APEC Business Advisory Council

15 August 2022

H.E. Arkhom Termpittayapaisith
Chair, APEC Finance Ministers Meeting
Minister of Finance, Kingdom of Thailand
Rama VI Rd. Phayathai, Bangkok
Thailand

Your Excellency,

It is my great pleasure on behalf of the APEC Business Advisory Council (ABAC) to present to you our recommendations to APEC Finance Ministers this year.

Promoting speedy and sustained recovery, building resilience against future pandemics, financing sustainable transition and building an enabling ecosystem for inclusive digital finance are the most important challenges in finance that we believe APEC needs to address. These are all critical for achieving sustained, balanced and inclusive growth in our region.

Promoting Speedy and Sustained Recovery

Asia-Pacific economies are facing record levels of public and private debt, constrained fiscal space, hugely expanded central bank balance sheets and the return of inflation, in addition to declining productivity. Developing economies, including those that have yet to fully recover, are emerging from the pandemic with significant weaknesses, threatened by a variety of growing external risks. Geopolitical conflict is seriously exacerbating inflationary pressures and causing acute shortages in key commodities.

We recommend that economies focus on preventing inflation from becoming entrenched as the immediate and key priority. For the medium and long term, we recommend that economies pursue fiscal consolidation and debt reduction, while using innovative fiscal instruments to finance digital innovation, green investment, global emissions reduction and support for low-income consumers. We also recommend that the broader impact and consequences of geopolitical conflict be reviewed and the necessary steps to address them undertaken.

We recommend that APEC provide regional platforms for collaboration, coordination and capacity building, to focus on advancing structural reforms that promote sustainable transition, inclusive digitalization and resilience. Key areas that need special attention include disclosure standards, data, taxonomy, the digital divide, MSMEs' access to digital finance, digitalization of trade, and the growing digital fragmentation within the region.

Building Resilience against Future Pandemics

The growing frequency and severity of epidemic outbreaks will require a more sustainable and coordinated approach with a greater role for private sector financing. Current risk models predict the probability of another pandemic of the same or greater magnitude as COVID-19 to be as high as 28 percent within the next ten years and 57 percent within the next 25 years. Traditional insurance techniques are unable to absorb pandemic risk mainly due to accumulation risk on the supply side and the problem of affordability on the demand side. To address these hurdles, ABAC proposes the establishment of a risk transformation platform (Epidemic Risk Markets Platform) that enables a wider participation of capacity providers, including the public sector.

We recommend that APEC Finance Ministers incorporate the Epidemic Risk Markets Platform into the work program of their Working Group on Regional Disaster Risk Financing and Insurance Solutions for APEC Economies. The objective of the initiative will be to implement the full value chain of the Epidemic Risk Markets Platform via pilot transactions with member

economies or specific sectors, with provision for scaling up the solution through public sector support to the desired level.

Financing Sustainable Transition

Between 2022 and 2040 an estimated US$30 trillion will be needed to bridge the infrastructure gap in the region. In the context of achieving SDGs, more private sector financing for sustainable infrastructure will be needed. Meeting this need will require making projects bankable and addressing impediments to ESG financing, using existing tools and delivery mechanisms, such as those being provided by the Global Infrastructure Hub, the Finance to Accelerate the Sustainable Transition-Infrastructure (FAST-Infra) initiative, Infra Asia and SOURCE.

We recommend that APEC Finance Ministers provide a platform leveraging existing FMP policy initiatives to promote the wider uptake by member economies of existing tools and delivery mechanisms for generating standardized data and developing a robust pipeline of sustainable infrastructure projects in the region.

Carbon emissions trading schemes (ETSs) can greatly improve the economic efficiency of emission reduction. The region can benefit from the implementation of Article 6 of the Paris Agreement that envisions international transfer of carbon emission rights and connecting ETSs of multiple economies. There are challenges to the development of ETSs including different views among economies and the lack of a common carbon accounting system, but there are useful lessons that economies can learn from each other to overcome these challenges.

We recommend that APEC Finance Ministers incorporate the development of member economies' ETSs in their work program, with a view to promoting consensus on the responsibilities of developed and developing economies as enshrined in the principles of the United Nations Framework Convention on Climate Change as a foundation for regional cooperation among ETSs. Leveraging expertise in international organizations and existing policy initiatives under the FMP, this undertaking could be designed to (a) assist member economies in improving market infrastructure, developing institutions and enhancing regulatory capacity and (b) serve as a regular exchange mechanism among ETSs in the region as a foundation for global collaboration in capacity-building, policy guidance and technical training. Supporting the emergence and growth of voluntary carbon markets can also facilitate the development of ETSs.

Helping MSMEs transition towards a low carbon path is both a developmental and business imperative. Various challenges confront financial institutions in greening MSMEs, including lack of information, high administrative costs and lack of awareness on the part of MSMEs. However, experiences of developing economies offer insights on solutions that have proven successful, such as deploying innovative instruments and digital measurement tools and bringing together different types of capital with different risk profiles.

We recommend that APEC provide a platform for bringing together relevant public and private financial sector stakeholders to collaborate in designing an ecosystem approach to financing sustainable transition of MSMEs, share successful experiences and identify strategies to scale them up. These may include the development of taxonomies relevant for MSMEs and roadmaps integrating sustainability, MSMEs, gender and inclusion, as well as the use of digital tools and innovative financial instruments. This undertaking could leverage the expertise in international organizations and existing policy initiatives under the FMP.

Building an Enabling Ecosystem for Inclusive Digital Finance

Open data is an expanded version of open banking, involving a multi-directional flow of data across market participants. At its center is the individual consumer, who has full control of her or his data and able to permit its sharing in order to more conveniently access a wide variety of services using digital channels. A properly designed open data system can promote competition, innovation, and better consumer outcomes and help expand financial inclusion.

We recommend that APEC Finance Ministers encourage collaboration among the financial industry, international organizations and relevant public sector stakeholders to advance the development of open data systems, consistent standards with domestic regulatory control, and common principles of open data for use across the region. As a first step, we suggest that convenors identify use cases to be prioritized for standardization (such as, for example, inter-

operable digital ID systems and bank account and transaction information) and ways to promote implementation of standards in member economies.

While the COVID-19 pandemic significantly affected MSMEs, it has also shone a light on the powerful impact that digitalization can bring to business processes. The power and potential of digitalization is particularly strong in the area of trade and supply chain finance, where deeper data penetration allows greater visibility and improves risk management. This is opening access to finance to MSMEs such as second- and third-tier suppliers, for which traditional credit underwriting have proven to be very difficult if not impossible at the earlier stages of the order-to-payment cycle.

We recommend that APEC Finance Ministers encourage relevant public and private sector stakeholders and international organizations to collaborate in introducing digital invoices and the supporting infrastructure; assisting member economies in developing appropriate digital governance arrangements; accelerating the development of a trusted digital ID system and eKYC, financial services data ecosystems, and inter-operable digital payment systems; and promoting inter-operability of member economies' digital supply chain platforms.

Central Bank Digital Currencies (CBDCs) represent a novel form of digital liability on the books of central banks. There are two distinct use cases, one for wholesale settlement and implementation of monetary policy and another for general use (retail). Due to the great complexity involved, there is an argument for agreed common principles to assist member economies in developing inter-operable wholesale CBDCs for cross-border transactions. With regard to retail CBDCs that have significant potential for financial inclusion, policy makers and regulators need more clarity on a number of issues.

