



Policy White Paper  
**Unlocking Inclusive Finance for  
Food System Transformation  
through Multistakeholder  
Action**

## Background

Food systems transformation has played an increasingly visible role in international forums and commitments over the last 3 years, beginning with the UN Food Systems Summit (UNFSS) in 2021, COP26 and 27, and the G20 Summit in Indonesia (first G20 meeting to be held in an ASEAN country). The UNFSS set the stage with a global call to action on the need to unlock “levers of change” that would address long-standing challenges in the food system. This call was echoed at the COP26 when countries agreed on the need to transition towards sustainable and climate-resilient food systems, and was crystalized at the B20 and G20 Summits in 2022, where leaders aligned on the importance of promoting sustainable and inclusive economic development by empowering Micro, Small, and Medium-sized Enterprises (MSMEs) through innovative and inclusive finance.

Following the G20 Summit and in preparation for the UNFSS Stocktake (July 2023) and UN SDG Summit (September), Grow Asia was invited to build upon learnings from the [B20 white paper on Unlocking Inclusive Finance for Agriculture-Based MSMEs in Southeast Asia](#) and drive the conversation with policymakers, private sector, and civil society. Grow Asia’s B20 white paper explored the barriers and opportunities to leveraging digital innovation to drive more finance into the hands of MSMEs, to finance their climate transition. Building on this work, Grow Asia was asked to answer the follow up question: “How do we design and deploy blended finance models so that they are inclusive and accessible to MSMEs, are accessible and attractive to financial investors, and leverage the power of public-private partnerships?” Grow Asia sought to answer this question in a series of sprints from April – May 2023, in an effort to design a solution that would bridge the gaps in the deployment of financial and technical assistance through effective multistakeholder action.

## Blended finance: the lever for MSMEs to transition to climate resilience at scale

Climate change is the defining challenge of our time, with agriculture sector currently generating 19–29% of total greenhouse gas (GHG) emissions<sup>1</sup>. While the impacts vary across countries, climate change is having far-reaching consequences for the 70 million agri-MSMEs in Southeast Asia (which includes smallholder farmers, aggregators, traders, and processors) already struggling with market connectivity and access to finance<sup>2</sup>. The first ASEAN State of Climate Change Report (ASCCR), launched in 2021, showed that Southeast Asia is one of the most at-risk regions in the world to the impacts on climate change. Rural MSMEs, the backbone of ASEAN agriculture, are among the hardest hit by the dual crises of COVID-19 and climate change. Women, who comprise ~32% of agricultural labour in ASEAN, are particularly impacted by climate change as extreme weather events, changing crop patterns, and water scarcity place additional burden on their existing roles as business owners, heads of household, and care providers.

Yet these MSMEs are not equipped to transition their practices to low-emission production, often due to a lack of access to finance that can be accessible by MSMEs. An estimated 45% of financing demand remains unmet with \$31 billion annual financing gap for agriculture MSMEs in Southeast Asia alone<sup>3</sup>. Unless these financing needs are met, agri-MSMEs will be unable to withstand the impacts of climate change (e.g., extreme weather events) and pose risk to agricultural production and food security.

Paradoxically, climate adaptation presents a global investment opportunity for small and medium sized rural enterprises on the front lines who are hardest hit by climate change, but collectively have the power to make significant impact on climate change mitigation and adaptation.

The transition to a low-carbon, sustainable food systems require fundamental shifts in MSMEs' farming practices to more climate-smart, regenerative practices. Such transition requires an injection of targeted and appropriate investment to agri-MSMEs. The investors can mobilize a transitional loan to not only improve the business but also to shift towards climate-resilient agriculture practices. Despite barriers and misperceptions about investment in agriculture sector, there is incredible untapped investment pipeline among these rural businesses. To mitigate and manage this risk for investors, while ensuring farming communities' benefit, a public-private partnership approach is required.

