



Cultivating Capital for Smallholder Finance

Lessons from 6 years of the IDH Farmfit Fund

December 2025



**Farmfit
Fund**
Managed by idh invest



idh
transforming markets

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Preface

Smallholder farmers continue to feel the most immediate effects of climate change. Their yields, incomes and resilience are increasingly shaped by weather volatility, and they remain among the most underserved by formal finance. Addressing the smallholder farmer financing gap is core to IDH's ambition to make agricultural value chains more sustainable and inclusive. Tackling this challenge requires new ideas, models and instruments that better suit farmers' needs.

Six years ago, the Dutch Ministry of Foreign Affairs together with the multinationals JDE Peets, Mondelēz, Unilever and the financial institutions Rabobank and FMO placed their trust in IDH and invested in the IDH Farmfit Fund (the Fund), a smallholder-centred blended finance fund. This mandate was unprecedented in its ambition and in the flexibility it allowed, including long tenors, and tailored instruments. It also gave the Fund the uncommon ability to invest across different sectors of smallholder facing organisations in one portfolio. At the same time, we stepped into an area filled with unknowns and untested assumptions. We learned quickly that serving this segment is complex and resource intensive, and that real world conditions often move faster than any model prepared in advance.

This publication reflects both our progress and the lessons that came from those moments where our expectations and reality diverged. Inspired by the openness demonstrated by peer organisations that have documented the difficulties and realities they faced, we believe that sharing not only achievements but also uncertainty, adaptation and learning is essential.

As we reflect on this journey, it is clear that our progress has been driven not only by learning and adaptation, but above all by the people and partners who made this work possible. Most importantly, we want to acknowledge our investees. Their willingness to innovate, adjust business models and engage deeply with farmers has been central to any impact and learnings the Fund helps to generate.

We are grateful to our investors, particularly the Dutch Ministry of Foreign Affairs, for their continued commitment to a fund focused on smallholder livelihoods throughout periods of uncertainty. We also thank the broader IDH organisation for its commitment to creating the conditions in which smallholder centred interventions can take place. And we thank the IDH Investment Management team, past and present, for the commitment and perseverance to advance a pioneering effort at a scale that had not been tested before.

We are proud of how smallholder impact has remained a non-negotiable element of our approach. From systematic assessments of smallholder economics, through to an agri-specific Client Protection Framework, we believe these elements reinforce a more effective pathway to lasting, farmer-centric impact. However, our experiences have also highlighted areas for optimisation.

A central insight from the past years is that capital alone is insufficient; smallholder resilience requires systemic, collaborative approaches that align investors, funders, financial institutions, value chain actors and civil society around shared outcomes. Guided by this principle, IDH develops new investment initiatives that integrate past learnings, including the Investment Development Hubs, the Latin America Climate Resilient Coffee Facility, One Acre Ventures (jointly with One Acre Fund), and the successor to the IDH Farmfit Fund.

We believe that strategic capital orchestration, patient capital, flexible instruments and continuous learning are essential to overcome fragmentation and reach meaningful leverage points. No single organisation can address the structural challenges in smallholder finance, and persistent risk perceptions make openness even more important. Going forward, deeper collaboration across IDH and the wider impact investing and development finance community will be vital to align capital, capabilities and evidence around shared objectives for farming communities. We hope that this publication adds impetus to sectoral collaboration and we invite organisations to reach out to us to collaborate on closing the smallholder agricultural finance gap.



Barbara Visser

Chief Operating Officer,
IDH Investment Management,
Manager of the IDH Farmfit Fund

IDH Farmfit Fund characteristics



Fund manager

IDH Investment Management

Fund type

15 year, closed-end blended finance fund

AUM

EUR 100 Million

Management fee

2.75%, with a discount of up to 2.25% on undrawn amounts on the commitment from corporate investors

Where is the Fund active?



