CSAF would like to thank MIX for collecting and analyzing members’ data, Global Development Incubator for serving as institutional host for CSAF, Dalberg Advisors for its partnership in the data analysis underpinning the design of Aceli Africa, and IFAD and Small Foundation for their generous support of CSAF activities. We would also like to recognize the institutions that have signed on as field building partners to ensure that the data and insights generated by CSAF members in this report and the CSAF Open Data Portal are publicly available free of charge.
Vision & Mission

CSAF is an alliance of lending institutions with a shared commitment to building an inclusive and sustainable financial market for small- and medium-sized enterprises (SMEs) in the agriculture sector in developing countries worldwide. CSAF members convene to share learning, develop industry standards, and engage other stakeholders with the goals of:

1. Facilitating market growth to meet a greater share of the vast financing need for agricultural SMEs globally;

2. Promoting responsible lending practices and social and environmental standards to ensure that market growth for agricultural SME finance contributes to positive impact on smallholder farmers, workers, rural communities, and the natural environment; and

3. Building the ecosystem for inclusive and sustainable financial markets and agricultural value chains.

Target Market

Each CSAF member maintains a portfolio of loans and independently pursues its respective mission to finance high-impact agricultural enterprises. As distinct from micro-lending directly to individuals, CSAF lenders seek to promote environmentally sustainable practices and improve the livelihoods of smallholder farmers by financing enterprises that purchase crops from hundreds or thousands of individual producers and then aggregate, process, and sell those crops into domestic or global markets.

These businesses vary in size (annual revenues range from $250K to well over $10M) and structure (from farmer-owned cooperatives to private enterprises). In addition to providing economic opportunities for farm households, the businesses served by CSAF members generate substantial seasonal and year-round employment and often function as multi-service providers, offering farmers access to finance, farm inputs, and agronomic training. Many also provide non-agricultural services, such as scholarships for local youth, entrepreneurship training programs for women, clean drinking water, or health insurance. With reliable access to finance, agricultural SMEs can play an important role in building prosperity and climate resilience in developing economies.

Collectively, CSAF members have provided $4.3B in lending to agricultural SMEs reaching 3.4M smallholder farmers since we began collecting data in 2013.
Dear Stakeholder,

CSAF annual reports typically present data and learning from the prior calendar year. This year, we begin by reflecting on what has happened since we closed the books on 2019: the spread of the COVID-19 pandemic to every country and sector of the global economy.

While agriculture has not yet been hit as hard as other sectors, COVID-related challenges in the coming months loom on top of the structural barriers that have hampered the growth of CSAF members’ lending over the past four years.

First, the relatively good news. Several months into the crisis, the food and agriculture sector has fared better than we originally feared. Most country governments have deemed agriculture an essential sector and, with some exceptions, value chains continue to function. At least for the crops where CSAF members focus, production and harvests already underway have largely proceeded, agricultural goods continue to move within and across borders, and demand for many goods has increased. As a result, most SMEs borrowing from CSAF members continue to perform on their loans, even if some are delayed in repaying.

At the same time, imports of farm inputs and crop exports have slowed in certain producer countries; some buyers have cancelled purchase contracts while others delay signing commitments because of market uncertainty; and processors have been forced to adopt social distancing measures. These disruptions have affected the liquidity, purchases, and sales of producer organizations and created uncertainty for smallholder farmers, workers involved in processing, and their families. In many case, farmer enterprises in remote areas have filled the void of weak or absent government in distributing food and health equipment in their surrounding communities.

CSAF members recognize that challenges are likely to compound in the coming months as impacts ripple back and forth through supply chains. For example, many farmers have been reluctant to invest in inputs for fear of tying up their limited funds when they may need cash on hand. Such choices now will have consequences at harvest time, with potential implications for food security among both farmers and domestic consumers. Meanwhile, reduced demand at the global retail level for products such as premium coffee is expected to ripple back down the chain to farmers who have spent years investing in quality only to see their crop now sell at much lower prices.

