



**FAO Technical Network on
Sustainable Food Value Chains Development and Finance (SFVC D&F)**

Webinar on
***Financial Services to Small and medium agro-enterprises
(SMAEs)***

Date: 26 November 2020; Time: 15.00 to 16.15 hrs. (Bangkok time, GMT +7.00 hrs.)

1. CONCEPT NOTE

The agriculture sector in general, and agri-food and rural small and medium enterprises (SMEs) specifically, are important contributors to global development which once again proved to be true during the global pandemic arisen due to COVID-19. The SMEs operating in the food and agriculture value chain¹ proved to be extremely essential for the development of robust and competitive agro-industries that can spur economic diversification, sustainable development, creation of jobs and trade even during the disaster period². Keeping this in view, recent initiatives are encouraging greater investment in agriculture, with a focus on the role of agriculture – and agri-food and rural SMEs specifically (the SMAEs)– in supporting sustainable economic development to revive the national economies and achieve the Agenda 2030.

The financial needs of SMAEs are beyond the capacities of the formal and informal microfinance institutions (MFIs) and yet not much attractive for banking finance. These SMAEs are classified as being in the ‘missing middle’ for financing since their needs are too large and complex for MFIs and they do not have the requisite capacity, record keeping and/or collateral to meet the banking standards for financing. The survey conducted by APRACA in April-May 2020³ shows that the SMAEs are especially short of working capital, constraining not only their purchasing power, but also other financing and financial service needs. These include, capital to formally register and establish as a business, invest in new technologies and equipment and finance storage and other infrastructure to grow. SMAEs are often highly indebted in relation to their capacity, often relying on informal and high-cost sources of funds due

¹ In broad sense, the term small (and micro) and medium agricultural enterprises (SMAEs) referred to the companies working in agriculture, provision of inputs, technology and services, processing, and marketing – including farmers' organizations. However, the appropriate definitions may vary by country and market.

² The SMAEs also can play as a powerful force for integrating women and youth into the economic mainstream.

³ APRACA. “Summary of responses to COVID-19 pandemic by APRACA member institutions”, APRACA internal report. 20 April 2020. <https://www.apraca.org/summary-of-responses-to-covid-19/>

to their constraints in the formal sector⁴. According to a report of McKinsey (2019)⁵, the challenge for most banks in the Asia-Pacific region is that they lack the information they need to assess the creditworthiness of SMEs (including SMAEs) accurately and often make bad lending decisions. As a result, banks' risk costs for this particular sub-sector in Asia-Pacific are double those for the large corporate segment. Lending to SMEs is potentially a highly profitable business for banks that can leverage digital channels to reach the mass market of SMEs and use advanced analytics to identify qualified borrowers for both secured and unsecured lending. It is revealed from the survey of APRACA that financing is difficult for SMAEs not only due to their size but moreover due to being semi-structured operations. Some are not legally registered or at least not meeting all legal requirements of food and worker safety, taxes, trustworthy accounting, etc. The costs of the registrations and regulations can be onerous and the processes to register are not always known. They often operate in semi-permanent settings, subject to moving from one rented building or market setting to another making it harder to track. Many also operate in speculative marketing without hedging or contracting to reduce market risks which increase risks for lenders. Hence, business development is needed for a majority of the companies categorized as SMAEs prior to addressing their financial needs. Here lies the importance of building capacities of the financial institutions engaged with these businesses.

2. RATIONALE:

The current COVID-19 crisis in many countries in the Asia-Pacific region are being accompanied by a wide range of adverse economic shocks brought about by dramatic slow-down in economic activity and trade. For many small and medium-sized agricultural enterprises (SMAEs), the immediate impacts of COVID-19 are being felt as they face reduced demand resulted to reduced revenues along with the drying up of traditional sources of liquidity due to inefficient movement of the goods and services. Many of the agribusiness are facing serious financial difficulties and have dramatically curtailed their operation which is impacting the local food markets.

As reported by McKinsey (2019), even before the COVID-19 outbreak, most small agribusinesses cited access to finance as the main barrier to growth. Some countries in the region (China, India, Philippines, Thailand, Vietnam, etc.) introduced reforms that could help address constraints to SMAE lending by adopting value chain finance approach, cashflow method of financing, contract farming, farmers organization etc. Despite these efforts, many SMAEs are often denied access to loans or subject to excessive regulatory requirements because of information asymmetries.