We recommend that APEC Finance Ministers encourage relevant public and private sector stakeholders to undertake capacity building and collaborate in drafting common principles to guide member economies in their own exploration of wholesale CBDCs.

We also recommend that APEC Finance Ministers encourage relevant stakeholders in member economies, particularly central bank experts engaged in designing and testing CBDCs, to hold discussions with experts from the private sector and multilateral institutions on retail CBDCs to identify how they can be designed for financial inclusion, the necessary pre-conditions and the risks involved.

In addition to the preceding recommendations, ABAC is pleased to submit to Finance Ministers the 2022 Progress Report of the Asia-Pacific Financial Forum (APFF), the Asia-Pacific Financial Inclusion Forum (APFIF) and the Asia-Pacific Infrastructure Partnership (APIP). The Executive Summary of this Progress Report is appended to this Letter and the accompanying Report, while the full text can be downloaded through this link:

http://www2.abaconline.org/assets/2022/2022_Progress_Report_of_APFF_APFIF_and_APIP.pdf.

Details of our recommendations are contained in the attached Report. We hope that they will provide meaningful ideas for concerted action, and look forward to our upcoming dialogue with the Ministers this coming October.

Sincerely yours,

Kriengkrai Thiennukul
ABAC Chair 2022

ATTACHMENTS:

- *APEC Business Advisory Council 2022 Report to APEC Finance Ministers*
- *2022 Progress Report: Asia-Pacific Financial Forum ● Asia-Pacific Financial Inclusion Forum ● Asia-Pacific Infrastructure Partnership – Executive Summary*

APEC Business Advisory Council

2022 Report to APEC Finance Ministers

A CALL TO CONCERTED ACTION

Financing APEC's digital, inclusive, resilient and sustainable future

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2022 Report to APEC Finance Ministers

A CALL TO CONCERTED ACTION

Financing APEC's digital, inclusive, resilient and sustainable future

Introduction

The COVID-19 pandemic left many economies with huge losses in human lives, business income and jobs, disproportionately impacting developing economies, small enterprises and marginalized sections of society. The unprecedented and vigorous response by governments and central banks averted a full-blown recession and crisis, kept the global economy afloat and paved the way for recovery. However, economies, including those that have not yet recovered from the shock, now need to deal with the aftermath of the pandemic – record levels of public and private debt, constrained fiscal space, hugely expanded central bank balance sheets, and a return of inflation.

Higher inflation is now affecting a much larger share of the consumption basket in both advanced and emerging market economies, as the increased demand for goods during the pandemic was accompanied by an acceleration of prices of services, which are typically more persistent than increases in the prices of goods, potentially leading to a period of entrenched inflation. Various indicators suggest that the long period of relatively low inflation the global economy has enjoyed has come to an end. There are early signs of growing price spillovers to wages, which if left to continue opens the possibility of a future wage-price spiral.

These developments pose serious challenges to governments and central banks in the Asia-Pacific region, which to date have borne the burden of buttressing the economy and stimulating recovery. However, the new economic realities present a stark choice between the demands for more restrictive fiscal and monetary policies at a time when businesses, financial markets and households have become too dependent on expansionary policies for too long, and the larger costs down the road of a failure to make the necessary policy adjustments.

Meanwhile, pressures are growing for economies to accelerate their transition toward sustainable environmental, social and governance frameworks. The ongoing revolution in data and digital technology, brought to the fore by COVID-19, is challenging businesses, governments and consumers to significantly transform their operational models. Asia-Pacific economies have been responding to these challenges through internal policies with very limited coordination. The lack of concerted action is hampering APEC's drive toward regional integration.

This new reality has superimposed itself on the ongoing efforts by APEC to promote structural reforms. The call for structural reforms in the region has been growing louder since the era of rapid growth gave way to a period of more modest growth or in some cases, stagnation, often brought about by economic crises. It has been argued that underlying this current economic reality is the deterioration of potential growth rates in many economies, a trend that manifested itself in the aftermath of the Global Financial Crisis. In addition, the constraints on governments' ability to provide further stimulus or respond to new crises, inflation driven by supply-side factors and elevated unemployment levels are giving fresh urgency to the call for structural reforms.

While APEC has been steadily promoting structural reforms since 2004,[1] there is broad agreement that more needs to be done. In its 2021 statement on APEC structural reform, PECC underscored its survey findings that there is a high perception among policy experts that not enough work has been done on structural reforms in the region's economies since the Global Financial Crisis. In its 2021 report to the APEC Structural Reform Ministerial Meeting, ABAC highlighted the urgent need for structural reforms that address the immediate challenge of recovering from COVID-19 as well as medium-term challenges in responding to technological evolution and climate change. In this

[1] In 2004, APEC initiated the Leaders' Agenda to Implement Structural Reform (LAISR), which was followed by the APEC New Strategy for Structural Reform (ANSSR) in 2010, the Renewed APEC Agenda for Structural Reform (RAASR) in 2015 and the Enhanced APEC Agenda for Structural Reform (EAASR) in 2020.

year's report, we identify priority areas that need to be the focus of concerted action by APEC economies in collaboration with the business sector and other relevant stakeholders.

The first part of this report provides our perspectives on promoting speedy and sustained recovery, in terms of the macroeconomic and supply-side measures as well as key structural reforms that need to be undertaken. The second part focuses on building resilience against future pandemics. The third part contains our views and recommendations on financing sustainable transition, through the development of effective carbon emissions trading markets, measures to assist micro-, small and medium enterprises (MSMEs), and developing a pipeline of sustainable infrastructure projects. The fourth part focuses on building an enabling ecosystem for digital finance through the development of inter-operable open data systems and central bank digital currencies (CBDCs), as well as the digital market infrastructure for supply chain finance for the benefit of MSMEs.

The recommendations contained in this report have been developed through discussions with experts from industry, multilateral organizations, and government and regulatory agencies in the course of several roundtables that ABAC convened in collaboration with FMP initiatives, various entities and institutions.[2] The reports and summaries of these roundtables form the annexes to this report and are available for download. The 2022 Progress Report of the Asia-Pacific Financial Forum (APFF), the Asia-Pacific Financial Inclusion Forum (APFIF) and the Asia-Pacific Infrastructure Partnership (APIP) is also annexed to this report.

I. Promoting Speedy and Sustained Recovery

The Role of Fiscal and Monetary Policy

Asia-Pacific economies are facing record levels of public and private debt, constrained fiscal space, hugely expanded central bank balance sheets and the return of inflation. Developing economies are emerging from the pandemic with significant weaknesses, threatened by further capital outflows due to rising interest rates in developed economies, economic weaknesses in their export markets, and surging energy prices. Risks are growing as global imbalances increase, heightened volatility plague various market segments, asset price bubbles expand in certain sectors, and new challenges to the deepening of regional integration emerge.

Geopolitical conflict is seriously exacerbating inflationary pressures and causing acute shortages in key commodities. It is likely to have long-term damaging impact on the global economy, the global economic and financial system, and the prospects for achieving the regional integration goal of APEC.

For the moment, the macroeconomic policy response needs to focus on stabilizing inflation as the key priority to prevent it from becoming entrenched. Developed economies need to ensure inflation expectations remain anchored through monetary tightening. Short-term, fiscal policies can provide support to smooth price shocks. Medium and long-term, governments need to pursue fiscal consolidation and use fiscal space innovatively to meet key objectives including sustainability, inclusive digitalization and addressing inequality.

