Aldea Global, Nicaragua © MCE Social Capital

State of the Sector

2023 | Executive Summary

CSAF COUNCIL ON SMALLHOLDER AGRICULTURAL FINANCE

Global Members

alterfin Investing in sustainable development
Global Partnerships
incofin Investment Management
OIKO CREDIT
Rabo Rural Fund
responsAbility
root capital
SHARED INTEREST Investing in a fairer world
Triodos Investment Management

Affiliates & Regional Members

ABC fund Agri-business Capital
AgDevCo
Fondation Grameen Crédit Agricole Microfinance & Social Business
CFC common fund for commodities
Cordaid investment management
ECOTIERRA
KAMPANI Investing in family farming
mce SOCIAL CAPITAL
NESsT
SME Impact Fund
SIDI Solidarité Internationale pour le Développement et l'Investissement

Field Building Partners

USAID From the American People
Feed the Future The U.S. Government's Global Hunger & Food Security Initiative
ACELI AFRICA
argidius
ceniarth
EDFI AgriFI
idh transforming markets
IKEA Foundation
MULAGO
SAFIN
FOUNDATION SMALL
ssnup Smallholder Safety Net Upscaling Programme
ada

Data Partner

CENTER for FINANCIAL INCLUSION | ACCION

Institutional Host

GDI Global Development Incubator

We would like to thank CSAF members & affiliates for their monetary and data contributions. We also 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 investments 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. 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 $6.2B in lending to agricultural SMEs reaching 6.9M smallholder farmers since we began collecting data in 2013.

Exotic EPZ Ltd, Kenya © Incofin

Latitude, Uganda © Rabo Rural Fund

Opening Letter

Dear Stakeholder,

Agricultural SME lenders face two competing demands: Minimize risk and maximize impact. From the short-term threats of price volatility, political instability, and organizational management challenges to the more existential long-term threat of climate change, risk pervades everything we do. This risk is precisely why many commercial lenders choose not to work with agri-SMEs, deeming loans to this sector to be unprofitable and not worth the risk. This has left thousands of agri-SMEs without access to financing, imperiling sustainable livelihoods for millions of smallholder farmers.

Global political unrest and residual consequences of the pandemic have led to heightened public health, supply chain, and economic difficulties—making the challenges of agri-SME lending particularly visible. Additionally, the colliding nature of these particular crises means that the risks facing these lenders and businesses are compounding. Yet, risk is nothing new for CSAF lenders and their borrowers. Even as we move beyond many of the acute threats of the past three years, new ones are already appearing. Despite this, members disbursed another $750M in 2022 to over 650 businesses across nearly 60 countries. This sector will always be risky, but one thing we've heard over and over again from our members is that the benefits of managing through those risks—and the potential for impact—far outweigh the challenges they pose.

Over the past eleven years, CSAF members have managed to overcome generational threats to their operations and the sectors they finance. In 2014, La Roya (coffee leaf rust) swept across Latin America, ravaging coffee farms and threatening the very existence of many coffee enterprises. CSAF members responded, complementing their usual working capital loans to borrowers with agronomic training to counteract the disease's spread and capacity building on financial management and income diversification to strengthen borrowers' resilience. In 2020, CSAF members stepped up to boost borrowers throughout the COVID-19 pandemic, through grants for protective equipment, targeted support through logistics challenges, and flexible forms of financing. Meanwhile, price volatility creates consistent, cyclical crises that agri-SMEs must weather through year after year, whether they are navigating ups-and-downs of export commodity prices or abrupt shifts in local market dynamics. CSAF members have provided targeted price risk management training to borrowers, increased monitoring efforts, and have restructured loans in times of extreme crisis.

Each of these crises required a different approach—targeted technical assistance, changing payment timelines, new financial instruments—and future challenges will require that we continue to act in innovative ways. In addition to analyzing 2022 lending activities, this year's report also provides a deeper analysis of the risks agri-SMEs and lenders face, and how agricultural lenders can respond.

One of the key reasons CSAF was started was because lenders were individually confronting these risks in a challenging sector. During the last eleven years, the trust and transparency established among CSAF lenders has allowed members to discuss these challenges openly and learn from each other's mistakes as well as strategies for risk mitigation. This collaboration is embedded in CSAF's DNA and will always be at the center of our vision and purpose, alongside our alignment towards impact.

