Aldea Global, Nicaragua © MCE Social Capital

State of the Sector

2023

COUNCIL ON SMALLHOLDER AGRICULTURAL FINANCE

Global Members

Affiliates & Regional Members

Field Building Partners

Data Partner

Institutional Host

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.

Table of Contents

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

Global Members, CSAF Convening 2023 © CSAF

Recent Updates

The past year has been an eventful one for CSAF. Notable activities and achievements include:

- Appointed Andrea Zinn as the new Director of CSAF. Brian Milder has transitioned to a role as a Senior Advisor and continues as the CEO of Aceli Africa. Andrea comes to the role with nearly a decade of experience in the agricultural finance sector, most recently as the CSAF Global Coordinator.
- Published the Evidence Review for Agri-SME Finance in collaboration with the International Growth Centre at the London School of Economics with co-funding from SAFIN. The report combines a literature review with a rigorous analysis of CSAF lender data to identify gaps in the evidence base for agri-SME finance and provide recommendations for future knowledge building to lenders, researchers, and donors. Read more on page 18.
- Gathered nearly 50 CSAF members, affiliates, field building partners, and sector stakeholders in London to convene on evidence building, sector challenges, and how finance can support agri-SMEs in reaching their climate and impact objectives.
- Partnered with Value for Women to train three CSAF members—Alterfin, Cordaid Investment Management, and Incofin—for intensive one-on-one advisory training on developing gender lens investing strategies, metrics, and knowledge sharing. Value for Women published a set of case studies and recommendations for how impact investors can establish a gender action plan, based on the results of these engagements.
- Hosted a panel on impact investing as part of the 2023 Specialty Coffee Association Expo in Portland, Oregon. The discussion brought together perspectives from CSAF lenders, borrowers, and academics to discuss how access to finance makes coffee producer organizations more resilient.
- Became a co-leader of the ClimateShot Investor Coalition (CLIC) Action Group on Financial Innovation, which promotes new financial vehicles that are both climate and nature positive.
- Applauded Aceli Africa for surpassing milestones of supporting 1,000 loans totaling over $100M from six CSAF members and 19 local financial institutions in East Africa. Aceli also published learning about gender-inclusive lending for agriculture and reflections from its first two years of implementation.
- Launched our first official Regional Convening in November, bringing together CSAF representatives of sub-Saharan Africa in Nairobi for a day of dedicated sessions and exchange.
- Facilitated two technical sessions (English and Spanish) to promote the use of intercreditor agreements for shared borrowers, gathering 90 colleagues across CSAF members' risk, legal, and investment departments.
- Established a regional steering committee for West Africa to strengthen dialogue and collaboration among CSAF members' staff in the region.
- Welcomed ABC Fund and Kampani as global affiliates and NESsT as a new regional affiliate for South America.

Sol & Café, Peru © Nicolas Villaume for Oikocredit

BORROWER PROFILE

Partnering for long-term impact in Peru

In 2008, a number of small farmer groups in northern Peru gathered together to found the Sol & Café cooperative with the goal of accessing higher prices on the international market. In 2009, the cooperative received a loan for $400k from Root Capital—their first from a future CSAF member—to finance their exports of 670 metric tons of coffee to three international buyers. Over the years, Sol & Café has diversified its financing—working with six CSAF lenders for loans totaling $12M in the latest harvest—and has used those partnerships to grow steadily, even in the face of economic, political, and climate risks.

In the mid-2010s, the coffee leaf rust crisis struck northern Peru, imperiling farmer yields and the cooperative's business. Sol & Café used technical assistance and coffee farm renovation loans from CSAF members to withstand that crisis and rebuild in its aftermath. When the COVID-19 pandemic struck, steady access to finance from CSAF lenders ensured that Sol & Café could continue to commercialize their coffee amid supply chain breakdowns and uncertain financial circumstances. Most recently, in 2022, the cooperative faced the same price risks as many other Peruvian coffee businesses amid significant political instability in the country. Sol & Café emerged strong from this latest challenge, but it highlighted the continued risks facing agri-SMEs and the importance of trusted partners to manage those risks.

Now, the cooperative is planning ahead to mitigate one of its most existential threats: climate change. In 2021, Root Capital advisors worked with Sol & Café to pilot a climate vulnerability dashboard, combining farm-level data with best-in-class climate mapping from CIAT to direct adaptation resources to the farmers who will be most impacted by climate change. This successful pilot has since been scaled up to more than 70 businesses globally, helping other businesses use their own versions of the dashboard to mitigate their climate risk.

