration versus virtuous loop with the new innovation solution for migrants in Myanmar.

THE INNOVATIVE MICROFINANCE SOLUTIONS

It is obvious that addressing the gaps in financial inclusion for migrant populations and their dependent communities not only fulfill the development objectives of unbanked populations but also the greater objectives of financial sector development. Toward these objectives, a new initiative to target and support migrant populations in Myanmar through innovative microfinance solutions, undertaken jointly by the regional government and civil societies with the support of development partners and international corporations, can serve as a pilot project to formalize the remittance and extend credit access to unbanked communities under financial inclusion agenda.

The proposed initiative is launching its operations in Mon State as a pilot project and then scale up to other parts of Myanmar, such as Kayin State and Thanintharyi Region. Mon State is one of the largest migrants-sending communities. There are millions of workers abroad, moved from Mon State, either as originally from this area, either because involved in internal migration prior to emigrate abroad. As Mon state has the largest potential to integrate unbanked migrants and recipients and the remittance flows into the official financial system, it has been chosen for the pilot project. Moreover Mon State has some specific characteristics, in terms of geography, economic potential and migration issue, which make it the "perfect" area to implement the project in its "pilot phase".

For the migration, middle class families use their own savings to cover the costs while poor take the loans from money lenders. As an innovative approach, the project targets potential migrants and migrant families who are in need of loan to cover the cost for migration and smooth their personal consumption while they are waiting for the remittance. The project will not only provide financial services but also trainings for their financial literacy and small business management skill. Moreover, the loans provided will be tied with official remittance transfer so that the project will gradually formalize the remittance.

CONCLUSION

The innovative idea of microfinance targeting to migrants and migrants families is an attempt to close the gap of credit access for potential migrants and end up the vicious loop of unsafe migration. The project will also help the targeted migrants not only to have financial literacy but also opportunities to make proper investment of remittance for the development of the region.

THE ROLE OF STATE TO INCREASE THE PEOPLE CAPACITY TO ACCESS AND USE OF FORMAL FINANCIAL SERVICES FOR ALLEVIATING POVERTY

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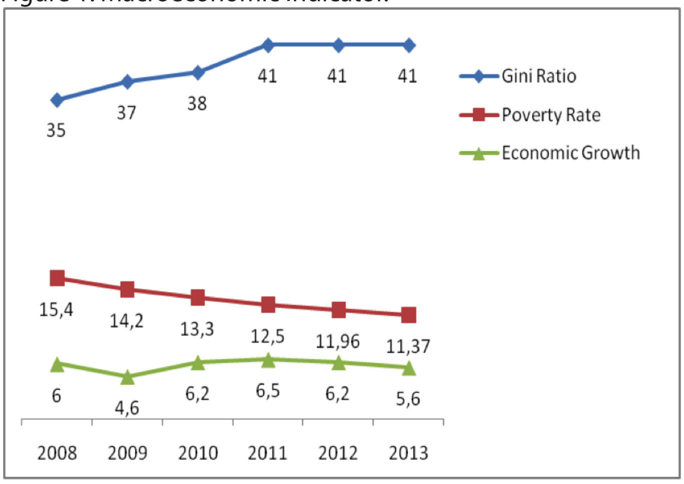
ABSTRACT

One of the main issue why people not having the access to the financial services is because of their lack of the economic and financial capacity, simply they do not have money or reliable income. The macroeconomic perspective frame, this is in fact issues of employment, poverty and equality. It is the task of the government to ensure that all the people to have economic and financial capacity to have a better life. Indonesia Government has been taking and running many programs to deal with these issues through social security and poverty alleviation programs such as household based social assistance, community-driven development, and development of micro and small enterprises. However, conducting these programs need clear and strong strategic direction in the implementation. There are at least two main challenges that should be in best formulation, include: (i) fiscal capacity and management; and (ii) development of the proper distribution infrastructure and policy of the government to people (G2P) channel. With the macroeconomic objective of increasing the welfare of the people, the Government of Indonesia allocate fund for stimulating the economic and financial capacity of the people, while maintaining the fiscal discipline. Further, the Government also builds institutions and uses formal financial system to deliver and distribute the social protection program in a universal social security system. While the access of people to the financial access intuitively increases, the macro objective of poverty alleviation expected to be achieved.

INTRODUCTION

There is substantial number of empirical studies showing a strong causal relationship between the development of the financial system and economic growth, and individuals' welfare [1]. An efficient and inclusive financial system empowers individuals, facilitates the exchange of goods and services, integrates people into the economy and offers protection against economic shocks. It is undeniable to say that better access to financial services may improve lives of the poor households and other vulnerable groups, thus, alleviate poverty. The Government of Indonesia has acknowledged that the limited access to financial services is constrain to development and growth, therefore the authorities initiated some policies to overcome this issue including launched national strategy of financial inclusion and using social distribution program to equip the poor household so that they are able to access financial services.

Figure 1. Macroeconomic Indicator.



At present, Indonesia shows an impressive economic growth after 1997 crises. There was a slight decline in 2009 due to the 2008-2009 global turmoil but Indonesia managed to stabilize his growth since then. On the other hand, Indonesian Gini ratio, the coefficient that measures inequality among income distribution, has risen steadily and is the highest in the last 50 years period.

Table 1. Poverty Rates.

	Poverty Rate	Number of Poor (million)	Poverty Line Inflation
March 2012	11.96	29.13	
March 2013	11.36	28.17	9.2
March 2014	11.25	28.28	11.5

Source: TNP2K

Regarding the poverty, the 1997 economic crisis had a heavy impact on Indonesia's economy, pushed up the number of people living under poverty line to 49,50 people (or 24.23 percent of total population) from only 34.01 million (17.47 percent) in 1996. Nowadays, poverty remains as a Government's big concern even though Indonesia continues to post impressive economic growth post 1997 crisis.

In March 2014, the poverty rate was 11.25 percent, equivalent to 28.28 million people living below the poverty line. During March 2013 to March 2014, despite the reduction in poverty rate, the absolute number of people living below the poverty line was increasing.

This should be a warning for the Government since severe poverty and inequality could decline the power of economic growth. Many researches tell us that countries with higher inequality tend to have a lower and less durable growth [2]. Inequality and poverty hamper the prospects for individuals to realize their full potentials and contribution to society. The government aware and recognize that one of the potential cause of the inequality and poverty of the people is the lack of financial services access. Therefore, the government believes that developing inclusive finance program could overcome these issues.

It is the fact that in Indonesia, the access to financial services is still relatively low. Bank Indonesia Household Balance Sheet Survey (2011) showed that only 48 percent of Indonesian households had saving account at bank, other financial institution and non-financial institution [3]. World Bank Report (2010) also suggested similar result, 47.6% of total population in Indonesia use bank saving accounts and only 41% within this number have their own saving account [4]. On the demand side, lack of income and financial capacity is the major reason why poor household are not participating in the formal financial system. The poor households think they do not have enough money to feel they need an account. Whereas for the poor household, access to the financial services such as payment, saving and insurance could generate huge benefits such as smooth out consumption and increase investment including in education and health, as well as protect them against unfavorable shocks – therefore avoid falling deeper into poverty.

From the supply side, Indonesia's financial sector is still small in relation to GDP. In addition, the value of credit made in Indonesia as a proportional of GDP is lower than other countries in region. The limited number and quality of financial products is the result of limited access to financial services, high transaction cost and weak regulatory framework (World Bank Report, 2010). In short, there is much room for improvement, particularly by government.

GOVERNMENT PROGRAMS ON FINANCIAL INCLUSION

It is the government's responsibilities to ensure its citizen reach a better life by having a better capacity in economic and financial. With regard to overcome the lack of access to financial system issue, the Government of Indonesia has formulated some policy agendas to increase people's capacity including the National Strategy of Financial Inclusion (NSFI). The general framework of NSFI is built on the following six pillars: (i) financial education; (ii) public financial facility; (iii) mapping of financial information; (iv) supporting regulation; (v) intermediary facilities and distribution channels; and (vi) consumer protection [5].

The strategy is designed to achieve a financial system that is accessible by all layers of population to promote poverty reduction, economic growth and financial stability in Indonesia. This NSFI goals can be expanded through several objectives include: make financial inclusion part of the grand strategy of economic development and poverty reduction; provide financial services and product tailored to the needs of community; improve people's knowledge to financial services; improves people's access to financial services; strengthen the synergy between bank, microfinance institution and non-bank financial institution; and optimize ICT to expand the scope of financial services (National Strategy for Financial Inclusion, 2012) [5].

Such a people-centered strategy requires targeting community groups that have been hampered in their access to financial services. Therefore, the strategy gives special attention to groups that had only limited access to financial services or have special needs such as migrant workers and people living in remote areas. Overall, NSFI distinguishes 3 segments of population as their target: low-income poor, working poor and near poor; as well as 3 cross-cutting categories: migrant workers, women and people living in remote areas.

The significant role of government to increase people capacity to access financial services is captured in second pillar: public financial facility. The strategy of this pillar refers to government's ability and role in providing direct or conditional financial funding to boost community's economic empowerment so that they have economic and financial capacity to access financial services. Several initiatives in this pillar include:

a. Household-Based Social Assistance.

This approach aim to fulfill the basic rights of the poor as well as to reduce their life burdens and improve their quality of life, focusing on the right to food, health services and education. The programs include:

(i) PKH (Program Keluarga Harapan or Conditional Cash Trans fer), this program provide conditional cash transfer for the household to access specified health and education services.

(ii) Raskin (Beras Miskin or Rice for the Poor), this program provide cheaper rice for poor household. Nowadays, there are more than one agency which responsible for the distribution, price, and timing of Raskin for the beneficiaries. In the future, Raskin is expected to have 2 roles at the same time: price stabilization as well as poverty alleviation.

(iii) Bantuan Siswa Miskin or Scholarship for Children from Poor Families, aim to help poor students to continue their education and reduce the number of drop-outs due to barriers linked to educational cost. At present, the government is improving the targeting by the use of Unified Database – Scholarship vouchers sent to school-age children from poor families and ensuring timely and adequate scholarship payment in order to have impact on (primary high school) continuation rate.

(iv) Bantuan Operasional Sekolah or school operational assistance fund, aims to ease the burden of financing the nine years qualified education for all children. Unlike the previous point, this fund will be given to the schools.

b. Community-Driven Development Program.
By this program, Government wishes to encourage poor people to use their potential resources more and increase their awareness to be able to participate on a wider scale of development in the region.

PNPM Mandiri is a national wide policy framework that acts as a guidance and reference of poverty reduction programs based on community empowerment. The newly enacted Law on Village has transformed PNPM into regular village planning and activities to improve village development. The brand new focus of this program is rural infrastructure development and employment creation at local level. PNPM transition strategy include: village planning, grant transfer mechanism, facilitation and asset management. PNPM also encourage people to create their initiative and innovation for a sustainable poverty reduction.

c. MSME Development Program.
This approach's strategy is by improving MSMEs and entrepreneurship policies and programs. One of the main programs is KUR or Credit for Business, a loan program in the form of working credit loan or investment for MSMEs. This approach also uses financial inclusion strategy to improve the poor's exposure to financial services G2P Payment Road Map – not necessarily through microcredit. The Government also try to create poverty friendly labor market policy and business climate.

However, conducting these programs need a clear and strong strategic direction in implementation. The National Strategy of Financial Inclusion is national wide integrated agenda that require a well-designed guidance and control. There is also urgency for economic, social and political coherence to support the development, implementation and evaluation of the programs. We need an effective coordination at both vertical and horizontal levels. This includes inter-agency collaboration and cooperation. Duplication of efforts across similar agency will add cost and reduce effectiveness.

THE ROLE OF STATE

a. Opportunities and Challenges
There are at least two concerns and challenges regarding the implementation of financial inclusion and social protection programs that should be addressed properly: (i) fiscal capacity and management and (ii) development of the proper distribution infrastructure and policy of the government to person (G2P) channel.

The central government has a key role in implementing those financial inclusion programs. The idea is government allocates fund through social protection programs to stimulate the economy and increase financial capacity of the people thus enable them to access financial services. The government should be able to maintain fiscal discipline, while fiscal space for distribution policy needs to be expanded. As budgeting is also a matter of political choice, government needs to utilize all possible options in respect of revenue and spending to achieve a virtuous circle of sustained growth and social development. In case of Indonesia, the 2014 national budget set around Rp 30 trillion deficits or 1.49 percent of the GDP after government policy to reduce fuel subsidy, and this adjustment able to create Rp 18.4 trillion worth fiscal space that would be allocated to infrastructure and social protection spending.

It is also substantial to maintain the sustainability of social protection spending. The government needs to develop an efficient strategy and reallocate some non-urgent budget. Social protection spending should be seen as an investment rather than cost, as long-term poverty reduction could boost economic growth.

Beside the budget constrain, the government has to deal with a long term issue regarding the development of infrastructure and policy of the G2P channel. The second pillar of NSFI (public financial facility) captures government's effort to promote G2P transfer through social protection programs. These programs play an important role in supporting financial inclusion strategy particularly in term of using non-cash payment to distribute the benefits to poor household. A first concrete initiative relates to conditional cash transfer or PKH payment. The poor households receive their benefits through "Giro Pos" account, instead of cash. In near future, PKH also plans to distribute benefits through saving account in banks (BRI). This financial inclusion strategy is expected to cut some cost and fraud possibility. At the same time, this initiative enables the government to use its social protection programs as an instrument to increase saving among poor households.

