

White Paper

Unlocking Inclusive Finance for Agriculture-based MSMEs in Southeast Asia

Background

The G20 is a strategic multilateral platform connecting the world's major developed and emerging economies. Together, the G20 members represent more than 80 percent of world GDP, 75 percent of international trade, and 60 percent of the world population. In 2022, this historic and inaugural Indonesian presidency will promote sustainable and inclusive economic development with a major focus on the role of Micro, Small, and Medium-sized Enterprises (MSMEs) and their participation in a digital economy.

Working alongside the G20 leaders, the Business 20 (B20) is the representation of the business voice and supports the G20 leaders in making political decisions based on business priorities and global solutions. B20 Indonesia operates through six Task Forces and one Action Council on seven strategic priorities: 1) Trade & Investment; 2) Energy, Sustainability, & Climate; 3) Digitalization; 4) Finance & Infrastructure; 5) Future of Work & Education; 6) Integrity & Compliance; 7) Women in Business Action Council.

Grow Asia has been invited to support the B20 Indonesia **Trade & Investment Task Force** as a strategic knowledge partner in the field of Agriculture, Food Systems, and Inclusive Green Finance.

Financial inclusion: a key to food systems transformation

In Southeast Asia, the agriculture sector is responsible for a sizeable share of the region's employment and income. The sector contributed to 31% of GDP in Indonesia, 25% of GDP in Malaysia, 32% of GDP in The Philippines, 25% of GDP in Thailand, and 26% of GDP in Vietnam.¹ The sector continues to see robust growth as the region provides staple food requirements for both domestic consumption and global production.

Micro, Small, and Medium Enterprises (MSMEs) are vital to the sector in Southeast Asia, contributing up to 44.8% of national GDPs in the region on average and employing 85% of the total workforce². 72-85% of MSMEs operate in rural areas³. During the COVID-19 pandemic, small family businesses have been badly impacted, which has slowed economic growth. Climate change remains a major threat to agricultural productivity in the region, and the conflict in Ukraine has placed additional pressure on an insecure food system that is already under great strain.

Accelerating the capacity and opportunities for rural MSMEs is critical to re-energize economic growth and deliver inclusive, sustainable, and resilient food systems. Financial inclusion is a key enabler for food systems transformation. According to the World Bank⁴, financial inclusion means that individuals and businesses have access to useful and affordable financial products and services, delivered in a responsible and sustainable way. The opportunity exists to unlock the economic power of Asia's smallholder farmers by empowering them to be part of a global smart farming market that is forecast to reach \$34.1 billion by 2026.⁵

Limited access to finance is still a key constraint to the growth of MSMEs, and this has contributed to a lack of adoption of climate smart technology. The uptake of digitalization in Southeast Asia lags behind other sectors and regions, as many MSMEs are unable to obtain loans from financial institutions, relying instead on funds from friends or family. These rural businesses are labelled as high-risk by financial institutions due to complex factors, including credit scoring and investment returns. This traditional perception of risk has contributed to longstanding barriers to finance for MSMEs, such as higher credit rates, complicated credit processes, and limited trade finance products that are not designed for MSME needs.

Social and economic gaps have exacerbated inequities in access to financial products and/or services, and there is a lack of capacity on how to process, develop, monitor, and evaluate MSMEs for potential

¹ Oxford Economics, "The Economic Impact of the Agri-Food Sector in Southeast Asia", 2022

² Association of Southeast Asian Nations (ASEAN), "[Development of Micro, Small, and Medium Enterprise in ASEAN](#)"

³ Asian Development Bank, "Asia Small and Medium-Sized Enterprise Monitor 2020, Volume I – Country and Regional Reviews", 2020

⁴ The World Bank, "[Financial Inclusion](#)"

⁵ BIS Research, "Global Smart Farming Market – A Global and Regional Analysis: Focus on Solution, Application, Adoption Framework and Country-Wise Analysis, Patent Analysis, Value Chain – Analysis and Forecast, 2020-2026", 2021

investments. Women entrepreneurs, in particular, face barriers related to accessing finance due to a lack of land ownership, assets, and collateral, as well as a lack of flexible time to balance household tasks and their businesses. Social bias means that lending is skewed in favor of men over women.

If we are to boost food and agricultural productivity, MSMEs must be empowered to adopt new technologies that are adaptive to fast-changing climate conditions and resilient to supply chain disruption and price volatility. We urgently need a new and system-wide approach to inclusive finance involving multiple stakeholders, who together are critical to unlocking capacity and investments in agri-food innovation.

Grow Asia's Recommendations

The B20 Trade & Investment Task Force has presented four main policy recommendations to G20 Leaders. Grow Asia is pleased to support and respond specifically to the policy actions that fall under Recommendation 3: Amplify support to attain inclusivity in global supply and value chains.