We are deeply concerned about the impact of these disruptions on smallholder farmers and rural communities. As social lenders, CSAF members affirm our commitment to working in partnership with our clients to support them through these difficult times.

Letter from the Director
At the end of last year, CSAF had already decided to be more proactive in sharing our data and learning to influence sector development. In response to the crisis, CSAF members have unanimously reaffirmed this decision. Our priorities for 2020 include:

- **Refreshing the Responsible Lending Principles** members developed in 2015. We have added a principle that places our commitment to ESG and impact front and center (previously articulated in CSAF’s ESG Principles and embedded in other principles). We have also added a principle on working together—not just as social lenders, but also with buyers, technical assistance providers, certifiers, and all other stakeholders needed to support our SME clients.

- **Expanding our network** by welcoming three new affiliates: Grameen Crédit Agricole Foundation, MCE Social Capital, and SIDI. We are in dialogue with other like-minded lenders and expect to expand further in the near future.

- **Adding a new category of field building partners** who share CSAF’s vision for a larger and more inclusive finance market for agricultural SMEs. The first field building partners are Ceniarth, EDFI AgriFI, Good Energies Foundation, IKEA Foundation, SAFIN, and Small Foundation.

**CSAF members’ 2019 lending confirms the need for approaches that go beyond tweaking at the margins.** With aggregate lending of $669M, 2019 marked a partial recovery from the drop in lending in 2018, but volume has still not returned to its peak of $716M in 2017. The driver of this partial rebound—increased coffee lending in Central America, which is a well-established region for most members—masks the challenges lenders face in diversifying by crop and the year-on-year net decline in borrowers. The headline for 2019 remains the same as last year: the agri-SME lending market is risky and there are a limited number of borrowers that lenders can serve while maintaining their own financial sustainability. In other words, lending volumes are nowhere near what’s needed to achieve the sector’s impact potential because the lending economics simply don’t work to reach the majority of the unmet market demand.

**Over the past two years, CSAF has incubated the Aceli Africa initiative to bridge the gap between capital supply and demand from agricultural SMEs.** Informed by data from 32 lenders on the economics of serving this market, Aceli Africa is now launching with the aim of mobilizing $700M in lending to agricultural SMEs in East Africa by 2024. Aceli’s model “prices into the market” and compensates lenders for the positive social and environmental impact of lending that would not otherwise be profitable. In this way, it re-aligns lending economics with the impact objective of increasing capital flows to high-impact businesses.

While Aceli Africa began as an initiative of CSAF, it will operate independently. Individual CSAF members will participate on a level playing field with commercial banks and other local lenders in East Africa. This approach is emblematic of the role that CSAF can play in the market: identify market challenges based on our experience as practitioners, engage stakeholders in designing solutions and mobilizing resources, and then test and bring these solutions to scale.

Times of crisis present opportunities for a degree and pace of change that would otherwise be unthinkable. For years, CSAF members have been pushing the limits of the financial markets to reach businesses that are both viable and high impact but not profitable for lenders to serve. **Aceli Africa will allow CSAF members and local lenders alike to reach even further in extending finance and opportunity to agricultural enterprises across East Africa.** Similar approaches are needed in other regions as well—and we seek partners to join us in designing them.

Heading into a period of economic uncertainty, CSAF will continue to contribute our data, learning, and voice to strengthen the enabling environment for a thriving finance market that unlocks the growth and impact of agricultural SMEs globally.