Recommendation #1-A:[3]

We recommend that economies focus on preventing inflation from becoming entrenched as the immediate and key priority, where needed using monetary policy to anchor inflation expectations, supported by fiscal policy to smooth price shocks, such as through cash transfers and targeted

[2] These included the ASEAN Bankers' Association, the Asia-Pacific Financial Forum (APFF) Disaster Risk Financing and Insurance Network, the APFF Financial Market Infrastructure Network, the APFF Sustainable Finance Development Network (SFDN), the Asia-Pacific Infrastructure Partnership (APIP), the Asian Development Bank (ADB) and the ADB Institute, the Emerging Payments Association (EPA) Asia, the Finance to Accelerate the Sustainable Transition – Infrastructure (FAST-Infra) Initiative, the Global Infrastructure Hub (GIH), the Institute of International Finance (IIF), Munich Re, the Office of SMEs Promotion (OSMEP) of Thailand, the Pacific Economic Cooperation Council (PECC), the SME Finance Forum, the Sustainable Infrastructure Foundation (SIF) and the Thai Bankers' Association (TBA).

[3] For details, refer to the Roundtable Report - Ensuring Sustained Recovery and Growth: The Roles of Macroeconomic and Supply-Side Policies in an Inflationary Post-Pandemic World. June 28/29, 2022. Co-organized by APEC Business Advisory Council (ABAC) and Pacific Economic Cooperation Council (PECC). Hosted by ABAC Japan/Daiwa Institute of Research. http://www2.abaconline.org/assets/2022/Reference_Documents/Reference%2001%20RT%20Report%20Macro%20and%20Supply%20Side%20Policies.pdf

subsidies to head off a potential wage-price spiral. For the medium and long term, we recommend that economies pursue fiscal consolidation and debt reduction, while using innovative fiscal instruments to finance digital innovation, green investment, global emissions reduction and support for low-income consumers.

Recommendation #1-B:

We recommend that the broader impact and consequences of geopolitical conflict be reviewed, and the necessary steps to address them undertaken.

Key Structural Reforms to Raise Productivity and Economies' Potential Growth Rates

Given the serious constraints to the use of fiscal and monetary policies to promote recovery, more emphasis needs to be placed on structural reforms, with the private sector and markets increasing their contributions to economic development. Successful implementation of structural reforms is essential in raising economies' potential growth rates, and consequently the natural rate of interest. Inasmuch as the decline of the natural rate of interest in key economies to historic lows has been the principal factor behind the ineffectiveness of traditional monetary policy instruments to provide growth stimulus in recent years, reforms that will allow it to rise to normal levels are expected to help restore policy maneuverability for promoting sustained and stable growth.

Promoting structural reforms is an important issue for APEC economies, which through the years have undertaken continuous efforts in pursuit of this goal. Nevertheless, much remains to be done to reverse the secular decline of potential growth rates in many member economies. An important contributor to this process is the region's demographic evolution,[4] which calls for labor market reforms and increased productivity to offset its negative impact.

Sustainable transition and inclusive digitalization are important areas to focus structural reforms, as they bring about a huge amount of capital expenditure and revolutionary innovation, both of which are the key drivers of potential growth. Financial markets play a critical role in advancing reforms in these areas. Given that public finance is not sufficient to accommodate the huge financing requirements, particularly in the present context, stable, liquid and deep financial markets that incentivize economies to undertake the needed structural reforms are necessary.

The requirements for transition to net-zero emissions by 2050 are very significant, and would involve substantial reallocation of capital to new opportunities and supporting policies that are not easy to undertake, technically and politically, especially in developing economies. Current efforts face the challenge of fragmentation, both in the lack of international coordination among economies in introducing policies and regulations, as well as the multiplicity of insufficiently coordinated initiatives to address various aspects of transition such as disclosure standards, data, taxonomy and capacity building measures.

There is also a huge amount of work needed to advance inclusive digitalization. This includes overcoming the digital divide, creating the enabling environment for MSMEs' access to finance, transforming the current mostly paper-based and manual process for trade documents into a digital and automated one, and addressing growing digital fragmentation within the region. The accelerated digitalization of many aspects of business, made necessary by the pandemic, has also resulted in practice getting ahead of regulation in various areas, thus necessitating structural reforms to keep pace with change, including the development of appropriate digital governance arrangements.

Recommendation #1-C:[5]

We recommend that APEC provide regional platforms for collaboration, coordination and capacity building, to focus on advancing structural reforms that promote sustainable transition, inclusive digitalization and resilience. Key areas that need special attention include disclosure standards,

[4] https://www.unescap.org/sites/default/d8files/knowledge-products/Pop_data_sheet2021_20211230.pdf.

[5] For details, refer to the Roundtable Report - Promoting Structural Reforms for Sustained Economic Growth in the Asia-Pacific Region. June 14/15, 2022. Co-organized by APEC Business Advisory Council (ABAC) and Pacific Economic Cooperation Council (PECC). Hosted by ABAC Japan/Daiwa Institute of Research.
http://www2.abaconline.org/assets/2022/Reference_Documents/Reference%2002%20RT%20Report%20Structural%20Reforms.pdf

data, taxonomy, the digital divide, MSMEs' access to digital finance, digitalization of trade, and the growing digital fragmentation within the region.

II. Building Resilience Against Future Pandemics

The COVID-19 pandemic demonstrated that the impact of major pandemics on economies and businesses can be as huge as natural disasters. It has also demonstrated a broad lack of insurance coverage for the revenue losses that businesses face, and the challenges to establishing private insurance coverage for these losses. The first challenge is the large magnitude of economic losses compared to even the largest natural catastrophes in the past. The second is the significant correlation across economies, which make traditional approaches to disaster risk insurance inapplicable. The third challenge is the increasing trend in risk exposure. This lack of resilience of the current financial ecosystems left governments no other option but to respond with fiscal and monetary measures of unprecedented scale.

However, the growing frequency and severity of epidemic outbreaks will require a more sustainable and coordinated approach. On average, there are around 200 epidemic outbreaks and five newly emerging zoonotic infectious diseases reported annually. Current risk models predict the probability of another pandemic of the same or greater magnitude as COVID-19 to be as high as 28 percent within the next ten years and 57 percent within the next 25 years, with a global financial impact that could exceed the estimated US$10 trillion or more in losses due to the COVID-19 pandemic.

Traditional insurance techniques are unable to absorb pandemic risk mainly due to accumulation risk (limited capacity is available in comparison to massive needs of indemnification) on the supply side and the problem of affordability due to the expected frequency of events on the demand side. To address these two hurdles, ABAC proposes the establishment of a risk transformation platform (the Epidemic Risk Markets Platform) that enables a wider participation of capacity providers, including the public sector. The challenge of affordability for policyholders can be addressed without requiring premium subsidies by combining the two financial instruments – insurance and contingent lending, thus maintaining risk-adequate incentives which are relevant for preparedness.

Supporting the development of a specialty insurance market for epidemic risk sends a clear government signal to the markets to increase preparedness. The Epidemic Risk Markets Platform provides an attractive value proposition for the public sector in that no subsidies are required and it can use the existing infrastructure of the insurance and banking industry. Its feasibility has already been proven by executed transactions. APEC economies can support the development and scaling up of the platform by (a) providing insurance capacity at market rate; (b) providing contingent lending at market rate; (c) incentivizing other stakeholders to participate in risk transfer transactions; and (d) tailoring access to government capacity to specific sectors.