As G2P payment is a potential tool to extend financial inclusion and improve the welfare of poor households, it is critical for government to pay more attention on how to build a better infrastructure and synchronize the distribution policy. Government around the world, especially in the developing countries, is expected to be able to increase the poor household's access to financial services through advanced G2P payment. Based on other developing countries' experiences (Brazil and India), non-cash transfer program reduces total distribution cost of social assistance programs, enhances transparency, lessen fraud possibility and increases the safety and control of benefits distribution.

b. The Way Forward – Institutionalization

In going forward, the government intends to build institutions toward a universal social security system that integrated with financial inclusion framework. It is, of course, a long way road to go that needs well coordinated and institionalized multiple components of distribution policy. However, some initial step has been taken. One of them is the launching of BPJS Labor, a social protection program for employee through social insurance. BPJS Labor is a good first step how private company employees finally could benefit this financial inclusion framework. This program covers death benefits, work accident compensation, old-age saving, and pension. In the future, Government should think how to include the informal sector employees, such as farmers and self employed which only have a low and middle income, to this scheme.

Another initial step was passing Village Law No. 6/2014. Under the law, the government commits to distribute village fund allocation. The funds are aimed to increase community's financial capacity and aid development in villages. The government incorporates PNPM Mandiri program in this law.

In this stage, the role of technology is critical, as harnessing technology is one of the most effective ways to integrate the poor household into financial system through G2P payment of the social protection program. Using cash transfer on G2P payment is proved to be more costly, less reliable and more susceptible to fraud. Thus, it needs government's effort to build infrastructure needed in creating G2P payment through formal financial services. Providing poor G2P recipients of social protection program with integrated formal financial services could strengthen the impact of G2P payment as financial services help poor households to build assets, withstand shock and link to wider economy.

In addition, through technology, people can carry out "banking" without even going to a bank office. In Indonesia, the fact that the majority of population is familiar with mobile phone provides the base to expand the scope of financial services through communication technology, or so called "branchless banking". The development also can be combined with other innovations such as electronic money and using post offices and retail networks as banking agents [5].

There could also be opportunities for innovative solutions and partnership between government and private sector to promote financial inclusion in Indonesia. For private sector, a huge number of unbanked populations are a market potential for financial services that is currently not being met by the market. Government has taken an impressive step by launch NSFI to provide broader and long-term guidelines to both policymakers and market players. However, there is still room for improvement such as strengthening existing legal and regulatory framework for formal financial institutions. For example, the government could expand the regulatory framework for service-providers to use mobile banking in order to improve access to financial services. Indonesia is already moving ahead in the development of mobile banking services but it still could go further by exploiting the potential using telecommunications services-providers to reach unbanked poor household [6].

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PROMOTING ACCESS TO FINANCE: THE ROLE OF NATIONAL DEVELOPMENT BANKS

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ABSTRACT

Historically, development banks (DBs) have been an important instrument of governments to promote economic growth by providing credit, other financial services, and a wide range of advisory and capacity building programs to households, small and medium enterprises (SMEs), and even large private corporations, whose financial needs are not sufficiently served by private commercial banks or local capital markets.

However, the performance of development banks varies from country to country and from institution to institution. In terms of their performance, development banks can be divided in three categories: weak, modest and high performers. This paper argues that to be a high performer, institutions must have clear developmental mandates, strong risk management, ability to generate enough profits and become self-sustainable, and have a strong institutional structure and corporate governance arrangements to be able to resist undue political pressure.

INTRODUCTION

Traditionally, DBs have been an important instrument used by governments to promote economic development in practically all countries around the world, regardless of their stage of development. DBs have been established in former socialist economies, advanced capitalist countries and emerging economies to finance the construction of roads, highways, energy plants, dams, and telecommunication infrastructure; foster incipient industries and small and medium enterprises (SMEs); and provide financial services to low-income households.

In emerging market economies, for instance, DBs usually constitute the main source of long term credit, loan guarantees, and other financial services in the infrastructure, housing and agriculture sectors. Even in some advanced economies, where private financial institutions and capital markets satisfy the financial needs of firms and individuals, several DBs continue to play an active role in providing financial services to so called strategic sectors of the economy, such as the Bank for Reconstruction and Development (KFW) in Germany, the Business Development Bank of Canada, the EXIM Bank of the USA, etc.

OVERVIEW OF DEVELOPMENT BANKS

Around the world, state-owned financial institutions account for approximately 25% of total assets in the banking system (World Bank, 2012). Development banks are usually the largest sub-type of state-owned banks.

The universe of DBs is heterogeneous and, as a result, they cannot and should not be treated as a uniform group of institutions. A recent survey conducted by the World Bank on DBs (see De Luna, 2012) showed that these institutions differ among themselves in various areas, such as:

• Ownership structure (fully vs. partially owned by government). Typically DBs are institutions owned, administered, and controlled by the government (State), which provides the strategic direction of the DB and appoints their senior management and board members. The extent of government ownership in DBs, however, can vary. Examples of institutions with private sector participation include Credit Guarantee Corporation (Malaysia), Banque de l'Habitat de Côte d'Ivoire, and Finagro (Colombia).

• Policy mandates (narrow vs. broad mandates). On the basis of their mandates, DBs can be divided into two groups: (i) institutions with a narrow and specific mandate, which explicitly refers to the sector(s), type of customers or activities that a DB is expected to support, and (ii) institutions with broad mandates that are formulated in general terms without reference to any particular sector or activity. Examples of this type of mandates are "…to promote the country's economic development" or the "well-being of citizens". Examples of institutions in the first group are: Examples of this group are: National Agriculture and Rural Development Bank of India, the Credit Guarantee Corporation of Malaysia, Hungarian Export-Import Bank, Ecuadorian Housing Bank, Banobras of Mexico (which specializes in large infrastructure projects), and Kenya

Tourist Development Corporation. Examples of institutions in the second category are: Fiji Development Bank, Development Bank of Turkey, and Development Bank of China.

Table 1. Mandates of DBs

DBS BY TYPE OF MANDATE	MARKET NICHE	PERCENT OF DBS IN THE SURVEY
1. SPECIFIC		53%
	AGRICULTURE	***13%***
	SMES	***12%***
	INTERNATIONAL TRADE	***9%***
	HOUSING	***6%***
	INFRASTRUCTURE	***4%***
	LOCAL GOVERNMENTS	***3%***
	INDUSTRIAL AND OTHER	***6%***
2. BROAD		47%
TOTAL		100%

• Funding mechanisms (deposit taking vs. non-deposit taking institutions).
• Target sectors and clients (narrow vs. wide focus).

The surveyed DBs operate in several sectors of the economy and serve different types of clients, creating a wide range of intervention modes through which governments provide credit and other financial services in the economy. In the World Bank survey, DBs were asked which type of clients they target: 92% of DBs responded that they target small and medium enterprises, 60% large private corporations, 55% individuals and households, 54% other state-owned enterprises (SOEs) and 46% private financial intermediaries. It is interesting to note that for most DBs, regardless of their size or mandate, SMEs constitute the type of client they are trying to serve and support. This is not a surprise, since for most low- and middle-income countries; access to finance by SMEs remains one of the key challenges for the financial sector. Even in high-income countries, such as Germany and Canada, DBs surveyed in those jurisdictions also target the SME sector.

• Lending models (first-tier vs. second-tier)
• Pricing of lending products (subsidized vs. market interest rates)
• Regulation and supervision (special regime vs. same regime applicable to private banks).

There is a broad international consensus that DBs and other financial institutions owned or controlled by the government or state, should have the regulation and supervisory standards of private financial institutions. By doing so, DBs will be subjected to the same solvency, liquidity, governance, accounting, and transparency standards of private sector institutions, whenever applicable. Moreover, in the event of financial problems in DBs, the regulator is expected to act and take the same preventive or remedial actions normally undertaken with private financial institutions. The survey found that 76% of DBs are regulated and supervised by the same institution that supervises private commercial banks in their countries, such as the central bank or the bank supervisory agency. The remaining 24% are supervised by the same ministries and government agencies providing their strategic direction, such as the Ministries of Industry, Trade, Housing, Agriculture, Energy, Labor, etc. Examples of DBs supervised by ministries include National Development Bank of Palau, Samoa Housing Corporation, Export Credit Guarantee Agency of Oman, SME Development Bank of Thailand, and Uganda Development Bank.

• Corporate governance (independent vs. government controlled boards). The governance in a DB can be more challenging than in private financial intermediaries. To begin with, the structure of DB ownership and control can be more complex, involving a large number of governmental institutions (ministries of finance, agriculture, housing, trade, labor, etc), and sometimes even the legislature. These entities all have their own legitimate (and sometimes conflicting) expectations regarding the goals the DB should accomplish.

When the mandate of the DB is stated only in general and broad terms, senior government officials or elected politicians have more room to influence the direction and activities that a DB pursues. Unless the institutional framework of a DB is strong enough to withstand undue political pressure, a DB can become vulnerable to political interference or be captured by interest groups exerting pressure on it to take excessive credit risks, thus causing future financial losses for the DB.

In terms of their performance, there are basically three types of development banks: weak, satisfactory and high, as illustrated in the following chart:

Figure 1: Typology of Development Banks

WEAK PERFORMANCE	MODEST PERFORMANCE	HIGH PERFORMANCE
1. High dependence on government funds 2. Recurrent financial losses 3. Conflicting social and economic objectives 4. Limited economic impact 5. Vulnerable to undue political interference	6. Profitable institutions 7. Well-administered …but there is room to improve: 8. Policy mandates 9. Corporate governance 10. Risk management	11. Financial strength 12. High innovation capability (financial products, outreach target market in collaboration with private financial institutions) 13. Right combination of financial and advisory services 14. High standards of corporate governance and accountability

Institutions with weak performance are those that are dependent on government funds to be able to operate and remain afloat. They are not financially self-sustainable. They require capital injections and other preferential treatment (tax, regulatory) to be able to operate. Moreover, many of them have recurrent losses and a high amount of non-performing loans; their economic and social objectives are not clearly defined and they are often captured by their own clientele or subject to undue political interference.

Institutions with modest performance are generally well administered and profitable. However, they still have a long way to go in terms of improving their policy-mandates to ensure they crowd in other private financial intermediaries in the niche markets they serve (SMEs, microfinance, etc). Moreover, their corporate governance is weak and their ability to manage credit risks needs to be strengthened.

Finally, there is a group development banks that can be categorized as high performers. They are well administered and highly profitable. Moreover, they are able to develop innovative financial products to serve their niche markets. They offer not only financial products but also advisory services to help their clients succeed. And they are subject to high standards of corporate governance (transparency, accountability of board and senior management) and their mandates are periodically reviewed to ensure they remain properly aligned to the needs of the economy.

WHAT DOES IT TAKE TO BE A HIGH PERFORMER?

DBs are expected to serve clients and segments of the market with a high risk profile that are usually not being served by private financial institutions. At the same time, as government-owned and controlled institutions, DBs could be vulnerable to undue political pressure, unless strong safeguards are put in place.

In the past, international experience has revealed that only DBs with clearly defined mandates, high corporate governance standards, strong risk management capability, proper regulation and supervision, and a strong management team have been successful. In fact, in the past several DBs around the world have failed due to poor lending decisions, high amount of non-performing loans, undue political interference, capture by interest groups, and lack of well-defined mandates.

In the World Bank survey on development banks, it was found that there is enormous room to improve the performance and effectiveness of DBs:

• 18% of DBs that receive government transfers claimed that if these transfers were canceled, they would be unable to operate on a sustainable basis.
• 24% of all DBs are under-supervised and without the reporting standards applicable to private financial institutions.
• 36% of DBs do not disclose their regulatory capital on a regular basis.
• 25%% of DBs do not include independent members in their boards.
• 15% of DBs reported NPL ratios of 30% or more.
• 13% of DBs do not have minimum requirements in terms of technical skills
• 25% do not require board members and senior management to demonstrate lack of bankruptcy records.
• 78% of DBs have recognized the need to improve risk management as one of their key challenges going forward.

At the same time, the survey found that in various jurisdictions innovative procedures have been put in place to help DBs operate in an effective manner. For instance, some DBs are legally obliged to achieve a minimum return on capital, measured in terms of the inflation rate or the government's cost of borrowing. Moreover, certain DBs have been partially privatized and the management has been transferred to the private sector under management contracts. Certain governments have also adopted legislation that prevents them from bailing out DBs in case of failure. In other jurisdictions, DBs lend only through second-tier operations and share with the private sector the risk of lending to underserved segments of the market. Some DBs are also governed by boards fully comprised of independent members. It is worth exploring all these innovations as they may be part of the solutions needed to strengthen those weak institutions covered in the survey, in particular those operating in difficult institutional environments.

CONCLUSIONS

Across countries and regions, DBs exhibit various differences and patterns. Specialized and profitable DBs with a strong commercial orientation coexist with other DBs that are highly dependent on government subsidies. They pursue multiple and sometimes conflicting economic and social objectives. New generations of DBs characterized by high standards of transparency, accountability, and operational autonomy coexist with institutions that continue to operate under the powerful influence and interference of single individuals and politicians. Deposit-taking DBs with large branch networks coexist with DBs that are only funded through capital markets and lend only through second-tier operations.

