East Africa Fruits, Tanzania © AgriFi

State of the Sector

2022: Celebrating 10 Years of CSAF

CSAF COUNCIL ON SMALLHOLDER AGRICULTURAL FINANCE

Global Members

Regional Members & Affiliates

Field Building Partners

Data Partner

Institutional Host

We would like to recognize the institutions that have signed on as field building partners, as well as additional funding from IFAD, Small Foundation, and USAID Feed the Future, 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 $5.5B in lending to agricultural SMEs reaching 6M smallholder farmers since we began collecting data in 2013.

CECAFE, Peru © Shared Interest

UCCEI, Nicaragua © Root Capital

Opening Letter

Dear Stakeholder,

In June 2022, CSAF members convened in the Netherlands. As we settled into our chairs, together in person for the first time in nearly three years, the energy was palpable. Our meeting host from Triodos asked each member to summarize CSAF in one word. The clear consensus: "collaboration."

This was not a given in 2012 when seven social impact lenders met for the first time at the office of Shared Interest in Newcastle, UK. The institutions represented around that table ranged in structure from cooperative societies to a nonprofit to fund managers to regulated commercial banks. We competed for clients in our agricultural lending and, increasingly, for capital and talent as well.

We didn't have an urgent, galvanizing reason to come together. It was more instinctive: We shared values and a commitment to lending for impact; each institution was trying to figure out how to serve a very difficult market with no roadmap; and we could begin to see that good intentions would not be enough to nurture a thriving market that delivered responsible impact to agricultural businesses long excluded from the financial system. We wanted to draw upon what had worked in microfinance while avoiding the pitfalls of over-lending, over-promising, and public backlash. As we began talking—or, rather listening—we quickly recognized how much we could learn from each other.

A lot has changed over the past decade—in the world and in our niche segment of the agricultural finance market. Climate change, COVID, and supply chain disruptions have compounded the production, political, and commodity market risks that have long hindered agricultural finance. As individual institutions, CSAF members are more clear-eyed about the challenges of financing agricultural enterprises and steadfastly committed to overcoming those obstacles to generate social and environmental impact.

This perspective is hard earned. Since CSAF began collecting data in 2013, members have lent over $5.5B to 1546 agricultural enterprises in 81 countries. While many of these businesses have used this financing to unlock transformative growth, others have struggled in the face of market challenges and defaulted on their loans. Each loss leaves a scar and a story. Members process these experiences during our twice-annual meetings, translating lessons into risk mitigation strategies and policies.

The tone of this most recent meeting was mixed. Lenders felt relieved, even proud, to have thus far weathered COVID with their portfolios largely intact and even growing. Most of their borrowers have survived the pandemic with determination and pluck. CSAF mem-

bers have played a vital role, accompanying clients as partners with flexible repayment options during the initial uncertainty of 2020, technical assistance to address heightened risk, and larger credit lines as commodity market prices shot up in 2021. Recognizing the unmet need and opportunity for increased impact, members are looking to extend their reach with many setting up new funds or expanding their mandates to include longer-term financing, local currency lending for food crops, or greater focus on agri-tech, nutrition, women-owned businesses, or climate finance.

At the same time, CSAF members recognize that the operating environment is becoming even more challenging. Multiple lenders used the phrase "bracing for increased risk" in describing their future outlook. As one member said during a discussion on managing risk: "Something is always happening in agriculture."

This year's report not only reviews lending activity from the prior year but also incorporates a broader view on the past decade of sector development. Interspersed throughout the report are quotes from CSAF members and partners celebrating this progress and reflecting on what is needed moving forward.

CSAF provides a growing community of lenders (17 and counting) and aligned stakeholders with a forum for learning and exchange as we collectively build the agricultural finance market. In a world of increasing risk and interdependence, tackling the pressing challenges of our time in collaboration with like-minded peers offers the best—perhaps the only—pathway to success.

Sincerely,

Brian Milder
CSAF Director

Andrea Zinn
CSAF Global Coordinator

"CSAF annual convenings have catalyzed a healthy race to the top regarding credit risk management, impact reporting, and portfolio growth."

—Mauricio Benítez, responsAbility

THREE TRENDS IN 2021

1

Lending increased substantially after a dip in 2020.

Disbursements rose to their highest levels since CSAF began tracking data in 2013, more than compensating for reduced lending during the first year of the COVID-19 pandemic.

2

The number of overall borrowers dropped slightly.

New client origination was low across CSAF while retention of existing clients remained high, indicating continued support for growing businesses but also the challenges of finding new credit-ready borrowers.

3

Lenders managed mounting risk while continuing to deepen impact.

With pandemic disruptions, supply chain delays, and rising costs, CSAF lenders are facing rising uncertainty, but continue to accompany borrowers' growth.

Table of Contents

Vision & Mission 3

Opening Letter 4

Three Trends in 2021 5

Impact Numbers 7

Recent Updates 8

Borrower Profile: Investing in Climate Adaptation for Farmers in Northern Peru 9

Global Insights 10

Unlocking Lending to Underserved Borrowers: Update on Aceli Africa 13

Market Disruptions Impact Borrowers, Underscore Importance of Continued Lending 14

New Funds Expanding the Market Frontier for Impact 15

Borrower Profile: Financing Food Security in Sierra Leone 16

Value Chain & Regional Trends 17

Borrower Profile: Protecting the Amazon and Indigenous Communities in Bolivia 19

Field Building Partners 20

Borrower Profile: Innovating to Reduce Food Waste in Tanzania 21

10 Years of CSAF 22

Looking Ahead 23

Appendix 1: A Note on Methodology 24

Appendix 2: Data Summary 25

Impact Numbers

2021 | 2013–2021

Amount Disbursed

$756M

$5.5B

Businesses Reached

641

1,546

Loans Disbursed

1,383

13,260

Farmers Reached

2.5M

6M

Countries Represented

59

80

GODONG, Senegal © Fondation Grameen Crédit-Agricole

Recent Updates

Over the past 12 months, CSAF members have adjusted to the challenges posed by COVID and a volatile market. The CSAF community continued to share lessons learned, collaborate in new areas, and contribute to sector dialogue. Notable activities include:

- Hosted a convening with members, field building partners, and additional stakeholders to celebrate the 10th Anniversary of CSAF. This was the first in-person gathering since the start of COVID and it reaffirmed CSAF's value as a forum for collaboration and learning for both lenders and field builders that work on expanding agricultural SME finance.
- Collaborated with Value for Women and Root Capital to offer workshops for CSAF regional representatives in Africa and Latin America to enhance gender-lens investing. Focused on strategies for identifying and investing in gender-inclusive businesses and tools for how to increase gender diversity in members' portfolios and within their institutions.
- Sponsored in-depth, six-month technical assistance engagements from Value for Women for three CSAF members—Alterfin, Cordaid, and Incofin—to implement gender inclusive practices in their investment strategies and internal management.
- Completed initial analysis with the International Growth Centre at the London School of Economics to build the evidence base for investing in agricultural SMEs. This research analyzes sector literature and CSAF data to document evidence and identify knowledge gaps linking the role of agricultural SME finance to stimulate enterprise growth and create positive social and environmental impact.
- Joined the Global Action Agenda for Innovation in Agriculture, led by CGIAR and FCDO, as a #ClimateShot Ally. This alliance of like-minded institutions aims to close the innovation gap in agriculture and food systems in order to drive increased investment that will scale solutions that work for people and planet.
- Held trainings focused on coffee price risk management, sponsored by Oikocredit and facilitated by Agroclick, for CSAF representatives in East Africa.
- Jointly signed an MOU with 15 CSAF members to guide alignment and collaboration during loan restructuring for shared CSAF borrowers.
- Hosted technical sessions for members on coffee market dynamics and on landscape investments that incorporate carbon credits for smallholders, two timely topics relevant to members and the sector.
- Welcomed ECOTIERRA as a new regional affiliate in Latin America and Argidius Foundation and USAID Feed the Future as field building partners.

CECAFE, Peru © Shared Interest

BORROWER PROFILE

Investing in Climate Adaptation for Farmers in Northern Peru

In northern Peru, the CECAFE cooperative connects over 900 Fairtrade- and organic-certified coffee farmers in the town of Lonya Grande with the international market. Root Capital was the first CSAF member to work with CECAFE, providing a loan of $200K in 2011. Since then, CSAF members have been pivotal in accompanying the cooperative's growth with timely and flexible financing. In 2021, five lenders extended CECAFE a total of $4.5M. Over the past decade, CECAFE has quadrupled its sales by leveraging a cumulative $28M in lending from Oikocredit, Rabo Rural Fund, Root Capital, Shared Interest, and URAPI Fund (operated by Ecotierra).

In recent years, shifting weather patterns have caused unpredictable flooding that damages coffee while rising temperatures lead to pest infestations and crop disease. With support from Shared Interest's charitable arm, Shared Interest Foundation, CECAFE is now producing a natural pesticide to protect coffee plants from harmful insects. Partnering with Root Capital's digital business intelligence services, CECAFE is also using data about its members to create tailored adaptation plans to ensure that farmers receive the right training and inputs they need to respond to their specific climate threats.

In mid-2021, a 50kg bag of fertilizer in Lonya Grande cost $20. Less than a year later, supply chain breakdowns and the Russia-Ukraine conflict have tripled that cost. With the support of CSAF members, CECAFE produces organic compost from coffee husks and animal manure, selling it to its farmer-members for just $10 with the opportunity to pay in installments. This program means that farmers can keep their costs low while maintaining organic certification and stewarding the local ecosystem. A well-managed enterprise like CECAFE, with committed partners, can provide certifications, market access, and technical assistance to ensure that farmers are resilient and prosperous in the face of climate and market challenges.

Global Insights

After contracting during the first year of the COVID-19 pandemic, CSAF lending rebounded in 2021 to set a high-water mark for the nine years in which CSAF has collected data. With $756M in disbursements, lending in 2021 grew 35% compared to 2020. This number represents an 18% increase from 2019 pre-pandemic levels and is more than double the lending volume from 2013, the first year that data was collected. This growth over the past nine years reflects an increase in the size of the agricultural financing sector and the increasing maturity of the businesses served by CSAF. Encouragingly, growth this year was particularly strong in sub-Saharan Africa, the region that experienced the largest contraction in 2020. More information on regional trends can be found on page 17.

In 2021, CSAF members disbursed $756M to 641 businesses across 59 countries. These borrowers connected 2.5M smallholder producers—31% of whom are women—to domestic and international markets, and provided 67K jobs in rural communities. The median farm size was 1.9 hectares (4.5 acres).

Even as topline lending grew significantly, the total number of borrowers dipped slightly as COVID continued to restrict lenders' travel as well as their risk appetite for serving new borrowers. New businesses represented 10% of all borrowers, down slightly from 2020. Members' focus on existing borrowers is due in part to pandemic-related challenges, but this drop also reflects the persistent barriers to serving first-time borrowers, which are often riskier and require smaller, less profitable loans. Across all CSAF borrowers served in 2021, 60% have been clients for at least five years, and these businesses received nearly three quarters of total disbursements.

As a sector, additionality among CSAF members is high with the majority (76%) of borrowers in 2021 receiving financing from only one CSAF member. This percentage has remained consistent for nearly a decade even as more lenders have entered the market and lenders have concentrated on a few high-value export crops. At the same time, the 24% of borrowers financed by multiple CSAF members received 64% of global disbursements in 2021, indicating a concentration in larger clients with lower perceived risk.

Figure 1: Annual Lending and Businesses Reached

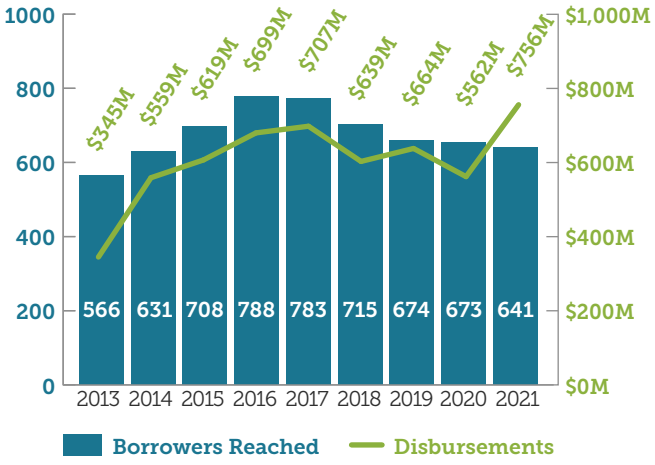
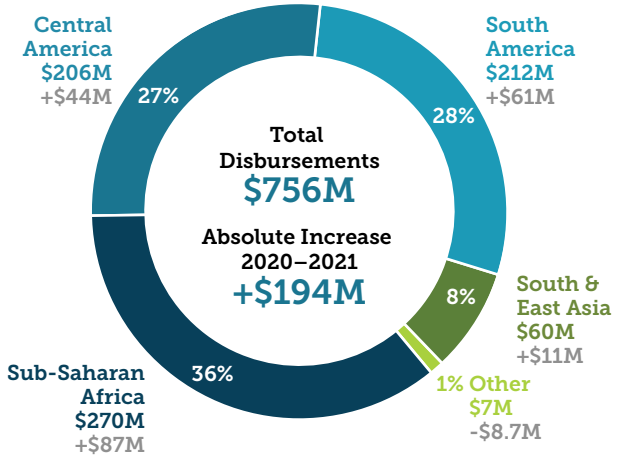
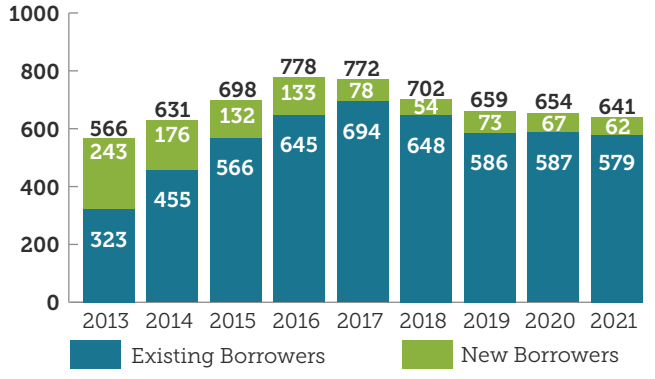