Policy Action 3.1. Increase access to finance and create a regulatory environment that enables investors and lending institutions to support female entrepreneurs and MSMEs to trade and scale up business

- Promote standardized trade finance products to address trade finance gap for MSMEs, female entrepreneurs, and the informal sector
- Promote collaboration with domestic and international entities to leverage automation and digitalization in reducing regulatory burdens and transaction costs for MSMEs
- Promote level playing field among national Export Credit Agencies (ECA)

Grow Asia's response:

Grow Asia supports the Policy Actions above and is pleased to make the following recommendations with an emphasis on shifting swiftly from dialogue to action:

- We urge G20 leaders to prioritize and align on the formulation of national strategies on financial inclusion that facilitates coordination between relevant ministries, including agriculture, investment, trade, and financial regulators.
- Financial products should be developed in collaboration with financial institutions and multi-stakeholder entities that are tailored to be accessible and affordable for agri-based MSMEs, e.g. loans for women entrepreneurs in rural areas, and insurance products for specific commodities.
- Incentive mechanisms should be formulated to stimulate inclusivity for agri-based MSMEs, e.g. acknowledgment from national monetary authorities to financial institutions providing lending to MSMEs, increased credit scoring for MSMEs adopting climate-smart agricultural practices, and tax incentives for off-takers purchasing from sustainable-sourcing MSMEs.
- Digital innovations should be encouraged to improve digital infrastructures and reach underserved MSMEs, eventually reducing their costs., e.g. online lending platforms, digital payments, integrated inventory tools, and climate-smart agriculture tools.
- Needs assessments should be conducted within and beyond the financial sector to re-evaluate and determine new risk management metrics and to measure credit scoring of MSMEs, e.g. identify risk profiles, determine loan tenures, introduce insurance products, and formulate a credit-guarantee scheme or a risk-sharing mechanism for the agricultural sector.

Policy Action 3.2: Promote further inclusion of MSMEs and female-led businesses in the domestic, regional and global supply chains through inclusive supply chain ecosystem models

- Strengthen the development of inclusive supply chain ecosystem models

- Enable MSMEs to access export market through capacity building to meet international standards
- Support WTO discussions on the Informal Working Group on MSMEs
- Promote development of digital literacy and increased access to digital infrastructure for MSMEs

Grow Asia's response:

Grow Asia supports the Policy Actions above and is pleased to make the following recommendations with an emphasis on shifting quickly from dialogue to action:

- Leverage multi-stakeholder delivery mechanisms like Grow Asia to improve the capacity and technical expertise of MSMEs, including women entrepreneurs on finance, digitalization, business skills, organizational skills, and product knowledge, to bridge the gap between MSMEs and markets as well as investment opportunities.
- Scale up accessibility for MSMEs to international standards and certifications on sustainability, e.g. ASEAN Guidelines, Forest Stewardship Council (FSC) certification, IFC Performance Standards, Indonesian Sustainable Palm Oil (ISPO), which could add market value and provide access to off-takers with premium price.
- Boost awareness and use of existing agri-MSMEs platforms (e.g. ASEAN Access) that could connect MSMEs and women entrepreneurs with investors at national, regional, and global fair-trade markets.
- Incentivize the adoption of a multistakeholder-partnership approach, such as the inclusive close-loop partnership model in the supply chain, that has been piloted in several commodities in Indonesia, including cacao and palm oil, emphasizing an enabling supportive ecosystem for MSMEs for their supply chain, from access to input materials, financial institutions, agri-business companies/off-takers, to regulatory support from the government.
- Populate and map data from governments, financial institutions, agri-based companies, MSMEs, and other relevant stakeholders, to expand potential market access and manage supply chains efficiently.
- Collaborate with platforms and institutions at national, regional, and international levels (e.g. Grow Asia, Alliance for a Green Revolution in Africa, Food Action Alliance, Better than Cash Alliance), to exchange best practices in promoting inclusive finance.

Grow Asia is grateful to the Indonesia B20 Trade and Investment Taskforce for providing this opportunity to respond to these important policy actions. We stand ready to support governments in the design and implementation of these recommended actions.

About Grow Asia

Grow Asia is a multi-stakeholder platform established in 2015 by the World Economic Forum and the ASEAN Secretariat to cultivate more inclusive, resilient, and sustainable food systems in Southeast Asia. Grow Asia does this by brokering commercial and non-profit partnerships between the global and regional public, private, civil society, academic, and farmer organizations that make up the Grow Asia Network, creating an ecosystem that supports knowledge sharing, collaboration, innovation, and policy change.

Grow Asia comprises the regional Grow Asia Secretariat in Singapore; 6 Country Partnerships; and 44 Working Groups, organized around specific cross-cutting issues (e.g., agritech) or value chains (e.g., corn). Today, Grow Asia engages over 600 partner organizations through its Country Partnerships in Cambodia, Indonesia, Myanmar, Papua New Guinea, the Philippines, and Viet Nam, reaching close to 2.5 million smallholder farmers.

In 2020, Grow Asia was accredited as an Entity Associated with ASEAN due to the important role Grow Asia plays in the region, particularly in facilitating multi-stakeholder partnerships for sustainable agriculture development.

Learn more: www.growasia.org