COOPARM, Peru © Shared Interest

# State of the Sector

## 2024

CSAF COUNCIL ON SMALLHOLDER AGRICULTURAL FINANCE

## Global Members

## Affiliates & Regional Members

## Institutional Host

## Field Building Partners

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:

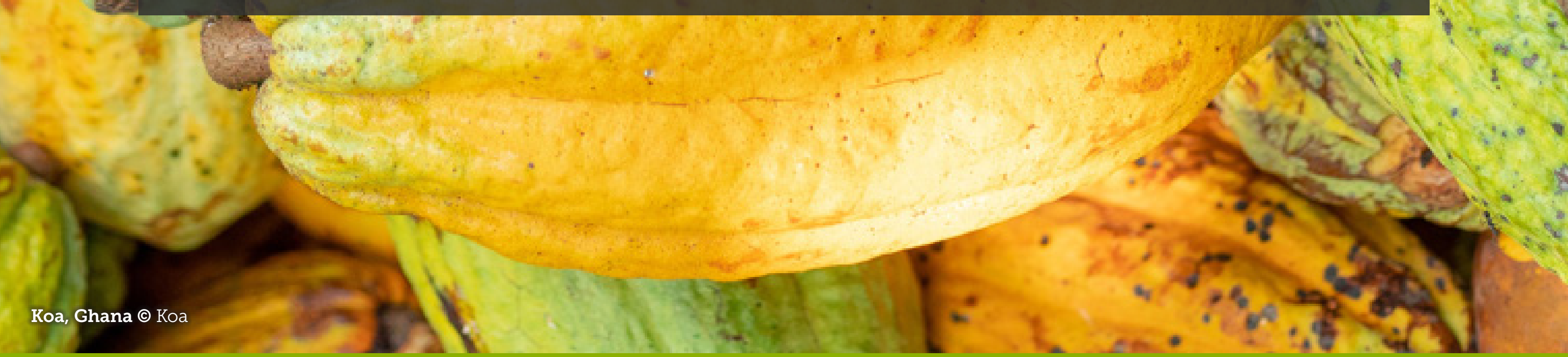
1. Facilitating market growth to meet a greater share of the vast financing needs of agricultural SMEs globally;
2. Promoting responsible lending practices and social and environmental standards to ensure that market growth for agricultural SME finance contributes to positive impact on smallholder farmers, 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 $6.9B in lending to agricultural SMEs reaching 7M smallholder farmers since we began collecting data in 2013.



**Koa, Ghana** © Koa


**BCP, Uganda** © Shared Interest

# Opening Letter

Dear Stakeholder,

This past April, I had the pleasure to present at the annual Specialty Coffee Association Expo in Chicago. As part of the panel, we heard from a CSAF lender, a Honduran farmer enterprise, and a coffee buyer about the crucial role that trade credit can play in empowering coffee producer organizations to build resilient, sustainable businesses. The panel brought together an audience of representatives from across the coffee value chain and was a reminder of how **collaborative and committed partnership across diverse stakeholders can deliver real impact.**

Over the past dozen years working across a range of value chains and continents, CSAF lenders have fostered growth of the agricultural SME finance sector despite the many crises it has faced. Throughout crop diseases, severe price volatility, a pandemic, supply chain crises, and unprecedented inflation, CSAF members continued learning from their borrowers and each other to navigate these challenges. **In 2023, CSAF lenders reached over 670 businesses across 55 countries, despite increasing risks. While overall disbursements decreased by 8%, lenders expanded the total number of borrowers they reached.**

As CSAF lenders are navigating escalated risk, the agriculture sector is facing new market shifts and regulations. At a time when small and growing agricultural businesses need support more than ever, many buyers are changing how they engage their supply chains.

Some have begun suspending purchases from certain producing countries, delaying contract signatures until the last minute, or substituting contracts with less binding instruments. These shifting practices allow buyers to protect their margins, reduce warehousing costs, and mitigate their own risks, but create additional, unintended challenges for farmer enterprises.

Meanwhile, lenders and borrowers are starting to see the impacts of the European Union Deforestation Regulation (EUDR) that will take effect at the end of this year. Aimed at reducing deforestation in tropical countries that produce coffee, cocoa, soy, and more, this law impacts approximately two-thirds of CSAF borrowers. The regulation's objectives to mitigate climate change and protect biodiversity are vital, yet it appears that the burden of compliance will fall disproportionately on smallholder farmers and agricultural SMEs. If not adequately equipped with the resources to adapt, they may lose access to well-paying markets, potentially exacerbating deforestation pressures. These concerns are further explored on page 18.

As these market and policy shifts increase uncertainty, the tangible effects of climate change are worsening for smallholder farmers. Droughts, flooding, and resurgences of crop diseases are negatively affecting yields in the majority of coffee and cocoa communities. As agricultural SMEs adapt to these climate realities, there are limited solutions that are low-cost and highly replicable.

CSAF members are partnering with borrowers to design context-specific financial products tailored to businesses' climate mitigation and adaptation needs—ranging from enterprise-level solar panels to farm-level adaptation. Page 20 details more about these emerging efforts.

While capital meets certain needs of agribusinesses, **CSAF members realize that financing alone is not always enough to solve the challenges their borrowers face.** In 2023, the majority of CSAF members provided technical assistance to investees to expand business management skills, climate strategy, agronomic capacity, or social inclusion practices (more on page 22). Now, as the deadline for EUDR compliance approaches, some CSAF members are re-tooling their outreach to include training on compliance. Through this extended support, lenders aim to strengthen the resilience of their borrowers while mitigating their own financial risk.

**Despite new and familiar sector uncertainties, CSAF members have learned to navigate risk by working together.** In this spirit, CSAF has come together with other industry alliances—such as AMEA and SAFIN—alongside researchers, donors, and sector stakeholders to jointly launch an Agri-SME Learning Collective. This initiative aims to accelerate the pace of sector learning and bridge some of the most crucial evidence gaps. By coordinating across stakeholders, we hope to leverage collaboration to generate concrete, relevant learning and frameworks that can inform practitioners, donors, and policymakers.

This past year has been filled with risks and challenges for CSAF lenders, borrowers, and the smallholder producers they support. However, **collaboration and learning among CSAF members and our field building partners remains constant.** As lenders continue to operate in an underserved sector, these values will position us to support agricultural SMEs in building stronger rural communities and robust livelihoods for smallholder farmers.

Sincerely,

Andrea Zinn
CSAF Director

# FOUR TRENDS IN 2023

## 1 Lending volume decreased, though number of borrowers grew slightly.

Disbursements decreased to $697M, an 8% decline from the prior year. However, total number of borrowers increased, particularly for loans less than $250K.

## 2 Risk increased, driven by borrower challenges amid overlapping crises.

Agri-SMEs faced price volatility, supply chain challenges, weather events, increased costs of inputs, labor shortages, and other setbacks. In particular, risk increased in South America and sub-Saharan Africa as well as for loans greater than $1M.

## 3 Coffee activity saw its steepest drop in the past decade.

Driven by a drop in coffee prices and significant challenges in Peru—the most important country for coffee lending in the CSAF dataset—coffee disbursements dropped by $86M.

## 4 Lenders have increased technical assistance to help borrowers mitigate risk.

Lenders report investing in clients through increased business development services, especially to increase management capacity and build climate resilience.