Figure 2: Credit Volume by Region (2021)



Note: +/- compared to 2020

Figure 3: Existing & New Borrowers Reached



Average loan size increased to its highest level over the past nine years, reaching $983K for existing borrowers and $760K for new borrowers. These amounts represent increases of 9% and 29%, respectively, compared to 2020 and are also significantly higher than pre-pandemic levels. Since data was first collected in 2013, average ticket size has increased by 56% for existing borrowers and 79% for new borrowers, reflecting two trends:

1. CSAF lenders are accompanying enterprises as they grow, meeting their expanding financing needs even as commercial banks remain largely on the sidelines; and
2. Many CSAF lenders have increased minimum loan sizes to compensate for the higher costs and risks associated with providing smaller loans to early-stage enterprises.

The increase in disbursements in 2021 was mostly driven by larger loans. Forty percent of disbursements in 2021 went to loans of $2M or more, up from 32% in 2020. Disbursements for loans under $500K were just 9% in 2021, compared with 12% in 2020 and 25% in 2013. CSAF members continued to focus predominantly on working capital loans. The share of members' disbursements for trade finance increased to 85%, continuing longstanding trends within the sector.

Normalized portfolio quality continued to improve as CSAF members worked with more mature businesses at larger loan sizes, while write-offs on outstanding loans have remained high. In 2021, portfolio-at-risk greater than 30 days (PAR30) dropped to 7.4% from 8.2% in 2020. This improved portfolio health overall masked conflicting sub-trends as PAR30 fell by half for loans of $2M+ while doubling for loans under $250K. In 2021, the overall share of outstanding write-offs was 6%, down from 8% in 2020 but well above the 2.4% figure of 2018. The largest share of write-offs (62% of the total) came from sub-Saharan Africa, consistent with prior years.

Figure 4: Active Loans by Size (2013 vs. 2021)

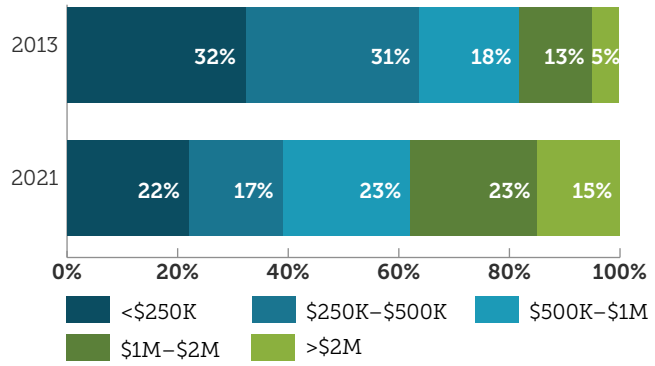


Figure 5: Median Loan Size

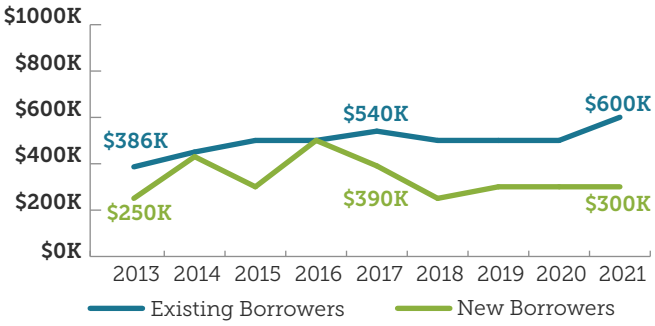
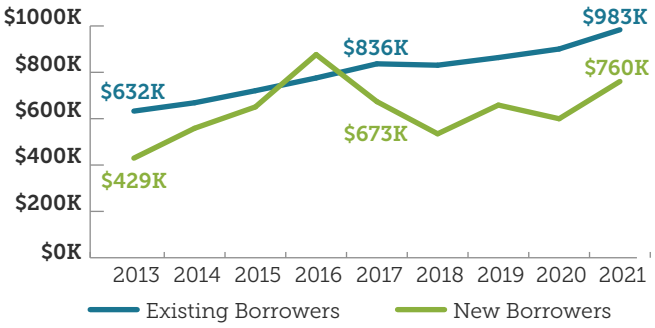


Figure 6: Average Loan Size



"Through our involvement with CSAF we've learned from our mistakes and losses, entered new value chains, and showed that there can be collaboration, even among competitors, when there is a common goal."