Since CSAF started collecting data in 2013, the cooperative has leveraged more than $73M in disbursements from CSAF lenders to triple its workforce, diversify its buyer base to a dozen customers, and become one of the largest coffee cooperatives in Peru. Since that first CSAF loan, the cooperative has grown fourfold, exporting 2,700 metric tons of coffee in the 2022 harvest and reaching 1,100 farming families. This long-term partnership shows what is possible when borrowers receive stable support from trusted partners, unlocking meaningful growth for their business and the farmers they support.

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 breakdown on page 16.

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 on page 9.

Figure 1: Annual Lending and Businesses Reached

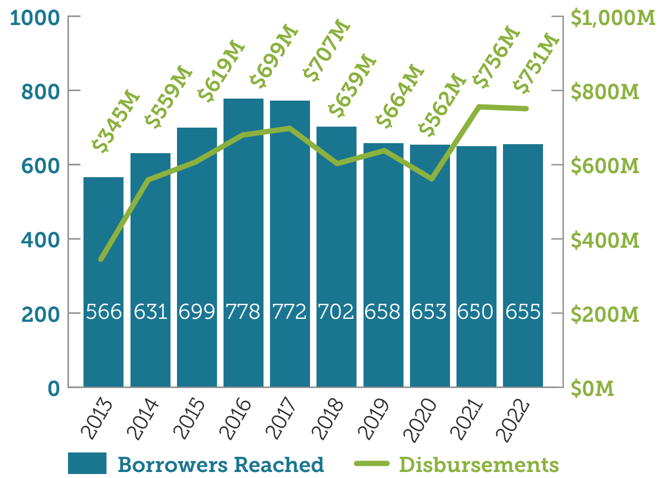
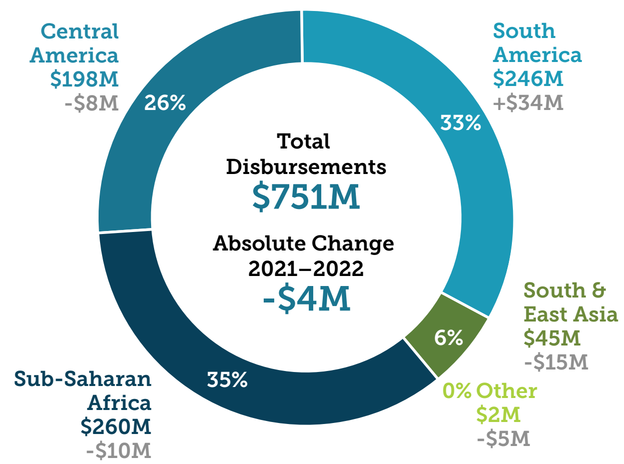
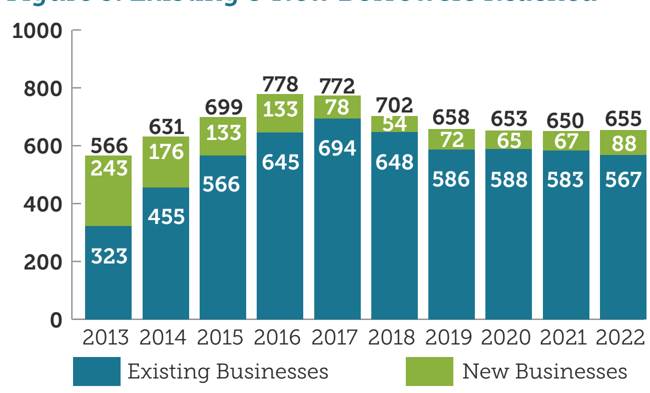


Figure 2: Credit Volume by Region (2022)



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 movement is explored in more depth on page 16.

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 (%)