Grow Asia, together with Bain and Company, hosted a series of events supported by Stockholm Environment Institute (SEI), through the Strategic Collaborative Programme funded by the Government of Sweden, from April to June 2023 to design and test such an approach. To gather insights from policymakers, Grow Asia hosted an Inter-Regional Minister Roundtable in Ha Noi, Viet Nam on 25 April. This event convened Ministers responsible for food and agriculture from Viet Nam, Cambodia, Ethiopia, Ghana, Malawi, Rwanda, St. Vincent and the Grenadines to discuss and opportunities for sustainable investment, innovation, and digitalization through enhanced South-South cooperation. The event was co-hosted by Viet Nam's Ministry of Agriculture and Rural Development in collaboration with Grow Asia, the Food Action Alliance (FAA), AGRA and the Inter-American Institute for Cooperation on Agriculture (IICA). The delegation discussed common challenges and opportunities for the food and agriculture sector in the global south and stressed the urgency for enhanced South-South Cooperation.

To complement the insights from governments' lens in the Inter-Regional Minister Roundtable, Grow Asia convened an Investor Roundtable in Bangkok, Thailand on 29 May focussing on unlocking digital solutions for climate finance. The Roundtable was attended by agribusinesses, financial institutions,

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<sup>1</sup> World Bank, 2021, <https://www.worldbank.org/en/topic/climate-smart-agriculture>

<sup>2</sup> ASEAN, "[Development of Micro, Small, and Medium Enterprises in ASEAN \(MSME\)](#)", 2020

<sup>3</sup> Commercial Agriculture for Smallholders and Agribusiness (CASA) & ISF Advisors, "[The State of the agri-SME sector – Bridging the finance gap](#)", 2022

development organizations, and civil society, both at national and international level. The Roundtable explored a proposed blended financing public-private partnership model aimed to advance digital financial and climate inclusion for MSMEs. Key factors considered to make this model successful would include: 1) blended financing structure, e.g., commercial value and financing instruments; 2) clear values and roles for each stakeholder; 3) digital innovation to support the ecosystem; and 4) gender and social inclusion to reach out women farmers and disadvantage groups who have less access to finance. This was followed by a strategic retreat for leaders of grassroots public-private coalitions representing the agricultural development community in ASEAN, where the local country leaders developed action plans to implement this model.

Building on the input from across three sprints, Grow Asia and partners developed the GrowBeyond Fund; a public-private “closed loop” blended finance loan facility that brings together the right stakeholders at the right time - including governments, financial institutions, private investors, fintechs/agritechs, value chain players, and technical assistance providers - to deliver a suite of crop-specific financial and market services required for MSME to scale their businesses and adopt regenerative practices. The model relies on a multistakeholder approach to ensure that each actor in the ecosystem delivers and gains value from the results and are aligned with the common strategy and goal to financing the climate transition for MSMEs. While the model is under development and requires pilot testing in specific markets and value chains, several key policy recommendations have emerged to further advance the objective of more inclusive climate investment for MSMEs in Southeast Asia.

## Policy Recommendations

Bringing together insights from the diverse stakeholder consultations across the sprints, Grow Asia has identified three main policy barriers to the of increase investment pipeline in the sector:

1. Implementation of sustainable regulations at national level remains a challenge, leading to limited and complex procedures of fund allocation to agri-MSMEs, including women-led MSMEs.
2. Priority of national budget allocation is not carefully targeted for agriculture sector, including for access to subsidized loan facility, infrastructure, and digital innovations.
3. Lack of openness towards bilateral or multilateral partnerships, e.g. restrictions under trade and foreign direct investment regulations.

Grow Asia is pleased to propose policy actions to regional policymakers that would drive more sustainable and inclusive investment for MSMEs in the agriculture, food and forestry sectors.

### **Policy recommendation 1. Develop national and/or regional policy frameworks enabling access to finance for MSMEs in agriculture, particularly for women-led MSMEs**

- Prioritize and align national strategies and policy coherence on agri-finance, coordinated amongst relevant government bodies, including ministries on agriculture, investment, trade, labour, women, and financial regulators, through national medium and long-term action plans.
- Formulate national and/or local level regulations and strengthen governments’ infrastructure that would enable them to provide grants, incentives, and/or subsidies to financial institutions and investment companies to encourage greater lending and investment portfolio to MSMEs specifically and reduce barriers for MSMEs.
- Promote cross-sector learning by encouraging public sector officials to participate in regional multistakeholder capacity building activities, e.g., ASEAN Academy on Responsible Investing<sup>4</sup>

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<sup>4</sup> ASEAN Academy on Responsible Investing, <https://www.growasia.org/academy>

- Conduct an alignment assessment with ASEAN Taxonomy for Sustainable Finance at national level to direct commercial capital towards climate-resilient agenda and to support MSMEs have more competitive values in their transition towards sustainability practices.
- Design and adopt national Action Plans to implement the 2022 ASEAN Guidelines on Sustainable Agriculture, particularly the strategy on “facilitating funding with productive resources finance and services” to further enable investments, by piloting a public-private loan facility mechanism for MSMEs, and to review requirements for MSMEs enabling them to access such financing products.

