



Asia-Pacific
Economic Cooperation



APEC 2022
THAILAND

Background Papers

APEC Finance Ministers' Process Priorities

APEC FINANCE AND CENTRAL BANK
DEPUTIES' MEETING (FCBDM)

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Priority 1- Sustainable Finance

Key objectives

To discuss and provide recommendations on how to support the transition to sustainable finance and to embrace commitment towards environment-friendly and sustainable economic growth.

Background and Rationales

It is obvious that economies worldwide have recognized their vulnerability to climate change as well as other sustainability-related risks, hence the needs to move to a more sustainable economy. Such needs have been reflected in global agreements to curb carbon emission, from the Kyoto Protocol to Net Zero target set at the 26th United Nations Climate Change Conference of the Parties (COP26).

Sustainable finance has thus become a crucial mechanism for policymakers to achieve such goals. While governments worldwide may have diverted their attention towards immediate priorities, such as protecting people's livelihood in the face of the COVID-19 pandemic, many have taken on the challenges of making sustainability part of the pathways towards economic recovery itself. The private sector has also moved ahead by pledging as much as 115 trillion USD, as per the Glasgow Financial Alliance for Net Zero (GFANZ), towards sustainable finance.

Nevertheless, governments still have crucial roles to play in encouraging sustainable finance. With environmental quality regarded as a public good with positive externality, it is prone to the problem from freeriding where private entities may be reluctant to step in and produce the goods that can be consumed by payers and non-payers alike. As the climate and environmental issues become more severe and have a widespread impact to all economies, it is everyone's responsibility to take charge. The governments, with a tremendous potential to mobilize resources and infrastructural changes, cannot afford to be passive, only stepping in when the private sector inevitably comes up short. Instead, governments should take a leading and proactive role by actively developing an ecosystem for sustainable finance with collaboration from every stakeholder within the financial sector, co-investing in green growth with the private sector, equally sharing the risk and reward from such endeavors, and fostering the development of green infrastructure and other sectors related to the environment.

Fortunately, some groundwork for the development of the "ecosystem" for sustainable finance has already been laid at a domestic and regional level on both the supply and demand side. On the supply side, these include, for example, taxonomy for sustainable economies and green bond standards. On the demand side, regulators worldwide are developing disclosure standards for Sustainable and Responsible Investing Fund (or ESG Fund) to address the issues around "greenwashing" and ensure that investors have adequate information for making their investment decisions.

What is then required is the global commitment to get such an ecosystem up and running. This could prove a daunting challenge, as the same free-riding dilemma and the sheer amount of financing required mean that no single economy, especially those which may bear a disproportionate brunt of environmental degradation, may be able to take on the challenge alone.

In light of this, there exists the need to have a regionwide pledge towards sustainable finance that is transparent, credible, and achievable to ensure that net-zero, or potentially more ambitious sustainability targets, can be achieved. Once such commitment has been made, sustainable financing, especially for the transition from brown to green economy can begin in earnest.

As APEC host for 2022, it is Thailand's wish to use the Finance Ministers Process as a platform for policymakers to brainstorm and suggest ways in which sustainable finance can be employed to achieve environmental and sustainability targets – from leveraging fiscal funding facilities, bolstering the role of the financial market, assessing and mitigating disaster risks using financial instruments, designing quality infrastructure investment which sustainable financing tools can serve, and paving steps economies can take to transition towards sustainable finance and sustainability, while gauging the impact of such transformation on the real economy. Only by working together, the global, common good of green and sustainable future can be achieved, and APECFMP2022 is where we can work together for the benefits of the environment and the world well cared for.

Key Discussion Questions of Sustainable Finance

- 1) What are the preferred policy instruments for the government to support sustainable finance given the budget constraints posed by the COVID-19 pandemic?
- 2) What would be the area of improvement for the governments to play more proactive roles when it comes to sustainable finance, and the transition thereof? How should the “entrepreneurial mindset” be forged among government officials to foster the market for sustainable finance?
- 3) What financial mechanisms, including products, standards, or measures, should be developed to support transition finance? What other, and possibly more ambitious, financial solutions to climate change can be explored? For example, the introduction of a global carbon tax.
- 4) How should disaster risk financing be factored into the government's budget and the sustainable finance framework? What roles can the banking, the financial, and the insurance sectors play together to address the disaster risks?
- 5) What should a regionwide and achievable commitment look like? Should there be any mechanisms to support such commitments, especially to provide supports for economies disproportionately affected by climate change?
- 6) In the transition towards green and sustainable economy, what may be the impacts on the real economy? What measures can the government take to support the transition in the real economy and to bring people on board for such transition?

