INVESTOR AND FUNDER GUIDE TO THE AGRICULTURAL SOCIAL LENDING SECTOR

Improving smallholder farmers’ access to credit can empower smallholders to help meet the growing global food demand, while also combating extreme poverty, as more than two billion of the world’s poorest live in households whose livelihood depends on agriculture.

Social lenders focus on addressing the significant smallholder agricultural finance gap by investing in small and growing agricultural businesses in low- and middle-income countries. In collaboration with technical assistance providers and global buyers, social lenders work to strengthen clients and allow them to access more finance and reach additional smallholder producers.

The social lending sector is an attractive opportunity for investors and funders to increase finance access for smallholder farmers and businesses that aggregate producers. This briefing note – drawing on a groundbreaking aggregate analysis of leading social lenders’ lending portfolios and metrics – examines current lending practices among social lenders, considers the future trajectory of the sector, and highlights opportunities for investors and funders to support the sector’s future growth.

ABOUT THIS BRIEFING

This briefing is the fifth in a series by the Initiative for Smallholder Finance, a multi-donor effort designed to demonstrate how specific products and services can expand the reach of financing for smallholder farmers. Initiative activities include targeted market research, product development and testing, and investment facilitation in the smallholder finance market.

Social Lending Sector Introduction

The demand for smallholder agricultural finance is an estimated $300 billion (excluding China, which would bring the total to $450 billion). While the addressable demand – or, the short- and long-term finance needs of smallholder farmers who belong to producer organizations – is a much smaller $30 billion, formal global and local capital sources provide only around $10 billion in lending to smallholders, leaving significant unmet demand.

Agricultural social lending focuses on addressing this gap. Also referred to as impact-first agricultural lenders, social lenders invest in small and growing agricultural businesses, including producer groups and private enterprises, in low- and middle-income countries. These businesses are part of the “missing middle,” as they are too large for microfinance but too small for commercial loans. They aggregate hundreds or thousands of smallholder farmers to connect them with markets and, in some cases, provide services such as agronomic training and farm input credit.

Social lenders seek a triple bottom line, pursuing a combination of returns in the form of business profit, poverty alleviation, and ecologically sustainable development. In particular, the social intent to support smallholder farmers drives their activities; social lenders’ target net returns to investors, ranging from 0.5% to a maximum of 5%, are below risk-adjusted market rates.

Given their focus on lending to small businesses that often have little collateral or credit history, social lenders are subject to greater risks than commercial lenders. Social lenders mitigate that risk in a unique way: unlike commercial lenders that require hard collateral for agricultural loans, social lenders frequently accept purchase orders from global buyers to secure their loans. They also work closely with global buyers and technical assistance providers to improve smallholders’ productivity and financial capacity, which can further offset risk.

Seven social lenders – Alterfin, Oikocredit, Rabobank Rural Fund, responsAbility Investments AG, Root Capital, Shared Interest, and Triodos Sustainable Trade Fund – represent the majority of lending in this sector. In April 2014, these lenders launched the Council on Smallholder Agricultural Finance (CSAF) to share their experiences,
define responsible lending practices, and develop common metrics for reporting industry growth and impact.

In 2013, CSAF members disbursed $362 million to small and growing agricultural businesses. Active clients that year spanned 60 countries and more than 50 crops, but overall lending was highly concentrated in several core geographic and commodity markets. Nearly 40% of 2013 disbursements went to South American businesses, and nearly 30% went to Central American businesses. Furthermore, approximately 50% of disbursements supported borrowers in the coffee market.

Several factors drive social lenders’ concentration in Latin America and the coffee value chain. First, social lenders have historically targeted markets with well-managed producer organizations, which are common in Latin America. Second, the coffee industry has made significant progress toward socially responsible and environmentally sustainable production. In many areas, the coffee industry has a robust ecosystem of technical assistance providers, certifiers, and buyers that support agricultural businesses and smallholder farmers. Finally, the coffee market’s certification infrastructure — which includes Fair Trade and organic — attracts social lenders, as certification processes typically involve organized farmers, indicate due diligence has been conducted, and reflect consumer demand. These factors contribute to decreased financial risk for social lenders, and help increase the likelihood their lending activities will contribute to poverty alleviation and ecologically sustainable development.

