APRACA FinPower Program

COMPLETION REPORT:

Regional CEO Policy Dialogue Forum on
The Impact of the Global Financial Crisis on Key Rural Finance Stakeholders

By

Facilitator: Benedicto S. Bayaua
Documentor: Jocelyn Alma R. Badiola

International Fund for Agricultural Development (IFAD)

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This book is published during the incumbency of Mr. Pham Thanh Tan (APRACA Chairman), Mr. Abdurakhmat Boymuratov (APRACA Vice-Chairman) and Mr. Benedicto S. Bayaua (Secretary General).

Message

Greetings to all.

IFAD and APRACA, under the FinPower Program, share that mutual desire to conduct forums for sharing experiences and disseminating information on salient rural and agricultural financing and policy topics.

This year's FinPower CEO Policy Dialogue Forum is the third in a series of forums intended to keep CEOs abreast of the emerging developments in the region. Hence, the topic on the impact of the global financial crisis on key rural finance stakeholders is a timely and significant contribution to the discussions.

The forum intends to look into the global financial turmoil and how it affected various key stakeholders: regulators, financial institutions, donors, private partners and most importantly, the clientele in the rural areas.

I thank the Chairman of the National Agricultural Cooperative Federation and his energetic officers for hosting the forum. I commend the publication of the completion report on the forum as we look forward to more exchanges of ideas and experiences in the field of rural and agricultural policy and financing.

Pham Thanh Tan
APRACA Chairman

Foreword

For over thirty years, the Asia-Pacific Rural and Agricultural Credit Association or APRACA has aspired to help alleviate rural poverty through the promotion of efficient and effective rural financial systems and broadened access to rural financial services. It has established a machinery for systematic interchange of information, encouraged inter-country studies, and provided training, consultancy, research and publications services on matters of common interest.

The International Fund for Agricultural Development (IFAD) has played the role of a strategic partner in all these aspirations. Between 1996 and 2001, IFAD provided a technical assistance grant to APRACA under the APRACA MICROSERV program to disseminate replicable rural finance models to a wider audience. The dissemination was particularly enhanced through APRACA's vast network, resulting in broader geographic reach, cost-effectiveness, and assured project continuity.

Again in 2006, the International Fund for Agricultural Development has provided APRACA with a five-year technical and financial assistance grant covering the period 2007-2011 to implement the APRACA Regional Program of Accelerating the Financial Empowerment of Poor Rural Communities in Asia and the Pacific through Rural Finance Innovations or dubbed as the FinPower Program.

FinPower's goal is to promote the financial empowerment of the rural poor in Asia-Pacific countries through policy dialogue, innovative pilot programs, and knowledge-sharing among actors in the rural finance sector. Its objectives are to foster an enabling, pro-poor and client-friendly policy environment and regulatory framework for sustainable rural financial systems, encourage innovative approaches to rural finance through the adoption of reforms and improvement of rural finance mechanisms that empower the rural poor and extract lessons from the wealth of rural finance innovations promoted by IFAD-supported projects and APRACA initiatives for information sharing and replication in the region.

Rural finance interventions provide small-scale credit and other financial services to poor households and very small informal businesses. They provide a mechanism for the poor to smooth the effects of income shocks on consumption, find safe and affordable repositories for their savings, take advantage of profitable investment opportunities, and insure against risk. Microfinance is firmly established as a cost-effective approach for poverty reduction, particularly in the rural areas.

However, the expansion of financial services to poor households in developing countries is hindered by many obstacles such as poor agricultural technology, lack of collateral, poor infrastructure, and weak prudential oversight over institutions. These problems are compounded when external shocks such as regional or global financial and economic crises occur.

This year's FinPower CEO Policy Dialogue Forum therefore looks into the current global financial turmoil and how it impacted and affected regulators, rural finance and microfinance institutions as well as the clientele of these financial institutions in APRACA-member countries. The study aimed at determining how these stakeholders have coped with the crisis and what their plans were in order to ensure the continuing delivery of adequate and timely financial services to their target clients, particularly the marginal sectors of each APRACA-member country and for drawing lessons from the study so that the RFIs and MFIs in APRACA-member countries can continue to promote and sustain the effectiveness and efficiency of rural financial markets amid the global financial turmoil.

It is hoped that the publication will encourage further discussions on the topic. The reader is invited to send in comments and suggestions.

Benedicto S. Bayaua
APRACA Secretary General
and
FinPower Regional Program Manager

Acronyms

AgriBank	Vietnam Bank for Agriculture and Rural Development
APRACA	Asia-Pacific Rural and Agricultural Credit Association
BAAC	Bank for Agriculture and Agricultural Cooperatives
BOK	Bank of Korea
CBR	Central Bank of Russia
CDS	Credit Default Swap
GDP	Gross Domestic Product
GVA	Gross Value Added
IFAD	International Fund for Agricultural Development
MFIs	Microfinance Institutions
MSME	Micro, Small and Medium Enterprises
NACF	National Agricultural Cooperative Federation
NHERI	Nonghyup Economic Research Institute
NGO	Non-governmental Organization
RBI	Reserve Bank of India
RFIs	Rural Financial Institutions

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IFAD-APRACA FinPower Regional CEO Policy Dialogue Forum
on

The Impact of the Global Financial Crisis on Key Rural Finance Stakeholders

June 29, 2009 Seoul, Republic of Korea

Completion Report

I. BACKGROUND

Venue, Host, Coordination and Participants

The FinPower CEO Policy Dialogue Forum on the Impact of the Global Financial Crisis on Key Rural Finance Stakeholders, the 3rd policy dialogue forum conducted by APRACA in collaboration with IFAD under the APRACA FinPower Program, was held in Seoul, Republic of Korea on June 29, 2009 and hosted by the **National Agricultural Cooperative Federation (NACF)**, an APRACA member institution.

A total of 89 participants from APRACA member institutions in 16 countries as well as from IFAD, other partner institutions, and the APRACA Secretariat/Agencies attended the policy dialogue forum. Countries represented included: **Cambodia, China, India, Indonesia, Japan, Republic of Korea, Lao PDR, Malaysia, Myanmar, Nepal, Philippines, Sri Lanka, Thailand, Russia, Uzbekistan and Vietnam.** The **Directory of Participants** is shown in **Annex 1.**

Forum Objectives

The CEO policy dialogue forum was convened to:

- discuss the global financial crisis and how it affects key rural and microfinance stakeholders in the different APRACA-member countries, particularly the bank regulators, rural financial institutions (RFIs), microfinance institutions (MFIs), and the clientele of these RFIs and MFIs;
- conduct a dialogue among CEOs on how their respective institutions have coped with the on-going crisis and what they plan to do in the future to ensure the stability of the rural financial system and the continuing access of clients to financial services; and
- draw lessons from the study so that the RFIs and MFIs in APRACA-member countries can continue to promote and sustain the effectiveness and efficiency of rural financial markets amid the global financial turmoil.

II. OPENING CEREMONY

In his opening remarks, Mr. Tae-Young Kim, President and CEO of Banking and Insurance of the National Agricultural Cooperative Federation (NACF) of the Republic of Korea, warmly welcomed the delegates to Republic of Korea and emphasized the important role of rural finance in promoting economic development especially with regards to the generation of jobs and in improving the quality of life of the poor. He thus commended APRACA for organizing the forum wherein forum delegates from the different member countries will discuss the most urgent issue of the impact of the global financial crisis, draw lessons and formulate measures to address difficulties arising from the turmoil.

Mr. Kim also explained the role of NACF since its establishment in 1961, in providing opportunities to its farmer-members not only through credit access but through technical assistance as well. Mr. Kim proudly presented NACF's "I Love Farm Campaign" which is aimed at enhancing values and restoring economic vitality in rural communities and the "One Company, One Rural Village Sisterhood Project" which is aimed at promoting growth through closer linkages between urban and rural areas as well as between enterprises and member farmers.

Mr. Kim highlighted his personal quest to help promote rural development in his thirty-eight years of service under the NACF through the financing of projects that are not only income-generating but environment-friendly as well.

He ended his speech by articulating his wish for the forum to mark an important milestone in strengthening cooperation among agricultural finance groups and in developing a future blueprint for agricultural finance.

In his speech, Mr. Ennoo Suesuwan, Acting President of BAAC, shared his views on the rural development strategies of BAAC in the context of the impact of the global financial crisis. He briefly recapitulated a historical background of BAAC, followed by BAAC operations in fiscal year 2008. He shared BAAC's response to the challenge emanating from the crisis. He said that the weakening economy has the following effects: decrease in disposable income, slowing down of exports, unemployment, falling consumer confidence, caution in lending and lowering of supply due to low demand. He stressed that Asian countries could no longer rely on trade with advanced economies, because external demand has weakened markedly. In this regard, Asian countries must put greater effort into promoting intraregional trade under the Asian Economic Community. To safeguard regional domestic demand as a source of Asian growth, it is essential that Asian countries strengthen cooperation, in order to protect the region from economic contagion from other parts of the world.

