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. More detail is on p.18 of the full report.

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 12 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 in the full report). 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.

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

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 in the full report). 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 upmarket (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

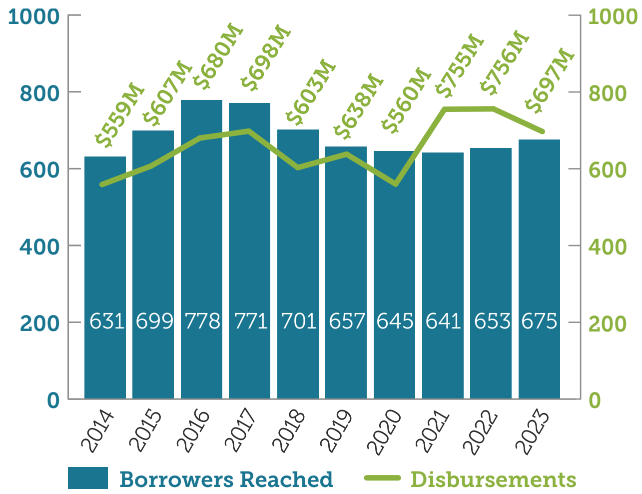
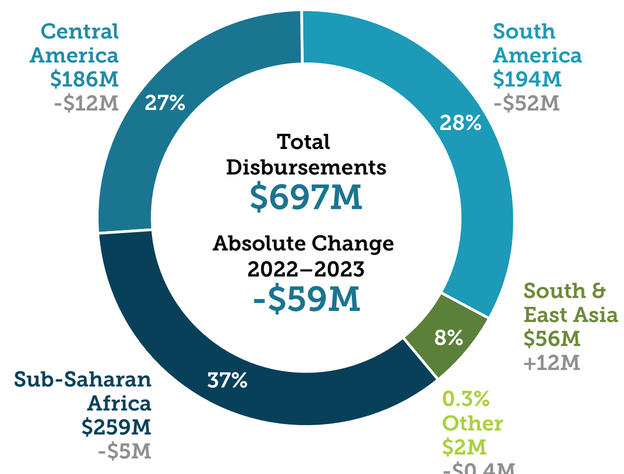
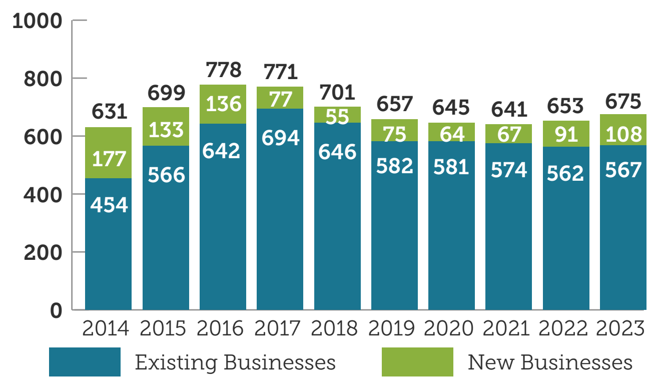


Figure 2: Credit Volume by Region (2023)



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 10.

> **"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

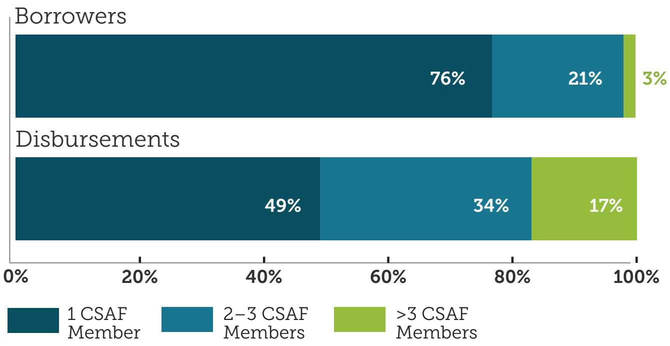


Figure 5: Average Loan Size

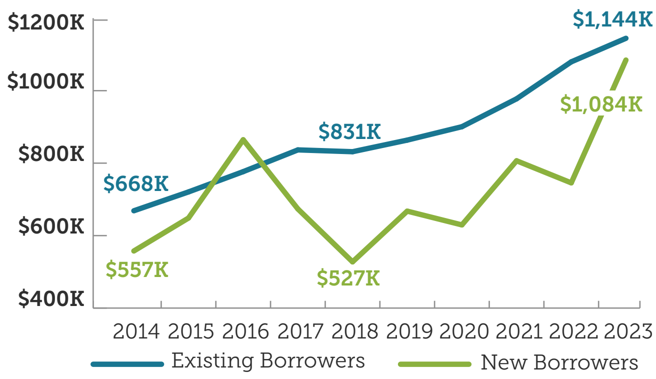
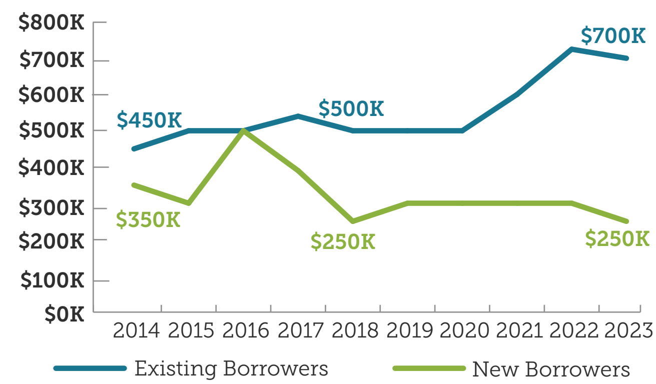


Figure 6: Median Loan Size




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.

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 in the full report.

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.

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

CSAF COUNCIL ON SMALLHOLDER AGRICULTURAL FINANCE