

# **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

#### **EXECUTIVE SUMMARY**

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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).<sup>1</sup>

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

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<sup>1</sup> 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.

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.

The background of the central section is a photograph of a modern building with a glass facade and a green facade, viewed from a low angle looking up.

***APPENDIX***  
**2023 ASIA–PACIFIC  
FINANCIAL INCLUSION FORUM**

*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.