Mr. Pham Thanh Tan, CEO and General Director of Vietnam Bank for Agriculture and Rural Development and Chairman, Asia-Pacific Rural and Agricultural Credit Association, also emphasized the importance of addressing the global financial crisis as it has remained a challenge to all nations and has been affecting economies at various levels. He noted that if not addressed properly, the global financial crisis could lead to loss of confidence in the domestic banking system. He also reiterated that a prolonged recession among countries of the region could lead to more output loss and rising unemployment and consequently, a general weakening of urban and rural economies. He particularly cited Vietnam as one of those countries directly affected by the crisis given a sharp decline in the growth rate of the country's gross domestic product to 6.23 percent in 2008 from a target of 8.5-9 percent. Mr. Tan mentioned how the Vietnamese government acted very swiftly by implementing five groups of policies: policies to boost production, fiscal and monetary policies, social welfare policies, enhancing management and organization policies. He also noted AGRIBANK's role in maintaining stability in the rural financial market and in curbing inflation as well as promoting rural development despite the global financial crisis. He encouraged the active participation of the delegates in the forum for a fruitful and enriching exchange of ideas and experiences.

Dr. Thomas Elhaut, Director of the Asia and Pacific Division, International Fund for Agricultural Development (IFAD), started by discussing the possible effects of the global financial storm in the form of credit crunch, unemployment and increased poverty which could have a distressing impact on the affected countries if not addressed well. He thus emphasized the importance of coming up with strategies that can solve not just the financial crisis but also the food crisis and can address factors like climate change, rising population growth and increasingly scarce resources which can further exacerbate the crises if left unchecked. Mr. Elhaut, thus, indicated that the solution to the complex set of situations lies in a well-sequenced and comprehensive framework of agricultural, fiscal and monetary policies and

investments. Rural finance, he emphasized, should be part of this framework and "can be a key trigger by fuelling higher-quality investment" through financial innovation, the development of rural and micro-insurance, and stronger inclusiveness of rural and microfinance systems. He highlighted the significance of the FinPower Program as the means through which APRACA-member countries can take the lead in jump-starting financial intermediation in a new economic context and to be more aggressive in financial innovation with stronger inclusiveness and share their experiences with innovations in agricultural finance, in microinsurance and in other financial product innovations.

Mr. Benedicto S. Bayaua, Secretary General of APRACA gave a brief introduction of the FinPower Program. He explained that the study was part of the FinPower Program, a five-year technical assistance grant to APRACA by IFAD aimed at promoting the financial empowerment of the rural poor in Asia-Pacific countries. He indicated that the study aims at determining how the APRACA member institutions are coping with the crisis and how they are coming up with specific recommendations in order to ensure undisrupted financial services for farmers and fishermen despite global financial difficulties.

III. HIGHLIGHTS OF THE PRESENTATIONS

Ms. Jocelyn Alma R. Badiola, co-author of the study on "The Impact of Global Financial Crisis on Key Stakeholders" and Deputy Executive Director of the Agricultural Credit Policy Council, an APRACA member institution, presented the major findings of the study.

She started by citing the study's data sources which include country papers submitted to APRACA particularly those on Cambodia, India, Republic of Korea, Myanmar, Philippines, Pakistan, Russia, Thailand and Vietnam and the MIX/Intellecap survey in 2007 of MFIs covering 16 countries across South Asia and East Asia and the Pacific which provided additional data. Her outline of presentation included: 1) How the global financial crisis had affected countries in Asia; 2) Macroeconomic condition of countries in Asia after the crisis; 3) Overview of microfinance and rural finance environment in Asia before the crisis; 4) Impact of crisis on microfinance institutions; 5) Impact of Crisis on Bank Regulators; 6) Impact of Crisis on Clients; and 7) Policy Recommendations.

How the Global Financial Crisis Affected Countries in Asia

Ms. Badiola indicated that while the financial crisis started in the USA, it easily reached countries in Asia via financial and real markets. Through financial markets, the crisis has led to more capital outflow, tighter credit and higher interest rates. Through real markets, on the other hand, the crisis has led to falling demand, drop in output, rising unemployment, shrinking export markets and weakening commodity prices. She added that the significance of impact on Asian countries would depend on factors like the extent of current account deficit, reliance on external funding and foreign participation in domestic equity and bond markets.

Macroeconomic Condition of Some Asian Countries Before the Crisis

Ms. Badiola noted that majority of the countries in Asia registered declines in economic growth following the global financial turmoil. Some of these countries also experienced sharp increases in inflation rates, reduced export growth and large capital outflows. She showed a table with specifics on changes in GDP growth rates, as follows:

Country	Changes in GDP Growth Rate, From 2007 to 2008 (%)
Cambodia	10.2% to 7%
India	9% to 7%
Indonesia	6.3% to 6.1%
Republic of Korea	5.1% to 2.4%
Pakistan	8% to 5.8%
Philippines	7.2% to 4.6%
Thailand	5.2% to 2.6%
Vietnam	8.5% to 6.2%

Ms. Badiola also mentioned that the countries with significant inflation rate changes during the height of the crisis in 2008 include Pakistan (reached 25 percent), the Philippines (from 2.8 percent to 9.4 percent), Thailand (from 5 percent to 9.2 percent) and Vietnam (almost doubled to 21.5 percent). Ms. Badiola also cited India, Thailand, Republic of Korea and Russia as some of the countries that experienced reduced demand and/or export growth as a result of the crisis.

Overview of Microfinance/Rural Finance Environment in Asia Before the Crisis

Ms. Badiola indicated that microfinance in Asia has grown at a rapid rate and has become an important tool for poverty alleviation since the 1997 crisis. She cited specific figures: in 2007, microfinance borrowers in Asia has reached about 47 million, more than USD 10 billion in loans and more than USD 7 billion in deposits; growth rates in the number of active borrowers, by country are: Pakistan (57%), India (44%), Indonesia (36%), Philippines (36%), Cambodia (32%) and Vietnam (20%).

Impact of Crisis on MFIs

Ms. Badiola emphasized that the extent to which the crisis can affect rural and microfinance institutions would depend largely on factors like structure of liabilities, financial state and the economic health of clients.

Ms. Badiola noted that despite the crisis, most rural and microfinance institutions in Asia have continued their lending activities; and for the big MFIs, expanded their outreach particularly in Cambodia, India, Pakistan, the Philippines, Thailand and Vietnam. She also indicated that as a result of the crisis, there had been more emphasis on deposit mobilization among MFIs as an important fund source, especially in Cambodia, India, Pakistan the Philippines and Thailand. However, while some countries like India and Thailand were able to generate fresh funds from shareholders as well as new investors despite the crisis, some MFIs in the Philippines particularly the NGOs could not do the same because of scarcer donor funds. Some of the MFIs in Cambodia and the Philippines also reported higher transaction cost in sourcing funds from abroad. Moreover, improvement in portfolio quality of some MFIs despite the crisis, particularly the CARD Bank in the Philippines and BAAC in Thailand was also mentioned by Ms. Badiola, including improved financial efficiency in the case of Cambodia, India, Pakistan, the Philippines and Thailand.

Impact of Crisis on Bank Regulators

Ms. Badiola cited the following measures enacted by bank regulators following the global financial crisis:

- Tightened monetary policy (at the height of the crisis); and eased monetary policy when economy started to slow down by raising/reducing interest rates; and increasing or reducing reserve requirements on bank deposits and deposit substitutes (*Cambodia, India, Republic of Korea, Pakistan, the Philippines, Thailand and Vietnam*)
- Lent foreign currency to financial institutions (in the case of the *Indonesia, Republic of Korea and the Philippines*)
- Emphasized prudential regulation through greater risk management, stronger capital base, bolder disclosure mechanisms and better corporate governance standards (*Cambodia, India, Indonesia, Republic of Korea, Pakistan, the Philippines, Thailand and Vietnam*)
- Provided a more conducive regulatory/policy environment for MFIs, e.g., allowing MFIs to collect deposits from clients; encouraging development of products and technological innovations in banking services (*Cambodia, India, Pakistan, and the Philippines)*

In response to the above measures, Ms. Badiola explained how MFIs coped through the following strategies:

- Greater emphasis on savings/deposit mobilization;
- Stricter policies on screening of loan applications and loan delinquency;
- Development of new/innovative products to reduce operating costs such as mobile phone banking or text-a-payment, among others;
- More NGOs are evolving into banks; and
- Some MFIs are consolidating with other MFIs.

Impact on Clients

Ms. Badiola indicated that as a result of the crisis, there had been reported increases in loan defaults and drop-outs due to job losses, business slow-down and diminished remittances from abroad. She explained that such reports are, however, largely anecdotal and that it is not easy to separate the effects of the global financial crisis from pre-existing conditions like the food crisis and domestic issues on "over-indebtedness" or credit pollution. Ms. Badiola further indicated that because of increasing unemployment and diminishing incomes, demand for microfinance loans for livelihood and various microenterprises in some countries increased as seen from the expanded number of microfinance borrowers in Cambodia, India, Pakistan and the Philippines.