I am eager to step into the role of CSAF's new Director and build upon these values of collaboration and impact that have united CSAF members for more than a decade. Since CSAF's founding, the leadership and direction of our Co-Founder and now-former Director, Brian Milder, together with members, has built an alliance of lenders and stakeholders that I am honored to work with. Over the past two years of working closely together, I've seen how Brian's commitment to impact, genuine passion for collaboration, and vision for change has built a stronger ecosystem striving for a more inclusive and sustainable financial market for agricultural SMEs.

As we look ahead, there will be continued opportunity to cultivate sector engagement. It's increasingly clear that lenders and providers of catalytic capital wish to pair their vast practitioner experience with rigorous evidence. This starts with identifying the most important evidence gaps across the agri-SME finance sector: Our partnership with the International Growth Centre to conduct an initial evidence review, highlighted later in this report, is a first step. Moving forward, strategic coordination around evidence building will allow lenders, donors, and policymakers to more effectively mobilize capital and resources to optimize impact.

Though the risks ahead of us are daunting, as a community of allied peers (now counting twenty members and ten field building partners) we can approach these challenges with evermore confidence as we continue to work towards stronger local economies and thriving livelihoods across rural communities.

Sincerely,

Andrea Zinn
CSAF Director

FOUR TRENDS IN 2022

1 Lenders sustained high volumes of lending following a year of significant growth.

As the early impacts of COVID-19 wore off, disbursements by CSAF members hit an all-time high in 2021. Lending activity remained high in 2022, demonstrating sustained strong performance.

2 There were large variances in lending across lenders and regions.

While the majority of CSAF members increased disbursements in 2022, several members experienced a decrease in disbursements.

3 Significant price fluctuations in commodity markets drove regional variation.

The timing of the harvest in different regions, especially for coffee, led to varying demand for financing as the commodity markets dropped significantly in the second half of the year.

4 The vast majority of borrowers are served by only one CSAF member.

Additionality remains high as 73% of borrowers are working with just one CSAF lender, despite an increasingly maturing agri-SME finance market.

Impact Numbers

2022 | 2013–2022

Amount Disbursed

$751M

$6.2B

Businesses Reached

655

1,646

Loans Disbursed

1,414

14,691

Farmers Reached

2.6M

6.9M

Countries Represented

59

80

COOSEMPODA, Nicaragua © Rikolto

BORROWER PROFILE

Investing in business capacity and fresh vegetables in Nicaragua

For Nicaraguans buying cabbage at their local grocer, the chances are high that it's grown by a farmer-member of Cooperativa de Servicios Múltiples Padre Odorico de Andrea R.L. (COOSEMPODA). This small cooperative aggregates produce from members, washes it to market standards, and sells it onward to supermarkets—supplying 80% of the country's market for cabbage along with significant amounts of carrots, green peppers, and potatoes. Yet, this hasn't always been the case. Until recently, the cooperative didn't have facilities large enough to process all of their members' products, forcing farmers to sell much of their crop for lower prices to predatory offtakers.

In a country hit hard by the 2018 U.S. political sanctions, having a strong domestic market for nutritious food is critical. That was especially true in early 2020 as the COVID-19 pandemic threatened the national food supply. To help the cooperative commercialize more product for its members at better prices, Kampani offered COOSEMPODA a USD $215k subordinated loan to buy a new washing facility, start producing seedlings for farmers, and procure a refrigerated truck. Kampani was able to make this loan in part thanks to the technical assistance support that COOSEMPODA had received since 2016 from Rikolto, a partner of Kampani that builds the business management skills of agri-SMEs. Rikolto helped COOSEMPODA professionalize their business operations, formalize their governance, and build their credit readiness. Technical assistance partnerships like these make investments in agri-SMEs less risky for lenders while expanding the level of impact that the borrower can have on its farmers.

This seven-year loan contains inclusion clauses, meaning that the cooperative has committed to increase its membership base by 50%, place at least one woman on the Board of Directors, and grow total participation by young people and women to at least 15% each. Together, COOSEMPODA and Kampani are boosting incomes for smallholder horticulturists, increasing inclusion in the industry, and ensuring a stable supply of nutritious food among political and economic uncertainty.

Global Insights

After considerable growth in 2021, CSAF lending volume remained consistent in 2022 despite challenging market conditions. Disbursements remained steady with a slight contraction of $4M (less than 1%). While global disbursements plateaued, lending activity was highly variable by country and value chain with lenders experiencing differential impacts on their activity. Forty percent of lenders reported decreased disbursements compared to 2021. Many of the largest markets in the CSAF dataset moved in opposite directions—for example, coffee in Peru increased dramatically while cocoa in Côte d'Ivoire shrunk significantly. For more on regional and value chain trends, see the full report.

