



The Foundation for Development Cooperation

# Microenterprise Development and Microbanking in APEC:

A review of outcomes in 2002 and prospects for 2003

by

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## i. Abstract

This paper reviews the outcomes of the APEC process in 2002 affecting microenterprise development (MED) and microbanking or microfinance. It also looks forward to prospects for further developments under Thailand as chair of the APEC process in 2003. In broad terms, the paper concludes that the positive outcomes of APEC 2002 were to:

- accept microbanking and/or microfinance, together with MED as broadly supportive of APEC goals and objectives
- establish MED and microbanking/microfinance as activities appropriate for economic and technical cooperation
- accept microbanking as a means to reduce 'financial exclusion' in all economies (this was the conclusion of the Economic Committee)
- agree on an extension of the microbanking study to consider 'specialised financial institutions' within the Economic Committee process
- focus attention on the potential of MED to support economic efficiency and equity in all economies
- establish mechanisms for further study of the issues involved, notably a 'Permanent Subgroup on Microenterprises' reporting to the SME Working Group, and
- encourage cross-sectoral communication and cooperation in support of these goals.

On the other hand, there is continuing scepticism about the introduction of these novel elements into the APEC agenda, based on certain perceptions, including:

- that microbanking, microfinance and MED are elements in a redistributive or 'developmentalist' agenda, distracting from TILF objectives
- that microbanking/finance and MED are activities that have been admitted for political reasons, but which can be quarantined from the APEC mainstream and allowed to wither quietly
- that 'financial exclusion' in developed economies is not an appropriate issue for APEC to consider
- that microfinance (a solution to developing economy problems) and not microbanking (a more general solution to financial exclusion) may find some place in APEC
- that microenterprises (however defined) are only of relevance to APEC insofar as they contribute directly to exports
- that it is not appropriate for APEC to consider issues relating to 'informal sector' economic activity, even in economies where the bulk of employment is provided by this sector.

Against this background of continuing scepticism in some quarters, the paper considers arguments for the relevance of microenterprise and microbanking to APEC, based on their contributions to economic efficiency and equity and, ultimately, to APEC's TILF goals. It argues the case for microbanking as a significant 'whole-of-APEC' issue based on the occurrence of 'financial exclusion' in all APEC economies. It also considers the extent to which MED can be considered a 'whole-of-APEC' issue. It does so by discussing the nature of 'microenterprise' in developing member economies and the characteristics which distinguish it from SMEs, and by proposing a definition of microenterprise applicable in developed member economies.

Looking forward to Thailand's leadership of APEC in 2003, the paper considers the themes Thailand has announced as its priorities for the year. It examines the study of 'specialised financial institutions' to be conducted for the Economic Committee at Thailand's initiative. It suggests how this topic might be made relevant to the concerns of all economies, while further progressing the discussion of financial exclusion as an issue for financial sector development in APEC economies. Finally, it considers the agenda of the 'Permanent Subgroup on Microenterprises', newly created as an outcome of the APEC process in 2002 at the initiative of Mexico.

## ii. Acronyms

ABAC	APEC Business Advisory Council
APEC	Asia-Pacific Economic Cooperation
BAAC	Bank for Agriculture and Agricultural Cooperatives (Thailand)
EC	Economic Committee
EXIM	Export-Import Bank of Thailand
GNP	Gross National Product
GSB	Government Savings Bank (Thailand)
HLMME	High Level Meeting on Microenterprises (Acapulco, August 2002)
ICT	Information and Communications Technology
IFCT	Industrial Finance Corporation of Thailand
M3	A money supply measure
MED	Microenterprise Development
NAFTA	North American Free Trade Agreement
NGO	Non Government Organisation
SFI	Specialised Financial Institution
SMC	Secondary Mortgage Corporation (Thailand)
SME	Small and Medium Enterprises
SMEWG	SME Working Group
TILF	Trade and Investment Liberalisation and Facilitation
WLN	Women Leaders' Network

## 1. Introduction

APEC turned its attention to microbanking and microenterprise development during the past year, as means to achieve greater economic efficiency and equity in the Asia-Pacific region. Under President Vicente Fox, Mexico pressed for APEC governments to give more attention to microenterprise development (MED), to increase economic participation by the poor and to provide social safety nets for those displaced by globalisation. APEC's interest in MED has been paralleled by attention to the provision of financial services tailored to the needs of microenterprises and low-income people, known as 'microbanking'. This again was a Mexican initiative.

During 2002 a number of APEC committees and working groups studied microenterprise development (MED) and microbanking or microfinance, while several conferences and symposia also considered the issues. Microbanking was pursued through the Economic Committee process, while MED and microfinance both received attention in work directed by Ministers responsible for SMEs and for Women.

The distinction between microbanking and microfinance is important, and is discussed at length in this paper. In brief, however, one could say that microfinance is a subset of microbanking, and is more adapted to the circumstances of developing member economies. Microbanking on the other hand could be regarded as applicable to the circumstances of all member economies.

Overall, the results of APEC's deliberations on these subjects during the past year are promising. To quite a large extent, they fulfill the aspirations which impelled Mexico to propose these novel additions to APEC's agenda. In summary, I assess the outcomes as follows:

The conclusions of this year's APEC process were to:

- accept microbanking and/or microfinance, together with MED as broadly supportive of APEC goals and objectives
- establish MED and microbanking/microfinance as activities appropriate for economic and technical cooperation
- accept microbanking as a means to reduce 'financial exclusion' in all economies (this was the conclusion of the Economic Committee)
- agree on an extension of the microbanking study to consider 'specialised financial institutions' within the Economic Committee process
- focus attention on the potential of MED to support economic efficiency and equity in all economies
- establish mechanisms for further study of the issues involved, notably a 'Permanent Subgroup on Microenterprises' reporting to the SME Working Group, and
- encourage cross-sectoral communication and cooperation in support of these goals.

On the other hand, definitional and conceptual obstacles remain, and may impede an effective 'whole-of-APEC' approach to microbanking/microfinance and MED. For example, there is considerable confusion over a working definition for microenterprise applicable in all economies. Other obstacles arise from a lack of consensus on principles, reflected in the following beliefs or concerns of certain economies:

- that microbanking, microfinance and MED are elements in a redistributive or 'developmentalist' agenda, distracting from TILF objectives
- that microbanking/finance and MED are activities that have been admitted for political reasons, but which can be quarantined from the APEC mainstream and allowed to wither quietly

- that 'financial exclusion' in developed economies is not an appropriate issue for APEC to consider
- that microfinance (a solution to developing economy problems) and not microbanking (a more general solution to financial exclusion) may find some place in APEC
- that microenterprises (however defined) are only of relevance to APEC insofar as they contribute directly to exports
- that it is not appropriate for APEC to consider issues relating to 'informal sector' economic activity, even in economies where the bulk of employment is provided by this sector.