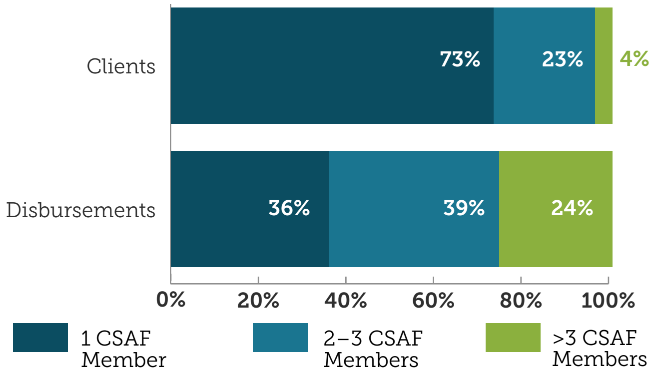


Figure 5: Average Loan Size

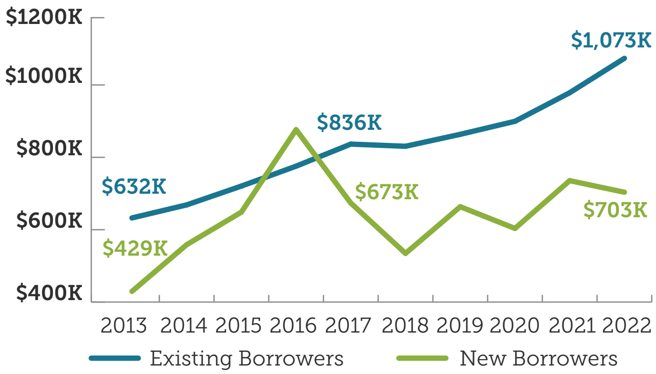
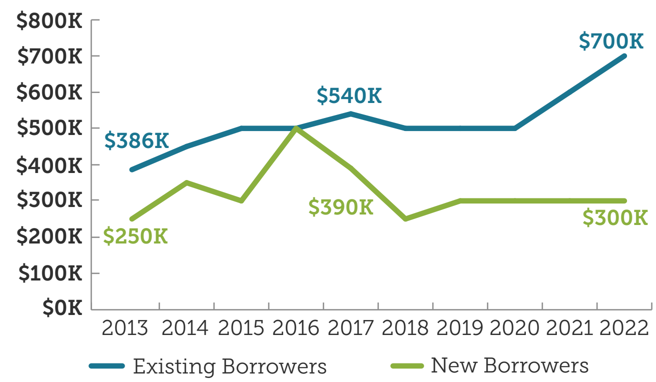


Figure 6: Median Loan Size




Agricola Santa Amalia, Mexico © Rabo Rural Fund

Figure 7: Active Loans by Size (2013 vs. 2022)

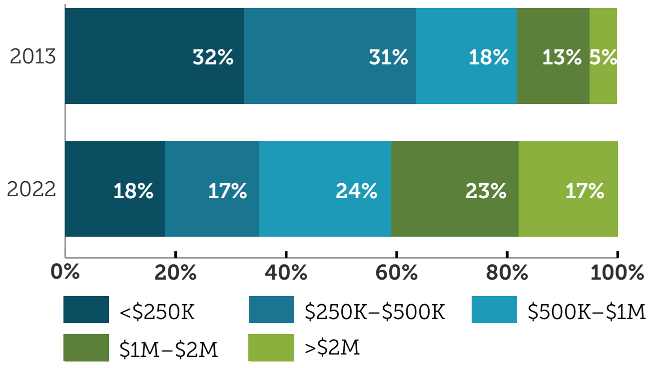


Figure 8: Portfolio-At-Risk Greater than 30 Days

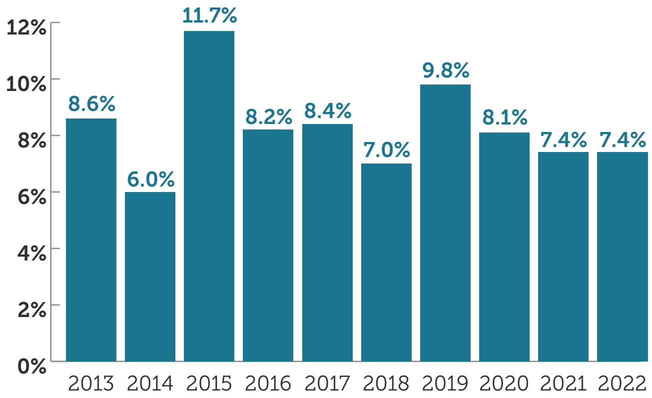
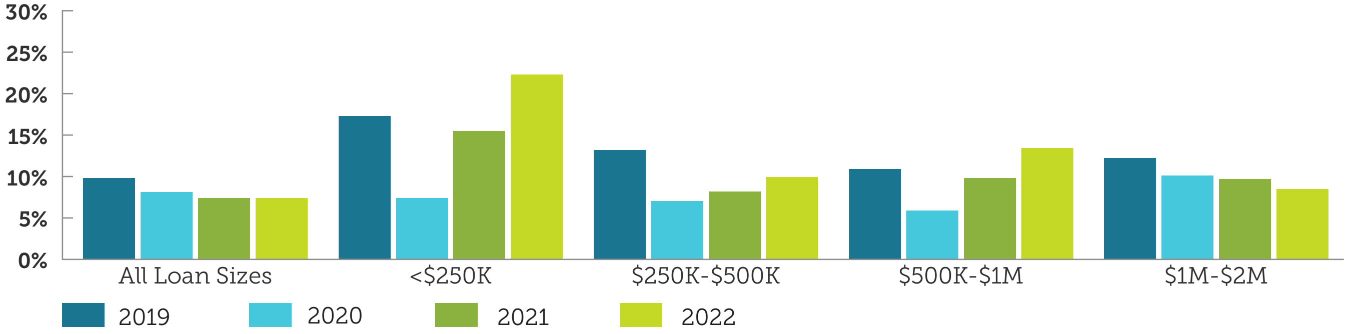


Figure 9: Portfolio-At-Risk Greater Than 30 Days (by Loan Size)



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 20, 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 on page 19.

