State of the Sector
2022: Celebrating 10 Years of CSAF
Executive Summary
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.
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-

UCCEI, Nicaragua © Root Capital
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

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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.
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.
Impact Numbers
2021 | 2013–2021

- **Amount Disbursed**
  - 2021: $756M
  - 2013–2021: $5.5B

- **Businesses Reached**
  - 2021: 641
  - 2013–2021: 1,546

- **Loans Disbursed**
  - 2021: 1,383
  - 2013–2021: 13,260

- **Farmers Reached**
  - 2021: 2.5M
  - 2013–2021: 6M

- **Countries Represented**
  - 2021: 59
  - 2013–2021: 80
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.
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.

“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
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.”
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.

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.

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

“[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
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.