Impact focus

Raising smallholder farmer incomes



Use of proceeds

On-lending to farmers, asset finance, working capital, growth capital, farm renovation and rehabilitation



Instruments

Guarantees, subordinated and term loans, equity or mezzanine financing



Impact lenses

Client Protection, Climate Resilience, Gender, and Food Security



Target investees

Agri-SMEs, Fintech, Agtech, (M)FIs, other Value Chain Actor



Value chains

Broad focus on cash crops, food crops, livestock and aquaculture
Emphasis on cocoa and coffee



Tenor

Up to 10 years



Ticket size (share of the Fund)

EUR 1 to 10 million, taking maximum of 50% of the total transaction size

Executive Summary

- **Smallholder farmers anchor rural economies and produce much of the world's food, yet they remain underserved by the financial sector.** The financing gap across developing and emerging markets is estimated at over USD 200 billion (ISF Advisors, 2025d). Despite growing attention, capital often fails to reach its intended targets and impact is rarely felt at farmer level.
- **The IDH Farmfit Fund was launched to test whether smallholder-inclusive finance could be both impactful and commercially viable.** Over six years, the Fund deployed over EUR 50 million across 19 investments and mobilised over EUR 150 million in co-investment, with impact projected to reach over 5 million farmers. The Fund's ability to mobilise large amounts of capital reflects meaningful progress, but far short of total addressable demand.
- **The Fund's blended finance structure enables it to support a diverse range of actors—including agri-SMEs, microfinance institutions, agtechs and fintechs—across Africa, Asia and Latin America.** This flexibility has been essential in reaching underserved markets, though not without trade-offs in terms of complexity, efficiency and resource intensity.
- **This publication offers insights into what the Fund has achieved, as well as lessons learned.** It is intended as a resource for funders, investors, support organisations and governments committed to building a more inclusive and effective smallholder finance ecosystem. This report evaluates design dilemmas for those seeking to create new vehicles and provides targeted recommendations for different actors.

The Demand for Capital

- **The landscape of demand for smallholder-inclusive capital is both vibrant and uneven, shaped by the diversity of business models, value chains and geographies.** While the Fund has consistently seen strong demand for its capital, the alignment between what is sought and what the Fund can and wants to provide has varied significantly across segments.
- **Opportunities for impact have been most visible among fintechs, agtechs, MFIs and a range of agri-SMEs.** Fintechs and agtechs have demonstrated scalable, innovative approaches to reaching smallholders, often leveraging technology or tailored financial products to drive inclusion. MFIs with a rural presence have shown strong alignment with the Fund's mandate, especially where financing has supported product innovation and portfolio expansion. Many agri-SMEs have emerged as promising partners, especially in providing smallholders with a holistic set of services and off-take.
- **However, investment readiness remains a persistent barrier, especially among agri-SMEs.** Many businesses lack the systems, governance and financial maturity needed to absorb investment. While technical assistance (TA) can help bridge this gap, most traditional TA programmes are not designed with investment readiness and business model optimisation as a core objective. Pre- and post-investment TA that is sufficiently aligned to the needs of both businesses and investors is therefore a key lever to close the investment gap.

- **The Fund has encountered persistent challenges in engaging with certain types of organisations and transactions.**

Despite expectations, multinational traders have shown limited appetite for setting up on-lending facilities, as lending is not core to their business models and operational complexity remains high. Traditional financial institutions have also been hesitant, deterred by high risks, regulatory constraints, inadequate delivery infrastructure and high operational costs. Even when there is guaranteed off-take to de-risk financing, limited incentives and high opportunity cost of serving smallholder segments remain a deterrent.

- **Equity financing has been in high demand but presents structural challenges.**

Deploying equity has enabled the Fund to invest in the growth of scalable and impactful businesses. However, the Fund's ability to meet this demand is constrained by exposure limits, liquidity needs and the complexity of structuring exits.

- **The Fund sees the greatest additionality where it can provide longer-term, flexible capital that is otherwise unavailable.**

Businesses value financing that adapts to their realities, including grace periods, flexible interest and repayment terms, and strategic support beyond capital. However, there is a mismatch between the large sectoral need for long-term finance and the considerably smaller addressable demand for it.

Supply of Capital: How the Fund Experiences Common Challenges in the Sector

- **Operating as a first-time fund manager has presented both opportunities and constraints.**

The Fund had to build systems, policies and a team from scratch, while simultaneously deploying capital and continued fundraising after first close. This dual focus created early bottlenecks but also laid the foundation for a more efficient and responsive investment process.

