



Regional Policy Forum

Promoting climate-resilient financial services to agriculture and SMEs

Date: 27 December 2021, Time: 11 am till 1.00 pm (Bangkok time: GMT +7 hrs.)

Virtual mode (Microsoft Team)

CONCEPT NOTE

1. Background:

As the single largest sector using 60 percent of the world's ecosystems and providing livelihoods for 40 percent of today's global population, the food and agriculture sector is critical to achieve the Sustainable Development Goals (SDGs). However, the sector is extremely vulnerable to climate change and also a major source of greenhouse gas emissions, contributing an estimated at 19 to 29 percent of global emissions. By necessity, the transition to climate resilient agriculture is a critical and integral part of global effort to reach SDG 13 (*Take urgent action to combat climate change and its impacts*). The Paris Agreement, the central outcome from the 21st Conference of the Parties (COP21) of the UNFCCC laid a foundation for global action on adaptation and mitigation in agriculture and the recently held 26th version (COP26) urged the global community to integrate SMEs in their efforts to achieve 'Agenda 2030'. With the current lackadaisical approach of "business as usual" by the stakeholders no longer an option, a shift to new, climate-resilient and more responsible ways of doing business in agriculture and food seems fundamental. This in turn requires not only the mobilization of more finance for greening agriculture, but also a full alignment of financial flows to downstream of the value chains (in other words, "mainstreaming" financial services for agriculture and agri-SME sector). Indeed, this was one of the central concerns of the discussions on the role of finance as a "lever of change" in the United Nations Food Systems Summit (UNFSS), which took place in September 2021.

2. Emerging Challenges:

The global climate-resilient financing to agriculture and SMEs are complex and continuously evolving. Funds flow through multilateral, bilateral and national channels, dedicated climate change funds, and the private sector. Multilateral channels include the UNFCCC financing mechanisms, multilateral development banks (MDBs), bilateral donors and other international institutions and funds. National budgets in Asian countries and an increasing number of regional and national dedicated climate funds are also crucial sources of climate-resilient finance to agriculture and SMEs. Agriculture and related agricultural and ecological services are receiving a growing share of these financial resources which however, are not sufficient to cater the need of the large smallholder farming population in the region. Farmers and small entrepreneurs are the biggest investors in agriculture and SMEs. Most agricultural investments are financed from domestic public and private financial institutions, with only a small share flowing from international sources which reiterate the importance of domestic banking systems in Asia-Pacific region to come up to the expectation of creating sustainable financing facilities at the national level. The emerging challenges to the lenders in agriculture and its value chains in the region is both short- and long-term risks to the sector emanated from the climatic shocks which needs



adaptation to green-business models for extending lending services to agriculture and SME sector. Although the ripples caused by a climate-related agricultural downturn would be widespread, any impacts would be felt most acutely by the banks that specialize in agricultural lending and the microfinance institutions in many countries may be forced to fold, potentially leaving some rural communities without easily accessible credit or banking services.

3. Objectives:

From the recent trends in financing agriculture and SMEs, it is quite visible that the sector is heading toward a climate reckoning. Policy experts are beginning to uncover the true scale of climate risk to the financial sector, and the lenders to agricultural value chains are not immune. There is an urgent requirement to take stock of the current situation and understand the responses of the financial sector to the climate emergencies impacting agriculture and allied activities in many parts of the Asia-Pacific region. Keeping the foregoing in view, the specific objectives of the proposed Regional Policy Forum (RPF) are to comprehend:

- a) financing opportunities to support green business models for agriculture and SMEs by the financial institutions in the region; and
- b) climate-resilient and market led financing approach to support smallholders in achieving sustainable food system.

4. Expected outcome:

It is expected that the industry experts joining the forum will be discussing on the current situation, response by the sector and potential action during the next decade to prevent the most devastating impacts of climate change and protect their clients to see that they are not going out of business. It is also expected that the conversation will also support mechanism to safeguard the agricultural finance sector and the financial system at large and integrate the national level policy in climate-related financial regulatory protections throughout the agricultural lending ecosystem.

5. Speakers:

This regional policy forum will feature the eminent personalities from the international development institutions, leaders from financial sector in the Asia-Pacific region actively engaged with the policy and practices to enhance access to financial services.

6. Participation:

The regional policy forum will be attended by the representatives from 87 APRACA member institutions across 24 countries in the region and representatives from international agencies, academic and research institutions.

7. Programme:

Attached