This paper will enlarge on these themes. It will attempt to suggest how APEC 2003, under the leadership of Thailand, could achieve a greater degree of consensus on the issues of microbanking, microfinance and microenterprise development, and a more coherent and effective approach to the problems these tools are designed to solve<sup>1</sup>.

## 2. Specific outcomes of the APEC process in 2002

### a) The APEC Ministerial Meeting

At the APEC Ministerial on 24 October, Ministers considered and endorsed a report on microbanking, presented as a chapter in the flagship publication, *2002 APEC Economic Outlook*. They also approved an extension of the scope of this work, to be conducted by the Economic Committee during 2003. Their statement notes that

'Ministers welcomed the "2002 APEC Economic Outlook", especially its structural chapter on Micro Banking development, regulation and supervision in the Asia-Pacific region<sup>2</sup>, and proposal for the structural chapter of the 2003 Economic Outlook on the role of specialized financial institutions (SFIs)'.

The Ministers also commented that

'APEC is well suited to play a leading role in contributing to the integration of micro-enterprises to the globalization process. Ministers acknowledged that attention to small and medium size enterprises, including micro-enterprises, is an organic part of promoting progress towards APEC objectives in terms of gender equity, economic growth, poverty alleviation and the strengthening of social safety nets.

'In particular, Ministers expressed the need to address the issue of empowering micro-enterprises through access to information, human capacity building and financing. Consistent with such objective, they welcomed the decision by the SME Ministerial to create a sub-group within the SMEWG to address micro-enterprises development'.

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<sup>1</sup> This paper draws in part on papers presented by the author at the APEC Symposium on Microbanking Regulation and Supervision in the Asia-Pacific Region (Mexico City, July 2002) and the High Level Meeting on Microenterprises (Acapulco, August 2002). The hospitality of the Thai APEC Study Centre, at whose workshop in Bangkok in December 2002 this version was initially presented, is acknowledged with gratitude. The writer may be contacted at [johnconroy@fdc.org.au](mailto:johnconroy@fdc.org.au).

<sup>2</sup> See [www.apsec.org.sg/download/pubs/EC2002\\_Chap2\\_MicroBankDevRegNSupn.pdf](http://www.apsec.org.sg/download/pubs/EC2002_Chap2_MicroBankDevRegNSupn.pdf) where the report has been posted as a 'standalone' document.

## b) The SME Ministerial Meeting

The reference to a 'subgroup' on MED relates to a decision, in August 2002, by the APEC Ministers responsible for SMEs. They considered the report of a 'High Level Meeting On Microenterprises' convened by Mexico in August. Accepting the existence of significant differences between 'micro' enterprises and the small and medium enterprises which have hitherto been the concern of the SMEWG, Ministers agreed to set up arrangements for the separate consideration of MED issues. On this point the statement by SME Ministers<sup>3</sup> records that:

'In recognition of the unique challenges faced by micro-enterprises and their immense importance for employment and income creation in APEC economies, Ministers endorsed the creation of a sub-group within the SMEWG to address micro-enterprises development. Ministers instructed the Working Group to develop terms of reference for the subgroup as soon as possible, and instructed that an action plan for micro enterprises be developed through the subgroup, taking into account the result of the High Level Meeting on Microenterprises and the work being conducted by relevant APEC fora and other APEC stakeholders, such as ABAC and WLN, and that such action plan is presented to the next SME Ministerial Meeting.

'Furthermore, Ministers instructed the SMEWG to coordinate, through its new sub-group, work with all APEC fora and sub-fora involved in issues pertaining to micro-enterprises development, such as capacity building, financing, gender integration, information and telecommunication technologies, and infrastructure, among others'.

In regard to the financing needs of microenterprises, the SME Ministers saw the solution not in microbanking, but in microfinance. While the latter term is sometimes used in relation to a variety of financial service delivery experiments (of limited success) in developed economies, it more generally conveys the connotation of a tool for 'development', therefore applicable in developing economies. The Ministers stated that:

'Ministers recognized the importance of micro-finance as a sustainable development tool for micro-enterprises. Ministers took note of the performance of Bank Rakyat Indonesia's micro-financing system, which provides an extraordinary example of a commercially viable approach that succeeded during an exceptionally severe economic crisis.

'Ministers welcomed the recommendations to (1) develop an appropriate risk based regulatory framework for the commercial microfinance industry; (2) incentivize banks and financial institutions to enter the business of microfinance; (3) provide incentives, training and rewards to commercial institutions that demonstrate excellent performance; (4) limit microfinance subsidies to activities that disseminate information, develop financial tools, and train managers and staff; (5) provide capacity-building initiatives for the most promising institutions entering the micro-financing market; (6) and share lessons across APEC regarding the transformation of non-governmental organizations to commercial microfinance institutions'.

## c) The Women's Ministerial Meeting

In another APEC forum, the Second Ministerial Meeting on Women, on 28-29 September, Ministers responsible for Women's Affairs noted with respect to women's microenterprises that:

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<sup>3</sup> See <http://www.apecsec.org.sg/virtualib/minismtg/mtgsme2002.html>



'We recognize that microenterprises are especially important to women, as their entrepreneurship activity is concentrated in micro businesses. One of the main challenges women face is their lack of ownership of assets to be used as collateral for credit. Microfinance organizations that serve people without access to traditional financial services are filling that void. Microfinance is not a panacea. It must be complemented by other business services, such as market access, and efforts to improve the enabling environment for microenterprises.

'We acknowledged that APEC is well suited to play a leading role in contributing to the integration of microenterprises in the globalisation process. We welcomed the efforts undertaken during APEC 2002 to explore ways to assist people engaged in microenterprises reap the benefits of open markets and globalisation.

'Microenterprise development is a key part of making progress towards APEC objectives in terms of gender equity, poverty alleviation, and economic growth. Thus we welcome the creation of a sub-group within the SMEWG to address microenterprise development and encourage the sub-group to recognize the unique challenges faced by women when developing its terms of reference and action plan'.

The APEC Ministers for Women's Affairs made specific recommendations with respect to MED and microfinance, as follows. APEC economies were urged to

'Address the significant unmet demand for credit, savings, and other financial services among the low-income populations, especially women, by encouraging the development of commercially based microfinance institutions.

'Target microenterprise assistance to business and market development programs for micro businesses, and to capacity building for the institutions that serve them.

'Facilitate exchange of information within APEC on best practices in microenterprise development, financial services, and regulation and supervision of microfinance institutions in order to create an enabling environment for microenterprises'<sup>4</sup>.

#### d) **The Leaders' Declaration**

At the conclusion of the process for 2002, on 27 October, the APEC Leaders also endorsed microfinance and MED. Their *Declaration* stated that:

'We agreed that micro-financing is crucial for the expansion of micro-enterprises, and we praise efforts to develop and promote market-based micro-finance to assure micro and small businesses and entrepreneurs have access to capital. We agreed that government action should create an enabling policy environment and a legal and regulatory framework for the growth and expansion of sound and sustainable micro-financing intermediaries, fostering their gradual and full integration into the domestic financial system'<sup>5</sup>.