Recommendations

Finally, Ms. Badiola cited the study's recommendations:

- Regulators should continue with efforts to create an enabling environment, build necessary infrastructure (e.g., credit bureaus, deposit and credit guarantees, liquidity facility) and develop more appropriate regulatory and supervisory approaches (e.g., risk-based supervision of financial institutions).

- Rural and microfinance institutions should strengthen policies and processes for credit analysis, risk management, monitoring performance and diversifying portfolios. Improving efficiencies should be primary responsibility.
- Donors, governments and stakeholders should continue with and expand efforts in training and capacity-building among rural and microfinance institutions. Priority areas for capacity-building include the following: risk management, improved credit analysis, delinquency management, strengthening loan portfolio quality, streamlining operational procedures, product development and governance and strategic planning.
- Governments, donors and rural and microfinance institutions should unite various efforts to help build client capacity in areas such as financial literacy and numeracy, access to safety nets especially for vulnerable children and women, linking small businesses to supply or value chains, entrepreneurship and other related areas.

Dr. Ganesh B. Thapa, Regional Economist of the Asia and the Pacific Division, IFAD, presented the findings of the study titled, "Financial Crisis in Asia and the Pacific Region-its Genesis, Severity and Impact on Poverty and Hunger". Dr. Thapa explained that the study examined the experience of nine Asian countries over the period 1960-2006 using a state-of-the-art econometric methodology. The results, although mixed, provided some evidence of the positive role of finance on Gross Domestic Product (GDP) and Gross Value Added (GVA) in agriculture. However, the results also showed evidence of reverse causality between GDP and agricultural growth on financial development. He cautioned that the effects of finance on inequality and hunger need careful interpretation. He concluded that while increasing funding support to MFIs and/or adapting the design of microfinance programs vis-a-vis the requirements of clients may determine whether the poor would be shielded from a significant decline in growth rates in the region, there remains a real apprehension that "in trying to save the existing financial architecture, the poor and vulnerable may not get the attention they deserve".

Dr. Usha Thorat, Deputy Governor of the Reserve Bank of India (RBI) provided an overview of the impact of the global financial crisis on rural and microfinance institutions and their clientele as well as the regulators and/or policymakers in India. Dr. Thorat noted that while there seemed to have been some impact on these financial institutions in terms of slower growth in credit and profitability; deposit collection, asset quality and capital adequacy have more or less, remained the same. Dr. Thorat explained how the Reserve Bank of India has taken specific measures to address foreign exchange market and domestic liquidity issues in order to augment the resources of the major financial institutions and thus facilitate the continuous flow of credit to productive sectors in order to assist affected industries. The RBI has committed to meet any demand-supply gaps in the foreign exchange (forex) market through the following: 1) making foreign currency deposits in India more attractive through higher interest rates which allowed import-dependent petroleum companies to have more access to foreign exchange notes, 2) providing a forex swap facility for Indian banks having subsidiaries abroad, 3) enhancing export credit refinance facility, and 4) allowing banks to borrow from their overseas branches and correspondent banks.

Dr. Thorat also indicated that the RBI provided liquidity support to qualified banks including a special purpose vehicle for non-bank financing companies as a way of managing the liquidity in the financial system of the country. Moreover, policy rates and statutory reserve ratios have been brought down. She added that funds have also been made available to the apex financial institutions in the field of housing and small-scale enterprise financing and that special regulatory treatment has been given to restructured loans to micro, small and medium enterprises (MSME) sector.

With respect to impact on clients, Dr. Thorat noted that most clients covered in their study did not report any significant problem with regards to credit access. She mentioned, though, that some sectors

such as the micro and small industries particularly the brick and diamond industries have experienced slackened demand as well as job losses.

Altogether, Dr. Thorat concluded that the rural and microfinance institutions in India have generally been strong and resilient amid the global financial crisis. The Reserve Bank of India, she highlighted, had implemented measures to ensure sound functioning of the rural financial markets despite difficulties. Consequently, the banks have been extending credit and the credit market has been working well.

Dr. Thorat made the following recommendations:

- Identify areas where there is scope for growth among developing economies with untapped potential;
- Loan portfolio of financial institutions should not be concentrated in just one area or industry and thus, should be diversified so that banks can easily cope when problems in one sector occur.
- Clients too should have more opportunities to learn different skills in order to help them overcome difficulties in case of unemployment.

Ms. Poonsook Musiklad, Executive Vice-President, representing Mr. Ennoo Suesuwan, Acting President of the Bank for Agriculture and Agricultural Cooperatives (BAAC), Thailand, discussed the performance of Thailand, in general, and BAAC, in particular, following the global financial turmoil. According to her, the crisis was clearly felt by Thailand because of the country's strong reliance on exports which account for more than half of the GDP. As a result of the crisis, Thai exports declined significantly both in terms of value and volume while private and public investment contracted and household spending slowed down. Aside from the export sector, the tourism sector was severely affected as well. Consequently, Thailand's economic growth plunged sharply to 2.6 percent in 2008 compared to 4.9 and 5.2 percent in 2007 and 2006, respectively. The country's economic problems were further exacerbated by domestic problems in the political arena.

To help stabilize the financial system and ensure the soundness of the country's financial institutions, the Bank of Thailand executed appropriate policies which included adjusting interest rates, implementing credit guarantee schemes and providing more lending services to specific sectors that need support.

With respect to the impact on clients and investors, statistics indicate that private consumption and investment went down steadily during the second quarter of 2008 due to both inflation surge and political problems. In 2009, unemployment rate increased further because of diminishing demand in the international market which led some 628 enterprises to shutdown leaving approximately 200,000 unemployed citizens.

Ms. Poonsook noted that BAAC has been performing well despite the crisis. She described how BAAC has managed to expand its operations to cover more areas and clients. By the end of fiscal year 2008, the bank had increased its number of clients by 159,793 families or 2.7 percent from the preceding year. Similarly, BAAC increased its deposits by 14 percent in 2008. She reported that BAAC's deposit contribute about 85 percent of the bank's total operating fund. Other fund sources include borrowings (2.6 percent of total operating fund); shareholder's equity (9.23%); and other liabilities (2.87%). Given that the bulk of the BAAC's operating funds is sourced from deposits, it has become less dependent on foreign funds since the 1997 crisis, making it easier for the bank to cope with the current crisis.

As a response to the global financial turmoil, Ms. Poonsook reported that BAAC implemented measures to bring down cost through the following: 1) reduced interest rates; 2) credit rebate; 3) extension of repayment period for production loans of main crops such as palm oil and rubber; 4) price support

programs to address the problem of decreasing prices of agricultural products. She also added that BAAC provided funds in the amount of THB 420,267 million to stimulate agricultural production and job creation in the countryside and implemented a weather-based insurance aimed at reducing the risk of lending to small farmers.

Finally, Ms. Poonsook presented BAAC's 'driving framework' for 2009 to promote close linkages between and among BAAC, its employees and its client-farmers to include the establishment of an effective and efficient monitoring system as well as a responsive capacity building program.

Dr. Joon-Whan Im, Head, Macroeconomic Division, Nonghyup Economic Research Institutte (NHERI), an NACF subsidiary, described how the Republic of Korea has been affected by the global financial crisis. Given the tightened money market liquidity among global banks and the large magnitude and short-term orientation of Korean banks' external debt, Dr. Joon-Whan Im noted that there had been an increased concern about access to and availability of external funding. This is because about 70 percent of Korean banks' external debt is largely short-term and this increased from about US$ 60 billion in 2005 to US$ 150 billion in 2008. He also explained the default risk faced by the country using the credit default swap (CDS) spreads which measures the price of insurance against default losses of a particular institution as the means for investors to determine future losses on principal in the event of restructuring or rejection for external debt. He described how Korean banks showed substantial increases in the CDS spread over a three-year period, 2007-2009. This meant that because of the strong connection of Korean banks with global banks directly affected by the financial turmoil especially after the failure of Lehman Brothers, the default risk of Korean banks increased considerably after October 2008 as it followed the movements of international banks.

Moreover, Dr. Im indicated that at the height of the global financial crisis, the Korean Won (KRW) depreciated considerably against the US Dollar and the average daily market turnover volume among banks and other money changers decreased from US$ 10 billion to US$ 4 billion in 2008. Capital flowed out of the country as investors withdrew their funds and transferred them overseas. Banks, as a consequence, had difficulty securing dollar-denominated funds and resorted to convert KRW into dollars through foreign exchange swaps. However, the cash-strapped FX swap market exacerbated the problem making Korean banks to either roll over short-term borrowings or lengthen maturity.

Finally, Dr. Im mentioned the series of market stabilization measures implemented by Bank of Korea (BOK) to avert the impact of the global financial turmoil on the banking system of the country. This included the following:

a. **Interest Rate Cuts.** The BOK lowered its policy rates from 5 percent to 2 percent, six times during the period from July 2008 to February 2009. The policy rate cuts, which are considered unprecedented in terms of frequency and size, were done to help ease liquidity pressures due to the global financial mayhem.

b. **Provision of Liquidity.** The BOK provided emergency liquidity to the financial system by undertaking open market operations through the expansion of eligible securities of financial institutions. The BOK also provided loans in the amount of 5 trillion Won for the Bond Market Stabilization Fund as well as for the Capital Recapitalization Fund. The BOK also subsidized commercials banks by paying their interest payments on reserves which commercials banks are required to hold in their BOK current account in view of the decreasing earnings of these banks. Moreover, the BOK made foreign exchange swap arrangements with major foreign central banks such as the Federal Reserve Bank of New York, Bank of Japan and the People's Bank of China and distributed the proceeds to the dollar-strapped domestic commercial banks.