**Policy recommendation 2. Create an enabling ecosystem for a public-private partnership model that drives food system transition towards climate change adaptation**

- Support the development of a public-private blended finance model to support MSMEs, including women entrepreneurs, to scale their businesses and to address climate financing needs, e.g., reducing tax barriers for inputs within ASEAN countries, allocating national budget to target rural areas for agriculture infrastructure, providing tax incentives or subsidies for agri-companies who would invest in agri-tech innovations.
- Identify an alternative to combine traditional loans with other financing instruments, e.g., agri-insurance, green bond, or carbon credit schemes.
- Create and promote a public-private collaborative approach, such as Indonesia’s inclusive closed loop model, that involves all relevant stakeholders in a single value chain, to ensure that MSMEs will receive direct access to affordable financial products needed, e.g., relevant ministries can collect and provide relevant data both on smallholders and for smallholders, including number of farmers in targeted rural areas, crop productivity, market price transparency, etc; government aid bodies can provide transparent data on current market trends and relevant international standards.
- Provide technical assistance via extension services and other government programs, particularly for women-led MSMEs, on business development, financial risk, digital literacy, traceability, and impact data measurement, that helps them become more bankable and therefore attractive to the investors financing the loan facility. Further actions should include reviewing systemic barriers to collateral for women-led MSMEs and embedding solutions to these challenges into the approaches by government and investors.
- Promote digital innovations to improve access to finance to digital technology (e.g. bandwidth infrastructure, availability of smartphones, etc) for MSMEs in rural and underserved areas by collaborating with digital solutions and telecommunications providers.

**Policy recommendation 3. Design a framework of South-South action to scale sustainable investments in the food and agriculture sector in ASEAN and beyond**

- Promote South-South cooperation to drive strategic partnerships and to attract more investments in agriculture sector, by creating a platform across Africa, Asia, and Latin America, enabling countries to share and learn about how blended finance models can fund MSMEs to make the transition to climate-smart and regenerative practices.
- Conduct South-South knowledge exchange amongst Global South countries on tested models to deploy finance to MSMEs that incentivizes their transition to climate-smart and regenerative practices (e.g., agriculture digital innovations, value chain traceability, online marketplaces, and digital finance platforms).
- Utilize major pivotal international events in food systems transformation and climate finance, e.g., UN SDG Summit, COP28, G20 and 43<sup>rd</sup> ASEAN Summit to strengthen the presence and cooperation of South-South countries to feature success stories from blended finance model pilots in-country.
- Leverage multi-stakeholder regional delivery mechanisms (e.g., Grow Asia and Alliance for a Green Revolution in Africa or AGRA) to act as the convener and coordinating body for the loan facility programs at country level.

- Share best practice for technical assistance delivery (e.g., Grow Asia and its Country Chapters<sup>5</sup>) at the global level, demonstrating how technical assistance in different regions to improves the capacity and technical expertise of MSMEs on finance, digitalization, business skills, organizational skills, and product knowledge.

The need to channel inclusive finance to MSMEs has never been more urgent, with a growing global recognition of the importance of MSMEs as the driving force of the world's economic growth and pragmatic and field-level solutions to climate change. The involvement and mutual understanding from diverse stakeholders - governments, investors, corporates, non-profits, academe, and smallholders - is critical. Transitioning from recommendations to concrete solutions for inclusive finance should incorporate key steps for policymakers - from formulating a long-term policy roadmap, to designing a viable investment mechanism, to systemizing a closed loop model. Collaboration across stakeholder groups and national borders is a crucial element to successfully unlocking inclusive finance for food system transformation – within Southeast Asia and across the globe.

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<sup>5</sup> Grow Asia has catalyzed and supported six Country Chapters in Southeast Asia as national public-private partnership platforms for sustainable agriculture in Cambodia, Indonesia, Myanmar, Papua New Guinea, Philippines, and Viet Nam, <https://www.growasia.org/country-partnerships-1>

## **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](http://www.growasia.org)