From these statements by the APEC Leaders and by Ministers from a range of portfolios we can draw an important distinction. On the one hand, the Economic Committee report endorsed at the APEC Ministerial employed the generic term 'microbanking' to describe a range of financial service delivery options. These appear to have the potential to address 'financial exclusion', seen as a 'whole-of-APEC' problem. On the other hand, the statements from the SME and Women's

<sup>4</sup> See <http://www.apecsec.org.sg/virtualib/minismtg/mtgwmm2002.html>

<sup>5</sup> The full text is at [http://www.apecsec.org.sg/virtualib/econlead/10th\\_Leaders\\_Declaration.html](http://www.apecsec.org.sg/virtualib/econlead/10th_Leaders_Declaration.html)



Ministerials both adopted the more narrow term 'microfinance', which (by implication at least) is seen as the solution to a developing economy problem. This approach, 'partial' rather than 'whole-of-APEC', seems to have won the day at the Los Cabos Leaders' meeting, and is reflected in their Declaration. This is unfortunate, in my view, because microbanking is the more inclusive concept and has the potential to address a failure of financial sector development common to all APEC economies. Section 2, below, discusses this failure.

On the other hand, an excellent feature of the Leaders' Declaration, and of the other Ministerial statements quoted, is their unambiguous commitment to microfinance and/or microbanking as elements in financial sector development. The concomitant of this is a commitment to the commercial sustainability of microbanking or microfinancial institutions and to their integration into domestic financial systems.

### **3. Generalising the issues for all economies**

Given the economic and social diversity of the 21 APEC member economies, and especially their wide range of per capita incomes, a question arises: just how far are microbanking/microfinance and MED issues relevant to the concerns of all the economies? The scepticism displayed during this past year by some of the developed member economies has not entirely dissipated; positive references to microbanking/microfinance and MED in the Leaders' and various ministerial statements belie the reluctance with which these economies acceded to their inclusion. In particular, economies that had reservations about the introduction of 'shared prosperity' to the APEC vocabulary in Shanghai, also find the new emphasis on informal economic activity and microbanking institutions to be too 'developmental' for their liking. Such thinking holds microbanking/microfinance and MED to be not only a diversion from the 'main game' of trade and investment liberalisation and facilitation, but also of little practical relevance to the more developed economies.

Leaving aside, for the moment, the question of whether microbanking, microfinance and MED are really diversions from APEC's TILF goals, let us consider first the question of their relevance to all economies. In order to assure that microenterprise and microbanking are taken up genuinely and actively in the APEC process, rather than just dying quietly of neglect once Mexico's influence fades, it is necessary to establish that all economies stand to benefit from economic and technical cooperation in these fields. The question of whether microbanking has general relevance for APEC can be answered by considering the phenomenon of financial exclusion, which occurs in every economy. The related question of the relevance of microenterprise in a 'whole-of-APEC' framework will be considered separately below.

#### **a) The general relevance of microbanking: financial exclusion in APEC economies**

By way of introduction to the concept of 'financial exclusion', it is best to look back to the study of *Microbanking Regulation and Supervision in the Asia-Pacific* in the *2002 APEC Economic Outlook*. For the purposes of this study, microbanking was defined as

'an activity consisting in the provision of small-scale financial services, such as credit, savings, insurance, and remittance services, which are targeted towards low-income segments of the population and micro-enterprises. This activity can be undertaken by a broad array of intermediaries, ranging from non-governmental organizations (NGOs) to credit unions, thrifts, savings banks, commercial banks, state banks, etc'.

This definition is broad, encompassing financial services demanded by both microenterprises and 'low-income segments of the population'. Further, financial service providers defined as

'microbanks' include both formal regulated financial institutions and a range of registered and unregistered entities operated by voluntary or civil society organisations. The definition is crafted to cover the disparate circumstances of the full range of APEC member economies, from the most to the least developed. This is useful because it permits the issue to be generalised, and its relevance to all economies explored. That relevance lies in the existence of financial exclusion in all member economies.

If microbanking is to be seen as relevant to all economies, it is necessary to frame the discussion in a manner capturing the diversity within APEC. One way of approaching this is to accept that in all APEC economies, whether 'developed' or 'developing', and whether market-based or transitional, there are population subgroups which are not adequately served by formal financial systems, nor by conventional financial institutions, especially the banks. This failure of service can be described as 'financial exclusion' and the definition of microbanking clearly anticipates such situations. The concept of financial exclusion, observable to a greater or less degree in all APEC economies, provides a basis for generalising the issue of microbanking. Microbanking can therefore be seen as a response to the common problem of financial exclusion<sup>6</sup>.

Financial exclusion occurs in developing member economies, where the informal or unenumerated sector is of major importance as a source of livelihood for the poor. Considerations such as geographic isolation, low population density and gender also play a part in determining patterns of unequal access in economies where financial sector development is limited. Particular sectors, notably smallholder and peasant agriculture, with their associated post-harvest and off-farm economic activities, pose special challenges for financial service provision. A general problem in the developing member economies is the inability of many lower-income people to meet lenders' requirements for formal physical collateral.

Financial exclusion occurs also in developed economies, where the forces of privatisation and rationalisation impelled by the internationalisation of finance have wrought massive structural changes in domestic financial markets. In some cases such restructuring has led to the withdrawal of conventional financial institutions from particular geographic areas or demographic categories. In other cases, increasing economic and social polarisation has caused conventional financial institutions to focus their services on 'high yield' market segments and to neglect others. Gender is a variable influencing access in developed member economies as well as in the less developed.

Thus in all APEC economies there are groups whose members, in consequence of this denial of service, face obstacles in realising their economic and social potential. This is most commonly because their income levels and the quantum of their financial service needs are pitched substantially lower than those of the population groups which have access to formal financial services. This is not to say that the deprived subgroups are necessarily minorities. Indeed they may be a majority by number, though certainly not by share of income, within their economies. In the least-developed economies of APEC formal financial institutions may serve only between 25 and 50 per cent of populations.

Microbanking is a concept obviously applicable to developing country circumstances, but less obviously so in the depopulated farmlands of the Australian 'outback' or in blighted inner urban areas of the US. And what is described as 'micro' in the operations of the Vietnam Bank for the Poor differs enormously from the 'microcredit' operations of Women's World Banking, Japan, an NGO working with female microentrepreneurs in the latter country. But in each of the cases

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<sup>6</sup> Thus in the wealthiest APEC economy, the Economic Committee's report on *Microbanking Regulation and Supervision* notes that 'the existence of 40 million Americans who are not using mainstream banking services led the Treasury Department to launch the program "First Accounts" in late 2001'. The report documents this program.

mentioned, Vietnam and Japan, outback Australia and inner city Chicago, attempts are being made to develop alternative, non-conventional, financial service delivery mechanisms for households without access.