# Table of Contents

# Impact Numbers

2023 Total | 2013-2023 Cumulative

| | 2023 Total | 2013-2023 Cumulative |
|---|---|---|
| Amount Disbursed | $697M | $6.9B |
| Businesses Reached | 675 | 1,759 |
| Loans Disbursed | 1,295 | 15,975 |
| Farmers Reached | 2.7M | 7M |
| Countries Represented | 55 | 79 |

South America Regional Convening 2023 © CSAF

# Recent Updates

Over the past year, CSAF continued to grow its reach and breadth. Notable activities and achievements include:

- With funding from the Small Foundation, CSAF co-launched the Agri-SME Learning Collective alongside field building partners and key sector stakeholders to strategically build the evidence base around agri-SME finance and steer learning to inform practitioners and policymakers.
- We welcomed Eda Dokle as the new CSAF Data & Learning Manager. Eda brings a decade of extensive experience in data analysis and financial inclusion from past roles at Accion and MIX.
- After a decade of collaborating with data partners to manage and analyze CSAF lending data, we incorporated these capabilities internally. This shift will allow us to invest in deeper exploration of the data, expand collection and analysis capacity, and generate new insights for our members and the sector.
- Director Andrea Zinn participated in a panel discussion regarding 'Making Donor Funding More Catalytic' at the Global Donor Platform for Rural Development 2023 AGA in Rome. Her remarks addressed the crucial role of the private sector to fill investment gaps in the agriculture sector and how donors can specifically target catalytic capital to unlock private capital for agricultural businesses.
- At the 2024 Specialty Coffee Association Expo in Chicago, CSAF moderated a panel about the importance of liquidity for agri-SMEs. With panelists from across the value chain, this conversation highlighted the critical importance of having cash on hand and investigated how agri-SMEs, buyers, lenders, and other stakeholders can more effectively collaborate to support smallholder farmers.
- CSAF hosted regional convenings in Central America and South America to facilitate peer learning and discuss emerging trends and subsector challenges between regional CSAF investment officers.
- Led by our West Africa committee leads, CSAF convened a technical session for investment officers on effective guarantee structures for facilitating agricultural SME lending as well as regional technical sessions on market dynamics and the implications of EUDR on the West African cocoa market.
- Thanks to the coordination of MCE Social Capital, the NYU Law School International Transactions Clinic provided pro-bono support to CSAF to develop a new guide and template for implementing intercreditor agreements in the cases of lending to shared borrowers.
- CSAF initiated a new partnership with Coffee Circle Foundation to redesign the CSAF joint monitoring tool through a participatory process aimed at scaling its use, improving borrower reporting, and better supporting coffee organizations in analyzing and managing their exposure to price volatility.
- 60 Decibels is working with the Small Foundation to understand the wellbeing of coffee farmers across Uganda and Rwanda using the Farmer Thriving Index. CSAF members Rabo Rural Fund, Global Partnerships, Incofin, and SIDI, and field building partner Aceli Africa have sponsored studies to understand how the farmers of their partner SMEs are faring across four key themes: living standards, resilience, farmers' outlook on coffee as a livelihood, and food security.
- Fourteen CSAF members participated in a new study about the effectiveness of technical assistance and business development services, published by field building partner SSNUP. The key findings of this report are detailed on page 22.
- We welcomed IDH Investment Management as a global affiliate and Coffee Circle as a field building partner.


Exotic EPZ Ltd., Kenya © Exotic EPZ Ltd.

BORROWER PROFILE

# Delivering value for macadamia farmers in Kenya

Over the past two decades, Kenya has been a growing force in the global macadamia market. The country nearly quadrupled production in the 2010s and today ranks as the world's third-largest exporter. Much of that growth has been powered by smallholder farmers growing macadamia alongside other crops on small plots of land. While macadamia is one of the most expensive nuts in the world, Kenyan farmers typically earn little of the value attached to its high supermarket price tag. In 2017, three businesswomen set out to change that, acquiring a then-defunct business so they could deliver higher prices for local farmers.

Jane Maigua, Charity Ndegwa, and Loise Maina use their combined thirty-plus years of agribusiness experience to run Exotic EPZ Ltd. with the goal of supporting rural communities in their native country through economic empowerment, environmental sustainability, and greater employment. When they started as an essentially new business with no track record, the entrepreneurs struggled to access financing to unlock their vision. In addition to the typical hurdles that agri-SMEs face when looking for credit, these women entrepreneurs faced the additional challenge of needing to overcome bias related to their gender. Eventually, Exotic received its first CSAF member loan from Root Capital in 2018, enabling it to grow its business and establish a track record that would unlock additional financing in the future. Since then, Exotic has diversified its capital mix, borrowing from Rabo Rural Fund, Common Fund for Commodities, and other impact investors over subsequent years. Today, the business reaches 10,000 farmers, connecting them with stable markets and providing on-farm training to improve their productivity. The solar-powered factory and offices employ over 100 people with a special focus on expanding leadership opportunities for women and young people.

However, challenges persist for the Kenya macadamia industry overall. A fall in demand that began at the onset of the pandemic and the subsequent collapse of global macadamia prices has made forecasting and contracting more difficult in the industry while driving down farmers' incomes. The market shift has driven a decrease in annual CSAF member disbursements for Kenya macadamia from $19.5M in 2018 to $10.5M in 2023. Amid this challenging environment, CSAF lenders have continued to support macadamia businesses. Since 2020, they have provided Exotic with a cumulative $5.6M in trade financing along with training in agronomic extension, processing standards, and business management. Ongoing financing enables Exotic to continue facilitating market access for farmers and deliver positive impact for rural communities.

# Global Insights

**Overall disbursement volume dropped as lenders and borrowers contended with ongoing market challenges and increased risk.** After growth in 2021 and stabilization in 2022, lending dropped 8% to $697M. Overall, lenders attributed this decrease to a confluence of factors including: limited capacity of agri-SMEs to manage multiple crises and ongoing sector risks; macroeconomic factors such as inflation and high cost of funds; and trends specific to geographies and value chains (explored on page 15). This trend was consistent across most, but not all, CSAF members with lenders experiencing a median growth rate of -10%, a mirror of the +10% median growth rate from two years prior. Challenges were particularly acute for three members, a cohort which saw disbursements shrink by more than 40%.

**In 2023, CSAF members disbursed $697M in credit to 675 businesses across 55 countries.** These funds connected 2.7M smallholder farmers to markets and helped generate jobs for 63K people in rural communities. These smallholder farmers were growing their crops on a median farm size of 1.75 hectares (4.32 acres).

**Despite contractions in lending volume in 2023, CSAF lenders added 108 new borrowers: the highest figure since 2016.** The attrition rate remained consistent with prior years (13.1%), with many of those lending relationships ending due to risk-related concerns. This rate remained consistently higher than other sectors reflecting the ongoing challenges of agricultural lending. The acquisition of new borrowers resulted in 675 businesses receiving financing from CSAF members, a slight increase from 2022.

**This year, nearly half of all disbursements went to the 76% of borrowers being reached by just one CSAF lender.** This was the largest proportion of disbursements going to these businesses since 2017. While some lenders remain concentrated in smaller loan sizes (less than $500K) and others go further up-market (loans greater than $2M) in search of presumably lower-risk loans with higher returns, the majority of loans and disbursements remain concentrated in the $500K–$2M loan size.

**Figure 1: Annual Lending and Businesses Reached**

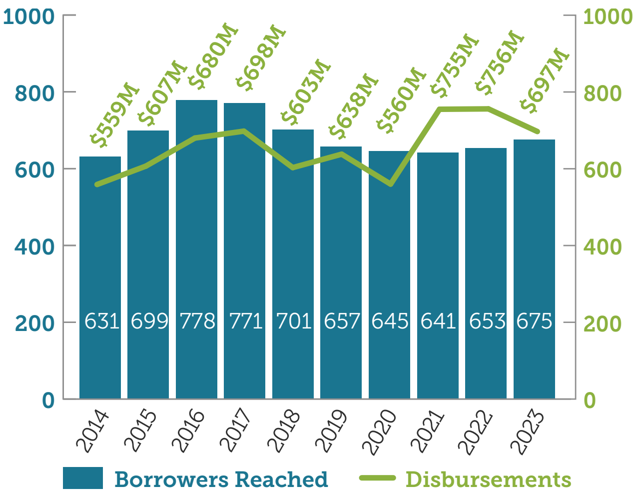
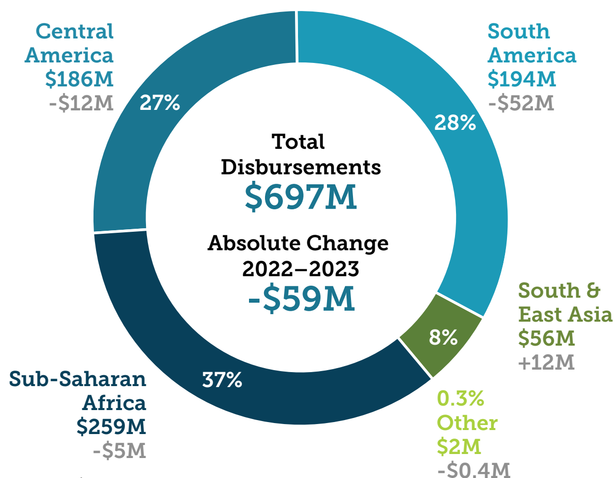
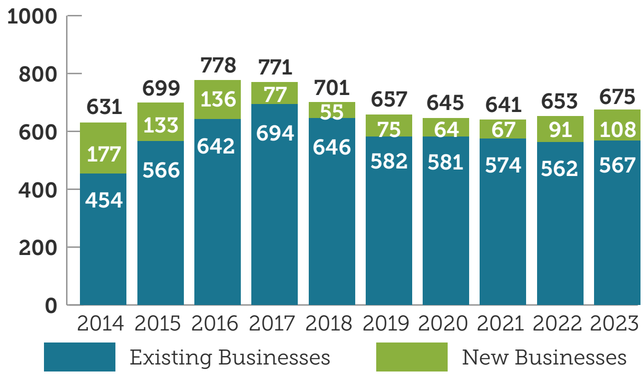