Overall, CSAF members supported 545 businesses in 2013. Among these businesses, 62% were cooperatives or producer organizations, 32% represented private enterprises such as processors and traders, and 6% included organizations such as NGOs and religious institutions. Together, these businesses represented more than 799,000 farm households and 26,000 permanent employees. Collectively, social lender clients earned more than $1.9 billion in revenue, represented more than 1.3 million hectares sustainably harvested, and exported more than 9.7 million MT into sustainable supply chains.
Social lenders’ role in agricultural finance markets

Global social lenders represent a relatively small share of commercial and publicly supported lending to smallholder farmers. In 2013, nearly 300 microfinance banks, commercial banks, and state and agricultural banks in developing countries (excluding China) had smallholder lending portfolios, with an estimated $9 billion in outstanding loans to smallholder farmers and businesses that aggregate producers. A significant portion of this commercial and publicly supported lending occurred in South and Southeast Asia, where social lenders have a limited presence.

Several state and agricultural banks in Asia and Latin America possess smallholder lending portfolios in excess of $200 million, but microfinance and commercial banks’ smallholder portfolios are significantly smaller. Among a sample of microfinance and commercial banks active in smallholder lending in 2013, the largest smallholder portfolio was $55 million, and approximately 80% of the banks had smallholder portfolios below $10 million. Across all regions, nearly all commercial and public lenders focus their lending on a single country or region, limiting the portfolio diversification of individual lenders.

Although they represent a relatively small share of total smallholder lending, social lenders aim to play a catalytic role in the smallholder finance sector by collaborating with technical assistance providers and global buyers to strengthen clients and allow them to access more finance. In the case of early-stage businesses, grant-funded technical assistance providers help form and strengthen cooperatives and provide capacity-building services to private agricultural enterprises. Social lenders then begin financing these businesses by providing trade credit backed by clients’ contracts with established buyers. As clients grow, they often require more financing, including additional trade credit and other financial products such as working capital and long-term debt.
These clients can leverage their lending track record to attract financing from other social lenders and, in some cases, local banks.

While there are numerous instances of social lender clients going on to borrow from local banks, these borrowers typically maintain their relationships with one or more social lenders due to supply and demand factors. On the supply side, local banks’ stringent collateral requirements and frequent limits on portfolio exposure to agriculture or specific crops can limit their ability to meet agricultural businesses’ financial needs. On the demand side, producer groups tend to maintain relationships with social lenders to diversify their borrowing sources and continue working with lenders whose missions closely align with their own.

Going forward, we expect two prevalent models of finance provision to organized cooperatives or producer groups in the country and commodity markets in which social lenders operate: social lender-dominant and hybrid-dominant.\(^\text{11}\)

- **A social lender-dominant model** is one in which social lenders, exclusively, serve the majority of producer groups receiving financing. A smaller portion of producer groups may borrow from state or commercial banks.

- **A hybrid-dominant model** is one in which the majority of producer groups receiving financing borrow from social and local lenders, the latter of which are often state or agricultural development banks. A smaller portion may borrow exclusively from one lender type.

The degree of public sector involvement in the agricultural finance market and the level of agricultural market consolidation will influence the evolution of individual country and commodity markets toward one of these two models. Social lender-dominant models are more common in markets with lower levels of smallholder farmer organization or limited direct public sector involvement in the agricultural finance market. Hybrid-dominant models are more common in markets with higher levels of smallholder farmer organization and government intervention designed to ensure that disadvantaged groups in the agricultural finance market are served.

Under current market conditions, a full transition to commercial lender-dominant models in the near future is unlikely.\(^\text{12}\) Historical experience in advanced economies suggests that significant changes need to happen before a commercial lender-dominant model becomes prevalent. These changes include farm growth and consolidation, supported by improved land titling policies; changes to
commercial law systems and private property rights, including private land tenure and land registries to organize lending collateral; and the development of the broader financial sector. In many advanced economies, certain segments of agricultural finance — including loan products for small, low-income farmers and agricultural insurance — remain dependent on some form of government subsidies.\(^\text{13}\)

However, the rapid growth of applications for mobile phones and Internet could drive a shift in commercial lenders’ role within the agricultural finance landscape, allowing them to begin serving less consolidated parts of the agricultural market. While this shift may increase financial access for social lender clients, it could also have negative social and environmental consequences as commercial lenders are more likely to focus solely on financial returns, rather than seeking a triple bottom line as social lenders do.

