



FORGING PARTNERSHIPS FOR A BETTER FUTURE
DEVELOPING INCLUSIVE, SUSTAINABLE AND RESILIENT
FINANCIAL SYSTEMS IN APEC

2023 Progress Report

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

Draft as of 2023-07-24

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EXECUTIVE SUMMARY

The global economy is currently facing multiple challenges as a consequence of recent geopolitical, social and economic developments, ending the long period of low inflation and relative stability that the world had enjoyed in the years since the end of the Global Financial Crisis. Increased uncertainty, inflation and supply chain disruptions are now significantly impacting Asia-Pacific economies, particularly developing economies, small businesses and vulnerable population groups. Various indicators suggest that these challenges will continue to be felt by the region in the foreseeable future.

With today's macroeconomic realities imposing serious restraints on fiscal and monetary policies by governments and central banks and with dismal prospects for growth on the horizon, more private sources of financing will need to be mobilized in order to support continued economic activity and resilience as the public sector undertakes policy adjustments. However, while this situation poses a challenge for governments, it also presents an opportunity to advance the much-needed transformation of our economies in response to digitalization and climate change.

While there remains a number of high-level issues where consensus is still being formed, most of the important steps toward promoting digital transformation and sustainability have already been identified during previous years in APEC. Many of them are enshrined in multi-year action agenda like the Finance Ministers' Cebu Action Plan or initiatives that have been endorsed in various ministerial and Economic Leaders' statements, and only remain to be translated into concrete laws, policies, regulations and capacity building measures that meet the domestic needs and requirements of economies in this very diverse region.

It is on this process where this report is focused. 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).¹

This Progress Report covers the work and achievements of these initiatives since the last APEC

¹ Their work has covered various areas that are being progressed under the FMP.

- The APFIF, established in 2010, has provided a capacity-building platform for developing economy regulators and officials in working with the private sector to promote access to financial services of low-income populations and micro- and small enterprises.
- The APIP, established in 2011, has been providing advice to officials on policy reforms and measures to develop bankable infrastructure projects that can attract private sector funding. It has contributed to key documents on infrastructure issues produced by the Finance Ministers.
- The APFF, established in 2013, has engaged with various public and private sector bodies in achieving FMP deliverables in areas ranging from data and credit information, secured transactions and insolvency regimes, trade and supply chain finance, capital markets, financial market infrastructure, disaster risk financing and insurance, development of the insurance and pensions industry and the long-term investor base, as well as health care financing.

Finance Ministers' Meeting hosted by Thailand in Bangkok in October 2022 until the present and provides information on planned activities until the end of 2023. It focuses on three areas: (a) sustainable finance; (b) inclusive finance; and (d) financial resilience. In addition, the Report also describes new efforts to intensify engagement with local stakeholders in member economies in order to increase support for activities being undertaken to help them implement deliverables that the Finance Ministers have identified.

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;
- digitalization of trade finance;
- wholesale central bank digital currencies;
- 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;
- just energy transition pathways;
- interoperable transition financing mechanisms
- 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; 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:

- *Guiding Principles for the Development of Inter-Operable Open Data Systems in the Asia-Pacific Region;*
- *Asia-Pacific Financial Inclusion Forum: Policy Approaches to Support Green Financing of Micro-, Small and Medium Enterprises—Proposed Actions for Policymakers and Regulators;* and
- *Principles for the Development of Interoperable 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 facilitating end-to-end cross-border digital trade finance, facilitating cross-border open data and digital payment transactions, promoting interoperable wholesale central bank digital currencies, developing a toolbox of mechanisms to facilitate cross-border data flows and promoting adoption of privacy-enhancing technologies, financing just and affordable transition and financing sustainable innovation.

Conclusion

The consequences of recent geopolitical, social and economic developments are posing serious challenges to the economies of the Asia-Pacific region, most of which face record levels of public and private debt, constrained fiscal space, hugely expanded central bank balance sheets, and a return of inflation. 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 for many years. Solutions are already enshrined in the Finance Ministers' Cebu Action Plan from 2015 and the FMP agenda and identified in past ministerial statements. It only remains for them to be translated into concrete policies, regulations and capacity building measures. The multiple challenges 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 participating in the FMP – the ADB, IMF, OECD and the World Bank – and with 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. 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, sustainability and resilience. In this context, we look forward to working with APEC Finance Ministers and other relevant authorities in seizing opportunities for undertaking concrete reforms and capacity building measures that will help our region build a better future by enabling financial services to promote sustainability, digitalization and resilience.

INTRODUCTION

The global economy is currently facing multiple challenges as a consequence of recent geopolitical, social and economic developments, ending the long period of low inflation and relative stability that the world had enjoyed in the years since the end of the Global Financial Crisis. Increased uncertainty, inflation and supply chain disruptions are now significantly impacting Asia-Pacific economies, particularly developing economies, small businesses and vulnerable population groups. Various indicators suggest that these challenges will continue to be felt by the region in the foreseeable future.

With today's macroeconomic realities imposing serious restraints on fiscal and monetary policies by governments and central banks and with dismal prospects for growth on the horizon, more private sources of financing will need to be mobilized in order to support continued economic activity and resilience as the public sector undertakes policy adjustments. However, while this situation poses a challenge for governments, it also presents an opportunity to advance the much-needed transformation of our economies in response to digitalization and climate change.

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.

While there remains a number of high-level issues where consensus is still being formed, most of the important steps toward promoting digital transformation and sustainability have already been identified during previous years in APEC. Many of them are enshrined in multi-year action agenda like the Finance Ministers' Cebu Action Plan or initiatives that have been endorsed in various ministerial and Economic Leaders' statements, and only remain to be translated into concrete laws, policies, regulations and capacity building measures that meet the domestic needs and requirements of economies in this very diverse region.

It is on this process where this report is focused. 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

By engaging a wide range and variety of firms and industry associations, regulatory agencies, and multilateral and academic institutions, these policy initiatives have (a) helped initiate legal, regulatory and institutional reforms in several economies;³ (b) provided critical support to regional initiatives;⁴

² Their work has covered various areas that are being progressed under the FMP.

- The APFIF, established in 2010, has provided a capacity-building platform for developing economy regulators and officials in working with the private sector to promote access to financial services of low-income populations and micro- and small enterprises.
- The APIP, established in 2011, has been providing advice to officials on policy reforms and measures to develop bankable infrastructure projects that can attract private sector funding. It has contributed to key documents on infrastructure issues produced by the Finance Ministers.
- The APFF, established in 2013, has engaged with various public and private sector bodies in achieving FMP deliverables in areas ranging from data and credit information, secured transactions and insolvency regimes, trade and supply chain finance, capital markets, financial market infrastructure, disaster risk financing and insurance, development of the insurance and pensions industry and the long-term investor base, as well as health care financing.

³ These include for example the passage of the new secured transactions law in the Philippines and the introduction of the new warehouse receipts bill in 2018; the enactment of the law on secured transactions in Brunei Darussalam in 2016; the development of legislative reform proposals on secured transactions in China, Thailand and Viet Nam; the development of reform proposals on credit information systems in Brunei Darussalam, China, Philippines, Thailand and Viet Nam; the introduction of the title-transfer repo in the Philippines in 2015, various specific improvements to regulations, laws, administrative structures and financing mechanisms affecting infrastructure in Indonesia, the Philippines and Thailand.

⁴ These include the adjustment of rules in the Asia Region Funds Passport in 2016 that enabled Japan to join the scheme; the APFF

and (c) laid the groundwork for structural reforms through the development of roadmaps, strategies, work programs and dialogue platforms.⁵ The Cebu Action Plan provided a clear multi-year framework that identified specific initiatives and deliverables where these public-private platforms could play active roles, and helped focus their work and attract subject matter specialists from the private sector to help achieve the objectives set by the Finance Ministers.

This Progress Report covers the work and achievements of these initiatives since the last APEC Finance Ministers' Meeting hosted by Thailand in Bangkok in October 2022 until the present and provides information on planned activities until the end of 2023. It focuses on three areas: (a) sustainable finance; (b) inclusive finance; and (d) financial resilience. In addition, the Report also describes new efforts to intensify engagement with local stakeholders in member economies in order to increase support for activities being undertaken to help them implement deliverables that the Finance Ministers have identified.

I. SUSTAINABLE FINANCE

In 2020, the APEC Business Advisory Council (ABAC) proposed to the Finance Ministers the establishment of a public-private collaboration platform to help accelerate convergence of sustainable finance policies among APEC's member economies and strengthen the region's voice in the development of common global sustainability frameworks. At their annual dialogue in that year, APEC Finance Ministers welcomed ABAC's recommendations on ESG finance and the proposal to establish the Sustainable Finance Development Network (SFDN) within the APFF. In 2022, the Finance Ministers included sustainable finance as one of its two priorities in their agenda.

The SFDN's focus is to address the major challenge facing the Asia-Pacific region today, which is the fragmented ESG landscape and the lack of applicable and practical common standards that can guide lenders and investors in incentivizing companies and organizations, especially in emerging markets, to progressively align their practices with sustainable development goals. It sees its role as providing a collaborative platform to enable APEC economies to leverage relevant ongoing initiatives and existing tools to facilitate financing of sustainable development projects.