- **Liquidity and capital structure have been recurring themes in the Fund's journey.**

As a close-ended fund with an initial five-year investment period and a 15-year term, the Fund is well positioned to offer patient capital. However, the management fee structure creates pressure to deploy quickly, which can conflict with the Fund's impact ambitions. Moreover, longer grace periods and equity investments reduce cash flow available for operations.

- **The Fund's experience underscores the need for more flexible fund structures.**

Open-ended or hybrid models, with permanent equity and staggered exit windows, may better align investor liquidity needs with the realities of smallholder finance. Similarly, fee models should reflect the complexity and resource intensity of investing in underserved segments.



Supply of Capital: Key Insights from the Unique Elements of the Fund

- **The Fund's design and approach set it apart from many other vehicles in the smallholder finance space.** From its flexible capital structure to its embedded impact tools, the Fund was built intentionally to address gaps in the market and respond to the realities of smallholder-inclusive business models. While this has introduced complexity, it has also enabled the Fund to reach segments and geographies that are typically underserved by the capital markets.
- **Impact is not an add-on, but a core part of how the Fund operates.** Tools such as the client protection agri-framework and development action plans are integrated into due diligence and post-investment monitoring. These mechanisms help ensure that smallholder impact is actively managed. The Fund also uses performance-based pricing to incentivise progress on impact metrics, aligning financial and social returns. While these tools and structures have added value, they also require time and capacity from both the Fund and its investees, which should ideally be included in the fee structure.
- **Building a diverse portfolio has allowed the Fund to support a range of actors and business models, while also identifying synergies across investments.** By investing in fintechs, agtechs, MFIs and agri-SMEs, the Fund supports different parts of the smallholder finance ecosystem. In some cases, these investments have reinforced one another in a synergetic fashion.
- **Flexibility at the transaction level has been one of the Fund's defining features.** The ability to tailor instruments has enabled the Fund to meet businesses where they are. However, structuring bespoke deals is resource-intensive, and the Fund must balance this flexibility with the need for efficiency.
- **Co-investment has been both an enabler and a practical constraint.** The Fund has mobilised over EUR 150 million in co-investment, which has extended its reach and shared risk. However, co-investment also introduces complexity, particularly for smaller transactions, where the Fund bears the full operational burden of managing the transaction but shares returns. Aligning timelines, terms and risk appetite with other investors can delay execution and limit flexibility.

Conclusions and Recommendations

- **The Fund's journey over the past six years has demonstrated both the potential and the complexity of deploying capital for smallholder-inclusive business models.** While the Fund has made meaningful progress in reaching underserved segments and mobilising co-investment, it has also encountered persistent barriers, ranging from investment readiness to the structural limitations of fund design. These experiences have reinforced the importance of patience, adaptability and a willingness to challenge initial assumptions.
- **Many of the dilemmas faced by the Fund are not unique—but the process of working through them has generated valuable insights** (see Design Dilemmas, [page 60](#)). These insights not only inform the Fund's future strategy but also offer guidance for others seeking to build a more inclusive and effective smallholder finance ecosystem.

The following recommendations are offered in the spirit of shared learning and sector-wide progress:



For Impact Investors

- Design fund structures that reflect the complexity and long-term nature of smallholder finance.
- Collaborate on co-investment and complementary investments to share risk and due diligence.
- Support sector-wide transparency and shared learning.



For Senior Investors and Limited Partners at a Fund Level

- Explore hybrid or open-ended fund structures that better match liquidity needs and impact ambitions.
- Align management fee models with the resource intensity of investing in underserved markets.
- Invest on pooled terms to enable coherent strategy and efficient deployment.



For Support Organisations (NGOs, Technical Assistance Providers, Knowledge Institutions)

- Embed investment readiness and business model optimisation into traditional technical assistance programmes.
- Build market transparency and share lessons learned on what works and what doesn't.
- Investigate and address obstacles to demonstration effects to assess how real world performance can influence risk perception.



For Donors and Governments

- Deploy concessionality in proportion to the degree of capital additionality, and the magnitude of private investment mobilisation to more effectively deploy capital.
- Integrate investment readiness into broader programmes and strategies.
- Strengthen enabling environments for agri-finance through supportive policy and regulation.