In 2022, CSAF members disbursed $751M in credit to 655 businesses across 59 countries. These funds powered market connections for 2.6M smallholder producers and supported 69k jobs in rural communities. The median farm size reached by CSAF borrowers was 2 hectares (5.9 acres).

The total number of clients reached by CSAF members held steady in 2022, driven by significant growth in new clients. This year, lenders collectively added 88 new borrowers, more than they have in any year since 2016. This is important to build the client pipeline for long-term portfolio growth and shows a continuing expansion of financing to businesses in need of credit. As has been true since CSAF started collecting data, the majority of total clients were returning borrowers as lenders continue to work with agri-SMEs with a proven track record, many of which remain unserved by the broader financial sector.

Additionality remained high for many loans, while the overall share of borrowers financed by more than three CSAF members continues to slowly grow. In 2022, 73% of CSAF borrowers were financed by only one CSAF lender—consistent with 2021 and bucking the trend of steady decline of this number since 2016. These loans are closing critical financing gaps for many of these businesses. At the same time, the 4% of the borrower base that was financed by more than three CSAF lenders received 24% of overall disbursements. These borrowers may be more mature with larger credit needs. Many of these businesses also have long-term partnerships with CSAF lenders; read more about how these long-term relationships are helping borrower and lender alike in the Sol & Café profile in the full report.

Figure 1: Annual Lending and Businesses Reached

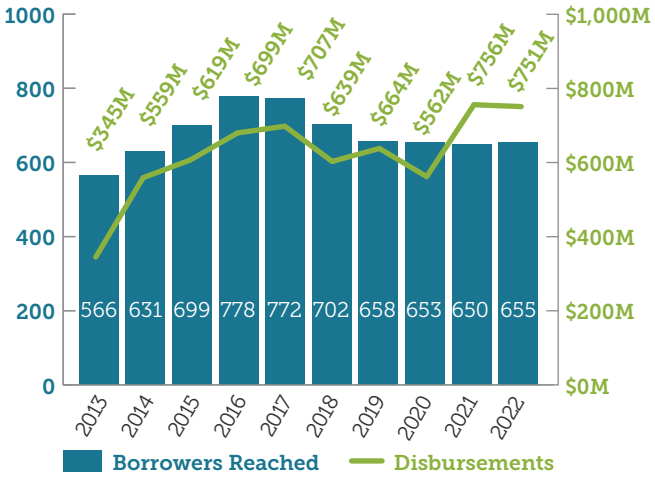
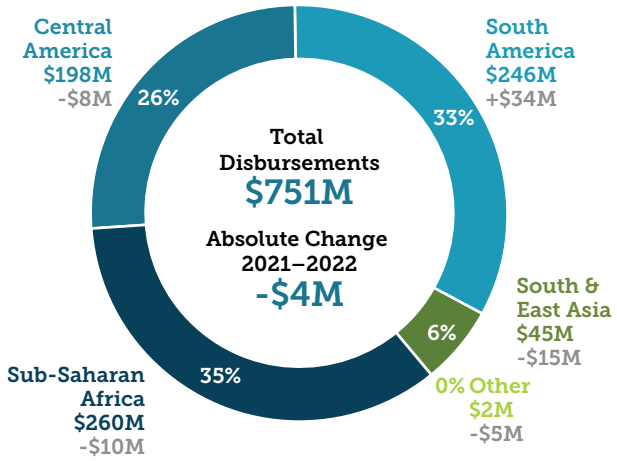
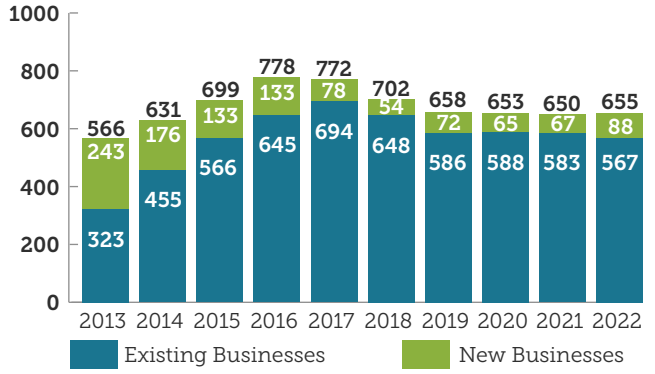


Figure 2: Credit Volume by Region (2022)



Note: +/- compared to 2021

Figure 3: Existing & New Borrowers Reached



Average loan size for existing clients continued to grow, topping $1M for the first time, while average loan size for new clients shrank slightly. As lenders accompany the growth of borrowers, lines of credit need to match borrowers' evolving needs in the absence of commercial financing options. At the same time, a decrease in average loan size for new borrowers suggests an increased focus on smaller ticket sizes for borrowers new to CSAF lending. However, the share of disbursements going to loans smaller than $500k continues to shrink as the challenging economics of these smaller loans makes it difficult to move significant credit volume.

