

4 August 2024

The Honorable Jose Berley Arista Arbildo

Chair, APEC Finance Ministerial Meeting
Minister of Finance
Peru

Dear Minister Arista,

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

We firmly support the Finance Ministers' continuing efforts to promote more balanced, inclusive, sustainable and resilient growth in our region. We believe that, given the great diversity among our economies, only with strong regional public-private partnership can we effectively accelerate progress toward these common goals and ensure that the benefits are widely shared. With this in mind, we recommend the following measures:

Build interoperable, inclusive and sustainable supply chain finance ecosystems leveraging digital technology by:

- Developing interoperable deep-tier digital supply chain finance platforms and accelerating end-to-end digital trade connectivity in all member economies. For those participating in the Digital Trade Connect Network, adopting common principles described in the attached report to align legal frameworks for electronic transferable records.
- Supporting regional information sharing and policy exchanges to assist ongoing efforts to coordinate environmental, social and governance disclosure requirements and harmonize approaches to methodologies for calculating greenhouse gas emissions throughout supply chains.
- Enabling wider participation of micro-, small and medium enterprises in digital trade finance platforms by removing key barriers through measures identified in our Report.
- Incorporating digital financial inclusion for the informal economy in the future multi-year action plan of the APEC Finance Ministers' Process, in coordination with other relevant APEC fora.

Mobilize private capital and knowledge for growth, sustainability and resilience by:

- Exploring feasible ways of enabling pension funds to expand investment in private markets and small- and mid-cap companies through a regional pathfinder initiative, including wider engagement of emerging asset managers.
- Establishing programs which promote women-led enterprises' access to venture capital financing by encouraging financial service providers and investors to support gender-responsive approaches and collaborating with the private sector to foster diversity in business practices through concrete steps that may include, among others, legislation and gender disaggregated disclosure measures, as appropriate for each market.

- Including discussions on how to expand the private sector's role in hydrometeorological risk financing and insurance in the Finance Ministers' ongoing work on disaster risk financing.
- Exploring feasible ways to develop a network of interoperable voluntary carbon markets among interested member economies through a regional pathfinder initiative.
- Reducing currency risk for energy transition projects in developing economies through the use of bonds with interest and principal payments indexed to a basket of major currencies that meets the requirements of a global institutional benchmark index.
- Adopting and implementing the work plan developed and submitted by ABAC to promote intellectual property financing for sustainable innovation projects in member economies.

We are also pleased to submit the 2024 Progress Report of the Asia-Pacific Financial Forum (APFF), the Asia-Pacific Financial Inclusion Forum (APFIF) and the Asia-Pacific Infrastructure Partnership (APIP). Its Executive Summary is appended to this Letter and the accompanying Report, and the full text can be downloaded through this link: <https://www2.abaonline.org/content/download/22635161>.

Details of our recommendations are contained in the attached Report. We look forward to discussing them with Finance Ministers at our upcoming working lunch dialogue this coming October in Lima.

Yours sincerely,



Julia Torreblanca
ABAC Chair 2024

ATTACHMENTS:

- *APEC Business Advisory Council 2024 Report to APEC Finance Ministers*
 - *2024 Progress Report: Asia-Pacific Financial Forum ● Asia-Pacific Financial Inclusion Forum ● Asia-Pacific Infrastructure Partnership – Executive Summary*
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APEC Business Advisory Council

2024 Report to APEC Finance Ministers

REGIONAL PUBLIC-PRIVATE PARTNERSHIP

APEC's Path to a Digital, Inclusive and Sustainable Future

INTRODUCTION

ABAC firmly supports the APEC Finance Ministers' commitments in their 2023 Joint Statement to achieving sustainable growth in the context of our region's vulnerability to climate change and natural disasters; supporting resilient, inclusive, and innovative digital asset ecosystems; strengthening digital infrastructure; accelerating digital transformation; and reducing the digital divide.¹ We believe that translating these commitments into actual policies, regulations, actions and market outcomes is key to ensuring our region's digital, inclusive and sustainable future.

We also echo the Ministers' call for continued dialogue and cooperation among stakeholders, including member economies, the private sector and international organizations to achieve these outcomes. We believe that, given the great diversity among our economies, only with close regional public-private partnership can we effectively leverage our region's resources, promote robust cross-border transactions, and achieve economies of scale and greater efficiency that are necessary to accelerate progress toward our common goals and ensure that its benefits are widely shared across our societies.

In this report, we propose concrete measures to harness regional public-private partnership in accelerating progress in key areas. These are:

- ***Leveraging digital technology to build interoperable, inclusive and sustainable supply chain finance ecosystems***, through the development of interoperable deep-tier digital supply chain finance platforms, assisting coordination of ESG disclosure requirements and harmonization of approaches for calculating greenhouse gas (GHG) emissions throughout supply chains, promoting wider micro-, small and medium enterprise (MSME) participation in these platforms, and promoting greater access to finance by enterprises and consumers in the informal economy; and
- ***Mobilizing private capital and knowledge for growth, sustainability and resilience***, including exploration of ways to enable wider mobilization of capital in pension funds to finance growth, fostering women entrepreneurs' access to venture capital financing, promoting a greater private sector role in insuring against increasing hydrometeorological hazards due to climate change, a pathfinder initiative to explore feasible ways of developing interoperable voluntary carbon markets, the mobilization of large-scale private capital for energy transition in developing economies, and an APEC work plan for leveraging of intellectual property rights to finance sustainable innovation projects.

The recommendations contained in this report have been developed through discussions with experts from industry, multilateral organizations, and government and regulatory agencies in the course of various roundtables that ABAC convened in collaboration with FMP policy initiatives, various entities and institutions.² The reports and outcomes of several roundtables form the annexes to this report and

¹ Joint Statement of the 2023 APEC Finance Ministers' Meeting, San Francisco, California, 13 November 2023 [<https://www.apec.org/meeting-papers/sectoral-ministerial-meetings/finance/2023-apec-finance-ministers-meeting>]

² These Roundtables were as follows:

- 7 February 2024, Asia Time Zone, Virtual - *Expanding the Private Sector's Role in Hydrometeorological Risk Insurance* (Co-organized by ABAC, APFF Disaster Risk Financing and Insurance Network and Munich Re)

are available for download. The Executive Summary of the 2024 Progress Report of the Asia-Pacific Financial Forum (APFF), the Asia-Pacific Financial Inclusion Forum (APFIF) and the Asia-Pacific Infrastructure Partnership (APIP) is attached to this report. The full Progress Report can be downloaded from the ABAC website.³

LEVERAGING DIGITAL TECHNOLOGY TO BUILD INTEROPERABLE, INCLUSIVE AND SUSTAINABLE SUPPLY CHAIN FINANCE ECOSYSTEMS

End-to-end digitalization of trade financing has great potential to enable micro-, small and medium enterprises (MSMEs) to gain access to working capital and benefit from global trade. The establishment of the Digital Trade Connect Network (DTCN) by ABAC in 2023 and expanded participation by economies are important steps toward this goal. Through proofs-of-concept under the DTCN, the digital trade platforms of Japan, Singapore and Thailand have demonstrated interoperability in exchanging digital trade documents on an end-to-end basis across borders among trading partners. Expanded participation, deeper linkages to domestic supply chains and integration of environmental, social and governance (ESG) factors and greenhouse gas (GHG) emissions reporting will enable digital supply chain finance ecosystems to serve as a foundation for promoting greater inclusion and sustainability in the region.

