Introduction

One Acre Fund exists to help Africa’s farm families become more prosperous. We have historically measured our success through three primary metrics: scale (we want to reach a lot of people), impact (we want to generate a meaningful result for those we serve), and financial sustainability (we want to operate as cost efficiently as possible). One Acre Fund defines financial sustainability as the portion of programmatic costs covered by programmatic revenues in our revenue-generating business units;¹ the resulting difference is the ‘donor subsidy’ required to run these units.

One Acre Fund’s prevailing goal on financial sustainability for much of its existence was captured well in our 2014 white paper Driving Financial Sustainability: “Our [One Acre Fund’s] long-term goal is to reach full financial sustainability for our field operation.” This white paper explained that full financial sustainability would free donor dollars to be spent on high-impact public good activities, such as innovation, and provide validation of our model, ideally driving replication by other NGOs and businesses. We knew full break-even was ambitious, but recognized the importance of pushing our country teams to design our program to achieve financial sustainability within a few years of launch.

During the last two years (as of this writing), One Acre Fund’s thinking on financial sustainability has evolved. In this white paper, we explain the factors that have driven this change and our latest thinking on this important topic. We believe our experience will prove useful to other social enterprises grappling with this question.

Challenges in Reaching Full Financial Sustainability

Although always present in our work, the following three challenges to financial sustainability have become more acute in the past few years, causing us to question the feasibility of 100% break-even across our field operations:

1. **Commitment to target population**: Our data show One Acre Fund’s farmer population easily fits the standard international definition of “extreme poor,” and in countries like Burundi and Rwanda, “ultra-poor.”² In these circumstances, it is incredibly challenging to fully pull the levers needed to reach full financial break-even. For instance, baseline farmer knowledge is so low that it is difficult to increase, past a certain level, the number of farmers managed by a typical field officer (to reduce our costs). Additionally, existing land size is so small and assets/savings so minimal that, past a certain level, farmers cannot easily increase their transaction size with One Acre Fund (to increase our revenues and margin). This is the very reason that many microfinance institutions and the private sector have largely avoided remote, non-commercial farm families with fewer than two hectares of land, where a recent study estimated only 7% of short-term agricultural finance needs are being met.³ One Acre Fund is proud to be working at the very base of the pyramid, where, as this report argues, ongoing subsidy may be needed.

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¹ As of this writing, One Acre Fund’s two revenue-generating units are our core program and agrodealer (farm input distribution) business. For shorthand, we will use ‘financial sustainability of our field operation’ to represent these units. We do not include the following expenditures in calculating financial sustainability: non-revenue generating partnerships (e.g., improving the impact of a country’s extension force), field-building (costs of policy, microfinance partnerships, etc. that do not directly benefit 1AF clients), acceleration (costs of innovation that generate uncertain and future benefits for One Acre Fund farmers and also serve as public good activities), and shared services (corporate overhead costs, such as our financial audit and fundraising teams, that we do not believe farmers should have to bear).
² ‘Extreme poor’ is consuming < $1.90 per adult equivalent per day, in 2011 PPPS; ‘ultra-poor’ is consuming < $.50 per adult equivalent per day, in 2005 PPPS)
³ Initiative for Smallholder Finance’s seminal Inflection Point report estimates only 7% of short-term agriculture finance needs for non-commercial smallholder farmers are currently being met, versus 24%-52% for the two different types of commercial smallholders.
2. **External, macro factors:** Such factors are present for any organization, but they are magnified for those working in rural Africa. For instance, the political crisis in Burundi (beginning April 2015 and still ongoing as of this writing) has greatly increased One Acre Fund’s costs for security and travel. As another example, with minimal outside attention and action to draw upon, the maize virus MLND in Kenya (beginning 2012 and still ongoing in some parts of the country) greatly increased the risks and costs (e.g., surveillance, treatment, crop insurance) of offering this primary staple crop in our territories. In both cases, One Acre Fund’s financial sustainability took a meaningful, multi-year hit. Whereas private sector businesses may have responded by shifting markets, One Acre Fund stayed committed to serving our clients in these countries because our impact remained strong.

3. **Growth:** One Acre Fund continues to grow 40-50% per year, even ten years into our work. While we are proud of this achievement, the constant addition of new districts of operation in existing countries, and new country operations, has served as a headwind against efforts to reach full financial sustainability. This is for the simple reason that new areas tend to operate at a lower financial sustainability in the early years as we launch operations. From an impact standpoint, this manifests in transaction size: new clients take smaller transaction sizes until we can gain their trust. Operationally, we also incur relatively high up-front investment costs in infrastructure such as technology and systems, which lower our sustainability in the early years in new countries. Over time, these costs even out as we accumulate the economies of scale to efficiently run new sites, but we find they are critical investments to make up-front to enable future scaling.

**Financial Sustainability 2.0**

In light of these challenges, One Acre Fund has reconsidered the role of financial sustainability in how we define success, and shares the following principles in an attempt to capture our evolving views:

1. **Cost efficiency remains an absolute priority:** Whether or not full financial sustainability is achievable, One Acre Fund will fight tooth and nail to achieve the maximum cost efficiency possible in each country of operation. We believe the type of people we hire and the performance-based culture we’ve established naturally push us in this direction. Additionally, in 2015 we formally launched “Scale Innovations” teams in our larger countries, charged with testing and ultimately rolling out successful operating model improvements that enable us to grow more efficiently. One big win to date is mobile money in Kenya, which dramatically reduces auditing, receipting, and fraud costs compared to our traditional, cash-based repayment model. Other promising trials that seek to improve financial sustainability include tablets for field officers (for marketing, enrollment, and training), site splitting (which inserts additional field officers into existing territories to increase client density, a more efficient growth approach than adding new sites), and individual loan liability (to increase transaction size).