In practice, the different institutional features and modalities adopted by individual DBs do matter, because they can determine to a large extent a DB's ability to become financially-self-sustainable and, more importantly, fulfill their objectives and policy mandates in an efficient manner.

Because of their strong focus on SMEs and individuals not served by other financial institutions, DBs are clearly an essential part of the financial inclusion agenda. They play an important role in serving new clients directly or through a network of private financial intermediaries, mitigating credit risks, and even developing innovative financial instruments to finance promising business ventures.

In the short or medium terms, there are strong reasons for governments to continue modernizing their DBs and giving them tools to become more effective and successful in fulfilling their policy mandates.

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USE OF DATA IN SUPPORTING THE DEVELOPMENT OF ENABLING CONDITIONS FOR GREATER FINANCIAL INCLUSION

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ABSTRACT

Ensuring that all segments of the population have the opportunity to participate in the formal financial system is an important agenda of Bank Negara Malaysia (BNM). BNM has continuously put in effort to promote wider access to financial services through various delivery channels, expanded the range of products and services as well as supported more effective use of financial products and services. In order for policy makers to efficiently and effectively design, implement and evaluate financial inclusion policies, the use of data is crucial in supporting the development if enabling conditions for greater financial inclusion. This paper discusses how financial inclusion policies and initiatives are designed and implemented by BNM with the use of both supply-side and demand-side data. In addition, BNM has established a systematic monitoring framework to track the progress of financial inclusion. This enables measurement of progress against the quantifiable targets or key performance indicators that have been developed to evaluate of the state of financial inclusion at the national level.

INTRODUCTION

In 2009, the Malaysian Government introduced the New Economic Model (NEM) which outlines the direction towards transforming Malaysia into a high income economy, supported by sustainable growth. Inclusiveness, alongside high income and sustainability, is one of the key desirables of this vision as the participation of the bottom 40% of the households based on income stratification in the overall economic growth is seen as key in achieving economic prosperity as well as maintaining social cohesion. Malaysia aspires to become a high income nation by 2020, with an average per capita income of RM48,000 (USD15,000). Nevertheless, a significant portion of Malaysian households continue to currently earn less than RM18,000 (USD5,625) annually.

Malaysia acknowledges that an inclusive financial system plays an important part in ensuring sustainable long-term economic growth. Evidences show a strong positive correlation between the level of financial inclusion and the stage of development of an economy, whereby a higher degree of financial inclusion will contribute to overall economic development[1] . An inclusive financial system provides the lower segments of society with access to quality essential financial services and the means to accumulate wealth through building up savings and promotes broader access to financing for economic activities, thus empowering the poor with opportunity to improve their standard of living.

The articulation of the Bank's primary function to promote a sound, progressive and inclusive financial sector in the Central Bank of Malaysia Act 2009 further reinforced the Bank's strategic focus on driving financial inclusion policies. With this mandate, BNM is the key driver of Malaysia's financial inclusion initiatives, supported by various Government ministries and agencies, private sector and NGOs to achieve the vision of "an inclusive financial system that best serves all members of society, including the underserved, to have access to and usage of quality, affordable essential financial services to satisfy their needs towards shared prosperity".

Pursuing the financial inclusion agenda will continue to be a key component of Malaysia's inclusive growth strategy under the Financial Sector Blueprint (FSB) 2011-2020. Financial inclusion will enable all citizens, including the low-income and rural residents, to have the opportunity to undertake financial transactions, generate income, accumulate assets and protect themselves financially against unexpected adverse events, thereby enabling them to benefit from economic progress.

1 Demirguc-Kunt,A.; Beck,T.; Honohan, P., 2008. Finance for All? Policies and Pitfalls in Expanding Access. The World Bank, Washington, D.C.

This will in turn contribute to balanced and sustainable economic growth and development.

DIVERSE RANGE OF FINANCIAL INSTITUTIONS

There is a diverse range of institutions that can provide financial services to the underserved. A key strategy of financial inclusion is to leverage on the capacity and capability of institutions regulated by BNM (commercial banks, Islamic banks, Development Financial Institutions-DFI, insurance companies, takaful operators and payment system operators) to provide financial services to all segments of the society.

Non-bank financial intermediaries overseen by Government Ministries and Agencies (Provident and Pension Funds, Microfinance Institutions-MFIs, Pilgrim Board Fund, Cooperatives, Housing Credit Institutions, money lenders and pawn brokers) complement the financial institutions to serve to all segments of the society.

Many initiatives implemented over the past decade have significantly improved financial inclusion in Malaysia. Data has played an imperative role in the development of financial inclusion policies as well as monitoring the effectiveness of the policies and initiatives implemented. The following section will discuss how data facilitates the formulation of financial inclusion policies as well as how we measure inclusive finance with the use of data.

COMPREHENSIVE SME DEVELOPMENT

A survey was conducted by BNM in 2001 on 7,705 SMEs throughout Malaysia to assess the state of SMEs at that time, their requirements and identify issues that impede their development. The findings of the survey revealed that SMEs face issues beyond access to financing which result in low value-added SMEs, small contribution to the economy and many SMEs are not competitive. The issues faced by the SMEs are as follows:

- SMEs in Malaysia are generally very small sized - 77% of the SMEs have total assets of less than RM5 million, while 74% have less than 50 full-time employees.
- Majority of the SMEs cater mainly for the domestic market - 8% of the SMEs export their products
- Low usage of technology - 5% of the SMEs have fully automated their operations
- Lack of training - 43% of the SMEs do not provide training to their staff
- Lack of access to advisory services - 52% of SMEs did not have access to advisory services

In addition to the above issues, efforts on SMEs development prior to 2004 was fragmented, with involvement of over 12 Ministries and 40 Agencies due to the following reasons:

- No central body responsible for the coordination and synchronisation of the developmental efforts for SMEs, resulting in duplication of programmes and overlapping of objectives
- Lack of capacity building efforts for SMEs, resulting in banks not lending to SMEs because SMEs were regarded as not viable
- No standard definition for SMEs, with agencies adopting different definitions based on their own criteria. The absence of a standard definition prevented the collection and compilation of uniform SME data for assessment of development needs and business performance across all sectors. Without a standard definition, some SMEs were also excluded from the entire developmental effort.

Recognising the important role of SMEs in economic development, the Government established the National SME Development Council (NSDC) in June 2004 as the highest policy making body to drive the SME development agenda. The NSDC formulates broad national policies and strategies aimed at creating an enabling environment for the comprehensive development of SMEs across all sectors. The NSDC, which is chaired by the Prime Minister, brings together more than 15 ministries and 60 agencies under a coordinated national strategy. BNM was the Secretariat to the NSDC until 2008, before the role was handed over to SME Corporation Malaysia (SME Corp). SME Corp was established in October 2009 as a dedicated agency to ensure the effective implementation of SME development programmes.

Findings from the Census of Establishments and Enterprises 2005 by the Department of Statistics Malaysia (DOSM) which showed that 99.2% of business establishments are SMEs, was another indication of the need to have a holistic Government approach to develop SMEs. The impact of various policies and initiatives implemented to develop the SMEs was shown in the 2011 Census where SMEs accounted for 97.3% of total businsess establishments in Malaysia and SMEs' contribution to Gross Domestic Product had increased to 32.5% (2005: 29.4%).

MICROFINANCE INSTITUTIONAL FRAMEWORK

The 2005 Census also showed that 79% out of 548,267 SMEs in Malaysia are micro enterprises. However, only 13% indicated that financial institutions were their main source of financing while most of them relied on their own money, borrow from family and friends as well as other sources. This showed that there was an opportunity for the financial system to serve the micro enterprises.

Hence, microfinancing by financial institutions under the comprehensive and sustainable microfinance (Pembiayaan Mikro) framework was established by the NSDC in 2006. Under this framework, micro enterprises could access uncollateralised business financing in a fast, easy and convenient manner. Currently, there are 10 participating financial institutions (PFIs) providing micro financing sustainably under this framework, with more than 2,400 access points nationwide[2] . As at end-2013, outstanding micro financing of the PFIs stood at RM857.0 million (USD263 million) involving 68,360 micro enterprises accounts.

2 These financial institutions adopt various sustainable business models such as a mass market model which leverages on existing branches, dedicated micro finance branches, co-operative model and partnership with strategic distributors

SUPPLY-SIDE AND DEMAND-SIDE DATA COLLECTION

BNM has put in place a systematic infrastructure to compile supply-side statistics. The Statistical Services Department in BNM is the centralized point for collection, compilation and dissemination of data submitted by banking institutions, DFIs, payment system operators and insurance companies.

While the supply-side data provides a quantitative tool for analysis, policy development and monitoring, the demand-side data provides quantitative data or evidence for policy making and assessment. BNM conducted its first Financial Inclusion Demand-Side Survey in 2011 to measure the level of financial inclusion in Malaysia.

The second demand-side survey which will be conducted by end-2014 will enable BNM to measure the effectiveness of current initiatives in place based on comparison between this survey and the previous survey. Findings from the survey will allow BNM to evaluate satisfaction level to develop policies to improve the quality of financial products and services. In addition to the similar indicators measured in the previous survey, this upcoming survey incorporates the components of financial capability which will form financial capability indicators for Malaysian consumers as a basis of regular monitoring.

CREDIT INFORMATION

Various initiatives have been established to strengthen the supporting financial infrastructure. A key barrier to access to financing is the lack of credible credit history which borrowers can use to demonstrate creditworthiness to lenders. Recognising this, BNM has strategically supported the development of the credit bureau ecosystem to enable borrowers to build such positive credit records which leads to better access to financing. In 2001, Central Credit Reference Information System (CCRIS) was established to collect credit information from all financial institutions regulated by BNM. This database enables FIs to make more responsible credit assessment, the central bank to effectively monitor credit risk in the financial system and the consumers to build positive credit history which leads to better access to financing at reasonable cost.

Credit Bureau Malaysia (CBM) was established in 2008 to assist SMEs to build credible credit records from transactions outside the regulated banking system such as transactions with suppliers, landlords and utility companies. With this credible credit record, SMEs that utilise the formal banking system for the first time will be able to more effectively get access to finance. CBM also has a comprehensive credit scoring methodology which enables financial institutions to assess the credit worthiness of potential customers.

In addition, CBM plays an important role in educating SMEs on how credit scores are calculated and how borrowers can improve their business operations and transaction conduct to improve their credit scores. As at end-2013, CBM has 28,435 SME members and had produced 1.4 million credit reports since its inception.

AGENT BANKING REGULATORY FRAMEWORK

The first geographical mapping exercise by BNM in 2011 had identified unserved and underserved areas in Malaysia. By mid-2011, had ensured that all districts[3] in Malaysia have been served by at least one financial access point. As at end-2011, only 46.4% of 837 sub-districts[4] and 72.9% of 576 State Legislative Assemblies (Dewan Undangan Negeri) were served. Efforts were then focused on ensuring that the remaining unserved sub-districts and State Legislative Assemblies have financial access points.

As one of the key initiatives under the FSB 2011-2020, BNM introduced the Agent Banking Framework in 2012 to enhance access to quality and affordable financial services, particularly in the underserved and remote areas. Agent banking is the provision of banking services by a licensed financial institution to customers through a third-party agent, such as retail outlets and post offices. The agent banking initiative has already produced promising results. Three financial institutions, namely Malayan Banking Berhad, RHB Bank Berhad and Bank Simpanan Nasional have a combined agent network of 4,120 agents as at end-December 2012, which includes post offices, petrol stations and retail outlets.

The Agent Banking Framework, after just over a year of implementation, made a significant impact in bringing financial services to Malaysians all over the country. BNM's geographical mapping exercise found that the total sub-districts served has increased to 92.5% (2011: 46.4%), well ahead of the target level of 90% by the end of 2014. Similarly, the total State Legislative Assemblies (Dewan Undangan Negeri) served has increased to 99.8% [5] (2011: 72.9%). Agent banks have been very well received, with clear benefits for all the parties involved. The lower set-up costs provide substantial savings to financial institutions, agents have benefited from an increased flow of customers to their business premises, and consumers in smaller districts have welcomed the ability to conduct banking services in less formal and more familiar surroundings.

FINANCIAL INCLUSION INDEX

Leveraging on the AFI Core Set of Financial Inclusion Indicators developed by the AFI-FIDWG[6] , BNM introduced a financial inclusion index in 2012 to measure the level of inclusive finance

3 A sub-district (mukim) refers to an area with less than 2,000 population

4 The total State Legislative Assemblies served had reached 100% by March 2014.

5 The Core Set of Financial Inclusion Indicators was developed by Alliance of Financial Inclusion's Financial Inclusion Data Working Group (AFI-FIDWG) as a measurement tool to provide a method for capturing the status of financial inclusion within countries. Among the key indicators measured are percentage of administrative units with access points and percentage of adults population with an account

of Malaysia as part of the doggemremt ossosacomprehensive approach outlined in the FSB 2011-2020. The AFI Core Set of Financial Inclusion indicators were customized to reflect the key performance indicators of Malaysia's financial inclusion framework by defining 4 dimensions of financial inclusion namely convenient accessibility, take-up rate, responsible usage and satisfaction level.