Building Interoperable Deep-Tier Digital Supply Chain Finance Platforms

The development of interoperable digital platforms in all economies joining the DTCN is key to the acceleration of progress toward end-to-end trade digitalization. The experience of Japan, Singapore and Thailand underscores the importance of prioritizing (a) the standardization of trade documents; (b) coordination of regulatory and legal frameworks to ensure interoperability across jurisdictions; and (c) strong participation from key stakeholders to create initial take-up, leading to wider adoption. However, it is also important to develop the digital infrastructure for deep-tier supply chain finance, to enable the benefits from end-to-end digitalization of trade to cascade down the layers of the domestic supply chains to the micro- and smaller suppliers.

Recommendation #1

We recommend the development of interoperable deep-tier digital supply chain finance platforms and acceleration of end-to-end digital trade connectivity in all member economies. Those participating in the Digital Trade Connect Network should adopt the ***Common Principles for Interoperable Deep-Tier Digital Supply Chain Finance*** (See Box A). Across-the-board

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- 27 March 2024 Asia Time Zone, Virtual - *Mobilizing Pension Funds for Growth* (Co-organized by ABAC and APFF)
 - 10 April 2024 Asia Time Zone, Virtual - *Promoting Interoperable Digital Trade Information Collaboration Platforms and Deep-Tier Supply Chain Financing in the Asia-Pacific Region* (Co-organized by ABAC, APFF and the Thai Bankers' Association)
 - 11 April 2024 Asia Time Zone, Virtual - *Financing Energy Transition in the Asia-Pacific Region* (Co-organized by ABAC, APIP, APFF Sustainable Finance Development Network and Dragoman Pty Ltd)
 - 9 May 2024, Asia Time Zone, Hong Kong, China - *Setting the Stage for IP Financing: The Connection between MSME Financing, Innovation and Sustainability* (Co-organized by ABAC and APFF)
 - 17 May 2024, Asia Time Zone, Bangkok, Thailand – *Southeast Asia Conference 2024: Creating a Digital, Sustainable and Resilient Regional Ecosystem to Empower MSMEs* (Co-organized by ABAC, APFF and ASEAN Business Advisory Council)
 - 23 May 2024, Eastern Daylight Time, Washington DC, USA - *Enabling Development of Interoperable Voluntary Carbon Markets: Legal Aspects* (Co-organized by ABAC, APFF Sustainable Finance Development Network and the International Law Institute)
 - 3 June 2024, Central Daylight Time, Lima, Peru - *Promoting Digital Financial Inclusion for the Informal Economy* (Co-organized by ABAC, APFF and EY Peru)
 - 11 June 2024, Asia Time Zone, Singapore - *Promoting Sustainable Supply Chains in the Asia-Pacific Region* (Co-organized by ABAC, APFF Sustainable Finance Development Network, OCBC Bank and Singapore Business Federation)
 - 20 June 2024, Asia Time Zone, Virtual - *Expanding the Private Sector's Role in Hydrometeorological Risk Financing and Insurance* (Co-organized by ABAC, APFF Disaster Risk Financing and Insurance Network and ABAC Philippines)
 - 20 June 2024, Asia Time Zone, Virtual - *Prospects for Interoperable Voluntary Carbon Markets in the Asia-Pacific Region* (Co-organized by ABAC and APFF Sustainable Finance Development Network)
 - 31 July 2024, Asia Time Zone, Tokyo, Japan - *Mobilizing the Asia-Pacific Region's Pension Funds for Growth* (Co-organized by ABAC, APFF and FinCity.Tokyo)
 - 31 July 2024, Asia Time Zone, Tokyo, Japan - *Prospects for Interoperable Voluntary Carbon Markets in the Asia-Pacific Region* (Co-organized by ABAC, APFF Sustainable Finance Development Network and FinCity.Tokyo)

³ <https://www2.abaonline.org/content/download/22635161>

collaboration should be focused on developing the movable asset finance ecosystem and fostering a common understanding and convergence of standards, definitions and legal frameworks around technology, data and electronic transferable records. It should utilize key strategies including building block and platform-based approaches, win-win collaboration, analysis of MSMEs' needs, fostering financial innovation and incentivizing adoption.

Box A: Common Principles for Interoperable Deep-Tier Digital Supply Chain Finance

A) Cross-the-Board Collaboration

- 1) **Public-Private Partnership.** While digital platforms may be government-led or private sector-led, both public and private sectors need to be involved in the process.
- 2) **Cross-Industry Collaboration.** All the major players in the trade ecosystem – buyers and suppliers, logistics companies (shipping companies, airlines, freight forwarders), financial service providers (banks, non-bank lenders, insurance companies and fintech firms) need to be involved in the identification of pain points, design and implementation of digital trade information collaboration platforms.
- 3) **Whole-of-Government Support.** In order to provide seamless connectivity, effectiveness and efficiency, governments need to provide a framework for collaboration among relevant agencies. These may include trade ministries, finance ministries, economic/planning ministries, interior and local government ministries, ministries/agencies responsible for the digital and data ecosystem, transport ministries, health ministries, environment ministries, civil aviation authorities, customs authorities, central banks, financial regulators, maritime and ports authorities and other relevant agencies.
- 4) **International Collaboration.** Economies need to promote interoperability of laws, policies, regulations and digital platforms by leveraging global initiatives, bodies and processes (e.g., UNCITRAL, UNIDROIT, OECD, standard-setting bodies) and regional processes (ASEAN, ASEAN Plus 3, APEC, Pacific Alliance) and initiatives (ASEAN Single Window, parallel wholesale CBDC initiatives, as well as bilateral G2G collaboration). However, it is important to design and implement regional and bilateral collaborative schemes with a view toward future global interoperability.

B) Key Areas of Collaboration

- 1) **Development of a Movable Asset Finance Ecosystem.** As a way to organize receivables and inventory finance, supply chain finance (SCF) is a more advanced form of movables finance. Deep-tier supply chain finance (DTSCF) is, in turn, an advanced form of SCF. Without sufficient development of the overall movables finance market, it is not likely that SCF will happen in major scale, not to mention deep-tier SCF. This is thus essential for a healthy and functioning supply chain financing environment. The key elements are (a) clear, effective and efficient secured transactions legal frameworks; (b) judicial effectiveness and understanding; (c) an active lending industry competent in movables financing; (d) supportive financial regulations and supervisory practice, (e) efficient and reliable support services (collateral management, credit enhancement among others); (f) business borrowers who understand SCF mechanisms; (g) e-platforms linking up value chain actors; (h) priority segments (e.g., factoring, financial leasing, financing backed by receivables; bonds or notes backed by receivables); (i) support of relevant ministries and local governments; and (j) sector capacities (e.g., industry associations, industry guidelines, sector standards and guidelines and data).
- 2) **Common Understanding/Convergence of Standards, Definitions and Legal Frameworks around Technology, Data and Documentation related to Trade and Supply Chain Finance.** Examples are international rules governing international distribution of corporate data, alignment of legal frameworks governing electronic documents (e.g., UNCITRAL's MLETR), laws and regulations enabling DTSCF models, dispute resolution mechanisms, use of blockchain and level of KYC/AML requirements across jurisdictions.