Priority 2- Digitalization for Digital Economy

Key Objective

To discuss development and future trend of digitalization and the utilization thereof for the purposes of policy-making and promoting financial inclusion, and derive policy recommendations on the issue.

Background and Rationales

Digitalization has been a revolutionary force in the new economic growth. Digital technologies have propelled an increase in productivity and efficiency, reduced transaction costs, and enhanced connectivity among economic agents. These benefits are more apparent during the COVID-19 pandemic, where digital technologies have allowed work to continue and interactions to happen virtually, facilitated local and international flows of goods and services, and provided a leverage for government agencies to deliver services and assistance to the people. Digital tools have created many innovative possibilities for the private and the public sectors alike.

Given the global reach afforded by digitalization and the differing experiences of APEC member economies, APEC Finance Ministers Process can be a forum in which economies can learn from one another how to better utilize digitalization for such benefits.

A. Digitalization for Fiscal Policy

The COVID-19 pandemic has demanded policymakers to rethink the ways fiscal policies as well as government services are designed and delivered. The broad range of people and sectors deemed to have been affected by the pandemic necessitates the use of big data to better allocate and target its assistance or stimulus package, which is then delivered through digital channels, such as mobile applications or e-payment platforms, alternatives necessary at the time when social distancing is required. By also designing how the fiscal handout can be spent through these digital platforms, the government can also design where, how, and the duration over which the assistance or stimulus measures may take effect. Specificity of targets, digital inclusion, and the reach of measures should, therefore, be amongst the valuable lessons learned from the digital delivery of fiscal measures and other government services. Reflecting on these lessons would ensure better utilization of digital tools, such that no one is left behind or left out of government assistance or services they so deserve.

Following the reliance on public expenditures to keep the economy going during the COVID-19 pandemic, maintaining balance in expenditures and revenue as well as long-term fiscal sustainability has become an issue which economies have to consider. The adoption of digital tools to monitor, trace, and create reporting of revenue collection would present another application of digitalization in the field of fiscal policy

B. Digitalization for Inclusive Finance

In recent years, finance is one of the sectors which the force of digitalization has encroached into. Digitalization has given rise to a range of financial products in payment, lending, saving,

investment and insurance, and the means through which these services can be delivered. The reach and the democratizing effect of digitalization also makes it an obvious tool to drive financial inclusion, which has become increasingly synonymous with digital inclusion.

While the benefits of digitalization in the financial sector may be extensive, it is undeniable that payment and remittance services are at the forefront of digital finance. Just as physical infrastructure has connected trade routes, the broader network of payments and remittances provides digital connectivity which allows transactions of goods and services to flow more broadly and more efficiently, and enables people and businesses to earn and consume beyond the boundary of local or domestic markets. With Asia-Pacific being the largest contributor to global payments revenue, APEC FMP 2022 may discuss how this trend can be captured for the benefits of financial inclusion and other policy purposes, and how the government may facilitate and address challenges in cross-border transactions.

Pushing the boundary of fund-raising activities to include new financial services, such as crowdfunding and initial coin offering, digitalization alters the structure of the capital market, and may be the key to improve access to finance by SMEs. Where SMEs represent over half of the workforce and over 40 percent of gross domestic products of the APEC economies, the improved access to finance would bolster SMEs business growth, advance inclusion, support jobs, and lift the growth of the economy as a whole. To best realize these benefits, the government shall ensure that the market as well as the regulatory framework are inclusive and the ecosystem remain safe for everyone involved, and APEC FMP 2022 would serve as a forum for APEC economies to share experiences and discuss lessons to ensure that the market takes shape as such.

Key Discussion Questions of Digitalization for Digital Economy

1. How have fiscal measures played a role in alleviating the impact of the COVID-19 pandemic? In designing and implementing such measures, how have the economies adopted digital technologies? What barriers have the economies encountered in doing so, and what have the economies done to address these barriers?
2. How can lessons learned from the implementation of fiscal measures and the utilization of digital technologies during the COVID-19 pandemic be applicable to the design or the delivery of economic measures and other government services in the future?
3. How can digital technologies be applied to improve revenue collection?
4. How do economies promote financial inclusion or other policy objectives by leveraging the growing digitalization trend?
5. What factors should be taken into the consideration to link cross-border payment platforms, e.g., potential benefits and risks? What challenges have the economies experienced, or may foresee, as regards such linkage? How do the economies foresee the future of cross-border payment or what could be possible alternatives, such as CBDCs or multilateral payment platforms? What strategies or preparations should the economies take for such development?
6. How can the economies balance the use of digitalization for SMEs' inclusion in the capital market and investor protections?
7. What policies, strategic or regulatory measures or initiatives, if any, have been introduced in the economy to address the increase in popularity of digital fund-raising platforms, such as crowdfunding and initial coin offering? What are the challenges in doing so?