CSAF would like to thank the Center for Financial Inclusion (CFI) for collecting and analyzing members’ data, Global Development Incubator for serving as institutional host for CSAF, 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 needs of 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, 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. In the context of COVID-19, many agricultural enterprises are sources of protective equipment and vital health and safety information. 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 $4.8B in lending to agricultural SMEs reaching 3.7M smallholder farmers since we began collecting data in 2013.
Letter from the Director

Dear Stakeholder,

The COVID-19 pandemic has revealed the depth of humanity’s resilience, creativity, and solidarity even as it has deepened inequality and suffering. As many higher income countries stumble toward a new “normal,” most low- and middle-income countries continue to struggle with weak public health infrastructure and limited access to vaccines.

CSAF members have always straddled this divide, with head offices and sources of capital primarily in Europe and North America and lending in rural areas of Latin America, sub-Saharan Africa, and Southeast Asia. Bridging that divide has never been more urgent or challenging than in the face of COVID-19.

As the pandemic spread in March 2020, CSAF lenders moved quickly to engage borrowers in assessing their business continuity. In a survey of its clients, one lender found that two-thirds of its borrowers had suspended or reduced provision of technical assistance to farmers, almost half experienced partial (30%) or full (12%) disruptions in transporting their product to port, and 25% reported cancellation, postponement, or decrease in buyer purchases. Depending on the timing of their agricultural cycles, some businesses were unable to make timely payments on their loans while others needed new financing to purchase crops from farmers during peak harvest periods, even as demand shifted from their buyers. In short, amid a rapidly changing market environment and with minimal information, lenders needed to make decisions that often pitted risk management against the impact imperative of supporting their borrowers.

Not surprisingly, loan disbursements slowed during Q2 2020 as CSAF members took stock of the situation. Lenders initially focused on stabilizing their outstanding portfolio and selectively renewing loans with repeat clients. Most put a moratorium on both in-person due diligence and loans to new borrowers during this initial period. By mid-year, the outlook shifted to one of cautious optimism, and by September many lenders had resumed some in-country travel and lending to new borrowers based on due diligence conducted prior to the pandemic and/or strong references from buyers in well-understood value chains (i.e., coffee, cocoa).

Loan disbursements in 2020 totaled $559M, a 12% decline relative to 2019, and the number of borrowers declined slightly by 2%. At the same time, client retention reached its highest level since 2017 (82%), there was a net increase in borrowers reached in Africa, and portfolio-at-risk actually declined during 2020.

In retrospect, CSAF members are amazed that their clients and loan portfolios were so resilient.

Farmer enterprises deserve most of the credit for this resilience. Their entrepreneurial spirit and social
networks—intangible assets that have allowed these businesses to thrive in under-resourced environments—have been particularly evident during the crisis. As but one example, UNICAFEC, a coffee cooperative in northern Peru financed by several CSAF members, drew on the long-time practice of community harvesting, where a farmer helps his neighbor collect her crop in return for the neighbor’s help on his own land. In the face of COVID-19, UNICAFEC’s farmers practiced community harvesting at levels never seen before, banding together in small, pandemic-friendly bubbles to complete a safe harvest. Sol y Café, another cooperative in the same region, adapted its procurement logistics. Instead of farmers delivering their coffee to urban collection areas where the pandemic was more prevalent, the procurement team went out to the farms—where they could both collect coffee and deliver everyday supplies to their farmers.

CSAF members have also played an important role sharing risk and standing in solidarity with farmer enterprises: all adjusted loan payment schedules to accommodate business disruptions, several leveraged their relationships with donors to raise funds for health and emergency relief, and one created a new liquidity facility to continue financing in the higher-risk environment (see more on page 8).

While COVID-19 captured most of the headlines in 2020, two massive hurricanes in Central America late in the year and the devastating locust infestation in East Africa are stark reminders that extreme weather poses increasing threats to smallholder farming communities globally. In this context—and given the challenging economics of financing this market—the efforts of CSAF members to expand their lending for inclusive and sustainable farmer enterprises are notable.

Thanks to increasing commitment by CSAF members and growing interest in our network, CSAF is better positioned than ever to play a leadership role in confronting these challenges at a market level:

- Collaboration among members and participation in trainings and technical workstreams has grown substantially during the COVID-19 period (see more on page 17).
- Over the past year, CSAF has also welcomed two new affiliates (Common Fund for Commodities and Cordaid Investment Management) and three new field building partners (IDH - The Sustainable Trade Initiative, Mulago Foundation, and Smallholder Safety Net Upscaling Programme - SSNUP, managed by ADA).
- The launch of Aceli Africa in September 2020 is a major field building milestone for CSAF. Aceli is a market incentive facility to mobilize increased private sector lending for development impact, beginning in East Africa. Born from discussions among CSAF members about systemic barriers to growing the agricultural finance market, Aceli now reaches well beyond CSAF—14 of the 23 participating lenders are banks and non-bank financial institutions domiciled in East Africa (see more on page 12).