Recommendation #2-A:[6]

We recommend that APEC Finance Ministers incorporate the Epidemic Risk Markets Platform into the work program of their Working Group on Regional Disaster Risk Financing and Insurance Solutions for APEC Economies. The objective of the initiative will be to implement the full value chain of the Epidemic Risk Markets Platform via pilot transactions with member economies or specific sectors, with provision for scaling up the solution through public sector support to the desired level.

[6] For details, refer to the Roundtable Report - Enhancing the Region's Resilience through PPPs in Pandemic Risk Transfer. April 19/20, 2022. Co-organized by APEC Business Advisory Council (ABAC), Munich Re, APFF Disaster Risk Financing and Insurance Network. Hosted by ABAC Philippines and Globe.
http://www2.abaconline.org/assets/2022/Reference_Documents/Reference%2003%20RT%20Report%20Pandemic%20Risk%20Transfer.pdf

III. Financing Sustainable Transition

Financing Sustainable Infrastructure

Between 2022 and 2040 an estimated US$30 trillion will be needed to bridge the infrastructure gap in APEC member economies. Bridging this gap will both provide much-needed economic stimulus for recovery and promote long-term growth. In the context of APEC economies' transition to a more sustainable path toward achieving the SDGs, this will require focusing on sustainable infrastructure that will strengthen economies' resilience and inclusiveness and contribute to the reduction of greenhouse gas (GHG) emissions. With limited fiscal space and financing constraints, developing economies will need to attract substantial private sector lending and investment to finance this effort. This will require addressing and mitigating risks that prevent infrastructure projects from becoming bankable, as well as addressing specific impediments of using ESG financing in a diverse region with widely different levels of development and dependence on fossil fuels.

Key impediments include a lack of commonly accepted taxonomies or criteria with which to transition to carbon neutrality, standards, metrics, and good quality data. There are many ongoing initiatives aimed at assessing the sustainability dimension of infrastructure investments,[7] but aside from providing a multiplicity of approaches to navigate, they also still have limitations in encouraging projects to improve their ESG performance over time. Infrastructure data collection, a key component of investment decisions, is limited to several fee-based data vendors.[8] However, most of the valuable data are skewed toward advanced financial markets. Data reliability in the infrastructure sector also remains a major issue, as statistics are not collected using an agreed definition, current assessment approaches do not facilitate the use of quantitative approaches and there is still no consensus on how ESG assessments are done and which data are suitable. Thus, while lenders and institutional investors are keen to invest in sustainable infrastructure, which can offer stable, long-term returns, there is currently no way for them to verify which assets are genuinely sustainable.

However, there are already existing tools and delivery mechanisms that can help generate standardized data while assisting project preparation. These include the Global Infrastructure Hub, which collates and analyzes global data to form robustly evidenced and actionable insights, share resources on best practice and innovation, connects stakeholders, and provides thought leadership to the infrastructure community. The Finance to Accelerate the Sustainable Transition-Infrastructure (FAST-Infra) initiative has developed a globally applicable labeling system (The FAST-Infra Sustainable Infrastructure Label) that serves to increase investor confidence in labeled assets, and which in addition is developing financial mechanisms to mobilize private investment at scale for the financing of labelled projects. The Partially Standardized Public Finance documents developed by Infrastructure Asia allows the use of project finance loan documents that are interoperable across jurisdictions, thereby facilitating the development of a secondary infrastructure market and supporting asset recycling efforts to unlock funds for newer, greener and more sustainable infrastructure projects in the region.[9]

The Sustainable Infrastructure Foundation's SOURCE is a multilateral online platform developed under the auspices of the world's major multilateral development banks. It provides a digital project preparation software that integrates governance, technical, economic, legal, financial, environmental and social factors that MDBs, investors and lenders have identified as key to the bankability of both traditional procurement and PPP projects. It also helps

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[7] The OECD has evaluated 21 such initiatives, which include the ADB's Investment principles and Eligibility Criteria, Aligned Set of Sustainability Indicators for Infrastructure, CEEQUAL, Equator Principles, Climate Bonds Initiative, Climate Policy Initiative, EU Green Taxonomy, GIB, Green Bonds Principles, Green Loan Principles, GRESB, Harmonized MDB Frameworks on Climate Finance Tracking, IDB: Sustainable Infrastructure Framework, IFC Definitions and Metrics for Climate- related activities, Environment and Social Performance Standards, Inf. Sustainability Council of Australia, ISI Envision, Social Bonds Principles, Sustainability Linked Loan Principles, UN social and environmental standards, UNDP SDG Impact Standards for SDG Bonds.

[8] Preqin, Refinitiv, EDHECinfra, Moody's and IJ Global manage data related to infrastructure assets. Only Preqin and Refinitiv are currently known to have databases with an ESG approach for the infrastructure sector.

[9] The PF documents were developed by Infrastructure Asia, a joint initiative of Enterprise Singapore and the Monetary Authority of Singapore. These comprise the: (i) template for Common Terms Agreement; (ii) template for Project Finance and Mandate Letter; and (iii) template for Term Sheet. The PF documents standardize 50 percent of the terms in project finance loan documents, which are required to develop and structure infrastructure projects. The remaining 50 percent of clauses are customizable to the specific needs of projects and the socio-economic circumstances of individual economies. The PF documents are available in English, Bahasa Indonesia, Chinese and Vietnamese; and are available online for complimentary use by APEC economies: https://www.infrastructureasia.org/standardised-core-project-finance-loan-documents

provide well-prepared projects in a consistent and transparent way to the international community of contractors, investors, and lenders. By enabling the tracking and monitoring of projects throughout their lifecycle, it thus also provides project-related information dissemination to facilitate resource mobilization. To date, SOURCE has helped prepare 848 projects in 97 economies. Wider utilization of SOURCE by APEC member economies can help generate data that can facilitate the development of a robust pipeline of sustainable infrastructure projects in the region.

Recommendation #3-A:[10]

We recommend that APEC Finance Ministers provide a platform leveraging existing FMP policy initiatives such as the Asia-Pacific Infrastructure Partnership (APIP) and the APFF Sustainable Finance Development Network to promote the wider uptake by member economies of existing tools and delivery mechanisms for generating standardized data and developing a robust pipeline of sustainable infrastructure projects in the region.

Promoting the Development of Effective Carbon Emissions Trading Markets

A carbon emissions trading scheme (ETS) is a climate policy instrument that aims to improve the economic efficiency of emission reduction. It incentivizes covered entities to reduce emissions through carbon pricing, limits the total amount of emissions through market-oriented mechanisms,[11] and improves the efficiency and flexibility of emission reduction. It also enables the allocation of capital to different sectors of the real economy through carbon pricing, promotes the efficient use of energy, and facilitates low-carbon investment and green transition.

ETS rules vary in different jurisdictions.[12] To promote progress toward a future global carbon market, delegates to COP26[13] in November 2021 reached a preliminary consensus on the implementation rules of Article 6 of the Paris Agreement, which proposed to "allow international transfer of carbon emission rights and connect ETSs of multiple economies, and set up a central UN mechanism for economies to trade carbon credits." A key challenge to the realization of this goal is the gap in perspectives between developed and developing economies. For example, while the EU has sought to promote its own standards through its Carbon Border Adjustment Mechanism (CBAM),[14] developing economies are supporting the principle of common but differentiated responsibilities enshrined in the United Nations Framework Convention on Climate Change (UNFCCC).