Sincerely,

Brian Milder
CSAF Director
Recent Updates

CSAF activities and accomplishments over the past year include:

- Established regional steering committees in East Africa, Central America, and South America to strengthen dialogue and collaboration among CSAF members’ staff in each region.
- Created a category of field building partners—beginning with Ceniarth, EDFI AgriFI, Good Energies Foundation, IKEA Foundation, SAFIN, and Small Foundation—to formalize engagement with key ecosystem actors who share CSAF’s vision and objectives.
- With Global Development Incubator, spun out Aceli Africa, a market incentive facility that provides financial incentives to lenders paired with technical assistance to agricultural SMEs to increase lending by both international and local lenders, beginning in East Africa.
- Created a COVID-19 working group to share global market intelligence and coordinate CSAF members’ response to disruptions in agricultural value chains, particularly related to the farmer enterprises that members serve.
- Updated CSAF’s Responsible Lending Principles to reflect member learning over the past five years and reaffirm our commitment to clients and other stakeholders (see the following page for more information).
- Established an Impact Working Group with the aim of coordinating a standard tool for collecting impact metrics that will streamline reporting processes for borrowers and lenders alike, much as members have done with a standard loan monitoring tool.
- Conducted a virtual price risk management (PRM) training, led by Oikocredit with co-funding from the Inter-American Development Bank (IDB), for CSAF representatives in South America.
- Convened a meeting of CSAF members—along with Aceli Africa stakeholders, including local lending institutions, donors, and technical assistance providers—in Nairobi in November 2019.
- Held a virtual meeting in June 2020 to discuss Responsible Lending Principles, review applications for new CSAF affiliates, and brainstorm around Aceli-like approaches in other regions outside East Africa.
- Welcomed three new affiliates: Grameen Crédit Agricole Foundation, MCE Social Capital, and SIDI.
Refreshing CSAF’s Responsible Lending Principles

CSAF was founded in 2012 by seven social impact lenders seeking both to share learning and improve our own operations, as well as to influence standards and best practices for agricultural SME lending globally. Challenges in the microfinance sector—where rapid growth outpaced standards for responsible lending and social and environmental performance—were an important reference, especially in the wake of the 2011 microfinance crisis in India. Early discussions among CSAF members focused on guiding principles for responsible lending to agricultural enterprises and led to the adoption in 2015 of a set of Responsible Lending Principles.

Over the past five years, CSAF members have been living these principles in our direct relationships with our borrowers, as well as in our dialogue with peers and co-lenders for those borrowers we share in common. Our regular meetings at global and regional levels are oriented around these principles and what we’ve learned from applying them. On the fifth anniversary of the principles—with 15 lenders now part of CSAF, and in the context of COVID-19 and its myriad implications for agricultural markets—we have revisited and refreshed them. The language below incorporates some adjustments, including breaking out separate principles for ESG and Working Together, and reaffirms our commitments to our borrowers and other stakeholders.

These are living principles that will evolve as we learn from experience. We welcome feedback in the spirit of continuous improvement.

CSAF members practice additionality: of the 650+ agricultural businesses accessing financing from CSAF members, 79% receive a loan from just one CSAF member.
2. **Responsible Credit Decisions.** We act in the best long-term interests of a sustainable financial sector that serves our agricultural business clients, their affiliated smallholder farmers and workers, and our investors.

3. **Emphasis on ESG & Impact.** We actively seek out prospective clients that create positive impact on marginalized groups and on the environment, and we work together to harmonize policies and reporting for environmental, social, and corporate governance (ESG) standards consistent with CSAF’s [ESG Principles](#).

   In 2015, CSAF members also created a set of ESG Principles enumerating both negative screens and positive social and environmental criteria. Members have been reporting in these annual publications and the CSAF Open Data Portal on a set of common impact metrics (aligned with the IRIS metrics for agriculture) and recently created a working group to harmonize around borrower impact reporting similar to the loan reporting tool referenced below under Principle 5.

4. **Transparency.** We maintain a high degree of transparency regarding loan terms, conditions, and processes by communicating clear, sufficient, and timely information in a manner and language our clients can understand.

5. **Harmonization of Standards.** We collaborate to set more harmonized lending and performance standards to reduce the burden for borrowers and contribute to further comparability in the industry.

CSAF members have created a standard loan reporting tool so that borrowers accessing finance from more than one lender can report monthly cash flow performance to all lenders in a common format.

6. **Prevention of Overindebtedness.** We take adequate care in all phases of the credit process to determine that clients have the capacity to repay our loans without becoming over-indebted.