In the developing member economies, 'microfinance' is a useful summary term to capture the variety of financial service mechanisms being developed to meet the needs of financially excluded households. 'Microfinance' (in its various manifestations) is the form of 'microbanking' most applicable in those economies. In this sense, the endorsement of microfinance by the APEC Leaders could be seen as directed to the concerns of developing member economies. The endorsement of 'microbanking' by the APEC Ministerial could be seen as more even-handed, in the sense that the latter term describes a tool applicable to financial exclusion in all economies.

'Microfinance' is an unhelpful term to apply in the circumstances of developed economies, for a host of reasons. These include the limited success of developing economy microfinance models when transposed to the setting of high-income countries. Effective solutions to financial exclusion in developed economies are likely to be a good deal more heterogeneous than the various models of microfinance which are proving successful in the developing economies of APEC. 'Microbanking' is a term capable of encompassing that heterogeneity.

## **b) The household as the basic unit of analysis**

Before turning to the question of the relevance of microbanking and MED to the 'main game', the trade and investment liberalisation and facilitation (or TILF) agenda, it is necessary to establish a basic principle for the analysis of MED and microbanking issues in the APEC context. This is to designate the household as the basic economic unit for analysis.

As described above, the definition of microbanking in the 2003 APEC Economic Outlook includes 'low-income segments of the population' among the clients of microbanks. Remembering the need to generalise the issues for all APEC economies, this term is best interpreted as referring to households. Households may serve dual roles as productive units and as units of consumption. In developing member economies, households are the primary units of both production and consumption. Households are the basis of the great majority of microenterprises in those economies, and microenterprise itself is the most common mode of productive activity. By contrast, while in the most developed APEC economies there are some household production units organised as microenterprises, this smallest unit of enterprise is not a significant element in their economic systems<sup>7</sup>. Hence the principal economic function of the household in the developed economies is as a unit of consumption.

Thus, in the developing member economies, the household and the microenterprise are one and the same and any distinction between household expenditures for production and consumption is problematic. Microbanking services are properly directed to satisfying both the production and consumption needs of the household. Microbanking services can improve the productivity of household enterprises while also increasing the welfare of households as consumption units.

The financial service needs of poor households are simple but their satisfaction can be life-enhancing. They need access to convenient, liquid and safe deposit services, protected against inflation by positive real rates of interest. With savings in reserve, householders are able to smooth

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<sup>7</sup> Exceptions do occur in developed economies. One example is the household production unit making up clothing on a 'putting-out' arrangement with a fashion house. The workers may be undocumented immigrants and the household enterprise is usually unregistered and possibly illegal. Such 'black economy' enterprises inhabit a space similar to that of the informal sector in developing member economies. But they are similar also in their lack of access to conventional sources of finance.

their consumption expenditures in the face of uncertain income streams. Savings provide a shield against catastrophic events which, by forcing the vulnerable to divest productive assets, would otherwise tip them over the dividing line between meagre sufficiency and poverty. Microinsurance is a related financial product with potentially profound welfare benefits. Similarly, poor households which make their living in a myriad of activities in the informal sectors of developing member economies, many of them either landless or with insufficient agricultural land, need access to credit to increase the productivity of their labour or to free them from exploitative financial relationships.

By contrast, as has already been asserted, microenterprise in the sense in which it is discussed here is of quite limited significance in developed member economies; there production is very largely external to the household. In these circumstances we should see the role of microbanking as being primarily to serve the consumption needs of households and the communities in which they live. In these developed economies, the relevance of microbanking to APEC's concerns is that it has the potential to contribute to 'shared prosperity' among households excluded from conventional financial services. This matter is discussed further in the next section.

### **c) Is microenterprise a 'whole-of-APEC' issue?**

Whereas microbanking is a concept whose applicability in a 'whole-of-APEC' context can be established clearly, microenterprise presents more difficulty. The previous section concluded with the assertion that microenterprises, considered as household production units, are relatively rare in the developed member economies. However the household is the primary unit of *consumption* and it was argued that the role of microbanking institutions in developed economies is to increase the welfare of those households as consumers.

Defining the microenterprise in the developing APEC economies is straightforward; it is the household production unit, which will also be financially excluded in most cases. These entities form the potential market for microbanking. But how should we define the microenterprise in the developed economies? Official definitions are not likely to offer much guidance; discussion at the High Level Meeting on Microenterprises in August 2002 suggested that most economies, and certainly the developed ones, do not have an official definition of the term. They are presumed to fit in at the bottom of the small industry category, if at all: they are simply 'smaller than small'.

The report of the High Level Meeting on Microenterprises<sup>8</sup> presented a typology of the characteristics of microenterprise, as opposed to those of small and medium enterprises (table 1). The differences are not simply those of scale; there are also substantial qualitative distinctions between the two types. Clear differences are discernible in terms of structural and operational criteria: what shapes the firms take, and what they do and how they do it. Structural characteristics include organisational structure, financing, plant and equipment, production techniques and marketing, while operational characteristics include personnel management, production and inventory control, planning and accounting. A key factor is the relationship of the firm to regulatory authorities.

SMEs have a defined organisational structure, with distinguishable positions and functions, whereas the micro-firm will typically lack a clear structure and the details of scope and organisation will be ill-defined. In regard to financing, the microenterprise is described as relying on individual and personal financing, whereas SMEs are categorised as relying on partnerships and/or links with formal institutions. In the microenterprise, remuneration of staff is informal and unpaid family helpers are common, whereas the SME has a system of remuneration based on formal

<sup>8</sup> See [http://www.apecsec.org.sg/virtualib/minismtg/mtgsme2002\\_Annex2.html](http://www.apecsec.org.sg/virtualib/minismtg/mtgsme2002_Annex2.html).

responsibilities. Micro-firms (70 per cent of which are said to be in the informal sector, though the proportion must vary considerably from economy to economy) are likely to have accounting systems only insofar as they are within the net of taxation authorities. And while SMEs operate within established policy and regulatory frameworks, micro-firms operate outside such frameworks, often striving for anonymity and frequently in antagonistic relationship with authorities.