C) Key Strategies

- 1) **Building Block Approach.** While the existence of multiple global, regional and bilateral initiatives carries the risk of increasing fragmentation, it also offers opportunities to move ahead without reinventing the wheel. Through coordination and collaboration, economies can leverage what has already been developed in ASEAN, ASEAN Plus 3, APEC and the G20 as well as in bilateral G2G initiatives to find pathways to convergence or common understanding.
- 2) **Win-Win Collaboration.** Initiatives can progress more effectively if they are able to identify the stakeholders who can reap the most benefits (which may be different from one economy to another) and mobilize them in advancing policy and regulatory reforms.
- 3) **Platform-Based Approach.** A platform-based approach digitally connecting buyers and all suppliers from the 1st to the nth tier of the supply chain can enable DTSCF to unlock capital for the deeper-tier MSME suppliers, enable data flows and traceability, address and track sustainability and ESG performance, and link performance to financing incentives.
- 4) **Analysis of MSMEs' Needs.** The starting point of any effort by an economy to promote the digitalization of trade and supply chain finance should be the identification of MSMEs' needs, since MSMEs are intended to be the main beneficiaries of such initiatives and the required policy components, including those related to improved access to finance, financial and digital literacy, consumer protection and protection of data privacy and security, among others.
- 5) **Fostering Financial Innovation.** By encouraging the adoption of new technology applications to digitalize trade and supply chain finance through regulatory approaches that allow innovative firms to serve low-income markets, economies can enable new solutions that can accelerate financial inclusion.
- 6) **Incentivizing Adoption.** The public sector and multilateral institutions can contribute to wider adoption of DTSCF by providing innovative incentives. These may include establishment of risk-sharing programs with banks, recognition of payment obligations used in DTSCF as enforceable obligations of payment to holders across jurisdictions, development of key performance indicators around MSME lending volumes and ESG reporting across supply chains, and designing more appropriate capital charges for ESG-linked financing solutions.

Building Sustainable Supply Chains

Supply chains contribute to nearly 60 percent of all carbon emissions⁴ and are crucial for achieving climate goals in APEC economies. The integration of ESG factors throughout supply chains is important for these to be more efficient, resilient, equitable and climate-positive. While more companies across APEC economies are disclosing their Scope 1 and 2 emissions, reporting of Scope 3 emissions⁵ continues to lag behind due to the complexity and multitude of ESG regulations and reporting requirements, lack of awareness, limited resources in implementing sustainable practices and the prohibitive costs for suppliers of measuring and mitigating emissions. A range of actions thus needs to be prioritized by economies to support businesses in accelerating transformation toward greener supply chains.

Recommendation #2

We recommend that APEC member economies support ***regional information sharing and policy exchanges to assist coordination of ESG disclosure requirements and harmonization of approaches for calculation of greenhouse gas emissions throughout supply chains***, by leveraging on existing initiatives or developing new ones to empower businesses and MSMEs in the transition towards greener supply chains. These include (a) providing tailored support for capacity building in businesses through implementation of dedicated training programs and scaling up anchor buyer-led supplier engagement programs; (b) collaboration between public and private sectors to provide specialized funding options such as green supply chain financing and green and sustainability-linked loans to suppliers; and (c) promoting and increasing the utilization of technology including emissions data monitoring and analytics platforms, carbon calculators and sustainability intelligence and rating services in the region to get suppliers to start measuring their carbon emissions in a more accurate and automated manner. In particular, APEC member economies should mobilize large businesses and global multinational corporations to lead the call to action, to actively implement sustainability within their supply chains through supplier engagement, optimization of their carbon emissions and adoption of best practices within their supply chains.

Promoting Wider MSME Participation in Digital Trade Finance Platforms

MSMEs account for the bulk of the growing global trade finance gap, estimated at USD2.5 trillion in 2022. Key challenges for wider MSME access to trade finance and participation in digital trade finance platforms include: (a) access to capital (tighter credit availability in a high interest rate environment, increased risks associated with global challenges and uncertainties and insufficient US dollar liquidity in some emerging markets); (b) credit quality (insufficient, often outdated and incomplete data for assessing credit quality resulting in high financing costs when using traditional credit and risk measures); (c) compliance (high costs of onboarding and AML compliance procedures); (d) regulatory barriers (large variety of stringent, cumbersome regulatory scrutiny and reporting requirements for cross-border activities); and (e) sustainability requirements (prohibitively complex and costly reporting, with one in four banks indicating that failure of potential clients to meet ESG standards and regulatory requirements is a key barrier to providing trade finance).

Recommendation #3

We recommend that ongoing work in the DTCN on digital trade documents and legal interoperability be complemented by policies to ***remove key barriers to wider MSME participation in digital trade finance platforms***. These include: (a) development of mutually recognized digital identity systems across jurisdictions; (b) cross-border interoperability of customer due diligence processes built on digital KYC platforms supervised by regulators; (c) implementation of cross-border rules enabling the safe storage and sharing of data; (d) development of interconnected digital trade platforms and frameworks using new technologies (e.g., digital tokenizable assets); (e) conversion of the WTO moratorium on customs duties on electronic transmissions into a permanent arrangement; and (f) review of prudential regulations to ensure they are not unnecessarily punitive

⁴ *Supply Chain is Key to Winning Climate Change Fight*, 2021, Accenture

⁵ Scope 3 emissions are included in the disclosure requirements of the International Sustainability Standards Board (ISSB).

for trade finance assets.

Promoting Access to Finance in the Informal Economy

The informal sector represents a significant part of the economy of many APEC members. Lack of access to finance is the most important challenge faced by firms and consumers in the informal economy. In recent years, the revolution in digital technology has done much to expand access to finance. At the forefront of this process are innovative providers of digital financial services. Much remains to be done to enable these new players that are leveraging technology and innovations to provide more financing to enterprises and consumers in the informal sector. Putting in place key enablers, such as the digital and data infrastructure and legal and regulatory frameworks that promote inclusive digital financial services, will require continued efforts over time.

Recommendation #4

We recommend the *incorporation of digital financial inclusion for the informal economy in future coordinated multi-year work plans* of the APEC Finance Ministers' Process, the Digital Economy Steering Group and the Economic Committee. These work plans, to implement the proposed APEC Roadmap to Promote the Transition to the Formal and Global Economy, should address the development of the digital public infrastructure, the data ecosystem (including data security and privacy, expanded use of privacy enhancing technologies, digital identity and the collection and wider collection and sharing of data across sectors), responsible finance (including consumer protection and financial and digital literacy), modernization of secured transactions and credit information systems, and regulatory enablement of continued innovation and digital financial services.