Mr. Mikhail Mamuta, the President of the National Association of Microfinance Market Stakeholders and also of the Russian Microfinance Center, described how Russia's economy deteriorated as a result of the global financial crisis. He noted that after a decade of high growth averaging 7 percent during 1999-2007 and a solid growth in 2008 of 5.6 percent, the Russian economy has been into a recession due to the decline in global demand, the fall in commodity prices, and the tightening of credit which brought down the estimated real GDP growth in the fourth quarter of 2008 to 1.1 percent from 9.5 percent during the same period in 2007. He explained that Russia's strong short-term macroeconomic fundamentals (e.g. low debt, large international and fiscal reserves, and initially strong fiscal position) made the country better prepared to deal with the crisis. However, its underlying structural weaknesses and dependence on the price of oil exacerbated the impact of the crisis.

With respect to the performance of microfinance institutions, Mr. Mamuta reported that the loan portfolio of Russia's MFIs fell by almost 12 percent and the number of borrowers by 4.3 percent during the first quarter of 2009. He explained that this was brought about by the considerable reduction in the amount of foreign and local investments as well as by the decrease in demand for loans among the local population. However, Mr. Mamuta emphasized that despite the crisis, Russian banks remain liquid and adequately capitalized.

Mr. Mamuta mentioned that the Central Bank of Russia (CBR) made continuous adjustments to its monetary policies in order to contain the impact of the crisis. He cited for instance that the CBR eased monetary policy to boost the people's confidence in the country's financial system and unfreeze the inter-bank credit market.

IV. CONCLUSION, SUMMARY AND RECOMMENDATIONS

Ms. Jocelyn Alma R. Badiola indicated that in general, rural and microfinance institutions showed good performance despite the global financial crisis in the region. Loan portfolios have expanded while an increasing number of clients are being provided financial services. Operational and financial self-sufficiencies indicate that many MFIs are covering their costs and generating positive margins from operations. However, the period of rapid growth in the past decades could decline or be stalled depending on both internal (MFIs' and RFIs' individual strengths and weaknesses) and external (macroeconomic and financial environment, government and regulators' policy responses) factors affecting MFI or RFI performance.

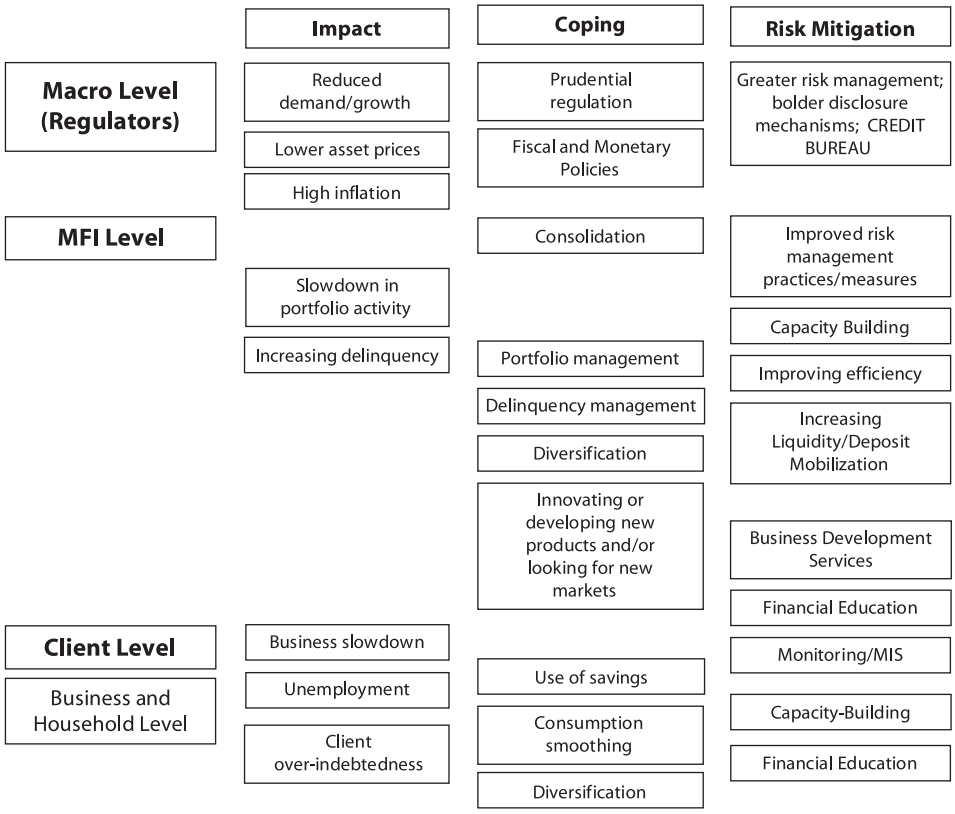
Ms. Badiola summarized the papers presented by classifying the findings according to three levels: 1) Macro/Regulator; 2) MFI; and 3) Client. For each level, she summarized the impact, how each level coped or performed and how risks can be mitigated during the global financial crisis.

At the macro level, she explained that the impact was felt through reduced demand and growth; lower asset prices and high inflation. To counter these effects, the regulators and/or policymakers implemented prudential regulation measures as well as appropriate fiscal and monetary policies. She further summarized the recommended mechanisms to mitigate risk at the macro level amid the global financial crisis as better risk management, bolder disclosure mechanisms and the establishment of credit bureau to address the problem of over-indebtedness among clients.

At the MFI level, Ms. Badiola summarized the major effects of the crisis on the MFIs as slowdown in portfolio activity and increasing delinquency. To cope with the crisis, MFIs put a greater premium on effective portfolio and delinquency management, portfolio diversification and development of new products and markets. She also summarized the recommended risk mitigating mechanisms at this level as: more emphasis on deposit mobilization as an important source of funds for the MFIs; capacity building activities in order to improve risk management practices and overall operational efficiency of MFIs.

Finally, at the Client level, Ms. Badiola cited business slowdown, unemployment and client over-indebtedness as the major effects of the crisis. As to how these clients coped, she noted the following: use of savings, income diversification and consumption smoothing. Through financial education, capacity building, business development services and close monitoring, the risks brought by the crisis can be further mitigated among clients.

The diagram, which already contains suggestions from some of the participants, is shown below:



Ms. Badiola reiterated the recommendations cited in the integrative report, as follows:

- Regulators should continue with efforts to create an enabling environment, build necessary infrastructure (e.g., credit bureaus, deposit and credit guarantees, liquidity facility) and develop more appropriate regulatory and supervisory approaches (e.g., risk-based supervision of financial institutions).
- Rural and microfinance institutions should strengthen policies and processes for credit analysis, risk management, monitoring performance and diversifying portfolios. Improving efficiencies should be primary responsibility.
- Donors, governments and stakeholders should continue with and expand efforts in training and capacity-building among rural and microfinance institutions. Priority areas for capacity-building include the following: risk management, improved credit analysis, delinquency management, strengthening loan portfolio quality, streamlining operational procedures, product development and governance and strategic planning.
- Governments, donors and rural and microfinance institutions should unite various efforts to help build client capacity in areas such as financial literacy and numeracy, access to safety nets especially for vulnerable children and women, linking small businesses to supply or value chains, entrepreneurship and other related areas.

Annex 1

THE THIRD IFAD-APRACA FINPOWER CEO POLICY DIALOGUE FORUM
on the
Impact of the Global Financial Crisis on Key Rural Finance Stakeholders
Grand Ballroom, Millennium Hilton Seoul Hotel
Seoul, Korea, June 29, 2009

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88.	Mr. Sang-Kun Bae Senior Manager	Coordinator
89.	Mr. Won-Sik Ham Assistant Manager	Coordinator

Annex 2

INFORMATION NOTE
(Plus Registration Form)

- 56th APRACA Executive Committee Meeting
- Third IFAD-APRACA FinPower CEO Policy Dialogue Forum on Rural Finance: Impact of the Global Financial Crisis on Key Rural Finance Stakeholders

VENUE: Millenium Hilton Seoul Hotel/NACF conference Room

Seoul, Republic of Korea
Dates: June 28–July 3, 2009

HOST: NATIONAL AGRICULTURAL COOPERATIVE FEDERATION

WELCOME TO SEOUL

About the 56th APRACA Executive Committee Meeting

The APRACA Executive Committee meets thrice in two years to take stock of the progress of APRACA activities and plot future directions.

About the Forum

In 2007, IFAD provided APRACA a five-year Technical Assistance Grant to implement the Regional Program of Accelerating the Financial Empowerment of Poor Rural Communities in Asia and the Pacific through Rural Finance Innovations (dubbed as the APRACA FinPower Program).