**Table 1: Differences between Microenterprises and SMEs**

<b>MICRO-ENTERPRISE</b>	<b>SMALL AND MEDIUM-SIZED BUSINESS</b>
<b>STRUCTURAL</b>	
<b>Organisation</b>	
<ul style="list-style-type: none"> <li>No defined structure and very little information about their size and scope</li> </ul>	<ul style="list-style-type: none"> <li>Defined structure with positions and functions</li> </ul>
<b>Financing</b>	
<ul style="list-style-type: none"> <li>Individual and personal, often without initial financing</li> </ul>	<ul style="list-style-type: none"> <li>In partnership, with links to formal financing institutions</li> </ul>
<b>Fixed Assets</b>	
<ul style="list-style-type: none"> <li>Working tools and utensils. In most cases, they form part of the household</li> </ul>	<ul style="list-style-type: none"> <li>Machinery, equipment, installations, commercial space suited to the type of business</li> </ul>
<b>Production</b>	
<ul style="list-style-type: none"> <li>Traditional technology with little specialisation and almost no training</li> </ul>	<ul style="list-style-type: none"> <li>Tendency towards increasingly sophisticated technology</li> </ul>
<b>Marketing</b>	
<ul style="list-style-type: none"> <li>Direct, with few links to chains of production</li> </ul>	<ul style="list-style-type: none"> <li>Linked to chains of production</li> </ul>
<b>OPERATIONAL</b>	
<b>Personnel</b>	
<ul style="list-style-type: none"> <li>Informal remuneration, including non-remunerated staff, mainly family members</li> </ul>	<ul style="list-style-type: none"> <li>Remuneration based on specific positions</li> </ul>
<b>Production</b>	
<ul style="list-style-type: none"> <li>Intuitive definition</li> </ul>	<ul style="list-style-type: none"> <li>Tendency to respond to market strategies and competition, backed up by links to the chains of production</li> </ul>
<b>Inventory</b>	
<ul style="list-style-type: none"> <li>Usually no planning or control</li> </ul>	<ul style="list-style-type: none"> <li>Tendency toward sophisticated management that incorporates modern techniques</li> </ul>
<b>Planning</b>	
<ul style="list-style-type: none"> <li>Non-existent concept</li> </ul>	<ul style="list-style-type: none"> <li>For business and tax purposes, with some applications to control and decision-making</li> </ul>
<b>Accounting</b>	
<ul style="list-style-type: none"> <li>Only for tax purposes, when it exists, since more than 70% of micro-enterprises form part of the informal market</li> </ul>	
<b>Relation to official regulators</b>	
<ul style="list-style-type: none"> <li>Non-existent and frequently resisted</li> </ul>	<ul style="list-style-type: none"> <li>Exist within established policy and regulatory framework</li> </ul>

Source: [http://www.apecsec.org.sg/virtualib/minismtg/mtgsme2002\\_Annex2.html](http://www.apecsec.org.sg/virtualib/minismtg/mtgsme2002_Annex2.html)



The typology described in table 1 originated in Mexico and relates primarily to circumstances in the developing APEC economies. But how applicable is it to the circumstances of the developed APEC economies, and what would be the point of distinguishing 'microenterprises' as a distinct class of firm in those economies? If it were shown that some operationally useful purpose would be served by identifying microenterprises and dealing with them differently, this might justify the effort.

An operationally useful guide to identifying microenterprises in developed APEC economies would necessarily reflect the conditions, social, economic and technological, of those economies. The smallness of operations and employment is the obvious starting point. Using the typology in table 1 as a rough guide, we could almost certainly take personal or informal sources of finance (family, friends) as being the other key indicator. Indeed the establishment and maintenance of formal financing links with a conventional financial institution might almost stand as a marker for the graduation of a firm from 'micro' to 'small' status. It also suggests the financing of such microenterprises requires specialised microbanking institutions in developed economies, as a bridge to their graduation to become clients of orthodox financial institutions.

There is also an identifiable class of 'black economy' enterprises (see, for example, footnote 7, above) which may not be socially undesirable, even if strictly illegal, but may simply lack appropriate licensing or certification, as well as formal financing. Good public policy may consist in finding means for their graduation to the formal economy, rather than their suppression.

Youth, recent immigrants and others whose enterprises have 'startup' status and are reliant on informal financing may constitute identifiable microenterprise types. But levels of technology (a clear distinguishing factor in table 1) may be a problematic guide. Some developed economy microenterprises may be quite technically sophisticated, such as ICT startups by young people (with perhaps Visa or Mastercard serving as a source of working capital).

In each of the examples above, lack of access to financial services is a common thread; specialised 'low-end' financial services (the heterogeneous forms of developed economy microbanking referred to in section 2, above) appear to be needed in all cases. The best answer to the definitional question of what is a microenterprise may be a pragmatic, economy-by-economy approach. The definition employed in each case should serve the policy goal of creating employment, generating income and sharing prosperity in developed economies as called for in the *Shanghai Declaration*. APEC does have an interest in the economic efficiency of micro-firms in all member economies, and in the welfare of those employed within them. This legitimate interest goes well beyond the potential for microenterprises to contribute to international trade, which was the chosen focus for a 2002 study of the sector in APEC.<sup>9</sup> This is because microenterprise in all APEC economies has the capacity to contribute to both economic efficiency and shared prosperity, as discussed in the next section.

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<sup>9</sup> *Small Business and Trade in APEC: a study of the contribution of small and micro enterprises to the Asia Pacific Region*, presented at the Trade Ministers Meeting, Puerto Vallarta, May 29-30, 2002.

#### **4. Contribution of microbanking and MED to APEC's goals**

The arguments for the relevance of microbanking and MED to APEC's TILF agenda, and hence for their incorporation into APEC's program of economic and technical cooperation, derive from a number of sources. These include microbanking's potential to contribute to the economic efficiency of all economies and hence to their capacity to engage in free and open trade and investment. They also include the potential for MED (financed by microbanking) to promote the 'shared prosperity' for which the APEC Leaders called in Shanghai and Los Cabos. These attributes make microbanking and MED highly appropriate additions to the ECOTECH agenda.

##### **a) Contribution of microbanking and MED to economic efficiency**

In all economies, developed as well as developing, microbanking can contribute to the process of financial deepening, which is an important concomitant of economic development. Broadly speaking, financial deepening is observable in increases in the stock of financial assets (as measured, most commonly, by M3) relative to the flow of economic activity (as measured by GNP). Higher-income economies tend to have 'deeper' financial systems than lower-income economies. Moreover, when comparing economies at similar levels of development, those growing relatively fast tend to be financially deeper than slower-growing ones.

As far as I am aware, no central bank in the world actually counts the deposits of non-regulated microbanks in its measure of M3. Financial sector authorities are slow to appreciate either the nature or significance of microbanking as an instrument for financial service delivery to the poor or its capacity to support financial deepening. In fact, with the possible exception of Bangladesh, the transactions of microbanking institutions are of minimal significance in the financial aggregates of all economies, so the lack of interest in measuring them is understandable.

Nonetheless, there is real significance, in terms of financial sector development, in the extension of savings facilities to millions of poor householders. This is true no matter how small the mean balance of their accounts. The poor, especially in the developing economies, can demonstrate a surprisingly high propensity to save. This is particularly true if they have access to safe, liquid, deposit facilities bearing positive real rates of interest. Extension of financial services to the poor, especially deposits, lays the foundation for a cumulative process of financial deepening.