**Figure 2: Credit Volume by Region (2023)**




*Note: +/- compared to 2022*

**Figure 3: Existing & New Borrowers Reached**



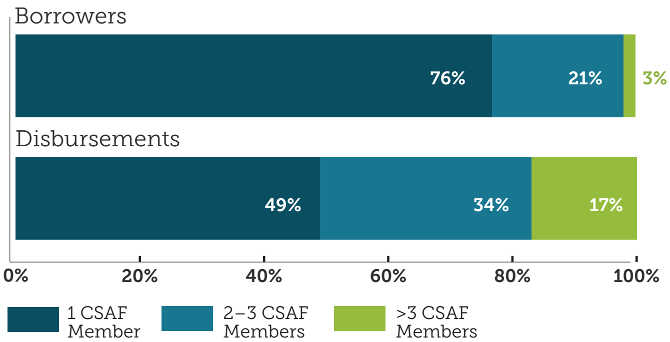
**Trade credit for the harvest remained by far the most common form of financing provided by CSAF lenders to agri-SMEs.** The share of this type of financing has remained largely consistent year over year, sitting at 82% of disbursements in 2023. Asset financing for purchase of equipment or the construction of infrastructure represented just 3% of new disbursements, in line with prior years. However, these loans comprised a much higher portion of the portfolio outstanding—13% at the end of 2023—due to the long tenor of these loans.

**Risk increased significantly in 2023 resulting in eroded portfolio quality, especially for loans above $1M.** Portfolio quality as measured by normalized portfolio-at-risk greater than 90 days (PAR90) was 8.1%—the highest ratio since CSAF began collecting data in 2013. The CSAF methodology for this metric excludes loans more than 365 days in arrears, which are instead characterized as write-offs. The particularly high PAR90 in 2023 was driven by coffee enterprises—many of which had been reliable, long-term borrowers—suffering from governance concerns amid the delayed impacts of the volatile 2022 market dynamics as well as other shipping and contracting challenges. Notably, portfolio quality decreased for larger loans—with a significant spike in risk for loans over $2M—while improving for mid-sized loans from $250K to $1M. Loans under $250K continued to carry the highest risk.

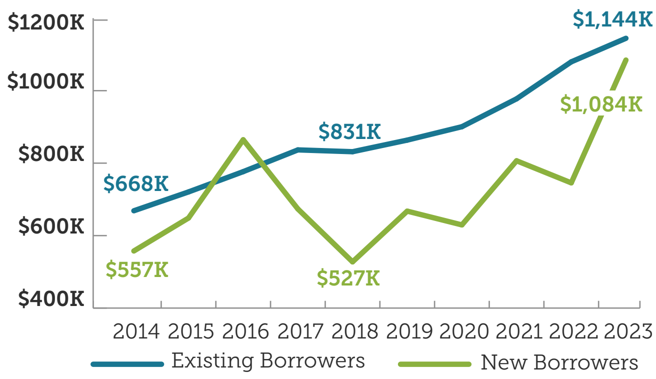
Profit margins have always been tight for agricultural SME lenders as they balance inherent sector risk, currency hedging, and the limited profitability of small-sized loans—but the challenge has been thrown into stark relief by a recent pricey lending environment combined with heightened risk. Read more on page 13.

> **"We have observed another challenging year for agri-SMEs facing highly volatile prices for commodities and multiple disruptions in supply chains due to climate-driven irregular production. As social lenders, we are more needed than ever to ensure adequate finance reaches the farmers on time to mitigate these issues."**
>
> Paul Sablich, Shared Interest

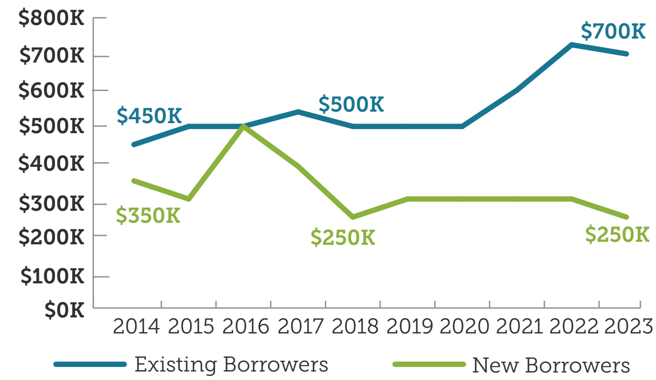
### Figure 4: Borrowers and Disbursements by Number of CSAF Members Financing Client



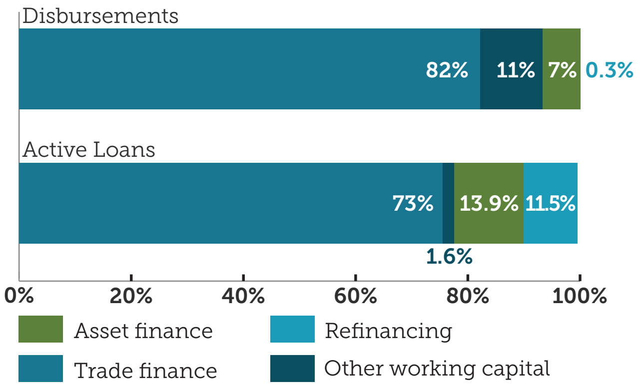

### Figure 5: Average Loan Size



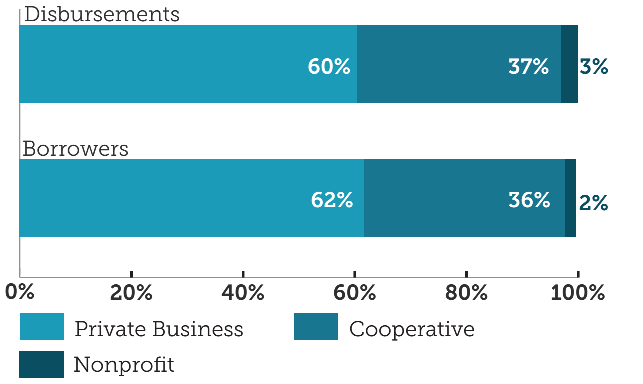

### Figure 6: Median Loan Size



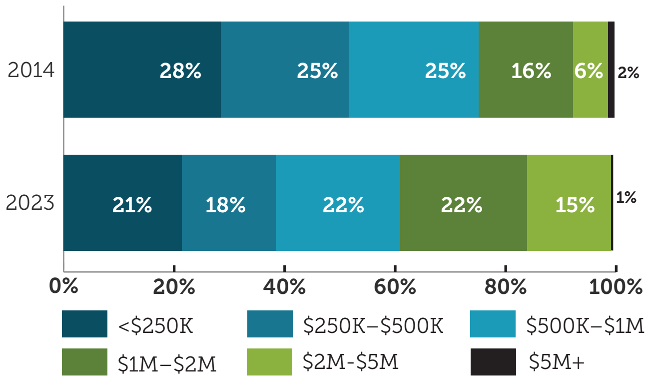
### Figure 7: Disbursements and Active Loans by Loan Purpose in 2023 (%)