Another important challenge is the lack of a robust common carbon accounting system. Some key elements in ETS design, such as covered sectors, inclusion thresholds, total allowance and allocation plan, rest largely on data accessibility and quality. At present, the emission data reporting systems in most jurisdictions are inadequate and not in concordance with the design and operational requirements of ETS. Widespread problems such as uneven data quality, inconsistency between assessment and reporting, isolated data reporting platforms, and inadequate infrastructure have resulted in challenges in comparing, consolidating and sharing emission data. To promote the

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[10] For details, refer to the Roundtable Report - Financing Sustainable Infrastructure in the Asia-Pacific Region. April 19/20, 2022. Co-organized by APEC Business Advisory Council (ABAC), APFF Sustainable Finance Development Network (SFDN), Asia-Pacific Infrastructure Partnership (APIP), FAST-Infra, Global Infrastructure Hub, Sustainable Infrastructure Foundation. Hosted by APFF-SFDN. http://www2.abaconline.org/assets/2022/Reference_Documents/Reference%2004%20RT%20Report%20Sustainable%20Infra.pdf

[11] In an ETS, governments set the annual emissions cap in line with their emission control targets and translate them into emission allowances. Allowances are allocated to covered entities either for free or via quota auctions and can be traded freely in the secondary market. If actual emissions from an entity are lower than the allocated allowances, the difference will be treated as carbon assets and sold in the ETS to generate revenues. Conversely, if an entity emits more than its allowances, the gap needs to be bought from the ETS. Due to the high cost of emissions, covered entities will be incentivized to reduce GHG emissions and shift to green and low-carbon production.

[12] There are at present several ETS in operation - one supranational ETS (EU ETS), eight jurisdictional-level ETSs (China, Germany, Kazakhstan, Mexico, New Zealand, South Korea, Switzerland, and the United Kingdom) and 25 sub-federal, provincial or municipal ETSs. These cover 17 percent of global emissions, nearly a third of the world's population and 55 percent of global GDP. In 2020, their combined trading value amounted to EUR 229 billion. The year 2021 witnessed the launch of the carbon market in China, which is now the largest carbon market in the world. More jurisdictions are considering plans to adopt ETS as an important part of their climate change policies.

[13] 26th Conference of the Parties to the United Nations Framework Convention on Climate Change.

[14] The EU's CBAM imposes taxes on selected imports from five sectors, namely power generation, iron and steel, cement, aluminum and chemical fertilizer, so that the imports bear the same carbon emission costs as domestic goods.

global carbon market, it is pertinent to formulate scientific emissions accounting methods, develop data quality and supervision standards, and establish sound carbon monitoring, reporting, and verification mechanisms.

While emissions trading systems are still evolving gradually with policy makers and regulators taking a prudent and cautious approach, voluntary carbon markets (VCMs) are playing a complementary role in accelerating the process through collaboration and pilots. VCMs allow private investors, governments, non-governmental organizations and businesses, including companies that are unable to reduce their emissions, to voluntarily purchase carbon offsets from verified suppliers to offset their emissions, with revenues collected used to finance carbon reduction projects. They have enabled companies to move ahead in transitioning toward net zero, and are helping educate market participants and public sector stakeholders on the opportunities and risks.

There are key lessons that developing economies can learn from each other and from developed economies as well. Lessons from China's experience highlight the importance of a clear and stable carbon market policy, education and capacity building for stakeholders, and an effective trading infrastructure. The development of a robust, liquid and deep emissions trading system require promoting both supply and demand as well as capacity of regulators and supervisors to deal with volatility, speculation and market manipulation. There is also significant potential for innovations that are currently transforming financial markets such as distributed ledger technologies, AI and central bank digital currencies to facilitate the development of ETSs.

Recommendation #3-B:[15]

We recommend that APEC Finance Ministers incorporate the development of member economies' ETSs in their work program, with a view to promoting consensus on the responsibilities of developed and developing economies as enshrined in the principles of the United Nations Framework Convention on Climate Change as a foundation for regional cooperation among ETSs. Leveraging expertise in international organizations and existing policy initiatives under the FMP, this undertaking could be designed to (a) assist member economies in improving market infrastructure, developing institutions and enhancing regulatory capacity and (b) serve as a regular exchange mechanism among ETSs in the region as a foundation for global collaboration in capacity-building, policy guidance and technical training. Supporting the emergence and growth of voluntary carbon markets can also facilitate the development of ETSs.

Leveraging Private Sector Financing to Promote Sustainable Transition of MSMEs

MSMEs typically account for about 97 percent of businesses and employ half of the labor force in APEC member economies. MSMEs also include new business ventures and startups that have become the main driving forces of innovation and sustainability in the economy. Given the scale of MSMEs' economic activities, they have huge potential to contribute to the achievement of the UN Sustainable Development Goals (SDGs) across sectors from agriculture to manufacturing and services, and most importantly, in underserved, rural and remote locations. Thus, helping MSMEs transition towards a more sustainable and low carbon path is both a developmental and business imperative.

Various challenges confront financial institutions in greening MSMEs. The most fundamental challenge is the lack of accurate and timely information, as MSMEs are struggling to grasp their own GHG emissions, get the right information and have sufficient human resources or capital to invest in climate-friendly equipment. Second, the financial sector ecosystems' sustainable finance frameworks have not served MSMEs well because they are expensive to access, difficult to undertake due diligence, and hard to finance in a profitable way. Third, there is lack of awareness on the part of MSMEs on how to make the transition in their businesses. Finally, the small scale of MSMEs drives high transaction costs.

Despite facing unique constraints due to the size and level of maturity of their markets, various developing economies have demonstrated good progress in developing sustainable finance frameworks and mainstreaming and integrating these into traditional finance. Two instruments have enabled this process. The first is the development of taxonomies that meet the demand of MSMEs and lower-income population groups, starting with relatively simple

[15] For details, refer to the Roundtable Report - Effective Carbon Emissions Trading and Markets-Pricing Mechanisms in the Asia-Pacific Region. June 12/13. Co-organized by the APEC Business Advisory Council (ABAC) and the Asia-Pacific Financial Forum (APFF) Sustainable Finance Development Network (SFDN). http://www2.abaconline.org/assets/2022/Reference_Documents/Reference%2005%20RT%20Carbon%20Markets.pdf

taxonomies that are easy to understand and later adding more sectors and complexity. The second is the development of sustainable finance roadmaps that integrate key factors such as MSMEs, gender, and inclusion.

Experiences of developing economies also offer insights on solutions that have proven successful in addressing challenges. These include: (a) deploying innovative instruments to provide risk mitigation or co-investments with private sector firms wishing to green their supply chains; (b) introducing digital tools to measure carbon emissions and credits and leveraging them for preferential access to financing as an incentive; and (c) bringing together different types of capital with different risk profiles (e.g., banks, microfinance institutions, capital market investors, fintech firms, development financing institutions, governments) to provide blended solutions to encourage MSMEs to transition.

Recommendation #3-C:[16]

We recommend that APEC provide a platform for bringing together relevant public and private financial sector stakeholders to collaborate in designing an ecosystem approach to financing sustainable transition of MSMEs, share successful experiences and identify strategies to scale them up. These may include the development of taxonomies relevant for MSMEs and roadmaps integrating sustainability, MSMEs, gender and inclusion, as well as the use of digital tools and innovative financial instruments. This undertaking could be designed to leverage the expertise in international organizations and existing policy initiatives under the FMP.