—Nathalia Rodriguez, Global Partnerships

Asociación Chajulense, Guatemala © Root Capital

Figure 7: Portfolio-At-Risk Greater than 30 Days

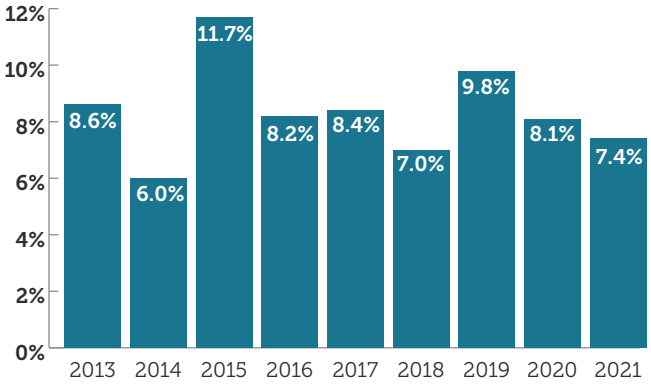


Figure 8: Write-Offs as Percentage of Outstanding Volume

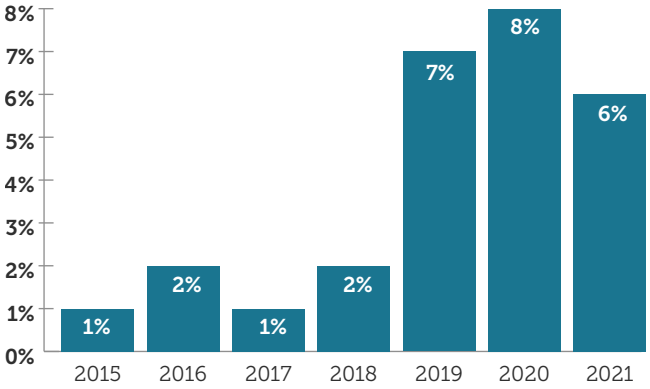
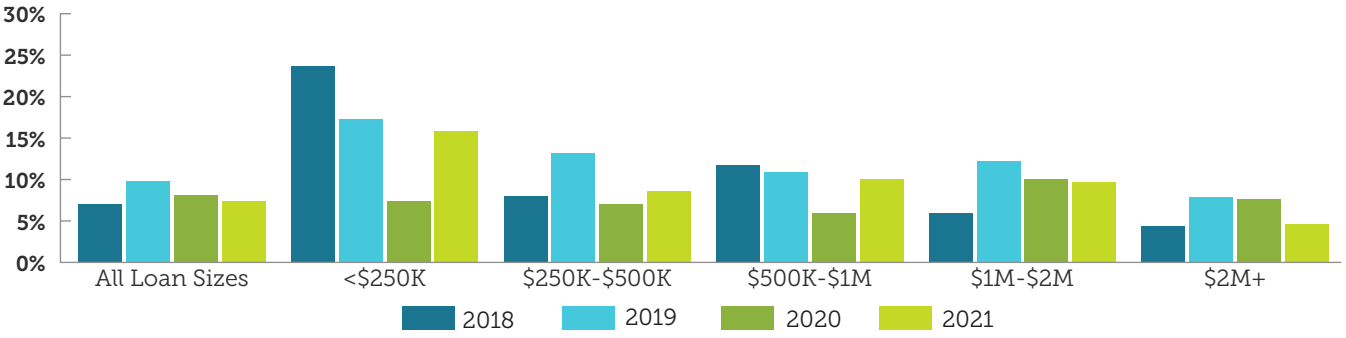


Figure 9: Portfolio-At-Risk Greater Than 30 Days (by Loan Size)



Elvis Mulimba Feedlot, Uganda © George Muriama, Aceli Africa

Unlocking Lending to Underserved Borrowers: Update on Aceli Africa

Aceli Africa was born from conversations among CSAF members about the challenging economics of lending to agricultural SMEs, particularly in less formalized value chains and for smaller loan sizes of $25K–500K. Launched in September 2020, Aceli is a market incentive facility designed to increase lending to agricultural SMEs in Kenya, Rwanda, Tanzania, and Uganda. By 2025, Aceli aims to mobilize over 3,000 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.

In 2021, Dutch Ministry of Foreign Affairs and UK FCDO committed $30M in new funds to Aceli on top of $32M already awarded by USAID Feed the Future, IKEA Foundation, Swiss Development Cooperation, and other donors. These funds are primarily used to share in the risk and defray the transaction costs of high-impact agricultural loans made by Aceli's lending partners.

"By 2017, there was a clear mismatch between members' desire to deepen impact and the risk-return realities of financing businesses in food crop value chains and those requiring smaller loans. We designed Aceli to bridge this gap."

—Brian Milder, CSAF/Aceli

Progress from launch in September 2020–May 2022:

- **Lender participation:** 30 lenders have signed up for Aceli's incentives program; while several CSAF members are participating, the majority of the lenders are commercial banks and non-banks domiciled in East Africa.
- **Capital Mobilized:** Aceli incentives have supported $57M in lending to 426 SMEs aggregating 415K smallholder farmers.
- **Loan profile:** The average loan supported by Aceli's incentives is approximately $135K, well below the average loan size for CSAF members overall.
- **Additionality:** 48% of the loans are the first ever source of financing above $25K for these borrowers.
- **Food security:** 56% of Aceli-supported loans are issued in local currency for inputs, production, and/or processing of food crops such as dairy, maize, rice, or sorghum.
- **Gender inclusion:** 69% of the loans meet the 2X Challenge criteria and 20% of borrowers are women-owned SMEs.
- **Expansion:** Aceli is beginning to explore potential expansion to Mozambique and Zambia. In 2022, Aceli began partnering with the Mexican nonprofit organization Nuup to support a similar financial incentive approach focused in southeastern Mexico.

Market Disruptions Impact Borrowers, Underscore Importance of Continued Lending

Agricultural SMEs rely on long, complex supply chains to reach a market, especially in those sectors most-served by CSAF: coffee, cocoa, and tree nuts. The COVID pandemic, geopolitical conflict, and climate change are compounding market disruptions that affect CSAF lenders and borrowers.

The price for coffee on the commodity market grew steadily in 2021, rising 67% to the highest level since 2011. Initially driven by climate-induced frosts and droughts in Brazil combined with devastating hurricanes sweeping through Central America, prices continued to rise due to investor speculation and inflation. As coffee producer organizations scrambled to take advantage of these higher prices and compete against other local buyers, demand for financing increased.

CSAF lenders responded to that demand by increasing coffee lending by 40% year-over-year—outpacing the 30% growth for other commodities. Some borrowers reported that higher prices drove such an increase in competition that overall volume of coffee sold actually decreased in 2021 despite substantial increases in loan disbursements and enterprise revenue.

Breakdowns in the supply chain also caused borrowers to hold longer outstanding loan balances in 2021. Shipping was delayed by staff shortages in global ports, enhanced health screening for incoming vessels, and pandemic lockdowns in China. These challenges meant prolonged timelines between harvest and the customer receiving shipment. However, there were few reports of an uptick in borrower default or canceled contracts.

Supply chain delays also led to a shortage of inputs such as fertilizer and a subsequent increase in the price of those goods. The Russia-Ukraine conflict exacerbated this problem early in 2022. Russia is the world's largest exporter of nitrogen fertilizer, and increased difficulties in trading with the country—as well as the rising cost of the fossil fuels needed to manufacture synthetic fertilizer—has driven up the price of this input to levels that smallholder farmers cannot afford.

"The logistics problems have led to ballooning inventory, overlapping harvests, and the export cycle has shifted at least two months compared to a typical year... Also, this has lengthened the payment cycle from 30-45 days to now almost 90 days, which has increased the need for larger, more frequent working capital and has raised the cost of financial inputs."

—Brazil nut processor, Bolivia

"The high costs of fertilizer have risen from $20 to $55 for a bag," one coffee trader in Costa Rica explains. "There are opportunities to increase coffee harvests, but due to the lack of access to fertilizer, we are not expecting a substantial increase [in yield or quality] for the upcoming harvest."

CSAF lenders have weathered the supply chain crisis with their borrowers by providing timely disbursements, exercising patience in repayments, and offering training on price risk management. As supply chain volatility shows no signs of stabilizing, continued partnership is needed to build resilience for agricultural SMEs and lenders.