Introduction

The financing gap for smallholder farmers in developing economies—who produce much of the world’s food and anchor rural markets—is no longer a hidden crisis (Aceli Africa & Dalberg Advisors, 2020; ISF Advisors & CASA, 2022; ISF Advisors, 2025a). Across Latin America, Southeast Asia and sub-Saharan Africa, the estimated shortfall is over USD 235 billion (ISF Advisors, 2025b). Despite growing attention and investment, capital often fails to reach its intended targets and generate impact at the farm level. Ticket sizes remain too large, collateral requirements too rigid and the risk-return profile of smallholder-inclusive business model investments is often unattractive without significant concessional support.

At the same time, the actors that could strengthen the broader ecosystem each face their own constraints. Agricultural small- and medium-sized enterprises (agri-SMEs), while central to delivering inputs, services and market access, often lack the scale or investment readiness to absorb capital. Microfinance institutions (MFIs), though well-positioned to serve rural clients, are rarely structured to lend into agriculture. Agtechs and fintechs aim to offer scalable, tech-enabled solutions but often remain early-stage and undercapitalised. Even the more established actors like commercial banks and multinational traders struggle to engage meaningfully: banks are deterred by high risk and low returns, while traders often lack the infrastructure or incentives to facilitate on-lending. **These dynamics point to a deeper issue: there is not merely a shortfall of capital, but a structural mismatch between smallholder financial needs and the products, institutions and investment models designed to serve them.**

The IDH Farmfit Fund: A Blended Finance Strategy to Mobilise Capital and Transform Smallholder Markets

The IDH Farmfit Fund (“the Fund”) was launched in response to such persistent challenges in smallholder finance and to prove that reaching smallholders can be both impactful and commercially viable. Achieving this requires scalable, financially sustainable models that can attract and retain commercial capital. To that end, **the Fund combines public and private capital strategically to de-risk targeted investments and crowd more senior investors into underfinanced and high-impact segments of agricultural value chains.**

Unlike the agri-SME, rural or livelihoods funds of many peers¹, the IDH Farmfit Fund is a EUR 100 million smallholder-focused fund that invests in a range of actors, including agtechs and fintechs, MFIs, agri-SMEs and other market actors. Designed with flexibility at its core, the Fund aims to meet demand for investment by smallholder-inclusive business models through capital that

1. This publication refers throughout to “peers” of the IDH Farmfit Fund. Loosely, this group includes many of the members and affiliates of the Council on Smallholder Agricultural Finance (CSAF). Founded in 2012 as a forum for lenders to share learning, CSAF now includes 17 members and affiliates committed to market growth and impact. There are significant differences in approach and focus within this group, with some firms taking more of a finance-first approach, whereas others are more impact-oriented. The IDH Farmfit Fund falls into this latter group.

is not only catalytic, but also more patient and flexible than typically available—while still targeting returns comparable to alternative investments in the market.

The Fund's ability to take higher risk and more flexible positions at investment level is facilitated by its blended capital structure.

The Fund secured a EUR 50 million redeemable grant from the Dutch Ministry of Foreign Affairs (MoFA), which catalysed an additional EUR 50 million from senior corporate investors—including Rabobank, FMO, JDE Peet's and Mondelēz—creating a unique coalition to improve smallholder livelihoods. Additional de-risking is made possible through the Fund's second loss guarantee from the U.S. International Development Finance Corporation (DFC).

The aforementioned characteristics and structure aim to support, incentivise and mandate the Fund in being catalytic, impactful and additional:

- **Catalytic** – The Fund aims to mobilise capital in three ways. Firstly, through its blended finance structure that mobilises the capital of senior investors. Secondly, at an investment level, where the Fund co-invests with others and seeks to mobilise investments that may not have happened otherwise by taking a higher risk position (up to 50% of a transaction). Finally, through the demonstration effect of building impactful and commercially viable investments to show that financially sustainable farmer finance is possible. In this way, the Fund aims to shift perceptions of risk and reward in the sector and pave the way for smallholder finance to be integrated into mainstream investment strategies.
- **Impact** – Every investment that the Fund makes aspires to deliver impact at smallholder level, with a focus on gender equality, climate resilience, smallholder client protection and food security. Each investment must

have a considerable smallholder angle in its business model, evaluated through a detailed assessment of smallholder economics. Where the smallholder angle is deemed insufficient, the Fund's investment incentivises changes in business practices to deliver greater smallholder impact while technical assistance grants offset the costs of these changes.