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 on page 9.

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

Kennemer Foods International, Philippines © Fondation Grameen Crédit Agricole

BORROWER PROFILE

Diversifying risks for cocoa farmers in the Philippines

Cocoa is a risky business. Between long timelines from planting to harvest, climate vulnerability, and a volatile global market—farmers and agri-SMEs alike face myriad challenges. In the Philippines, Kennemer Foods International (KFI) manages these risks for its business and the 20,000 farmers it supports on Mindanao Island. In 2017, Alterfin provided the business its first working capital loan from a CSAF member—$700k to allow KFI to expand its purchasing. Over the past six years, Alterfin grew its financing, bringing in Rabo Rural Fund as a co-investor. Over time, Common Fund for Commodities and Fondation Grameen Crédit-Agricole have begun working with the business as well through working capital and capital expenditure loans. Together, they have helped KFI become the Philippines' largest supplier of cocoa beans to the international market while supporting a strong social mission. Farmers working with KFI can experience an increase in yields of 400%.

However, this growth has not come without challenges for KFI along the way. It is risky for farmers to convert their farms to cocoa due to a long timeline for tree maturity—it takes nearly three years from planting a seedling until it bears fruit. To counteract this, KFI launched a subsidiary, Agronomika Finance Corporation, to provide farmers with long-term microfinance that defrays the risk of converting to cocoa or renovating old farms to ensure they are productive for years to come. KFI also helps their farmers buy microinsurance to protect against weather events, reducing risk to the farmers and ensuring they'll be able to rebound in the event of an emergency.

Additionally, KFI is helping farmers to diversify their cocoa farms, supporting farmers to practice beneficial intercropping while providing an alternative revenue stream for the farmers and for KFI. The enterprise buys and commercializes other crops from farmers including fruits, corn, and abaca fibers—yet KFI is thinking beyond crops to grow revenue. In 2022, the business began working with Mirova Land Degradation Neutrality Fund to launch carbon credits programs linked to reforestation and forest conservation projects being undertaken by KFI. The relationship between KFI and Mirova is not only diversifying business income and contributing to conservation; the due diligence process of Mirova also helped fast track Grameen Crédit Agricole Foundation's investment in the cocoa and banana activities extensions, showing how greater collaboration can make partnerships more efficient for everyone involved.

Value Chain & Regional Trends

Value Chain Trends

Coffee continues to comprise the majority of CSAF member lending activity, reaching an all-time high in 2022 despite a cooling global coffee market. Disbursements to coffee businesses increased slightly to $427M (57% of total lending); however, growth was uneven across regions. Coffee disbursements in South America and sub-Saharan Africa grew significantly, following expectations as the harvest in these regions aligned with the rising commodity market price and increased demand for working capital. The price of Arabica coffee reached nearly $2.50 per pound in August before sharply declining, dropping by over 30% by the end of the year. In Central America, where the harvest is between November and January, coffee disbursements decreased by $14M to $178M, with members citing increased risks among borrowers in addition to price influence.

Cocoa lending reverted to 2020 levels, driven predominantly by lower activity in Côte d'Ivoire and Ghana. After a significant spike in 2021, disbursements to cocoa dropped by $30M (-22%) to $105M. This drop is perfectly mirrored by the drop in cocoa lending in sub-Saharan Africa, driven largely by two borrowers which received financing at much smaller ticket sizes in 2022. Beyond these borrowers, there were still significant decreases in disbursements to cocoa businesses as a post-lockdown product surplus decreased demand for financing.

After a couple of years of a steady downward trend, disbursement to tree nut enterprises grew significantly in 2022. Driven primarily by an increase to macadamia processors in Kenya of $16M, nut disbursements returned to 2019 levels. While the overall lending volume is similar to that of 2019, the makeup has shifted away from cashew aggregators in West Africa toward macadamia processors in Kenya, which have accounted for a greater share of disbursements in recent years.

Lending concentration in other sectors remained small as CSAF members focused on core value chains. Lending continued to be focused in coffee, cocoa, and tree nuts, though there remained activity with fruit, vegetable, and cereal enterprises. While fresh produce can be riskier to finance due to issues like spoilage and looser domestic value chains, they are crucial to food security in many countries and a critical missing piece of the agri-SME funding landscape.