UCMECS, Togo © SIDI

New Funds Expanding the Market Frontier for Impact

By 2050, the global food system needs to feed an additional two billion people while drastically reducing its climate footprint. Despite agriculture making up one-third of global emissions and an annual investment need of $350 billion to transform the global food system, less than 5% of climate finance is currently being allocated to sustainable food and land use.[1,2] At the same time, women-led SMEs face a financing gap of $300B and agricultural SMEs with the smallest credit needs remain among those most vulnerable.[3] CSAF members are innovating to meet these challenges with creative capital:

responsAbility, in partnership with the CGIAR and with KfW as anchor junior investor, has launched a first-of-its-kind blended finance fund that uses science-based interventions for holistic food systems transformation. **The Climate-Smart Agriculture and Food Systems Fund (Food Systems Fund)** will raise $200M to provide long-term expansion debt financing and technical assistance to agricultural SMEs in Africa, Asia, and Latin America. Over the next 10 years, the Food Systems Fund will showcase projects that support a transition to a low-carbon, gender-sensitive, and climate-resilient global food system by intensifying production, promoting sustainable and inclusive food brands, reducing food loss, and adopting climate technologies. Alongside investment, the fund will provide technical assistance to support climate-smart practices and expand opportunities for women at all levels of the value chain. With target ticket sizes of $3M–10M and a focus on long-term loans, the Food Systems Fund reaches a market segment adjacent to, and largely unserved, by CSAF members.

In 2011, amid a rapid increase in global capital flows to Africa, SIDI and Alterfin launched the European Solidarity Financing Fund for Africa (FEFISOL) to channel investment specifically to under-served rural communities. Building on the success of FEFISOL, which concluded in 2021 after disbursing €86.5M, SIDI and Alterfin have structured **FEFISOL II**. This fund, which closed at €22.5M and includes €1M for technical assistance, will focus on local currency lending, climate and social impacts of borrowers, and resilience of agricultural SMEs in Africa.

As noted above, the average loan size across CSAF has trended upwards over the past decade even as agricultural SMEs with credit needs below $500K remain underserved. In 2014, SME Impact Fund (SIF) launched in Tanzania with a focus on serving smaller businesses operating in food crop value chains such as maize and rice sold to domestic consumers. Over the past eight years, SIF has built the case for investing in these businesses in Tanzania, disbursing almost $15M at an average ticket size of $80K. With support from CSAF field building partner Small Foundation, SIF commissioned a market study of replicating the fund, and assessed the supply and demand of missing middle agricultural SME finance in Kenya and Uganda. Guided by these findings, SIF plans to expand to these countries and triple its reach by launching **SME Impact Fund II** in 2023. The new fund will capitalize $20M and an accompanying technical assistance facility of $2M to unlock the impact of this crucial segment of agricultural SMEs.

Mountain Lion Agriculture, Sierra Leone
© Cordaid Investment Management

BORROWER PROFILE

Financing Food Security in Sierra Leone

Rice is a staple grain in Sierra Leone, but high import prices and low local production are threatening the nation's food security. Local smallholders lack access to high-quality inputs like seeds or equipment, and the impacts of climate change are making it ever more challenging to grow rice. Once they harvest their crops, farmers do not have a means to process the grain and bring it to the local market. Mountain Lion Agriculture (MLAG) is an agricultural SME tackling the country's food shortage by investing in smallholder farmers, connecting them to markets, and boosting local production.

In 2017, Cordaid Investment Management (CIM) provided a first working capital loan to MLAG, supporting the business in reaching 6,100 farmers as they faced the dual challenges of climate change and lack of market access. MLAG operates a research farm and agronomic extension program to train farmers in adopting climate smart agricultural practices.

MLAG received external financing in 2020 to install a new mill that would increase processing capacity to five tons of rice per hour. CIM provided additional working capital, which has allowed MLAG to expand its outgrower program and maximize the utilization of the upgraded rice mill. MLAG now reaches over 8,000 farmers and has to keep its mill operating for months after the harvest season has ended in order to process all of the rice it has collected.

"CIM's flexibility and responsiveness to the constant challenges we face have been an enormous help," explains Jason Dudek, one of the MLAG's founders. "This dynamic is made possible by incredible local staff that understands our business and the local context. Our partnership allowed us to double our production and reach thousands more smallholders this year."

Value Chain & Regional Trends

Value Chains

In 2021, lending in coffee increased significantly and continued to make up a majority of CSAF member lending. Disbursements to coffee businesses increased by 40%—compared to a 28% increase for other commodities—making up 55% of total disbursements. This increasing proportion of coffee lending continues a trend since 2019 and was primarily driven by disbursements on loans larger than $1M. The greatest growth came in South America, where lending grew from $101M to $154M year-over-year. CSAF members responded to the highest coffee prices in a decade by providing increased financing to meet borrowers' needs in the face of market fluctuations.

Cocoa lending increased considerably, driven mostly by activity in West Africa. Disbursements to cocoa businesses grew by 36% from $99M to $135M. Nearly all of this lending growth came from Cote d'Ivoire and Ghana as disbursements in other regions remained roughly stagnant or dropped compared to 2020. As a share of CSAF lending, cocoa remained consistent at 18% of total global disbursements despite overall clients decreasing by 7%. This continues a trend since 2019 across the portfolio, but particularly notable in cocoa, of an increasingly concentrated group of borrowers receiving larger loans.

Tree nuts continued a three-year downward trend in disbursements, driven by a drop in the cashew sector. After peaking in 2017 and 2018, disbursements to nut companies have dropped by one-third over the past three years. A large share of this contraction has come from decreased lending to cashew businesses in Côte d'Ivoire where traders have struggled to become value-added processors; macadamia nut lending decreased only slightly. Disbursements to Brazil nut enterprises, like that profiled on page 19, have meanwhile increased steadily over the past couple of years, including growing by 57% in 2021.

Lending in sectors besides coffee, cocoa, and tree nuts remains small as CSAF members focus on core value chains where there is a proven track record of success. Cereals saw a slight increase—mostly driven by quinoa in South America—but lending activity stood at just half its 2018 peak. Sub-Saharan Africa remains the most diversified lending region by commodity; lending outside the three leading sectors in this region made up 29% of disbursements.