A second important contribution to economic efficiency relates to the developing economies and concerns their competitiveness in international trade. Microenterprises in these economies are, as previously discussed, mainly household-based and are the most numerous units of production as well as the largest source of employment. It is true that microenterprises, especially the typical 'survival' enterprises of the poor, make little direct contribution to exports. However in some economies, for example Chinese Taipei, there are well established supply-chain relationships in export industries which reach down into the household-based microenterprise sector. Lower wage rates paid in that sector can be a factor in the international competitiveness of industries where such relationships prevail.

The most important (if indirect) contribution to export promotion of microenterprises consists in their capacity to supply wage-goods and services to the industrial workforce. For developing economies to exploit comparative advantage in manufacturing based on low labour costs, it is necessary for workers to have access to low cost wage-goods and (particularly) services. It is the comparative advantage of microenterprise to produce such goods and services, which can form a substantial proportion of the consumption-basket of manufacturing workers. This is especially the case where workers in export-oriented manufacturing are employed away from their homes and families, as is often the case.



This relationship between microenterprise and export-oriented industry is seen, for example, in the neighbourhood of the *maquiladores*. These are manufacturing and assembly plants, many of them established with foreign capital and clustered along Mexico's northern border with the US, producing for the US market. The *maquiladores* grew rapidly in numbers and employment with the benefit of market-opening measures agreed under NAFTA.

Microenterprises have sprung up around the *maquiladores* to serve the needs of an industrial workforce. Street stalls supply food and drink, while other microentrepreneurs offer 'homestay' accommodation, minibus transport, outdoor haircuts, tailoring and a host of other workers' needs. Microbanking institutions can play an important role in increasing the productivity and profitability of such microenterprises, by funding the capital requirements of microentrepreneurs.

Microbanking institutions serving the needs of industrial workers can contribute to export competitiveness in other ways. By providing deposit services they can assist industrial workers to accumulate savings. And by providing funds transfer services, they can reduce the transaction costs of remittances to families. By increasing the net rewards of participation in the industrial workforce, such services tend to reduce wage pressures in export industry and thereby act to maintain its international competitiveness.

#### **b) Contribution of microbanking and MED to 'shared prosperity'**

The Shanghai Declaration, as we have seen, called for member economies to develop and strengthen 'social safety nets' to protect the vulnerable (a call repeated at Los Cabos). The concern for distributional equity expressed in Shanghai and Los Cabos supports the case for APEC to give attention to microbanking and MED.

Firstly, microenterprise conducted at the household level provides income to poor and low-income people in the developing member economies. It is a mechanism which enables the benefits of economic growth to flow to poor and low-income people, and to facilitate their participation in that growth. Action to improve the productivity of microenterprises will have direct distributional benefits, because they are the major source of non-agricultural employment in developing APEC economies.

As to microbanking, to repeat a point made above, it could be regarded as trivial in financial terms. This is true in the sense that the transactions of microbanking institutions would scarcely register in the consolidated balance sheets of the financial sectors of any APEC economy. But microbanking transactions are significant in the lives of millions of people who are not served by formal financial institutions.

Microbanking can assist the sharing of prosperity in developing economies by assisting poor households to meet both their consumption and production needs. In developed economies, microbanking can raise the consumption levels of the financially excluded. And, in all economies, female-headed households are over-represented among the poor, and stand to gain disproportionately from access to microbanking services.

Finally, support for microbanking and MED has the potential to ameliorate the impact of market-opening measures on those who might otherwise bear the brunt of the costs of adjustment. Such support could increase the political feasibility, for all APEC economies, of moving towards the Bogor goal of free and open trade and investment.

## 5. APEC's microenterprise and microbanking agenda in 2003

### a) Thailand's priorities for 2003

Thailand takes the APEC Chair in 2003 with, as noted in section 1 above, a strong mandate for action in microbanking and MED derived from the Leaders' declaration and ministerial statements. These directions will be pursued within the Economic Committee and the new Permanent Subgroup, among other fora. Thailand's overall priorities for the year are declared on its APEC 2003 website at [www.apec2003.org](http://www.apec2003.org). This information includes a statement of Thailand's 'main theme and sub-themes' for 2003 (text box 1). The main theme appears to place emphasis on the internal diversity of APEC, which is described as 'a world of differences', with economies at different levels of development, possessing diverse resources and potentials.

**Text Box 1: Thailand and APEC  
Main theme and sub-themes for APEC 2003**

**APEC 2003 a world of differences: partnership for the future**

- Despite differences in economies, level of development, culture, etc., these diversified resources and development potentials could be harnessed.
- Strong partnership among different economies for the future.

**Knowledge-based economy for all**

- Foundation for renewed economic take-off.
- Way to bridge knowledge gap.
- Engine of growth, especially for less developed economies.
- Stimulate creative entrepreneurship.

**Promoting human security**

- Promoting freedom from fear and freedom from want.
- Poverty alleviation.
- Transforming social burden of the poor into economic opportunity for the future.

**Financial architecture for a world of differences**

- Financial reforms based on transparency and good corporate governance.
- Recognize different level of economic development.
- Essential tool to enhance economic stability and promote sustainable growth.

**New growth enterprises : SMEs and micro businesses**

- Building a foundation for growth and distribution of income.
- Diversified sources of entrepreneurship and Employment.

**Act on development pledge**

- Turning development commitments into concrete actions.

Source: [http://www.apec2003.org/eng/apecthai/apecthailand\\_thailandapec\\_topic4.html](http://www.apec2003.org/eng/apecthai/apecthailand_thailandapec_topic4.html)

Sub-themes include the 'knowledge-based economy for all', which echoes the Leaders' commitment, made in 2000 at Brunei, to universal internet access across the region. There is another sub-theme, 'human security', reflecting concerns of the Los Cabos meeting, but this does

not appear to relate so much to the War on Terror ('freedom from fear') as to 'freedom from want', 'poverty alleviation' and to relieving the 'social burden of the poor'.

A third sub-theme is titled 'financial architecture for a world of differences', which reflects the experience of East Asia since 1997. As well, there is a particular Thai perspective: the architecture must be designed to 'recognize different level[s] of economic development'. Nor is the reference specifically to *international* financial architecture; it appears that domestic financial architecture may also be subject to scrutiny.

Thailand's fourth sub-theme is 'new growth enterprises: SMEs and micro businesses'. Issues of concern include 'growth' (but also 'distribution') and 'entrepreneurship' (but also 'employment'). This seems clear enough; Thailand will maintain the emphasis on 'shared prosperity' established by the Shanghai Declaration of 2001, and on MED as a means to sharing, established at Los Cabos. Further, as we know from the discussion of the Economic Committee's deliberations in the past year, Thailand has declared an interest in studying 'specialised financial institutions'. This extends the microbanking theme pursued in 2002. The new work will focus on particular aspects of domestic financial architecture which are relevant to microenterprise development.