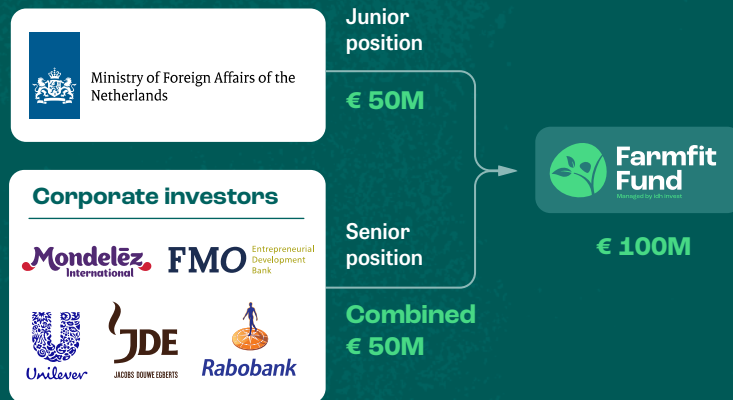
- **Financial Additionality** - The Fund aims to support private sector activities that extend beyond what is currently available in the market without displacing existing private sector efforts. Therefore, the Fund invests when companies are either not able to access financing or cannot access financing at the required terms (e.g., pricing, tenor). This often means that the Fund seeks to offer longer-term and more flexible finance, whereas popular strategies such as short-term working capital often don't meet the Fund's additionality requirements.
- **Non-Financial Additionality** – The Fund also aspires to non-financial value by strengthening impact, improving ESG risk management, offering technical assistance and building operational capacity. Non-financial additionality is an ambition in all investments. For instance, the Fund ensures that investees commit to client protection principles – such as responsible lending and transparent pricing – in how they engage with smallholders.

A Blended Finance Structure

~50/50 public private capital. De-risking at Fund and transaction level

Capital Structure

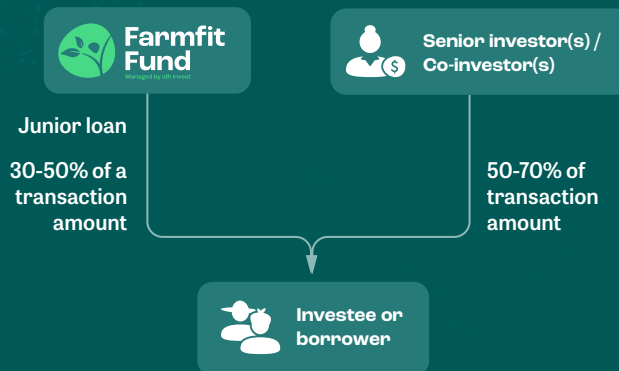
Fund level



De-risking corporate investors

The financing of the Dutch Ministry of Foreign Affairs de-risks the corporate investors