Capacity-Building Activities

In December 2021, the SFDN launched the first of its local governance structures to support an efficient coordination of efforts around capacity building. Following the successful Japanese Task Force on Climate-related Financial Disclosures (TCFD) Consortium model,⁶ the Mexican TCFD Consortium was established and undertook the translation and adaptation of several TCFD documents into Spanish for usage across the region and a series of workshops and virtual TCFD and carbon disclosure project (CDP) training events, with financial support from GIZ. It is also developing a Partnership for Carbon Accounting Financials (PCAF) pilot and the first global, private-sector-led, bottom-up pilot analysis of climate scenarios (per request by the Mexican Central Bank), which it plans to extend later to other economies in the region. Finally, the Consortium plans to develop a series of implementation guides and surveys, additional trainings on financial institutions transition to low carbon models and organize the first regional integration event on climate risk.

The consortium has partnered with other regional stakeholders to expand and coordinate actions among Spanish-speaking economies. It has formally joined the ISSB Capacity Building Partnership

study on tax implications of ARFP that helped accelerate the signing of the Memorandum of Cooperation; the pilot project for cross-border exchange of credit scores among credit bureaus in the Mekong region in 2016; the successful and smooth mandatory exchange of variation margin for non-cleared over the counter derivatives in 2017; and the improvements on IFRS 17 rules on OCI and CSM.

⁵ These include the Roadmap for Financial Market Infrastructure and the Roadmap for Microinsurance in 2017; and the APEC Roadmap for a New Financial Services Data Ecosystem, Strategy for the Digitalization of Trade and Supply Chain Finance and Essential Elements of an Effective Personal Insolvency Regime.

⁶ This model was also adopted by Sustainable Finance Ireland, which established the International Sustainable Finance Center of Excellence.

Framework and is currently coordinating with ISSB a process to develop and leverage these coordinated local governance structures to support their Partnership Framework plans with a potential pilot in Latin America. The Consortium will also be supporting the GFANZ Latin American network being launched this year. SFDN is currently holding discussions with some economies, to establish their own local governance structures to support disclosure capacity building.

In April, SFDN co-hosted a roundtable among sustainable finance practitioners in collaboration with Temasek Trust Capital. The roundtable drew participation from multilateral organizations, industry, civil society and government and discussed ongoing challenges arising from fragmentation of efforts in sustainable finance and how progress can be accelerated. The roundtable discussions revolved around Singapore's role as a catalyst and test bed for sustainable finance in the region especially in relation to other emerging markets in the region.

Developing the SFDN's Agenda, Network and Tools for Cooperation

Welcomed by APEC Finance Ministers in 2021, the SFDN Sustainable Finance Roadmap is a work framework to support alignment among economies, various parallel initiatives and stakeholders. The Sustainable Finance Collaboration framework in this roadmap is currently undergoing an update to develop its second iteration. For this purpose, the SFDN is initially approaching private sector players to provide their inputs for a draft version, to then approach the APEC economies' public sector institutions to provide their own inputs and feedback. The process will include a stock take of stakeholders and initiatives for each of the action items in this framework and will utilize the United Nations Development Programme's (UNDP) Sparkblue platform which functions as an online community engagement service.

Governance Structure

Led by a steering committee,⁷ the network has seven work streams: Taxonomy, Disclosure, Carbon Markets, Sustainable Infrastructure, MSME Transition Finance, Just Energy Transition, and Innovation. The first five focus on implementation of recommendations that had already been previously welcomed by Finance Ministers, while the latter two are currently supporting the development of ABAC's recommendations for this year on transition financing (including just energy transition) and financing sustainable innovation.⁸

Supporting the development and implementation of recommendations

These SFDN work streams are working to support the implementation of recommendations:

- Carbon Markets: SFDN is currently exploring a pilot project in Philippines documenting Private Sector's entry to carbon market
- MSME Transition Financing: preliminary work and potential pilots from international experience are planned subject to guidance from upcoming Peruvian Presidency on this topic. These include

⁷ The SFDN Steering Committee has grown into a 13-member body, including a member from Peru to align with the upcoming APEC Presidency. This committee includes leading global organizations in Sustainable Finance, and will ensure that the plan and activities of the network are playing an effective coordination role and are not overlapping with any other existing initiatives.

⁸ Activities in support of developing ABAC recommendations consisted of the following:

- Just energy transition: SFDN co-organized a roundtable on Just and Affordable Energy Transition with ABAC Australia and developed the roundtable report to support the development of recommendations.
- Transition Financing: SFDN co-organized with ADB three roundtables on Transition Finance and will develop a Report to support the development of recommendations on Transition Finance. SFDN is in the midst of developing a Horizon Scanning and Mapping Report on existing Transition Finance Frameworks, Tools and Methodologies. The mapping exercise will identify the various frameworks' relevance to each principle within the pillars of the G20 Framework. Strengths and weaknesses in terms of their applicability to the G20 Transition Finance Framework were examined. The findings from this analysis will be instrumental in shaping the forthcoming Guidance on the Operationalization of the G20 Transition Finance Framework and will inform valuable findings and recommendations to APEC Finance Ministers.
- Innovation: SFDN co-organized an Innovation hybrid roundtable with ABAC Singapore on Financing Sustainable Innovation which covered the current landscape, creating sustainable innovation financing ecosystems and leveraging intellectual property to finance sustainable innovation. The roundtable report will feed into ABAC's recommendations to Finance Ministers.

work on venture capital, automated GHG disclosure and transitioning MSMEs through Carbon Market Participation

- Sustainable Infrastructure Financing: SFDN is currently in discussions with Thailand and exploring other economies to run a pilot project on infrastructure data platforms.

Other Activities

- Disclosure: The SFDN Disclosure Work Stream plan has two main pillars: The SFDN Secretariat, in collaboration with UNEP FI, will soon be publishing a report to support and guide the development of local governance structures to efficiently support capacity building in disclosure and to support the ISSB Capacity Building partnership framework. These paper feeds from the experience and best practices of the Japanese and Mexican TCFD Consortiums and Sustainable Finance Ireland in implementing their local governance structures.
- SFDN participated in two Sustainable Finance Missions to London with Mexican and Peruvian public and private sector stakeholders.
- It has started to provide support to the Net Zero Data Public Utility Initiative
- SFDN Website: an initial version of the SFDN website was launched: <https://www.fc4s.org/sfdn/>. A blog was published to publicize SFDN's undertakings and work in 2023: <https://undp-asia-pacific.shorthandstories.com/the-state-of-sustainable-finance-in-apec/>

Upcoming Activities in 2023

Among activities planned for the rest of 2023 are:

- active participation at COP28,
- planning for a possible conference on sustainable finance around the dates of the 2023 APEC Finance Ministers' Meeting in San Francisco;
- continued dialogue with the International Sustainability Standards Board (ISSB) in support of its Capacity Building Partnership Framework and communication of this partnership to the ecosystem;
- continuation of conversations with Thailand and Chile on the development of a local governance structure to support Climate-ISSB Disclosure capacity building and engaging with any other interested economies;
- support for the FMP's sustainable finance priorities in 2024 and continuity of the FMP's work in 2023;
- advisory activities in support of the launch of the GFANZ Latin American Network in second half of 2023; and
- a basic sustainable finance training for interested ABAC and APEC stakeholders.

II. INCLUSIVE FINANCE

Implementing FMP initiatives promoting access to finance is being progressed through the Asia-Pacific Financial Inclusion Forum (APFIF), which focuses on financial inclusion, the APFF Financial Infrastructure Development Network (FIDN), which focuses on improving MSMEs' access to finance, the APFF Digital Trade Finance Lab, the APFF Financial Market Infrastructure Network and the APFF Valuation Standards and Practices Working Group.

A. Financial Inclusion

The Asia-Pacific Financial Inclusion Forum (APFIF) was established as a policy initiative upon the recommendation of the APEC Business Advisory Council (ABAC) by the APEC Finance Ministers in 2010. Led by the Asian Development Bank (ADB), it aims to deliver the objectives of the FMP related to financial inclusion. APFIF achieves this by facilitating the identification and development of concrete actions that policymakers and regulators can take to extend the reach and value of financial services to everyone, including those at the base of the economy who are most in need.

2023 APFIF Policy Dialogue – Policy Approaches to Support Green Financing of Micro, Small, and Medium Enterprises

Micro, small, and medium-sized enterprises (MSMEs) play an important role in driving economic growth in developing economies, contributing to job creation and the development of innovative products and services. MSMEs encounter high barriers in accessing financing opportunities, such as limited credit history and lack of collateral. Rapid green transition further highlights surging financing needs for the businesses in navigating net zero pathways, posing growing challenges to MSMEs in particular which are largely constrained in the access to green financing.

To better understand challenges and opportunities for the green financing of MSMEs, the ADB, in partnership with the Asian Development Bank Institute (ADBI) and with support from the Griffith Asia Institute (GAI), organized the 2023 APFIF Policy Dialogue in Tokyo, Japan from 21-22 June 2022.