While most members grew their portfolios in 2022, a significant subset of CSAF membership contracted their lending. A slight majority of lenders increased their disbursements in 2022, with a quarter of members reporting growth upwards of 40%. However, a slim minority reported a decrease in disbursements. This is a significant deviation from 2021, when nearly all lenders grew their disbursement amounts. Disbursement contraction was particularly concentrated in cocoa and Central America coffee. This relationship is explored in more depth in the full report.

After a period of improvement, normalized portfolio quality remained consistent with 2021. Despite the challenges highlighted in this report, CSAF members are managing risks to maintain the health of their portfolios. Normalized portfolio at risk greater than 30 days—a measurement of portfolio health that excludes loans more than 365 days in arrears—was 7.4% in 2022, identical to that figure in 2021. PAR30 remained consistent or dropped compared to 2021 in all regions except for South America where last year's historic-low 2.8% PAR30 jumped to 8% by the end of 2022.

"We take and share risk to support those organizations where the risk profile is higher but the likelihood of them obtaining affordable and fair finance is low."

France Villeneuve, Shared Interest

Figure 4: Share of clients and disbursements by number of CSAF members financing client (%)

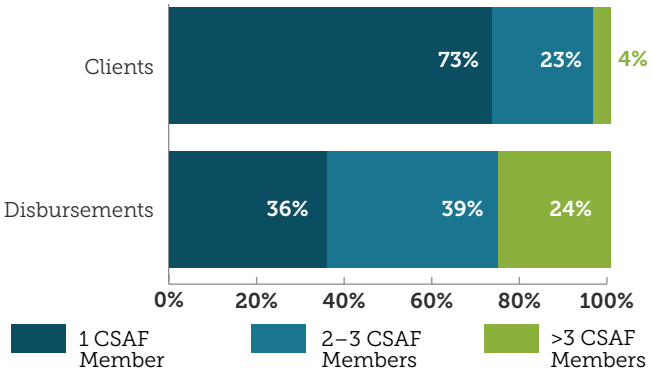


Figure 5: Average Loan Size

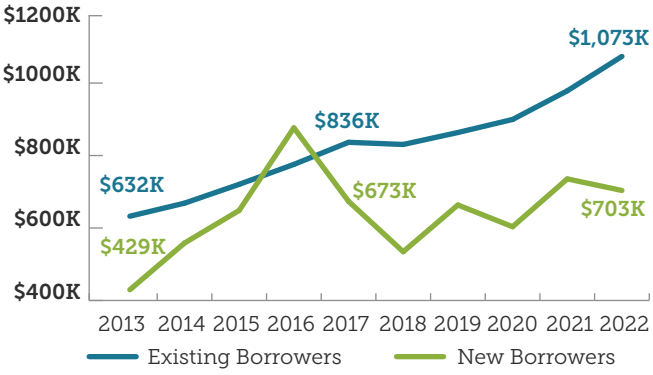
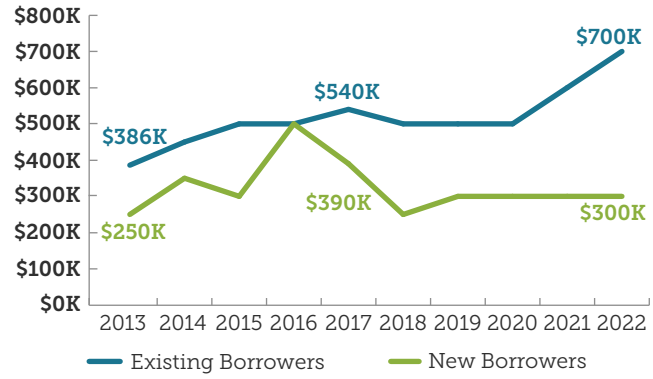


Figure 6: Median Loan Size



Learning to thrive in a high-risk market

Volatile commodity markets, economic uncertainty, organizational instability, and climate disasters—these colliding crises have threatened agri-SMEs and lenders in recent years. While this sector has always been risky, the recent conditions have underscored how the burden of these threats falls disproportionately to agri-SMEs and the farmers they support. Amid these challenges, CSAF members, which have clear mandates to reach these businesses, aim to support borrowers in mitigating those risks and ensure continued impact. Over the past years, CSAF members have shown how working through these risks is not just a necessity for supporting agri-SMEs, but a critical advantage in building the capacity and resilience of borrowers and CSAF members alike.

