To Serve the Poorest Clients, Earned Income Isn't Enough
HBR Blog Network

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The recent explosion of interest in impact investing has generated much talk about breaking the shackles of the traditional philanthropic model. The concept seems appealing — incremental investment enters the "social impact" market in the form of below-market loans or equity, incenting mission-driven organizations to become self-sustaining. But is that realistic when you're serving the poorest of the poor?

One Acre Fund (a nonprofit where Matthew is on the board and Stephanie on the staff) serves 135,000 of the poorest smallholder farmers in East Africa, on average doubling the profits they generate from farming. We care deeply about the bottom line, and earned income from our farmers is our primary funding source. At the same time, grant support enables us to innovate, grow faster, and stay focused on the bottom of the pyramid. Both are critical.

Why do we care so deeply about the bottom line? Simply put — because it is part of our mission. We aim to serve as many smallholder farmers as possible, and to help them become more prosperous. So we offer farmers what we call a "market bundle": seed and fertilizer on credit, training, and market facilitation. We charge a fee to our farmers because it makes us more efficient and, given limited resources, enables us to reach more people. It also puts our farmers in the driver's seat — if we offer poor customer service in an area, our customers always stop paying until we correct the problem.

After seven years of operations, we are covering 85 percent of our field operating costs through farmer loan revenue. When we started, that number was 10 percent. Only through many small operational innovations have we been able to get to 85 percent. For instance, our field officers, who work directly with farmers to offer trainings and collect loan repayment, used to work with less than 50 farmers each. Now, each field officer serves about 200 farmers, but still maintains a measurably high level of customer service.

The road to 85 percent coverage of our field operating costs has not been easy, but getting from there to 100 percent will be even more difficult. And while we are committed to that goal through continued revenue enhancements and cost efficiencies, donations can help us achieve our mission faster and serve more farmers.

We use donor grants for some very important purposes. For example, new region launches are expensive — but small donor subsidies have enabled us to expand to new regions and rapidly scale from 30,000 farmers two years ago to 135,000 farmers today. As another example, last year we invested a donor grant in an R&D project that enabled us to totally eliminate cash in our Kenya operation by using mobile banking — which will rapidly accelerate our growth in the future. We also used donor funding to pilot, measure, and scale-up a new tree-planting product that is now sold to our farmers, further increasing their incomes (and benefitting the environment).

As Kevin Starr, head of the Mulago Foundation, puts it, “Overcoming market failure requires subsidy[1].” We wholeheartedly agree. One Acre Fund serves the hardest-working individuals in the world — farmers with only one acre of land, a simple hand hoe, and outdated farming techniques, trying to feed a family of six. The “market” simply does not work for these farmers, who are stuck in a cycle of poor yields, impeding their access to the right farm inputs and trainings, and therefore producing poor yields again the next season. The results can be horrific: one in ten of these farmers’ kids do not survive to age one, and 40% of those who do suffer physical and mental stunting from a lifetime of not eating enough.

Depriving organizations like ours of grant funding, and pushing them to take on debt instead, could have the immediate consequence of forcing nonprofits to “go upmarket.” There’s nothing wrong with providing services to a farmer with 10 acres of land and a herd of livestock. It’s certainly easier than serving the hardest-to-reach farmers. But the greatest potential for social impact lies with those hard-working farmers at the bottom of the pyramid, where One Acre Fund’s model produces enough income for farmers to eliminate meal-skipping and invest in education, housing, and other productive assets.

Are social impact and focus on a bottom line at odds? Yes, when impact investors push mission-driven organizations to focus too much on financial return. But no, if we acknowledge that the optimal capital structure for organizations serving the poorest individuals may be a mix of earned income and donations.

[1] Starr, Kevin. "The Trouble with Impact Investing: P1." *Stanford Social Innovation Review*. Jan. 2012. Web. 11 Sep. 2014. <http://www.ssireview.org/blog/entry/the_trouble_with_impact_investing_part_1>