The financial inclusion index incorporates these 4 equally-weighted dimensions into the determination of an index score. Data for the index is collected through a survey conducted nationwide. This data is entered into the financial inclusion index formula that will compute a score ranging from 0 (indicating a lack of any financial services) to 1 (indicating full financial inclusiveness) which is used to rate the level of a country's financial inclusion.

LONG TERM CONTRACTUAL MICROSAVINGS FRAMEWORK

Another key strategy outlined in FSB 2011 is expanding the range of products and services that will meet the distinct financial needs of all citizens, including the underserved. This includes enhancing provision of long-term contractual micro-savings products with low committed periodical savings and favourable returns to enable low-income households to inculcate the savings habit and fulfill long term goals such as starting a business, home ownership, education and to have a secure retirement.

Based on the Financial Inclusion Demand Side Survey 2011, 68% of total adult population in Malaysia save. The White Hat Financial Literacy Survey for OECD found that 76% of low income respondents indicated that their savings could only last up to one month. These findings on Malaysian savings behavior from demand-side surveys as well as income data from Government agencies showed that there is a need for a suitable mechanism to promote savings among the poor. As a result, initiative was taken to develop a microsavings product through a benchmarking of the landscape and features of successful microsavings products internationally. This then led to the establishment of long-term contractual microsavings framework as an effective tool to inculcate savings habit among the poor.

AFI'S MAYA DECLARATION AND SASANA ACCORD

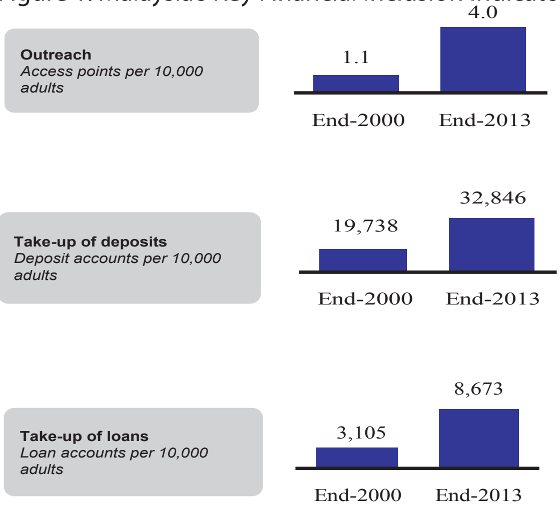
The Maya Declaration, launched in 2011, is the first measurable set of commitments made by AFI member countries to reach the world's 2.5 billion unbanked people through greater financial inclusion. BNM, together with other AFI members, has committed to put in place financial inclusion policies that deliver concrete outcomes under the Maya Declaration.

To further strengthen the effectiveness of the commitments, the AFI network adopted the Sasana Accord in 2013. Under Sasana Accord AFI members will commit to quantifiable national goals and measure their progress through AFI Core Set of Financial Inclusion Indicators.

CONCLUSION

In achieving national financial inclusion goals, it is important for a country to set measurable targets. Evidence and data play critical roles in the policy making process, from policy formulation and implementation to monitoring and assessment. Relevant, reliable and timely data system enables policymakers to analyse the state of financial inclusion at the national level, identify gaps, design effective policies, make cross-country comparisons, monitor the progress and measure the real impact of these policies. In addition, financial inclusion data facilitates policymakers in communication to various stakeholders, Government, private sector and consumers who are also users of the data.
As a result of the various initiatives implemented, there are significant improvements in the level of financial inclusion in Malaysia since 2000.

Figure 1: Malaysia's Key Financial Inclusion Indicators



At the global stage, Malaysia has consistently ranked favourably in terms of access to financing. The World Bank Doing Business reports have ranked Malaysia number 1 in 'Getting Credit' for 6 consecutive years (2009-2014) while the World Economic Forum's Global Competitiveness Report 2014-2015 ranked Malaysia 2nd out of 144 economies for 'Ease of Access to Loans'.
Financial inclusion is not only about providing access to financial services and promoting the usage of financial products and services, but also ensuring the quality of financial products and services to meet the needs of all segments of society as well as improve the livelihood of the underserved. In an increasingly market driven and more competitive economy, greater efforts are required to achieve an inclusive financial system that best serves all members of society, including the underserved. The successful achievement of the financial inclusion agenda will be characterised by:

- increased convenient access to financial services
- expanded range of products and services

• enhanced quality of financial services that satisfies the needs of all citizens

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ANNEX A
FINANCIAL INCLUSION DEMAND-SIDE SURVEY 2011

Key Findings

Profile of Survey Respondents: 2,000 Malaysian adults aged between 16 to 64 years old, approximately 54% male and 46% female, 28% in rural and 72% in urban areas, with 79% of the respondents earning a monthly income of RM1,500 and below.

Convenience

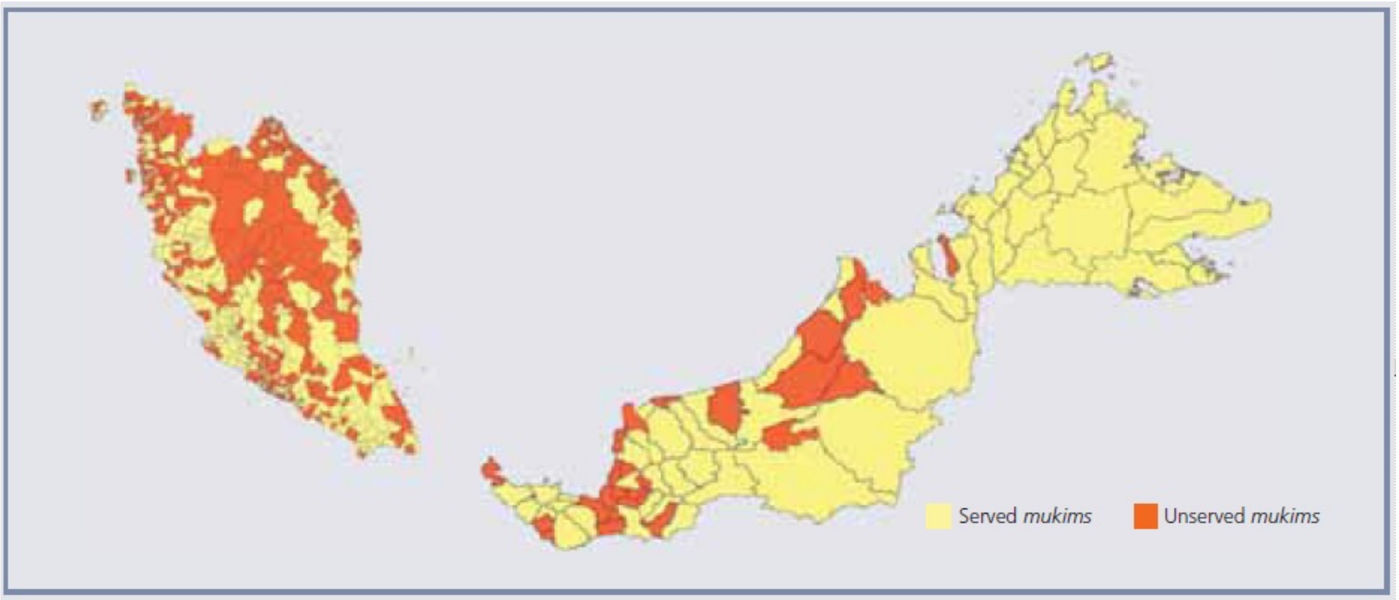
- 80% of the respondents indicated that access to financial services is convenient.
- 80% of the respondents indicated that either petrol stations, Automated Teller Machines (ATMs) of post offices are located within a 5km radius of their residential area. The post office is also the most prevalent avenue for making bill payments.
- 84% of the respondents were unaware of agent banking services

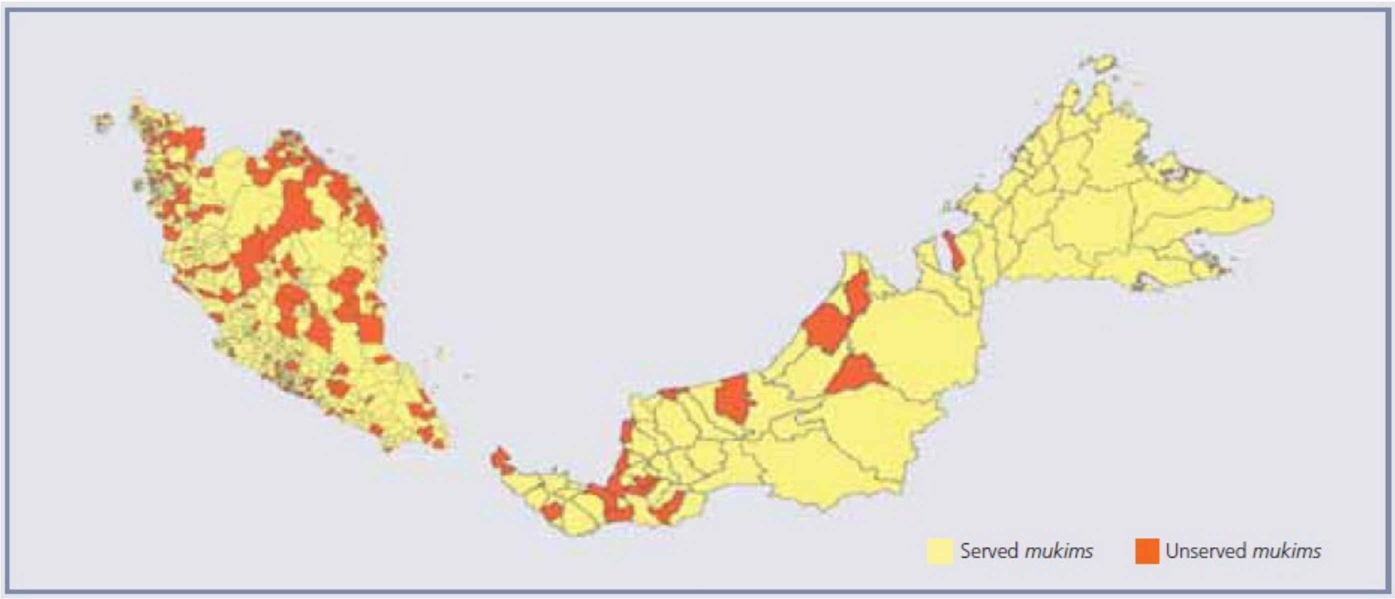
Preference and Behaviour

- 92% of the survey respondents have deposit accounts, but only 68% of the respondents save. On the average, deposits are made once a month while withdrawals are made twice a month.
- 89% of those who saved did so for emergency expenses.
- 60% indicated that financial institutions are the most preferred source of borrowing.
- ATMs and bank branches are the most popular methods of transferring money.
- 95.3% of the respondents do not conduct mobile or internet banking.
- On the average, respondents rated their satisfaction with financial services at 7.7 out of 10, primarily due to simplicity of procedures and ease of access.

Access to Basic Financial Services

Before the introduction of agent banking





ANNEX C
MALAYSIA'S FINANCIAL INCLUSION INDEX

The Four Dimensions and Eight Main Indicators of the Index

Dimension	Indicators	Data (%)	Target (%)	Index of Each Indicator	Weight	Index of Each Dimension	Equal Weighted Dimension	Equally Distributed FII
Convenient Accessibility	• % of sub-districts with at least 2000 population with at least 1 access point	46	90	0.51	0.5	0.64	0.25	**0.77**
	• % of population living in sub-districts with at least one access point	82	95	0.86	0.5			
Take-Up Rate	• % of adult population with deposit accounts	92	95	0.97	0.5	0.70	0.25	
	• % of adult population with financing accounts	36	50	0.72	0.25			
	• % of adult population with life insurance/takaful policies	18	40	0.45	0.25			
Responsible Usage	• % of customers with active deposits	87	90	0.97	0.5	0.98	0.25	
	• % of customers with performing financing accounts	97	97	1.00	0.5			
Satisfaction Level	• % of customers who are satisfied with overall financial services	61	80	0.76	1.0	0.76	0.25	
0 – 0.25: Low; 0.25 – 0.5: Moderate; 0.5 – 0.75: Above Average; 0.75 – 1: High							1.00	0 – 1.00

FINANCIAL EDUCATION FOR SUSTAINABLE DEVELOPMENT EDUCATION FOR ENTREPENUERS (E4E) MYANMAR PROGRAM

Tina Singhsacha

Chief Representative

Standard Chartered Bank

Myanmar Representative Office

ABSTRACT

Financial inclusion and education are important issues for Standard Chartered Bank. It is in our interest to ensure that people have high financial education so that they will use financial services actively and responsibly which will minimize gaps between the extension of financial access and actual usage. Moreover, financial education is a crucial building block of economic citizenship and a means to protect clients and promote stability in the financial system.

This paper will focus on the important role that financial education has to play in increasing financial inclusion in the global economy. It will then highlight the role that bank's such as Standard Chartered can play in promoting financial education, focusing on the methods and results of three financial education programs launched by the bank in the markets in which we operate.

Finally, the paper will highlight the most recent installment of the bank's commitment to financial education, the Standard Chartered Bank Education for Entrepreneurs program in Myanmar, and the impact of the program on the future of entrepreneurship in Myanmar.

INTRODUCTION

Financial inclusion is a measure of the proportion of individuals and firms that use formal financial services or are 'banked'. Nearly 50% or 2.5 billion adults are currently 'unbanked', most of them living in developing countries in South Asia, Africa and the Middle East and North Africa (MENA) region. There is growing urgency in both the public as well as the private sector to support and encourage financial inclusion.