COVID-19 has brought into focus the importance of digital technologies in servicing the SAME sub-sector. The digital revolution sweeping across some large sized countries (China, India etc.) is favouring new trends and inroads in SMAE financing spearheaded by agritech and fintech. Even the traditional modes of funding are responding through the use of technology. There is a need to accelerate these changes by helping innovative models of SMEs finance to flourish as well as stimulate the entrepreneurial potential of the Asian youth population. This is all the more apparent in times of crisis where financial technologies can play an important role in not only enabling immediate responses, but also building a more resilient and capable SME Finance ecosystem going forward.

⁴ A few countries, such as Thailand, have debt relief restructuring programme, but they are not typical across all countries in Asia.

⁵ McKinsey. 2019. Asia-Pacific Banking Review 2019 Bracing for consolidation: The quest for scale. <https://www.mckinsey.com/~media/mckinsey/industries/financial%20services/our%20insights/bracing%20for%20consolidation%20in%20asia%20pacific%20banking%20the%20quest%20for%20scale/asia-pacific-banking-review-2019-vf.ashx>

3. WHAT WILL BE COVERED:

The success of doing business with SMAEs lies in understanding the whole value chain of agriculture, target markets, and making financing judgement based on less than perfect information. The webinar will provide ground level examples on the good practices which will allow the participants to understand the nuances of strong enterprises and to appreciate the innovations in financial delivery systems and risks mitigations including promoters risk and asymmetry in information in this sub-sector lending space.

This 75-minute webinar will bring together selected actors in the agri-SME finance space in the Asia-Pacific region to discuss practical experiences, innovations and good practices related to: (i) strengthening agri-SMEs towards bankability and investor-readiness position; (ii) pathways for facilitating finance through the formal financial system; (iii) innovative financial instruments that could be leveraged; (iv) new business models in agri-value chain paving the way for new transformative models in agri-SME financing. Though the focus will be on the Asia-Pacific region, sharing experiences from outside the region will add value and enrich the discussions.

4. OBJECTIVES:

The webinar will provide a platform for the financial institutions, central bankers, private sector players and other stakeholders in the Asia-Pacific region to discuss their practical experiences, innovations and good practices. The panelists will discuss:

- What are the main issues and challenges that Agri-SMEs are posing both under pre and post COVID-19 presents and the financing business affected?
- How are financial institutions are supporting Agri-SMEs in the face of the COVID-19 fallout.
- How can innovative financial instruments/products/services (including digital financial services) could be leveraged to support Agri-SMEs in times of crisis?
- How are the new business models in agri-value chain and market forces paving the way for new transformative models in Agri-SME financing?

5. SPEAKERS:

This webinar will feature active players in the Agri-SME finance and will discuss their experiences on the current challenges and successes in scaling up finance for SMAEs, and opportunities for innovations in the time of COVID-19. The list of the distinguished speakers are:

- Ms. Marise Blom, COO of SCOPEinsight, Utrecht, Netherlands;
- Mr. Tim Liu, Executive Director and Senior Research Fellow, Chinese Academy for Financial Inclusion (CAFI), China;
- Mr. Chub Kongmon, Senior Vice President, Bank for Agriculture and Agriculture Cooperatives (BAAC), Thailand.

The webinar will be moderated by Dr. Prasun Kumar Das, Secretary General, Asia-Pacific rural and Agriculture Credit Association (APRACA), Bangkok, Thailand.

6. SCHEDULE:

Date: 26 November 2020

Duration: 75 minutes

Time: 15.00-16.15 hrs. Bangkok time (GMT + 7.00 hrs.)

7. REGISTRATION:

Registration:

Online registration available at <https://forms.gle/zLFpZu8Wc6k251Lo6>

Join the meeting:

[Click here to join the meeting](#) at Microsoft Teams Meeting

Notes:

- The Webinar will be delivered in English language. The questions may be asked in English
- Please feel free to extend the invitation to any of your team members who may benefit from joining the webinar.
- For any questions on the logistics of the , please contact Mr. Kittisak Mommoh of APRACA (kittisak@apraca.org) and Ms. Lixia Yang of FAO (Lixia.Yang@fao.org).