This meeting, which has been held annually since 2010, brought together senior government officials from 11 Asia-Pacific economies as well as 25 policy and industry experts. Under the theme “Policy Approaches to Support Green Financing of Micro, Small, and Medium-sized Enterprises”, the roundtable policy dialogue focused on identifying effective policy approaches to (a) promote greater awareness and development of green finance products tailored to MSMEs; (b) overcome the practical challenges MSMEs face in accessing green finance; (c) address food insecurity by developing green finance opportunities for small-holder farmers; and (d) expand green finance opportunities and effectiveness for MSMEs through innovative technology solutions.

As a result of this dialogue, a series of preliminary proposed actions have been developed for the consideration of APEC policymakers and regulators (See Appendix). These proposed actions will be further refined and articulated in a full report to be published later this year. Some of the key issues addressed within these proposed actions include steps to close the knowledge gap on how to expand the supply of green finance to MSMEs; defining the unique features of MSMEs within sustainable finance taxonomies and green finance frameworks; implementing incentives and regulatory measures to promote the enabling environment for green financing of MSMEs; facilitating the development of innovative technology solutions for green finance, including fintech; and supporting the capacity development of green finance stakeholders from both supply- and demand-side perspectives.

These proposed actions aim to support efforts within the FMP to accelerate financial inclusion as a priority area of the Cebu Action Plan as well as to progress the APEC’s Putrajaya Vision 2040 and priorities of the APEC Host Economy, USA; both of which call for greater progress in achieving greater inclusion and sustainability for the region.

B. Financial Infrastructure Development

The Financial Infrastructure Development Network (FIDN) was established as a work stream within the APFF to progress various priorities under the Cebu Action Plan (CAP). It was tasked to draw the support of ABAC, the SME Finance Forum, the World Bank Group and other international organizations to support interested APEC economies in undertaking reforms to develop (a) secured transactions systems;⁹ (b) data ecosystem; and (c) credit information systems.

⁹ Since its launch in November 2015 under the Cebu Action Plan, the Secured Transactions Reform Working Group has focused its efforts to assist economies on four primary areas: (a) law reform (working with member economies to improve secured transaction laws to allow MSMEs to leverage moveable assets in line with global best practices, following primarily UNCITRAL’s Model Law on Secured Transactions); (b) registry reform (supporting law implementation and the establishment of online, centralized, low-cost moveable asset collateral registries); (c) ecosystem development (fostering enabling industries to support expansion of secured transactions, including valuation practices and collateral management industries); and (d) capacity-building (supporting the development of market expertise and awareness of secured lending products among key stakeholders, including MSMEs, financial institutions, non-bank financial institutions and regulators). Significant progress has been made across the region, with most work focused on Brunei, China, Philippines, Thailand, and Vietnam as detailed below. Recognizing the work completed to date and to better align with key ABAC initiatives to enhance the ability of MSMEs to participate successfully across borders and in global value chain and expand their innovative capabilities and global presence through internet and digital economy and e-commerce platforms, in addition to facilitating MSME access to finance, FIDN is working to complement its initial focus, with expanded efforts on the modernization of secured transactions through two key areas: (a) digitalization (strengthening the enabling environment for e-platforms to operate efficiently, through receivables’ finance,

1. Secured Transactions

Achieved Policy Reforms

In addition to various policy reforms recently implemented by member economies with support from FIDN,¹⁰ the Model Law on Factoring was approved by UNIDROIT on 10 May 2023 by the UNIDROIT Governing Council, with an expected publication date around Q3 2023 and the guide to enactment to follow shortly thereafter – this model law has already been recognized as one of three key pillars of the “Financial Inclusion Roadmap¹¹” by the World Trade Board. The Philippines’ Revised Warehouse Receipts Law (House Bill No 198) was passed by the House of Representatives in May 2023 and referred to the Senate (SBN-2173) where it has been referred to the Committee on Trade, Commerce, Entrepreneurship and Finance.¹²

Capacity Building

The FIDN held the following capacity-building workshops to share best practices with relevant stakeholders from member economies:

- *The Philippines: 11th FIDN Conference on Accelerating Moveable Asset Finance and Supply Chain Finance in post-COVID Developing APEC Economies* (22 November 2022, Virtual). The event focused on the theme of accelerating movable asset finance and supply chain finance (SCF) in Post-COVID developing APEC economies. It was jointly organized by Bangko Sentral ng Pilipinas (BSP), Financial Executives Institute of the Philippines (FINEX), APFF, and IFC/World Bank Group.¹³
- *Viet Nam: APEC-APFF FIDN Conference on International Best Practice in Secured Transactions Enforcement* (15 December 2022, Ho Chi Minh City). This event was primarily targeted to Vietnamese stakeholders. The economy has carried out significant reforms in secured transactions and movable asset finance market development in recent years with the assistance of FIDN and IFC.¹⁴

Development of Global Best Practices

The FIDN also participated in international workshops to identify best practices that can be applied in APEC member economies, as well as share the lessons from its work in the region’s developing economies to help in the development of model laws. These include:

warehouse receipt, and supply chain finance platforms; while supporting the digitalization of financing documents and instruments (e.g digital/e-invoices, e-warehouse receipts). and (b) globalization (Improving the harmonization of secured transaction systems to expand MSME participation in global trade; driving collaboration among related APEC fora to maximize outcomes).

¹⁰ 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 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.

¹¹ <http://worldtradesymposium.com/sites/wts/files/file/2023-03/financial-inclusion-in-trade-roadmap-2023.pdf>

¹² A similar bill passed by the House last year failed to be fully enacted before the end of the legislative term.

¹³ With a diverse range of speakers from across APEC, the conference leveraged the results of an IFC study on the Philippine SCF market development to understand the current market gaps and discuss recommendations for the different stakeholders, including financial regulators, MSME & agri support ministries, value chain participants, financial institutions, e-platform operators, warehousing & logistics services providers. The meeting highlighted similar gaps in several other developing APEC Economies, reviewed recent actions taken, and called for more reforms in the legal and regulatory foundations and efforts in market development.

¹⁴ The number of credit transactions involving movables is about half million per year. Apart from the Vietnamese speakers, the event benefitted from the insights shared by speakers from Hong Kong, Singapore, IFC and UNIDROIT. Among others, the role of alternative dispute resolution mechanisms was discussed and the need for digital database on court rulings as well as the benefits of online judicial proceedings were highlighted.

- UNCITRAL Regional Center for Asia Pacific Symposium on The Road Ahead: Regional Trade, Global Standards and the Future of Legal Harmonization regarding MSME Establishment, Access to Finance, Recovery Support and Sustainable Trade (11 November 2022, Virtual)
- Working Group 6 Virtual Session for the UNIDROIT Model Law for Factoring (28-30 November 2022);
- 5th Virtual Conference on International Coordination of Secured Transactions Reform: Coordination in Practice and Enhancing Access to Credit (10 Jun 2021).

Additionally, the FIDN is monitoring the ongoing work regarding the development of the “Guide on Access to Credit for Micro, Small and Medium-Sized Enterprises” by UNCITRAL’s Working Group I on MSMEs, which is expected to be adopted by the Commission in September 2023. Upon adoption, the Guide will be a valuable resource to APEC member economies to further develop access to finance for MSMEs.

Planned and Prospective Activities for the Rest of 2023

FIDN and APFF Digital Trade Finance Lab Conference on Promoting Digital Supply Chain Finance in APEC Economies: Market Growth and Risk Control (7 September 2023, Singapore). This conference will discuss the implications of recent geo-political changes, supply chain re-alignment and fiscal & banking sector pressures on SCF, review the latest SCF risk trends in the Region and highlight the options available for APEC Economies. Thereafter, the 12th FIDN Conference is expected to be held during November-December 2023 in Vietnam and will focus on non-bank lending institutions’ challenges and the development of the 3rd party data & data analytics industry.

2. Credit Information

Capacity Building

The FIDN is working with ABAC Philippines upon request of the Credit Information Corporation (CIC) and BSP on matters relating to the transfer of the CIC to the BSP via executive order in 2022. The CIC and BSP have undertaken various measures offered as prescriptions in a report co-authored by the Makati Business Club and the Asia-Pacific Credit Coalition/PERC and presented to Philippine policymakers at a major event co-hosted by the APFF, Makati Business Club, and the APCC in the Fall of 2020.

Despite the notable progress, it has become clear that the transition process would be aided greatly by amending the Credit Information Sharing Act (CISA) to comply with international best practices.¹⁵ Toward that end, ABAC Philippines, The APCC and FIDN will be providing technical consulting for the duration of 2023 and into 2024 as needed. FIDN experts continue to be available to participate in regional workshops and conferences as needed.