**Social lending sector structure and benchmarks**

While social lenders typically have similar missions and goals, they differ from one another in structure, capital, and clients. These core differences drive social lenders’ cost basis, risk appetite, and level of portfolio diversification.

**Figure 5: Differentiating factors among social lenders**

<table>
<thead>
<tr>
<th>Structure</th>
<th>Capital</th>
<th>Clients</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Organizational structure</strong> includes</td>
<td><strong>Investors’ return expectations</strong> range from</td>
<td><strong>Portfolio focus on agriculture</strong> ranges from</td>
</tr>
<tr>
<td>• Non-profits</td>
<td>• 0.5%, to</td>
<td>• Exclusive focus on agriculture,</td>
</tr>
<tr>
<td>• Funds associated with foundations</td>
<td>• 5%</td>
<td>to</td>
</tr>
<tr>
<td>• Diversified independent funds, and</td>
<td></td>
<td>• Relatively small focus on agriculture,</td>
</tr>
<tr>
<td>• Agricultural funds in broader asset management platforms</td>
<td></td>
<td>compared with other sectors (microfinance)</td>
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<td></td>
<td></td>
<td></td>
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<tr>
<td><strong>Geographic presence</strong> varies from</td>
<td><strong>Form of capital</strong> received by social lenders includes</td>
<td>Within the agriculture portfolio,</td>
</tr>
<tr>
<td>• Highly centralized model, to</td>
<td>• Grants</td>
<td><strong>client segment focus</strong> includes</td>
</tr>
<tr>
<td>• Global hub and spoke model</td>
<td>• Debt</td>
<td>• All actors in the agriculture</td>
</tr>
<tr>
<td></td>
<td>• Shares capital from institutional and individual investors</td>
<td>value chain</td>
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<tr>
<td></td>
<td></td>
<td>• Only producer groups, and</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Only certain kinds of producer groups(^\text{1})</td>
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<td></td>
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<tr>
<td></td>
<td><strong>Some social lenders create dedicated pools of capital for specific activities</strong></td>
<td></td>
</tr>
</tbody>
</table>

Notes: (1) Such as organic or Fair Trade producer groups
Source: Interviews; Social lender websites and reports; Dalberg analysis

Differences in social lenders’ net return targets are particularly notable in driving differences across the sector. On a net basis, social lenders seek capital preservation and target different levels of return – ranging from 0.5% to a maximum of 5% - for their investors. However, all of these lenders prioritize positive social and environmental impact over maximizing financial returns.

The differences among social lenders’ net return targets often correlates with their minimum loan size threshold and, therefore, the typical profile of each lender’s new clients.\(^\text{14}\) Those lenders with net return targets from 0.5% to 2.5% typically have minimum loan size thresholds below $250,000 and, in some cases, as small as $50,000. This tendency allows these lenders to work with small- to medium-sized businesses that are less developed. Those lenders with net return targets from 2.5% to 5% typically have minimum loan thresholds above $300,000, and often serve larger and more mature businesses as a result.

While social lenders target below-market net financial returns, they tend to lend to agricultural businesses at market or near-market rates. Aggregate interest rate benchmarks are only available in select markets with relatively high social lender activity, but this data can begin to provide a snapshot of lending benchmarks across the sector.

In the Peruvian coffee sector, for example – a relatively mature social lender market – CSAF member interest rates
range from 8% to 12%, with an average interest rate of 10%; interest rates and origination fees are slightly lower for larger client organizations. Commercial and agricultural development banks in Peru offer rates at the lower end of this range, between 8% and 10%, but typically only serve the largest and most mature social lender clients. Rural banks and community lenders are also common lending sources for social lenders’ target clients. While these banks often have a strong presence in rural areas and are therefore convenient and familiar lenders for agricultural businesses, they typically offer smaller loans at rates as high as 40% to 45%.