Governments around the world are increasingly viewing financial inclusion as essential to economic development. Over 90 developing countries, representing more than 75% of the world's unbanked population, have signed the Maya declaration since 2011. The declaration is a set of measurable commitments that aim through financial inclusion to improve social and economic conditions of the poorest in society.

The benefits of financial inclusion are potentially immense. Individuals can cope better with irregular income and unexpected spending needs, as well as avoiding usurious interest rates and sometimes unreasonable collateral demands in the informal sector. Inclusion may also help pull them out of poverty through being able to tap better education and health care.

For micro, small, and medium enterprises (MSMEs), financial inclusion can provide funds for setting up or expanding a business. Data on financial inclusion for firms is still very sparse. The little that is available shows that firms in many developing countries, especially in Africa and South Asia, still rely on informal sources of credit for their business needs. These include moneylenders, personal savings and funds from family and friends. Formal financial institutions lower the reliance of individuals and firms on moneylenders and other sources of credit in the informal sector that often charge very high rates of interest and can have unreasonable collateral requirements.

Governments are increasingly acknowledging that sustainable growth in any economy is likely to be driven by MSMEs that usually account for the bulk of an economy's employment and growth. In fact in many developing economies, MSMEs contribute up to 90% of gross domestic product and hence collectively are the largest employers in these countries. For micro businesses, the availability of finance allows entrepreneurs to manage risks better while also reducing the need to cut back consumption to fund the set-up and continuation of these businesses.

A lack of access to financial services and knowledge of risk-management, savings, insurance and credit processes can threaten the financial health of these MSMEs. When MSMEs have limited access to finance and education, the economy suffers a series of negative consequences: economic and social opportunities are restricted; enterprise creation and growth are restrained; households and enterprises are more vulnerable to threats, and payments are more costly and less safe. Restricted economic and social opportunities means society suffers.

Access to finance and education is disproportionately difficult for smaller firms in the least developed countries (LDCs), with 41 percent of MSMEs in LDCs reporting access to finance as a major constraint to their growth and development, by comparison to 30 percent in middle-income countries (MICs) and only 15 percent in high-income countries (HICs).
The sustainability of MSMEs is fundamental not only for supporting growth and employment in LDCs but also to ensure that poor people are able to break out of the poverty trap. As a result, there is increasing emphasis in emerging as well as developed markets on improving access to finance for small firms. By doing this, governments and organizations around the world can boost job creation, raise income and reduce financial vulnerability.

THE ROLE OF FINANCIAL EDUCTION

Financial education is defined as the process by which financial consumers/investors improve their understanding of financial products, concepts and risks and, through information, instruction and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being (OECD, 2005).

Financial education has an extremely important role to play in increasing financial inclusion. A lack of financial literacy among the poorer segments represents a significant barrier to the access and proper use of formal financial services. Financial education can promote in the population the necessary competencies to make informed and appropriate decisions and manage individual and client level risk, the benefits of which can also spill over into the wider economy. Financial education helps to improve potential growth in an economy by mobilizing savings and reduces systemic risk by drawing more firms into the formal sector, raising tax revenues and making workers eligible for better protection and benefits.

Financial education is also intrinsically linked to consumer protection, as it enables them to defend their rights as financial consumers. Consumers are more likely to trust banks and use their financial services if they understand the products and are able to make well-informed financial decisions on their choice of financial products and services. A well-educated consumer is able to understand consumer disclosures, risks and rewards, and their legal rights and obligations as well as an understanding of financial entities' obligations that are both an important complement to financial markets regulation and public interventions in this sector.

FINANCIAL EDUCATION AT STANDARD CHARTERED BANK

At Standard Chartered, we are very clear on our obligations to society. Our brand promise 'Here for good' is more than a catchy phrase. It captures our commitment to always try to do the right thing, to take a long-term view, to support our clients and customers and the communities where we operate.
For us, running our business in a sustainable way means making sure that our banking services promote sustainable economic and social development in the communities in which we operate. We seek to embed this mindset in every aspect of our business activity, from strategy to operational process, across all the different products and markets. In doing this, we focus on three key aspects of sustainability: contributing to sustainable economic growth, being a responsible company and investing in communities.

Within Standard Chartered, we have three programs for Financial Education: Training for Business Clients, Financial Education for Youth and Education for Entrepreneurs.

TRAINING FOR BUSINESS CLIENTS

In partnership with PricewaterhouseCoopers (PwC), Standard Chartered offers sophisticated training and education to clients within our small business portfolio. Since 2009, we have reached over 700 of these clients. The education not only prepares our clients to grow their business but allows us to deepen our relationship with our clients.

Representatives from PwC, who provide their services to us free of charge, teach the material to locally identified business clients. We have been running the program for several years and are exploring how to make the program more sustainable. The below graph highlights the markets where we have had the most success with our Training for Business Clients program:

Country (Year Started)	2009-2011 Total SME	2012 Total SME	2013 Total SME	2009-2013 Total SME
Pakistan (2009)	146	0	0	146
Kenya (2010)	60 3	8	80	178
Ghana (2011)	32 3	0	65	127
Nigeria (2011)	39 0	3	8	77
Zambia (2011)	60 0	0	6	0
China (2013)	0	0	136	136
Total	**337**	**68**	**319**	**724**

FINANCIAL EDUCATION FOR YOUTH (FE4Y)

Recognizing that the lack of financial education is a barrier to future financial inclusion, in late 2013 we developed a series of 12 modules to help build the financial capability of young people in our markets (ages 12-20).

All modules of the FE4Y program are delivered by bank employee volunteers. The curriculum covers topics that include borrowing, budgeting, expenditure, income, making financial choices, money basics, products and services, risk/safety/security, saving and investment, starting a business and tax. Over the course of the next year, we will be adding more sophisticated modules for older students in more developed economies.

In our December 2013 pilot that included the UK, Nigeria, and the UAE, we reached over 1400 students. FE4Y has since expanded into over 20 markets that we operate in:

2014 FE4Y Country	Number of Students	2014 Estimated Total Reach
Bahrain	40 2	00
Cameroon	300 1	000
Hong Kong	120 3	500
India	951 5	00
Indonesia	496 1	50
Jordan	75 1	50
Korea	600 1	100
Philippines	150 1	50
Thailand	2441 1	200
UAE	1350 1	500
UK	39 3	00
Gambia, Kenya, Oman, Qatar, Iraq, Pakistan, Brunei, China, Vietnam	Launches set for November 2014	2045
Total	**6552**	**13045**

EDUCATION FOR ENTREPENUERS (E4E)

In 2013, we launched Education for Entrepreneurs, or "E4E" in short, a program aimed at building the capacity of micro and small non-client enterprises in the communities in which we operate in. The E4E program supports our 2013 Clinton Global Initiative Commitment to educate 5000 MSMEs by 2018. Of those 5000 MSMEs, at least 20% need to be women owned or led.

At its core, the E4E program aims to help enhance the financial and business knowledge of entrepreneurs in the markets that we operate in so that they will be better equipped to manage the growth of their companies. It is intended for micro and small businesses owners and leaders who need to master the basics of entrepreneurship.

Once again, we partnered with PricewaterhouseCoopers (PwC) to develop a tailored curriculum that would build the capacity of micro and small non client enterprises adapted to the markets in which we run the programme. The curriculum covers topics such as cash flow management, budgeting, accounting, and business planning. Each module is comprised of activities, worksheets, and case studies. In 2015 we will look to add more sophisticated modules for larger enterprise or enterprises in more developed markets.

We piloted the E4E program in three markets (Uganda, Singapore, and Malaysia) in and reached nearly 70 micro and small businesses. 50 of these micro and small businesses were female owned or led. The program has since been rolled out to Malaysia, Uganda, Myanmar, Cameroon, Sri Lanka, Kenya, Bahrain, and Tanzania.

To date, we have reached nearly 200 small and micro businesses through the program and aim to reach over 1300 micro and small businesses with E4E by the end of 2014:

EDUCATION FOR ENTREPENUERS (E4E) IN MYANMAR

Standard Chartered's relationship with Myanmar stretches back over 150 years and we are proud to re-open a representative office in Myanmar last year and to be the first Western Bank to do so. In September 2014, we launched the E4E program in Myanmar in collaboration with the British Council Myanmar as part of our long-term commitment to the country and our ongoing effort to help Myanmar strengthen its capacity for social development and employment.

For the E4E Myanmar program, Standard Chartered provides capacity building and the education materials to British Council trainers, who then deliver the training to micro and small businesses across Myanmar. Around 300 companies from Mandalay, Mawlyamyine, Taunggyi and Monywa will receive training in the first phase. The program also aims to support social enterprise - organizations employing business approaches to meet social and environmental needs and make a positive impact in the community.

2014 E4E Markets	Number of beneficiaries	2014 estimated total reach
Malaysia	15	60
Uganda	80	120
Singapore	13	13
Sri Lanka	13	50
Cameroon	60	500
Myanmar	10	300
Bahrain, Kenya, Tanzania	Launches set for November 2014	295
Total	**191**	**1338**

LESSONS LEARNT

What we have learnt is that for optimum results, financial education programs should target individuals or entrepreneurs at 'teachable moments'. A 'teachable moment' is essentially a life-changing moment during which specific financial decisions might alter incomes or normal patterns of expenditure – for instance, purchase of a financial product or service such as a mortgage, marriage, divorce, starting a job or retirement. For an entrepreneur, this is could be when the business is in the early stages of being launched and is looking to secure a loan or use newly acquired capital effectively. During these 'moments' people might be extra motivated to gain and use newly acquired financial knowledge and skills (World Bank, 2014).

We have also learnt about the desire of our own employees to contribute to the programs. Most of our programs we run are delivered to clients, youth, or MSME entrepreneurs through Standard Chartered Bank employee volunteers in their communities. As bankers and experts in our field, we are uniquely positioned to share our skills and time to help improve access to finance. By leveraging employee volunteers, we also ensure the programs are sustainable, because they require little incremental funding. The programs have become a great avenue to encourage skills based volunteering at Standard Chartered.
Where we can, we always strive to create a "multiplier effect," whereby the initial training sessions delivered by our trainers are given to candidates who are willing to pass along the key messages and curriculum to other entrepreneurs throughout the entrepreneurship value chain.

Feedback is also important to success of our programs. To test for impact after each program, we administer a baseline questionnaire before each module. After each module is completed, we ask participants to fill out an end line questionnaire. This approach allows us to measure the knowledge levels of the participants and assess to impact of each module and the program as a whole.

CONCLUSIONS

Governments around the world are increasingly viewing financial inclusion as essential to economic development, and financial education and literacy as an increasingly important component of that goal. At Standard Chartered Bank, we hope that our financial education commitments will grow to become a catalyst that will help individuals and local businesses to grow and flourish, that in turn will promote sustainable economic and social development in the communities in which we work.

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MOVING TOWARDS RESPONSIBLE FINANCE IN THE ASEAN REGION

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ABSTRACT

Today more adults in Myanmar are using high cost and unregulated informal financial services than formal financial services. While informal services are not necessarily harmful to consumers, they are normally more expensive, they make illicit movement of money difficult to track, and limit financial sector outreach as savings may not be recycled in the local economy to aid small business development. Of particular concern is the fact that only 6% of adults in Myanmar are saving in the formal sector. This puts consumers' funds at risk via informal mechanisms, limits the potential for credit deepening and presents challenges to vulnerable families that struggle when problems occur.

With the intent of limiting risk to consumers, the government of Myanmar implemented deposit insurance for banks in 2012. In addition, the government is working to strengthen the banking sector and its supervision. A law on microfinance was passed and a microfinance-specific regulator was established under the Ministry of Finance and Revenue – the Myanmar Microfinance Supervisory Enterprise (MMSE). Under the MMSE interest rate caps on loans and a floor to pay on deposits were instituetd along with a cap on the maximum size loans microfinance institutions (MFIs) can offer. While some of these actions (i.e., deposit insurance, MFI specific law and regulation) have been helpful, others have created unintended consequences and may be exacerbating consumer risk.

In the absence of a credit bureau, approval of close to 200 new MFIs licenses in the past two years, no deposit insurance for MFIs or cooperatives, weak prudential oversight of MFIs and cooperatives, a 20-fold planned increase in lending by cooperatives in the next three years, an increasingly consumer driven market, new mobile banking services, low regulator capacity and some MFIs masking the true cost of credit as a result of the interest rate caps - conditions are ripe for consumer abuses.

This paper outlines regional and international best practice in responsible finance and shares the steps that Myanmar and other countries in the region can take to put in place a strategy to focus on ensuring that as the financial sector grows, it does not occur at the expense of families thus countering the government's broader poverty reduction initiatives.

INTRODUCTION

Increasing trade flows can bring great benefits to smaller export oriented economies. However, with the increased openness of such economies can come rapid inequalities of wealth that could threaten the very openness that brings capital and propserity. To moderate these impacts many countries are seeking to level the playing field of opportunity by ensuring their financial systems are accessible and used by everyone who could benefit from them and not just the financial elites. As we witness the most active transformation from informality to formality of economies and financial systems it's critical that the millions people in the Association of Southeast Asian Nations (ASEAN) that are joining the financial system have financial rights and protections. If these economies are to bring the much needed foreign investment and capital to the business sector, investors and regulators will want to ensure the sustainability of these investments.