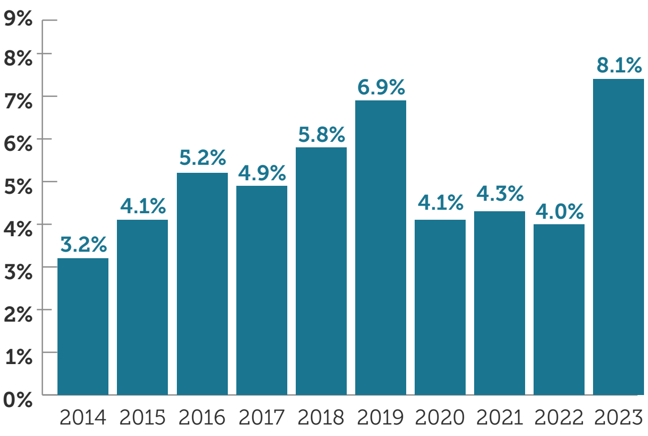

### Figure 8: Disbursements and Clients by Borrower Type in 2023 (%)



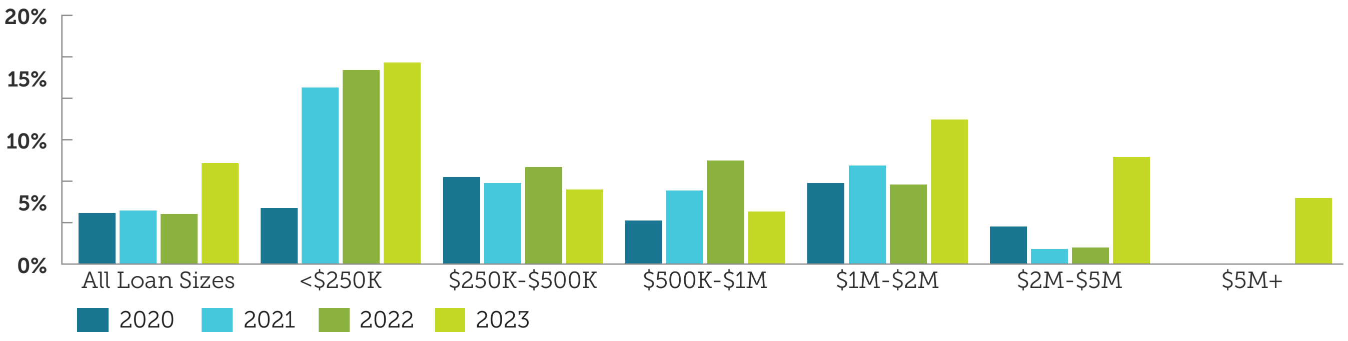

### Figure 9: Active Loans by Size (2014 vs. 2023)




### Figure 10: Portfolio-At-Risk Greater than 90 Days (All Loans)




### Figure 11: Portfolio-At-Risk Greater than 90 Days (by Loan Size)




Socak Katana, Côte d'Ivoire © ABC Fund & IDC Media

# Shifting macroeconomic environment threatens loan profitability

This year, interest rates rose to historic highs as governments fought to curb post-pandemic inflation. These ballooning rates have negatively impacted many CSAF lenders, which factor reasonable cost of funds into their ability to offer affordable lending to agri-SMEs. Members who are lending in US dollars but hold reserves in another currency have been particularly hit by increased hedging costs. Dollar scarcity in borrowing markets has also affected local currency loans, which has resulted in high transfer fees and delayed payments. Meanwhile, higher interest rates on traditional deposits offer retail investors a relatively safe, higher-return option, negatively affecting some lenders' ability to acquire investment. In this environment, equity has become more expensive and difficult for agri-SMEs to raise. Constrained businesses are cutting costs or relying on costly bridge funding to cover short-term needs and risks.

The cost of risk is also a key factor affecting margins; agricultural lenders set aside provisioned funds to pay for anticipated future losses. As risk increases, so do provisions, which ultimately limits liquidity available to expand lending portfolios. While some risk tolerance is expected as a tradeoff for the high social and environmental impact generated by agri-SME borrowers, minimizing risk is still critical to keep operations afloat.

CSAF published a benchmarking report in 2018, which showed how high transaction costs, increased risk, and cost of funds together erase the gains of many CSAF loans that might otherwise have appeared profitable. This was especially the case across specific sub-segments including: smaller loan sizes, new borrowers, more loosely organized value chains, longer-term loans, and lending in Sub-Saharan Africa. The report demonstrated that CSAF members' desire to deepen impact in these sectors are often met with difficult risk-return realities.

Some lenders have resolved to adapt to changing risk and costs by lending fixed interest rate loans with long tenors that are less dependent on macroeconomic conditions. Others seek to raise concessional capital, whether it be donations or below-market capital, to offset the cost of lending. Risk-sharing mechanisms such as guarantees and first-loss facilities also help to defray the provisioning cost in riskier loan segments. In the past five years, some CSAF lenders have seen an influx of concessional capital and risk-sharing instruments to enable continued lending to underserved and hard-to-reach segments; however, the shifting macroeconomic environment remains a challenge to lenders as they manage narrow margins.

**"Over the course of 2023, Alterfin's financing costs pretty much doubled. Nevertheless, we demonstrated our commitment to our "missing middle" by deciding to absorb 75% of the increased financing costs instead of passing them on to our partners, which would only increase their vulnerability."**

Jean Marc Debricon, Alterfin

Siruma Coffee, Colombia © Siruma Coffee

BORROWER PROFILE

# Investing in women-led resilience and partnership in Colombia

Benefit sharing is uneven in the specialty coffee industry with smallholder farmers and agri-SMEs—who perform the majority of the work and assume a disproportionately high amount of the risks—not sharing equally in the profits along the value chain. Smallholder farmers in particularly remote communities are distant from larger buyers and often left as price takers with little negotiation power. Valentina Duque, frustrated with this dynamic, founded the Siruma Coffee Company in 2017 to connect coffee-farming communities with specialty buyers in order to generate a positive social impact.

Due to the security situation in Colombia, coffee farmers in many regions of the country remain disconnected from the market—including the departments of Caldas, Cauca, and Tolima where Siruma operates. The lack of knowledge and training for farming and processing specialty coffee is evident in these coffee-growing communities. Siruma launched a unique joint venture with one of their buyers, Falcon Coffees, to overcome the challenges that buyers and exporters each face in navigating the process of getting coffee from rural farmers to overseas roasters. The result of this joint venture has been higher-quality coffee and greater consistency in product as a result of a set of workshops and projects done with the growers. Partnerships where agri-SMEs and buyers have more equal power and decision-making ability are rare, but are necessary if we hope to overcome the challenges facing rural farmers and the whole supply chain.

In 2022, Root Capital provided Siruma with its first loan from a CSAF lender, a line of trade credit that enabled Siruma to increase their volume and fulfill progressively larger contracts. In 2023, Incofin extended an additional line of credit to the business, helping Siruma grow their sales 63% year-over-year. This is one of the many women-led businesses that Incofin lends to as part of their intentional investment in expanding their gender lens investing (GLI) approach. Working through CSAF's partnership with Value for Women, Incofin built internal buy-in for GLI and expanded their own gender-inclusive practices. Learn more about the tailored engagement with three CSAF members, including Incofin, in the joint report: *Closing the gender gap in agricultural investments*.

Beyond business growth and farmer incomes, Siruma invests in promoting the environmental health of producers' farms and the planet. In 2023 alone, Siruma installed 30 solar dryers to help coffee farmers adapt their coffee processing to increasingly unpredictable rains caused by climate change. Siruma also trained 800 farmers on good agricultural practices last year and financed carbon emission reduction in the region through the replacement of traditional cookstoves with more energy efficient alternatives. As the business has grown, Duque and her team are investing in the long-term productivity of local farmers and environmental sustainability of the region.

# Value Chain & Regional Trends

## Value Chain Trends

**Coffee remained the most significant crop across CSAF disbursements, but also experienced the greatest drop in lending activity.** Disbursements fell 20% from $427M in 2022 to $341M in 2023. For the first time since 2019, coffee comprised less than half of overall disbursements. The drop in disbursements was particularly acute in Peru, where the highest concentration of CSAF coffee borrowers operate. The international price of coffee was lower in 2023 than 2022, influencing a decrease in overall demand for trade credit by cooperatives. Furthermore, some lenders reported reducing their exposure risk with select coffee clients, noting that some coffee cooperatives suffered significant speculation losses while navigating price volatility during the 2022 coffee harvest.