The APRACA FinPower Program includes various dissemination activities, technical support and pilot testing of innovations.

The focus of this year's FinPower CEO Policy Dialogue Forum (see Attachment 5 for details) is on the Impact of the Global Financial Crisis on Key Rural Finance Stakeholders.

Interfacing Events

The meeting-forum is also an occasion to visit NACF projects in the province and observe its famous HanaroMarts. Also included in the events are bilateral business meetings between delegates and NACF and its subsidiaries and among the delegates themselves.

About Host National Agricultural Cooperative Federation

The National Agricultural Cooperative Federation (NACF), otherwise known in the country as 'Nonghyup' or 'NH' has been promoting the socioeconomic interests of Korean farmers since 1961. The NACF is the apex organization for 1,196 multipurpose cooperatives, and it serves as a voice to 2.4 million member farmers throughout the country. The organization strives to increase the country's agricultural competitiveness and profitability, both nationally and internationally by providing services including:

- Marketing and supply businesses that cover agricultural production, distribution, marketing and consumption, and offer support to member farmers through each of the stages.

- Banking and insurance encompassing the banking business of the NACF, the cooperative banking of the member cooperatives, in addition to credit guarantee, insurance and credit card businesses.
- Livestock businesses including production, processing, marketing and guidance services.
- Guidance and extension services that actively seek to empower farm industries and the cooperative movement through offering training facilities to educate farmers on the most advanced farming methods, as well as providing welfare and guidance resources for a wide range of needs.

List of NACF Subsidiaries

Agricultural Cooperative College The Farmers' Newspaper	1962	• To disseminate new knowledge and technology on farming, and to provide agricultural information, the affiliated company issues the 'Farmers' Newspaper' every other day, and publishes monthlies such as 'Rural Life' and 'Digital Agriculture' and other books on agricultural topics.
Korea Agricultural Cooperative Trading Co., Ltd.	1990	• Supporting export of agricultural and livestock products, and overseas market exploration
Namhae Chemical Corporation	1990	• Producing and marketing agricultural fertilizers and fuels
Nonghyup Development	1991	• Media marketing, facilities services, and rental car service, other miscellaneous services
Agricultural Cooperative College	1964	• The Agricultural Cooperative College has 45 years history in training key personnel in agriculture, rural communities, and agricultural cooperatives. Especially, the college is responsible for providing key elite persons with training programs for our extension and guidance services, NACF executives and staff with field-oriented training programs. It also conducts training programs on the international cooperative movement for foreigners.
Nonghyup-agro, Inc.	1995	• Manufacturing and supply of various packaging materials
NH Investment and Futures Co., Ltd.	1997	• Investment consulting and mediating service on domestic/ overseas futures trading
Samhyup Nongsan Co.	2000	• Production and marketing of byproduct fertilizer (compost)
Young-il Chemical	2000	• Production and marketing of agricultural chemicals.
Agricultural Cooperative Asset Management Co., Ltd.	2002	• Asset management including the purchase and collection of NACF's non-performing assets
Nonghyup Feed, Inc. (NOFI)	2002	• Production, marketing and research on feeds, services for livestock business
Nonghyup Korea Insam Co., Ltd.	2002	• Processing, production and marketing of ginseng and related products
NH – CA Asset Management	2003	• Securities investment trust and asset management, and investment services

Nonghyup Culture and Welfare Foundation	2004	• The foundation was established to inherit and develop Korean rural culture for the balanced development between urban and rural areas. It contributes to enhancing welfare and quality of living of the farmers. It is also committed to preserve and develop rural communities.
Nonghyup Logistics Services, Inc.	2004	• Delivery and shipment, storage, warehousing, unloading and door-to-door delivery service
Nonghyup Moguchon, Inc.	2006	• Meat products processing/marketing
NH Investment and Securities Co., Ltd.	2006	• Advisory and mediating services for domestic and overseas investment in securities
NH Information System Co., Ltd.	2006	• Providing information services
Nonghyup Economic Research Institute, Inc.	2006	• Research services
Korea Agricultural Cooperative Marketing, Inc. (KACM)	1995	• Increase farmers' incomes by achieving greater efficiency in marketing farm products and by ensuring the safety of food products
Daejeon Marketing Center, Co.	1998	• Collecting, storing, preserving, cooling, delivering, shipping, processing, and marketing farm and meat products
Chungbuk Marketing Co.	1998	• Collecting, delivering, and marketing manufactured consumer goods
Pusan-Kyeongnam Marketing, Inc.	2001	• Provide marketing information and services

Annex 3

56th APRACA Executive Committee Meeting
and the
Third IFAD-APRACA FinPower CEO Forum:
Impact of the Global Financial Crisis on Key Rural Finance Stakeholders
Seoul, Republic of Korea June 28–July 3, 2009

PROVISIONAL SCHEDULE

Day 1	
Sunday, June 28	
16:00-18:00	• ***Arrival of delegates in Seoul***
	• ***Transfer from the Incheon (Seoul) International Airport to Millennium Seoul Hilton Hotel***
	• ***Early Registration at the Millennium Seoul Hilton Hotel's Main Lobby***

Day 2	
Monday, June 29	**Grand Opening Ceremony of the 56th EXCOM Meeting and FinPower CEO Forum Grand Ballroom, Millennium Hilton Seoul Hotel**
08:00-09:00	***Registration***
09:00-09:10	• **Welcome Speech: Hon. Choi Won-Byung, Chairman of the National Agricultural Cooperative Federation**
09:10-09:20	• **Welcome Address: Mr. Pham Thanh Tan, VBARD General Director and APRACA Chairman**
09:20-09:40	• **Address: Dr. Thomas Elhaut, IFAD Director, Asia and Pacific Division**
09:40-10:00	• **Keynote Speech**
10:00-10:02	• **Vote of Thanks: Mr. Benedicto S. Bayaua, APRACA Secretary General**
10:02-10:30	***Photo Session and Break***
	First Plenary Session:
10:30-11:10	• Presentation of the Results of the Regional Study on the Impact of the Global Financial Crisis on Regulators, RFIs, MFIs, Urban-Rural Partnership Stakeholders and Rural Clients by **Ms. Jocelyn Alma R. Badiola, FinPower Research Consultant**
11:10-11:40	• Presentation on IFAD's Experiences in Cushioning the Impact of the Global Financial Crisis by **Dr. Ganesh B. Thapa, Regional Economist, IFAD Asia and Pacific Division**
11:40-12:00	• Open Forum
12:00-13:45	***Lunch***
13:45-14:15	**Second Forum Plenary Session:**
	• Presentation: Impact of Global Financial Crisis on the Reserve Bank of India as a National Regulatory Authority **Dr. Usha Thorat, Deputy Governor, Reserve Bank of India**
14:15-14:45	• Presentation on the Impact of the Global Financial Crisis on the Operations and Clients of NACF by **Dr. Joon-Whan Im, Head, Macroeconomic Division, Nonghyup Economic Research Institute (NHERI), NACF Subsidiary**
14:45-15:00	• **Open Forum**

15:00-15:20	***Break***
15:20-15:50	**Third Forum Plenary Session:**
	• Presentation on the Impact of the Global Financial Crisis on BAAC by **Mr. Ennoo Suesuwan, President, Bank for Agriculture and Agricultural Cooperatives, Thailand, presented by Ms. Poonsook Musiklad, Executive Vice-President**
15:50-16:20	• Presentation on Government-Private MFIs Initiatives to Combat the Negative Impact of the Global Financial Crisis by **Mr. Mikhail Mamuta, President, National Association of Microfinance Market Stakeholders (NAMMS), Russia.**
16:20-16:35	• Open Forum
16:35-16:50	• **Conclusions and Recommendations by Dr. Gilbert Llanto, FinPower Consultant**
16:50-17:00	• Concluding Statements: **Mr. Benedicto S. Bayaua, Secretary General, APRACA**
17:30-20:30	*Welcome Dinner Hosted by NACF (Korea House)*
	• *Traditional Korean Dinner & Performances*

Day 3

Tuesday, June 30 08:30-09:00	*Pick up of EXCOM members at the Millennium Hilton Seoul Hotel for transfer to NACF Headquarters; Pick up for the non-EXCOM members for a city tour*
09:00-12:00	• **56th EXCOM Meeting at the NACF Conference Room**
	Note: City Tour for non-EXCOM members and accompanying persons
12:00-13:45	***Lunch***
14:00-17:00	• **Bilateral meetings with selected NACF Departments and among participating APRACA member institutions (based on pre-arrangement)**
17:00-18:00	• **Return to Hotel**
18:00-19:30	*Dinner*

Day 4

Wednesday, July 1	**Field Visit**
	A.M. Visit to NACF's member Cooperative (Gyeonggi Province)
	Lunch
Whole Day	**P.M. Visit to farm-stay village (Farming & Cultural experience)**
	Dinner

Day 5

Thursday, July 2	
Half-Day A.M.	**Field Visit**
	Visit NACF IT Center, Agribusiness Marketing Complex (Hanaro Mart)
	Lunch
P.M.	*(Individual arrangements)*
	Farewell Party and Dinner hosted by NACF (Hilton Hotel Kukhwa Room)

Day 6

Friday, July 3	**Departure for Home Country**

Annex 4

TERMS OF REFERENCE

Third IFAD-APRACA FinPower CEO Policy Dialogue Forum on Rural Finance: Impact of the Global Financial Crisis on Key Rural Finance Stakeholders

In 2007, IFAD provided APRACA a five-year Technical Assistance Grant to implement the Regional Program of Accelerating the Financial Empowerment of Poor Rural Communities in Asia and the Pacific through Rural Finance Innovations (dubbed as the APRACA FinPower Program).