Figure 10: Share of Regional Lending by Value Chain

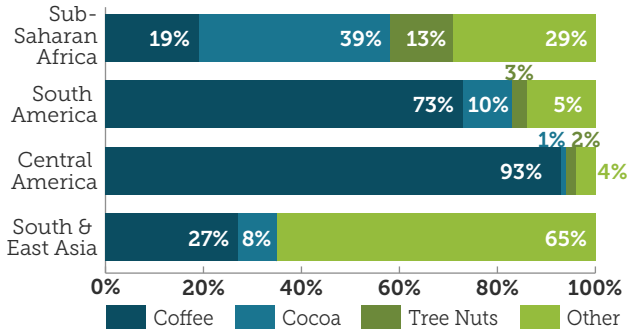


Figure 11: Coffee & Non-Coffee Lending

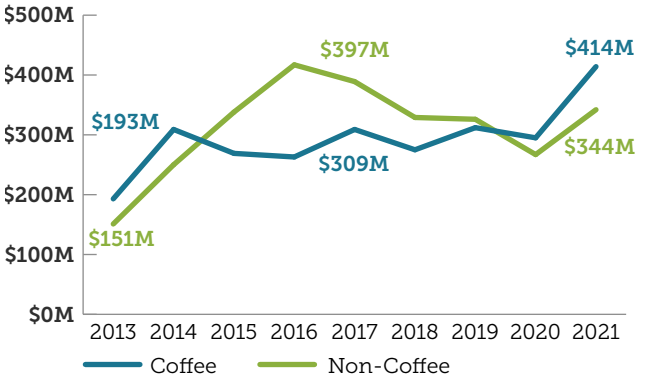
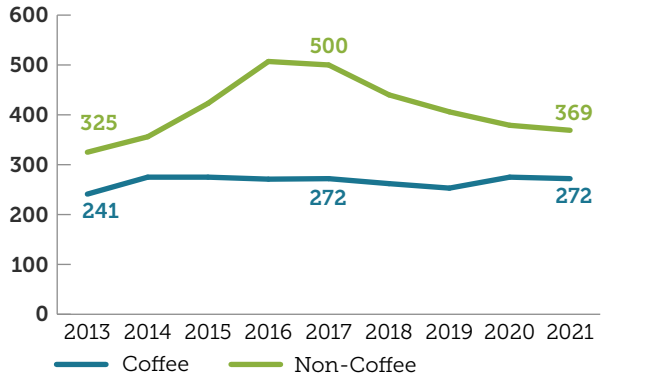


Figure 12: Coffee & Non-Coffee Borrowers



Regional Trends

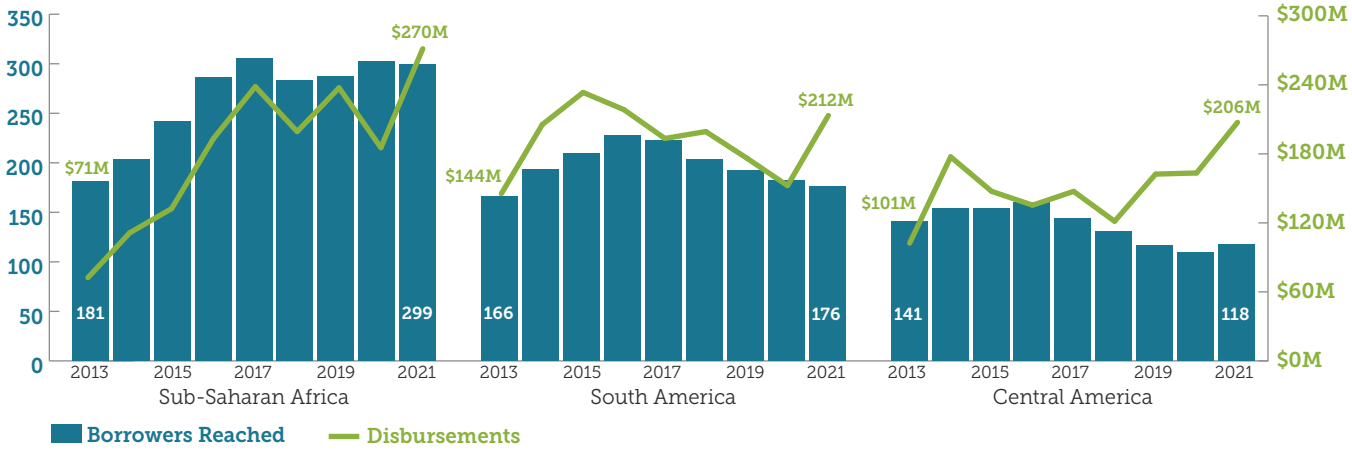
Loan disbursements in sub-Saharan Africa rebounded in 2021 as lenders added a significant number of new borrowers. Consistent with the past five years, sub-Saharan Africa remained the most active lending region, accounting for 36% of global disbursements. After experiencing the largest contraction of any region in 2020, the region rebounded with the greatest lending growth as disbursements increased from $182M in 2020 to $270M in 2021 (49% growth year-over-year). Increased activity in coffee and cocoa drove almost two-thirds of the increase, but there was significant growth in other commodities like cereals, fruits, and vegetables. Client turnover continues to be particularly high in sub-Saharan Africa as 58 borrowers exited this year (19% of 2020 clients). However, new clients compensated for those losses with 54 client originations in this region accounting for over half of the total new CSAF borrowers globally in 2021.

In South America, lending activity increased significantly, reversing a five-year trend of contraction. Disbursements increased 40% from $151M to $212M, but did not reach the high-water mark of $232M set in 2015. This activity was mostly driven by coffee businesses (73% of the region's activity), especially in Peru. As a whole, the country continues to receive the largest share of CSAF lending by both disbursements ($143M, 19%) and total clients (221). Disbursements to coffee businesses in Peru reached its highest level since the start of data collection in 2013. Beyond coffee, CSAF members reach a modest number of South American borrowers in cocoa (10% in 2021) and Brazil nuts (3%).

Lending in Central America experienced significant growth as a high coffee prices drove increased lending. Disbursements increased from $162M to $206M, marking the third straight year of growth. Coffee makes up a larger portion of Central American lending compared to any other region (93% in 2021, up from 90% in 2020). Disbursements in this sector increased by $46M in the region (32% increase). Costa Rica, Guatemala, and Nicaragua accounted for much of this growth. Some lenders are reaching exposure limits with their clients in the region and diversification to other crops (spices, honey, sesame) might be pursued to expand impact in underserved value chains.

Lending activity grew modestly in South & East Asia even as the number of borrowers declined. Disbursements increased from $49M in 2020 to $60M in 2021. This reverses a multi-year trend of contraction. In Other Regions, disbursements fell 56% to $7M. This segment of businesses in Eastern Europe, the Middle East, and North Africa represents a negligible portion of CSAF lending at less than 1% of global disbursements and less than 3% of global borrowers.

Figure 13: Annual Credit Volume and Number of Businesses Reached, by Region



Eximcruz, Bolivia © Incofin

BORROWER PROFILE

Protecting the Amazon and Indigenous Communities in Bolivia

In the rainforest of Bolivia, Eximcruz is improving the livelihoods of over 1,000 Brazil nut harvesters while protecting one of the world's most fragile ecosystems. Also grown in Peru and its namesake Brazil, more than half of the global supply of Brazil nuts comes from Bolivia. Most of these nuts are wild-harvested by indigenous communities who live in the Amazon and ward off loggers and miners to protect the forest where they have lived for generations. Since Brazil nut trees rely on shade cover, consistent rainfall, and natural pollinators, the economic well-being of harvesters is intertwined with the health of the surrounding ecosystem. Brazil nut collectors on the frontlines of the climate crisis are so impactful in the fight that the World Wildlife Foundation has described this crop as "the nut that could help save the Amazon."