PRICE RISK

Condition

Starting in August 2022, the global coffee price dropped almost 40% from a near-decade high. Price volatility has always been present in international commodities, but has become particularly acute in recent years. Mismatch between local and global markets pose a significant risk; a number of cashew processors had to close their doors over the past year due to this mismatch. Domestic commodities also face price risk, especially following abrupt regulatory changes and new trade policies.

Impact on agri-SMEs and lenders

Price volatility makes it more difficult for a business to conduct price risk management, drives gross margins lower, and encourages speculation leading to major financial losses. This price risk threatens every actor in the supply chain, but effects are particularly acute for agri-SMES, which typically have the fewest tools and resources to manage risk.

Mitigation efforts

Oikocredit, with co-financing from the Smallholder Safety Net Upscaling Programme (SSNUP) coordinated by ADA Microfinance, provided price risk management training to help coffee SMEs in Rwanda mitigate the impact of price volatility on their operations. SSNUP published results of the program and key takeaways for how similar training can be best delivered in the future.

ECONOMIC & POLITICAL RISK

Condition

Global inflation and recessionary pressures have destabilized economies across the world over the past three years. In some countries, this is exacerbated by political instability, which can disrupt supply chains, affect the ability of borrowers to operate, and alter national economic landscapes. Globally, demand for premium products like coffee, cocoa, and tree nuts has dropped while the price for inputs has risen drastically, driven in part by the war in Ukraine.

Impact on agri-SMEs and lenders

Lower demand for coffee, cocoa, and tree nuts, coupled with higher costs of inputs and logistics, are threatening agri-SME profit margins. In Peru, the political instability of 2022 made it difficult for borrowers to get their product to port and lenders struggled to visit borrowers to conduct due diligence. As a result of challenging economic and political risks, some CSAF members have seen higher-than-normal rates of default coupled with diminishing returns from loans.

Mitigation efforts

CSAF borrowers are building their resilience to economic shocks through diversification. Vertical integration of value chains is helping borrowers capture more of the products' value. Production of agricultural inputs, such as organic fertilizer, decreases dependence on imported goods. CSAF lenders are financing or providing technical assistance to support transition to some of these new activities.

ORGANIZATIONAL RISK

Condition

Perhaps one of the most common types of risk that CSAF members encounter, organizational risk for agri-SMEs is often defined by weak governance and poor financial management. This is particularly true for early-stage enterprises, which may be one of the drivers of CSAF lenders' movement toward larger loan sizes over the past decade.

Impact on agri-SMEs and lenders

Left without oversight or unaddressed, lack of sufficient business management can cause agri-SMEs to not fulfill buyer contracts, fall into preventable mistakes, and eventually default on their loans. CSAF members have reported concerns over fraud in organizations that lack good business practices.

Mitigation efforts

Business Development Services, like those shared in the profile of COOSEMPODA on page 7, are helping enterprise leaders develop their skills and credit readiness. This is improving long-term outcomes for agri-SMEs while minimizing the risk for lenders. More work needs to be done to ensure these services are being delivered most efficiently and effectively, but exciting findings are detailed in the full report.

CLIMATE RISK

Condition

Over the next 50 years, climate change is the greatest risk facing lenders and agri-SMEs. In the long term, land is becoming more inhospitable to the crops that agri-SMEs work in, while climate disasters and changing weather patterns are becoming more frequent, threatening productivity and the short-term sustainability of these businesses and their lenders.

Impact on agri-SMEs and lenders

Coffee, which comprised over half of CSAF disbursements in 2022, is particularly vulnerable to the effects of climate change. As severe climate events make land less hospitable to coffee, smallholder farmers and agri-SMEs may not be able to produce enough to sustain themselves, consolidating production to private estates and large corporations.

Mitigation efforts

Some members have intensified their assessments of climate resilience during their due diligence processes. Others have launched lending and technical assistance products that account for the particular needs and timelines of climate adaptation projects. Read more about climate risk mitigation in action in the profile of Sol & Café in the full report.