3. Data Ecosystem

Collaboration with ABAC to develop recommendations on cross-border data flows and privacy enhancing technologies

The FIDN Data Ecosystem Working Group assisted ABAC in developing proposals for innovative and practical approaches to privacy protection in cross-border data sharing, the opportunities arising from advances in privacy-enhancing technologies (PETs) and the role that government policy and regulation and APEC collaboration can play in enabling the expanded safe and trusted cross-border flow of data in the region. The proposals focused on a toolbox of mechanisms to expand cross-border data flows in compliance with data privacy requirements (in addition to CBPR) and ways to promote the adoption of PETs. The following activities were held to develop these proposals:

- 2022-12-14, Auckland: Co-hosted Hybrid Discussion with Emerging Payments Association Asia (EPAA)
- 2023-02-22: Hybrid Roundtable "Toward Freer Safe and Trusted Flow of Data in the Asia-Pacific Region" in Washington, DC

¹⁵ These include best practices published by the World Bank and the International Committee on Credit Reporting (ICCR).

- 2023-04-25, Singapore: Hybrid Roundtable in Singapore
- 2023-06-15: Virtual Workshop to finalize the recommendations
- ***Planned and Prospective Activities for the Rest of 2023***

The Working Group and ABAC will hold a joint workshop on PETs with the APEC Digital Economy Steering Group's Data Privacy Subgroup in Seattle on 8 August 2023.

C. Digital Trade Finance

Tool for Reforms and Cooperation: APFF Digital Trade Finance Lab Combating Trade-Based Money Laundering (TBML) Whitepaper

Following completion of the 2021 Whitepaper on Combating Trade-Based Money Laundering,¹⁶ the APFF Digital Trade Finance Lab (hereafter referred to as “the Lab”) in 2022 began work on a Proof-of-Concept (POC) on the use of trade and maritime data available from data aggregators for financial institutions to augment their trade finance transactional compliance checks.¹⁷ The POC, which is targeted for completion in Q3 2023, is intended to address the current challenges of financial institutions to identify over-and-under-invoicing in trade finance transactions, which include HS Codes not being a standard element in trade documents, goods descriptions are free text and non-standardized, no official source of price information being available, and prices related to trade routes and corridors not being widely available.¹⁸

The information captured in the POC and the data analysis from sampled, transactional content sets will be used to draft a paper highlighting the key findings, areas of success, further improvements and a recommendation on how this can be formulated to work within the wider trade risk and compliance sector.

Collaboration with ABAC to develop recommendations on end-to-end digitalization of trade finance

The Lab also supported the development of ABAC's recommendations on the end-to-end digitalization of trade finance, focused on standardization of trade documents, alignment of legal frameworks with the UNCITRAL Model Law on Transferable Electronic Records (MLETR) and the development of inter-operable domestic digital supply chain finance platforms. This involved discussions during the following events:

- 16 November 2022, Bangkok: Digital Trade Symposium on Advancing Digital Trade Transformation and Connectivity in APEC and ASEAN
- 27 January 2023: Virtual Roundtable on Facilitating End-to-End Cross-Border Digital Trade Finance
- 27 June 2023: Virtual Roundtable on Accelerating Benefits of Digital Trade Connectivity through Alignment of Legal Framework and Interoperability Tools

Planned and Prospective Activities for the Rest of 2023

¹⁶ See Appendix C of the 2021 Progress Report

[https://www2.abaonline.org/assets/2021_Progress_Report_of_APFF_APFIF_and_APIP_2021-07-22_Final.pdf]

¹⁷ The POC, which is led by S&P Global (formerly IHS Markit), would consume the global trade prices available from S&P Global Market Intelligence to demonstrate use of such data for fair price checks. A first briefing on the POC was made in November 2022 to Lab collaborators, with the invitation for financial institutions to join the POC. As of 1 June 2023, two banks have provided their data for use in the POC. The Lab is awaiting confirmation from a third bank to participate in the POC.

¹⁸ The POC requires participating institutions to provide a sample of transaction data with details such as Goods Description, Total Trade Value, Volume/Quantity, Port of Loading, Port of Discharge, Unit of Measure and Threshold, which will then be matched against the 12-month historical trend and average price of the given product/goods by using customs and government statistical data available from S&P Global Market Intelligence for Fair Pricing Evaluation, without client confidential information. To assist in the identification of mis-reporting in respect to the price and value of goods, the POC shall map the recognized goods description from a trade document to a legitimate HS code, compare standard price and quantity ranges, max and min, deviation and variance to make comprehensive assessments and determine if the documented value of a product is over or under a set threshold and makes 'economic sense' with known historic trade patterns.

Jointly with the APFF FIDN, the APFF Lab is co-organizing an in-person conference in Singapore on 7 September 2023 on the theme, “Promoting Digital Supply Chain Finance in APEC Economies: Market Growth and Risk Control”.

D. Financial Market Infrastructure

Financial market infrastructures (FMIs) are the pillars of financial market integrity and serve to facilitate the efficient and cost-effective flow of investment across markets. APFF’s recent work focused the development of common principles to guide the development of wholesale Central Bank Digital Currencies (CBDCs) and guiding principles for the development of inter-operable open data systems in member economies.

1. Wholesale Central Bank Digital Currencies

Collaboration with ABAC to develop recommendations on common principles for the development of inter-operable wholesale central bank digital currencies (wCBDCs)

Building on previous work in 2021 and 2022,¹⁹ and in particular on its 2022 White Paper *Laying the Foundations of Interoperable Wholesale Central Bank Digital Currencies in the Asia-Pacific Region*,²⁰ the APFF Financial Market Infrastructure Network (FMIN) embarked in 2023 on a collaboration with ABAC in developing a set of common principles through regularly recurring virtual meetings and document sharing. In addition to separate consultations with experts from the Bank of Japan, the Monetary Authority of Singapore, the Hong Kong Monetary Authority, the Bank for International Settlements Innovation Hubs in Hong Kong and Singapore and the World Economic Forum and network members’ engagement in various key organizations,²¹ three major discussions were convened:

- 23 February 2023, Washington DC: Hybrid Roundtable Toward Interoperable Wholesale Central Bank Digital Currencies in the Asia-Pacific Region²²
- 13 June 2023: Virtual Technical Discussion on Principles for Enabling Interoperability for Wholesale Central Bank Digital Currencies in the Asia Pacific Region²³
- 26 July 2023, Hong Kong, China: ABAC-APFF Roundtable on the proposed common principles for the development of interoperable CBDCs

Planned and Prospective Activities for the Rest of 2023

- 4 August 2023, Washington DC (hosted by Citi): Hybrid Roundtable on the Regulated Liability Network (RLN) Concept.

¹⁹ In 2021, the APFF Financial Market Infrastructure Network (FMIN) began work on examining central bank digital currencies (CBDCs). This work included global seminars in 2021 and 2022 to gather key information regarding the issues facing the ASEAN+3 region in the creation of CBDCs, with an eye towards global efforts. This included a landscape of projects underway, including interoperability projects such as mBridge and LionRock, research performed by various agencies and organizations, and the particular needs in ASEAN+3 markets that would encourage development of CBDCs.

²⁰ The paper recommended a number of activities, including the creation of a set of common principles to guide member economies in their own exploration of wholesale CBDCs and in addressing a number of important challenges in their development. Drawing on the conclusions of the paper, ABAC recommended in its 2022 report to APEC Finance Ministers to encourage relevant public and private sector stakeholders to undertake capacity building and collaborate in drafting common principles. This was among ABAC’s recommendations that the Finance Ministers at their annual meeting last year encouraged relevant stakeholders in member economies to collaborate in implementing.

[http://www2.abaconline.org/assets/2022/Reference_Documents/Reference%2009%20CBDC%20White%20Paper.pdf]

²¹ These included the ISO Technical Committee 68 for Financial Services (TC68), the Object Management Group (OMG), the International Securities Association for Institutional Trade Communication (ISITC), the European Central Bank (ECB) and the US Securities and Exchange Commission (SEC).

²² The roundtable, hosted by the US National Center for APEC (NCAPEC), focused on discussion of an initial draft document on Common Principles for CBDC. This hybrid Roundtable brought together representation from a wide group of public and private concerns, including the MAS, Mastercard, the Atlantic Council, Digital Dollar Project, Depository Trust and Clearing Corporation, Circle, the World Economic Forum, and the Emerging Payments Association Asia. Attendees included members from the US SEC and CFTC.

²³ This included participation from BIS Innovation Hub Hong Kong, Standard Chartered Bank, Bloomberg, GLEIF, NRI, Citi and BOJ.

- Monthly virtual meetings to promote deeper understanding of the common principles and provide opportunities for continued evaluation of CBDCs alongside existing payment options.

2. Open Data

Collaboration with ABAC to develop recommendations on common guiding principles for the development of interoperable open data systems

On 10 February 2023, the APFF held a hybrid roundtable with ABAC hosted by the Emerging Payments Association Asia together with KPMG and Payments NZ in Auckland attracting over 100 participants to discuss the elements of common guiding principles for the development of interoperable open data systems in APEC member economies. This was followed by a virtual roundtable hosted by EPA Asia on 23 May and a monthly discussion of the Open Data Working Group to solicit industry inputs to the principles. The principles form part of ABAC's 2023 recommendations to APEC Finance Ministers, which focus on the following elements:

- a) Achieving Domestic and International Inter-Operability
- b) Enabling Trusted and Secure Sharing and Use of Data
- c) Providing an Enabling Governance and Regulatory Framework
- d) Building the Infrastructure
- e) Fostering a Dynamic Market
- f) Laying the Foundations for Adoption through Education

Other Activities

Open data was also discussed by EPA Asia at the Singapore FinTech Festival, in particular how technology-enabled consumers are turning to fintech for financial management and highlighting key principles such as accessibility, scalability, interoperability; focus on adaptable framework, safety, and security; and the goal of building trust and solving problems in the open data ecosystem.