CSAF members Incofin (since 2016) and Alterfin (since 2017) have provided working capital loans to Eximcruz, a Brazil nut processor and exporter, so it can make timely payments to harvesters. Over this time, Eximcruz has increased its sales by 161% and its members are reaping the benefits. According to a recent survey of Eximcruz's suppliers, 92% reported that working with the business has boosted their incomes. Higher incomes allow harvesters to pay for their children's education, address emergency health needs, and invest in new business activities to diversify their income.

When the COVID-19 pandemic hit, it led to shortages of inputs like tools and processing materials and Eximcruz struggled with liquidity as other sources of financing dried up. "Amid this uncertainty, Alterfin renewed its loan at the same amount of the prior year, which greatly helped Brazil nut pickers and staff in our processing unit," explains Ximena Carlos, head of quality control for the processor. This timely financing meant that Eximcruz could continue operating and withstand the short-term shock without long-lasting impacts on the health of the business, the local community, or the ecosystem that they protect.

The Village Nut Company, Kenya © Root Capital

Field Building Partners

In 2020, CSAF created a new category of field building partners to engage institutions that promote the agricultural SME sector in ways beyond direct lending to farmer enterprises. Below are highlights from a few of these institutions' recent activities.

Argidius Foundation recently published its SCALE model to offer guidance to enterprise support organizations and funders in implementing evidence-based practices to boost agricultural SME growth and job creation. The report and accompanying toolkit help service providers and their funders identify businesses that are poised for growth, diagnose what interventions are needed to accelerate that trajectory, develop monitoring and evaluation plans that encourage sector-wide learning, and establish increasingly sustainable support organizations.

In a new report, **Small Foundation** and Palladium show how geomapping technology can transform the food system by giving access for farmers and agricultural SMEs to weather information, market data, and crop advice. These technologies help farmers boost yields while reducing lending risk and increasing access to financing for businesses. The report identified the most promising models and called for increased financing and knowledge sharing to scale successful pilots to millions more farmers.

The **Smallholder Safety Net Upscaling Programme (SSNUP)** coordinated by ADA Microfinance, is a 10-year project to build the productivity and resilience of 10 million farming families in Africa, Asia, and Latin America. Whether it is climate change, market fluctuations, or COVID, smallholder farmers and agricultural SMEs are particularly vulnerable to unexpected shocks, often lacking the safety nets of big businesses or well-resourced government programs. SSNUP helps these smallholder households and SMEs build those safety nets before it is too late. Since launching in 2020, SSNUP has already engaged eight impact investors—seven of which are CSAF members—and co-funded 24 projects totaling €2.4M of SSNUP contribution. Each project is designed to strengthen SME and smallholder resilience, for example:

- In Rwanda, partnering with Oikocredit to train eight coffee cooperatives and two coffee SMEs on price risk management to navigate fluctuations of a volatile commodity market.
- In Burkina Faso, working with Incofin to expand the processing capacity of a cashew business to meet growing international demand including new payment processes, human resource systems, and certification protocols.

East Africa Fruits, Tanzania © AgriFi

BORROWER PROFILE

Innovating to Reduce Food Waste in Tanzania

More than 40% of fresh fruits and vegetables produced in Tanzania do not reach consumers—this loss represents a significant drop in farmer incomes and a hit to national food security at a high environmental price. Without formal market linkages, farmers are left scrambling to find buyers for their crops before they spoil. Elia Timotheo saw those challenges firsthand while working at Tanzania's Ministry of Agriculture. Inspired, he quit his job to launch East Africa Fruits (EAF) in 2013 to support these farmers and connect them with higher, more stable incomes through market formalization.

CSAF regional affiliate AgDevCo provided the first CSAF loan to EAF in 2015 and Global Partnerships, MCE Social Capital, and Rabo Foundation have since added working capital so that the business can pay farmers on time for their crops. AgriFi, a CSAF field building partner, provided asset financing in 2021 to help EAF scale its business with additional machinery, trucks, and collection centers. With this collective financing, along with patient capital from Goodwell Investments and several other equity investors, EAF has been able to grow its revenue by 600% since 2015, bringing nutritious fruits and vegetables directly to urban retailers.

EAF now works with a network of nearly 5,000 farmers—a forty-fold increase from 2015—linking them with street vendors, supermarkets, hotels, and restaurants in the capital of Dar es Salaam. The company has invested in cold chain logistics to ensure customers receive high-quality fruit and vegetables that will command premium prices for farmers. EAF is also investing in its long-term prospects, offering tailored training on climate-smart agriculture to its farmer suppliers, boosting crop quality, increasing yields, and building resilience for farmers—and the enterprise—for years to come.

10 Years of CSAF

PRE-LAUNCH

"We impact-first, early-mover practitioners were unintentionally replicating each other's mistakes. We gathered to bring 'pathological collaboration' to smallholder agricultural finance."

–Willy Foote, Root Capital

2012

CSAF launches with a meeting of seven members in Newcastle, England.

2015

Members align around Responsible Lending Principles to guide sustainable market growth.

"CSAF provides needed infrastructure to the agri-finance sector by standardizing loan reporting and social and environmental metrics. Through joint training on topics like gender lens investing, price risk management, and collaboration during loan workouts, members align to navigate risk and create a more inclusive sector."

–Andrea Zinn, CSAF

2016

CSAF members develop Environmental, Social, and Governance Principles and train staff to promote lending that improves farmer and worker livelihoods, strengthens rural communities, and safeguards the environment.

2018

CSAF publishes Loan Economics Benchmarking Report in partnership with USAID and Dalberg, to raise awareness of the high risks and low returns associated with high-impact lending to agricultural SMEs.

"[CSAF members] are humble enough to learn from the insights of their aggregate experience, while also committed to publicly sharing data and experience with other investors and policy makers for sector building."

–Blaine Stephens, former MIX

2020

Aceli Africa launches to incentivize lending to food crop value chains and smaller loan sizes.

2021

Members expand their metrics to align with the 2X Challenge Criteria for gender inclusion and promote more holistic gender-lens investing.

2022

CSAF community expands to 17 members and 11 field building partners. Stakeholders convene to commemorate the 10th Anniversary of CSAF and discuss how to grow the market while deepening impact.

LOOKING AHEAD

"This market is risky—but we understand the risk much better than we did five or ten years ago. We're committed to staying in the market and innovating new ways to navigate risks and create greater impact."

– Fallon Casper, Incofin

COOPEASSA, Costa Rica © Opmeer Reports for Oikocredit

Looking Ahead

In reflecting on the state of the agricultural SME market at this 10-year milestone in CSAF's history, the takeaways from CSAF's recent convening and this report are clear:

- The financing gap for agricultural SMEs remains large;
- Filling that gap is crucial to achieving many of the most pressing challenges of our time: creating economic opportunities for marginalized populations, building more sustainable food systems, slowing climate change, and protecting forests and biodiversity;
- Lending to agricultural SMEs has higher risks and lower returns than financing other sectors;
- CSAF members have learned to navigate these risks in serving a high-impact segment of the market focused on crops such as coffee and cocoa that generate substantial social and environmental impact;
- Much more financing is needed both for agricultural SMEs in these value chains (e.g., longer term loans for climate adaptation and fixed asset financing) as well as in even higher-risk, lower-return market segments such as food crops and enterprises requiring smaller ticket sizes;

"In the risky markets where we operate, collaboration with like-minded lenders is critical for serving agricultural businesses responsibly. To grow the market even further and address the funding gaps, more mechanisms like Aceli are needed to absorb some of the risks and high transaction costs in other countries."