Growth opportunities and challenges for social lenders

As social lenders seek to meet an even greater share of the smallholder finance demand, increased lending to current clients is one growth avenue. Many social lending clients will require additional trade finance as they grow. Given their existing relationships with borrowers, social lenders are well-positioned to meet increased demand, particularly in markets reflecting the social lender-dominant model.

Many social lender clients also require additional financial products – for example, working capital – to finance operations outside of trade commitments and long-term debt. Long-term debt, or loans with terms longer than 12 months, is one particularly pressing smallholder need. Social lender clients require long-term debt to invest in productivity-enhancing assets such as equipment and infrastructure, while smallholders require long-term debt to purchase livestock and finance crop rehabilitation. As long-term debt represents less than 10% of local bank smallholder lending, it is a significant opportunity for social lenders.

Growth opportunities among current clients in core markets may be limited as social lender competition increases, however. For example, in the Peruvian coffee market, 50% of clients representing nearly 90% of disbursements are borrowing from more than one CSAF member. In addition, temporary challenges in social lenders’ core coffee markets – including the drop in global coffee prices in 2012 and 2013 and the coffee rust outbreak in South America – have contributed to lower demand for financing among some current clients.

Given these challenges, it will also be important for social lenders to pursue growth by bringing new clients into the social lending sector. New client growth in core markets may be challenging as it requires reaching less mature businesses. In many core markets, social lenders already serve the larger, more mature businesses. In Peru, for instance, social lenders serve nearly all medium and large coffee cooperatives and approximately half of the smaller cooperatives. As a result, future new client growth in this market will require reaching the remaining small producer groups which are more likely to be earlier-stage businesses with lower management and financial capacity.

Social lenders can also pursue new clients by expanding into non-core geographies or commodities. Many large coffee markets – for example, Ethiopia, Uganda, Indonesia, and Colombia – are largely untapped by social lenders. In core geographic markets such as Peru and Honduras, social lenders can expand lending into non-coffee crops. Both client expansion routes are associated with the challenges of lending to less-mature producer groups and lending to other value chain actors with varying models of smallholder engagement and finance needs. In addition, geographic expansion often requires overcoming local regulatory barriers and/or relatively lower levels of producer organization, and expanding into local food crops may require lending in local currency, which exposes social lenders to new risks.
Global food demand is increasing, highlighting the need and opportunity for agricultural sector growth. The growing world population – expected to reach 7.5 billion by 2020 – and emerging middle class in many markets translates to greater global food demand. By 2018, food consumption worldwide is expected to increase by nearly 30% over 2005 figures.¹⁷

Supporting greater access to finance for smallholder farmers is an opportunity for broad development impact. Multinational companies and other stakeholders are beginning to recognize the role of the 450 million smallholder farmers in feeding the world’s growing population. However, most smallholders lack the funds to invest in productivity and connect to markets, and many of the businesses that aggregate smallholders lack access to the credit needed to support growth. Increased credit access could therefore empower smallholders to help meet the growing food demand, while also combating extreme poverty – more than 2 billion of the world’s poorest live in households whose livelihood depends on agriculture.

The social lending sector is an attractive opportunity for investors and funders to increase finance access for smallholder farmers and businesses that aggregate producers. Relative to most local lenders – for example, commercial and microfinance banks – social lenders offer larger and more geographically diversified portfolios. Social lenders are further differentiated from local lenders by their triple bottom line focus and by their non-traditional approach to securitizing loans.

As most current social lender markets are expected to reflect the social lender-dominant or hybrid-dominant models in the medium term, there should be sustained opportunities for investors and funders to support the social lending sector. Investors and funders have a range of options for supporting the sector, which span across a financial return spectrum and reflect different social impact goals. Figure 7 highlights several of these options, which are also described in further detail below. While these do not represent an exhaustive set of opportunities, they illustrate the variety of roles that a funder or investor may choose to play in the space. As with any grant or investment, the investor will need to evaluate each opportunity against its own financial and impact objectives.

For investors focused on market building and targeting net returns of 0.5 to 2.5%

Investors targeting net financial returns in the range of 0.5 to 2.5% can support social lenders focused on lending to earlier-stage businesses. This category includes investments to support social lenders focused on lending to more mature businesses. For example, funders may choose to support new sector infrastructure, funding complementary TA activities, accelerating sector growth by addressing common challenges, or ensuring a long-term pipeline of bankable social lender clients.