2. **Cross-subsidy should be explored:** When working at the bottom of the pyramid, a common business strategy for social enterprises is to use profits from better-off customers (who might pay more, or be offered a higher-priced product) to subsidize losses on the worse-off. One Acre Fund began considering this strategy in 2015 through our new country expansion (NCE) department, which assesses potential expansion countries with respect to the land sizes and poverty levels of the typical smallholder farmer.

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4 For more on One Acre Fund’s mobile money repayment model, see the Better than Cash Alliance’s recent case study, “How Digitizing Agricultural Input Payments in Rural Kenya is Tackling Poverty: The Case of One Acre Fund”

5 See, for instance, “Investing in Cross-Subsidy for Greater Impact”
Whereas NCE’s analysis identified most areas within One Acre Fund’s six existing countries as Tier 1 (minimum average land size and chronic food shortages for farmers), it also recommended scouting and piloting in a Tier 2 area of Zambia (with land sizes 2.5-5 times larger than our average) to test our model’s ability to thrive in a new context. As of this writing, in just its first season, our Zambia pilot has achieved our highest ever transaction size (~$300 per farmer), and has already achieved operations above break-even. We are hopeful that transaction size will continue to grow and that Zambia will continue to operate at or near break-even as we scale.

3. **A means to an end**: Most importantly, we are clearer that financial sustainability should be a means to an end, not an end in and of itself. The end to which it should be working, in our view, is to maximize social return on investment (SROI).

One Acre Fund defines SROI as the impact generated per farmer divided by the net cost to serve that farmer. Impact is defined as the incremental profit generated by the One Acre Fund model, while net cost is defined as the donor subsidy required to reach the average farm family, and hence is just an alternate calculation of financial sustainability.

The power of SROI is that it combines two of the three core metrics of One Acre Fund, impact and financial sustainability, and ensures that one is not achieved at the expense of the other. For instance, all else equal, we believe donors should prefer an organization that creates $50 of impact per farmer at a $10 donor subsidy per farmer (a $5 social return for each dollar invested, i.e., SROI), versus one that creates $15 of impact at a $5 subsidy (a $3 SROI), even though the latter is closer to full financial break-even. In other words, we believe all things equal, donors should prefer an organization that creates a higher social return for each dollar of their investment.

Largely driven by reductions in our donor subsidy per farmer (from $50 in 2013 to $31 in 2016), One Acre Fund’s core program SROI has grown from 2.7 to 3.2 over this period. By 2020, we aim to drive our SROI to 10; for instance, achieving $160 impact per farmer, versus $16 donor subsidy per farmer (a financial sustainability of near 90%). An important question is how One Acre Fund’s SROI compares with at-scale programs working with the same target population. We believe externally evaluated East African government agricultural programs (e.g., extension services and fertilizer subsidy programs) provide the best comparison for our program, given similar scale, target population, and measurement rigor. Research would suggest today’s and certainly our 2020 projected SROI are highly favorable relative to these programs; literature suggests that relevant extension programs typically achieve negligible SROI, while fertilizer subsidy programs average an SROI of 1.5.

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6 See Getting the Counterfactual Right for an explanation of how we measure against a control group. Additionally, note One Acre Fund measures non-income impacts (e.g., soil health, child nutrition), but income impacts are the most immediate, meaningful outcome of our work.

7 For instance, a program that costs $50 per farmer and recovers $40 in farmer repayments has a financial sustainability of 80% and a donor subsidy of $10 per farmer.

8 Importantly, we’ve seen even greater SROI in other years: We had an SROI of 3.3 in 2014 and a large jump to 4.7 in 2015. The dip back down to 3.2 in 2016 was driven largely by environmental factors, including a large drought in Kenya, our largest country of operation, emphasizing the importance of our climate resilience work. We do believe impact – and SROI – will continue to grow.

9 See 3ie’s 2014 systematic review, World Bank 2000 study of Kenya’s extension system. Both suggest that at-scale, government-delivered agricultural programs were largely ineffective.

10 See JPAL 2008 study of fertilizer subsidies in Western Kenya, which suggests a 1.36 SROI. See also Campbell Collaboration’s 2014 forthcoming systematic review, which notes “empirical studies generally revealed negative impacts and difficulties in cost control, diversion [...], overuse of inputs and capital *...+, regressive benefits, and market distortions inhibiting private investment in agricultural services.”
Besides being a useful metric for donors to compare organizations, in a short period of time SROI has also become a highly valuable input into resource allocation at One Acre Fund. For example, country operations with strong SROIs can be challenged to grow faster with incremental resources, while those with lower SROIs can be challenged to grow more efficiently. New country operations cannot be launched without projecting to meet a minimum hurdle SROI.

**Conclusion**

At the center of all of our work, including our evolving thinking on financial sustainability, is how best to maximize the impact we generate as we strive to serve the poorest smallholder farmers. While our experience these past two years suggests achieving full financial sustainability in our field operation will be challenging, we do project to increase our sustainability (from ~78% in 2015 to ~90% in 2020, and further in the years following), driven by scale innovations, cross-subsidization, and other tactics (e.g., purchasing economies on farm inputs), but also assuming no major setbacks in external conditions. We also believe it is feasible to reach 100% over time in certain countries with more favorable characteristics (especially higher average land sizes). Regardless, and most importantly, we remain steadfast in our commitment to maximum cost efficiency everywhere we work, inasmuch as it maximizes the impact we generate per unit of cost, as we pursue our ultimate vision of an Africa where no child of a farm family goes hungry.