DEEPENING IMPACT AMID COMPOUNDING RISKS

The risks facing the agriculture sector are large, but they are not prohibitive. CSAF members believe that the social impact of overcoming these risks far outweighs the challenges they pose. What's more, compounding risks have compelled lenders to improve their own internal processes in due diligence, monitoring, and risk management, ultimately making them into stronger organizations. As current risks continue to fluctuate or intensify and new risks emerge, the sector needs to constantly be innovating new tools, subsidies, and blended finance structures to mitigate those risks and continue to deliver impact for agri-SMEs.

"The commitment, problem solving, and capacity by borrowers to manage risks have been strengthened as a result of these crises, and in many cases, have resulted in more resilient and more impactful institutions."

Fallon Casper, Incofin

Nyamurinda Coffee Growers, Rwanda © Alterfin

BORROWER PROFILE

Mobilizing capital for an early-stage business in Rwanda

Francine Nahimana and Immaculée Mukamana started with 20 hectares and a vision of a brighter future for their community in rural Rwanda. As their neighbors continued to rebuild in the wake of the Rwandan Genocide, these two women launched Nyamurinda Coffee to aggregate their community's crops and sell directly to buyers in Europe. This direct market access earned farmers better incomes, but without access to capital, Nyamurinda could only provide farmers with high prices for a portion of their crop and the business could not grow. Local banks offered loans with high interest rates and burdensome collateral requirements—sometimes as much as three times the total loan amount. These banks weren't willing to shoulder the risk of lending to an early-stage business.

Against this backdrop, Alterfin stepped in to provide Nyamurinda with its first-ever loan—a $100k line of credit. To hedge against the risks posed by lending to a nascent business like Nyamurinda, Alterfin relied upon a 50% risk-sharing mechanism from the Alterfin Guarantee Fund in addition to financial incentives from Aceli Africa, which defrays a portion of the transaction costs on this smaller loan that would not otherwise have been profitable.

Now, Nyamurinda has expanded to reach over 1,400 farmers, the majority of whom are women, and has grown its sales by 60% since starting to work with Alterfin. Financing has enabled Nyamurinda to reach additional buyers and a recent analysis by Alterfin showed the results carry through to the farm level. Since beginning the lending relationship, Nyamurinda has increased their provision of seedlings and inputs to farmers while training more producers on good agricultural practices. Over three-quarters of farmers reported improvements in their living and working conditions with greater income to invest in education, housing, and health for them and their families. What's more, 80% of the women farmers reported that their decision-making power in the household has increased, empowering the women who have rebuilt this community. Alterfin recently approved their third line of credit with Nyamurinda and Root Capital has become its second lender, extending its first line of credit in 2022. These two CSAF lenders are deepening their impact on Nyamurinda and the hundreds of farmers it supports.

"Thanks to Alterfin's loan, we've earned the trust of many international buyers who feel confident about working with us. Alterfin has undoubtedly had a catalyzing effect on our company... and we hope to further strengthen our relationship in the future."

– Immaculée Mukamana, Director of Nyamurinda

Looking Ahead

As risks spiked over the past few years, many commercial lenders have drawn back from agricultural businesses, leaving them with even fewer options than they had before. Throughout this period, CSAF members have shown that by sticking by their borrowers and working together to mitigate those risks, they can have an impact in the face of serious headwinds. In 2022 alone, these lenders disbursed $751M to more than 650 businesses across 59 countries.

Agri-SME financiers cannot afford to wait for the risks of the sector to abate—risk avoidance only further limits the financing options and exacerbates the challenges facing borrowers. Rather, lenders should continue to collaborate with each other, and their borrowers, to develop innovative solutions that mitigate risk while delivering maximum impact for rural communities. This collaboration will require concerted learning, dedicated funding mechanisms, and novel risk management techniques.

CSAF enters the next year resolute in our commitment to building a more sustainable financial market for agri-SMEs in developing countries worldwide. In partnership with our members and field building partners, we stand prepared to share learning, advance industry-wide dialogue, and develop new ways of serving agri-SMEs and achieving our shared vision of inclusive and sustainable financial markets and agricultural value chains.

"It's not only about the impact you create, but where you create the impact—impact in rural areas with few economic opportunities can be much deeper than impact in thriving urban areas. Although there is a lot of risk, it's worthwhile and it's a market segment that we cannot overlook."

Allert Mentink, SME Impact Fund

CSAF COUNCIL ON SMALLHOLDER AGRICULTURAL FINANCE

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