7. **Trusted Information Sharing & Collaboration.** To promote the development of a healthy agricultural lending sector, we share information pertaining to due diligence and risk management with co-lenders while respecting the confidentiality of our borrowers’ business and financial information.

8. **Fair Treatment.** We commit to ethical behavior in all credit decisions, including loan approvals, servicing and collections, and due processes for resolving disputes with the aim of engaging clients in good faith to support each business as a going concern.

   In response to COVID-19-related disruptions in agricultural markets and clients’ cash flows, CSAF members have been rescheduling loan repayments and exercising flexibility with late fees and other loan terms.

9. **Working Together.** As lenders, we commit to coordinating our actions with each other, with other lenders, and with other stakeholders, including buyers, technical assistance providers, and certifiers to support the success of our clients and the growth, impact, and sustainability of the agricultural finance market.
2019 at a Glance

Concentration of Lending

- Aggregate lending by CSAF members increased by 6% in 2019 from $630M to $669M after a reduction in lending from 2017 to 2018. This increase in disbursements was driven primarily by lending in coffee.
- Almost all CSAF members reported growth in disbursements, primarily concentrated in Central America (up 34%) and sub-Saharan Africa (up 12%); lending decreased in all other regions.
- CSAF members now provide financing to 655 businesses, a 9% decrease from the previous year and continuation of a three-year decline in number of borrowers.
- While the total number of borrowers was smaller, members increased their focus on new borrowers, which made up 12% of clients financed in 2019 versus 7% in 2018.
- Average loan size for existing borrowers was higher than in any previous year of data collection ($850K in 2019 versus $803K in 2018).
- Coffee remains the most financed value chain, making up 48% of total global lending. Overall, lenders continued to concentrate in coffee, cocoa, and cashew nuts in 2019, though the absolute volume of disbursements in the latter two value chains decreased last year.

Continued Impact & Additionality

- Reached enterprises providing $7.7B in payments to 2.1M smallholder farmers—33% of whom are women—and employing 77K workers.
- The vast majority (79%) of borrowers are served by a single CSAF member, and this percentage has remained relatively steady since 2013.

Risk Management & Difficult Economics

- Portfolio-at-risk greater than 30 days (PAR30) was 9.9%, the highest level in the last four years—further demonstrating the high risk of agricultural financing relative to other sectors.
- The overall share of write-offs in the global portfolio increased from 2.4% in 2018 to 5.8% in 2019.
- Client attrition was 26% from 2018 to 2019, compared to 21% the prior year.
- The economics of lending to agricultural SMEs—especially earlier-stage borrowers—continue to be difficult. CSAF lending has concentrated in existing borrowers (88% of the portfolio), larger loan sizes, and more formal value chains like coffee and cocoa, reflecting the challenges members face in financing higher risk, underserved clients within their current risk appetite. Data gathered over the past two years by Aceli Africa and Dalberg Advisors and summarized on page 12 provides further insights into the rationale behind this lending concentration.
Enabling Business Growth and Farmer Resilience in Kenya

Based in the Kwale region of Kenya, Coconut Holdings Limited—through its subsidiary Kentaste Products Limited—produces certified organic and Fairtrade coconut oil and associated products for the local market. Kentaste creates substantial value for its farmer suppliers and employees. For example, it guarantees farmers a fixed price that is, on average, 50% higher than the market price. Kentaste also provides technical assistance to its suppliers at its own expense, helping them access and maintain organic and Fairtrade certifications.

According to a survey of more than 300 farmers affiliated with Kentaste—carried out by Coconut Holding’s lender and CSAF member Alterfin—the enterprise offers substantial value to its suppliers, not just in terms of income, but also resilience. More than 86% of those surveyed said it would be “difficult” or “impossible” to find a viable alternative to Kentaste, and 96% reported that Kentaste enabled them to increase their profit. Farmers who have previously faced an income shock (such as drought, pests, or disease) are 30% more likely to report that, without Kentaste, farming would not be profitable for them. What’s more, 72% of surveyed farmers report that Kentaste has helped them reduce the impact of climate change on their farming.