—Jean-Marc Debricon, Alterfin

- CSAF members are committed to agricultural SME lending despite the below-market financial returns and are pushing further into the market frontier to deepen their impact; and lastly,
- The success of these efforts will be greatly enhanced by continued collaboration between CSAF members and a growing network of partners providing technical assistance to develop stronger, more inclusive value chains and to use catalytic capital to align risks and returns with the impact that our world urgently needs.

Permata Gayo, Indonesia © Root Capital

Appendix 1: A Note on Methodology

The results presented in this report and the CSAF Open Data Portal are based on agricultural lending activity by the nine CSAF global members, one regional member, four global affiliates, and three regional affiliates from January 1, 2021 to December 31, 2021. CSAF members and affiliates (collectively referred to in this report as members) provided this information to Center for Financial Inclusion (CFI), an organization that uses rigorous research and advocacy to advance inclusive financial systems for low-income people around the world, under a nondisclosure agreement. Subsequent analysis was conducted by CFI using an aggregate dataset and therefore does not identify either the borrower or the lender. To account for inconsistent data types and to improve trend analysis, CFI applied a unified adjustment methodology across both new and historical data. Therefore, readers will notice variations from the data published in CSAF's previous annual reports. We believe this methodology presents the most accurate and up-to-date picture of our constantly evolving industry. Additionally, we restrict our reporting to only active loans, which are defined as meeting at least one of the following criteria:

- a maturity date in 2021 or later;
- one or more disbursements during 2021; or
- an outstanding balance (not subject to write-off) at any point during 2021.

To complement and contextualize the data presented in this report, CSAF members participated in qualitative surveys and discussions covering trends affecting portfolio growth and credit quality, with insights incorporated throughout this report.

Endnotes

1. *Global Landscape of Climate Finance 2021*, Climate Policy Initiative, 2021. p. 38. https://www.climatepolicyinitiative.org/wp-content/uploads/2021/10/Full-report-Global-Landscape-of-Climate-Finance-2021.pdf
2. "Why financing the transformation of our food systems to nature positive production is critical before 2030," United Nations, 2021. https://www.unep.org/es/node/29781
3. *Women-Owned SMEs: A Business Opportunity for Financial Institutions,* International Finance Corporation, 2014. https://www.ifc.org/wps/wcm/connect/44b004b2-ed46-48fc-8ade-aa0f485069a1/WomenOwnedSMes+Report-Final.pdf?MOD=AJPERES&CVID=kiiZZDZ

Appendix 2: Data Summary

	CREDIT				BORROWERS			LENDERS
	Amount Disbursed (in $M)	% Change from Previous Yr	% of Global Disbursements	Average Disbursements (in $K)	Number of Borrowers	Change from Previous Yr	% of Total Borrowers	# of CSAF Members
GLOBAL	**756**	**35%**	**100%**	**900**	**641**	**-12**	**100%**	**17**
Central America	**206**	**28%**	**29%**	**790**	**118**	8	**0%**	**11**
Costa Rica	31	43%	4%	1162	13	-1	2%	6
El Salvador	0	-100%	0%	0	2	0	0%	2
Guatemala	34	77%	4%	740	19	2	3%	7
Honduras	48	-4%	6%	902	18	0	3%	6
Mexico	10	-16%	1%	310	29	6	5%	9
Nicaragua	83	51%	11%	884	36	3	6%	11
South America	**212**	**40%**	**28%**	**598**	**176**	**-6**	**27%**	**13**
Bolivia	19	215%	3%	565	14	2	2%	7
Brazil	4	-47%	1%	402	6	0	1%	5
Chile	1	11%	0%	149	2	-1	0%	4
Colombia	32	55%	4%	899	17	-3	3%	7
Ecuador	4	-7%	1%	483	10	0	2%	8
Paraguay	3	-9%	0%	511	4	1	1%	3
Peru	142	34%	19%	623	110	-1	17%	13
South & East Asia	**60**	**22%**	**8%**	**803**	**31**	**-8**	**5%**	**10**
Cambodia	1	67%	0%	225	2	0	0%	2
India	24	46%	3%	810	5	-4	1%	2
Indonesia	17	50%	2%	725	14	1	2%	3
Philippines	5	-38%	1%	1328	2	-2	0%	3
Sub-Saharan Africa	**270**	**48%**	**36%**	**622**	**299**	**-2**	**47%**	**16**
Benin	8	436%	1%	1499	5	-2	1%	3
Burkina Faso	7	55%	1%	428	8	3	1%	5
Congo, Dem. Rep.	18	85%	2%	585	13	2	2%	4
Cote d'Ivoire	104	59%	14%	1368	29	-4	5%	9
Ghana	11	42%	1%	656	21	4	3%	6
Kenya	30	47%	4%	595	32	-1	5%	10
Malawi	7	48%	1%	1233	6	0	1%	2
Mali	3	625%	0%	967	5	3	1%	3
Mozambique	3	-29%	0%	1520	7	-1	1%	2
Nigeria	5	32%	1%	2500	3	1	0%	3
Rwanda	23	43%	3%	324	47	0	7%	11
Senegal	0	-100%	0%	0	3	-2	0%	3
Sierra Leone	4	-15%	1%	672	8	-1	1%	3
Tanzania	14	113%	2%	181	69	1	11%	9
Togo	2	15%	0%	304	2	0	0%	4
Uganda	25	27%	3%	524	26	-4	4%	9
Zambia	3	-48%	0%	350	8	-1	1%	4
Other regions	**7**	**-56%**	**1%**	**380**	**17**	**-4**	**3%**	**6**
Egypt	0	-100%	0%	0	4	0	1%	2
Tunisia	1	40%	0%	271	2	0	0%	2

Data does not total due to rounding and the exclusion of countries with fewer than two borrowers or fewer than two lenders. For businesses with a regional presence, disbursements are categorized by the country where a borrower is headquartered.

CSAF COUNCIL ON SMALLHOLDER AGRICULTURAL FINANCE

This document discusses general industry and sector trends; lending activity; and broad economic, market, and policy conditions as perceived by the authors. It is not research or investment advice. This document has been prepared solely for informational purposes. Although the authors of this report made a reasonable attempt to obtain information from sources that they believe to be reliable, they do not guarantee its accuracy or completeness, and the authors undertake no responsibility to update this report for information that may have changed after it was obtained by the authors. The historical performance presented in this report is based on unaudited data reported independently by each financial institution and is not representative of future performance.

©2022, All Rights Reserved