


Accelerating Digital Financial Services and Infrastructure

12 August 2020, 15:00-16:30 (Manila Time), via Microsoft Teams

I. Background and Context

1. The ongoing coronavirus disease (COVID-19) pandemic is severely affecting Southeast Asian countries and the People's Republic of China through several channels, including lower consumption and investment, disruptions in trade and production, sharp declines in tourism and exports, and adverse effects on health. The extent of the social and economic losses will depend on how the pandemic evolves, which remains highly uncertain.
2. Developing Asia will barely grow in 2020 as containment measures to address the COVID-19 pandemic hamper economic activity and weaken external demand, according to estimates of the Asian Development Bank (ADB). The Asian Development Outlook 2020 supplement on COVID-19 forecasts growth of 0.1% for the region in 2020. Economic activity in Southeast Asia is expected to contract by 2.7% in 2020 before growing by 5.2% in 2021. Estimated contraction figures for Southeast Asian economies hit hard by COVID-19 are at -1.0% for Indonesia, -3.8% for the Philippines, and -6.5% for Thailand since containment measures affect their domestic consumption and investment.
3. Given contractions of economies, the COVID-19 pandemic could serve as a game changer for digital financial services (DFS). DFS allows people to transfer funds, including cross-border remittances, and to pay bills from their home, or in a market or store setting, with limited or even no physical contact. The potential of DFS is much larger than what has been currently achieved. DFS provides affordable, secure, and convenient services not only to those who are already banked, but especially the poor who are unbanked. It enables efficient interconnectivity between economies and people, providing greater access to those who are financially excluded mostly in rural areas. Banks, microfinance institutions, mobile network operators, and third-party providers are leveraging mobile phones, point-of-sale devices, along with networks of small-scale agents, to offer basic financial services at greater convenience, scale and lower cost contrasted to traditional banking.
4. A "cash-light economy" is emerging as a key tool in surviving the COVID-19 and similar future outbreaks. The COVID-19 pandemic has created new opportunities for DFS to accelerate and enhance financial inclusion, amid social (or safe) distancing and strict lockdown measures. However, the attendant risks to DFS prior to COVID-19 are being accentuated by the ongoing crisis. For example, financial inclusion challenges such as lack of access to mobile phones, computers, or the internet could lead to new forms of exclusion, which could be worsened as the shift to DFS speed up during and post COVID-19. Risks associated with security and data privacy also needs to be addressed.



5. Throughout the COVID-19 lockdowns, DFS are enabling governments to provide rapid and reliable financial support to vulnerable populations and small and medium enterprises (SMEs). DFS are faster, more efficient and typically cheaper compared to traditional financial services, and it also allows contactless and cashless transactions which are safer. DFS strengthens accountability, improve the ability to track where government funds are spent and eventually evaluate the impact of interventions. Policy makers must consider that access to government electronic systems that are well integrated with DFS platforms such as fintech firms, mobile money companies, and digital banking are effective in providing relief measures to low-income households and SMEs during the COVID-19 crisis.


6. Policy makers also need to consider strong digital infrastructure as a prerequisite for more reliable and efficient DFS. The COVID-19 crisis has reinforced the importance of digital infrastructure as a key enabler to leapfrogging technological advancements for the finance sector. A whole range of options are available for governments to implement policies and measures that can help fast-track the COVID-19 recovery via the finance sector including telecommunications infrastructure buildup, digital ID implementation and digitization of assets, remittances, strengthening of supply chain traceability and transparency, sandbox and regulation implementation, and adjustment of financial institution licensing conditions. These digital infrastructure investments, software components and support systems should be complemented with enabling legal and regulatory frameworks to ensure inclusive access and more benefits by people especially the poor from DFS and at the same time guarantee a competitive ecosystem.

II. Ninth PACER Dialogue

7. As countries act to address the COVID-19 crisis, a strong case can be made to accelerate the development of digital infrastructure alongside DFS. The crisis has highlighted the benefits of DFS in many different dimensions and its critical role in realizing the Sustainable Development Goals. Governments need to plan based on their specific needs and must align support measures with a sense of urgency and goal that increasing usage of DFS can speed up resolution of the health emergency, support economic recovery, and fortify the path towards economic growth and greater resilience. Investments and growth in digital infrastructure and DFS will lead to greater development dividends contributing to economic growth and poverty reduction.

8. Recognizing that each country's situation is unique, countries need to plan based on their specific needs and must align to different phases of readiness in advancing DFS anchored on a strong digital infrastructure. Several policy options drawn from good practice examples are available for governments to harness the potential and accelerate growth of DFS in the new normal; and immediate and pragmatic measures which can be taken to enhance DFS in mitigating the negative effects of the COVID-19 and accelerating recovery.