MOBILIZING PRIVATE CAPITAL AND KNOWLEDGE FOR GROWTH, SUSTAINABILITY AND RESILIENCE

Financing continued economic growth and the drive toward greater sustainability and resilience, particularly with the growing threats from climate change, natural disasters and pandemics, will require huge amounts of capital. Public financing has been playing an important role in meeting these challenges, but this alone is far from sufficient, especially given the serious fiscal constraints that the public sector is facing today. There are large pools of private capital looking for new investment opportunities that can be mobilized to bridge these financing gaps, as well as a wealth of knowledge in the private sector that can be harnessed by the public sector to create innovative market-based solutions. ABAC proposes ways to achieve this in order to fund stronger growth, insure economies against the increasing risks arising from climate change, develop interoperable voluntary carbon markets, finance energy transition in developing economies and finance sustainable innovation.

Mobilizing Pension Funds for Growth

Pension funds manage large amounts of capital that can be mobilized to finance growth. However, enabling them to expand and diversify investment in private markets (including real estate, infrastructure, private equity and private debt) and small- and mid-cap companies will require addressing obstacles arising from various supply- and demand-side factors. These include structural and operational factors affecting investment decisions in large asset owners and the shortage of skilled investment professionals in many economies. Recognizing the varying levels of market development across the region, such an initiative needs to rely on a strategy that encourages the more mature economies to accelerate reforms while at the same time building capacity in the less developed economies to follow in this path, including through partnerships among academe, institutional asset owners and public pension funds to develop sustainable demand and supply of regional private market skills.⁶

⁶ Investing in any economy requires a deep understanding of the market and political context, and of specific investment opportunities. This is especially important for long-term investment decisions for private market assets, including infrastructure. Many parts of Asia lack a deep bench of relevantly experienced private market investment resources. These gaps contribute to uncertainty of more conservative overseas investors. This gap can be closed by systematically building local and regionally experienced skills and resources, such as through local universities partnering with local and regional institutional asset owners and public pension funds to educate and build a sustainable demand

Recommendation #5

We recommend that APEC launch an *Inclusive Long-Term Investment Pathfinder Initiative* to explore feasible ways of enabling pension funds to expand investment in private markets and small- and mid-cap companies, through encouraging more mature member economies to introduce reforms and supporting less developed economies in building capacity to undertake these reforms in the future. This initiative can focus on the following components: (a) policy reforms to improve corporate governance and reforming the asset management sector⁷ and asset ownership;⁸ (b) development and sharing of Best Practices for Emerging Manager Programs;⁹ and (c) convening key policy, industry, academic and multilateral stakeholders to collaborate in advancing the initiative.¹⁰

Promoting Women Entrepreneurs' Access to Venture Capital Financing

Women entrepreneurs face substantial disadvantages in accessing venture capital for their businesses. Programs to support women and foster an environment conducive to women's engagement in trade and entrepreneurship, addressing in-built biases in lending practices, and leveraging women's untapped potential through creation of a level playing field for all, will reap substantial economic rewards and opportunities for growth in the region.

Recommendation #6

We recommend that APEC economies establish programs which promote *women-led enterprises' access to venture capital financing* and encourage financial service providers and investors to support gender responsive solutions to the significant underrepresentation of women having access to finance. Economies should collaborate with the private sector to encourage diversity in business practices, address in-built biases in lending practices, and foster an enabling environment for women entrepreneurs through concrete steps that may include, among others, legislative and gender-disaggregated disclosure measures, as appropriate for each market.

Expanding the Private Sector's Role in Hydrometeorological Risk Financing

Hydrometeorological hazards (e.g., typhoons/hurricanes, tornados, heavy snowfall, floods, droughts, heat waves and cold spells) are growing as a result of climate change. Studies indicate that their impact is likely to increase from about 2 percent of global GDP today to more than 4 percent by 2050.¹¹ Protection gaps are significant, especially in developing economies, and are expected to widen unless needed measures are put in place.¹² In the light of fiscal constraints in the public sector, addressing

and supply of regional private market skills. These could leverage a globally recognized education curriculum coupled with practical experience from local asset owners gained during studies. This sustainable skill development program will act as key tenet to attract private capital to the region.

⁷ These could include facilitating the entry of new domestic and foreign asset managers, regulatory reforms, standardization of documentation templates and performance and risk reporting, establishment of data-based investment performance or track record of individual emerging managers and a list of eligible managers based on the data, maintenance of a list of pre-qualified service providers (e.g., custodians, law firms) and establishment of special economic zones, among others.

⁸ These could include the development of new asset owner principles, disclosure of comparable information on pension funds' investment strategies and performance and pension fund reform, among others.

⁹ These could include best practices for asset owners'/program sponsors' support for emerging managers, criteria for selection of emerging managers, design of Emerging Managers Programs and the creation of an enabling ecosystem for emerging managers.

¹⁰ Collaboration could focus on initiatives to (a) provide political and commercial reinforcement for the mobilization of risk capital from asset owners and managers; (b) stimulate discovery of new opportunities in small ticket investments that will tease out real barriers through showcasing of local investment opportunities in emerging markets; and (c) identify creative solutions and partnerships between public and private (including fintech) sectors and multilateral institutions.

¹¹ This is a result not only of growing frequency of events, but also of the transformation of hazards from individual catastrophic events to more complex interactions between the global climate and interconnected human systems with cascading and regressive effects that are disproportionately impacting the most vulnerable parts of society and less developed economies, McKinsey & Co: *Climate change and P&C insurance: The threat and opportunity* (November 19, 2020), <https://www.mckinsey.com/industries/financial-services/our-insights/climate-change-and-p-and-c-insurance-the-threat-and-opportunity>.

¹² According to OECD, the share of hydrometeorological losses that are uninsured remains high in many APEC economies.

these protection gaps and ensuring affordable solutions will require innovative public-private partnerships.¹³ On the part of the public sector, a robust risk reduction and prevention strategy is critical for making insurance affordable and available, while strong commitment to continuity and implementation of programs is key to effective public-private sector collaboration. On the part of the private sector, a large amount of knowledge in important areas such as risk quantification and assessment, risk modeling, product design, and risk transfer and management can be tapped by various layers of government to develop effective and affordable hydrometeorological risk management and financing systems and solutions.¹⁴

Recommendation #7

We recommend that the APEC Finance Ministers' Working Group on Regional Disaster Risk Financing and Insurance Solutions for APEC Economies incorporate in its work plan discussions on the topic *Expanding the Private Sector's Role in Hydrometeorological Risk Financing and Insurance*. This project should involve key organizations from the wider international insurance community with the objective of promoting a systematic, coherent and sustained approach, starting with peer learning activities around new financing solutions, standards and principles, followed by discussions on how member economies can benefit from existing or new international public-private collaboration programs to provide pre-arranged protection against hydrometeorological risks.