E. Valuation Standards and Practices

The APFF Valuation Standards and Practices Working Group led by the International Valuation Standards Council (IVSC)²⁴ continues its efforts to advance the adoption of common valuation standards²⁵ across the Asia-Pacific Region and to foster the development of a robust valuation profession to monitor and deliver these standards. The IVSC's standards (the "International Valuation Standards", or IVS) are principles-based.

Capacity Building

The Working Group works with other standard setters, regulators, valuation professional organizations, valuation service providers, and the end users of valuation information in APEC member economies to promote the following objectives:

- *To have the IVS referenced in as many legal and regulatory frameworks as possible.* These include, but are not limited to financial reporting (accounting rules in each member economy), civil law (e.g. estate purposes; marriage dissolution), tax rules (for assessment purposes), corporate rules (for M&A) and stock exchange regulations ("takeover rules" for listed companies) among others.

²⁴ The IVSC's goal is to build trust in valuation by:

- Establishing globally consistent, high-quality International Valuation Standards (IVS) across all asset classes, and by
- Supporting the growth of the valuation profession.

²⁵ Valuation standards are important, because they allow the more efficient allocation of capital in view of the strategic objectives the ministers are trying to achieve. This is true:

- *Within economies.* For instance, in protecting the interests of more vulnerable populations, promoting social justice and facilitating better assessment of tax bases.
- *In cross-border transactions.* For instance, capital allocators from economy A are funding a vehicle in economy B that invests in economy C to accelerate the construction of green infrastructure.

- *To foster a robust valuation profession.* Typically, this includes the establishment of one or several valuation professional organizations, which would be able to (a) establish and promulgate local valuation standards that are more granular but consistent with the principles of the IVS; (b) accredit individual valuers after checking their character and competence (experience and/or education and/or ongoing competence); (c) provide educational services to individuals aiming to become valuers (courses and exams) and/or maintain their professional competence (continuing education) and running outreach programs; and (d) accredit or license corporate valuation entities.²⁶

Collaboration with ABAC to develop recommendations on financing sustainable innovation

The Working Group collaborated in organizing the session on intellectual property financing of the April 25 ABAC-APFF-IFC-SBF Hybrid Roundtable on Financing Sustainable Innovation in the Asia-Pacific Region and assisted in developing recommendations that incorporated perspectives from the valuation industry.

III. FINANCIAL RESILIENCE

APFF seeks to promote financial resilience through its work on (a) disaster risk financing and insurance; (b) insurance regulation and accounting; (c) promoting circular economy infrastructure; and (d) health care financing.

A. Disaster Risk Financing and Insurance

Since 2015, the APFF Disaster Risk Financing and Insurance (DRFI) Network has been assisting the APEC Working Group on Regional Disaster Risk Financing Solutions under the APEC FMP to jointly promote DRFI in the region as envisaged in the Cebu Action Plan. Key actions of the DRFI Network over the past couple of years have been centered on catalyzing the region's catastrophe bond market and preparing economies for the next pandemic.

Capacity Building

Catastrophe Bonds

Building on the outcomes of previous discussions on catastrophe bonds,²⁷ the third virtual workshop was held on 4 October 2022, co-organized by APEC and APFF/ABAC, WTW, and Tokio Marine Holdings, providing introduction and market overview of catastrophe bonds and discussions held from the APEC economies on challenges and opportunities in implementing catastrophe bonds.

Preparedness for Pandemic Risks

The COVID-19 pandemic demonstrated the necessity for better mechanisms to increase economic resilience and preparedness against future pandemics, especially as risk models confirm a high likelihood of occurrence and estimate a probability of around 25% for the next severe pandemic occurring within 10 years. ABAC recommended under its 2022 Report to APEC Finance Ministers, to incorporate the Epidemic Risk Markets Platform as a methodology for addressing pandemic risk. Following the recommendation, significant engagement among APEC economies on developing public-private partnerships (PPPs) for pandemic risk transfer has continued, leading to tangible progress in the region. Notable engagements include Thailand and the Philippines.

- In Thailand, two major local insurers are working together with other stakeholders to bring a pandemic-specific business interruption insurance product to market in 2023, supported by the

²⁶ There might or might not be a requirement for valuations to be done by licensed valuers or valuation entities in a given economy. Alternatively, there might not be a legal requirement, but such a requirement becomes a widespread practice. In addition, there might be reciprocal recognition of valuers and/or valuations between economies.

²⁷ The first APEC Virtual Workshop on Catastrophe Bonds was held on 23-24 September, 2020. The second virtual workshop was held on 19 October, 2021, with a geographic focus on Guangdong, Hong Kong, China-Macao Greater Bay Area.

regulator.

- The Philippines is also considering a PPP approach for pandemic risk transfer with regular discussions between stakeholders and government taking place.

On the pure private sector side, most epidemic risk insurance policies so far have been sold in the US, followed by Europe, but product launches also take place in other markets. In the APEC region in 2023, pandemic risk could be placed with an Australian investor. Further, PPP discussions, which are crucial for wider economic resilience, are most advanced in the APEC region. Usually, they strive for implementation in two phases. The goal of phase 1 typically is to secure private sector-led pilot insurance transactions. Phase 2 aims at incorporating contingent lending layers and the public sector as capacity provider, thus scaling up available solutions via a PPP. For the ABAC November meeting, a workshop on pilot implementation is envisioned. Concrete support of the public sector can be via the commitment of smaller amounts of capacity or via identification of pilot clients for epidemic risk insurance transactions (e.g. government-owned businesses), thus creating the required infrastructure on the ground.

Separately, discussions for public sector-led cost-financing solutions to counter infectious disease outbreaks are being held, as a complementary approach to pandemic risk transfer solutions for business interruption.

Other Activities

The APFF DRFI Network has been observing the developments taking place at international initiatives which share the objective of promoting DRFI, particularly that of the Insurance Development Forum (IDF). IDF launched the Global Risk Modeling Alliance (GRMA) program in 2022, which aims to facilitate wider adoption of open-source risk modeling platforms. As a follow up discussion of the above mentioned third Catastrophe Bond workshop, an introduction of the GRMA program has been delivered to Indonesia in March 2023, to seek any possible assistance in the future.

B. Insurance Regulation and Accounting

Since 2013, APFF has been working on promoting the insurers' and pension funds' roles to support the sustainable, resilient, and inclusive growth and development of the Asia-Pacific region, through the APFF Insurance and Retirement Income Network.

International Outreach and Public-Private Sector Dialogues

APFF has been undertaking outreach and dialogue with policymakers, authorities, accounting standard setters, international and regional organizations, and stakeholders to promote the adoption of solvency and accounting regimes²⁸ in line with the Cebu Action Plan's Deliverable 4.E "Exchange experiences through existing public and private sector forums, including APFF, for facilitating long-term investment in infrastructure and encouraging increased pension and insurance industry investment in infrastructure."²⁹ Recent efforts have focused on three areas: accounting, solvency regime and ESG financing.

Accounting

²⁸ APFF identified the following issues and recommendations on insurance regulations and accounting (submitted in 2015 by ABAC to the IAIS. See also APFF Progress Report 2015):

- **Bank-centric regulations:** Standards should reflect long-term nature of insurance. Insurers should be allowed to invest in assets with long-term growth opportunities, such as infrastructure investments;
- **Short-term oriented economic regimes:** Economic regime should have a long-term vision. Insurers should be encouraged to make decisions to be good in the long-run rather looking good at a given moment;
- **"One-size-fits-all" models:** Standards should be principle-based and aim to achieve comparable outcome by taking into account the diversity in different economies;

²⁹ https://www.apec.org/meeting-papers/sectoral-ministerial-meetings/finance/2015_finance/annexa

APFF has been working with the International Accounting Standards Board (IASB) and other stakeholders to find solutions to both interrelated accounting standards IFRS 17 *Insurance Contracts* and IFRS 9 *Financial Instruments* to address issues and concerns identified by APFF. This was done through various approaches over the years, including comment letters proposed by APFF and issued by ABAC, international workshops, and dialogues with individual officials.

After IFRS 17 was published in May 2017, the IASB issued important amendments to IFRS 17 on 25 June 2020 to address concerns and implementation challenges that were identified so far and followed with a targeted amendment to the transition requirements in IFRS 17 on 9 December 2021 to help insurers to avoid temporary accounting mismatches at transition and to improve the usefulness of comparative information for investors. The amendments are effective and IFRS 17 were put in place for annual periods beginning on or after 1 January 2023. It is important to note that many insurers have used the temporary exemption from applying IFRS 9 and have instead continued to apply the predecessor standard IAS 39 *Financial Instruments: Recognition and Measurement*. This exemption will no longer apply from periods beginning on or after 1 January 2023 when IFRS 17 becomes effective. Insurers in most IFRS jurisdictions have started to apply both IFRS 17 and IFRS 9 and the first reports incorporating the effect of these new regulations will be published in the summer of 2023 when interim financial statements for the six months ended on 30 June 2023 will be issued. These reports will reveal for the first time the much anticipated significant changes in insurers' balance sheets and statements of income, causing increased transparency in financial statements and improved comparability also with other industries. APFF continues analysis on implementation status of IFRS 17 and IFRS 9, including its indirect impact on solvency assessment, and provides implementation support as needed in the Asia-Pacific region where a number of IFRS jurisdictions have deferred the adoption of IFRS 17 and IFRS 9 to 2025 and 2026 instead of 2023³⁰.