Figure 10: Share of Regional Lending by Value Chain

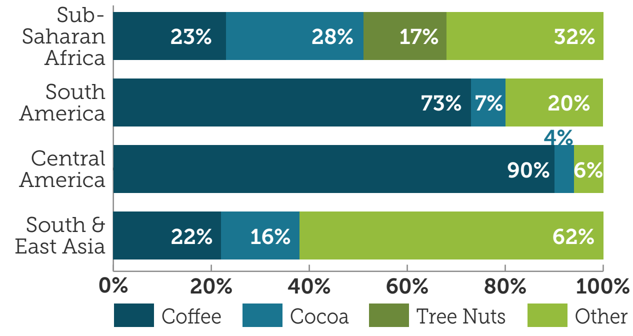


Figure 11: Coffee & Non-Coffee Lending

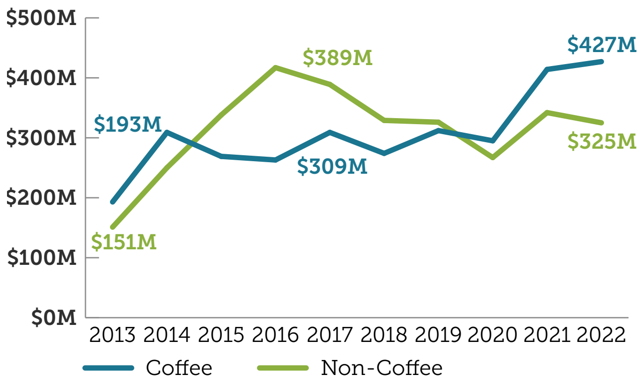
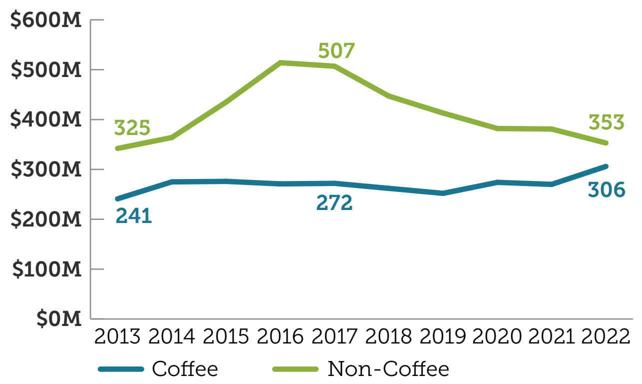


Figure 12: Coffee & Non-Coffee Borrowers



Regional Trends

Sub-Saharan Africa remained the largest destination for CSAF member financing, but experienced negligible growth in 2022. Côte d'Ivoire saw disbursements decrease by more than $30M (-30%), a return to 2020 levels, driven predominantly by a small number of major cocoa borrowers. Disbursements in Tanzania also dropped significantly ($-8M, -55%). These decreases were offset by growth in Kenya, Uganda, and Burkina Faso, driven by growth with tree nut enterprises and businesses working in non-core value chains including fruits and forestry. Uganda was the fastest-growing country in the CSAF dataset in terms of number of clients.

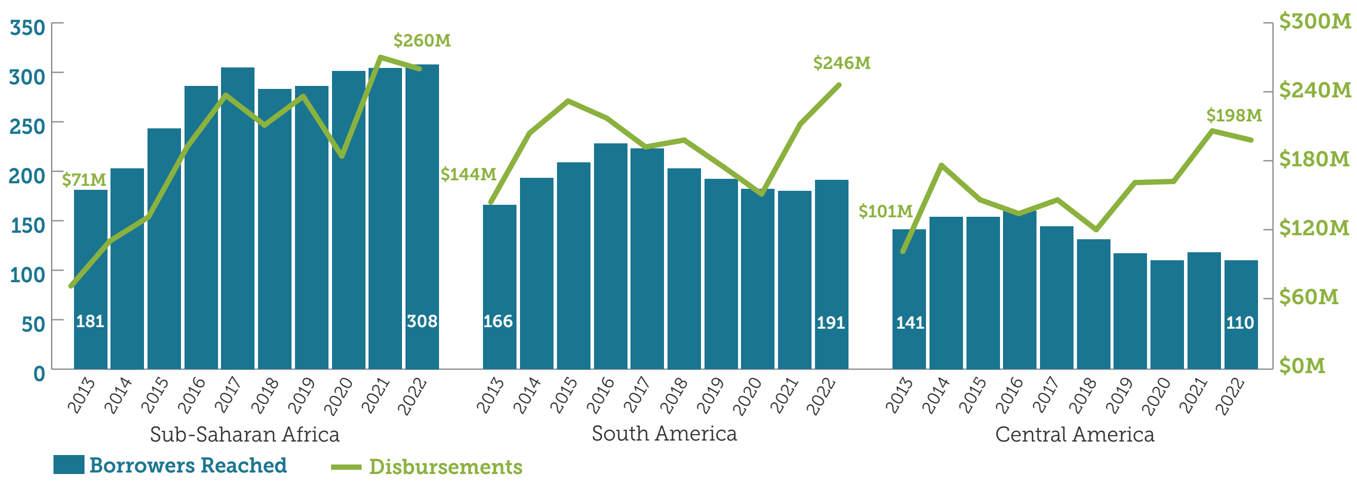
South America was the only region that experienced significant growth in disbursements in 2022, driven by Peru coffee lending. Peru, which comprised 75% of the region's lending activity, increased disbursements by $41M to $184M, continuing to be the country with the most disbursements globally. This increase was largely seen with clients of large loan sizes financed by three or more CSAF members. As noted above, this growth was due in part to the high coffee price on the commodity market in the first half of 2022, when CSAF members responded to increasing financing demands from coffee cooperatives. South America was the only region to experience notable growth in clients with 7% more borrowers than in 2021. Beyond Peru, enterprises in Colombia made up the lion's share of the remaining activity in the region.