Interoperable Voluntary Carbon Markets

The 21 APEC member economies taken together accounted for 48 percent of global CO² emissions in 2020.¹⁵ Economies are currently using a variety of tools to manage emissions, with carbon markets being one of them. The recent introduction of various initiatives in many jurisdictions has led to the rapid growth of voluntary carbon markets (VCMs), which can play a very important role in mobilizing sustainable finance. Given the huge amount of expected global residual emissions that can be addressed through carbon credits, VCMs have tremendous growth potential if interoperable markets exist where buyers and investors can trust the integrity of carbon credits. This would require addressing a number of complex challenges.¹⁶ Various elements of interoperability, including principles,¹⁷ best practices,¹⁸

¹³ *Building Flood Resilience in a Changing Climate -Insights from the United States, England and Germany* June 2020, The Geneva Association

¹⁴ Examples of collaborative initiatives are the InsuResilience Global Partnership for Climate and Disaster Risk Finance and Insurance (<https://www.insuresilience.org/>), the Global Risk Modelling Alliance (<https://grma.global/>) and the Global Shield Against Climate Risks (<https://www.globalshield.org/>).

¹⁵ APEC Stocktake of Carbon Pricing Initiatives published in February 2022. Available at: https://www.apec.org/docs/default-source/publications/2022/2/apec-stocktake-of-carbon-pricing-initiatives/222_ec_apec-stocktake-of-carbon-pricing-initiatives.pdf?sfvrsn=fbedfd62_2

¹⁶ These include, among others:

- the fragmentation in the ecosystem arising from the multiplicity of standards, rating agencies and brokers, and different mechanisms and classifications across VCMs, which make it difficult to assess the quality of credits on a cross-border basis and time consuming to conduct over-the-counter trade;
- the need to increase the supply of removal credits;
- the lack of clarity over the role of VCMs in economies' emissions reduction strategy;
- the ongoing uncertainty about the implementation of Article 6 of the Paris Agreement, which hopes to establish standards for credit certification and the registry and market for transfers;
- the need to coordinate a multiplicity of stakeholders within and across jurisdictions, including governments, regulators, project developers, certifiers, verifiers, intermediaries, exchanges, registries and end purchasers;
- lack of a consensus view among jurisdictions on what role regulators should play; and
- complexities arising from the still elusive legal nature of carbon credits, the lack of standards across jurisdictions on applicable law, recognition and enforcement, the lack of a global standard on quality, uncertainties on how to treat digital carbon credits and tokens, and the contractual matrix around securities transactions, insolvency and authorization under the Paris Agreement.

¹⁷ An example is the set of Principles for Responsible Participation in Voluntary Carbon Markets recently announced by the US Government (<https://www.whitehouse.gov/wp-content/uploads/2024/05/VCM-Joint-Policy-Statement-and-Principles.pdf>)

¹⁸ An example is the set of good practices proposed by IOSCO in its December 2023 *Voluntary Carbon Markets Consultation Report* (<https://www.iosco.org/library/pubdocs/pdf/IOSCOPD749.pdf>)

labels, quality assessments, registries and methodologies already exist, and several initiatives¹⁹ have been started that could help in this effort. A series of discussions hosted by ABAC this year indicated significant interest among public, private and international stakeholders in collaborating to help accelerate the development of interoperable VCMs in the region through an Asia-Pacific Network of Interoperable Voluntary Carbon Markets.

Recommendation #8

We recommend that officials collaborate with ABAC and the APFF Sustainable Finance Development Network, the private sector and relevant international organizations to explore feasible ways of *developing an Asia-Pacific Network of Interoperable Voluntary Carbon Markets* through a regional pathfinder initiative. As an initial step, we suggest that public and private sector representatives from interested member economies hold discussions with relevant international organizations to develop a work plan for identifying key obstacles to the cross-border trading of voluntary carbon credits among their jurisdictions and how they can be addressed.

Mobilizing Large-Scale Private Capital for Energy Transition in Developing Economies

The ABAC 2023 Report to the APEC Finance Ministers proposed the establishment of a bond fund designed to address foreign exchange risk, which has been a major obstacle to private long-term capital investment by large global institutional investors in developing economies' energy transition projects. Discussions are currently ongoing on the issuance of a bond to provide a reference rate for the new financial instrument where payments of interest and repayment of principal are indexed to an existing currency basket that meets the requirements of a global institutional benchmark index.²⁰ Parallel discussions with multilateral institutions and institutional investors are also under way to create a Global Partnership for Sustainable Investment (GPSI) bond fund. The bond fund can transact in primary and secondary markets for indexed securities to enhance liquidity and enter into swap agreements to further reduce risk.²¹ The indexation to the global currency basket means that these bonds qualify as a core fixed interest holding for all global investors, which together currently hold an estimated USD43 trillion of bonds. Hence, these bonds can easily scale to the size needed to finance the global energy transition. ABAC has substantiated the viability and attractiveness of this mechanism to create an enabling investment environment for substantial funding to flow to transition projects and thus facilitate a just and expeditious energy transition.

Recommendation #9

We recommend the *issuance of a 10-year AAA-rated bond with interest and principal payments indexed to an existing basket of currencies* that meets the requirements of a global institutional benchmark index, in order to provide the risk-free reference rate for future indexed securities. In tandem with this, we also recommend the establishment by interested multilateral institutions and institutional investors of the *Global Partnership for Sustainable Investment (GPSI) bond fund* that can transact in the primary and secondary markets for these indexed securities.

Leveraging Intellectual Property Rights to Finance Sustainable Innovation

The ABAC 2023 Report to the APEC Finance Ministers recommended the adoption of a work plan for

¹⁹ These include, among others (a) the Integrity Council for Voluntary Carbon Markets, which has launched the Core Carbon Principles as a means of identifying carbon credits that are verifiable based on governance, emission impact and sustainable development criteria; (b) the Voluntary Carbon Market Integrity (VCMI) Initiative's Claims Code based on its Principles for High-Ambition and High-Integrity Voluntary Climate Action by Companies; (c) the work of the IFC-World Bank Group on the Climate Action Data Trust; legal issues surrounding the integrity of markets; and its Partnership for Market Implementation to provide technical assistance to developing economies; (d) the ongoing work on legal interoperability being undertaken by UNIDROIT and the Hague Conference on Private International Law; and (e) the NDC Partnership among economies and institutions promoting the acceleration of "nationally determined contribution" (NDC) implementation, mobilizing finance for climate action and mainstreaming NDCs into development plans and budgets.

²⁰ These requirements are: (a) ability to minimize currency risk for global investors; (b) being independently calculated based on publicly disclosed ground rules; (c) being representative of the global currency market; and (d) ability to execute large single transactions (i.e., of over USD1 billion) at low transaction cost.

²¹ For example, the fund can use a swap agreement to convert floating rate US Dollar debt into fixed rate currency basket indexed debt, working with multilateral development banks.

reforms enabling the use of intellectual property rights (IPRs) to finance sustainable innovation projects. This year, ABAC and the APFF IP Financing Working Group completed the report *Promoting Intellectual Property Financing for Sustainable Development: A Reform Strategy for APEC Economies*,²² which (a) introduced the role of IPRs in financing sustainable innovation and presented various credit products that can use them as collateral; (b) discussed the challenges to IPR-based finance, focusing on uncertainties regarding legal title over IP and coordination failures between different areas of law; (c) outlined a product-focused reform strategy (PRS), detailing its rationale, advantages, and mechanics; and (d) proposed a roadmap detailing how the strategy can be implemented and highlighting the next steps to execute it.