Finally, the Thai statement appears to make a commitment to translating pledges into action ('[t]urning development commitments into concrete actions'). This may reflect the growing sense within APEC that the credibility of Leaders' commitments is challenged unless successive APEC Chairs work to advance commitments made under their predecessors. Thus the Brunei ICT goals, the Shanghai pledge to human capacity-building and the Los Cabos concerns for MED and microfinance must continue to be developed and elaborated in APEC fora and to find their way into the ECOTECH process in concrete programs of collaboration.

This is explicit in another document on the APEC 2003 website, 'APEC's priorities for APEC 2002'. In this, the Thais set out, in advance of the Los Cabos meetings, their concern for continuity and follow-through in the APEC process:

'First, we want to see words being taken into actions..... We concur that APEC should focus its attention to the implementation of agreed initiatives such as the Shanghai Accord, e-APEC strategy, Human Capacity Building Strategy for the New Economy, the Integrated Plan of Action for SMEs, the School Networking and the Social Safety Nets'.

I believe this can be taken as an indication of how the Thais will approach their responsibilities in the coming year, with the list of priorities updated, post-Los Cabos, to include microenterprise development and the financial services associated with it. The Thai statement of priorities concludes with the pledge that '....as the next host, Thailand is looking forward to cooperate with Mexico to ensure greater continuity of APEC's works well into the year 2003'<sup>10</sup>.

## **b) The proposed study of 'specialized financial institutions'**

The term 'specialised financial institutions' (SFIs) appears in the report on *Microbanking Regulation and Supervision*, produced by the Economic Committee this past year and discussed above. The report describes SFIs as

'primarily shareholder-based and usually created to target a particular market niche. This type of intermediary involves a different management criterion from other MBIs, since it is

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<sup>10</sup> See [http://www.apec2003.org/eng/apecthai/apecthailand\\_thailandapec\\_topic1.html](http://www.apec2003.org/eng/apecthai/apecthailand_thailandapec_topic1.html)

specifically oriented towards a certain group of microbanking clients. SFIs offer a wide range of services and mobilize important amounts of savings<sup>11</sup>.

SFIs are distinguished in the microbanking report from other categories of institutions engaging in microbanking, such as commercial banks and multipurpose financial institutions, government institutions and agencies, cooperatives and credit unions, and NGOs. All the entities cited in the report as SFIs appear to be regulated financial institutions. Many are the product of financial sector legislation designed to extend financial services to neglected constituencies. These include the *Cajas Rurales* in Peru and the *Sociedades Financieras Populares* in Mexico. Some SFIs are government entities, such as the Bank for Agriculture and Agricultural Cooperatives (BAAC) and the Government Savings Bank in Thailand, and the Agricultural Development Bank of China in the PRC. Others are private, for-profit, entities, and include institutions which, while originally NGOs, are now transformed into regulated financial institutions.

The Thai proposal for the study of SFIs was presented to the Economic Committee at its meeting in Acapulco in August 2002. Interestingly, it does not define SFIs as developing economy institutions, so the study could be conducted in a whole-of-APEC context and include all regulated institutions which have emerged in APEC economies to deal with various forms of financial exclusion. This would be a useful exercise.

The experience of Thailand in the period of economic crisis after 1997 appears to underlie the Thai interest in SFIs. The proposal for the study<sup>12</sup> notes that:

‘... state-owned commercial banks together with specialized banks played major roles in supporting the development of real sector and grass-root economy when normal lending seemed to be [nonexistent].

‘This situation has occurred in several APEC economies, especially the developing economies during the crisis period. History has proven that the current market situation, especially in developing economies, is not the perfect competition. Private sector could not be in charge of all activities required by the society. In many cases, specialized financial institutions, which are underwritten by government, are required to fill in those gaps.

‘We strongly believe that the APEC Economic Committee should place more emphasis on the linkage between the banking sector and social sector which has proven to be an important aspect of economic infrastructure, and this proposal should well served as a starting point towards this end’<sup>13</sup>.

The argument here seems to be that private sector financial institutions are unable to provide services, especially credit, under circumstances such as those of the financial crisis and the period of economic recovery. Market forces cannot be relied upon and it is necessary for the state to underwrite SFIs in order to achieve the necessary ‘linkage between the banking sector and social sector’. However, as documented above, the Leaders’ and ministerial statements emerging from

<sup>11</sup> [www.apecsec.org.sg/download/pubs/EC2002\\_Chap2\\_MicroBankDevRegNSupn.pdf](http://www.apecsec.org.sg/download/pubs/EC2002_Chap2_MicroBankDevRegNSupn.pdf), page 24.

<sup>12</sup> *Proposal for Chapter 2 of 2003 APEC Economic Outlook (Thailand)*. Paper presented to the Economic Committee meeting, Acapulco, 16-17 August 2002.

<sup>13</sup> On departure from Thailand for the Los Cabos Leaders’ meeting, Prime Minister Thaksin noted that ‘Every APEC member country now wants to hold talks with us since they are interested in Thailand’s method of problem-solving, especially through micro credit, village funds, the people’s bank, grassroot-level solutions and internal economic support’. Bangkok Post, 23 October 2002.

APEC 2002 stated the case for sustainable, that is unsubsidised, microfinance and microbanking services. The study of SFIs to be led by Thailand should start therefore from the presumption that these institutions need to perform their functions in a sustainable manner.<sup>14</sup>

A more recent document gives additional information on Thailand's intentions with regard to the study<sup>15</sup> and indicates a wider scope than may first have been apparent. SFIs are described as aiming to provide 'various forms of financial assistance to certain sectors of the economy', and in particular 'a source of funds for specific potential customers'. The sectors involved may include agriculture, SMEs, real estate and housing, exports, water supply, asset management, savings and public sector project finance and, more generally, financial services to 'help alleviate social problems'.

In principle, SFIs may be government-owned or sponsored, or they may be 'independent' and 'self-sufficient' institutions. They may have a specific legislative and regulatory framework, separate from that of the commercial banking system, and may be subject to their own supervisory agencies and prudential standards.

The document lists and describes eight SFIs operating in Thailand. Some of these (the government savings bank, GSB, and the rural development bank, BAAC) are engaged in 'microbanking', which was the field covered by the structural chapter in 2002. But others are at the opposite end of the financial sector spectrum (for instance, the export-import bank, EXIM, the industrial finance corporation, IFCT and a mortgage securitisation entity, the SMC). In between there is a group of institutions catering to small industry and low- or middle-income mortgage borrowers.

All the SFIs listed for Thailand are 'government-sponsored financial institutions that make loans in the interest of public policy' and all are set up under special legislation or royal decree. The eight institutions are all subsidised by government and target the underprivileged and 'grass roots' people. All are under the regulation and supervision of the Ministry of Finance, and are subject to central bank examination. Some use commercial banks as channels to deliver their services, while others operate in a face-to-face environment with their target clientele. And all have in common the objective of addressing particular gaps in the financial services market in Thailand, on the assumption that the market itself will not provide the particular services required, or at least not in sufficient quantity and on reasonable terms.