The APRACA FinPower Program includes the conduct of regional and national studies, strengthening of key stakeholder participation, technical support to national-level policy makers, pilot testing of innovations, dissemination of best practices, packaging of training materials and conducting regional and national forums.

The focus of this year's FinPower CEO forum is on the Impact of the Global Financial Crisis on Regulators, Rural Financial Institutions/Microfinance Institutions, Urban-Rural Partnership Stakeholders and Clients in Asia and the Pacific Region.

The current global financial crisis will have or is now having a significant impact on the microfinance sector. This is because the financial crisis is global in scope and the effects work through two main channels: the financial as well as the real goods markets. The severity of the global financial crisis is impacting the balance sheets of financial institutions (in terms of low asset growth, increasing need for more capital infusion, volatility in deposits, high default rates and others) and the real economy (in terms of lower remittances, shrinking export markets and declining tourism arrivals). The interconnectedness of the global economy allows for easier and faster transmission of the liquidity and credit crunch that is being felt in global financial markets. In addition, as deleveraging continues, capital flows to the Asia-Pacific region could slowdown, affecting the overall demand for liquidity and investment financing of various economies.

A regional study on the global financial crisis as it affects key rural and microfinance stakeholders: (a) bank regulators, (b) rural financial institutions (RFIs), (c) microfinance institutions (MFIs), (d) the clientele of these RFIs and MFIs as well as (e) strategic urban-rural partnership stakeholders: civil society, educational institutions, private sector, etc. shall be presented during the forum. It is important to find out how these institutions, clientele and urban-rural partnership stakeholders have been affected by the global financial crisis, how they have coped with the on-going crisis and what they plan to do in the future to ensure the stability of the rural financial system and the continuing access of clients to financial services. The study will draw lessons for both policy makers/bank regulators and the RFIs/MFIs that are committed to provide inclusive financial services as well as to urban-rural partnership stakeholders that are committed to provide non-financial services to rural clients.

The rural financial institutions (RFIs) and microfinance institutions (MFIs) and their clients in Asia and the Pacific are not isolated from this global turmoil. The impact will be felt in several ways:

(a) Impact on bank regulators

- Regulators may follow a more conservative and tighter regulatory approach because of concerns about the stability of the financial system. They will discourage excessive risk taking.
- They will tend to be cautious about the treatment of financial innovations and services and pursue policies that reduce risks of lending. Regulators will put a premium on risk management and adequacy of capital and be less inclined to allow financial innovations or financial experimentations to make the financial markets more inclusive

- There could be a tendency to be stricter with non-regulated financial intermediaries such as NGOs.
- Regulators will demand more coordinated fiscal and monetary response to the global financial crisis in order to avert the further compression of economies, especially of developing countries.
- There will be a demand for increased deposit insurance coverage to protect depositors from any form of financial stability or contagion effect.

(b) Impact on RFIs and MFIs

- There would be higher capital costs for RFIs and MFIs because of (a) slower growth in deposits for deposit-taking financial institutions and (b) drying up of capital investments for both deposit-taking and non-deposit-taking institutions, e.g., credit-granting NGOs. There will be a more difficult time in fund-raising especially for non-deposit taking institutions.
- There will be a tendency to provide more short-term loans compared to medium or long-term loans. Tighter credit will tend to make the financial markets less inclusive.
- Higher uncertainty will make lending institutions to cut down on lending with an immediate impact on clients who cannot provide adequate security.
- Financial institutions will have greater focus on portfolio quality and strengthening of their equity positions.
- There will be an increased demand for microcredits in view of the coping needs of affected households and displaced wage-earners and microenterprises.
- On the other hand, with a slowdown in the economy, there could be a decline in demand for finance services.
- There will be a tendency for consolidation of smaller banking institutions and capital strengthening to build the ability to withstand financial shocks in the future.

(c) Impact on clients

- Clients face a contraction of lending by RFIs and thus, a slowdown in their business activities, e.g., microenterprises, agri-businesses, etc.
- Higher interest rates on loans will make borrowing more costly for clients and thus, there will be a reduction in demand for loans.
- Clients who are dependent on remittances for their cash flow will find it difficult to repay their loans; some may default on loan repayment.
- Clients who are directly or indirectly dependent on product export will find it difficult to find buyers and repay their loans; some may default on loan repayment.
- Because of the tendency for less financial inclusiveness, clients in the informal sector will be discriminated upon by formal financial institutions in favour of more known clientele.
- Unemployment in the city will again create a reverse migration to the rural areas, thereby impacting on the absorptive capacity of villages.
- New short to middle-term coping mechanisms will emerge.

(d) Impact on strategic urban-rural partnership stakeholders: civil society, educational institutions, private sector, etc.

- There will be increase demand on civil societies, educational institutions and the private sector for assistance thus straining to the limit their capacity to deliver their services, particularly since international and domestic funding may dry up.
- New and more refocused urban-rural partnership strategies may emerge while existing partnerships are strengthened.

The International Fund for Agricultural Development shall make a presentation on its response to the global financial crisis as this affects its mandate to alleviate poverty. A special presentation on the Korean economy and NACF's response to the global financial crisis and its effect on the country will also be made. Several country papers, included in the regional study, shall also be presented during the forum.

Annex 5

Address[1]
By
Mr. Pham Thanh Tan
CEO/General Director,
Vietnam Bank for Agriculture and Rural Development
and
Chairman, Asia-Pacific Rural and Agricultural Credit Association

Dr. Thomas Elhaut, Director, IFAD Asia Division;
Mr. Tae-Young Kim, President and CEO, Banking and Insurance of the National Agricultural Cooperative Federation
Dr. Ganesh B. Thapa, Regional Economist, IFAD Asia Division
Mr. Benedicto S. Bayaua, APRACA Secretary General
Distinguished CEO and Senior Officers of APRACA member institutions, NACF officers
Guests, Ladies and Gentlemen: Good Morning.

Appreciation to NACF

It is my distinct pleasure to welcome you to this third IFAD-APRACA FinPower Regional CEO Policy Dialogue Forum on the Impact of the Global Financial Crisis on Key Rural Finance Stakeholders in Asia. We are indeed happy that NACF, under the leadership of Chairman Choi Won-Byung (whom we will meet tonight), has graciously accepted to host the twin activities.

Appreciation to IFAD

It is my pleasure also to interact with Dr. Thomas Elhaut, Asia Division Director, and Dr. Ganesh B. Thapa, Regional Economist, of the International Fund for Agricultural Development or IFAD. I understand that IFAD has been APRACA's foremost and distinguished strategic partner. Between 1996 and 2001, IFAD provided a technical assistance grant to APRACA under the APRACA MICROSERV program to disseminate replicable rural finance models to a wider audience. Again in 2007, IFAD re-engaged APRACA under the five-year IFAD-supported Regional Program of Accelerating the Financial Empowerment of Poor Rural Communities in Asia and the Pacific through Rural Finance Innovations or dubbed simply as FinPower Program.

At the outset, I would like to place on record our deepest gratitude to Dr. Thomas Elhaut, IFAD Director of Asia Division, for his untiring efforts beyond the normal call of his office to spearhead change and development in Asia.

Chairmanship of APRACA

Dr. Do Tat Ngoc, who has been a very good friend of APRACA for many years and until recently, the APRACA Chairman, has retired from VBARD on June 15, 2009 and has since moved to the State Professor Title Council of Vietnam. Dr. Nguyen The Binh, former General Director of VBARD is now the VBARD Chairman. As the CEO/General Director of AgriBank, I have also been tasked by my bank

[1] Speech delivered by Mr. Pham Thanh Tan, CEO/General Director of the Vietnam Bank for Agriculture and Rural Development and APRACA Chairman during the opening ceremony of the third APRACA FinPower Regional CEO dialogue forum on the Impact of the Global Financial Crisis on Key Rural Finance Stakeholders in Asia held in Seoul, Republic of Korea on June 29, 2009.

to take over as the APRACA Chairman for the rest of the biennium till the 17th APRACA General Assembly in Tashkent in March or April next year.

I am therefore privileged and at the same time humbled by the position of APRACA Chairman, as I accept the challenges of the office. With your support, I hope to continue achieving the lofty goals and ideals of APRACA and contribute to the search for continuing excellence within the APRACA family.

The FinPower Regional Study

This FinPower forum is the third in a series of annual FinPower CEO conferences, the first having been held in Kunming, China in 2007, sponsored by ADBC China and the second in Hanoi, Vietnam last year, sponsored by AgriBank Vietnam.