Alterfin has played a pivotal role for Kentaste. Before Alterfin’s first loan to the business in 2017, Kentaste worked with 700 farmers and had no external source of financing. Alterfin’s initial loan contributed to rapid growth and has attracted other leading impact investors, including Acumen, Alpha Mundi, DOB Equity, and EquaLife Group. Kentaste now works with more than 3,200 farmers and employs 149 workers, 42% of whom are women. According to Kyle Denning, Managing Director of Kentaste, “Alterfin’s investment into our business played an instrumental role in unlocking additional capital and allowing us to grow our sourcing over the past few years. From their support, we’ve engaged new farmers and established collection centers in rural areas that we previously were not accessing, creating a new market for the farmers in those areas.”
Aceli Africa is a market incentive facility to address the challenging economics of serving agricultural SMEs and mobilize $700M in lending by both CSAF members and local financial institutions in East Africa by 2024. This initiative emerged from dialogue among CSAF members and has been developed over the past two years by CSAF and the Global Development Incubator drawing upon extensive data and stakeholder engagement. This section provides an overview of Aceli Africa and its product offering for lenders and agricultural SMEs. Aceli Africa is launching in August 2020 with funding from USAID Feed the Future and other bilateral and philanthropic funders.

To fill the data gap, Aceli Africa partnered with Dalberg Advisors to analyze both loan-level data and lender financial performance, complemented by interviews with lenders, to develop a complete picture of the challenges limiting their agri-SME lending. In total, Aceli and Dalberg engaged 31 lenders and analyzed 9,000 agri-SME loans worth $3.5B across 61 countries, with a deep dive in East Africa. Key findings from the data analysis, which will be released in a forthcoming report, include:

- Risk among CSAF members’ portfolios in Africa is twice as high as in their more mature portfolios in Latin America
- Within East Africa, risk levels in agri-SME lending are twice as high as risk in other sectors served by commercial banks.
- Commercial banks in East Africa generated returns in their agri-SME lending that are on average 5% lower than their overall performance.
- While elevated risk in agriculture is a significant factor, higher operating costs for agri-lending account for more than half of the 5% spread in returns.
- The data indicates that solutions must be designed both to increase the risk appetite of lenders and to boost their returns. The structure of most credit guarantees (50% coverage on loan-by-loan basis) only addresses the risk component, and this new data indicates that it does so insufficiently.

**Data-Driven Design, Marketplace Approach**

Historically, there has been limited data available on the economics of financing agri-SMEs, making it difficult to identify where donor or government interventions are required and how they should be calibrated to incentivize lending without distorting markets. This data gap is problematic, especially since SMEs handle 60% of all food production and trade in Africa and their limited access to finance hampers the growth of this vital sector. Development actors have prioritized blended finance as a tool for catalyzing private investment in developing countries and could likely mobilize significant funding to close the agri-SME finance gap if it could be properly targeted.
Aceli Africa is designed as a market incentive facility open to any lender that contributes its data and commits to growing its agri-SME lending. Because incentives are based on data from a cross-section of lenders in the market—and set based on the composite economics of serving a given market segment, rather than the performance of an individual lender—the incentives reward efficiency and promote a more competitive and sustainable marketplace.

**Product Offering to Increase Lending to Inclusive Agricultural SMEs**

Aceli Africa seeks to increase capital supply, expand addressable demand, and bring the lending market for agricultural SMEs into greater alignment with impact objectives. Specific impact priorities are to improve livelihoods for smallholder farmers and rural workers, strengthen food security, create opportunities for women, and promote more environmentally sustainable and climate-smart agricultural practices.

