CASE STUDY: ONE ACRE FUND

ONE ACRE FUND

Founding year: 2006
HQ: Bungoma, Kenya
Countries of operation : Kenya, Tanzania, Rwanda, Burundi, Uganda and Malawi
Orientation: Non-profit
Employees: 4,300
Turnover: USD 29 million

One Acre Fund is a nonprofit organization that supplies smallholder farmers in East Africa with asset-based financing and agriculture training services to reduce hunger and poverty. It offers a comprehensive service bundle which includes inputs on credit, training to maximize productivity, crop and life insurance, as well as market access, all delivered at the farmers' village. Moreover, inputs are delivered at the time of planting and farmers are offered flexible repayment terms.

One Acre Fund has laid the foundation for a virtuous cycle whereby farmers increase their productivity and incomes and thus remain loyal to the organization. In 2015, it served 305,000 farm families throughout East Africa. In 2016, that number is projected to grow to 420,000 families. The multi-faceted approach of One Acre Fund towards helping local farmers maximize agricultural profit and sustainability is the differentiating factor in its business model.

Financing	Distribution	Training	Market facilitation
▪ Provision of credit for seeds and fertilizers, with flexible repayment ▪ Bundling of insurance with financial offerings	▪ Consolidation of farm inputs in central warehouses ▪ Distribution of inputs directly to farmers	▪ Design and implementation of improved training materials on best farming techniques	▪ Safe storage for farmers' crops with warehousing facilities

Operating Model

One Acre Fund sells inputs packages on credit to farmers to cultivate maize, millet and sorghum. The inputs are purchased from One Acre Fund's partner manufacturers and consolidated in a central warehouse. The enterprise hires 10-ton trucks to deliver the inputs to the fields. The base package, which includes maize seeds and fertilizers corresponding to the size of the land, is delivered before the planting season. In addition to these basic packages, farmers can purchase "top up" packages for additional inputs, storage bags and energy products. These inputs are also available to them on credit.

One Acre's teams include units of field managers and officers. One field director oversees each field team unit of 10 field managers and 50 field officers, who are individually responsible for delivering the program to around 200 farmers. A central head office in each country supports the field teams in finance, accounting, human resources, logistics, marketing and administration.

> The farmers are trained on improved methods for compost production, fertilizer application, seed selection, and erosion control to increase yield without additional cost.

Every two weeks, One Acre Fund delivers specific in-field training in targeted areas throughout the season, and also provides an educational handout on fertilizer impact and proper use. One Acre Fund has purchased a weather-index insurance from Syngenta Foundation, and passes on the benefit to farmers by forgiving some part of loans in case of crop failure, thus helping them mitigate risk. It also sells other products such as tree seeds, solar lights, reusable sanitary pads, hermetically

WORLD BANK GROUP

This series on Inclusive Innovations explores business models that improve the lives of those living in extreme poverty. Editors are Elaine Tinsley and Natalia Agapitova. Researched and developed by Intellecap.

sealed crop storage bags, and energy-efficient cook stoves on credit to farmers to improve their quality of life.

To control the average indebtedness of its clients, One Acre Fund caps its loans at USD 200, while the average ticket size is as low as USD 70. Also, to mitigate credit risk, it applies the concept of social collateral, whereby lending is made available to a cohesive joint-liability group of 4-10 farmers. A security deposit of USD 11 is taken upfront from farmers before extending the loan to ensure willingness and ability to repay. Field officers meet regularly with the farmer groups to coordinate delivery of farm inputs, administer training and collect repayments.

The annual service fee is around 17 percent for 3-10 month tenure loans. The loan repayment schedule is flexible. Full loan repayment is only required after the harvest is done, but farmers are encouraged to pay small amounts, whenever they can over the course of the season. The groups have a 2-week grace period to ensure repayment by all members. Around 80 percent of the farmers choose to re-enroll in the program season after season because they value the package that One Acre Fund offers, even though the package is at a premium of around 25 percent.

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In 2013, the Rwandan government invited One Acre Fund into an official partnership to operate an agricultural training program through its nationwide extension network. It has successfully operated this training program since 2013 in partnership with MINAGRI (the Rwanda Ministry of Agriculture) by training government agronomists at multiple levels, and aims to train a nationwide network of 'farmer promoters', who can ultimately train farmers in villages across Rwanda.

Financial Sustainability

In Kenya, One Acre Fund has an average gross margin of 32 percent on the inputs it sells. This margin includes an average 13 percent mark up on bulk products, a 17 percent flat service fee on input costs, crop insurance of ~5 percent of input costs, a fixed program fee of USD 7.6, and a delivery fee (which also helps pay for storage and warehousing costs).

One Acre Fund incurs maximum cost on field staff, input storage, transport and distribution, and insurance. Besides field operating costs, there are costs arising from R&D, pilot projects, government relations, monitoring, and fund raising. One Acre Fund also has access to a grant pool that enables it to leverage working capital from both farm input suppliers and banks. Costs related to new country scouting and government partnerships, innovations and M&E, and global support programs are paid for by donors.

Around 99 percent of the farmers repay their loans, which covers 79 percent of One Acre's field expenses. Grants are needed to fill the remaining gap of roughly USD 33 per farmer (including overhead). To improve sustainability, One Acre Fund focuses on levers such as transaction size per farmer and farmer loan repayment rate, as well as staffing ratios like clients per field officer. Currently, it is piloting new marketing and sales methods to improve enrollment for field officers and farmer mobile repayment (via MPESA) to reduce the need for collecting and recording repayments manually.

Impact

In 2015, the core program of One Acre Fund resulted in the increase of annual farmer incomes from USD 250 to USD 387 (55 percent). The farmer ROI (extra profit a One Acre Fund farmer makes for every extra dollar of investment) was 300 percent. In 2015, there was a 40 percent improvement in the harvest maize farms supported by One Acre Fund compared to that from non-One Acre Fund land. Farmers see their agro-productivity increase by 60 percent-300 percent (depending on crops, soil and climate) in comparison to neighboring farmers. The adoption of One Acre Fund's practices has had positive spillover effect on non-clients as well, increasing maize production by 200 pounds per field.

Challenges and Lessons

One Acre Fund faces competition from some banks or informal money lenders for loans. These loans, however, offer only cash credit, and not seeds and fertilizers on credit. They also do not deliver inputs or provide training. The other challenge is that the present model of One Acre Fund requires considerable manpower, which limits scalability. One Acre Fund is working on strengthening the infrastructure required to coordinate among the field team and the support staff.

Road Ahead

In 2015, One Acre Fund launched "Tubura University," a set of in-house development courses to provide its staff with training in English, computing, leadership and management skills. It has also put together a scale innovations team to explore ways to increase client density in areas of operations. These teams run research projects to build organizational knowledge by analyzing quantitative data, survey senior field staff, and incorporate human-centered design tenets into field operations. They propose changes to the repayment model, new approaches to marketing, or even advocate for the adoption of new technology. One Acre Fund is looking to grow at 37 percent to reach 420,000 farmers by the end of 2016 and 1 million farmers by 2020. To achieve these targets, it is focused on "growing in" (increasing the density of farmers served in regions of current operations), as well as "growing out" (expanding to serve farmers in regions outside of current operations).