FINANCIAL INCLUSION:

Within the ASEAN region there are vast differences between the levels of financial inclusion ranging from single digits of the population having an account at a formal financial institution to near full inclusion. For example, recent research in Thailand indicated that 74% of the adult population (51.8 million persons 18 years of age and above) have a bank account and an additional 23% use other formal financial services. [1] The median value of account ownership in the region is 26% of the population having an account. This highlights the challenge and opportunity at this time. However inclusive finance, financial stability, financial integrity and consumer

1 Based on data from FinScope conducted in Thailand in 2013 to assess demand for financial services as part of a broader effort to develop a strategic framework for financial inclusion in Thailand jointly conducted by ADB (with funding from the Japan Fund for Poverty Reduction (JFPR)) and UNCDF.

protections, collectively known as I-SIP[2] , are broad policy objectives that must move from competing to coordinating priorities in ASEAN countries and globally for poverty to be reduce and while equitable growth occurs.

To ensure benefits from growth in the investment in the rural and urban areas financial system that mobilizes and distributes capital efficiently are needed. Micro-saving and insurance services have been shown to help families climb or stay out of poverty when crisis occur. Access to responsible credit allows providers to make a reasonable profit and consumers to invest in business or themselves and payments from abroad or electronic government transfers help families keep more of the money and serve as a savings gateway.

Within Myanmar, as in many countries in the region, more people utilize the informal finance sector (33% of adults) than regulated banks, microfinance institutions and financial cooperatives (30% of adults). One of the first pieces of legislation after opening the economy was passing a law on Microfinance. In two years close to 200 microfinance licenses have been issued.

With strong economic growth in 2013 at 7.5% and higher projections for 2014, Myanmar is implementing significant reforms in the banking, microfinance and insurance sectors to ensure sustainable growth.

FINANCIAL STABILITY

Deposit insurance was instituted in 2012 for the banking sector. However only 6% of adults are saving in the formal sector compared to 38% of adults on average (26% as the median value [3]) saving formally in ASEAN countries. Myanmar has a separate regulator for microfinance to ensure proportionate and suitable regulations. Only 5% of cooperatives fall within this framework. More work is needed to improve systems and skills in the microfinance/cooperative sectors to help them become profitable and sustainable.

FINANCIAL INTEGRITY

The pervasive use of informal financial channels for transferring and saving money has made some countries in the region a target for illicit funds in the past. By bringing more consumers into the formal financial sector, developing an efficient electronic payment system and implementing new laws and a monitoring unit within a central bank or ministry of finance, countries are not only better equipped to detect suspicious flows but also reduce families' financial vulnerability.

CONSUMER PROTECTION

As access to financial services expands to more excluded people at the bottom of pyramid, a vision for consumer protection must take into account the inevitability of forces that can trigger an incidence of harm to users. On the client side, these forces include tendencies, demonstrated through behavioral research, for people to mis-estimate their capacity to use financial services, to over-value the present relative to the future, or to make decisions on impulse. On the provider side, while competition can be a powerful driver for increasing the value and quality of services, it can also have perverse effects, such as the incentive to sell aggressively or to disguise true costs. Information and power imbalances between providers and clients can allow these forces to result in poor outcomes for clients.

There are several changes factors present in Myanmar and other countries in the region that put it at risk for consumer abuses. These include no or weak credit bureaus, new microfinance institutions starting operations, weak prudential oversight of MFIs/cooperatives, frequently no deposit insurance for MFIs/ cooperatives, an increasingly consumer driven market, new mobile banking services, and millions of low income people enter the market for the first time.

A financial sector will only expand at a rate in which consumers have confidence in it and are treated fairly. Poor treatment or deceptive practices will send consumers back into the more comfortable and costly informal sector.

While consumer protection cannot eliminate these inherent forces, its challenge is to reduce the power and information imbalances that enable harm, and to provide counterbalancing incentives or requirements for responsible behavior. A balanced vision for consumer protection in a state of financial inclusion means that the incentives for poor behavior must be offset by an environment that gives consumers rights and protections.

This will require providers to act responsibly, policymakers to implement enforceable and practical laws and regulations, and clients to be financially capable including asserting their rights and pursing avenues for resolving problems.

From the Consumer's Perspective

Financial inclusion with consumer protections will occur when all consumers have an ability to affirm the following five statements.

- I have a choice of quality and affordable financial services.
- I can get information I need and understand it to make an informed decision.
- I have confidence in the provider and am treated with respect.
- I understand the risks involved in using financial services and believe they are offset by the benefits I gain.
- I know my rights and who to complain to when problems arise.

What Has to Be in Place? Roles of the Three Major Actors

Full inclusion with consumer protection requires the interaction of three groups to create a safe and healthy client environment: providers (who follow consumer protection

2 The I-SIP framework is promoted the Consultative Group to Assist the Poor (CGAP) – World Bank's microfinance arm.

3 Based on date from the Global Findex at the World Bank and the Myanmar FinScope conducted in 2014.

principles), supervisors (who effectively implement practical and protective laws and rules), and clients (who understand their rights and responsibilities). What follows in this section is a brief description of the actions and status of these three groups when the vision for consumer protection is realized.

1. Providers act responsibly

The core of consumer protection is the behavior of providers in their product offerings and interaction with clients. Under full inclusion with consumer protection, all providers of financial services to the poor (both mainstream and alternative) implement a widely-accepted set of financial consumer protection principles. [4] They approach clients as if guided by a Hippocratic Oath to do no harm, and act as follows:

• Products are safe, understandable and relevant for the clients. For example, they guard against over-indebtedness.
• Services are suitable, priced responsibly to be affordable while consistent with the sustainability of the provider.
• The incentives facing provider personnel align with preventing over-indebtedness and treating clients ethically and with respect.
• Communication with clients is clear and full information is provided to allow for informed decisions.
• Security is in place to prevent identity theft and misuse of data.
• Providers follow prudential standards to safeguard clients' savings.
• Providers offer accessible and responsive complaint resolution processes.
• Providers use their interactions to reinforce client financial capability.
• A range of providers have access to a financial infrastructure (i.e., credit bureaus, payment systems and deposit insurance systems) that supports consumer protection.

In this vision of inclusion with consumer protection, these general principles are translated into practice, in the form of recognized standards. Such standards are thoroughly integrated into the operations of providers. Commitment to consumer protection is embedded among all personnel, from board members to front line staff.

Providers acting collectively through industry bodies and investor groups also contribute to consumer protection by actively establishing, promoting and monitoring norms, standards and codes of conduct. They work constructively with regulators to apportion responsibility for upholding standards.

2. Regulatory environment covers all providers and is effective

A competitive market brings benefits to clients in the form of continuous improvement of products and services as well as competitive pressure for lower prices. Accordingly, competition furthers the overall aim of consumer protection to benefit clients, and specific consumer protection efforts are set in a general market framework that promotes competition. At the same time, overly burdensome regulation can encourage shadow banking while unregulated competition can trigger consumer protection problems. Market regulators seek a balance that allows orderly competition among all firms.

In this vision:
• Supervisors have the political support to implement and enforce regulations after first consulting with industry and consumers on what is reasonable and useful.
• All providers of financial services, whether prudentially regulated or not, are covered.
• Regulation is proportionate to the setting, nature and extent of problems observed in the market, and the capacities of both regulators and service providers. Regulation is not overly restrictive, uses common sense and does not impose an undue financial burden on providers.
• Regulation is informed by dialogue with providers and clients, while avoiding "capture" by industry interests. Regulators have the means to catch and control rogue players to maintain confidence in the financial system.
• They ensure that recourse, dispute and debt resolution mechanisms are available to clients, beyond those offered by individual providers.
• Well-designed deposit and/or insurance guarantee schemes protect small depositors and policy holders while keeping institutions responsible for their actions. Well-functioning credit reporting mechanisms exist.

3. Clients have rights and are capable of protecting themselves through formal mechanisms

Effective consumer protection requires that clients have some degree of financial capability. In this vision clients:

• Understand enough about the use of financial products and services to be able to make informed choices and they know where to get the information to make such choices.
• Understand their rights and responsibilities as consumers, and they know where to turn if they encounter problems. These financial capabilities exist at a basic level even among the most vulnerable client groups, such as those with low literacy, the very poor, and the disabled or dependent.
• To protect the gains they have made, clients have developed ways to raise their voices to protect their interests in the marketplace, making consumer protection demand-driven.
• At the same time, information needed to protect clients is freely available through multiple channels. There is widespread understanding of and support for consumer protection among the general public, opinion leaders, and media.

Deepening access and usage of financial services among rural and urban populations has the potential aid in the reduction of poverty as long as these services, products and the ecosystem in which they operate ultimately help consumers and business grow assets and wealth. With only 3%, 6% and

4 See Annex 1 for a cross-listing of client protection principles articulated by various parties.

19% of the adult population currently using formal insurance, savings and credit products respectively, there is considerable opportunity for financial institutions to serve the market. If financial institutions are to sustainably serve the market and help consumer and enterprises accumulate assets, the institutions themselves must also be able to meet their shareholder demands. However, in this process of market orientation basic consumer protections are also needed.

Internationally accepted and well-developed frameworks by providers of financial services exist for institutions to assess their practices and regulators to adapt rules.[5] Within each product area of credit, savings, payments and insurance an analysis is needed to identify consumer protections that are appropriate without being overly burdensome. Although the overall credit market is growing, will be done within an environment where a credit bureau is introduced and common disclosures on the total cost of credit. A frequent cause for complaints with financial products is consumers where not fully informed or did not fully understand the products initially. As such, improving the transparency of rates and fees via total cost of credit disclosure will help consumer compare and better understand their financial decisions.

DIGITAL FINANCIAL SERVICES

If consumers are to have confidence in new digital and physical channels for payments and/or mobile money it's imperative that basic consumer rights regarding refunds, principal agent liability, data privacy and recourse mechanisms are put in place.

As innovations in the financial sector occur research is begin conducted globally, and within the region, on how components of the existing financial system safety nets (i.e., prudential supervision, 'lender of last resort' facilities, and deposit insurance schemes) can be re-examined to determine how they can be leveraged and modified to facilitate both the development and adoption of pro-inclusion, digital deposit–like stored-value products.

In this context, expanding the scope of deposit insurance systems to cover digital deposit-like stored-value products has the potential to support all four of the interrelated policy objectives of financial inclusion, financial stability, financial integrity and financial consumer protection.

FINANCIAL LITERACY

Many consumers in the ASEAN region consumers rely on informal financial services for most financial activities. Consumers need to know and understand the benefits and risks of formal financial products and services versus the informal arrangements they may be more accustomed to. Moreover, those choosing to "experiment" with a formal product need basic financial knowledge to manage it well or risk having a bad experience which may increase the likelihood they will abandon the formal sector. Even among those comfortable within the formal financial services sector, financial literacy is needed. As the number and complexity of financial choices increase for consumers in the years ahead, so does the opportunity for bad decisions or bad actors to hurt financially uneducated consumers.

In the absence of improved consumer financial literacy, low levels of utilization of products will likely persist despite increasing access. By initiating a national, coordinated cross-sector effort, government can properly reframe the issue from being a simple question of low "take up" to a more nuanced issue of deficient consumer understanding. Once the right policy issue is identified the right solution can be found.

Increased coordination of financial literacy programs can enhance the effectiveness and overall efficiency of such initiatives. Presently a handful of private sector entities and NGOs offer financial education programs targeting specific populations in specific regions. Each is planned, developed and executed independently of other programs. If other developing nations can serve as a guide, one should expect the growth of such isolated programs to accelerate in the next few years. While such early efforts are to be commended, each is forfeiting an opportunity to have a greater impact through national coordination.

CONCLUSIONS

Significant potential exists to improve financial inclusion and reduce poverty within the ASEAN region. For these twin goals to be achieved providers, regulators and consumers must all play a part in developing a responsible environment for financial services. As the region moves towards closer financial and economic integration, it will be even more important that countries take a strategic approach to empower and protect clients while promoting greater access to financial services. ASEAN provides a valuable forum for bringing countries together to consider country-level and regional efforts around responsible finance. The Asian Development Bank, along with other development partners, is ready to support these and similar initiatives and work together to further responsible finance in the region.

ACKNOWLEDGMENTS

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5 Such frameworks include the Smart Campaign's consumer protection principles for providers and the World Bank's Good Practices for Consumer Protection which are largely aimed at the market environment.

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MANAGING THE TWIN RESPONSIBILITIES OF INCLUSION AND STABILITY

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ABSTRACT

The global financial crisis (GFC) of 2008 is a testimony to the fact that having sound macroeconomic policies in terms of low inflation and low or no budget deficit do not necessarily imply a strong economy that can weather financial instability. Therefore, financial stability is gaining in popularity within the overall macroeconomic framework and policies in both developing and developed countries.

Besides, post-2008 GFC surveys have also shown that economies with resilient financial sectors and high economic growth do not necessarily lead to balanced and inclusive growth. In other words, there is a gap between the resilience of the economies and that of their people as could be seen from the recent disasters (such as Typhoon Haiyan of 2013 in Philippines and the floods of 2014 in India and Pakistan which killed 6,300 and 564 people respectively) and their implications on people vis-à-vis economies.