9. In this context the ADB will convene the ninth **Policy Actions for COVID-19 Economic Recovery (PACER) Dialogue** in virtual format on 12 August 2020 (Wednesday) from 15:00–16:30 (Manila time) using Microsoft Teams. The title of the ninth PACER Dialogue is **“Accelerating Digital Financial Services and Infrastructure.”** The PACER Dialogues are organized under the ADB-supported BIMP-EAGA, IMT-GT, and GMS (B-I-G) Capacity Building Program, and will explore measures that can help “B-I-G” member countries, Singapore, and Timor-Leste “bounce back better” from the COVID-19 pandemic.



III. Objectives

10. The ninth PACER Dialogue will feature policies and measures that can better harness the potential and accelerate the growth of digital financial services anchored on strong digital infrastructure amid COVID-19 and beyond. Experience and lessons of different countries and global good-practice examples will be featured. The objectives are to:

- promote improved understanding of policies that can better harness the potential and accelerate the growth of digital financial services anchored on strong digital infrastructure in the post COVID-19 new normal;
- feature the experience of the Republic of Korea and lessons on effective use of digital financial services in mitigating impacts of COVID-19 and accelerating recovery; and,
- provide a platform for policy makers and development planners to share knowledge and experience and collaboratively learn from each other.

11. At the end of the dialogue, a Policy Brief will be produced to summarize the policy options and recommendations discussed.

IV. PACER Dialogue Background Paper, Structure and Timing

12. The PACER Dialogues are envisaged to help decision makers broaden their perspectives, appreciate the wider implications of critical policy choices, and identify concrete policy actions. During the open discussions, participants are requested to provide inputs, share analysis, country experiences and lessons on digital financial services and infrastructure policies and measures taken to mitigate the negative effects of the COVID-19 pandemic and accelerate recovery.

13. A background paper will be circulated to all participants as advance reading. The indicative structure of the 1.5-hour (90 minute) PACER Dialogue is summarized in the attached program.

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TIME	DETAILS
15:00-15:05	<p>Ninth PACER Dialogue – Overview and Objectives <i>Mr. Alfredo Perdiguero, Director, Regional Cooperation and Operations Coordination Division, Southeast Asia Department, Asian Development Bank (ADB)</i></p> <p>Introductory remarks on the ninth PACER Dialogue context, objectives, and structure.</p>
15:05-15:25	<p>Accelerating Digital Financial Services and Infrastructure amid COVID-19 and Beyond <i>Dr. David Lee Kuo Chuen, Professor, Singapore University of Social Sciences</i></p> <p>Presentation on policies and measures that can better harness the potential and accelerate the growth of digital financial services anchored on strong digital infrastructure amid COVID-19 and beyond. Country-level, regional and global experience and lessons and global good-practice examples will be highlighted.</p>
15:25-15:45	<p>Interoperable Digital Payment Infrastructure for Digital Financial Services: KFTC's Centralized Digital Payment System - Extended to Open Banking Platform <i>Mr. Hae-Rok Ko, General Manager, Center for International Cooperation, Korea Financial Telecommunications and Clearings Institute (KFTC)</i></p> <p>Presentation on unique centralized interoperable digital payment infrastructure which makes the Republic of Korea one of the advanced countries in the digital finance sector and its open-banking platform allowing fintech companies to access and utilize information that traditional financial institutions have. Good practices, lessons and insights on effective use of digital financial services in mitigating the impact of COVID-19, accelerating recovery and thriving in the post-COVID-19 new normal will be featured.</p>
15:45-16:25	<p>Open Discussion and Questions <i>Moderator: Mr. Junkyu Lee, Chief, Finance Sector Group, Sustainable Development and Climate Change Department (SDCC), ADB</i></p> <p>PACER Dialogue participants exchange information on digital financial services and infrastructure policies and measures in an open discussion format.</p> <p>To enrich the PACER dialogue discussions, the moderator will request country delegations to provide inputs and share analysis, country experiences, and lessons on digital financial services and infrastructure policies and measures aimed at mitigating the negative effects of the COVID-19 pandemic and achieving medium- and long-term recovery.</p>
16:25-16:30	<p>Synthesis and Summary Closing Remarks <i>Moderator: Mr. Junkyu Lee, Chief, Finance Sector Group, SDCC, ADB</i></p> <p>Moderator summarizes the policy discussions, key recommendations, and closes the Dialogue.</p>