As more capital flows into the agricultural SME finance sector, there is a need for evidence around how that capital can be channeled for the greatest impact. CSAF is well positioned to contribute the cumulative learning from our members to advance the state of knowledge in the sector. Beginning in Q3 2021, CSAF is partnering with the International Growth Centre to synthesize the data and existing evidence that is currently disaggregated across our members regarding the relationship between members’ lending to agricultural businesses, enterprise growth, and social and environmental impact.

The COVID-19 crisis is far from over—we expect a long tail of challenges that will disproportionately affect marginalized communities, including CSAF members’ target markets. As we look ahead to CSAF’s 10-year anniversary in 2022, we feel heightened urgency to bridge the divide with continued direct lending in frontier markets paired with our collective learning to influence sector dialogue around inclusive and sustainable food systems.

Sincerely,

Brian Milder
CSAF Director
Recent Updates

By many measures, the past year has been the most productive one to date for CSAF—despite, and in some cases prompted by, the COVID-19 pandemic. CSAF activities and accomplishments over the past year include:

- Met regularly to align on market intelligence and member responses to the COVID-19 crisis. Proactive communication with borrowers, coordination with peer lenders, and acts of solidarity (see page 8 for examples) mitigated some of the damage on farmer enterprises and their communities.

- Launched Aceli Africa in September 2020 in East Africa. Twenty-three lenders have signed up for Aceli’s financial incentives program (see details on page 12).

- Held trainings for global and regional members to align on principles and protocols for loan workouts. A working group documented case examples and developed an MOU to guide CSAF member collaboration when borrowers default on their loans.

- Sponsored workshops on gender lens investing—facilitated by Value for Women and Root Capital—to discuss how members can promote gender equity via their lending strategies, policies, client engagement, and internal operations. Follow-on activities are planned for 2021.

- Updated impact metrics to align with the 2X Challenge criteria for gender inclusion and developed an expanded set of environmental metrics focused on farm- and enterprise-level practices.

- Partnered with advisory firm AgroClick to offer a three-part virtual training on Price Risk Management for CSAF representatives in Latin America.

- Welcomed Andrea Zinn as Global Coordinator. Ms. Zinn has worked for the past eight years in agricultural finance, including with CSAF member Oikocredit.

- Formed regional steering committees to facilitate increased collaboration, information sharing, and communication among lenders in East Africa, Central America, and South America.

- Elected Nathalia Rodriguez Vega of Global Partnerships to the CSAF Steering Committee alongside Jean-Marc Debricon of Alterfin and Mauricio Benitez of responsAbility.

- Added Common Fund for Commodities as a global affiliate and Cordaid Investment Management as a new regional affiliate for CSAF in West Africa.

- Welcomed three new field building partners: IDH, The Sustainable Trade Initiative, Mulago Foundation, and Smallholder Safety Net Upscaling Programme (SSNUP) managed by ADA.
COVID-19 Response: Examples from CSAF Members

The scope and severity of COVID-19 prompted several CSAF members to go beyond their traditional activities and support their clients in responding to the humanitarian and economic crisis.

RESPONSABILITY’S COVID-19 EMERGENCY RELIEF SUPPORT

In March 2020, as the effects of COVID-19 started to hit agricultural communities and value chains globally, responsAbility conducted a needs assessment of its partners. The findings were clear: the lack of resources to cope with health and safety issues was likely to put smallholder farmers at risk. Specifically, for cooperatives, the lack of protective equipment, as well as limited resources to comply with new health regulations and keep operations afloat, became critical issues threatening their business continuity.

By May, the Swiss Agency for Development and Cooperation (SDC) approved responsAbility’s request for $100K in emergency relief funding to support borrowers in coping with immediate operational struggles, safeguard farmer and employee income and health, and ensure business continuity and early recovery.