Through this financial, economic and social crisis, policymakers have realized the strong interconnectedness between macroeconomic stability, financial stability and financial inclusion in achieving balanced and inclusive economic growth. As economies recover from global recession, the need to harmonize financial inclusion objective with that of financial stability is even more pronounced with Leaders and policymakers making financial inclusion led commitments through initiatives such as the Maya Declaration at various global and regional events.

Therefore, this paper on "Managing the Twin Responsibilities of Inclusion and Stability" will reflect upon the experiences and current trends on the subject at a global and national level. Although the paper shares the experiences of few countries and the studies done, the objective is not to provide a "one size fits all' kind of a model nor recommend any specific country experience so that the subject remains an "open one" to be reflected upon.

INTRODUCTION

While the changing faces of the global economy can be compared to a "Magician", leaders and policymakers are no less similar to his "audience", totally baffled and confused with the question, "what next"? Although the West led the 20th century's economic growth, its financial system reached systemic fatigue in the 21st century with the 2008 GFC and the 2010 Euro Zone crisis. As a result, the majority of these economics are bearing the brunt of low growth, high unemployment, and austerity measures designed to address unsustainable budget deficits. On the other hand, although Asia has been labeled the "engine of world economic growth", this growth has not been an inclusive one. High levels of poverty still exist which could be socially explosive and pose a challenge to the sustainability of the growth that the region is experiencing.

As a result, leaders and policymakers recognize financial inclusion as a "key pillar" in accelerating inclusive and sustainable growth which is further emphasized at a global level with the G20 leaders endorsing it as a pillar of the global development agenda in 2010. Since then entities such as Global partnership for Financial inclusion (GPFI) have engaged with global standard setting bodies to work on tailoring the implementation of global standards to recognize the needs of policymakers engaged in promoting financial inclusion. Over 59 countries have made concrete time-bound commitments under the "Maya Declaration"[1] , launched at the Alliance for Financial Inclusion (AFI) Global Policy Forum in 2011, to improving financial inclusion in their own jurisdictions.

However, well defined financial policies now pursue the core objectives of financial stability, financial inclusion, financial integrity and consumer protection. Organizations such as CGAP in collaboration with financial policy makers have developed the I(financial Inclusion)-S(financial stability)I(financial integrity)P(consumer protection)[2] I-SIP methodology that enables

1 See http://www.afi-global.org/maya-declaration
2 See http://www.cgap.org

policy makers to understand the linkages between the four policy objectives and how these linkages can be optimized by minimizing tradeoffs and by maximizing synergies.

In this paper though, I will focus more on the relationship between financial inclusion (FI) and financial stability (FS) and how financial policy makers can work on approaches to manage the dual responsibilities of these two objectives in the best possible manner.

What is financial inclusion (FI)?

The definition of financial inclusion (FI) varies from country to country depending on what the objectives are although it is commonly understood as a means to provide financial services to those who lack it and embraces three core elements of "access", "usage" and "quality of financial services".

The GPFI[3] has defined FI as: "...a state in which all working age adults have effective access to credit, savings, payments, and insurance from formal service providers..."

Financial inclusion facilitates the unbanked and the under banked sections of the society to be included in the formal financial system thereby accelerating poverty alleviation, job security, improved livelihoods and social empowerment.

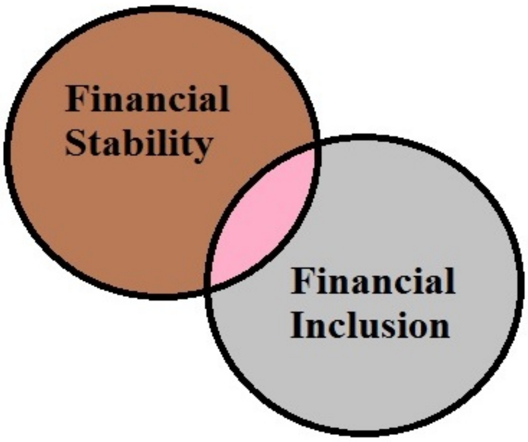
What is financial stability (FS)?

South African Reserve Bank has defined "Financial stability" as the smooth operation of the system of financial intermediation between households, firms and the government through a range of financial institutions. Both FI and FS is not an end in itself. Rather, it facilitates sustainable and balanced economic growth.

Research, studies and surveys conducted by various entities[4] have shown that financial inclusion does play an important role in achieving financial stability if the policymakers can effectively apply the principle of proportionality – the balancing of risks and benefits against costs of regulation and supervision in optimizing the desired results. This approach is supported by seven guidance statements[5] in the case of South Africa and six I-SIP propositions[6] in the case of Pakistan for easy design and implementation of a policy intervention in identifying, managing, and optimizing the potential linkages amongst the objectives of financial inclusion, financial stability, financial integrity and consumer protection.

Complementary linkages between FI and FS and vice-versa.

A CGAP brief asserted that the four objectives of I –SIP are "inter-related and, under the right conditions, positively related. Yet failings on one dimension are likely to lead to problems on others." This is further enforced by the International Association of Insurance Supervisors (IAIS) [7] which states: "Financial inclusion contributes to financial stability. It is an important element in delivering fair, safe and stable financial markets in a jurisdiction…"



Besides, research and studies on the linkages between these FI and FS have the following conclusions:

3 2011 GPFI white paper
4 GPFI white paper 2011, CGAP website.
5 CGAP South Africa I-SIP report
6 CGAP Pakistan I-SIP report
7 IAIS application paper on regulation and supervision supporting inclusive insurance market.

• An inclusive financial sector will have a more diversified, stable retail deposit base which should increase systemic stability. Similarly, inclusion may improve diversification of credit portfolio from concentrated lending, thereby reducing systemic risk.
• Financial inclusion is a harbinger of economic stability in terms of job creation, poverty reduction, food security etc. which ultimately leads to financial stability.
• An inclusive financial system ensures balanced and sustainable economic growth ensuring every individual to enjoy his share of economic growth which will enhance political and social stability and thereby financial stability.
• Conversely, a strong and resilient financial system reflects confidence in the system making it more palatable to financially excluded persons.
• Financial stability can positively impact factors that can reduce key prices thereby making financial services more affordable.

How do Policymakers manage the twin responsibilities of FI and FS?

Based on the above synergies between FI and FS, it is imperative for policymakers to work on optimization of the positive linkage between them. However, experiences have also shown that in practice, the risk of tradeoffs do exist at the level of policy interventions i.e. that one (FI) is achieved at the cost of another (FS); or neither is achieved in the short to medium term which is heightened when there is lack of inter-agency coordination incase of sharing of responsibilities. However, the good part of the story is even if trade-offs are inevitable between pursuing these objectives, it is manageable with minimum impacts.

Different countries have tried different approaches. While some countries have based their approach on past experiences[8] , some have adopted a conservative approach. Irrespective of the approach being used, it is imperative to come up with an approach based on the I-SIP propositions reflecting the South Africa and Pakistan studies which has been slightly altered below to focus more on the FI–FS objectives:

8 CGAP South Africa I-SIP report

1. Clear definitions for FS and FI at the national level and at the level of specific policy intervention provide clear guidance in policy design as well as enable effective monitoring and measurements. (e.g. South Africa).

2. A structured approach to identifying material linkages between FI and FS objectives that may arise in the implementation of a specific policy intervention helps to manage and optimize linkages, thereby avoiding false or unnecessary tradeoffs between objectives and maximizing synergies between them. (e.g. State Bank of Pakistan).

3. Inter-and intra-agency collaboration is critical to design, monitor, and adapt policy interventions to optimize the linkage between FI and FS objectives, as well as linkages with national objectives beyond the specific objectives.

4. Regularly collected and analyzed data based on indicators and targets specific to a given policy intervention enable the monitoring of its effects on FI and FS objectives and the calibration of linkages overtime.

5. Periodic structured consultation with providers in proportion to the scale of the proposed changes helps to identify and manage linkages as the market develops. (e.g. SBP)

6. Optimization of FI-FS linkages requires a commitment by policymakers to manage FI-FS linkages by adapting policy and regulation as necessary in light of the data and other evidence collected and effects observed. (e.g. SBP)

The six propositions provided above can serve as a "blueprint" for policy makers to work upon in coming up with the right approach. In doing so, an important thing to note is the ability of the policymakers to synchronize the applicable propositions in developing and adopting a "proportionate approach[9] " customized to their country specific needs in managing the twin responsibilities of financial inclusion and financial stability.

A further important aspect will be to ensure at the global and national levels, that standards and policies being implemented to enhance the stability of the financial system (e.g. new Basel III regulations) do not have unintended consequences for financial inclusion of individuals and small businesses, particularly in developing countries. Efforts such as that of AFI to develop an "extended risk framework" to take account of the risks of financial exclusion, which may arise from overly restrictive global standards or disproportionate implementation of such standards by policymakers, will be important to ensure that policies for financial inclusion and financial stability can continue to be pursued in tandem. [10]

9 G20 principles for Innovative financial inclusion defines " Principle of proportionality" as Balancing of risks and benefits against costs of regulation and supervision.

10 AFI's Peer Learning Program with Global Standard Setting Bodies, http://www.afi-global.org/sites/default/files/pdfimages/afi_gpf2014_ssbs_fact_sheet_aw_low_res.pdf

CONCLUSIONS

Globally, there is a growing understanding and consensus that financial inclusion and financial stability reinforce each other; and if pursued in a coherent manner can not only enable policy makers in ensuring a resilient and inclusive financial sector but can also support social and economic growth. To make this happen, the challenge ahead lies in ensuring coordination and optimization of the various policy initiatives, both at global and national levels with active participation from the government, private and international bodies.

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THE ROLE OF FINANCE IN WOMEN'S ECONOMIC EMPOWERMENT IN THE ASEAN REGION

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ABSTRACT

ASEAN countries have enjoyed decades of robust economic growth and are projected to continue riding on a promising growth trajectory within the coming years. By 2020, ASEAN as a region is projected to be the world's ninth-largest economy and Asia's fourth largest. Nonetheless, women's participation in driving the economies in the region is yet to be optimized. Across ASEAN countries women still face some form of structural and normative constraints that affect their agency in taking full advantage of economic opportunities - with one key issue being the prevalence of women's exclusion from the financial system. Increasing women's financial inclusion brings not only greater market opportunities for businesses but also major socio-economic advantages for communities, which are key in driving inclusive and sustainable development.

This paper aims to initiate discussions around the role of finance in women's economic empowerment in the ASEAN region by providing insights on women's access to and use of financial services, exploring opportunities for greater women's financial inclusion that lead to stronger economic empowerment, as well as providing policy recommendations for ASEAN countries in embracing women's economic empowerment as a part of their economic development agenda.

While the context of women's economic empowerment across ASEAN countries is not homogenous and is inherent to the development stage where they are each at, common opportunities for greater women's economic participation in the region are evident. In addition to the largely untapped market potential in growing the female client base, ASEAN countries are presented with a favorable outlook through the upcoming ASEAN Economic Community (AEC) integration efforts, the countries' demographic transition, as well as the rapid rate of technological development and adoption. Policymakers and other stakeholders in the region need to take a proactive stance in embracing these opportunities.

INTRODUCTION

Women are an integral component of ASEAN's economic growth engine, as they constitute half of the region's population. However, the level of women's economic participation is substantially lower relative to men. A study by Credit Suisse discovered that women's economic activity rates across ASEAN-6 countries were substantially lower than of men's, with a gap of around 30 percent in Malaysia, Indonesia, and the Philippines[1]. Boosting women's economic participation means that the region could benefit from greater collective power in further growing its economy, with a study indicating that empowering women could result in \$90 billion worth of additional output in the East Asia region[2].

The root causes of women having to jump through hurdles in acting as economic agents are multidimensional, with a variety of non-economic elements factored in, ranging from structural issues such as legal discrimination to normative constraints such as imbalanced gender power dynamics within households. Correspondingly, access to, use and control of financial products and services is a defining issue in determining women's economic agency.

THE GENDER LENS ON FINANCIAL INCLUSION IN THE ASEAN REGION

Across ASEAN countries gender disparity in terms of formal financial account ownership is not pervasive, indicating that gender is not a main determining factor of access to finance. On the other hand, a closer look into financial usage behaviors of men and women shows that there are substantial differences along usage dimensions.

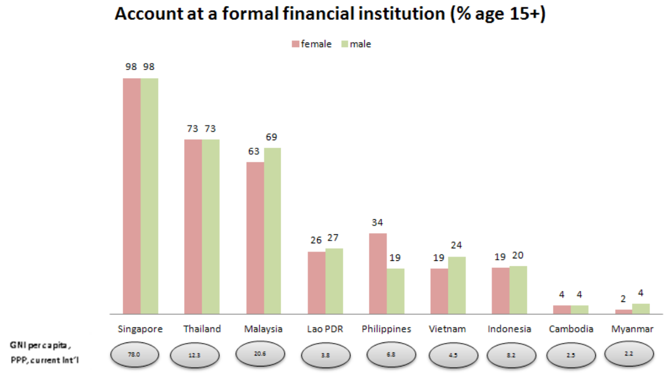
1 Credit Suisse, (2012), "ASEAN's positive demographics underpins stable growth". Retrieved from: https://doc.research-and-analytics.csfb.com/docView?language=ENG&source=emfromsendlink&format=PDF&document_id=1002369281&extdocid=1002 369281_1_eng_pdf&serialid=C4kG4kuDR%2bEoddNvTRqRXwtK7NvyILU0TWOxIBinD5s%3d

2 Morales, Neil Jerome C., (2014). "Financial inclusion, access to credit empowering women entrepreneurs vital in success of SMEs". Retrieved from http://www.philstar.com/business-usual/2014/05/26/1327197/financial-inclusion-access-credit-empowering-women-entrepreneurs

Available data from World Bank's 2011 Global Financial Inclusion (Global Findex) database on ASEAN countries shows that the average disparity between men and women in terms of account ownership at a formal financial institution is lower than the worldwide average in which the proportion of women's account ownership is 8 percent less than that of men's.

