



## Concept Note

### Financing Agri-SMEs to trigger engines of local development

Venue: Ball Room, Borei Angkor Resort, Siem Reap, Cambodia

Date: 08 August 2024; Time: 08.30 to 12.30 hrs.

#### 1. Background:

Despite accounting for 25 percent of gross domestic product (GDP) in low-income<sup>1</sup>, 15 percent in lower middle-income countries<sup>2</sup>, and employing a large share of the population<sup>3</sup>, agriculture receives a disproportionately low level of formal credit<sup>4</sup>. Credit and investments that flows to the agriculture sector in low/middle income countries in the Asia-Pacific region is primarily provided to large/medium commercial farms, agro-processors, and other large size actors in agricultural value chains.

The evidence shows that the inclusive agribusiness (IAB)<sup>5</sup> continue to play important role in developing efficient agricultural value chain and in transformation of food systems<sup>6</sup> to support the local development. The agri-SMEs has significant potential to improve rural livelihoods, strengthen food security, mitigate the effects of climate change, and create economic opportunities for women, youth, and other marginalized groups. The small and medium agricultural enterprises in the majority countries of this region operates in a fragmented financial landscape, are generally facing a plethora of challenges to access financial services due to the absence of dedicated and tailor-made products for all types of agri-SMEs. As per the study of ADB<sup>7</sup>, the Asia-Pacific region needs to invest US Dollar 120 billion every year in agribusiness until 2050 to meet the growing demand for food. Such huge demand have led agribusiness companies to have large and unmet financing needs, both in the long-term and short-term. This substantial financing gap also posing a great challenges to be served by the

<sup>1</sup> World Bank, 'Agriculture, Forestry, and Fishing, Value Added (% of GDP) - Low Income (2022)', World Bank Open Data, 2023, <https://data.worldbank.org>

<sup>2</sup> World Bank, 'Agriculture, Forestry, and Fishing, Value Added (% of GDP) - Lower Middle Income (2022)', World Bank Open Data, accessed 13 November 2023, <https://data.worldbank.org>.

<sup>3</sup> World Bank, 'Employment in Agriculture (% of Total Employment) (Modeled ILO Estimate) - Low Income (2021)', World Bank Open Data, accessed 13 November 2023, <https://data.worldbank.org>; World Bank, 'Employment in Agriculture (% of Total Employment) (Modeled ILO Estimate) - Lower Middle Income (2021)', World Bank Open Data, accessed 13 November 2023, <https://data.worldbank.org>

<sup>4</sup> FAO, 'Credit to Agriculture. Global and Regional Trends 2012-2021', FAOSTAT Analytical Brief (Rome: Food and Agriculture Organization of the United Nations, 2022).

<sup>5</sup> Inclusive Agribusiness (IAB) is characterized by vertical integration, whereby individual transnational corporations coordinate (and profit from) activities in all spheres of exchange. enables smallholders specifically to produce for and participate in commercial agrifood chains.

<sup>6</sup> van Westen et al.; 2019 (<https://www.sciencedirect.com/science/article/pii/S1877343519300612>) and Wangu et al.; 2020 (<https://www.mdpi.com/2071-1050/12/14/5521>).

<sup>7</sup> ADB (2019). Scaling-up Investment in Agribusiness is Helping Transform Asia and the Pacific. <https://www.adb.org/news/features/scaling-investment-agribusiness-helping-transform-asia-and-pacific>



local financial institutions<sup>8</sup> due to the small ticket sizes, high transaction costs of reaching remote rural areas, and limited financial management capacity. The small financial institutions operating in limited geographical boundaries are also exposed to the systemic risks related to climate, market volatility, and crop failure that are inherent to the sector more broadly which. The commercial lenders also often find it too risky and too expensive a proposition to lend to these enterprises which depends on the success of crop production.

The Asia-Pacific region during the last decade witnessed increasing recognition by policymakers, capital providers, and finance practitioners of the vital role played by agricultural small- and medium-sized enterprises (agri-SMEs) in agricultural and food systems in developing countries of the region, as well as their key challenge of limited access to finance. APRACA studies highlighted the critical role of agri-SMEs in growing markets of the region and their concurrent lack of access to finance and supporting services. The specific focus on the needs of agri-SMEs as a sub-segment of the broader agenda of SME finance and the ‘missing middle’ is important as these needs and the dynamics around these providing finance have unique dimensions. The underlying challenges to profitably providing agri-SME finance are being extensively discussed in major policy forums which includes dynamics around high costs to serve, high risk in agricultural markets, and low levels of investment readiness among potential borrowers. To break this myth of high cost and low impact, it is imperative to comprehensively explore the pathways where finance is specifically flowing, via specific types of products from specific types of financial service providers to specific types of agri-SMEs. In recent years, the commercial banking institutions, development finance institutions and multilateral/bilateral agencies have funded a growing number of initiatives in the Asia-Pacific region to boost lending to agri-SMEs, including credit guarantee schemes, new investment vehicles, credit lines, and capacity building of staff members.

While the potential contribution of agri-SMEs to local development is recognized by policy makers and scholars, concerns have been raised with respect to the nature and actual extent of inclusivity of agribusiness. Particularly critical is the question of what categories of agri-enterprises and smallholders take part in the initiatives and the corresponding terms of inclusion. The other potential issue is related to incentivizing the supply side of the financial services who are providing required financial assistance to meet the investment gap and scale up these small enterprises which are otherwise not eligible to receive financial support from other actors in the value chains.

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<sup>8</sup> Small-scale lenders, such as microfinance institutions, cooperative banks, other rural banks etc.



## 2. Objectives:

The overarching objective of this regional policy forum (RPF) is to create cross-learning opportunities from the experiences of APRACA member institutions and the international agencies and help build/strengthen the capacities of the financing institutions to activate the policies, financial products and services towards inclusive agri-SME finance and achieve resilient agrifood system for the local development context. The specific objectives are as follows:

- Examine barriers for improving financial preparedness of agri-food small and medium enterprises (agri-SMEs), with specific focus on job creation.
- Understand impact of enabling policies which trigger provisioning of enhanced investment in agri-SMEs to support local development.
- Learn lessons from the members institutions who are implementing successful programme to support agri-SMEs through tailored product development.

## Speakers:

The speakers for this Regional Policy Forum are the leaders from the financial institutions in the region actively involved in developing, supporting, and delivering green and climate finance to their clientele, representative from national/international agencies promoting green financial services and the academics in broadening the related knowledge. They will discuss their experiences on the current challenges and successes in scaling up green financial services for smallholders and rural enterprises including Agri-SMEs.

## Registration:

To join the event, all participants need to complete the registration, visiting the below link (<https://www.apraca.org/77th-excom-meeting-and-99th-regional-policy-forum/>).

Upon completion of registration, APRACA Secretariat and National Bank of Cambodia (NBC) will send the invitation letter to join the event and support for required visa processing documents.

## Programme:

The programme has been divided in to 2 technical session.

- **Technical Session 1:** Policies that trigger provisioning unmet financing gaps to support developing agri-SMEs.
- **Technical Session 2:** Role of the Financial Institution in extending agri -SME finance in the region: showcasing the best practices.

**A detailed programme is attached as Annexure**