Recommendation #10

We recommend that APEC adopt and implement the work plan suggested in the report *Promoting Intellectual Property Financing for Sustainable Development: A Reform Strategy for APEC Economies*. These include (a) identifying the IP-based lending product to be tested and coordinating key stakeholders such as policymakers, international organizations such as multilateral development banks and economies ready to implement the strategy; (b) implementation of a pilot transaction in a sandbox environment to reduce credit risk; and (c) identification of specific reforms and sharing of pilot outcomes to facilitate broader diffusion of IP-based lending outside the pilot.

CONCLUSION

APEC represents a group of economies that share a common vision of a region characterized by a free, open, fair, non-discriminatory, transparent and predictable trade and investment environment; a market-driven enabling environment supported by the digital economy and innovation; and strong, balanced, secure, sustainable and inclusive growth.²³ Achieving this ambitious vision will require coordinated development of measures that respond to the very diverse needs of individual societies while enabling the secure and trusted flow of finance, data, goods and services across borders. It will also require collaboration to create synergies that can enable both public and private sectors to more effectively play their proper roles in economic development, especially in the context of economies' ongoing digital and green transformation.

ABAC believes in the significance of collective efforts to mitigate the growing risk of economic and financial fragmentation for ensuring that the Asia-Pacific region remains on track to sustained growth. Financial systems, which play a central role in connecting enterprises and individuals within and across markets, will need to be an important focus of efforts. This report identifies practical and actionable measures that APEC and its member economies can adopt and implement to harness regional coordination and cooperation and public-private collaboration to build interoperable, inclusive and sustainable supply chain finance ecosystems and to mobilize private capital for growth, sustainability and resilience.

We call on APEC Finance Ministers to endorse these recommendations and urge relevant stakeholders, including government and regulatory agencies, the private sector and multilateral institutions, to work together in implementing them within APEC's voluntary and non-binding framework. We in ABAC and our network of collaborators in the APFF, APFIF and APIP remain committed to supporting the Finance Ministers in implementing their initiatives and in their continuing efforts to promote stronger, more inclusive, more sustainable and more balanced growth in the Asia-Pacific region.

²² <https://www2.abaonline.org/content/download/22635671>

²³ APEC Putrajaya Vision 2040 (https://www.apec.org/Meeting-Papers/Leaders-Declarations/2020/2020_aelm/Annex-A)

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ADVANCING THE APEC VISION FOR FINANCE

2024 Progress Report

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

EXECUTIVE SUMMARY

Since its establishment, APEC has pursued a vision of “building a new economic foundation for the Asia-Pacific that harnesses the energy of our diverse economies, strengthens cooperation and promotes prosperity.” Following the outbreak of the Global Financial Crisis, the Finance Ministers issued their *Kyoto Report on Growth Strategy and Finance*, where they identified priorities for securing future growth. In 2015, the Finance Ministers launched the Cebu Action Plan (CAP) that identified action programs for promoting financial integration; advancing fiscal reforms and transparency; enhancing financial resilience; and accelerating infrastructure development and financing.

While many tangible results have been achieved under the CAP since its launch and several ongoing efforts continue to be progressed, APEC member economies continue to face challenges in realizing the Finance Ministers’ stated goal of stronger, more sustainable and more balanced growth in the region. Through the years, the Ministers have reiterated what needs to be done to address these challenges. Thus, an important undertaking where attention needs to be focused is the translation of the Finance Ministers’ calls to action into concrete laws, policies, regulations and measures in individual economies as well as into concrete forms of regional cooperation.

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 oversight of the APEC Business Advisory Council (ABAC).¹

This Progress Report covers the work and achievements of these initiatives since the last APEC Finance Ministers’ Meeting hosted by the USA in San Francisco in November 2023 until the present and provides information on planned activities until the end of 2024. It focuses on three areas: (a) sustainable finance; (b) inclusive finance; and (c) 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. Following are some of the key achievements and activities undertaken in pursuit of progress in these three areas:

Sustainable Finance

- The APFF Sustainable Finance Development Network (SFDN) launched the first of its local governance structures to support coordination of efforts around capacity building for sustainable finance, the Mexican TCFD Consortium, developed following the successful Japanese Consortium model. Discussions are continuing with Thailand, the Philippines and Chile regarding the establishment of similar local governance structures.

¹ The activities of the APFIF are currently managed by the Asian Development Bank (ADB) in partnership with ABAC and supported by the Griffith Asia Institute (GAI)

- The APFF SFDN provided support and speakers in the series of workshops held on the sides of FMP meetings on carbon pricing and non-pricing measures and clean energy transition, as well as private sector inputs to the discussions at FMP meetings.
- The APIP and APFF SFDN convened with ABAC a virtual seminar on Financing Just Energy Transition on 11 April.
- The APIP and APFF SFDN provided support and speakers for the FMP seminar on sustainable infrastructure held on 28 May in Urubamba.
- The APFF SFDN supported and co-organized various roundtables and webinars on intellectual property financing for sustainable innovation, interoperability and integrity of voluntary carbon markets, sustainable supply chains and transition financing to help develop and implement ABAC's recommendations to the APEC Finance Ministers.
- The APFF participated as official observer in the UNIDROIT Working Group on the Legal Nature of Voluntary Carbon Credits.
- The APFF SFDN plans to support a high-level seminar on sustainable finance being proposed to be held on the sides of the APEC Finance Ministers Meeting and commits to support activities of the proposed FMP initiatives on sustainable finance.

Inclusive Finance

- The Asia-Pacific Financial Inclusion Forum (APFIF) convened the *Policy Dialogue Enabling Green MSME Finance through Technology* on 30 May in Urubamba, Peru, and produced a summary of its results, which is a series of proposed actions for consideration by policy makers and regulators related to (i) enabling a viable and effective open data ecosystem; (ii) the potential of artificial intelligence to drive new solutions for green financing; and (iii) supporting financial sector innovation and technology adoption.
- The APFF Financial Infrastructure Development Network (FIDN) Credit Information Working Group undertook the following:
 - follow-on analysis and technical advisory services on the development of the credit information system in the Philippines in support of the Credit Information Corporation, the Securities and Exchange Commission, the Department of Finance and the Credit Bureau Unit of the Bangko Sentral ng Pilipinas (central bank); and
 - participation in the International Committee on Credit Reporting (ICCR), a body jointly organized by the IFC and the IMF.
- The APFF FIDN Data Ecosystems Working Group undertook the following:
 - convened an online meeting to disseminate the APFF Guiding Principles for the Development of Interoperable Open Data System to market players in China; and
 - organized two discussions on the formal data and data analytics market with regulators and market players in Viet Nam.
 - Together with the IFC, the Working Group plans to assist Viet Nam in developing its data and analytics industry and promoting the formalization of third party data and analytics market outside the credit reporting industry. It is also collaborating with the APEC Data Privacy Subgroup on privacy enhancing technologies (PETs) and plans to support a proposed hybrid event hosted by Chinese Taipei in 2025.
- The APFF FIDN Secured Transactions Working Group undertook the following:
 - provided inputs and recommendations that assisted Viet Nam in passing its revised law on credit institutions (improving the regime for factoring);
 - organized a conference with the Ministry of Justice of Viet Nam in November 2023 to support reforms on the use of digital assets as a new class of movables collateral for the benefit especially of MSMEs;
 - co-organized two training workshops with the Supreme People's Court of Viet Nam on secured transactions law implementation for commercial law judges;
 - supported Brunei Darussalam with capacity building sessions on secured transactions system development;
 - held a regional conference on digital supply chain finance in late 2023 in Singapore;

