Driving Financial Sustainability

ONE ACRE FUND

Farmers First

Executive Summary

There are many drivers that create the resources for organizational growth. Perhaps the most significant of these drivers is financial resources. Although money is no substitute for an impactful program or excellent staff, financial resources are a necessary ingredient for growth.

One Acre Fund divides its operation into two broad pieces: (1) our core field business, and (2) global activities that generate a public good. We do not believe smallholder farmers should fund the latter category, and we are comfortable seeking charitable funding for these activities.

This white paper focuses on the core field business, which we believe should be supported by earned revenue from client repayments. Employing earned revenue in this way ensures that (a) farmers become empowered customers, rather than passive beneficiaries, (b) donor dollars are stretched to further cost-effectiveness, and (c) we encourage, rather than undercut, the development of the private sector.

One Acre Fund defines financial sustainability as the portion of field costs covered by farmer repayment. We track this figure as one of our key performance metrics, and currently stand at roughly 74 percent financial sustainability. Our long-term goal is to reach full financial sustainability for our field operation.

We are pursuing a variety of initiatives in order to improve our financial sustainability—although we never pursue an initiative for the sake of financial return alone:

- *Increasing the ratio of farmers to field officers*. This is the key metric of our “efficiency” as an organization and determines our ability to reach scale.
- *Responsibly increasing transaction volume*. We take a margin on the products we sell in order to recoup costs and cover overhead. We believe that if farmers take on larger transactions, we can deepen our impact on their livelihoods, while improving our own sustainability.
- *Ensuring consistently high repayment rates.* We provide high-quality customer service and timely repayment incentives to keep repayment—a key driver of our ability to scale—high.
- *Reducing administrative costs.* We streamline our administrative overhead as much as possible in order to lower our break-even threshold and continue to offer fair prices to farmers.

One Acre Fund’s Approach to Financial Sustainability

One Acre Fund utilizes both philanthropic grants and earned revenue to support organizational growth. We believe that philanthropy is an important driver for “public good” activities such as research and innovation. These activities should not be paid for by the world’s poorest. However, for organizations involved in direct service provision, there are good reasons to focus on earned revenue. Generally, we think the best approach is to align an appropriate revenue stream with a given activity. For a direct service operation that aims to exist in perpetuity, it makes sense for the people it serves to support its costs.

One Acre Fund divides its operation into two broad pieces: (1) our core field business, and (2) activities that generate a public good, such as product R&D and innovations, or franchising our model to other organizations. For the core field business, One Acre Fund operates with a nonprofit revenue model. We share the commitment to social impact common to all nonprofits, but we believe that our direct-service operation should be supported by farmer repayment. This accomplishes three key goals:

1. **Repayment gives farmers a crucial say in what we offer and how we operate.** Repayment empowers farmers to opt out of One Acre Fund if they are dissatisfied with our services, unlike passive beneficiaries.
2. **It makes every donor dollar much more cost-effective.** Donor dollars are freed to support high-impact public good activities, instead of permanently paying for our field operations.
3. **Earned revenue ensures interactivity with the private sector.** We do not undercut the private sector by offering free services. We also provide validation of a model that other organizations and businesses will be incentivized to replicate.

We define our key financial sustainability metric as the percentage of our field operating costs (the cost of farm inputs, field salaries, logistics costs, and admin support) that is covered by farmer repayment. As of 2014, this number stands at 78%, and our long-term goal is to achieve 100% sustainability in our field operation.

In the meantime, charitable support covers the gap, allowing us to innovate, scale up rapidly, and avoid passing high costs on to farmers. Foundations that donate to One Acre Fund see the return on their investments "multiplied" by the fact that we operate with a fairly high degree of sustainability. If we did not ask for repayment from farmers, donors would have to cover all of our field costs. Instead, they only need to cover less than 25 percent of our field costs—a figure we are trying to reduce to zero. This makes an investment in One Acre Fund's farmers four times as cost-effective as it would be otherwise.

For activities that fall outside our direct-service model, we are comfortable receiving charitable support. Grants allow us to innovate and take bold risks on behalf of farmers—such as developing new high-impact products, serving the poorest of the poor, and engaging in advocacy—that would not be priorities if we were a profit-driven company. We believe this hybrid model provides a good balance between private-sector efficiency and long-term social impact.