Regarding IFRS9, as part of its Post-Implementation Review (PIR) on IFRS 9, the IASB considered the issue of the prohibition to recycle unrealized gains³¹ in profit or loss for sales of equities measured at fair value through other comprehensive income or OCI ('FVOCI equities') but decided at its October 2022 meeting to maintain the recycling prohibition because they had not identified any evidence that the requirements had impacted entities' investment decisions. However, till then many insurers have been using IAS39 or local GAAPs, which permit recycling. APFF strongly supports a change to allow recycling for equities measured at fair value through OCI when applying IFRS to ensure that profit or loss correctly reflects financial performance for all long-term investors. Allowing the recycling of realized gains or losses from equity to the profit or loss account would remove the existing accounting disadvantage for long-term equity investments where realized gains and losses must remain in equity. APFF has argued that this change could bring IFRS 9 in line with the IASB's Conceptual Framework. APFF analyzes whether the application of IFRS 9 would create a disincentive for long-term equity investments, such as sustainable investments. APFF also monitors the discussions on other relevant accounting topics which may affect the long-term roles of insurers. In this regard and while acknowledging the IASB's decision from October 2022, the recycling ban on FVOCI equity instruments in IFRS 9 should be foreseen as an essential element of the future Post-implementation Review on IFRS 17, specifically because of the inherent linkage between IFRS 9 and IFRS 17 from the insurance industry perspective being a major institutional long-term investor, contributing to long-term growth and financial stability on global capital markets.

Solvency regime

³⁰ Several IFRS jurisdictions in the Asia-Pacific have deferred the effective date of the adoption of IFRS 17 and IFRS 9: Indonesia, Thailand, and Philippines to 2025 and Mainland China (for unlisted insurers), Vietnam and Chinese Taipei to 2026.

³¹ ABAC submitted the following comment on recycling to IASB in 2015: Items of income and expenses presented in OCI should be permitted to be recycled, since it often reflects how an entity conducts its business and leads to a faithful representation of the performance for the period. It would also build a clearer linkage between financial performance and financial condition. We are not persuaded why the recycling criteria are different for debt and equity instruments. The absence of recycling of equity investments may dis-incentivize the institutional investors to engage in such investment as a possible unintended consequence arising from this inconsistency.

With respect to solvency regime, APFF has been engaging in continuous outreach and dialogue with policymakers, regulatory authorities, international and regional institutions in coordination with industry bodies, to reflect the long-term nature of the insurance business in global regulatory discussions and to avoid dis-incentivizing insurers from supporting long-term growth, in particular quality infrastructure investments. In November 2019, the International Association of Insurance Supervisors (IAIS) agreed on Insurance Capital Standards (ICS) Version 2.0 for a five-year monitoring period. During the monitoring period, ICS are being used for confidential reporting and discussion among supervisors in supervisory colleges.

As part of its work on the ICS over the 2020-2024 Monitoring Period, the IAIS published its ICS technical specifications and is holding a series of consultations and technical discussions. On 23 June 2023, the IAIS launched the final consultation in preparation for adoption of the ICS in 2024 (comments are due by 21 September 2023), that is the candidate ICS as a prescribed capital requirement (PCR) for an Internationally Active Insurance Group (IAIG). The ICS as a PCR will provide a consolidated, risk-based measure of capital adequacy for IAIGs. Group-wide supervisors will use the ICS as a binding requirement, at the group level, for IAIGs headquartered in their jurisdictions. In parallel, the United States is developing an Aggregation Method (AM) to a group capital calculation, which, if deemed comparable, will be considered an outcome-equivalent approach for implementation of the ICS as a PCR.

The proposed ICS as a PCR incorporates policy changes made to ICS version 2.0, based on data and feedback collected during the monitoring period so far, which included several improvements in line with the APFF recommendations³². In addition to feedback on the ICS itself, the IAIS is collecting input on the foreseeable economic impact of ICS implementation. That input will inform the ICS Economic Impact Assessment, which will evaluate the effects that the implementation of the ICS may have on product availability, insurers' business models and financial markets, as previously suggested by the APFF. In addition to the ICS, the IAIS is conducting several other relevant consultations. APFF continues to provide input on relevant issues through coordination with both regional and international stakeholders.

ESG Investment and Sustainable Finance

The ESG Finance Working Group was established in March 2020 to deepen the footprint of ESG investment and responsible banking in developing economies and provide input to ABAC in drafting recommendations to the APEC Finance Ministers on ESG Finance. The APFF aims to advocate ABAC high-level recommendations³³, and Asia-Pacific Infrastructure Partnership (APIP) and Sustainable Finance Development Network (SFDN) technical guidance to promote sustainable investment by insurers, pension funds, and other long-term institutional investors.

Ongoing Advocacy Activities

APFF continues its dialogue with policymakers, standard setters, and other global initiatives,

³² See APFF Progress Report 2016 to the APEC Finance Ministers for the high-level recommendations: https://www2.abaconline.org/assets/2016/3%20Shenzen/1_2016_APFF_Report_Final.pdf

³³ The ABAC recommendations included the following high-level principles that should govern efforts to promote the integration of ESG factors in financing decisions: Strive toward a common global ESG taxonomy or set of standards that is practical, globally applicable and readily adapted to the needs of users across diverse jurisdictions at different levels of economic, social and political development. It would need to have the following characteristics:

- Principles-based rather than prescriptive;
- Globally consistent;
- Flexible in approach and acknowledging, e.g., different shades of green and brown instead of a binary choice between green and brown, and that is open to different speeds of adoption;
- Dynamic, taking into account future changes in the level of sustainability of assets and activities due to technological developments;
- Adaptable and easily implementable;
- Broad coverage of activities and financial products; and
- Inclusive and adhering to the global pledge that no one should be left behind.

Also recommended was to devote sufficient attention to social and governance factors, which are less developed than environmental factors.

including the International Sustainability Standards Board (ISSB), IFRS Foundation, Task Force on Climate-Related Financial Disclosures (TCFD), the IAIS, the Principle for Responsible Investment (PRI)³⁴, Glasgow Financial Alliance for Net Zero (GFANZ), and Net Zero Asset Owners Alliance (NZAOA), and to provide a forum that brings together governments, regulatory agencies, private sector, and civil society to share challenges, possible solutions and good practices to promote sustainable finance in the region, in collaboration with other international and regional bodies. This year, particular focus is put on the two areas: transition finance and ecosystem for financing innovations that promote SDGs.

On 26 June 2023, the ISSB issued its inaugural global sustainable disclosure standards IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures* to create a common language for disclosing the effect of climate-related risks and opportunities on a company's prospects, after a series of consultations and technical discussions over 18 months. The ISSB is now seeking feedback on its priorities³⁵ for its next two-year work plan and has published the Request for Information Consultation on Agenda Priorities (comments due by 1 September 2023).

In May 2021, the IAIS published an initial Application Paper on the Supervision of Climate-related risks in the Insurance Sector. Since then, the IAIS has closely monitored developments in global climate change mitigation efforts, climate science and how supervisory practices to manage climate-related risks have evolved. The IAIS intends to publicly consult on limited changes to its guidance and to develop supporting materials in several consultations over the next 18 months.

APFF works with the Geneva Association³⁶ and the Global Federation of Insurance Associations (GFIA)³⁷ and other stakeholders to reflect the APFF points of view in their recommendations in various relevant consultations. While most of the work on ESG and sustainable finance are engaged through the SFDN, the working group continues to provide specific input from the long-term institutional investors' perspectives, such as insurers and pensions funds³⁸.

Planned and Prospective Activities for the Rest of 2023

- ***Collaboration with PRI In-Person Conference***, to be held on 3-5 October 2023 in Tokyo, hosted by the PRI with Nippon Life Insurance Company as lead sponsor, that is the world's leading responsible investment conference, convening over 1,000 delegates to hear the latest developments, discuss best practice and network. This is the first visit of PRI's annual conference

³⁴ Principles for Responsible Investment (PRI or UNPRI) is a United Nations-supported international network of institutional investors working together to implement its six principles. The principles offer a framework of possible actions for incorporating environmental, social, and corporate governance factors into investment practices across asset classes. As of March 2022, it has more than 4,800 signatories from over 80 countries representing approximately US\$100 trillion.

³⁵ Based on research into the information needs of investors, the ISSB is seeking feedback on four potential projects:

- three research projects on sustainability-related risks and opportunities associated with: biodiversity, ecosystems, and ecosystem services; human capital; and human rights; and
- one research project on integration in reporting to explore how to integrate information in financial reporting beyond the requirements related to connected information in IFRS S1 and IFRS S2.

