

15 August 2022

H.E. Arkhom Termpittayapaisith

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

Your Excellency,

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

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

Promoting Speedy and Sustained Recovery

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

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

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

Building Resilience against Future Pandemics

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

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

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

Financing Sustainable Transition

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

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

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

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

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

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

Building an Enabling Ecosystem for Inclusive Digital Finance

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

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

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

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

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

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

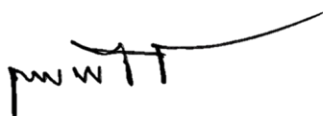
We recommend that APEC Finance Ministers encourage relevant public and private sector stakeholders to undertake capacity building and collaborate in drafting common principles to guide member economies in their own exploration of wholesale CBDCs.

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

In addition to the preceding recommendations, ABAC is pleased to submit to Finance Ministers the 2022 Progress Report of the Asia-Pacific Financial Forum (APFF), the Asia-Pacific Financial Inclusion Forum (APFIF) and the Asia-Pacific Infrastructure Partnership (APIP). The Executive Summary of this Progress Report is appended to this Letter and the accompanying Report, while the full text can be downloaded through [this link:](http://www2.abaconline.org/assets/2022/2022_Progress_Report_of_APFF_APFIF_and_APIP.pdf) http://www2.abaconline.org/assets/2022/2022_Progress_Report_of_APFF_APFIF_and_APIP.pdf.

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

Sincerely yours,



Kriengkrai Thiennukul
ABAC Chair 2022

ATTACHMENTS:

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