

14 August 2020

Senator Dato' Sri Tengku Zafrul Tengku Abdul Aziz
Chair, APEC Finance Ministers' Meeting
Minister of Finance
Malaysia

Honorable Minister:

We respectfully convey through you to the APEC Finance Ministers our 2020 Report at a time when urgent action is needed. The COVID-19 Pandemic has severely impacted our region, taken lives, decimated businesses, destroyed jobs, depressed incomes and savings, and inflated public and private sector debt. We realize the heavy responsibility this situation has placed on your shoulders, and we stand ready as Asia-Pacific business leaders to cooperate with you in identifying solutions to help accelerate our region's economic recovery.

Our first concern centers on our micro-, small and medium enterprises (MSMEs), the backbone of our economies and the main creators of jobs, which have borne the brunt of the Pandemic's economic impact. Many of them have already been forced to close down, and those that are surviving are facing serious liquidity challenges. We note with great appreciation the various monetary, fiscal, regulatory and policy measures that your governments have already put in place. We have put forward in our report a number of recommendations for your consideration to reinforce these efforts, based on the experiences and perspectives of the business sector in responding to previous liquidity and solvency crises. Foremost among these are effective **design of emergency credit programs** undertaken by government in collaboration with bank and non-bank lenders to save MSMEs from the liquidity crisis. Our recommendations also include essential elements that can be applied in emergency measures to facilitate **speedy restructuring and fresh starts**, which we propose as a more appropriate solution for the many small businesses that have become insolvent, combined with unemployment support to their employees, to avoid proliferation of zombie companies. Finally, we propose actions to shore up **resilience against natural disasters and resurgent pandemics** at a time of heavily strained fiscal, company and household balance sheets.

Our second concern revolves around digitalization as a means to achieve financial inclusion. We have been encouraged by policy makers' and regulators' increased interest in and renewed efforts to accelerate digitalization of financial services in the wake of the Pandemic. We believe that we should seize this opportunity to harness this heightened sense of urgency and bring relevant stakeholders together to accelerate the process of reform. This will hugely benefit our economies, through its impact on access to finance of the hundreds of millions of unbanked and financially underserved people, as well as MSMEs and consumers. It is, however, a complex undertaking that requires collaboration not just among domestic stakeholders, but among member economies as well, if we are to promote regional integration.

We identify in our Report a few critical areas where efforts could be focused to generate the most impact. Building up **ICT infrastructure in underdeveloped areas** and introducing **digital IDs** are necessary prerequisites for enabling wider use of Internet and mobile platforms

for inclusive digital finance. To spur progress, we recommend as **pilot projects** – one to develop **innovative financial products for the unbanked** using the ASEAN Financial Innovation Network (AFIN) and another to launch a **cross-border inclusive digital finance** initiative in the East ASEAN Growth Area, which can be replicated in other groupings such as the Pacific Alliance. We also recommend establishing platforms for economies to collaborate in developing a regional strategy for accelerating the **digitalization of Know-Your-Customer (KYC) processes** and initiating the **first steps toward Open Banking**, beginning with discussions on API standardization.

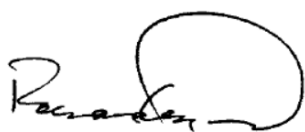
Our third and final concern relates to the need of our region’s developing economies to attract more investment, especially in the infrastructure sector. This will become increasingly challenging as environmental, social and governance (ESG) factors play a growing role in lending and investment decisions. We believe that, in order for these economies to attract the necessary capital, the transition to sustainable practices in the region needs to be accelerated. Lenders and investors can play a critical role, if they are able to effectively use ESG financing that can be applied across markets with widely varying levels and speeds of transition to promote alignment with sustainable goals. The challenge, however, lies in the currently fragmented state of ESG taxonomy, risk management guidelines, market standards and data and disclosure frameworks.

We see that significant efforts are now being made by various institutions and bodies to achieve greater coherence. We offer in our report a few high-level recommendations to ensure that the outcomes of these efforts are applicable to our region’s developing economies. These include a globally consistent and principles-based **ESG taxonomy** or set of standards that is flexible in approach, acknowledging different shades of “green” and “brown” rather than a binary “green” against “brown” approach, and open to different speeds of adoption, as well as dynamic and taking into account the impact of evolving technologies. We see the need for an **inclusive process** of developing global standards, frameworks, principles and best practices, as well as a need to give sufficient attention to **social and governance factors**, including **corruption**. Finally, as a concrete step forward, we recommend that APEC Finance Ministers establish a platform (which could be within an existing initiative such as APFF) for developing an **APEC roadmap** to promote coherence among member economies and strengthen the Asia-Pacific region’s role in the development of global standards.

Finally, we express our appreciation to Finance Ministers for supporting many of our previous recommendations, a number of which are now being implemented by member economies with the assistance of our Asia-Pacific Financial Forum (APFF), the Asia-Pacific Financial Inclusion Forum (APFIF) and the Asia-Pacific Infrastructure Partnership (APIP). These are described in their 2020 Progress Report, the Executive Summary of which we also enclose with this letter.

We hope through our Report to provide practical and helpful guidance on how reforms that will enable the financial services sector to make major contributions to regional development and integration may be successfully undertaken. Despite the difficult circumstances in which we find ourselves today, we remain committed to continuing our work with APEC Finance Ministers in pursuit of stronger, more inclusive, more sustainable and more balanced growth in our region.

Yours sincerely,



Dato' Rohana Tan Sri Mahmood
ABAC Chair 2020