On the capital supply side, Aceli Africa aims to mobilize $700M in lending by offering $40M in financial incentives to lenders across the following products:

- **First-loss protection** at a portfolio level for loans ranging in size from $25K to $1.5M. With each qualifying loan, a participating lender earns a credit (an average of 4% of the value of the loan) in a reserve account. As lending volume to high-impact agricultural SMEs increases, the reserve account grows and becomes available to cover the first losses on the portfolio of qualifying loans. This structure incentivizes lenders to make more loans that meet impact criteria—and is designed to absorb the full incremental risk at a portfolio level from serving these marginalized borrowers (as opposed to half of the incremental risk as a 50% guarantee structure would), while still ensuring lenders have substantial “skin in the game.”

- **Origination incentives** compensate lenders for the lower revenues and higher operating costs of making smaller loans to SMEs that would not otherwise have access to finance. Aceli Africa will offer origination incentives as additional revenue for lenders on loans ranging from $25K to $500K, which tend to be unprofitable for lenders even when they are repaid. These incentives are particularly important to create a “pull mechanism” to motivate lenders to reach enterprises in far-flung rural areas and less developed value chains, particularly for food crops sold in local markets.

- **Impact bonuses**: To qualify for the first-loss protection and origination incentives above, a loan must meet a minimum set of criteria indicating that the borrower benefits smallholder farmers and/or low-wage workers. On top of these baseline incentives, Aceli Africa also provides an “impact bonus” in the form of higher first-loss coverage and origination incentives for loans to borrowers that are gender-inclusive (using the 2X Challenge criteria created by the leading development finance institutions), strengthen regional food security, or practice climate-smart agriculture. The more impact conditions are met, the higher the additional impact bonuses.

Aceli will also increase addressable demand among agri-SMEs and bring capital supply and demand into greater alignment through:

- **Technical assistance** at both the pre- and post-investment stage for agricultural SMEs to strengthen their business and financial management capacity.

- **Capacity building** for lenders to adapt their product offering, enhance their staff expertise, and improve their systems and processes for the agri-SME market.

- **Innovation investments** to promote technological and other business model improvements that will drive down the costs of agri-SME lending and make the market more competitive and efficient in the medium term.

**Launch**

As of publication, 25 lenders—including 9 CSAF members and 16 commercial banks and non-bank financial institutions domiciled in East Africa—have applied to participate in Aceli Africa. Beginning in August 2020, Aceli Africa is offering financial incentives to participating lenders for qualifying loans to agri-SMEs in East Africa. Technical assistance for SMEs, capacity building for lenders, and innovation investments will be rolled out over the course of 2020 and early 2021. Based on learning from initial activities in Kenya, Rwanda, Tanzania, and Uganda, Aceli may expand to other countries in Africa or regions globally in the coming years.

Aceli Africa is emblematic of the role that CSAF plays in the market: facilitating dialogue among practitioners to identify market challenges, mobilize stakeholders to develop innovative solutions, and engage the broader marketplace in testing and bringing these solutions to scale. More information about Aceli Africa is available at [aceliafrica.org](http://aceliafrica.org).
Looking Ahead

As we publish this report, the global health and economic crisis wrought by COVID-19 continues unabated with cases still spiking in many regions and no end in sight. Amid these challenges, the food and agriculture sector is more critical than ever—as are the agricultural SMEs that link farmers to markets and are essential for both livelihoods and food security.

CSAF members know from experience both the challenges of financing these enterprises and the opportunity for impact. We celebrate the milestone of Aceli Africa’s launch two years after we initially discussed this idea at our annual meeting and are heartened that non-CSAF members—including 16 commercial banks and non-bank financial institutions domiciled in East Africa—comprise the majority of the lenders participating. This appetite for increased lending to the agricultural SME segment from local financial institutions is a strong indicator of the leadership role that CSAF can play in the market.

We also recognize the need for similar approaches to re-balance the risk-return for lenders in other regions and align it with the impact objectives CSAF members, our field building partners, and so many other stakeholders share. We look forward to contributing our data and learning to strengthen the enabling environment for a thriving finance market that unlocks the growth and impact potential of agricultural SMEs globally.