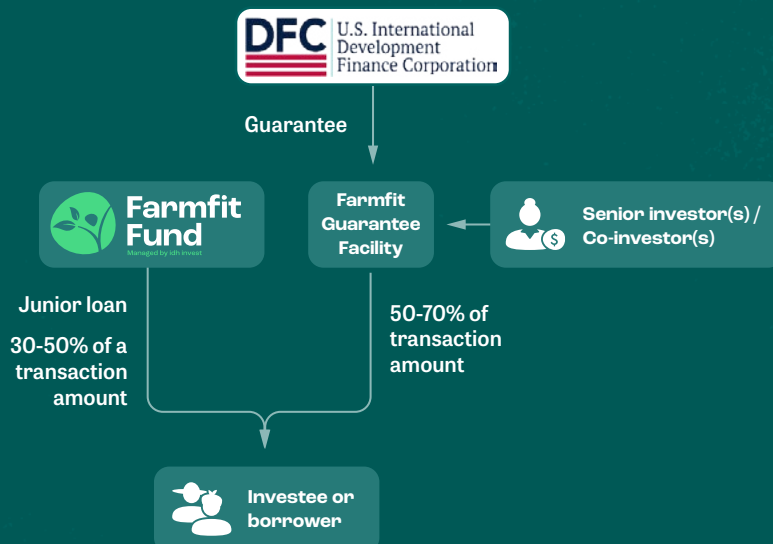
Transaction level Option A



De-risking co-investors

The Fund can take the highest risk position

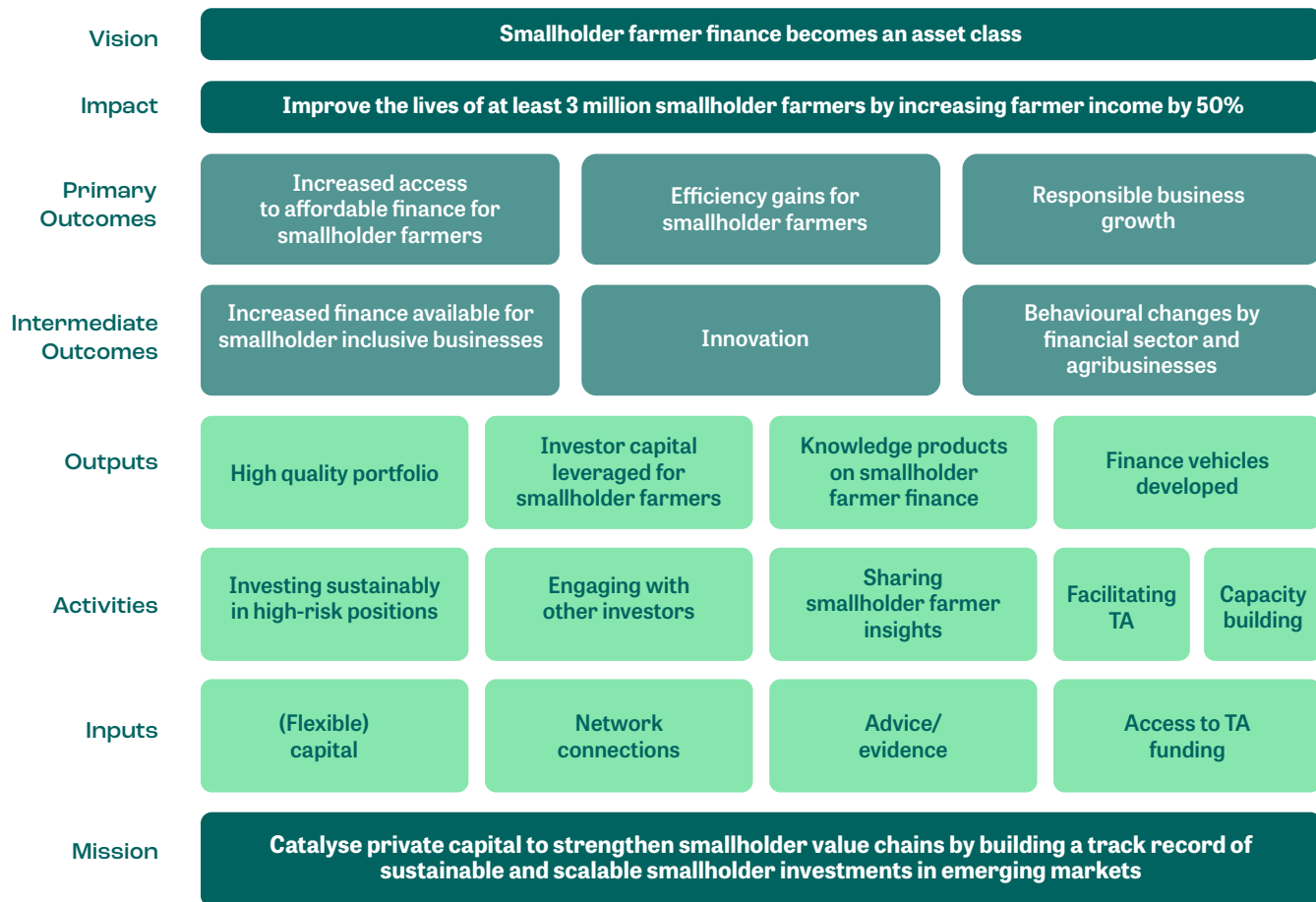
Transaction level Option B



De-risking co-investors

Senior investors may benefit from a 2nd loss guarantee from the U.S. International Development Finance Corporation which can cover 50% of senior investors' principal investment