IV. Building an Enabling Ecosystem for Inclusive Digital Finance

Enabling the Development of Inter-Operable Open Data Systems in the Asia-Pacific Region

Open data is an expanded version of open banking, a concept implemented in Europe through the Payment Services Directive 2 (PSD2), as well as in a few other markets. While the classic open banking involves a one-way flow of permissioned consumer data from banks to third-party service providers, open data involves a multi-directional flow of data across market participants. At the center of the open data ecosystem is the individual consumer, who has full control of her or his data and able to permit its sharing in order to more conveniently access a wide variety of services using digital channels.

If properly designed, an open data system can enable competition and empower innovation. It can enable better consumer outcomes and provide an ecosystem for fintech firms to collaborate with banks and other service providers. When supported by digital enablement and access, open data supports wider access to financial services. It can promote financial inclusion in developing economies, if access to the internet, digital and financial literacy and adequate consumer protection are addressed.

Four elements are key to the successful development of open data ecosystems. The first is a whole-of-government approach to ensure coordination and synergy among multiple authorities with varying regulatory objectives. This is important in reducing compliance burdens and costs for market participants and in laying the foundation for cross-border inter-operability. The second is the recognition of a standard and a level of harmonization for basic elements of open data in order to promote consistency and allow firms to exchange technology, learnings and practices globally. The third is the need to address challenges to effective participation in open data ecosystems in developing economies, such as lack of access to the digital world and insufficient literacy. The fourth is adopting implementation approaches that pay attention to the commercial aspects of open data in order to enable businesses to provide more significant benefits to consumers.

In order for the region to benefit from open data systems, there needs to be coordinated guidance from governments to agencies and private institutions in sharing customer data for the benefit of individuals. This covers agreement on common standards, building the infrastructure, and solving critical legal, technical and logistical problems. To

[16] For details, refer to the Roundtable Report - Leveraging Private Sector Investment to Promote MSME Transition. June 15/16, 2022. Co-organized by APEC Business Advisory Council (ABAC), SME Finance Forum, Office of SMEs Promotion Thailand (OSMEP), and APFF Sustainable Finance Development Network (SFDN). Co-hosted by ABAC Thailand, Thai Bankers' Association and Office of SMEs Promotion Thailand (OSMEP). http://www2.abaconline.org/assets/2022/Reference_Documents/Reference%2006%20RT%20Report%20MSME%20Transition.pdf

facilitate a world where we can share information freely, confidently and securely within and ultimately across borders, key principles – including those governing privacy, data sovereignty and individual rights – need to be established to ensure alignment and consistency. Given its weight in the world economy, APEC has a potential role to play in developing a common standard and harmonizing basic implementation of open data among its members, and eventually to coordinate with Europe, which is now moving forward with its own PSD3, in promoting a global ecosystem.

Recommendation #4-A:[17]

We recommend that APEC Finance Ministers encourage collaboration among the financial industry, international organizations and relevant public sector stakeholders to advance the development of open data systems, consistent standards with domestic regulatory control, and common principles of open data for use across the region. As a first step, we suggest that convenors identify use cases to be prioritized for standardization (such as, for example, inter-operable digital ID systems and bank account and transaction information) and ways to promote implementation of standards in member economies.

Building the Digital Market Infrastructure for MSME Supply Chain Finance

While the COVID-19 pandemic – as have all major crises – significantly affected MSMEs, it has also shone a light on the powerful impact that digitalization can bring to business processes. In addition to providing a way for MSMEs to continue operating even when in-person transactions become impossible in times of pandemic, these digital processes enable automation and produce data flows that can drive down costs and broaden access to finance. COVID-19 also served to highlight the fact that traditional systems underpinning trade and its financing are outdated, even if it was already clear before the pandemic that they were very unfriendly to MSMEs.

The power and potential of digitalization is particularly strong in the area of trade and supply chain finance, where deeper data penetration allows greater visibility and improves risk management. This is opening access to finance to MSMEs such as second- and third-tier suppliers, for which traditional credit underwriting have proven to be very difficult if not impossible at the earlier stages of the order-to-payment cycle. Today, automation is making it feasible to process credit transactions at lower cost, enabling smaller loan sizes to be economically viable for lenders, and low-value letters of credit to be viable for bankers.

Encouraging the development of e-invoicing, digital ID and e-KYC are key foundations for digital supply chain finance, along with appropriate digital governance arrangements, acceptance of other digital versions of contracts, including digital signatures, and removing unnecessary requirements for paper documentation wherever possible. There are government-backed initiatives that create platforms building upon digital data and opening up competitive financing opportunities for smaller firms involved in both domestic and cross-border supply chains. Distributed ledger technology enables economies to retain their own systems governing trade, while providing a cross-border transparent and trusted system that enables cross-border supplier and distributor financing.

CBDCs also hold promise to make cross-border settlement quicker, more efficient and more competitive for MSMEs. While various issues around CBDCs still need to be carefully studied, regulators and policy-makers should give them due consideration. Governments and APEC as a region should also look to creating open ecosystems that encourage collaboration in responsible data sharing, and move away from supporting data silos that might offer short-term solutions, but which in the longer run could constrain competition and continued innovation. Overall, policy makers should focus on building core foundations of an open, trusted data ecosystem, and then allow the private sector to innovate on top of these rails.

Considering that trade is larger than supply chain finance, financial regulators need to coordinate with other relevant authorities to ensure that systems covering logistics, contracts, clearance and customs can talk to each other once they become digital. This is an area where APEC could serve as a platform to encourage and support efforts by member economies. It would probably not be necessary for one common standard to emerge for all these systems,

[17] For details, refer to the Roundtable Report - Enabling the Development of Inter-Operable Open Data Systems in the Asia-Pacific Region. February 13/14, 2022. Co-organized by APEC Business Advisory Council (ABAC), Emerging Payments Association (EPA) Asia, ASEAN Bankers' Association (ABA) and APFF Financial Market Infrastructure Network. Organized and hosted by EPA Asia.
http://www2.abaconline.org/assets/2022/Reference_Documents/Reference%2007%20RT%20Report%20Inter-Operable%20Open%20Data.pdf

but infrastructure for trusted and responsible data sharing across them is imperative to provide better access to markets and financing for MSMEs.

Recommendation #4-B:[18]

We recommend that APEC Finance Ministers encourage relevant public and private sector stakeholders in member economies and international organizations to collaborate in:

- **promoting the introduction of digital invoices throughout the region's economies and the establishment of the supporting infrastructure for its use in collaboration with market participants and other stakeholders providing finance and technology solutions;**
- **assisting member economies in developing appropriate digital governance arrangements, accelerating the development of key pillars of the digital economy infrastructure, including a trusted digital ID system and eKYC, enabling financial services data ecosystems, and inter-operable payment systems for digitalized transactions and operations; and**
- **facilitating regional cooperation within APEC to promote inter-operability of member economies' digital supply chain platforms, particularly through joint undertakings to develop inter-operable standards for digital invoices and legal frameworks around the use of digital documents and linkages among domestic digital market infrastructure such as business clearing houses.**

Promoting the Development of Effective and Inter-operable Central Bank Digital Currencies

Central Bank Digital Currencies (CBDCs) represent a novel form of digital liability on the books of central banks (CBs), typically denominated in and exchangeable at par with other units of an economy's currency. CBDCs have been conceived in two distinct use cases, where CB reserves/settlement balances are used for wholesale settlement and implementation of monetary policy and where existing CB liabilities include cash for general use (retail).[19] A majority of CBs in the world are actively exploring CBDCs, concentrating primarily on the retail form (rCBDCs) for domestic use. However, recent surveys indicate that more CBs are considering cross-border interoperability in their design. Potentially, rCBDCs can address a range of policy goals, including cross-border use for trade and remittances. Various annual surveys show work on retail outpacing wholesale projects and at earlier stages of development. Less than a tenth of all CBs plan to issue wholesale CBDCs in the next three years and about 20 percent within 6 years. Interest in wholesale (wCBDCs) tends to be mainly focused on cross-border benefits.

