FIGURE 18

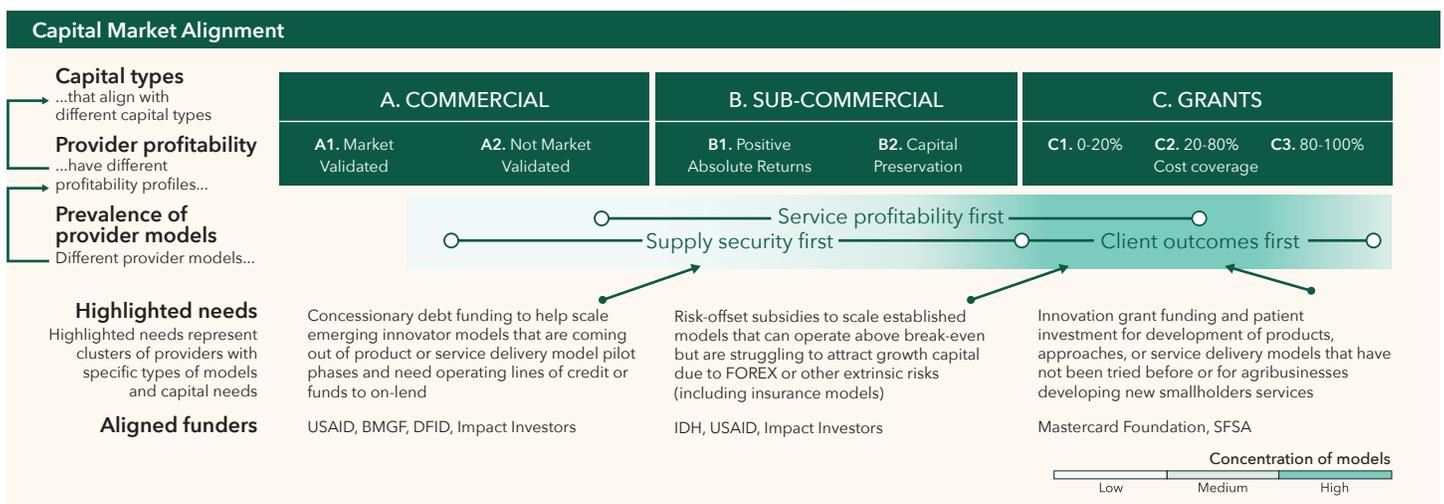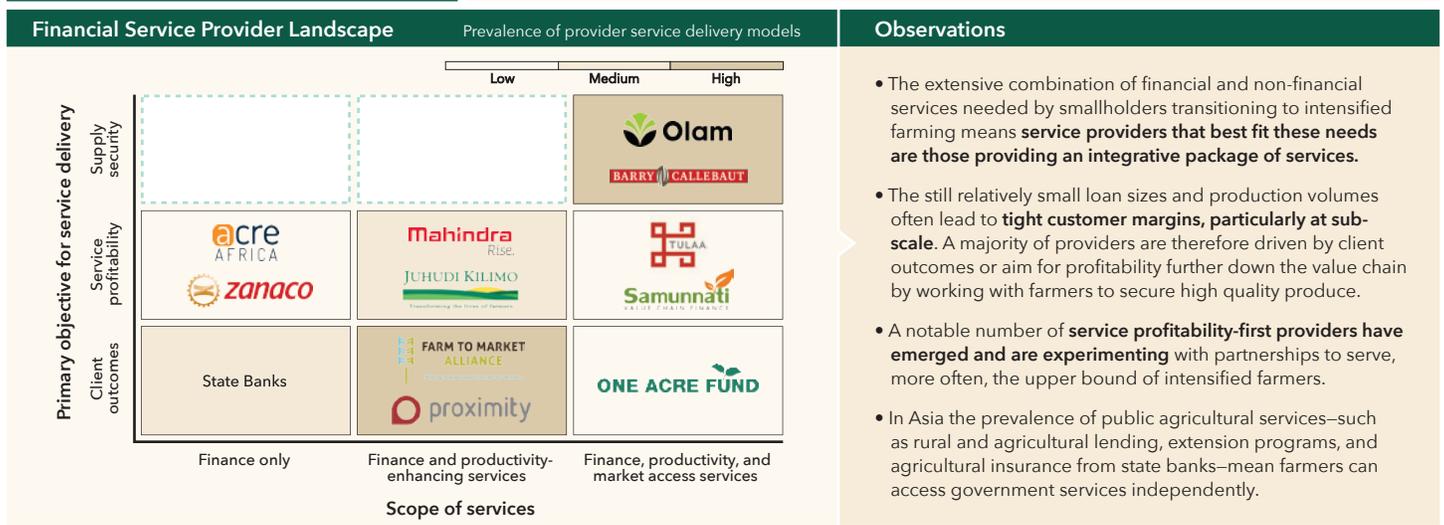# Impact Investment Thesis #2: Farm Intensification