<table>
<thead>
<tr>
<th>Target financial return:</th>
<th>Example opportunities:</th>
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</thead>
<tbody>
<tr>
<td>NA</td>
<td>Funding new sector infrastructure, Funding complementary TA activities, Accelerate sector growth by addressing common challenges, Ensure long-term pipeline of bankable social lender clients</td>
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<table>
<thead>
<tr>
<th>Target social impact:</th>
<th>Example opportunities:</th>
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<tbody>
<tr>
<td></td>
<td>Support social lenders focused on lending to earlier-stage businesses, Further build the market by allowing lenders to begin serving new clients with limited track records, Increase access to finance for earlier-stage businesses, Increase access to finance for larger clients whose needs are not fully met by local banks</td>
</tr>
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<table>
<thead>
<tr>
<th>Target financial return:</th>
<th>Example opportunities:</th>
</tr>
</thead>
<tbody>
<tr>
<td>0%</td>
<td>Further scale the sector by allowing lenders to extend finance to larger clients, Support social lenders focused on lending to more mature businesses, Further scale the sector by allowing lenders to extend finance to larger clients, Support social lenders focused on lending to more mature businesses</td>
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</table>

Figure 7: Illustrative opportunities for funders and investors to support the social lending sector
to earlier-stage businesses. These social lenders typically disburse smaller loans to younger and smaller businesses with a limited financial track record. These lenders may seek new clients in core markets and new geographies or commodities.

Social lenders report that it is often unprofitable to lend to early-stage businesses, as it takes three to five years for revenue from these clients to cover their loans’ operating costs. Given this lag time, social lenders working with early-stage businesses typically construct blended portfolios, targeting smaller and less-mature businesses as new clients and maintaining relationships with these borrowers as their lending needs and revenue grow. Once they have established a relationship with a client, these lenders typically do not stop lending to them; instead, the revenue from the larger loans of more mature clients subsidizes lending to earlier-stage borrowers and stabilizes social lenders’ portfolio. Grant-funded technical assistance providers also give critical support to the early-stage businesses that these lenders target.

For investors focused on market scaling and targeting net returns of 2.5 to 5%  

Investors targeting net financial returns in the range of 2.5 to 5% can support social lenders focused on lending to more mature businesses. Social lenders playing a scaling role typically disburse increasingly larger trade finance loans and/or new financial products, including working capital and long-term debt, to larger and more mature businesses. In core markets, many of these clients have borrowed from social lenders in the past; in other markets, these businesses are more often new to the social lending sector. Given their focus on larger clients with track records, these lenders’ portfolios have a higher likelihood of financial stability.

Given that a full transition to the commercial lender-dominant model is unexpected in the near future for the markets in which social lenders operate, there is likely a long-term need for lending to larger and more mature businesses, particularly in markets reflecting the social lender-dominant model. Investors can help social lenders further extend their lending to these businesses by tailoring capital to support the deployment of new financial products. For example, to meet borrowers’ need for long-term debt, social lenders will require access to longer-term capital with more flexible terms, such as grace periods, to accommodate the cash flow characteristics associated with crop rehabilitation or new facility construction.

For funders and investors deploying grant capital  

There is also a need for grant capital to support the social lending sector’s expansion. The development of new sector infrastructure and complementary technical assistance activities can help address common challenges faced across lenders and facilitate broader sector growth.

One example of sector infrastructure that can support responsible growth is an ongoing data collection and reporting platform for social lenders. Going forward, a neutral third party will need to collect, analyze, and report social lenders’ lending, finances, and impact data on a regular basis. This platform would allow social lenders and their investors to monitor and communicate sector progress along financial, social, and environmental dimensions. More rigorous impact measurement would also improve lenders’ ability to monitor borrower business performance and associated risk.

Increased technical assistance for current and potential social lender clients will also contribute to the sector’s growth. Grant-funded technical assistance is required to aggregate smallholder farmers into new producer groups or connect them to other value chain actors, and to help early-stage businesses become eligible for social lender loans. Technical assistance is particularly critical for growing the pipeline of potential social lender clients in non-core social lending markets – for example in countries such as Ethiopia, Indonesia, Uganda, and Colombia.