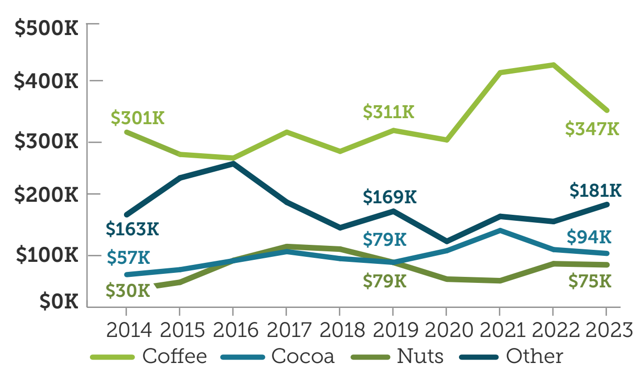
Troubling trends suggest continued challenges. In some regions, competition with multinational traders with domestic presence has increased local price competition, making it difficult for cooperatives to secure their own supply. Furthermore, many buyers are deprioritizing purchase of certified coffees and some have delayed contract signatures until close to shipping dates, instead relying on "letters of intent." These are not legally binding and pose a challenge for many CSAF lenders with models premised on using contracts to facilitate these risky, uncollateralized loans. Buyer participation in tripartite agreements is key to facilitating this trade credit; over the past decades, CSAF members have built strong relationships with many buyers supporting their suppliers in this way.

**After a significant drop in 2022, cocoa disbursements decreased only slightly in 2023 (-4.7%), resting at $94.2M during a historically tumultuous year for the market.** Global cocoa prices remained high throughout 2023 before spiking between October 2023 and April 2024. This caused significant challenges for agri-SMEs including slowed buyer demand and difficulty purchasing enough product to fulfill contracts. While CSAF lenders in West Africa reported strong performance from most borrowers, some lenders are predicting greater challenges in the year ahead, especially for earlier-stage farmers' cooperatives. Against this backdrop, cocoa farmers in West Africa are facing significant drops in production driven by heavy rains, aging trees, and a prevalence of cocoa shoot disease. Consistent with prior years, the vast majority of the activity occurred in Côte d'Ivoire (65%) with the second-most, yet decreasing, portion of disbursements going to cocoa businesses in Peru (12%).

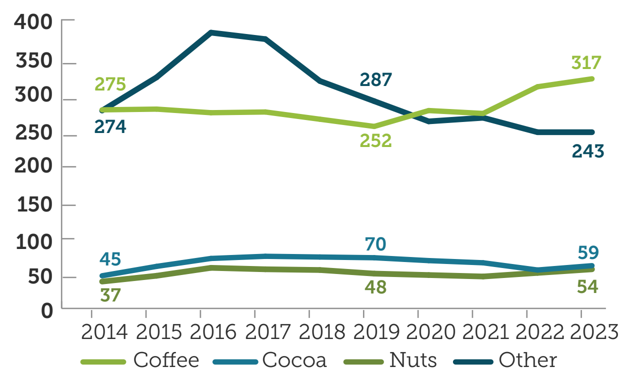
**"Numerous challenges in recent years have resulted in financial decline and serious governance issues for many coffee borrowers. However, these difficulties have prompted coffee organizations to strengthen their policies, making them prepared to face challenging times."**

Maria Gallo, responsAbility

### Figure 12: Lending by Industry



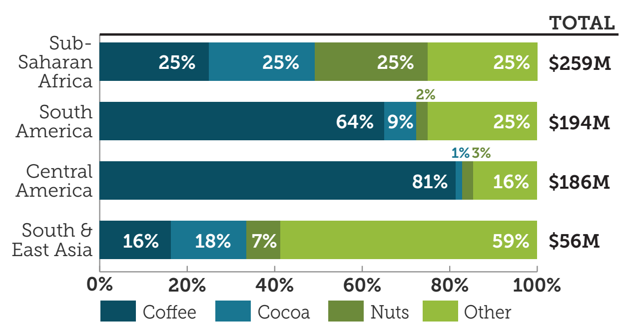

### Figure 13: Borrowers by Industry



**Disbursements to nuts, the third-most financed CSAF commodity, dropped slightly in 2023 from $77M to $75M.** Since the majority of the businesses in this sector are exporting their crops, this segment was particularly hard hit by pandemic-related disruptions, hitting lows of less than $50M disbursed per year in 2020 and 2021. For the second year in a row, lending activity was back to pre-pandemic levels, signaling improved health of cashew and macadamia nut enterprises and their rebounded activity with CSAF lenders. Despite the slight dip in disbursements this year, CSAF lenders continued to lend to high-impact, smallholder-driven businesses in the sector. To learn more, read the profile of Exotic EPZ Ltd. on page 9.

**A few value chains bucked the trend of declining lending activity with disbursements to crops besides coffee, cocoa, and nuts actually increasing by 19%.** Much of this was driven by a major disbursement to one business operating in the fruit and vegetable value chain. Disbursements to pulses business also increased

### Figure 14: Regional Lending by Value Chain



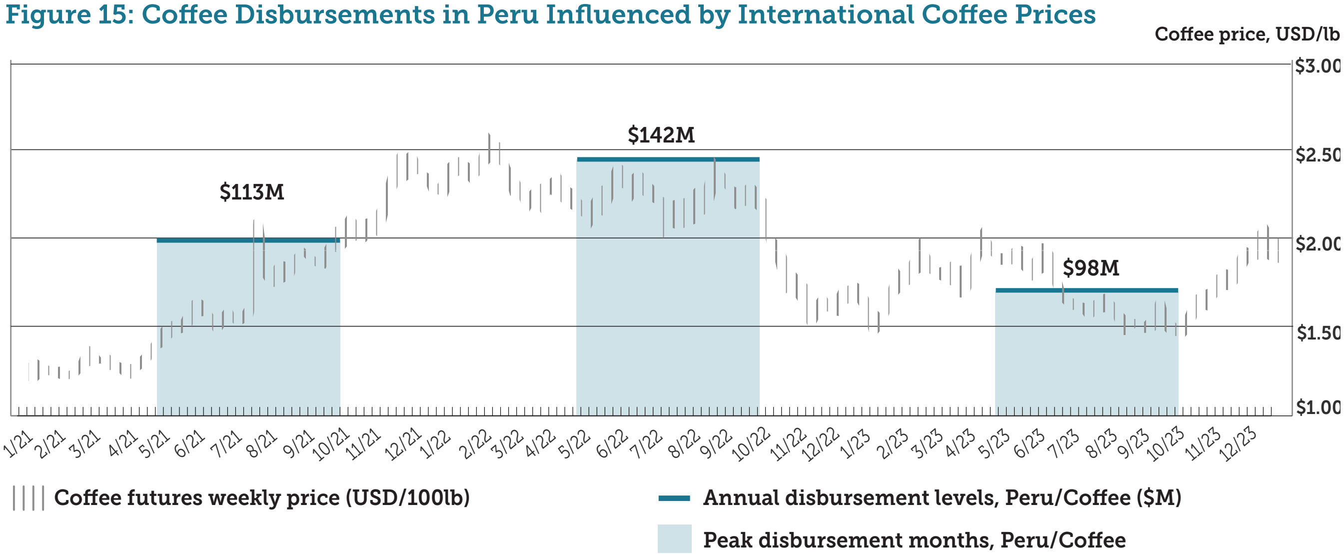

modestly. However, these "other crops" continue to make up a small portion of overall lending and none have managed to significantly, sustainably grow as a percentage of total CSAF lending.

## Regional Trends

**After two years of growth, South America underwent the steepest drop in lending volume (-$53M, -21%), but remained the second-most financed region both in terms of lending volume and number of borrowers.** Much of this was driven by contraction in Peru, the country with the highest concentration of lending, where total disbursements dropped $41M. Overspeculation of the coffee price in 2022 was particularly acute in Peru and drove some lenders to reduce exposure in this segment as a method of risk mitigation. Meanwhile, the timing of the 2023 Peru harvest coincided with a drop in the global coffee price, further affecting disbursements (see Figure 15). Lending in Colombia, the second most significant country in the region, also decreased (-$8M) due to similar dynamics as in Peru, but it made up a significantly smaller portion of lending (12% of South America activity). Portfolio risk spiked more in this region than any other, driven by the factors detailed above, resulting in a doubling of PAR90 compared to 2022.