³⁶ Founded in 1973 by the CEOs of global insurers, The Geneva Association is an international insurance think tank that produces and distributes high-quality research and analysis on global strategic insurance and risk management issues. Its objective is to develop and promote a wider understanding on the unique role and importance of insurance in economies and for societies through publications, conferences and active discourse with policymakers, regulators, supervisors, academics and other key constituents.

³⁷ Established on 9 October 2012. Through its 40 member associations and 1 observer association, the Global Federation of Insurance Associations (GFIA) represents the interests of insurers and reinsurers in 68 countries. These companies account for around 89% of total insurance premiums worldwide. Its secretariat is based in Brussels.

³⁸ Institutional investors usually follow any or all of five main approaches to sustainable finance, which are as follows:

- Negative screening (exclusion);
- Positive screening (selecting the best in class);
- Thematic investments (green and social bonds);
- Active ownership (stewardship); and
- ESG integration (multi-factor across the firm).

to Asia in seven years, which aims to engage in dialogue with Asian stakeholders.

- **Collaboration with IAIS Annual Conference**, to be held on 9-10 November 2023 in Tokyo, hosted by the Japan Financial Services Agency (JFSA), inviting insurance supervisors and industry experts around the world. The GFIA, the Life Insurance Association of Japan (LIAJ) and the General Insurance Association of Japan (GIAJ) will support the IAIS to discuss key issues, including those relevant to the Asia-Pacific.
- The APFF plans to hold an **APFF Roundtable on Insurance Regulations, Financial and Sustainability Reporting**, inviting ISSB, insurance supervisory authorities, accounting firms, industry experts and academics in the Asia-Pacific region. Topics to be included are Financial and Sustainability Reporting, as well as the Insurance Capital Standards. Issues identified during the roundtable will be used as a basis for further dialogue with policymakers and stakeholders. It was originally planned to be held in Hong Kong in 2023 but has been postponed to 2024.

C. Circular Economy Infrastructure

As part of their commitment in endorsing the Bangkok Goals on Bio-Circular-Green (BCG) Economy³⁹ during Thailand's 2022 APEC host year, APEC Economic Leaders agreed to "continuing work to prevent and reduce marine debris and plastic pollution, including through the implementation of the APEC Roadmap on Marine Debris" and "advancing resource efficiency and sustainable waste management towards zero waste by: increasing cooperation to advance circular economy approaches, including through promoting circular business models as well as exchange policies and best practices, and sustainable production and consumption patterns."

Capacity-Building

In support of this priority the APFF and APIP worked through the Chemical Dialogue to organize a policy dialogue on 2 August 2023 in Seattle WA to share best practices and case studies from jurisdictions that are implementing chemical recycling policies that support a circular economy and private sector companies that are investing in this innovative technology to scale up recycling in the United States and globally. This dialogue allowed policymakers and private sector participants to discuss the tools needed to incentivize investment and scale up chemical recycling operations, including the need for common terminology and standards and the importance of developing independent third-party certification to verify recycled plastics in packaging.

D. Health Care Financing

On September 6, 2022 the APFF worked with the Government of Malaysia to organize an APEC Health Financing Forum⁴⁰. The forum presented several recommendations including:

- Establishing a task force or working group comprising the private sector, academics and other stakeholders involved in APEC's health financing work to follow-up on areas of mutual interest, provide recommendations and guidance, and develop new partnerships to improve health outcomes and advance Malaysia's health reform efforts.
- Exploring mechanisms to expand the use of private health insurance (e.g. co-payments; use of education and awareness campaigns; tax deductions and other financial incentives; digital technologies and incentives for healthy behavior; "top-up" plans to supplement base-level insurance plans among others).

³⁹ [https://www.apec.org/meeting-papers/leaders-declarations/2022/2022-leaders-declaration/bangkok-goals-on-bio-circular-green-\(bcg\)-economy](https://www.apec.org/meeting-papers/leaders-declarations/2022/2022-leaders-declaration/bangkok-goals-on-bio-circular-green-(bcg)-economy)

⁴⁰ The APEC Health Financing Forum agenda (https://www.apec.org/docs/default-source/projects/resources/project/apec-health-financing-forum-final-agenda.pdf?sfvrsn=2c98ef47_0) and meeting report (https://www.apec.org/docs/default-source/projects/resources/project/malaysia-health-financing-summary-reportddedaccbe14a4015a1313e703f9f8da3.pdf?sfvrsn=2a7ec7d_0) are posted on the APEC Health Financing website.

- Developing pilot projects or new public-private partnerships and leverage solutions identified through APEC’s health financing initiative.

Capacity-Building

In an effort to achieve the objectives outlined in the APEC Healthcare Financing Roadmap⁴¹ and make measurable progress towards its key metrics a new APEC Concept Note will be put forward to the Health Working Group. In addition, the USA has proposed to include sustainable health financing as a major theme of the 2023 APEC High-Level Meeting on Health and the Economy to be held in Seattle, WA on August 6th to be chaired by the U.S. Health and Human Services Secretary.

IV. OUTREACH TO MEMBER ECONOMY STAKEHOLDERS

One of the key learnings from APFF’s experiences in collaborating with member economies is the need for high-level government support and a whole-of-government approach in undertaking reforms and the need to overcome coordination challenges arising from the siloed structure of government in many economies. Support for specific reforms from the business sector, especially in those industries that will be most affected as beneficiaries, is also an important success factor that can facilitate policy action. In this context, the APFF introduced a new mechanism, namely domestic or sub-regional networks, to build wider and stronger stakeholder support for specific reform initiatives in member economies to implement APEC FMP deliverables as part of its work plan.

These networks aim to bring relevant high-level government and business sector stakeholders together to discuss (a) current initiatives being undertaken or planned by APFF in individual member economies and (b) priorities of individual member economies and how APFF’s work to promote APEC FMP deliverables align with and support their goals. In addition, activities are open to participation by APEC, ABAC and APFF networks to more deeply understand developments in individual economies/sub-regions and to learn experiences and insights that can be useful for other member economies.

The 2023 APFF China Conference

To implement this, APFF is collaborating with interested ABAC and APFF collaborators in individual economies or sub-regions to undertake regular activities. In 2021, ABAC and APFF collaborators in China arranged to co-organize with APFF the first of such activities, which is the APFF China Conference. This year, the 2023 APFF China Conference was held in Beijing.

- Co-hosted by China Chamber of International Commerce (CCOIC) and APFF, the Asia-Pacific Financial Forum 2023 China Conference, with the theme of “Openness and Cooperation for Inclusive Development”, was successfully held in Beijing on March 17 and 18, 2023.
- The Forum was dedicated to delving into financial innovation strategies in the realms of digitalization, industrial transformation, and fostering effective approaches to "dual carbon" investment and financing, along with inclusive finance to drive high-quality economic development, and other important topics.
- The event brought together approximately 600 participants from the region, comprising 500 in-person attendees and 100 individuals participating remotely online.
- The Forum has received robust support from speakers and participants within the APFF network. The organizers anticipate the opportunity to host even more speakers and attendees from the APFF network in person during the next APFF China events.
- The Forum received robust support from key government, business, academic and research organizations in China.

⁴¹ <https://www.apec.org/docs/default-source/satellite/healthfinancing/apec-healthcare-financing-roadmap.pdf>

CONCLUSION

The consequences of recent geopolitical, social and economic developments are posing serious challenges to the economies of the Asia-Pacific region, most of which face record levels of public and private debt, constrained fiscal space, hugely expanded central bank balance sheets, and a return of inflation. 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 for many years. Solutions are already enshrined in the Finance Ministers' Cebu Action Plan from 2015 and the FMP agenda and identified in past ministerial statements. It only remains for them to be translated into concrete policies, regulations and capacity building measures. The multiple challenges 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 participating in the FMP – the ADB, IMF, OECD and the World Bank – and with 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. 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, sustainability and resilience. In this context, we look forward to working with APEC Finance Ministers and other relevant authorities in seizing opportunities for undertaking concrete reforms and capacity building measures that will help our region build a better future by enabling financial services to promote sustainability, digitalization and resilience.

APPENDIX



2023 APEC ASIA–PACIFIC FINANCIAL INCLUSION

*Policy Approaches to Support Green Financing
of Micro, Small, and Medium-sized Enterprises*

Tokyo, Japan
21-22 June 2023

Preliminary Proposed Actions for Policymakers and Regulators



INTRODUCTION

The Asia-Pacific Financial Inclusion Forum (APFIF) is a policy initiative established in 2010 under the APEC Finance Ministers' Process, housed within the APEC Business Advisory Council (ABAC). The primary purpose of the Forum is to identify concrete actions policymakers and regulators can take to expand the reach of financial services to the underserved. The annual APFIF Policy Dialogue provides a platform for policymakers, regulators, development experts and industry leaders to take an active role in validating and refining the proposed actions developed through the APFIF initiative and achieve consensus for effective pathways for progress. These proposed actions are distributed through official APEC channels to support the work of the APEC Finance Ministers' Process.