The Philippines records a substantially higher women's account ownership compared to men's (15% more), while on the other hand Malaysian women's account ownership ratio over men's is the lowest among the other ASEAN countries (6% less). Data from the Central Bank of Myanmar also indicated lower level of female account ownership in Myanmar, with only 2% of women having an account at a formal financial institution, compared to the 4% of men.

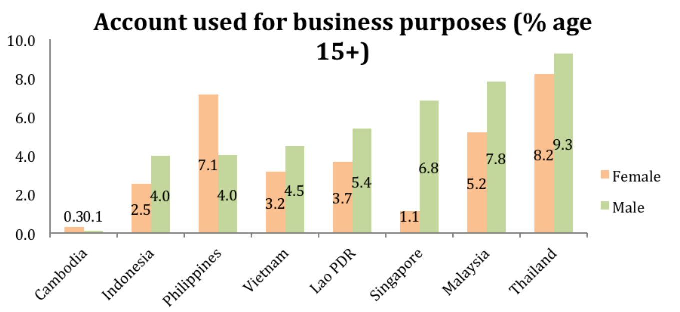
Figure 1:Account ownership at a formal financial institution (% of age 15+)



The above data provides a snapshot of how a country's wealth, as reflected by GNI size, does not directly correlate with gender disparity in access to finance. This indicates that women's inclusion in the financial sector does not automatically follow a country's economic development, and that other determinant such as institutional and cultural contexts of each country could be at play.

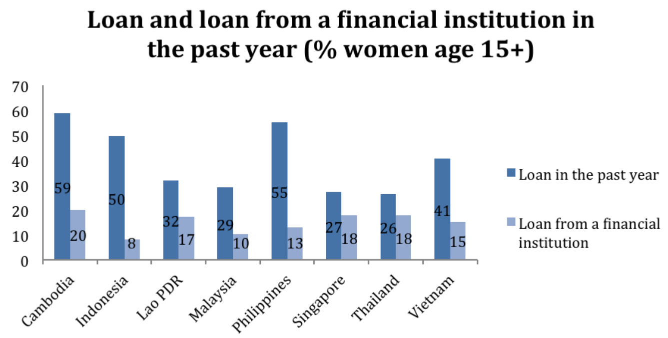
Assessments of gender-disaggregated data on financial usage behaviors help uncover insights on the differences between women and men in terms of needs and preferences for financial services. In average there is a smaller proportion of women using an account at a formal financial institution for business purposes compared to men, with the exception of Cambodia and the Philippines.

Figure 2: Account used for business purposes (% of age 15+)



The Global Findex data reveals that while both men and women indicated that they made some form of savings or took out loans within a certain period of time, only a fraction of them utilized formal financial institutions for these purposes. Although a larger proportion of women indicated that they saved money than men, their propensity to save at a financial institution is lower. A FinScope study on Myanmar in 2013 reported that a large proportion of women have been saving discreetly at home in the form of livestock or jewelries (gold). On the other hand, while women's loan take-up from formal financial institutions is also lower than men's, there is a higher level of loan take-up from private lenders for women compared to men, with this being especially high in the case of Cambodia.

Figure 3: Loan and loan from a financial institution (% of women age 15+)



BARRIERS IN ACCESS TO FINANCE FOR WOMEN

Women across the ASEAN region face a range of barriers in accessing and using financial services. In many instances women are perceived to be less creditworthy due to lower level of skills and education, lesser employment opportunities and productivity, or insufficient credit history when compared to men. While legal discrimination is not a main obstacle for women in ASEAN countries to access finance, cultural constraints are still pervasive. A study on the impact of microfinance programs on women's empowerment in Asia found that the culture of patriarchy is still pervasive throughout Asia[3]. Patriarchal culture constrains women's economic empowerment in different contexts, forms and at various stages. These constraints affect women's bargaining power and ability to make decisions on economic issues within the household, ability to make decisions outside the household, control over loans, building of social networks, responsibility for household chores, and power over one's time and physical and emotional health and energy.

These barriers need to be addressed head on to ensure that women have a level playing field in tapping into economic opportunities and that inclusive growth for all can be reached.

3 Kulkarni, Vani S., (2011), "Women's empowerment and microfinance: An Asian perspective study", Occassional Papers, IFAD

TAPPING INTO OPPORTUNITIES FOR GREATER WOMEN'S FINANCIAL INCLUSION

Initiatives around greater financial inclusion for women's economic empowerment have been mainly centered on access to credit for women entrepreneurs, particularly within the sphere of micro and small businesses. In reality, it is necessary to carefully assess and obtain a good understanding of the overall individual and situational contexts that women are facing to determine the type of financial products and services that could bring greatest socio-economic benefits, while at the same time generating sustainable market returns.

Women client-centered design

A deeper look into women's financial behavior and economic profiles uncovers a variety of potential entry points in getting women as financial services clients. Take for example remittances. Women's usage of a formal account at a financial institution to receive remittances is, in average across ASEAN countries, higher than of men's, particularly in the case of Thailand and the Philippines. However, this is yet to be the case for women in sending remittances - indicating that women still use informal channels for the service. In 2012 the size of remittances in the Philippines, the third largest recipient of official remittances globally, were at US$24 billion[4] . However, remittances by informal channels are estimated to be 30 to 40% higher than the official figures. Similarly for Indonesia, in which women constitute 80 percent of the country's migrant workers[5] , although official remittances were recorded at US$7.2 billion the combined figure of official and unofficial remittances by Indonesian workers were estimated to be around US$12.4 billion. There is a large untapped market opportunities for formal providers in designing and marketing remittances services that take into account women's needs and with greater accessibility and better affordability.

The Global Findex study and FinScope's study on Myanmar found that women quoted health and emergencies as well as school fees as their main reasons for having outstanding loans. Likewise, women's main reason for saving money is also to prepare for emergencies. This indicates a large underserved market for insurance and education loans or savings products that are tailored to the needs of women, particularly to those in poor and rural settings.

Gender disparity in financial inclusion and usage level could be a result of women's voluntary exclusion, in which women choose not to take up currently available products and services. Studies have also shown that tailored product offering, outreach and marketing initiatives could go a long way in getting women as financial services clients. Yet, there is still limited availability of financial products and services tailored for women. BII Woman One, a savings product designed by the International Finance Corporation (IFC) and Bank International Indonesia, serves as an interesting example of how a women-tailored product could be developed and offered. Woman One offers savings accounts for women which are also complemented by insurance protection and care for health issues such as cervical and breast cancers and osteoporosis, as well as services such as bill payments. In addition, Woman One also offers advisory services to women entrepreneurs. Woman One recorded a 37% growth between 2011 and 2012, with BII planning to expand Woman One to include credit for women entrepreneurs.

Technological innovation

Technological innovations provide promising avenues to advance financial inclusion for women as it allows financial providers to deliver services at a lower cost and hence make them more affordable for women. Mobile banking is one area of innovation with highly promising potential for expanding financial inclusion. Mobile phone diffusion in most countries exceeds the reach of bank distribution network. Almost all ASEAN countries have reached over 100% mobile penetration rate. Overall, the ASEAN Secretariat estimates mobile phone density at 967 per 1000 population[6].

The ubiquity of mobile phones creates opportunities to reach more women, particularly those who live in remote areas. In Myanmar, Ooredoo and Cherie Blair Foundation for Women have partnered to work with organizations to train and equip 30,000 women by 2016 to sell airtime to their local communities as Ooredoo mobile retail agents. The Philippines government is looking at ways of how the Pantawid Pamilyang Pilipino Program (4P), its government-to-person (G2P) payments program, can serve as an access point for underserved communities.

Technological advancements in other sectors also allow for broader opportunities for women's economic empowerment. Kopernik, an Indonesia-based non-profit organization, provides upfront funding and technical trainings for micro-entrepreneurs, primarily women, to boost their income and grow their businesses by acting as sales agents of innovative and affordable clean energy products as solar lights, clean cook stoves and water filters in rural and remote communities.

Financial literacy

Financial literacy is key in supporting responsible financial inclusion in which everyone—the government, private sector, and civil society— plays an important role in. Embedding gender equity lens within these initiatives could help further close the gender gap on finance for the future generation. The role of financial literacy is even more pronounced as the ASEAN region is undergoing demographic transitions in which the proportion of youth in countries' is expanding. As women play a leading role in nurturing and educating children, enhancing women's financial skills would be key in creating better future

4 Anjaiah, Veeramalla, (2013), "RI ranks third on SE Asia remittance list". Retrieved from http://www.thejakartapost.com/news/2013/04/29/ri-ranks-third-se-asia-remittance-list.html

5 Financial Inclusion Booklet, (2014), Financial Access and SME Development Department, Bank Indonesia

6 "E-ASEAN: Connecting to grow". Retrieved from http://investasean.asean.org/index.php/page/view/e-asean

for the younger generations.

Enabling regulatory environment

Initiatives from private sector in advancing financial inclusion for women should be complemented by enabling policies and incentives from governments. Policies such as granting exemptions from onerous documentation requirements or requiring banks to offer basic accounts can be particularly helpful.

Strengthening financial infrastructure and database

Improving countries' financial infrastructure is also a key requirement for greater financial inclusion. Enhancing credit information systems and building legal registries for movable collateral can be instrumental in increasing lending to women entrepreneurs. Likewise, Specific initiatives that endorse better capturing of women's financial usage data are needed.

Partnerships

Advancing financial inclusion for women requires a collective action from a broad range of stakeholders. Each stakeholder has a critical role to play—the private sector in harnessing technology and adapting to consumer needs, the government in creating an enabling policy environment, the civil societies in providing on-the-ground support. Nevertheless, it is important to view this development agenda as not only an area of responsibility but also as providing great opportunities for all. Partnerships across actors and sectors are important to ensure that there are strong synergies are forged.

In Myanmar, the Ten-year National Strategic Plan for the Advancement of Women (2012-2021) is now in place in line with Beijing Declaration and Platform of Action. The Government of Myanmar has been cooperating with organizations such as the Myanmar Women's Affairs Federation and the Myanmar Women Entrepreneurs Association in promoting policies that advance women's empowerment.

LEVERAGING THE ASEAN PLATFORM: PROACTIVE ACTIONS FOR WOMEN'S FINANCIAL INCLUSION AND ECONOMIC EMPOWERMENT

While the issue of overall financial inclusion has made it to the main development agenda of most ASEAN countries, the application of gender lens in this area is not yet apparent. Countries' financial inclusion strategies have yet to flesh out specific initiatives targeted at women.

Available insights on women's current access and usage of finance call for fresh perspectives to position women as providing lucrative but largely untapped economic opportunities. Greater women's financial inclusion will bring benefits that transcend not only in the form of direct economic advantages but also greater social impact.

Governments need to play a leading role in empowering women through finance by ensuring that discriminatory legal and regulatory constraints are lifted, advocating for equality across social norms, forging partnerships and knowledge exchange initiatives, as well as providing incentives for business and civil societies to better serve women as clients and economic agents.

The current available data on women's financial access and usage behavior for ASEAN countries is still far from sufficient in providing a clear picture of the opportunities and challenges for women in using finance as a tool for greater economic empowerment. For informed policymaking and better capturing of market opportunities to happen, there is a need for cross-sector collaboration to build a comprehensive body of evidence through better collection and analysis of gender-disaggregated data. At the same time, governments also need to establish mechanisms to ensure that the expansion of financial and economic opportunities is driven by responsible practices.

ASEAN serves as an excellent platform for member states to join forces and exchange knowledge in devising and installing strategic initiatives on areas that could be key to advancing women's financial inclusion and economic empowerment, such as:

- An ASEAN center for financial literacy and education as an umbrella for countries to collaborate and share best practices in devising programs to develop basic financial skills for women in the region. The center should also provide a space for governments, financial institutions and civil societies to work together in leveraging technological and media platforms to build the financial capabilities of underprivileged women;
- An investment fund vehicle to fuel the growth of inclusive businesses that lead to greater women's involvement and employment around the region;
- An ASEAN women's entrepreneurship program as a multi-stakeholder partnership program in providing women with enterprise development trainings that results in new or improved enterprises and new job creations;
- Joint data collection and research programs to explore women's financial needs and behaviors in order to identify ways and means to enhance the ability of financial institutions in creating products and services that meet those needs, as well as for governments to create enabling policies.

CONCLUSIONS

In the context of women's economic empowerment, it is evident that effective access to finance interventions would have to take into account constraints and opportunities that women face within their certain individual, structural and cultural contexts.

The ASEAN community serves as an excellent platform for member countries to work collectively in optimizing women's potential in growing the region's economy.

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