Countries in Central America experienced conflicting trends as overall regional lending slightly contracted. Nicaragua, the largest country in the region by lending volume, increased disbursements by 7% to $88M, making it the second most important country in the CSAF dataset. This growth occurred despite significant risk present in the country including the instability of the coffee market and acute political risk as Nicaragua continues to struggle against US embargos and internal conflict. Meanwhile, disbursements to coffee enterprises in Costa Rica, Guatemala, and Honduras dropped by $23M between those three countries compared to 2021. Some members cited reducing exposure due to increased risk across Honduran coffee clients.

Lending activity in South & East Asia saw the greatest absolute and percentage decrease of the regions mentioned here. Disbursements in the region make up a small and shrinking portion of overall CSAF lending. Disbursements dropped 25% from $60M to $45M, driven primarily by activity retractions in India, Indonesia, and Timor Leste.

Activity in other regions continued to shrink, accounting for just $2M in disbursements in 2022, an all-time low and less than one-third of one percent of CSAF lending.

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



APROCAM, Peru © Root Capital

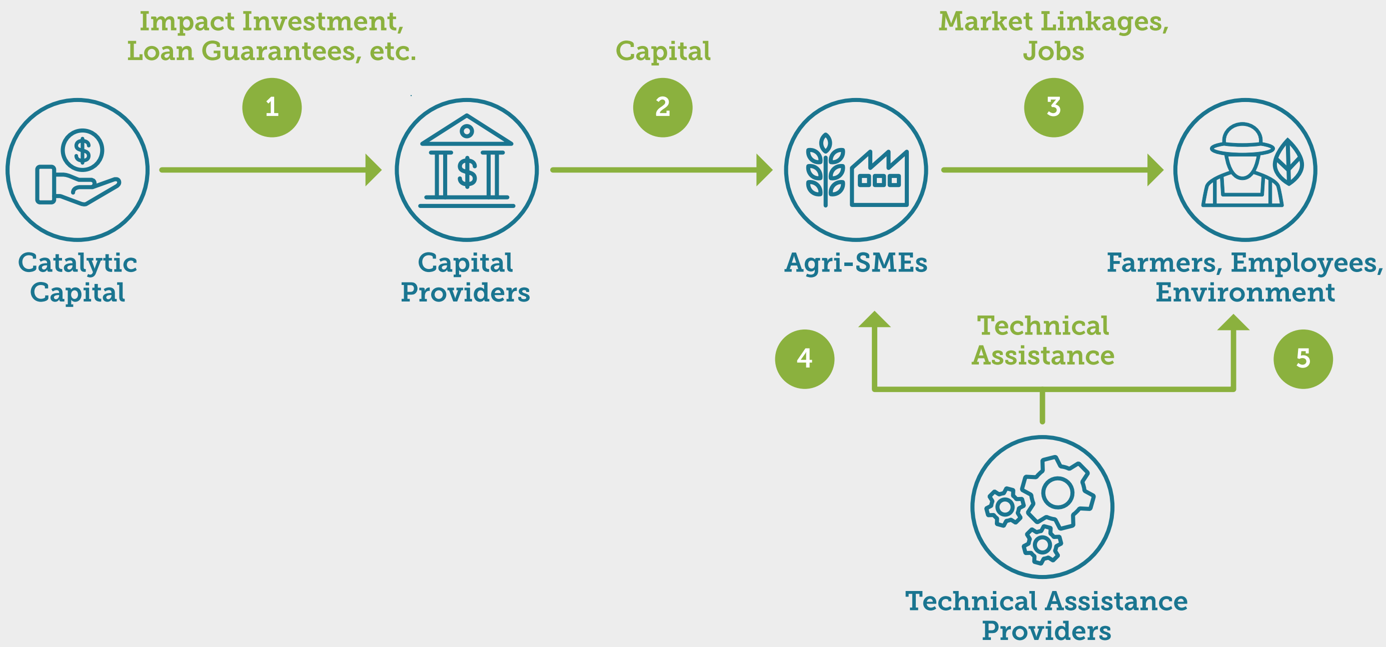
Building the evidence base for agri-SME finance