Meanwhile, a number of economies have explored the use of a domestic wCBDC, with primary use cases being atomic settlement of tokenized securities and expanded access to settlement in central bank money. However, most domestic projects have found the case for distributed ledger technology (DLT)-based domestic wCBDC unconvincing given the efficiency of tiered access to the centralized real-time gross settlement (RTGS) system as well as regulatory and technical links between securities depositories and settlement activities. At the same time, cross-border wCBDC using DLT has the potential to reduce frictions, given that no international centralized RTGS ledger exists. The resulting chain of correspondent bank transactions introduces various risks, costs and exclusions. A number of cross-border wCBDC models and interoperability integration between them are currently being explored, including their potential role in alleviating international payments frictions. However, easing of cross-border capital flows, including DLT artifacts, introduces new risks and complexities, particularly around governance.

There is great complexity surrounding any effort to develop a wCBDC, including but not limited to domestic and cross-border monetary policy, privacy, technological foundations, varied goals, models for distribution and governance, developed markets versus developing markets, and legal frameworks. There is thus an argument for

[18] For details, refer to the Roundtable Report - Building the digital market infrastructure for MSME supply chain finance. June 13/14, 2022. Co-organized by APEC Business Advisory Council (ABAC), SME Finance Forum, Office of SMEs Promotion Thailand (OSMEP), APFF Financial Infrastructure Development Network (FIDN). Co-hosted by ABAC Thailand, Thai Bankers' Association, and Office of SMEs Promotion Thailand (OSMEP). http://www2.abaconline.org/assets/2022/Reference_Documents/Reference%2008%20RT%20Report%20MSME%20Digital%20Market%20Infra.pdf

[19] Wholesale liabilities are already digital and typically operate on a centralized ledger at the CB on a real-time gross settlement (RTGS) basis. Because wholesale central bank liabilities are already digital, wholesale CBDC generally refers to a liability issued and transacted on a DLT. Retail CBDCs are not currently digital and ledger infrastructure may include RTGS or DLT models.

agreed common principles to assist member economies in developing inter-operable wCBDCs. These principles should bridge the differing goals of jurisdictions with regard to wCBDC implementation; provide clarity on terminology and objectives.[20]

With regard to rCBDCs, there is significant potential for financial inclusion. However, a number of important issues remain insufficiently understood by policy makers and regulators. These include what design features can best promote financial inclusion and how these are treated under established regulatory and legal frameworks; whether rCBDCs complement ongoing CB financial inclusion initiatives; legal and regulatory implications of using rCBDCs for international remittances; their effectiveness vis-à-vis alternative technology solutions; and the risk of disintermediating the banking system, among others. Facilitating a better understanding of these issues would help member economies design effective and inter-operable rCBDCs.

Recommendation #4-C:[21]

We recommend that APEC Finance Ministers encourage relevant public and private sector stakeholders to undertake capacity building and collaborate in drafting common principles to guide member economies in their own exploration of wholesale CBDCs and in addressing a number of important challenges in their development.

Recommendation #4-D:[22]

We recommend that APEC Finance Ministers encourage relevant stakeholders in member economies, particularly central bank experts engaged in designing and testing CBDCs, to hold discussions with experts from the private sector and multilateral institutions for the purposes of: (a) considering which features of a retail CBDC would be most effective for financial inclusion; (b) identifying pre-conditions for successful digital financial inclusion that should be prioritized; and (c) identifying risks associated with introducing retail CBDCs and how they can best be managed.

Conclusion

Asia-Pacific economies are now facing various economic consequences of the COVID-19 pandemic – record levels of public and private debt, constrained fiscal space, hugely expanded central bank balance sheets and the return of inflation, exacerbated by geopolitical conflict. Developing economies face daunting challenges as they emerge from the pandemic with significant weaknesses. External factors are weighing on them, including rising interest rates that could result in capital outflows, economic weaknesses in developed economies, decelerating growth in key markets, and surging energy prices. Risks are growing as global imbalances increase, currency markets plunge into turmoil, the trend toward secular stagnation continues, and new challenges to the deepening of regional integration emerge.

In our view, the immediate priority should be focused on stabilizing inflation to prevent it from becoming entrenched and preventing geopolitical conflict from further inflicting serious damage to our economies and to our regional integration aspirations. Medium- and long-term, governments need to pursue fiscal consolidation and use fiscal space innovatively to meet key structural reform objectives, as well as enable markets and the private sector to increase their contributions to economic development. More emphasis needs to be placed on structural reforms

[20] These could include definitions of digital and crypto assets and differing considerations around applications for both rCBDCs and wCBDCs; interoperability and alignment of systems; the role of the private sector; privacy and security standards; compliance with AML/CFT and sanctions requirements; enablement and inclusiveness in access; competition and co-existence with existing payment methods; and impact on private credit creation, among others.

[21] For details refer to the White Paper – APFF Financial Market Infrastructure Network: Laying the Foundations of Inter-Operable Wholesale Central Bank Digital Currencies in the Asia-Pacific Region. http://www2.abaconline.org/assets/2022/Reference_Documents/Reference%2009%20CBDC%20White%20Paper.pdf

[22] For details, refer to the Asia-Pacific Financial Inclusion Forum: The Role of Central Bank Digital Currencies in Financial Inclusion - Proposed Actions for Policymakers and Regulators. Asian Development Bank (ADB), in partnership with Asian Development Bank Institute (ADBI) and APEC Business Advisory Council (ABAC). http://www2.abaconline.org/assets/2022/Reference_Documents/Reference%2010%20APFIF%20Proposed%20Actions.pdf

to build resilience against future pandemics, finance sustainable transition, and build an enabling ecosystem for digital finance.

Most of these objectives can only be met through collaboration within and among member economies and between the public and private sectors. For this reason, we call for concerted action to enable our region to overcome the challenges we are facing today. We in ABAC remain committed to continuing our collaboration with APEC Finance Ministers in pursuit of stronger, more inclusive, more sustainable and more balanced growth in the Asia-Pacific region.

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BUILDING A RESILIENT FUTURE: ENABLING FINANCIAL SERVICES TO PROMOTE SUSTAINABILITY, DIGITALIZATION AND RISK MITIGATION

2022 Progress Report

Asia-Pacific Financial Forum ● Asia-Pacific Financial Inclusion Forum ● Asia-Pacific Infrastructure Partnership

Full Report:
http://www2.abaconline.org/assets/2022/2022_Progress_Report_of_APFF_APFIF_and_APIP.pdf

EXECUTIVE SUMMARY

The COVID-19 pandemic caused huge losses in human lives, business income and jobs, disproportionately impacting developing economies, small enterprises and marginalized sections of society. The unprecedented and vigorous response by governments and central banks averted a full-blown recession and crisis, kept the global economy afloat and paved the way for recovery. However, economies now need to deal with the aftermath of the pandemic. This includes record levels of public and private debt, constrained fiscal space, hugely expanded central bank balance sheets, and a return of inflation, this latter now being exacerbated by the very significant economic impact of the current geopolitical conflict.