Thailand will not succeed in exploring the diversity within APEC financial systems unless it can generate an adequate response in the Economic Committee (EC) to the issue of SFIs, including from the developed economies. No doubt Thailand sees SFIs as a necessary element in the domestic financial architectures of APEC economies and is interested in exploring the various institutional models and regulatory regimes to be found there. APEC has given extensive attention to both domestic and international financial architectures since the onset of the crisis in 1997, and to the need for compatibility between these. APEC has as an overriding objective the reduction of barriers to international transactions, including financial transactions. A corollary of this is the need

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<sup>14</sup> The definition of 'sustainability' in microfinance adopted by CGAP, the Donor Consultative Group for Assistance to the Poorest at [www.cgap.org](http://www.cgap.org), is relevant here. It distinguishes between two degrees of sustainability for a microfinance institution. 'Operational' self-sufficiency requires institutions to cover all administrative costs and loan losses from operating income. 'Financial' self-sufficiency requires institutions to cover all administrative costs, loan losses, and financing costs from operating income, after adjusting for inflation and subsidies and treating all funding as if it had a commercial cost.

<sup>15</sup> Fiscal Policy Office, Ministry of Finance, 'Specialised Financial Institutions (SFIs)', Bangkok, 15 Oct. 2002.



to increase the capacity of the financial systems of member economies to withstand external shocks and domestic financial disturbances. An important issue which arises, therefore, from Thailand's exploration of SFIs in the APEC context is whether and to what extent the operation of SFIs is consistent with, and supportive of, the sustainable liberalisation of APEC financial systems.

In those APEC economies where financial sector development has proceeded furthest, the 'developed' member economies, we find that the tendency has been for governments to discard those of their specialised financial institutions which were established primarily to achieve social goals. Governments have tended to reduce their own commercial activities in financial systems where these were judged to distort markets. They have concentrated instead on improving competition policy and consumer protection, refocussing the attention of regulatory agencies on prudential issues and seeking better coordination among agencies. And where SFIs had been designed to secure specific social benefits, such as for example, greater affordability of home-ownership for low income families, governments may now attempt to secure such objectives through direct expenditures<sup>16</sup>.

This analysis suggests the need for a study of SFIs in all economies in which the time dimension should be given particular emphasis. Understanding the historical development of financial systems in the diverse circumstances of APEC will be a useful guide to the potential of SFIs. It may further assist in identifying which of the various SFI models may contribute to financial sector development, and when. And those economies which no longer have any great use for SFIs may still make valuable contributions to the study, by tracing the evolution of their financial systems and the roles which SFIs have played in them, historically. A whole-of-APEC study of SFIs would have the additional advantage of counteracting any tendency to quarantine the topic in a box labelled 'development', which the more recalcitrant developed member economies could ignore.

### c) The Permanent Sub-Group on Microenterprises

The Permanent Sub-Group is still in the process of formation and is breaking new ground, so it is rather more difficult to offer suggestions concerning the directions it might take. The report of the High Level Meeting on Microenterprises (the HLMME, held at Acapulco in conjunction with SOM III in August)<sup>17</sup> identified a number of 'policy principles' or themes for the analysis and support of microenterprise, which provide a guide to an agenda for the Sub-Group.

The report recommended attention to *Information Gathering and Data Analysis* as the necessary prerequisite for good policy at the national level, while acknowledging the difficulty of data collection in the informal sector for those economies where it is significant. It also suggested the need for comparative data at the international level, while recognising the need for a flexible approach to defining microenterprise in the diverse circumstances of the APEC economies. Gender disaggregation of the data is essential if we are to understand the significance of female involvement in microenterprise. While the participation of microenterprise in international trade is an important consideration, data collection should not be centred on this aspect of their activities. Such an emphasis would run the risk of biasing data collection towards larger and more formal enterprises.

<sup>16</sup> Australian experience of the decline of SFIs is documented in the *Financial System Inquiry Final Report*, (the Wallis Report), Canberra, Australian Government Publishing Service, 1997.

<sup>17</sup> See [http://www.apecsec.org.sg/virtualib/minismtg/mtgsme2002\\_Annex2.html](http://www.apecsec.org.sg/virtualib/minismtg/mtgsme2002_Annex2.html)

*Policy and regulatory frameworks* are an important issue in all economies, where microentrepreneurs may incur high ‘transaction and conformance’ costs in complying with regulations. In developed economies, the report points to the need to reduce this burden, to increase the access of microenterprise to e-commerce and e-government and to improve intellectual property protection for microenterprises. It does not refer to the regulatory burden in developing economies or to the heavy costs incurred by microentrepreneurs in these economies in dealing with officials.

*Deepening of financial services:* The HLMME report explicitly addressed the topic of ‘financial exclusion’, suggesting the need for a ‘deepening of financial services’ for the benefit of the microenterprise sector. It canvasses the need for greatly increased outreach of sustainable and innovative financial services, provided through unsubsidised channels, a theme echoed in the Leaders’ Declaration and other ministerial statements.

The report also dealt with *Access to Technology* as a prerequisite for growth of the sector, in terms which link clearly with the Brunei goal for universal Internet access:

‘There is ample evidence of the relevance of access to, and appropriate use of information technology by, micro-enterprises. The benefits of e-commerce, e-government, e-learning are already evident in a number of APEC economies. There is enormous potential for micro-enterprises, including in the unregulated sector in developing economies, to “leap-frog” growth and expansion processes and enter the economic mainstream. Particular effort is needed to create appropriate policy frameworks, decrease the costs of access and to design and disseminate micro-enterprise-specific products and service packages’.

Finally, in regard to the related topics of *Capacity Building* and *Leveraging Resources*, the report points to opportunities for economic and technical cooperation among the APEC economies to build capacity and exchange information on best practice in improving the performance of microenterprise. This could involve a diverse field of players, including international financial institutions, the private sector and civil society.

## 6. Conclusion

The report of the HLMME pointed to the need for a whole-of-APEC approach to the problems of microenterprise, noting that

‘There are evident links to the Economic Committee’s preparation of a chapter on ‘specialised’ financial institutions’ in the 2003 Economic Outlook. The financial sector work could be expanded, to the benefit of developed economies, to include the study of financial institutions designed to overcome the financial exclusion of the poor in such economies’.

Further, the SME Ministerial report noted that:

‘Ministers instructed the SMEWG to coordinate, through its new sub-group, work with all APEC fora and sub-fora involved in issues pertaining to micro-enterprises development, such as capacity building, financing, gender integration, information and telecommunication technologies, and infrastructure, among others’.

It is evident that an opportunity exists for a concerted and coherent approach to the complex of issues bundled together under the headings of ‘microenterprise development’, ‘microbanking’ and ‘microfinance’. Thailand’s conduct of a study of Specialised Financial Institutions will be all the more effective if it is conducted in close collaboration with, and using a set of definitions consistent with, parallel work going on elsewhere under the APEC umbrella.