Figure 1. Theory of Change of the IDH Farmfit Fund



Progress to Date

At the end of Q2 2025, the Fund has:

- 18 investments contracted with 16 investees (including three follow-on investments)
- Approximately EUR 51 million in investments made, with a further EUR 1.79 million in disbursement
- Over EUR 150 million in co-investment mobilised from over 30 co-investors
- Investees currently in the Fund's portfolio expect to reach over 5 million farmers through services, credit and market access

Figure 2. IDH Farmfit Fund's investment portfolio growth (Q1 2020 – end Q2 2025)

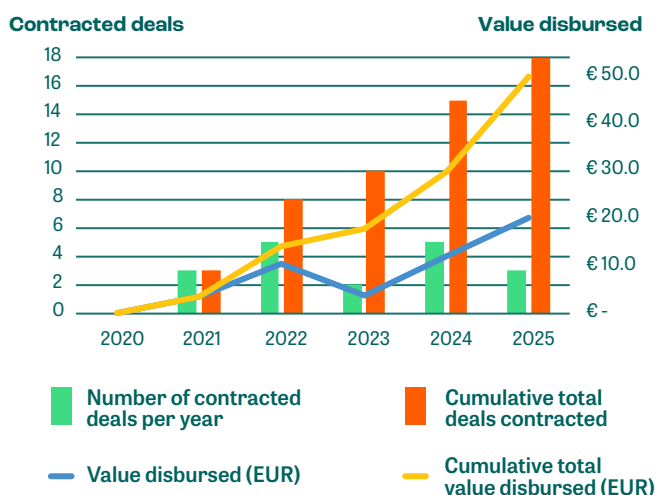


Figure 3. IDH Farmfit Fund's investment portfolio distribution by impact archetype (end Q2 2025)

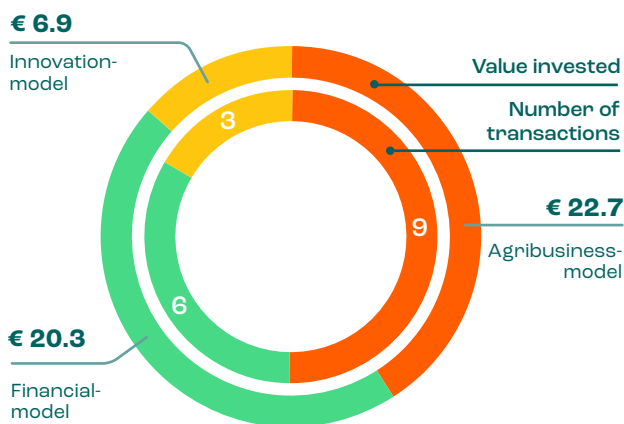
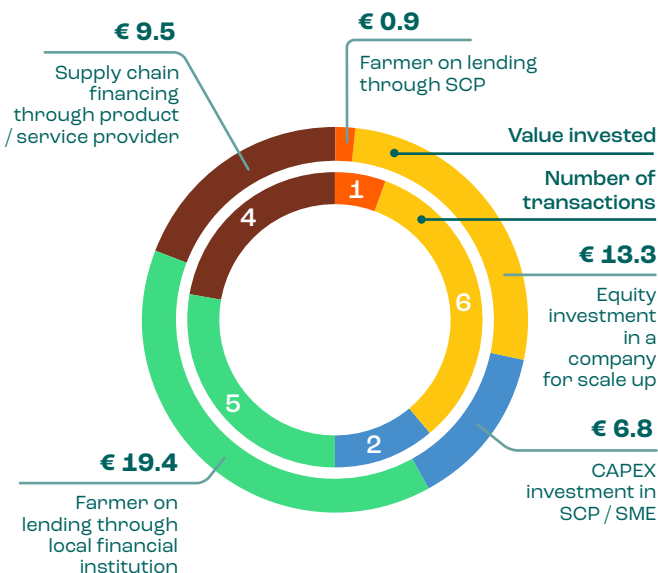


Figure 4. IDH Farmfit Fund's investment portfolio distribution by financing archetype (end Q2 2025)



The portfolio spans a diverse set of business models and value chains and is well balanced across Africa, Asia and Latin America. It includes a range of financing structures, from term loans to compulsory convertible preference shares and a revolving credit facility. Use of proceeds varies, often requiring patient capital with tenors between 3 and 9 years, mostly 7 years or more.