- participated in the discussions and formulation of the UNCITRAL Guide on Access to Credit for Micro-, Small and Medium Sized Enterprises, the UNCITRAL Model Law on Warehouse Receipts and the UNIDROIT Model Law on Factoring; and
 - contributed to the discussions on secured transactions reform for common law and civil law jurisdictions of the APEC Economic Committee's Strengthening the Economic and Legal Infrastructure (SELI) Friends of the Chair group.
 - The Working Group is currently planning to organize several events to support the Philippines' effort to develop the movables finance market and support Viet Nam's efforts to develop non-deposit taking lenders as new finance providers and its green and climate movables financing and warehouse finance markets.
- The APFF FIDN Intellectual Property Financing Working Group collaborated with ABAC in developing an APEC work plan (*Promoting Intellectual Property Financing for Sustainable Innovation: A Reform Strategy for APEC Economies*) for enabling the use of intellectual property rights to finance sustainable innovation projects through a joint virtual workshop held on 9 May.
 - The APFF Digital Trade Finance Lab completed a proof-of-concept (*Analysis of Financial Institution Trade Transaction Data to Uncover Instances of Goods Mispricing to Combat Trade-Based Money Laundering*) on the use of trade and maritime pricing data for financial institutions to augment their trade finance compliance checks for trade-based money laundering. It also supported ABAC in developing its recommendations on deep-tier supply chain financing and sustainable supply chains through jointly co-organized roundtables.
 - The APFF Valuation Working Group is promoting awareness in member economies on the updated International Valuation Standards published in January 2024 that will become mandatory in January 2025.

Financial Resilience

- The APFF Disaster Risk Financing and Insurance Network undertook the following:
 - supported the APEC Working Group on Regional Disaster Risk Financing Solutions in promoting DRFI in the region as envisaged in the CAP;
 - organized the virtual workshop *Back to Basics and a Step Forward* for member economies on 31 May;
 - continued work on the pilot project for Thailand to establish an Epidemic Risk Markets Platform as a methodology for addressing pandemic risk;
 - supported ABAC in developing recommendations on hydrometeorological risk financing and insurance through a joint virtual roundtable on 20 June; and
 - convening the session entitled *Bringing Resiliency to the Asia-Pacific – the Role of Disaster Risk Financing and Insurance* on 19 June in Himeji, Japan as part of the Understanding Risk Forum 2024 organized by the World Bank.
- The APFF Insurance and Retirement Income Network undertook the following:
 - supported the International Accounting Standards Board (IASB) through workshops and dialogues in finding solutions to IFRS 17 (insurance contracts) and IFRS 9 (financial instruments) that do not result in disincentives for long-term equity investments, especially in infrastructure and sustainable transition projects;
 - facilitated more active Asia-Pacific inputs to the development of the Insurance Capital Standard (ICS) through dialogues with policymakers, regulatory authorities, and international and regional institutions, in particular with respect to the risk charge on long-term equity, which will significantly impact investment in Asian corporate bond markets; and
 - supported the International Association of Insurance Supervisors (IAIS) in convening its November 2023 annual conference in Tokyo, Japan.
 - The Network is currently planning to convene an *APFF Roundtable on Insurance Capital Regulations and Sustainability Reporting* in Hong Kong, China in Late 2024.
- The APFF Pensions and Retirement Income Working Group collaborated with ABAC in developing an APEC work plan for enabling pension funds to expand the range of their investments in private markets, including infrastructure, private equity and private credit among

others, through the joint roundtables *Mobilizing Pension Funds for Growth* held virtually on 27 March and *Mobilizing the Asia-Pacific Region's Pension Funds for Growth* held in person on 31 July in Tokyo, Japan.

- The APIP and the APFF Circular Economy Infrastructure Working Group collaborated with the APEC Chemical Dialogue to share best practices and case studies from jurisdictions implementing policies that support investment in waste collection, recycling and disposal infrastructure, and are currently collaborating with the Chemical Dialogue on a survey of priorities and capacity building needs for implementing Extended Producer Responsibility policies to support financing for waste management infrastructure.
- The APFF Health Care Financing Working Group is co-organizing a sustainable health financing roundtable in the 4th quarter of 2024 to help Malaysia harness public-private partnerships in increasing investment in its health system.

Outreach to Member Economy Stakeholders

Following the holding of the APFF China Conference in 2021 and 2023 in Beijing, China, APFF jointly with the ASEAN Business Advisory Council convened its inaugural Southeast Asia Conference on 17 May in Bangkok, Thailand.

Conclusion

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

2024 APEC ASIA–PACIFIC FINANCIAL INCLUSION

Enabling Green MSME Finance through Technology

Urubamba, Cusco, Peru
30 May 2024

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 Forum aims to identify concrete actions policymakers and regulators can take to expand the reach of financial services to the underserved. 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 dimensions – financial, economic and social - and its strong focus on those at the base of the economy and the poor. This approach aligns with the priorities of APEC including those established by the APEC Host (Peru) in its priority “More Digital” and the subtopics of Open Finance and Digital Financial Education, as well as the APEC Putrajaya Vision 2040 which calls for promoting innovation, digitalization and sustainability.

To support these priorities, and recognizing the important role technology can play in advancing financial inclusion and delivering a sustainable future, in 2024 APFIF adopted the theme “*Enabling Green MSME Finance through Technology*”. Under this theme, which builds upon the work of the 2023 APFIF, the APFIF initiative is examining the importance of innovative technology solutions to further enable micro, small, and medium enterprises (MSMEs) to access green financing.

Despite the economic importance of MSMEs, they are also significant producers of greenhouse gas (GHG) emissions, making them a critical segment for achieving decarbonization goals. Faced with growing environmental threats resulting from climate change, millions of poor and vulnerable people who rely on MSMEs for their livelihood are faced with growing challenges to meet their needs.

Against this backdrop, green finance products and services have the potential to support both the green transition of MSMEs as well as building their resilience against climate-induced economic shocks. Recognizing the challenges MSMEs face to accessing formal finance, their opportunities for green transition or resilience-building through financial products are often limited. Innovative technology solutions are now emerging which have the potential to overcome these barriers and enable more MSMEs to access green financing.

Working closely with APEC stakeholders, including financial inclusion and technology experts from across the region, the 2024 APFIF initiative resulted in the development of a set of proposed actions to support APEC's policymakers and regulators in addressing the green financing needs of MSMEs through technology solutions. These recommendations have been framed to support APEC Peru's priorities within the FMP in 2024, namely the promotion of innovation and digitization to advance financial inclusion and bridge gaps to empower groups with untapped market potential as well as facilitating sustainable growth for resilient development through innovative financing mechanisms.