In this pathway, the smallholder household takes a business-orientated approach to farming, and is able to generate a surplus and increase production value through improved inputs, better farming practices, and regular sales to buyers and traders

LOW MEDIUM HIGH

Scale of Opportunity

Target Outcome Effects

Production	Resilience	Employment	Nutrition	Climate	Gender	Youth
Intensification of production and increased offtake price realization	Increased household food output, farm assets, and discretionary income	New (primarily informal) jobs created through hired farm labor	Increased food security and access to directly produced and purchased nutritious foods	Adaptation to climate-related shocks and changes and mitigation of carbon-intensive production	Increased agency, financial independence, and accumulation of productive assets	Increased perception of farming as a business and investment of time and resources in farm and upskilling

Client Profile:

Smallholder farmer continues to farm on 1-2 hectares of land but perceives their agricultural activities as a business and main source of income. Investments in farm intensification result in either an increase in volume through higher yields or an increase in production value, often through higher quality or price realization.

Primary service needs

- Loans for high quality inputs, including climate-resistant seeds, fertilizer, and crop protection
- Advisory and information services customized to crop, location, and use of inputs (including soil testing)
- Farm technologies and services related to irrigation, storage, and harvesting
- Integration into the value chain through regular access to traders and buyers at fair prices
- Agricultural insurance (indemnity or index based)

Secondary service needs

- Funeral and health insurance
- Financial literacy and business skills training, including farm management
- Working capital and harvesting loans
- Mechanization services through lease or shared models

Financial Service Provider Landscape

Prevalence of provider service delivery models

Low Medium High

Primary objective for service delivery: Supply security / Service profitability / Client outcomes

Scope of services: Finance only / Finance and productivity-enhancing services / Finance, productivity, and market access services

Observations

- The extensive combination of financial and non-financial services needed by smallholders transitioning to intensified farming means **service providers that best fit these needs are those providing an integrative package of services.**
- The still relatively small loan sizes and production volumes often lead to **tight customer margins, particularly at sub-scale.** A majority of providers are therefore driven by client outcomes or aim for profitability further down the value chain by working with farmers to secure high quality produce.
- A notable number of **service profitability-first providers have emerged and are experimenting** with partnerships to serve, more often, the upper bound of intensified farmers.
- In Asia the prevalence of public agricultural services—such as rural and agricultural lending, extension programs, and agricultural insurance from state banks—mean farmers can access government services independently.

Capital Market Alignment

Capital types
...that align with different capital types

Provider profitability
...have different profitability profiles...

Prevalence of provider models
Different provider models...

A. COMMERCIAL		B. SUB-COMMERCIAL		C. GRANTS		
A1. Market Validated	**A2.** Not Market Validated	**B1.** Positive Absolute Returns	**B2.** Capital Preservation	**C1.** 0-20%	**C2.** 20-80% Cost coverage	**C3.** 80-100%

Service profitability first
Supply security first — Client outcomes first

Highlighted needs
Highlighted needs represent clusters of providers with specific types of models and capital needs

Aligned funders

Concessional debt funding to help scale emerging innovator models that are coming out of product or service delivery model pilot phases and need operating lines of credit or funds to on-lend	Risk-offset subsidies to scale established models that can operate above break-even but are struggling to attract growth capital due to FOREX or other extrinsic risks (including insurance models)	Innovation grant funding and patient investment for development of products, approaches, or service delivery models that have not been tried before or for agribusinesses developing new smallholders services
USAID, BMGF, DFID, Impact Investors	IDH, USAID, Impact Investors	Mastercard Foundation, SFSA

Concentration of models

Low Medium High

Enabling Environment Dependencies

- Rural infrastructure
- Farmer organization frameworks/policies
- Enabling digital finance policies