Lenders to agri-SMEs have been serving a high-impact, but challenging, market for years. CSAF was founded to bring those lenders together, facilitate shared learning, and collaborate to promote industry standards and best practices. Over the past decade, CSAF has increased communication between members and developed external resources, but significant gaps remain regarding which approaches work best in different contexts.

While the number of academic papers on microfinance have skyrocketed since 2000, no similar attention has been paid to finance for SMEs. Articles specific to finance for agricultural SMEs are even rarer. This is due, in part, to how difficult it is to conduct the types of rigorous, experimental studies that are common in microfinance. A comparatively small number of lending transactions means a smaller sample size to draw from. Additionally, limited data from agri-SMEs without financing means there is a lack of counterfactuals or control groups. Building the evidence base to fill this knowledge gap for agri-SME finance is critical to guide lenders, donors, and policymakers on how to mobilize capital into the sector and direct it for greatest impact.

CSAF has partnered with the International Growth Centre (IGC) at the London School of Economics, with co-funding from SAFIN, to analyze the current evidence for agri-SME finance and identify what further research needs to be done to build a robust evidence base for the sector. In May 2023, IGC published the Evidence Review for Agri-SME Finance, an initial report that reviewed 200 case studies and publications from CSAF members, examined broader academic literature for rigorous research relevant to agri-SME finance, and conducted an analysis of lending data from 14 CSAF members. The data covers more than 6,700 loans in 80 countries totaling upwards of $5 billion.

The Impact Chain



The initial report identified five areas of research along the impact chain to target for evidence building:

1. What is the relationship between catalytic capital and incremental finance for underserved agri-SMEs (i.e., capital additionality)?
2. What is the relationship between access to finance and enterprise growth & performance?
3. What is the relationship between enterprise performance and farmer livelihoods, food security, inclusion, and environmental performance?
4. Does technical assistance increase the capacity for SMEs to access and manage finance and improve enterprise performance?
5. Does technical assistance improve farmer productivity and resilience?

In April 2023, Aceli Africa, CSAF, and Small Foundation co-hosted a roundtable event alongside the Skoll Forum to discuss how stakeholders can build stronger evidence links along the impact chain. These conversations were continued with a wider group of lenders, field building partners, governments, and other ecosystem actors at the CSAF convening in June 2023 in London. CSAF will continue engaging stakeholders on a coordinated learning agenda to address knowledge gaps and apply findings to improve our impact in the market and influence on capital flows and policy. Field building partners are already actively building this evidence base:

- **Argidius, SAFIN**, **Small Foundation,** and others published a report identifying core drivers of delivering business training to agri-SMEs that is effective and cost-efficient in boosting revenue, creating jobs, and raising capital.
- **USAID** published a learning brief showing how catalytic funding, even at small sizes, can crowd in additional investment for development if aligned with private sector demand.
- **Small Foundation** announced a partnership with 60 Decibels to further develop their "Farmer Thriving Index," an indicator to measure farmer well-being across four dimensions and support more effective and efficient resource mobilization.

As our sector builds our knowledge base, future impact evaluation must marry academic rigor with practitioner relevance, allowing us to mobilize additional capital oriented to maximum impact. Coordinated efforts to foster further evidence building can enable more strategic deployment of time and resources for donors, policymakers, and practitioners alike.

"As practitioners, CSAF members have seen firsthand the impact of their lending on farmers and business owners. At the same time, we need to balance these invaluable experiences with rigorous evaluation of impact."

Andrea Zinn, CSAF

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.

Cenfrocafe, Peru © Rabo Rural Fund

New and renewed funds expand to new markets and deepen existing reach

Lenders use dedicated funds to defray risk, enter new countries or value chains, or deepen their impact in their core market. By creating funds that are targeted and time-bound, lenders can more effectively fund-raise, separate portfolios to isolate risks, and evaluate portfolio performance in a more systematic way. This year saw some new, and renewed, funds from lenders to mobilize more capital to rural communities.