A distinctive feature of the Forum is its broad view of financial inclusion as an enabler of inclusive growth and development in all its manifestations – financial, economic and social - and its strong focus on those at the base of the economy and the potential for financial inclusion to have a positive impact on the poor. This approach aligns with the priorities of APEC including:

- Priority areas established by the APEC Host (USA) under the theme “*Interconnected. Innovative. Inclusive.*”
- The APEC Putrajaya Vision 2040
- The Cebu Action Plan, 2015 (i.e. promoting domestic strategies for financial inclusion and literacy) as well as its revised implementation strategy endorsed by APEC's Finance Minister's in 2021

To support these priorities, and recognizing the important role financial inclusion can play in delivering a sustainable future, in 2023 APFIF adopted the theme “*Policy Approaches to Support Green Financing of Micro, Small, and Medium-sized Enterprises*”. Under this theme, the APFIF initiative is examining the emerging strategies and policy frameworks surrounding the development of green finance products targeting the unique needs of micro, small, and medium enterprises (MSMEs). This has resulted in the development of a preliminary set of proposed actions to support APEC's policymakers and regulators in addressing the financing needs of MSMEs, which could help facilitate net zero transition across APEC economies. Specific issues being explored through the APFIF initiative in 2023 include:

- recognizing the importance of promoting greater awareness and development of green finance products targeting MSMEs;
- addressing the unique challenges MSMEs face in accessing green finance products;
- ameliorating food insecurity by developing green finance opportunities for small-holder farmers; and
- expanding green finance opportunities and effectiveness to MSMEs through innovative technology solutions.

The preliminary proposed actions for policymakers outlined in this paper will be further refined and articulated in a full report to be published later this year.

The 2023 Asia Pacific Financial Inclusion Forum is led by the Asian Development Bank (ADB) and co-organized with the Asian Development Bank Institute (ADBI) and the APEC Business Advisory Council (ABAC); and supported by the Griffith Asia Institute (GAI).

PRELIMINARY PROPOSED ACTIONS FOR POLICYMAKERS AND REGULATORS

Access to finance is a common challenge for MSMEs globally. However, the ‘greening’ of MSMEs can open more financing opportunities for this segment. The rapid expansion of green finance products through better tailoring for the MSME sector, along with the development of processes necessary to improve access to green finance, has great potential to unlock both finance and green development opportunities for enterprises operating within this underserved market. Policymakers and regulators have an important role to play in achieving this by creating the enabling environment for green financing for MSMEs.

Proposed Action 1: Understand and address the knowledge gaps

The provision of green finance products targeting the MSME sector is a relatively new concept in most economies. With the benefits of expanding green finance among MSMEs being potentially significant, there is growing interest across multiple stakeholder groups to understand this opportunity and identify

best practices. However, knowledge gaps exist about how to improve supply of green finance by financial institutions and service providers (the supply side) and how to improve awareness and capacity within MSMEs (the demand side). Closing these knowledge gaps requires tailored policy and regulatory reforms to maximize the full potential of green finance for MSMEs. Policymakers can play an important role in addressing the knowledge gaps by:

- Supporting research into green financing and MSMEs, including cooperation with relevant research institutions and the private sector to gather data, pilot test products, and promote results.
- Work with stakeholders to define the scope of green finance for MSMEs, taking into account opportunities to expand the scope beyond adoption of renewable energy or energy efficient practices. Examples include climate mitigation (decarbonization), climate adaptation (insurance or liquidity support), or just transition.
- Developing national and regional transition roadmaps, as well as priority areas for greening MSMEs (e.g., depending on sector, size, and location).
- Expanding the promotion of regional cooperation on green finance issues. This might include efforts to support greater harmonization, standardization, and comparable screening criteria on issues such as taxonomies, certification and embedded emissions accounting frameworks.
- Supporting the collection and promotion of both public and private (so as macro and micro) data which can be used to develop green finance products which address the unique needs of MSMEs.
- Supporting the collection and sharing of relevant case studies which demonstrate effective tools and policies applicable to different types of MSMEs, sectors, and economies.
- Supporting the creation of a global or regional depository of knowledge, or toolbox, to help different economies to share their experiences with green finance and MSMEs as they test new initiatives and measure results.

Proposed Action 2: Improve inclusion of MSME aspects into existing and new sustainable finance taxonomies and frameworks

Several green finance taxonomies and green banking frameworks have been, or are currently being, developed across several economies. However, the development of these green finance standards is typically done with larger firms in mind and less consideration for MSMEs. To enable financial institutions to support green financing of the MSME market (and label loans accordingly), green taxonomies need to include green projects and activities relevant to each segment of the MSME market (i.e., micro vs. small vs. medium, and the sector). Each MSME segment will have unique needs and constraints as they relate to access to finance, as well as unique needs with regard to green finance more specifically. To address this, policymakers could:

- Work with industry associations or other key stakeholders to consider how well local definitions of micro, small, and medium-sized enterprises align with the taxonomy and what challenges may exist for certain MSME segments.
- Include eligible projects and activities specifically for MSMEs as users and suppliers of green technologies and services into green taxonomies (for example smaller energy efficiency investments, circular small-scale farming, etc.) that are priorities for decarbonization and financing specific to the economy.
- Consider climate adaptation and mitigation projects as part of the green finance standards, including applicable transition financing.
- Consider the applicability and interoperability of taxonomies to meet MSME limitations (e.g., lack of collateral, lack of reporting ability) and specific sector needs (e.g., agribusiness).

Proposed Action 3: Steer financial service providers and MSMEs towards green finance opportunities through incentives and regulatory measures

Increasing access to green finance requires efforts to steer both suppliers of finance and demand from MSMEs to better utilize green finance opportunities. Policymakers can play an important role in pursuing this by providing incentives and regulatory measures to both financial service providers and MSMEs to accelerate the provision or adoption of green financing. Some examples of approaches policymakers could use to achieve this include:

- Introduce or promote incentive schemes which specifically target the expansion of green finance to the MSME sector, for example through fiscal or monetary measures (e.g., similar to support mechanisms for green bonds where governments provide funding for part of the green verification cost).
- Recognize that changing behaviors through incentive schemes is often a slow process, policymakers might also consider mandating certain changes where results are needed more urgently, for example guidance to banks in green MSME lending.
- Take a more direct approach on how government institutions interact with industry, for example, by encouraging state-owned enterprises (including banks) to provide trade financing to MSMEs that meet certain “green requirements” and including the outcome as part of lending performance criteria. At the same time, government agencies could adopt preferential purchasing from “green MSMEs” (e.g., green procurement).
- Support implementation of incentive systems within financial institutions that reward loan officers and other relevant staff for providing green MSME financing.
- Consider how existing government subsidy programs, for example for the agriculture sector, can be tied to measurable indicators of green progress.

Proposed Action 4: Embrace development and application of fintech and new financial instruments

Traditional finance systems struggle to serve MSMEs. Fintech can provide opportunities to create new financing channels targeting MSMEs, including those in remote areas and the informal sector, and to digitalize and upgrade risk management for financial institutions and service providers. Some specific actions policymakers could take to support this include:

- Develop regulations to improve compatibility and transferability of data which will facilitate greater cooperation between fintechs while enabling clients more flexibility to choose their preferred providers.
- Utilize digital technology to enable MSMEs to automate data collection and verification relevant to meet key requirements (e.g., on environment, social, and governance (ESG) data reporting and audits).
- Utilize technologies to enable a phased approach for ESG compliance, such as carbon reporting (e.g., utilize technologies to enable voluntary carbon reporting first to gradually move towards mandatory carbon reporting).
- Enhance the availability of government funding schemes and support for fintech startups, including incubators.
- Establish regulatory sandboxes or support pilot programs that support the development of green fintech solutions targeting MSMEs.
- Adopt regulation which enables innovative financial instruments to be developed that are relevant to the needs of MSMEs, including products such as microinsurance for climate disasters, biodiversity offsets, or carbon credits.
- Consider regulatory measures necessary to protect data privacy and national security issues regarding international data transfers and data sharing.

Proposed Action 5: Support capacity development among financial service providers, MSMEs and other economic actors to adopt green finance

Dedicated efforts are needed to support the capacity needs of green finance from both supply- and

demand-side perspectives. This includes addressing both technical and managerial capabilities among financial service providers and MSMEs. Policymakers can help accelerate the capacity needs of stakeholder by:

- Working with relevant industry associations to identify capacity needs and design appropriate interventions for MSMEs.
- Providing regular updates and trainings (through local government partners or through digital means) to MSMEs on available green financial instruments and support mechanisms, as well as enhancing financial and digital literacy.
- Enabling knowledge sharing among MSMEs, and similarly, among financial institutions, on success cases and experiences of green MSME financing.
- Strengthening knowledge sharing on green technologies and green processes for MSMEs through, for example, roadshows, leaflets, digital means, etc. This can include information on green agriculture technologies, energy efficiency programs, the circular economy, etc.
- Fostering cooperation and knowledge sharing among other economic actors (e.g., multinational enterprises) on the advantages and opportunities of green financing for MSMEs.