In total, these funds provided emergency relief support for 12 borrowers: eight in Peru, one in Honduras, and three in sub-Saharan Africa. These emergency relief measures benefited more than 9,300 farmers and employees. For example, beneficiaries in Peru used the relief funds to set up temporary, decentralized coffee collection centers closer to farmers to reduce movement of people and limit exposure to the virus. Many beneficiaries used funds to purchase and distribute masks, gloves, hand sanitizer, soap, thermometers, bleach, handwashing kits, tests, and oxygen. In several cases, cooperatives also hired health staff to conduct regular COVID-19 tests, check for symptoms, and monitor workers’ and members’ health.

ROOT CAPITAL’S COVID-19 RAPID RESPONSE

Early in the pandemic, Root Capital surveyed 130 agricultural businesses to understand how the crisis was impacting them and their communities. These businesses identified key operational, logistical, and public health challenges that informed Root Capital’s response. With the goal of ensuring that clients could continue operating (and thus generating income for rural communities), while keeping farmers and employees safe in a period of deep uncertainty, Root Capital, its donors, and partners implemented a three-pronged rapid response focused on:

1. **Disbursing $1.7M in emergency resilience grants to help 122 businesses** purchase and distribute life-saving masks, soap, and other hygienic supplies; food and seeds to help families weather fluctuating prices and limited local market access; and equipment to keep warehouses and offices safe for workers. In total, these supplies reached 300,000 farmers and employees.
2. **Training 184 businesses in crisis management**, financial forecasting, and safe harvesting and processing practices—all delivered virtually. In some cases, Root Capital also provided customized advisory services to help businesses access government tax relief measures (e.g., tax deferment provided by the national government of Senegal).

3. **Providing interest and debt relief for businesses** experiencing significant market disruptions or cancellation of contracts.

As one example, Root Capital provided a COVID-19 resilience grant to Shalem Investment Ltd., a grain aggregating business in Kenya. Using this grant, the team at Shalem was able to quickly turn their crop collection centers (which were built using a Gender Equity Grant from Root Capital in 2016) into distribution centers providing masks, food, and hygienic supplies. Over the course of the project, Shalem distributed resources to 12,200 farmers—over half of whom were women. This demonstrates the potential of agricultural enterprises as first response platforms in remote communities, where they are a trusted source of inputs and services.

**INCOFIN’S AGRI-FINANCE LIQUIDITY FACILITY**

CSAF member Incofin focused its efforts on ensuring that finance flows to agricultural business during this period of elevated risk and the recovery to follow. With funding from the German Federal Ministry for Economic Cooperation and Development (BMZ) channeled through KfW, Incofin is managing a new Agri-Finance Liquidity Facility (ALF) to inject needed liquidity and risk funding for agricultural SMEs.

Over the past year, most CSAF borrowers have faced moderate to severe operating constraints in the form of logistics delays, market volatility, and increased operating costs. These constraints have greatly affected their capacity to continue normal work and, in some cases, their ability to keep up with financial obligations on time.

The ALF offers emergency liquidity loans of up to 24 months to provide gap financing to existing clients, extend loans to new borrowers that might not otherwise have access to finance given lenders’ reduced risk appetite, and address food security risks and other poverty-aggravating conditions caused by the COVID-19 crisis in Latin America and Africa.

For example, the ALF disbursed EUR 600K to a West African cashew processor that sources from 7,800 producers. The processor had previously been financed by two CSAF members; however, one had shifted its strategy and was no longer working in the country, while the other had maxed out its risk exposure with this borrower. The ALF provided needed working capital for the company to purchase nuts for local processing, with an emphasis on expanding its purchase of organic-certified cashews.

The EUR 40M facility opened for investment in December 2020 and will be open for five years. In its first six months, the ALF has disbursed more than 20% of the available funding via loans to 15 agri-SMEs across nine countries in Africa and Latin America. While Incofin Investment Management is the fund manager, the ALF is meant to serve the global agricultural finance market and is thus open to specialized lenders and fund managers, with CSAF members benefitting from a streamlined enrollment process to submit loans that go beyond the risk appetite of their respective funds.
2020 at a Glance

**Disbursements Responding to COVID-19 Market Shifts**

- Aggregate lending by CSAF members decreased by 12% in 2020 from $638M to $559M, the lowest level in the last five years—reflecting COVID-19-related challenges in the market. However, as noted in this report, members anticipated much bigger hits to their portfolios during the pandemic than they actually experienced.

- In contrast to 2019, when most members (10) increased disbursements, 12 members reported decreased lending in 2020; several reported decreases of more than 20%. Three members reported increasing disbursements in 2020.

- Overall, this decrease in lending was driven by non-coffee value chains (19% decrease in disbursements, from $326M to $265M). Coffee disbursements experienced a relatively small (5%) decrease, from $312M to $295M.