Technical assistance can also support the provision of long-term capital, because it increases clients’ capacity to prepare the business plans and financial projections typically required to secure long-term financing.

Investor risks  

As with other forms of impact investing in developing markets, investing in the social lender sector carries a number of key risks.

Crop risk in the social lender sector is driven by lenders’ concentration in coffee markets. The coffee market has faced a number of challenges in recent years. Globally, after several years of sustained increases, coffee prices fell...
approximately 25% over 2012 and 2013, before rising rapidly again in the first quarter of 2014. In Latin America, the coffee sector has experienced a coffee rust outbreak, with the coffee losses in Nicaragua, Honduras, and Guatemala estimated at $60 million, $150 million, and $168 million, respectively, during the 2012-13 growing season.

Investors in the sector also face country risk as lending is concentrated in several Latin American countries. In 2013, the top social lending countries were Peru, Honduras, Nicaragua, and Costa Rica with 26%, 8%, 6%, and 6% of social lender disbursements, respectively. Weather, crop disease, and other agronomic challenges within these countries could negatively affect multiple borrowers within social lenders’ portfolios. Financial and agricultural policy changes, political instability, and/or currency movements in any of these countries might also threaten borrowers’ businesses and/or social lenders’ ability to do business in these markets.

Individual client risk is driven by the nature of businesses that social lenders serve. Social lenders often lend to businesses that are characterized by governance and/or management challenges. In addition, clients may be unable to prepare business plans and financial statements and may lack credit history, making it more difficult for social lenders to conduct due diligence and assess risk.

Client concentration is also a risk in the social lender sector. While fewer than 20% of all active clients in 2013 borrowed from multiple CSAF members, these common borrowers received more than 50% of 2013 disbursements. Clients with higher revenue are more likely to borrow from multiple social lenders and, in some cases, as many as six social lenders share a common client.

Lastly, investors in the social lending sector face social impact risk. The businesses that social lenders support all work directly with smallholder farmers. In many cases, these relationships greatly benefit the smallholders and their families, as the businesses provide a link to markets, improved inputs, and services such as agronomic training. Given the relative bargaining power across the value chain, however, there is an inherent risk of businesses exploiting smallholder farmers, particularly as social lenders continue to work with a broader range of value chain players beyond producer groups (for example, processors or traders).

Due diligence processes and tools – for example, Root Capital’s social and environmental scorecards – increase the likelihood that borrowers’ business practices are aligned with each social lender’s mission and that the client prioritizes positive social and environmental returns. Ongoing monitoring can also mitigate these risks. However, financial and social impact reporting practices are not yet fully aligned across social lenders, despite initial strong efforts from the CSAF members, which makes it more difficult to consistently monitor and compare triple bottom line returns.

**Conclusion**

Growing the social lending sector is one important pathway towards meeting the significant unmet demand for smallholder agricultural finance. In 2013, CSAF members disbursed $362 million to small and growing agricultural businesses. Going forward, there are multiple avenues – including offering new financial products to current clients, and further expanding into non-core geographies and commodities – for social lenders to increase their lending and impact.

Investors and funders have a range of options for supporting the sector, which span across a financial return spectrum and reflect different social impact goals. For example, investors targeting net financial returns in the range of 0.5 to 2.5% can support social lenders lending to earlier-stage businesses, while those investors targeting net returns above 2.5% can support social lenders focused on more mature businesses. There is also a need for grant capital to support the social lending sector’s expansion through the development of new sector infrastructure and the increased provision of complementary technical assistance activities.
SOURCES AND METHODOLOGY

This report reflects a groundbreaking aggregate analysis of leading social lenders’ lending and impact data. It is based on data self-reported by the seven CSAF members – Alterfin, Oikocredit, Rabobank Rural Fund, responsAbility Investments AG, Root Capital, Shared Interest, and Triodos Sustainable Trade Fund – which the Initiative for Smallholder Finance and Dalberg Global Development Advisors aggregated and analyzed. This analysis did not include an assessment of lenders’ current or historical financial performance.