**In Central America, disbursements continued a steady three-year drop even as loan size continues to rise.** Median loan size for existing clients in the region grew to $1.1M, nearly twice the same figure in sub-Saharan Africa. This reflects the greater presence of more mature, centralized agri-SMEs in the region with larger financing needs while also reflecting CSAF lenders' movement further upmarket in the region amid

### Figure 15: Coffee Disbursements in Peru Influenced by International Coffee Prices



challenging security and market dynamics. A global trend of climate-delayed coffee harvest seasons shifting financing timelines was particularly noted by CSAF members in Central America. This region also saw a large dip in cocoa disbursements (-80%) in 2023, making up a negligible portion of lending activity.

**Sub-Saharan Africa continued to be the most financed region among CSAF lenders, comprising nearly half of all borrowers globally, although lending activity decreased in 2023.** Despite the large number of borrowers, disbursements in the region comprised 38% of global disbursements as the median loan size ($500K) to businesses in sub-Saharan Africa trended smaller than in other regions. While cocoa remained the most significant commodity for CSAF members in the region (25%, $66M), coffee grew in importance, representing $64M in disbursements, up from $36M in 2020. This growth has been particularly strong in Uganda where disbursements increased from $37M in 2022 to $52M in 2023, driven largely by increased loan sizes with existing borrowers in coffee.

**South and East Asia was the only region that saw significant increase in lending volume, growing $10M.** This growth can be almost entirely attributed to an increase in disbursements for cocoa in the Philippines and soybeans in India driven by a handful of large clients. While lender strategies and countries of operation within the region have changed throughout the course of CSAF reporting, the share of lending occurring in this region has not increased, hovering below 10% for each of the past six years.

ACELI AFRICA

## Reaching underserved borrowers in East Africa

CSAF field building partner Aceli Africa is a market catalyst to mobilize increased lending to high-impact agricultural SMEs. Born from a dialogue among CSAF members and designed based on data on the economics of agri-SME lending, Aceli provides incentives to share the risk and defray the high transaction costs for agricultural loans ranging from $15K to $1.75M. Aceli launched in 2020 in Kenya, Rwanda, Tanzania, and Uganda and recently expanded to Zambia. To date, Aceli has partnered with five CSAF members and 32 local banks and other lenders to support 2,200 loans totaling $199M with a median loan size of $41K. Sixty percent of these loans go to first-time borrowers and the SMEs reached collectively aggregate more than one million smallholder farmers and workers. More about Aceli's progress and learning so far can be read in its Y3 Learning Report.

**Lending activity in other regions grew to $4M, but remained less than 1% of overall disbursements.** The only countries with more than one borrower were Egypt, Jordan, and Tunisia. The activity was scattered across coffee, dates, nuts, and services to agriculture

**Figure 16: Annual Credit Volume and Number of Businesses***

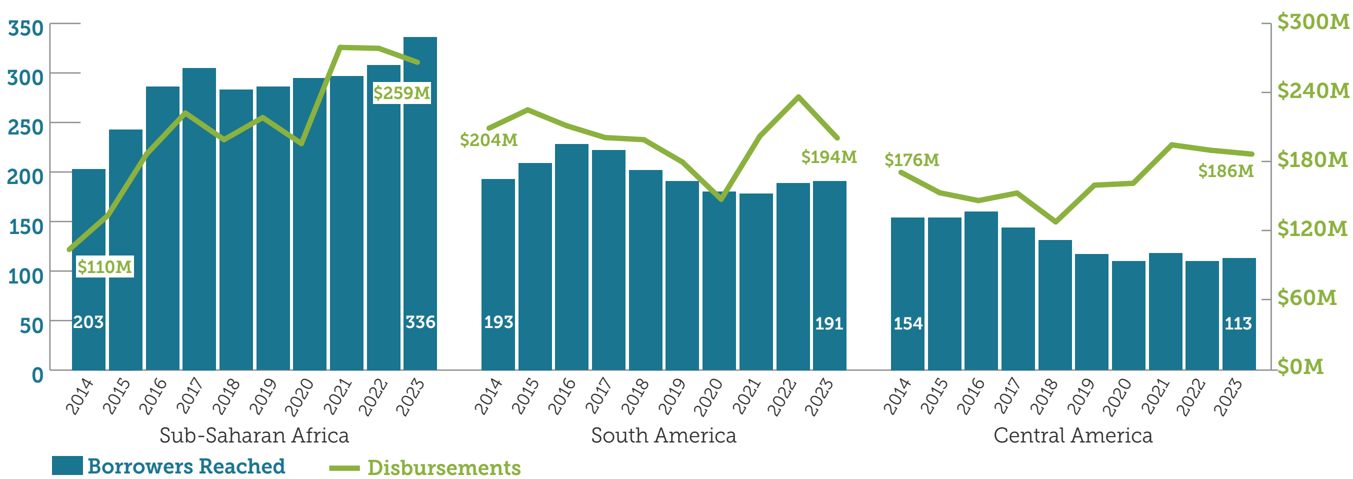



*Figure includes the top three lending regions in 2023. South and East Asia and other regions represented 35 borrowers and $58M in 2023. To explore lending data more dynamically, including disbursement and client trends across all regions, visit the CSAF Open Data Portal.

# New deforestation regulations pose uncertainty for agri-SMEs and smallholder farmers

Industrial agriculture has historically been one of the largest drivers of global deforestation. In June 2023, the European Union adopted the EU Deforestation Regulation (EUDR) to reduce deforestation, protect biodiversity, and mitigate climate change. The legislation regulates imports from sectors including cocoa, coffee, and soy, which made up 67% of CSAF disbursements in 2023. By the end of 2024, each farmer exporting to the EU will need to provide a geolocation map of their farm, demonstrating the land has not been degraded after 2020. Given harvest seasons, the time has already arrived for many businesses who are signing contracts for products set to arrive in Europe in 2025. As farmers and agri-SMEs scramble to comply with the new law, regulatory authorities are still defining what the policy will look like in practice.

Meanwhile, there are growing concerns that smallholder farmers and agri-SMEs will be disproportionately affected. It can be difficult and costly for these businesses to provide geolocation data for the hundreds or thousands of remote smallholder farms that supply them. In response, importers may shift to sourcing from larger estates that have relatively greater ease complying with the EUDR. There is a risk that smallholders who have never posed a deforestation risk will now inadvertently be deprived of access to premium markets, increasing economic pressure on farmers—a potential driver of deforestation. While many EU buyers intend to support suppliers in becoming compliant, not all are equipped to do so and it is still unclear who will bear these costs.

### CSAF MEMBERS' RESPONSE

Concerned about the risks of non-compliance and the long-term impact on farmers, CSAF members have mobilized to help their borrowers navigate this new regulation. IDH has developed a guide for implementing Farm Management Information systems, an open resource to help agribusinesses design and implement traceability systems. The Rabo Foundation is providing grants to accelerate their borrowers' digitalization while their affiliated Acorn platform is providing agri-SMEs with polygon mapping. Root Capital is piloting partnerships for remote digital sensing to detect deforestation in countries identified as highest risk under the new regulations.

As CSAF members support agricultural businesses to adapt, **we call for action by industry actors** committed to the long-term sustainability of agricultural supply chains, including:

- **Buyers:** Increase resources to directly support suppliers with compliance; consider passing EUDR premiums onward to farmers;
- **Policymakers:** Relax the timeline to allow farmers and agri-SMEs time to invest in compliance and for regulatory authorities, governments of producing countries, and sector stakeholders to develop the frameworks to ensure the regulation is applied equitably and predictably;
- **Technical Assistance Providers:** Prioritize low-cost geolocation and digitization services; develop inclusive assessment frameworks for EUDR compliance;
- **Donors & Industry Alliances:** Support investment in infrastructure and national frameworks to support farmers and SMEs linked to EU markets; directly fund scalable solutions to assist farmer enterprises with compliance.