Our Financial Sustainability Results

Since our founding in 2006, One Acre Fund has been committed to achieving financial sustainability in its field activities. As with our other two key performance metrics—impact and scale—we set multi-year sustainability targets and then map out operational plans for how to achieve them. Our financial sustainability progress looks like this:

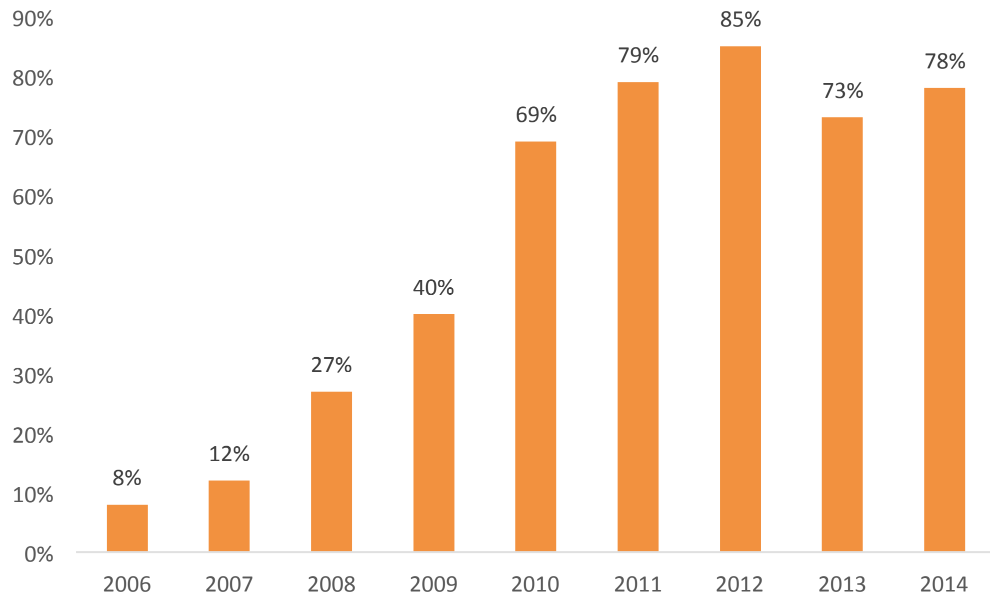

Figure 1: One Acre Fund's Financial Sustainability Over Time

We were able to achieve rapid gains in financial sustainability during our early, rapid scale-up phase from 2007 to 2012. The biggest factor in this improvement was simply economies of scale. As our program grew larger, we were able to command better prices from major input suppliers and support more farmers on existing staffing. We also innovated operational improvements that allowed us to streamline operations, for example by transitioning from cash-based to mobile phone-based repayment in Kenya.

This chart also shows that our sustainability progress has slowed in the last two years. This is a result of two key factors:

1. **Kenyan maize virus.** Starting in 2012, a devastating virus called Maize Lethal Necrosis Disease (MLND) began to appear in Kenya and other parts of East Africa. As a result, we shifted our crop offerings away from maize, in order to minimize client and organizational risk. We believe this was the right decision for our farmers, but it did result in lower farmer enrollment, and thus lower sustainability.
2. **Increased need for organizational infrastructure / support.** Our rapid growth had outpaced some aspects of organizational infrastructure. For example, in 2012, we increased our average farmer group size in Rwanda from roughly 12 to 20, which proved unsustainably high. We have since revised scale and sustainability targets to a "healthy growth trajectory" that provides adequate operational infrastructure for growth.

Financial Sustainability Levers

As discussed above, One Acre Fund is committed to improving the financial sustainability of its direct service operation. We have identified several drivers that have the greatest influence on our sustainability. Not coincidentally, these drivers always support at least one of our two other key goals: farmer impact and scale.

Economies of Scale (Farmer-to-Field-Officer Ratio)

The most efficient lever we have available for improving financial sustainability is raising the ratio of farmers to the field officers that serve them. Across the entire organization, our field officers currently serve, on average, 150 farmers each. We believe that, in the long run, it will be possible to increase that ratio to 300 without sacrificing the quality of service we provide. Given the details of our financial model and our staff salaries, raising our farmer-to-field-officer ratio from its current level to 300 would increase our overall financial sustainability from 78% to roughly 85%, bringing us much closer to our break-even goal.

The companion white paper on Scale Innovations details our initiatives around improving our farmer-to-field-officer ratio, which include setting aggressive enrollment targets, “junior member” trials, and “simple district” trials that radically simplify the job of field officers, so that they can serve more clients without sacrificing impact.