Broader smallholder finance sector data – including market-sizing estimates and assessments of local lenders’ activities – were drawn from prior Initiative for Smallholder Finance and Dalberg research. For additional detail on these topics, investors and funders may consult the following publications:

- Catalyzing Smallholder Agricultural Finance, Dalberg Global Development Advisors
- Local bank Financing for Smallholder Farmers: A $9 Billion Drop in the Ocean, The Initiative for Smallholder Finance
- A Roadmap for Growth: Positioning Local Banks for Success in Smallholder Finance, The Initiative for Smallholder Finance
- The Role of Government in Developing Agricultural Finance: A look at the history of Germany, the US, and South Korea, The Initiative for Smallholder Finance

NOTES


2 The financing need among smallholder farmers that have formal relationships with other types of private enterprises (for example, processors) may also be considered addressable; a global estimate for the number of smallholder farmers with these types of relationships is not available.

3 Source: Dalberg, “Catalyzing Smallholder Agricultural Finance,” September 2012; $30 billion figure includes both short-term and long-term finance needs and is adjusted from $45 billion global figure to exclude China.


5 In 2011, these seven social lenders represented 90% of all social lender sector disbursements; while 2013 disbursement data is not publicly available for all additional social lenders, sector experts suggest that these seven social lenders continue to represent the majority of lending in the sector.

6 Historical aggregate lending data is not available. While some social lenders have been active since the early 1990s, overall lending across the sector has increased significantly in the last 5-10 years.


8 N = 478 for business type, 427 for number of farmers, 314 for female farmers, 371 for employees, 259 for hectares sustainably harvested, 353 for revenue, and 229 for exports; in instances where multiple social lenders reported different data for a single borrower, figures represent average of reported values.


10 Source: Dalberg smallholder financing bank database; sample includes 55 banks from the Dalberg smallholder financing database for which portfolio size data was available.

11 Future market state analysis focuses specifically on lending to agricultural producer groups as these businesses represent over 60% of social lenders’ active clients in 2013.

12 A commercial lender-dominant model is one in which the majority of producer groups receiving formal financing are exclusively served by commercial banks. The claim that a full transition to commercial lender-dominant models in the near future is unlikely reflects an aggregate market-level view; some individual borrowers may fully graduate to commercial lending.


14 While not every social lender strictly conforms to this trend, a relationship between investor return expectations and minimum loan threshold is observed across the group of lenders overall.

15 Reflects interest rates for active loans in 2013.

16 2011 interest rates; Source: Dalberg Global Development Advisors, “Catalyzing Smallholder Agricultural Finance,” 2012.


20 Available from Root Capital at:
Dalberg Global Development Advisors is a strategy and policy advisory firm dedicated to global development. Dalberg’s mission is to mobilize effective responses to the world’s most pressing issues. Dalberg works with corporations, foundations, NGOs, and governments to design policies, programs, and partnerships to serve needs and capture opportunities in frontier and emerging markets.

ABOUT THE INITIATIVE FOR SMALLHOLDER FINANCE

The Initiative for Smallholder Finance is a multi-donor initiative hosted by the Global Development Incubator to build research and development infrastructure in the smallholder finance industry and make progress toward filling the gap in financing through targeted product development, piloting, and partnerships.

For the original report that led to the creation of the Initiative for Smallholder Finance, see “Catalyzing Smallholder Agricultural Finance” (2012).

ACKNOWLEDGEMENTS

The authors would like to thank the seven CSAF members - Alterfin, Oikocredit, Rabobank Rural Fund, responsAbility Investments AG, Root Capital, Shared Interest, and Triodos Sustainable Trade Fund – for their expertise and data contributed to this briefing note.

The authors would also like to acknowledge and thank the sponsors of the Initiative for Smallholder Finance – the Citi Foundation, Ford Foundation, KFW Development Bank, MasterCard Foundation, Skoll Foundation, and USAID – for their support and financing. Additionally, we would like to thank the Aspen Network of Development Entrepreneurs, Business Action for Africa, Business Fights Poverty, CGAP, Root Capital, and TechnoServe, for their advisory support.

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www.globaldevincubator.org/isf