- Lending to cocoa enterprises increased by 25% in 2020 from $79M to $99M.

- Disbursement trends also varied by region. While remaining the biggest region for CSAF lenders, overall disbursements to sub-Saharan Africa contracted by 23% in 2020 ($54M decline).

- Disbursements in Central America remained stable in 2020, but disbursements in South America continued the downward trend that started in 2016 (14% decline, or $24M).

- While still accounting for more than half of overall CSAF disbursements, lending to private companies declined by 27% (from $361M to $264M). This is primarily explained by a number of private companies in sub-Saharan Africa that received large (>1M) trade finance disbursements in 2019 but considerably lower amounts in 2020.

**Increased Retention & Decreased Risk**

- While the overall number of clients served by CSAF members continued a three-year decline (649 enterprises vs. a high of 773 in 2017), the client retention rate from the prior year increased for the first time in that period (82% vs 75% in 2019). We conclude that this increase reflects a focus by CSAF members on supporting their existing clients through the COVID-19 crisis.

- The total number of clients increased in sub-Saharan Africa (from 287 to 296) despite the decline in disbursements. Overall client numbers decreased in South America, Central America, and Other regions.

- Given the COVID-19 pandemic and challenges of conducting due diligence remotely, members focused primarily on existing clients, which accounted for 90% of the overall CSAF portfolio. The number of new clients declined from 77 to 66; however, half of these new clients were served in Q4 2020, suggesting that members have adjusted their approach and are beginning to increase their risk appetite. Lender outlook for 2021 indicates optimistic expectations for a moderate rebound.

- Portfolio-at-risk greater than 30 days (PAR30) decreased from 9.8% in 2019 to 8.1% in 2020. This decrease was seen across all regions except Central America, which went from 1.1% in 2019 to 3.2% in 2020 but continues to have the lowest PAR30 overall.

**Continued Impact & Additionality**

- Despite the challenges of COVID-19, CSAF members reached enterprises providing $6.9B in payments to 2.6M smallholder farmers—30% of whom are women—and employing 74K workers.

- The vast majority (77%) of borrowers are served by a single CSAF member, and this percentage has remained relatively steady since 2013.
Responding to COVID-19 Challenges in Côte d’Ivoire

CADESA was founded in 2003 in an area of southwest Côte d’Ivoire known for significant cocoa production. In addition to improving farmer access to fair trade markets, the cooperative implements projects to enhance women’s inclusion in the cocoa value chain and to improve environmental sustainability of members’ cocoa production. Since 2016, with support from CSAF members Alterfin, Root Capital, and Shared Interest, the cooperative has expanded from 1,450 to 2,500 cocoa farmers (21% of them women).

In 2020, the COVID-19 pandemic disrupted CADESA’s operations: delays were experienced throughout the supply chain and buyers temporarily reduced their volume of activity.

Despite the market uncertainty, Alterfin, Root Capital, and Shared Interest continued to finance CADESA, providing $1.7M in financing last year that enabled the cooperative to purchase more than 7,500 tons of cocoa on time—more than triple the amount purchased in 2016. Since this financing specifically supported sales of certified cocoa (Fairtrade and Rainforest Alliance), CADESA continued to receive significant premiums on its sales. The cooperative used these premiums to organize campaigns to raise awareness of COVID-19 and distribute personal protective equipment to more than 1,700 members. This was combined with food supplies for more vulnerable members.

In keeping with its commitment to long-term support, Alterfin also disbursed an additional loan of EUR 100,000 to CADESA for the purchase of two trucks to collect cocoa beans. Faced with the logistical challenges caused by restrictions on movement, this investment enabled the cooperative to continue collecting its members’ produce. According to Armand Nemlin, treasurer of the cooperative’s board: “By responding favorably and quickly to our requests and by proving its trust in us, Alterfin encouraged our other lenders and business partners to put their trust in us as well.”
From Concept to Launch: Update on Aceli Africa

Aceli Africa is a market incentive facility designed to address the challenging economics of lending to agricultural SMEs in East Africa. By 2025, Aceli aims to mobilize over 2,000 loans and $600M in private capital lending using a combination of financial incentives for lenders and technical assistance so that more enterprises are prepared to access and manage financing. USAID Feed the Future, IKEA Foundation, Swiss Development Cooperation, and other philanthropic donors have committed $32M to fund this demonstration model for catalyzing a more inclusive and competitive market for agri-SME finance in East Africa.