In preparation for this forum, the Secretary General commissioned a study on the current global financial turmoil and how it affects the regulators, rural finance institutions, microfinance institutions, rural clients and civil society and donors. The study aimed at determining how these stakeholders have coped with the crisis and what their plans are in order to ensure the continued delivery of adequate and timely financial services to their target clients, particularly the marginal sectors in the region.

Several APRACA member institutions have responded to the call for national papers and I wish to publicly acknowledge them: the National Bank of Cambodia, NABARD India, Bank Indonesia, NACF Korea, APB Lao PDR, MADB Myanmar, State Bank of Pakistan, CDA Philippines, NAMMS Russia, BAAC Thailand, VBARD and VBSP Vietnam. We are also grateful for IFAD's sharing of a regional paper co-authored by Dr. Ganesh B. Thapa on the same topic.

The Global Financial Crisis

The global financial crisis has remained a common challenge to all nations, affecting economies at various levels.

The results of the FinPower regional study concludes that our member institutions, in general, have shown good performance despite the global financial crisis in the region. Loan portfolios have expanded while an increasing number of clients are being provided financial services. Operational and financial self-sufficiencies indicate that many MFIs are covering their costs and generating positive margins from operations.

With the advent of the crisis, there could be limited scope for RFIs and MFIs that are dependent on foreign funding for the extra liquidity that they need to sustain their lending activities and also to meet refinancing needs when loans from foreign sources become due in the near future. The global financial crisis has caused a liquidity shortage and credit crunch that will have more adverse impact on RFIs and MFIs that cannot mobilize deposits because of restrictions imposed by the country's banking laws and regulations.

The downside risk is a loss of confidence in the domestic banking system, which may lead to a run on deposits. Prolonged recession in countries of the region will lead to more output loss and rising unemployment and a general weakening of urban and rural economies, which will reduce demand for products and services offered by microenterprises and small businesses. Declining household incomes will eventually be felt by RFIs and MFIs in terms of falling loan repayment rates or rising delinquencies.

Further details of this regional study shall be presented during the forum proper.

Impact of the Global Financial Crisis on Vietnam

The negative influence of the Global Financial Crisis has resulted in a slowdown in the Vietnamese economic growth rate in 2008, from a planned GDP of 8.5-9 percent to the actual GDP growth of 6.23 percent.

Although the Vietnamese financial and banking system has not seriously suffered from the impacts of the Global Financial Crisis because it has been only at the beginning of integration, the connection between the Vietnamese financial and banking system and the international financial market have met some difficulties; international banking and financial transactions have decreased, affecting Vietnam's short term loans at banks and enterprises; hence, affecting profits and increasing NPLs.

In the context of the global economic recession, export market has fluctuated disadvantageously. Though the 2008 turn-over reached around USD 62.9 billion, a 29.5 percent increase compared with 2007, the increase was mainly the result of a rise in the price of goods in the international market rather than the rise in the quantity of goods.

Import turn-over reached USD 80.4 billion in 2008, increasing by 28 percent compared with 2007, mainly because of the increase in import price, in which the price of some rose to a high level such as: fertilizer price increased by 94.2 percent; petrol price 53.5 percent, and unprocessed steel price 45.8 percent.

The economic growth rate has slowed down. However, Vietnam has the following basic advantages: stable socio-political conditions, great internal force and growth potential, expanded export markets, better reputation and relations in international arena, improved investment environment and Vietnamese and foreign investors' belief towards economic development prospect.

Realizing the difficulties, challenges and advantages, Vietnamese government has applied five groups of policies: policies to boost up production, business and exports, policies for demand-stimulus of investment and consumption, fiscal and monetary policies, social welfare ensuring policies and enhancing management and organization policies.

The Vietnamese government has strived to ensure quality of life for people, sustainability in poverty reduction achievements and in achieving the Millennium goals of Vietnam.

The Government continues to encourage investment to build houses for the poor, the beneficiary of social welfare, the laborers in centralized industrial zones, the pupils, students; assisting the laborers affected by economic downturn; lending without interest rate to help the unemployed and utilizing unemployment insurance policy pursuant to the Law of Social Insurance.

Vietnam in 2009

In general, the Vietnam economy, despite difficult domestic conditions and the negative impact of international financial crisis, achieved positive results in the first quarter of 2009 in comparison with other countries.

In order to get out of such difficulties, the Vietnamese Government has worked out five key measures as follows: control the macro-economy, develop production and business, secure social welfare, ensure national security and defense, maintain the social stability and continue the administrative reforms, and prevent corruption.

AgriBank's Role

The Vietnam Bank for Agriculture and Rural Development (AgriBank), the largest State-owned commercial bank in Vietnam and the number one firm in Vietnam, plays a decisive and important role in agricultural and rural financial market. As of 31 March 2009, AgriBank's total assets reached USD 24 billion; total funds resource was USD 23.2 billion, 93 percent of which was self-mobilized funds; the branch network consists of more than 2,200 branches and transaction offices nation-wide with nearly 34,000 staffs. The total funds providing to the agriculture and rural areas exceeded USD 11.8 billion, accounting for 71 percent of the total outstanding loans.

Along with banking activities, AgriBank currently has 8 independent subsidiaries operating in many fields like securities, gold and silver, financial leasing, insurance. With the advantage of a wide network, AgriBank can provide it products and services to all types of customers, especially the farming households including those in the remote and ethnic minorities' areas. AgriBank has a customer base of 10 million households (out of the total 12 million in the country), 500 farms, over 100 cooperatives and more than 30,000 enterprises.

In the year 2008 and the first five months of 2009, in the context of complicated changes, even contrary movements are occurring to the world's economy in general and Vietnam's in particular, AgriBank has maintained its stability and development as well as its leading role in stabilizing the financial market, making a considerable contribution into the inflation curbing efforts in the first half of 2008 and economic downward prevention in second half of 2008 and early months of 2009.

AgriBank has effected the Government's "Demand stimulus" program by providing subsidized loans to individuals and institutions who borrow capital for production and business. From February to June 2, 2009, The Bank has funded the program with USD 5.5 billion, accounting for 51 percent of AgriBank total loan outstanding including USD 2.9 billion for farmers, agriculture and rural area, 2.4 billion of which is for households.

After 21 years of development, from the youngest bank among state owned commercial banks, AgriBank has become the largest enterprise in Vietnam, setting up a certain position to the customers and progressive prestige to partners. AgriBank brand-name is increasinglystrengthened domestically, regionally and internationally.

Concluding statement

I would like to once again thank IFAD for its support to the activities of APRACA and NACF for helping organizing this forum and meeting.

I therefore look forward to a meaningful and extensive dialogue on the global financial crisis issues. It is hoped that the information to be generated and the recommendations to be offered by this forum would keep our interest and commitment alive to the cause of poverty eradication in our region.

I thank Mr. Choi Won-Byung, NACF Chairman, and his officers for their enthusiasm and kind hospitality in hosting this event and all delegates for making this forum a success. I wish you a very memorable and fun-filled stay in Seoul, as you explore the beauty and warmth of this culturally-rich city.

Thank you and good morning.

Annex 6

TITLE: **Weathering Financial Storms and the Global Economic Still: Sharpening the Relevance of APRACA's FinPower Program**

FOR: **APRACA CEO Policy Dialogue Forum –**
Impact of the Global Financial Crisis on Regulators, Rural Financial Institutions/Microfinance Institutions, Urban-rural Partnership Stakeholders and Rural Clients in the Asia and Pacific Region

BY: **Thomas Elhaut, Director, Asia and Pacific, IFAD**

DATE: **Seoul, Republic of Korea, 29 June 2009**

An erratic sequence of apparently-localised bank crises over the last decennium turned into a global systemic banking crisis in 2008, and escalated into a global financial storm, undermining in the process the critical credibility of financial sector protagonists. While the relationship is all but "simple", the financial meltdown exacerbated the ensuing global recession. Indeed, the resulting credit crunch and risk averseness of financial actors of the last resort now deprive the real economy of investment resources to overcome the global economic still. Unemployment is rising, trade is slowing down, and poverty is increasing. This global economic crisis is not confined to an epicentre, and instead clearly demonstrates how deep securitization and globalisation actual are; the velocity of the contagion is the best evidence that the assumed "de-linkage" is illusory. In the medium-term – the case is made – there is a need for a better financial regulatory system and effective stress-tested banking control. Money, especially hard-earned small-savings, is too important to be left unchecked in the visible hands of the financiers and the invisible hands of the markets.

In the short-run massive fiscal stimulus has to substitute to and then, subsidiarity again, complement financial intermediation – possibly crowding-out other priority uses of fiscal (and financial) resources, maybe some of them with higher safety net, welfare or poverty reduction outcomes. However, affirmative fiscal action further carries longer-term down-side risks of inflation, increased longer-term public sector debt, and a structurally increased cost of money - if it is not focussed on highly effective recession-busting investments, if it is not managed to switch from first rescue to subsequent investment priorities, and if not backed-up by carefully sequenced exit (and re-entry) strategies. Also, as a consequence of this all, volatility has become a permanent reality; and this affects resource poor countries, poor people and rural producers more than others. Risk transfer mechanisms and financial technology innovation to enable rural producers to cope with volatility are an essential part of the response to the new reality. Counter-cyclical fiscal management has become a complementary policy imperative.