These developments pose serious challenges to the Asia-Pacific region. The impact of the pandemic is still being felt in most APEC member economies, even as some governments continue to deal with the serious threat posed by new COVID variants. With new macroeconomic realities demanding more restrictive fiscal and monetary policies from governments and central banks and with the prospects of recession beginning to loom on the horizon, more private sources of financing will need to be mobilized in order to support continued economic activity as the public sector undertakes policy adjustments.

There are opportunities in every crisis, and in this particular one they lie in the transformation of the entire economy. Meeting the twin challenges of digital technology and the demand for greater sustainability requires huge investments and major changes in the way businesses, households and governments operate. Under the current circumstances, it has become even more important for the public and private sectors to collaborate in order to effectively enable the financial industry to play its catalytic role in incentivizing businesses and consumers to promote this transformation.

Many initiatives proposed by business that the APEC Finance Ministers endorsed over the years were focused on reforms that can expand access to finance, particularly through digitalization, and enhance resilience and sustainability. This Progress Report covers the work and achievements of the Asia-Pacific Financial Forum (APFF), the Asia-Pacific Financial Inclusion Forum (APFIF) and the Asia-Pacific Infrastructure Partnership (APIP) in promoting the implementation of these reforms since the last APEC Finance Ministers' Meeting until the present and provides information on planned activities until the end of 2022.[1] It focuses on three areas: (a) sustainable finance; (b) inclusive digital finance; and (d) financial resilience.

Achieved Policy Reforms

In addition to various ***policy reforms*** recently implemented by member economies with support from Financial Infrastructure Development Network (FIDN),[2] the Philippines' Revised Warehouse Receipts

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[1] The Asia-Pacific Financial Forum (APFF), the Asia-Pacific Financial Inclusion Forum (APFIF) and the Asia-Pacific Infrastructure Partnership (APIP) were established by the APEC Finance Ministers to serve as platforms for collaboration among the private sector, the public sector and international organizations to implement proposals that the Ministers have endorsed. These policy initiatives are under the umbrella of the APEC Finance Ministers' Process (FMP) and the management of the APEC Business Advisory Council (ABAC).

[2] Among the policy reforms recently implemented by member economies with support from various activities of FIDN are the following:
- The Philippines: Launch of the secured transactions collateral registry in April 2021.
- Viet Nam: The issuance of Decree 21, which brings the secured transactions reform in line with the new Civil Code of 2015, including

Law (House Bill 8698) was passed 196-0 by the House of Representatives last year, while its counterpart bill in the Senate (Senate Bill 2049) has completed its first reading and has been referred to the Committee on Trade, Commerce, Entrepreneurship and Finance.

Financial regulators are also paying more attention to formalizing the relationship between financial institutions and third-party data and data analytics firms. As an example, a new policy on MSME finance issued by the China Banking and Insurance Regulatory Commission in April 2022 contains a section on lender and third-party data collaboration including basic requirements on financial institutions for third party processing of data.

Capacity-Building Activities

Capacity-building activities are important tools to ***provide member economies access to expertise and other economies' experiences in implementing priorities*** that form part of the FMP work plan. To this end, various dialogues and webinars were held to assist economies in the following areas:

- workshops and establishment of local governance structures for climate-related disclosures;
- financial inclusion;
- credit reporting; personal data governance, data privacy and data analytics;
- secured transactions, factoring and digital supply chain finance systems;
- trade finance;
- digital assets and central bank digital currencies (retail and wholesale);
- valuation practices and standards;
- open data;
- catastrophe bonds;
- pandemic risk insurance;
- insurance regulation and accounting;
- circular economy infrastructure; and
- innovative health care financing solutions.

Promoting Asia-Pacific Perspectives in Global Processes

The APFF participated in international discussions with global regulatory and industry organizations to share lessons and perspectives from its work in APEC economies and ***contribute to the shaping of global standards, frameworks and model laws*** that incorporate insights from the region into their formulation, and thus promote their applicability to the region's economies. These included discussions on:

- international sustainability standards;
- inter-operable ESG taxonomies;
- transition finance;
- sustainable innovation financing;
- international accounting standards for insurance contracts and financial instruments;
- insurance capital standards;
- electronic registry design and operation;
- coordinated implementation of international standards on receivables finance;
- model law for factoring;
- online dispute resolution; and
- PPPs in pandemic risk transfer solutions

Tools for Reforms and Cooperation

The following documents were developed to ***provide tools for policy makers and regulators*** in translating high-level recommendations into concrete policies, regulations, collective actions and capacity building measures:

- *APEC Sustainable Finance Development Roadmap (second iteration)*;
- *A Framework to Assess ESG Value Creation*
- *Asia-Pacific Financial Inclusion Forum: The Role of Central Bank Digital Currencies in Financial Inclusion –*

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the explicit recognition of transfer of claims, which is critical for the development of the factoring market.

- China: Consolidation of its moveable property registration into a single agency (Credit Reference Center of the People's Bank of China) on 1 January 2021. This completely replaced local-level filings on inventory and other related assets.

Proposed Actions for Policymakers and Regulators; and
- *APFF White Paper on Wholesale Central Bank Digital Currencies*;

Support for ABAC in the Formulation of Recommendations

Several roundtables were convened to ***assist the Council in formulating recommendations*** to Finance Ministers and Leaders. These focused on the role of macroeconomic and supply-side policies in promoting recovery; identifying key structural reforms to raise productivity; PPPs in pandemic risk transfer; development of effective carbon emissions trading markets; transitional financing for MSMEs; financing sustainable infrastructure; inter-operable open data systems; central bank digital currencies; and the digital market infrastructure for MSME supply chain finance.

Conclusion

The COVID-19 pandemic and its aftermath are posing serious challenges to the economies of the Asia-Pacific region. With governments and central banks finding themselves constrained in using traditional tools to fight economic headwinds and to sustain recovery, it has become more important than ever to enable the business sector to further expand its contributions to economic growth and development. In this process, the financial industry can play a catalytic role to promote inclusive digital infrastructure, sustainability and resilience.

The road ahead for APEC is not totally uncharted, as the ways to make finance more inclusive, innovative, sustainable and resilient have already been the subject of much research and discussion long before the arrival of COVID-19. It only remains for them to be translated into concrete policies, regulations and capacity building measures. The pandemic and its aftermath, and new economic challenges stemming from geopolitical conflict we are facing today, have injected a sense of urgency representing an opportunity that is there to be seized.

The APEC Finance Ministers' Process can take the lead in translating this sense of urgency into individual and collective actions to advance the implementation of these deliverables in the Finance Ministers' multi-year agenda. Much can be achieved by coordinating this with the work of the multilateral organizations and the initiatives of the business sector, as well other relevant APEC fora. As this Progress Report shows, these initiatives continue to provide support to economies in undertaking important reforms, especially in expanding access to finance, and individual economies as well as APEC fora are coming forward to make full use of these platforms for public-private collaboration to advance various initiatives related to digitalization and sustainability.

In this context, we look forward to working with APEC Finance Ministers and other relevant APEC fora and authorities in seizing opportunities for undertaking concrete reforms and capacity building measures that will help our region build a resilient future by enabling financial services to promote sustainability, digitalization and risk mitigation.