The 2024 APFIF initiative is led by the Asian Development Bank (ADB), in partnership with the APEC Business Advisory Council (ABAC) and supported by the Griffith Asia Institute (GAI).

PROPOSED ACTIONS FOR POLICYMAKERS AND REGULATORS

Access to finance is a common challenge for MSMEs globally. However, the provision of green finance brings additional unique challenges. These include addressing a lack of awareness of the availability of green finance or its benefits, administrative or compliance costs, limited skills or knowledge associated with sustainable behaviors, lack of incentives or support measures, or fragmented markets constraining availability. To overcome these challenges, a variety of technology solutions are emerging which have the potential to further expand the quantity and quality of green financing for MSMEs. Appropriate policy and regulatory frameworks are needed to fully realize the potential of technology-enabled green financing.

Proposed Action 1: Take steps towards more effective use of data

Due to its potential to address many of the challenges associated with green MSME financing, including reducing financing costs or creating more awareness of their profiles and financial needs, technology is not just a useful tool but in many cases may be a necessity. A core component of effective technology approaches is the use of data. However, each economy will have different levels of experience or capabilities relating to the collection and use of data. In this context, policymakers should consider developing effective data frameworks for green financing by:

- Engaging in public-private dialogue to better understand how inclusive finance approaches can support vulnerable populations, including MSMEs, respond to the challenges of climate change and enhance access to high quality data to develop the most effective solutions. With this objective in mind, developing inclusive finance frameworks² that provide detailed guidance for policymakers and financial institutions in key impact areas (mitigation, resilience, adaptation and transition) is essential. Such frameworks can facilitate the design of targeted policies and provision of green finance solutions, including data sharing.
- Working with the private sector to establish a green data management framework which can be provided as a public good. Building on the open-banking concept, the framework could be used to increase access to relevant data, shared between financial service providers, to enhance access to green finance while ensuring the use of data is compliant with privacy requirements. Policymakers are encouraged to refer to the “Guiding Principles for the Development of Interoperable Open Data Systems in the Asia-Pacific Region³” developed by the APEC Business Advisory Council (ABAC) and the Asia-Pacific Finance Forum (APFF) which provides detailed advice on how APEC member economies can collaborate towards the harmonization and standardization of open data frameworks that ensure interoperability, accessibility, and scalability of safe and secure open data and payment systems.
- Investing in, or better leveraging existing, relevant technology infrastructure including cloud services, cybersecurity measures and blockchain solutions which can help lay a foundation for enabling secure and efficient data collection, sharing, and usage. Policymakers can also play a role in promoting the standardization of Application Programming Interfaces (APIs) as a critical component of digital infrastructure that could significantly enhance green financing opportunities in the future. By adopting an open API strategy. Open API strategies could enable the development of new green financing business models or expand the reach of green finance to underserved customers by enabling third-party access points to green finance services. For example, financial service providers could be able to improve interoperability of data systems and use it for green finance solutions, including more accurate assessments on the environmental impact of investments or improved accountability to reduce instances of greenwashing. Enabling an effective open API strategy requires, among other elements, the development of a comprehensive regulatory framework which accounts for data protection and encryption, access controls, standards to enable interoperability, or accountability and dispute resolution mechanisms.

Proposed Action 2: Build the ground for artificial intelligence solutions in green finance

Artificial intelligence (AI), including generative AI (Gen-AI), has emerged as a powerful tool with significant potential to be leveraged within the finance sector to increase access to finance, including green finance. For example, AI can be used to support credit scoring (i.e. rapid assessment of non-structured data such as social media), enhance customer support, raise awareness of products or services, or train loan officers. AI can also be used for know-your-customer (KYC) compliance and cybersecurity. Each of these examples has the potential to significantly lower costs for financial service providers, with savings passed on to customers to make green finance more viable or appealing. To support the use of AI as a tool for green MSME finance, policymakers could:

- Work with the private sector to create an ecosystem which enables the effective collection, sharing and use of data (see Proposed Action 1). The use of AI requires large quantities of high-quality data. Getting a functional data ecosystem established is therefore an important first step.
- Establish clear regulations and guidelines to govern the use of AI within the financial sector. These regulations should focus on addressing key issues such as ensuring transparency and accountability. Concerning green finance specifically, it is also important to ensure that regulations define clear standards for what qualifies as green finance, and that AI models are aligned with these criteria.
- Support pilot programs, including potential funding, which utilize AI and demonstrate its practical application as a solution for green MSME financing. By identifying and promoting successful AI models, policymakers can play an important role in encouraging adoption among financial service providers and enhance access to green MSME finance. While not all economies are in the same development stage in the adoption of AI frameworks, experimental approaches and pilots in green MSME finance may be expanded to traditionally excluded groups.
- Prioritize the development of AI solutions which directly support the ability of MSMEs with Scope 3

² See: <https://www.centerforfinancialinclusion.org/wp-content/uploads/2024/02/Green-Inclusive-Finance.pdf>

³ See: <http://www2.abaonline.org/content/download/22632171>

reporting. Addressing Scope 3 reporting is one of the greatest challenges to combating climate change and is largely tied to the environmental impact of MSMEs. Technology or AI solutions which can help MSMEs better understand and report on their environmental impact could have major implications for their ability to access green finance.

Proposed Action 3: Create an enabling environment for finance sector innovation and support technology adoption

Increasing MSME access to green finance through technology solutions requires efforts to support and promote innovation throughout the finance sector. By encouraging financial service providers to invest in research and development new technology solutions can be identified to address environmental issues. Furthermore, policymakers can play an important role in promoting the adoption of technology solutions, which providers and MSMEs alike may resist. Some examples of approaches policymakers could use to achieve this include:

- Establishing innovation hubs to promote collaboration, creativity, research, and sharing of knowledge and resources. Innovation hubs can be especially effective at bringing together stakeholders from multiple sectors, including finance, technology companies, academia, government, or enterprise and formulate meaningful partnerships which lead to tailored technology solutions for green MSME finance.
- Developing incentive schemes to encourage financial service providers to pursue the development of innovative technology solutions to enhance the availability of green finance to MSMEs. Policymakers can consider the range of tools they have at their disposal to create such incentives such as tax breaks, low-interest loans, green bonds, or subsidies which can be designed to align with the development and use of specific technology solutions or regulatory incentives such as temporary regulatory compliance relief for financial service providers which have committed to integrating new technology solutions for their green finance operations targeting MSMEs.
- Taking a lead role in enhancing awareness of the potential of technology solutions and building trust in their application for green finance. Many financial service providers and MSMEs are resistive to technology adoption for a variety of reasons such as cost concerns, lack of expertise, security or privacy concerns, perceived complexities, or customer preferences. Policymakers help to address these issues by creating regulatory sandboxes, or promoting interoperability and industry standards for technology integration.
- Investing in digital financial education programs with a focus on green finance can improve the scope and utilization of technology solutions among MSMEs. A combined approach, where digital and financial skills are developed in tandem, is important. Green or climate finance modules can be developed to improve the understanding of key concepts (e.g. resilience, adaptation, climate-related risks), make the provision of green finance solutions accessible and action-oriented, and personalize programs to customers' needs.