Higher Transaction Volume

Transaction volume refers to the overall size of the credit that each farmer takes in a given season. Similar to the ratio of farmers to field officers, this is a major determinant of our overall financial sustainability. The higher the credit taken on by each client, the higher the overall gross margin generated by each of our field officers. The following table summarizes the gross margin generated by the average field officer in each of One Acre Fund’s major countries of operation:

	Kenya	Rwanda	Burundi
Clients per Field Officer	121	143	219
Revenue per Client	$ 88	$ 75	$ 42
Cost of Goods per Client	$ 56	$ 55	$ 29
Gross Margin per Client	$ 32	$ 20	$ 13
Gross Margin per Field Officer	**$ 3,872**	**$ 2,860**	**$ 2,847**

The key figure in this chart is the gross margin generated by each field officer. Some of this amount goes back to the field officer in the form of her salary, while the rest needs to support One Acre Fund’s overhead. Increasing client transaction sizes directly increases the gross margin generated by any one field officer, and thus the portion of our costs that we are able to cover.

Of course, we ensure that we increase client credit sizes responsibly. We never pressure our clients to take on credit that they cannot afford, and instead let our products speak for themselves. One Acre Fund is offering an increasing variety of products to farmers. These include staple crop packages (fertilizer, seed, training, and insurance for various configurations of staple crops like maize and beans) and “add-on products” like solar lights and tree planting kits. All of One Acre Fund’s products are rigorously tested for high-quality impact, meaning that higher product adoption is a win-win: It improves farmer impact, while boosting our financial sustainability. In other words, our incentives are aligned: the higher the impact for farmers, the easier they will find it to repay One Acre Fund.

High Repayment Rates

One Acre Fund has worked hard to make sure that we achieve consistently high repayment rates across all of our sites. Historically, we have rarely seen repayment rates fall below 95%, and in 2013 were able to achieve 99% repayment across all of our field sites.

We've found that the best way to ensure high repayment is to offer high-quality, impactful products to farmers. Farmers who are successful, in the form of dramatically improved harvests, or new income streams from productive assets, are much more likely to be able to afford to repay One Acre Fund at the end of the season.

We are constantly experimenting with operational improvements to encourage, facilitate, and streamline repayment. To encourage repayment, we offer a variety of incentives to both clients and staff that our data on repayment trends has shown to be effective. For example, we have found that clients who *start repayment* by a certain date, even if the amount is small, are more likely to finish, and we therefore target a low-cost incentive (such as giving out a common hand hoe) around that milestone.

Perhaps the most exciting innovation that One Acre Fund has pioneered around repayment is the introduction of *mobile repayment*. Mobile finance technologies, such as M-PESA in Kenya, allow anyone with a mobile phone to send and receive money. We have leveraged these technologies to make our repayment process increasingly cashless, which insulates our farmers and field staff against security threats and fraud. Streamlining repayment in this way both encourages repayment itself, while lowering our overall administrative costs. Thus far, we have rolled out mobile repayment for our field staff across Kenya. We have not yet fully rolled out farmer-level mobile repayment, or mobile repayment in other countries.

Lower Administrative Costs

The quality of One Acre Fund's service for farmers depends in large part on a sophisticated and professional logistical and administrative support operation. Our administrative teams handle critical responsibilities, including ensuring that we deliver farm inputs to farmers on time, providing financial support like bookkeeping, accounting, and analysis, as well as providing monitoring and evaluation, customer service, human resources, and IT. All of these support services work together to ensure that our field operation, which touches farmers on a daily basis, can run with consistently high quality.

That being said, we are constantly looking for ways to lower the overall cost of our administrative support. For example, we recently noticed that the cost of printing materials for our farmers and field staff is both expensive and time-consuming. We are investing in higher-quality, higher-volume printers and copiers, training staff on cost control, and piloting a variety of efforts to reduce the overall volume of printed materials that our field operations require on a weekly basis in order to bring this number back under control.

Key Conclusions

- For social enterprises, it is important to align revenue streams with activities. Direct service provision should primarily be paid for by clients, while public goods can be supported by philanthropy.
- Earning revenue from direct service operations helps achieve three goals:
  1. Clients get a crucial voice in the service and are no longer passive beneficiaries.
  2. Philanthropy is made far more cost-effective.
  3. Earned revenue ensures positive long-run interactions with the private sector.
- One Acre Fund has found that operating as a social enterprise means that our incentives are well-aligned with those of our customers. We never pursue initiatives for the sake of financial sustainability alone.
- We have found it helpful to define key levers that increase financial sustainability (and our other key performance metrics, impact and scale) and categorize interventions explicitly around those levers (e.g., economies of scale).