As these farmers and exporting agribusinesses adapt, actors across the industry also need to invest in helping producers make this transition, sharing in the costs of a more sustainable sector.

**"I believe that the EU Deforestation Regulations are timely and raise greater environmental awareness throughout the coffee supply chain. However, implementing and complying with them involves not only the cooperatives but also our national government."**

Román Barboza, Manager, Cooperativa Selva Andina


Koa, Ghana © Koa

BORROWER PROFILE

# Converting cocoa byproduct into farmer income in Ghana

In Ghana, cocoa farmers struggle with the volatile prices of the global cocoa market and increasing threats from climate change. As prices become evermore unsure, production is jeopardized by unpredictable rains and a rise in cocoa swollen shoot virus in the region. Farmers urgently need to diversify their revenue, but there are few options for communities oriented towards maximizing cocoa production. However, one innovative enterprise, Koa, is helping farmers make their harvest go further by converting cocoa byproducts into a new revenue stream.

The cocoa beans farmers sell to be transformed into chocolate comprise only about a quarter of the cocoa fruit that farmers harvest. For most cocoa farmers, the remaining pulp and husk are typically discarded or sometimes used as an organic fertilizer. Seeing an opportunity, Koa buys the sweet cocoa pulp from Ghanaian cocoa farmers and converts it into juice or dried flakes that can be used as ingredients in the food and beverage industry. This approach allows farmers to diversify their income while reducing waste generated in the cocoa farming process by up to 40%.

Koa meets farmers where they are, establishing solar-powered community mobile processing units (CMPUs) to separate part of the pulp from the beans in communities near farmers—or sometimes on the farm itself. Sufficient pulp is left on the beans to enable fermentation and farmers then return to their land with the cocoa beans to process and sell as a separate revenue line within the next month. Because farmers receive same-day payment for their cocoa pulp, it means that a farmer earns upfront income before they have even finished processing their main crop. More than just additional income, the timing of this cash infusion can be a critical lifeline for cash-strapped farmers who need to pay labor costs in relation to the harvest. Leftover funds in the growing season allow farmers to purchase inputs and fertilizers, building the climate resilience of their farms with the support of training by Koa on sustainable agricultural and post-harvest practices.

In recent years, Koa has been working with 3,000 farmers in the Central Region of Ghana. As Koa seeks to scale its innovative solution for cocoa farmers in Ghana, the IDH Farmfit Fund is supporting that growth, most recently with a $3.5M loan in conjunction with other lenders to finance Koa's new processing facility. This centralized factory will enable Koa to reach 10,000 more farmers and create another 250 local jobs.

# Lenders and borrowers innovating to adapt to climate change

As climate impacts increase for smallholder farmers and agri-SMEs, both of these groups urgently need resources to adapt. However, global climate finance flows have not risen to meet that need. A 2023 report found that just 0.8% of global climate finance went to support smallholder agriculture. In this stubborn moment, CSAF lenders are determining how to best extend access to climate finance and technical assistance to help agri-SMEs and farmers mitigate their role in climate change while adapting to its already present impacts.

### FINANCE FOR AGRI-SMES

As cultivation of crops like coffee, cocoa, and nuts becomes increasingly unpredictable due to climate change, agri-SMEs seek to diversify their income. Many of these businesses are exploring the voluntary carbon market, supported by CSAF members like ECOTIERRA, which helps agri-SMEs design and execute carbon sequestration projects that are tailored to the specific needs and abilities of different value chains. The Rabo Foundation is working closely with Rabobank Acorn on projects that enable smallholder farmers to transition to agroforestry practices. This also incorporates working with SMEs to initiate, track, and sell carbon removal units, with 80% of benefit flowing back to smallholders. To finance these projects, Rabo Foundation launched the Smallholder Agroforestry Finance vehicle with USAID as a first-loss funder and important facilitator of the initiative. This will help smallholder farmers pre-finance the necessary on-farm investments to enter these carbon markets.

Agri-SMEs also have the potential to mitigate their climate footprint, especially those with intensive energy needs. In many remote areas these businesses are stuck using unreliable local energy grids powered by fossil fuels. Financing the transition to alternative power sources like solar is a triple win, helping agri-SMEs to cut costs, increase the amount of time they can operate (therefore boosting sales and employment for the community), and reduce their environmental footprint. IDH has financed this work with Koa, a cacao pulp processor in Ghana, which is profiled on page 19.

### FINANCE FOR SMALLHOLDER FARMERS

While many climate finance solutions for farmers scale up through microfinance institutions or third-party platforms like FinTech companies, CSAF lenders also operate through agri-SMEs to deliver climate finance solutions to smallholders. In Central America, Root Capital has launched farm renovation loans operating through the existing internal credit functions of borrowers. These loans finance farmers' purchase of inputs to implement regenerative agricultural practices and replenish degraded soils. This has the dual impacts of increasing the positive effects of agroforestry such as carbon capture, while making farms more resilient to rising temperature and other climate impacts.

### TRAINING TO BUILD CLIMATE RESILIENCE

While finance products are one solution, CSAF members recognize that they may not alone be sufficient to help agri-SMEs face the fundamental threat of climate change. The large majority of CSAF members provide technical assistance for climate adaptation or mitigation at the enterprise or farmer level. Eighty percent of those providing technical assistance reported increasing their provision of climate-related services over the past two years. At the business level, these services take the form of mapping climate hotspots to develop tailored adaptation plans for an enterprise's sourcing strategy or helping businesses to diversify their income through other crops and carbon market opportunities. Some CSAF members are pushing beyond the business level to provide farmer-level training encouraging adoption of good agricultural practices that will both decrease climate impact while increasing resilience to future climate shocks.

CSAF members expect this technical assistance to not just improve the impact of agri-SME lending on local ecosystems and the livelihoods of farmers impacted by climate change, but that these will also improve the long-term resilience of these businesses and their performance as borrowers.

The climate challenges the sector faces are bigger than any one lender or borrower. As lenders continue to pilot and scale up these solutions, intra- and cross-sector learning exchange will be critical to match the scale of finance and resources needed by agricultural SMEs, smallholder farmers, and rural communities.

COMACO, Zambia © COMACO

BORROWER PROFILE

# Combating poaching through sustainable agriculture in Zambia

The Luangwa valley of Zambia is a hotspot of African megafauna, sometimes known as the country's "honey pot." Despite access to fertile land, farmers growing subsistence crops such as rice, beans, or peanuts have historically lacked appropriate agronomic training or economic resources to prevent soil degradation and invest in healthy crop production. With reduced yields and limited access to quality markets for their products, communities were forced to resort to illegal wildlife poaching in order to survive.

Community Markets for Conservation (COMACO) was formed in 2003 to incentivize conservation by providing training in sustainable agricultural practices and creating a market for local farmers. Through this model, COMACO helps more than 250K farmers in the area increase their incomes and unlock sustainable livelihoods. Beyond market access, COMACO provides regenerative agricultural training and coordinates carbon credit programs for farmers, promoting practices that protect the local environment while boosting farmer incomes.

In 2020, COMACO received its first loan from a CSAF member through a line of working capital from MCE Social Capital with 40% of the loan co-financed by other lenders. Altogether, this work brought in $2M in funding for the business to enable it to buy more products from farmers and pay them on time for their crops. After the success of the initial loan, MCE extended co-financed funding again in 2022 to help COMACO continue to grow. Then, in 2023, MCE made a third loan to the business through their newly launched MESA fund.

Working through its majority-women-led, community-based cooperatives, COMACO pays premium prices to farmers and produces a local line of nutrient-rich goods such as peanut butter, fortified grains, and dried fruit. In 2021, the enterprise's promotion of regenerative agriculture and energy efficiency resulted in the planting of 46 million trees and the sequestration of over one million tons of carbon dioxide. With reliable, conservation-linked financing, COMACO is helping hundreds of thousands of farmers preserve nature and improve their own livelihoods.