In the mean time, the financial "recovery" operations and the global recession are masking the looming energy, other commodity and food crises. Once the recession ebbs away – as confidence returns, as production resumes and as domestic consumption, trade and investment take off – the harsh reality of the new resource (energy, land, water) and food equations that were problematic in 2008 will surge again. There is no consensus that a new system of higher price equations constitutes a permanent structural reality; but the factors that lead to the 2007-2008 soaring food prices remain part of global economic fundamentals – with population growth, the rate of income growth, changing consumer preferences, and the resulting food-fuel-feed requirements continuing to pose the challenge of a 100 percent increase in food production by 2050 (50 percent by 2030). Competition for increasingly scarce resources (land, water, commodities) also inflates their prices. Climate change and adaptation to climate change add significant risk and investment coefficients to the multiple-equation. While reliably high price structures send incentive signals to investing producers, the majority of rural producers

swell the ranks of net buyers. The social cost of poorly-affordable food appears to exceed the benefits of, only-partially and inefficiently transmitted, more remunerative prices to producers.

The solution to this complex set of situations lies in a well sequenced and comprehensive framework of agricultural, fiscal and monetary policies and investments to: enhance resource-use efficiency in production to lower production costs; improve price transmission to producers (with better price transmission symmetry between input and output prices) to enhance the supply response and thus, over time, lower market prices of higher volumes of higher-value produce, while reducing volatility; increase profit margins for producers to stimulate further investment; and, in the interim, keeping prices affordable for net buyers. Optimising the use of SMART producer and consumer subsidies, to generate production incentives while dealing with the social costs of the new system of price equations, is part of this search for the policy grail; but price transmission to provide producer incentives must be part of the sustainability model. Alternative and renewable sources of energy, so important for agriculture, also. Internalising the investment implications of structural adaptation to the new system of price equations as well as to climate change will also be necessary. With an enabling policy framework rural investment is rational. Rural production may have become remunerative and even profitable. Debt management capabilities and capital accumulation are enhanced. The rural producers become viable and graduating clients for rural finance services providers.

However, today's recession and financial crisis defer this aspiration to the time of recovery. In the mean time agriculture is not as profitable as it should be: production costs remain high, farm gate prices remain low, demand is temporarily depressed, returns on investments are low, credit is hard to obtain and/or expensive, and loan servicing is risk-affected. Banking on agriculture is risky, and capital today is costly – possibly disconnected from its opportunity cost – or not available from risk-averse asset holders. Financial intermediation is stifled as inflation-risks erode the value of savings. Risk perceptions lead to severe credit rationing. A "vicious circle".

It is therefore imperative to initiate a "virtuous spiral" and jump-start the transition from recession to profitable rural economic livelihoods – the last-resort safety net for economies in transition. With the macroeconomic weight of agriculture and rural production in most developing countries, a mutually reinforcing fiscal and monetary policy to accelerate the resumption of growth in the rural economy, with agriculture, will be a key to economic recovery and the resumption of poverty reduction, as well as to coping with the resource-scarcity induced new price equation for commodities and food. It is imperative to increase productivity and profitability in the rural economy, modernise it (diversification and specialization), commercialize it and make it more competitive; and this goes especially for the small farmers and the others actors in the agricultural value chains. Affordable (and remunerative) capital to underpin working capital with longer term investment capital is also required.

Rural finance can be a key trigger by fuelling higher-quality investment. Countries and rural finance institutions that had learned from the 1997 financial crisis in Asia appear to be in a pole-position. The banking systems have been less exposed to toxic assets; better financial regulation and banking control is limiting the contagion; and rural finance services providers are focussed and effectively offer innovative rural finance and risk transfer technologies to their small businesses clients. Rural banking is better affordable for clients, and remunerative for intermediation and for service providers. The cost of money and access to inclusive financial services is a major enabling condition. Affordability for the rural investors and real remuneration of capital must be met simultaneously. All this enables the rural sector of the economy to play its role of safety net for the modern sector of the economy, with its volatility and its limited capacity to absorb un-/semi-skilled labour, and to be a foundation for the virtuous spiral of economic recovery.

Clearly, financial innovation, the development of rural and micro-insurance, and stronger inclusiveness of rural and microfinance systems, building further on the lessons learnt from 1997, are contributing answers to the recession and its poverty reduction set-back, as well as to the more volatile longer-term future. IFAD supports this agenda with its investment program and its policy dialogue. Furthermore, the IFAD-supported FinPower program of APRACA also sees its relevance sharpened in for the current context, and needs to contribute effectively to this effort. APRACA members need to assume the pole-position, jump-start financial intermediation in a new economic context, be more aggressive in financial innovation with stronger inclusiveness, and share their experiences with innovations in agricultural finance, in microinsurance and in other financial product innovations. This must also be accompanied by APRACA members' actions to also enhance the quality of the policy environment, towards enhanced inclusiveness in a lasting manner, with less volatility.

Viable and adaptable rural finance systems are cornerstones for viable and adaptable rural economies; and continuous financial innovation with stronger inclusiveness will make measurable contributions to reaching the Millennium Development Goal of reducing poverty by half by 2015.

Annex 7

Speech
By
Tae-Young Kim
President and CEO, Banking and Insurance of the
National Agricultural Cooperative Federation (NACF)

Honorable Chairman Pham Thanh Tan of APRACA,
Secretary General Benedicto S. Bayaua,
Director Thomas Elhaut of IFAD,
Distinguished representatives of agricultural institutions of member states,

On behalf of the National Agricultural Cooperative Federation of Korea, I would like to congratulate the opening of the 56th Executive Committee Meeting and extend my warmest welcome to all participants from home and abroad.

Today, we gather in the midst of a global economic crisis that calls for stronger international financial cooperation. This makes today's meeting a timely opportunity to explore ways to deepen collaboration in agricultural finance in the Asia-Pacific region.

It is, therefore, with great honor that I welcome you to this prestigious gathering that highlights leadership in agricultural finance development in the region.

Distinguished guests,

Since its establishment in 1977, APRACA has emerged as one of the most prominent financial institutions in our region, providing differentiated financial services to rural communities through a close inter-member network.

As you are well aware, the global economy is faced with unprecedented challenges; challenges that, in order to be contained, will cost us a great amount time and hard work. Accordingly, the recent months have seen concerted efforts by economic leaders to seek collective response. And it is within this context that I put particular importance on our discussions on knowledge sharing and close cross-border collaboration.

The FinPower CEO Forum will also present an excellent platform where members can share diverse experiences and expertise. It is my hope that this dialogue will lead to a better understanding of agricultural environments of fellow member countries and to concrete cooperative measures to overcome imminent challenges in agricultural and rural finance.

Fellow representatives,

Our agricultural and rural communities have been exposed to the tremendous pressure for change in the face of accelerating globalization and market opening. The recent hike in global oil prices and raw materials represent further challenges to be tackled.

In response to such difficulties, NACF has played a key role in providing financing to its member farmers since its establishment in 1961. We have focused our resources and capabilities on expanding food production, securing access to farm supplies, eliminating high-interest private loans and ensuring stable prices in rural communities. Such operations of NACF have been crucial in agricultural and rural development and improving the quality of life of member farmers.

Being a unique agriculture-specialized bank in the Republic of Korea, we seek to further enhance efficiency of our services through stable provision of capital and comprehensive management consulting services. Our efforts have also been notable in expanding the horizon of agricultural finance to incorporate food and environment sectors.

I'm also proud to present "I Love Farm Campaign" designed to enhance values and economic vitality in rural communities, and "One company, one rural village sisterhood project" aimed at promoting inclusive growth between urban and rural areas and between enterprises and member farmers.

Through my thirty-eight years of career dedicated to the work of NACF, I have witnessed first-hand the integral role that financial services play in the development of agricultural and rural communities.

However, agriculture continues to represent a dwindling percentage in the national economy, further downgrading the socio-economic status of farmers.

This emphasizes the need to employ agricultural finance not only for rural development purposes but also for improving access to culture, welfare, and medicine that are more closely linked to better quality of life in rural communities.

It will also be encouraging to see eco-friendly, or green growth values opening up opportunities for new businesses. This, in turn, will lead to value-added agriculture and provide momentum to continued development of agricultural financial institutions.

The role of our dialogue, therefore, is all the more significant. It is my hope that this gathering will mark an important milestone in strengthening cooperation among agricultural finance groups and developing a future blueprint for agricultural finance.

We meet today in the historical city of Seoul, a city that represents the vibrant history of the Republic of Korea, and a city that offers the great richness of our five-thousand year-old cultural heritage. It is my hope that this gathering will give you an opportunity to enjoy the many historical and cultural delights that Seoul has to offer.

Let me end my remarks by extending my appreciation to Chairman Pham Thanh Tan and the staff members of APRACA for the excellent arrangements that have made this meeting possible.

I wish you all the best in your future endeavors.

Thank you.

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