Design & Launch of Aceli Africa

In 2017, CSAF members convened donors and other stakeholders to discuss the challenges of addressing the financing gap, estimated at $65B annually, for agricultural SMEs in Africa. There was consensus at a high level on the existence of the problem (limited capital flows to agri-SMEs) and the potential for impact on rural livelihoods, food security, gender equity, and the environment. However, there were divergent views on solutions.

Over the next 2.5 years, CSAF initiated a unique data analysis and engaged local lenders across East Africa to quantify the lending economics of serving agricultural SMEs and the need for solutions that go beyond the loan guarantees already available in the market.

Analysis of data from 31 lenders on 9,000 loans totaling $3.7B indicated that risk lending to agri-SMEs is twice as high as risk lending to other sectors in East Africa while returns are 4-5% lower. This data informed Aceli’s design of financial incentives that compensate lenders for the risks and costs incurred in financing agricultural SMEs (more information about these financial incentives is available on the Aceli Africa website). The incentives are tiered with higher rewards for higher impact loans (i.e., to borrowers that: previously lacked access to finance; are owned by women or are gender inclusive in their sourcing and employment; contribute to food security and nutrition on the continent; and/or promote climate-smart and resilient agriculture).

While the concept emerged from discussion among CSAF members, Aceli is now an independent initiative that is open to any lender serving agricultural SMEs in Kenya, Rwanda, Tanzania, and Uganda. Since Aceli launched in September 2020, 23 lenders have signed up for the financial incentives program, including 9 CSAF members and 14 commercial banks or non-banking financial institutions domiciled in East Africa. A defining feature of Aceli is the ability to engage a range of financial institutions—from banks to social lenders to finance companies specializing in equipment leasing—in creating a more competitive, inclusive, and sustainable agri-SME lending market.
Progress to Date

In the first nine months of operations (September 2020-May 2021), Aceli has provided financial incentives to lenders for 100 registered loans totaling $14M. The enterprises receiving loans create market access for 112K smallholder farmers and employ 1.6K full-time workers. The majority of the loans are made to businesses that are gender inclusive and contribute to food security and nutrition in food crop value chains such as maize, rice, nuts, and fruits and vegetables.

From a capital additionality perspective, almost half of the registered loans are to borrowers that have not received financing greater than $25K in the last three years. Allert Mentink, CEO of CSAF member SME Impact Fund in Tanzania, recently commented on the effect of Aceli’s incentives:

“We previously made loans in the $50K-500K size range. With Aceli’s financial incentives, we’ve been able to make smaller loans and just in the past six months we’ve made seven loans in the $25K-50K range. These businesses all buy rice or maize from smallholder farmers and process them for sale to Tanzanian consumers. These are the first formal loans for each of these businesses and we expect they’ll be able to increase their sourcing, employment, and supply of nutritious foods to the local market with access to finance.”

Next Steps

As Aceli completes its first year of operations in East Africa, it is beginning to think about addressing similar challenges in other geographies. Much of the lending data that informed Aceli’s product offering in East Africa was drawn from CSAF member lending in Latin America. During the second half of 2021, Aceli will conduct market assessments—initially in Guatemala, Honduras, and Mexico and possibly thereafter in Colombia and Peru—to determine whether a similar model could generate economic opportunities in these regions that are vulnerable to illegal activity, migration, deforestation, and climate change. As with Aceli in East Africa, the vision and experience of CSAF members will be the starting point for a holistic approach to addressing longstanding challenges for an inclusive and sustainable agricultural SME finance market.
Looking Ahead

As of publication of this report in July 2021, many countries have made significant progress in their COVID-19 vaccination programs and are beginning to emerge from lockdowns; but the pandemic is likely to linger in the places where CSAF lending is focused. Borrower enterprises may continue to face market, logistical, and public health challenges—making CSAF members’ financing and technical support for business continuity a key priority for 2021 and beyond.

At the same time, other challenges persist. In Central America, natural disasters have combined with poverty and violence to drive a surge in migration. Globally, the impacts of climate change are intensifying—and often felt first and most deeply in rural communities, whether through drought, flooding, pests, or crop diseases. The urgency of these challenges necessitates deepening and accelerating action to build resilience capacities that will help rural enterprises and farm families weather shocks.

As CSAF looks ahead to our 10th year, our vision is unwavering. As individual institutions, we will continue to push the frontier in our lending to high-impact agricultural enterprises. As a collective, we will redouble our efforts to share learning, promote industry standards for responsible and impactful lending, and bring our data and learning more prominently into the sector dialogue around how finance can be used to create a more inclusive and sustainable food system.