# Technical assistance complements credit offerings

Since the founding of CSAF in 2012, loans to small and growing agricultural businesses have remained risky. In response, many CSAF members have begun to complement their credit with technical assistance (TA), capacity building, and business development services. Depending on each borrower's need, these services can focus on improving management systems, expanding market access, accelerating product development, unlocking financial services for farmers and employees, or building the capacities of smallholder farmers themselves. Whether through partnering with third-party TA providers or providing services directly, CSAF lenders report that these services are improving borrowers' performance and ultimately de-risking investments.

Despite the relative growth and value of these services, investors are budgeting the equivalent of just 1% of their total outstanding portfolio amount for TA. Lenders are reportedly reaching a median of just over a third of the organizations they finance, driven in part by a lack of shared knowledge in the sector about how to provide these services most effectively. Additional research on TA effectiveness will enable optimal design of these services, mobilize more support from funders, and unlock services for more agri-SMEs. CSAF field building partner, the Smallholder Safety Net Upscaling Program (SSNUP) coordinated by ADA microfinance, published a study to narrow that evidence gap and identify drivers of success for TA provision in the agri-SME impact investment sector. The report incorporated data from 243 TA projects facilitated by 14 impact investors—including 12 CSAF members—representing €14.8M of funding.

**"Business needs are evolving rapidly—driven by market forces, climate impacts, or internal challenges—making capacity building an increasingly important complement to credit. We offer dynamic advisory services responsive to our borrowers' needs, so we can together build stronger agri-SMEs that drive more impact for their communities while also being better investments."**

Alexandra Tuinstra, Root Capital

The study had the following recommendations to improve the sector:

- Donors, investors, assistance providers, and beneficiaries need to **improve their communication and coordination** to ensure flexibility in each project and enable adjustments to match shifting contexts.
- Given the greater observed impact on earlier-stage businesses, implementers should **invest even more in training this group of enterprises**.
- For greater effectiveness, projects should expand their scope from a narrow focus on short-term risk-mitigation needs of lenders to **a more holistic focus on building organizational capacity of borrowers**.
- Due to challenges with impact measurement across implementers, **a standardized set of key performance indicators** should be implemented to ensure rigor and allow comparison of projects across the sector.
- As providers improve on the above recommendations, **these projects need to be scaled up** so that they expand access to finance to more businesses in the long run.

This research is an important contribution, but gaps still remain in understanding how to optimize TA services towards positive impact. The new Agri-SME Learning Collective, co-launched by CSAF with funding from the Small Foundation, is building on this research as well as other learning. A dedicated TA workstream of the Learning Collective—led by AMEA, SSNUP, and Argidius—intends to identify how agri-SME needs for TA differ by business characteristics, which factors drive uptake of TA services among agri-SMEs, and which TA models are most efficient in raising capital.

CPC, Laos © Alterfin

# Looking Ahead

The past year has demonstrated why financing the agricultural SME sector remains a risky proposition. Global threats, regional dynamics, and value chain problems combined to drive down lending activity and underscore how agri-SMEs and lenders alike are facing fundamental challenges. Amid this environment, CSAF members and borrowers have shown how measured risk mitigation and true partnership can still deliver deep impact for smallholder farmers and rural communities. In 2023, CSAF lenders increased their client base, reaching 675 borrowers with $697M in financing across 55 countries.

Even as disbursements decreased, lenders grew their reach to clients with the smallest credit needs, showing continued commitment to finance this hardest-to-serve segment. Meanwhile, across their portfolios, lenders adapted their risk management strategies to ensure they can deliver for their borrowers long into the future.

As agri-SMEs confront the uncertainty of new regulations, volatile markets, and climate change, continued support and partnership will be critical in building a more prosperous, resilient, and inclusive future for smallholder farming communities. CSAF and its members remain committed to promoting best practices that will deliver the greatest impact for lenders, borrowers, farming families, and the planet.

**“Despite a challenging landscape marked by global crises and shifting markets, the resilience and collaboration within the agricultural SME finance sector have been pivotal in sustaining the wellbeing of smallholder farmers and their communities."**

Andrea Zinn, Director, CSAF

EDUCE, Mexico © Shared Interest

# 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 nineteen financial institutions: nine CSAF global members, one regional member, six global affiliates, and three regional affiliates, from January 1, 2023 to December 31, 2023. CSAF members and affiliates (collectively referred to in this report as members) provided this information to CSAF under a nondisclosure agreement. Subsequent analysis was conducted by CSAF 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, CSAF 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 2023 or later;
- one or more disbursements during 2023; or
- an outstanding balance (not subject to write-off) at any point during 2023.

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** | **697** | **-8%** | **100%** | **606** | **675** | **22** | **100%** | **19** |
| **Central America** | **186** | **-2%** | **29%** | **824** | **113** | **3** | **17%** | **13** |
| Costa Rica | 23 | -10% | 3% | 1191 | 14 | -1 | 2% | 6 |
| Guatemala | 24 | -32% | 3% | 654 | 19 | 1 | 3% | 7 |
| Honduras | 22 | -40% | 3% | 674 | 18 | 0 | 3% | 4 |
| Mexico | 37 | 220% | 5% | 933 | 26 | 2 | 4% | 7 |
| Nicaragua | 81 | -9% | 12% | 861 | 32 | 0 | 5% | 13 |
| **South America** | **194** | **-21%** | **28%** | **510** | **191** | **2** | **28%** | **15** |
| Bolivia | 5 | -44% | 1% | 288 | 11 | -6 | 2% | 6 |
| Brazil | 3 | 21% | 0% | 325 | 7 | 0 | 1% | 5 |
| Colombia | 23 | -25% | 3% | 534 | 24 | 5 | 4% | 11 |
| Ecuador | 15 | 266% | 2% | 893 | 10 | 2 | 1% | 7 |
| Paraguay | 3 | -7% | 0% | 341 | 3 | 0 | 0% | 3 |
| Peru | 143 | -22% | 20% | 539 | 126 | 5 | 19% | 15 |
| **South & East Asia** | **56** | **26%** | **8%** | **1235** | **26** | **-6** | **4%** | **8** |
| Cambodia | 2 | 284% | 0% | 960 | 2 | 0 | 0% | 2 |
| Indonesia | 12 | 11% | 2% | 636 | 12 | -3 | 2% | 5 |
| Philippines | 12 | 91% | 2% | 1950 | 4 | 1 | 1% | 4 |
| **Sub-Saharan Africa** | **259** | **-2%** | **37%** | **531** | **336** | **28** | **50%** | **17** |
| Benin | 1 | -88% | 0% | 147 | 6 | 0 | 1% | 4 |
| Burkina Faso | 10 | -35% | 1% | 886 | 5 | -3 | 1% | 5 |
| Congo, Dem. Rep | 18 | -6% | 3% | 384 | 22 | 5 | 3% | 6 |
| Cote d'Ivoire | 76 | 4% | 11% | 1212 | 28 | 5 | 4% | 10 |
| Ethiopia | 3 | 428% | 0% | 933 | 5 | 2 | 1% | 4 |
| Ghana | 2 | -59% | 0% | 109 | 21 | -1 | 3% | 7 |
| Kenya | 30 | -28% | 4% | 420 | 39 | 5 | 6% | 12 |
| Madagascar | 0 | -84% | 0% | 92 | 4 | 0 | 1% | 4 |
| Malawi | 0 | -99% | 0% | 27 | 6 | -1 | 1% | 2 |
| Mozambique | 15 | 222% | 2% | 2530 | 8 | 1 | 1% | 2 |
| Nigeria | 16 | 104% | 2% | 4075 | 3 | 0 | 0% | 4 |
| Rwanda | 14 | -37% | 2% | 173 | 49 | -6 | 7% | 11 |
| Tanzania | 14 | 119% | 2% | 166 | 77 | 10 | 11% | 11 |
| Togo | 2 | -50% | 0% | 907 | 2 | 0 | 0% | 2 |
| Uganda | 51 | 39% | 7% | 725 | 45 | 10 | 7% | 12 |
| Zambia | 3 | -56% | 0% | 770 | 8 | 0 | 1% | 5 |
| **Other regions** | **2** | **4%** | **0%** | **189** | **9** | **-5** | **1%** | **7** |
| Tunisia | 1 | -35% | 0% | 175 | 2 | 0 | 0% | 3 |

CSAF COUNCIL ON SMALLHOLDER AGRICULTURAL FINANCE