Incofin Fairtrade Access Fund (FAF) celebrated its 10th Anniversary this year with the launch of an expanded five-year strategy. By 2026, FAF aims to significantly grow its annual disbursements and double Incofin's reach to 800k farmers—including more than 216k women. This growth will come from increased investment in their core portfolio along with expansion into new markets including lending to Southeast Asia enterprises, non-certified businesses with high impact, and borrowers with certifications that haven't previously been covered by FAF. The fund will also invest more working capital and long-term CapEx loans while also providing technical assistance to help enterprises build long-term financial sustainability.

MCE Social Capital is nearing the final close of the lender's first-ever vehicle dedicated purely to agri-SMEs, **MCE's Empowering Sustainable Agriculture (MESA) Fund.** Designed with catalytic funding from USAID, and led by anchor support from DFC, FMO, Ceniarth and other key investors, MESA will deepen MCE's impact in the agricultural finance sector through catalytic debt investments to agri-SMEs in emerging markets.

Meanwhile, **SME Impact Fund** has launched their second fund (SIF II) aimed at expanding capital access for food crop businesses requiring small ticket sizes. Building on the success of SIF I in Tanzania, SIF II will leverage $20M in investment—and an accompanying $2M technical assistance facility—to expand to other countries in East Africa. By tripling the fund size, SIF II will provide working and growth capital to 300 agri-SMEs reaching more than 500k people in farming families.

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

Occicafé, Colombia © Rabo Rural Fund

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

CACC, Cambodia © Alterfin

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, six global affiliates, and four regional affiliates from January 1, 2022 to December 31, 2022. 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 2022 or later;
- one or more disbursements during 2022; or
- an outstanding balance (not subject to write-off) at any point during 2022.

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.

Appendix 2: Data Summary

	CREDIT				BORROWERS			LENDERS
	Amount Disbursed (in $M)	% Change from Previous Yr	% of Global Disbursements	Average Disbursements (in $K)	# of Borrowers	Change from Previous Yr	% of Total Borrowers	# of CSAF Members & Affiliates
GLOBAL	**751**	**-1%**	**100%**	**532**	**655**	**5**	**100%**	**20**
Central America	**198**	**-4%**	**29%**	**706**	**110**	**-8**	**17%**	**12**
Costa Rica	25	-20%	3%	835	15	2	2%	7
Guatemala	34	0%	5%	693	18	-1	3%	7
Honduras	36	-25%	5%	792	18	0	3%	6
Mexico	12	14%	2%	277	24	-5	4%	8
Nicaragua	89	7%	12%	812	32	-4	5%	12
South America	**246**	**16%**	**33%**	**576**	**191**	**11**	**29%**	**15**
Bolivia	10	-49%	1%	315	17	3	3%	8
Brazil	2	-40%	0%	243	7	1	1%	5
Colombia	31	-3%	4%	728	19	2	3%	8
Ecuador	4	-2%	1%	378	8	-2	1%	7
Paraguay	3	6%	0%	365	3	-1	0%	3
Peru	184	30%	25%	614	123	9	19%	15
South & East Asia	**45**	**-26%**	**6%**	**597**	**32**	**1**	**5%**	**10**
Cambodia	1	0%	0%	167	2	0	0%	2
India	20	-18%	3%	586	5	0	1%	2
Indonesia	11	-35%	1%	545	14	0	2%	4
Philippines	7	38%	1%	1328	3	1	0%	5
Sub-Saharan Africa	**260**	**-4%**	**35%**	**431**	**308**	**4**	**47%**	**18**
Benin	5	-32%	1%	562	6	1	1%	5
Burkina Faso	15	105%	2%	752	8	-1	1%	6
Cameroon	1	100%	0%	277	2	1	0%	2
Congo, Dem. Rep	18	4%	2%	389	17	4	3%	4
Cote d'Ivoire	73	-30%	10%	964	23	-8	4%	10
Ethiopia	1	0%	0%	178	3	1	0%	3
Ghana	5	-59%	1%	210	21	-2	3%	7
Kenya	42	38%	6%	541	33	1	5%	13
Malawi	7	-8%	1%	487	7	1	1%	2
Madagascar	2	-37%	0%	375	4	0	1%	5
Mali	3	10%	0%	351	7	2	1%	4
Nigeria	8	60%	1%	2667	3	0	0%	3
Rwanda	22	-2%	3%	216	55	8	8%	12
Sierra Leone	3	-20%	0%	464	4	-4	1%	2
Tanzania	6	-55%	1%	73	67	-2	10%	12
Togo	4	140%	0%	361	2	0	0%	4
Uganda	37	50%	5%	481	35	10	5%	11
Zambia	4	43%	1%	550	7	-1	1%	4
Other regions	**2**	**-66%**	**0%**	**88**	**14**	**-3**	**2%**	**7**
Tunisia	2	36%	0%	235	2	0	0%	3