Disseminating insights is central to the Fund's long-term mission of catalysing more investment in the sector. Building on earlier insights shared in the ["Five years of the IDH Farmfit Fund: Five key trends from our journey so far" blog post](#), the Fund is taking stock—reflecting on what has worked, what hasn't and what we have learned along the way. In this publication we shed more light on the journey of the first six years of the IDH Farmfit Fund. In Part One, we look into the demand for capital, reflecting on the Fund's multi-faceted origination strategy ([page 17](#)), the realities of navigating investment readiness and business model risk ([page 26](#)) and the type of financing ([page 31](#)) sought by potential investees.

In Part Two we assess how the Fund's supply of capital ([page 38](#)) allows it to meet that demand—first assessing how the Fund has dealt with common challenges for investment vehicles in the sector ([page 39](#)) and then diving deeper into elements that make the Fund unique, such as its approach to impact ([page 44](#)), flexibility at the portfolio ([page 47](#)) and investment levels ([page 50](#)), and ambitions around co-investment ([page 52](#)).

Part 1

The Demand for Capital



A Multi-Faceted Origination Strategy

In order to deliver upon its wide geographic and sectoral mandate, the Fund benefits from access to a diverse and rich network. This positioning enables the Fund to access a constant inflow of opportunities across business models, countries and financing needs. **At no point has the Fund faced a shortage of demand. Instead, the challenge has been identifying opportunities that align with the Fund's eligibility criteria, mandate and capital structure.** In this section, we walk through the Fund's pipeline origination and investment process, outlining the strategic parameters that guide investment decisions. Because networks play such a central role in sourcing opportunities, the data presented in the following pages reflects inherent biases in geography, sector and business model. Nonetheless, these insights offer valuable lessons for funders, investors and practitioners seeking to navigate the complexities of smallholder finance.

Approach to pipeline origination

There are different pathways to pipeline origination for the Fund. Firstly, based on who initiates (the Fund or the investee) and secondly, based on how

the connection is made (direct between the Fund and the potential investee or intermediated by a third party, such as IDH, senior investors, or other impact investors and partner organisations). Understandably, these pathways have different characteristics. For instance, **direct outbound origination** led by the Fund means the Fund can be very intentional about targeting a potential investee that should meet its mandate; however, this approach can be time intensive. Alternatively, **intermediated origination** relies somewhat on the intermediary's ability to screen and judge which potential investees are the best match with the Fund, but can be essential when entering new markets and geographies. **Direct inbound requests** from potential investees are more likely to be opportunistic and misaligned. Since the inception of the Fund, all investments have either come from outbound or intermediated origination. No inbound requests have resulted in an investment at the time of this report's publication.



As seen in the figures to the right, the distribution of pipeline opportunities is largely representative of both the broad investment criteria² and the different pathways to pipeline origination. Later in this chapter, and throughout this report, we compare the distribution of pipeline opportunities with the distribution of the portfolio. The respective 'conversion rates' are subsequently used to better understand where demand is most vs. least aligned with the Fund's supply. **These insights help in identifying where assumptions didn't align with reality, highlighting gaps in supply for the broader sector, and illuminating design dilemmas (page 60) for new investment vehicles.** The conversion rates are not a measure of efficiency, as they do not provide any insights on time invested. In fact, the multifaceted origination approach for the Fund means the net is cast wide, with the subsequent investment process crucial in strategically and efficiently selecting high-impact investment opportunities. Over two-thirds of pipeline opportunities are filtered out before a screening note is developed (see Annex 3 for more details).

2. For example, portfolio exposure limits of between 35% and 60% exposure to Africa; the mandatory inclusion of coffee and cocoa as focus crops; and the ambition to invest in a range of impact and financing archetypes.

Figure 5. Opportunities distributed by geography (end Q1 2025)

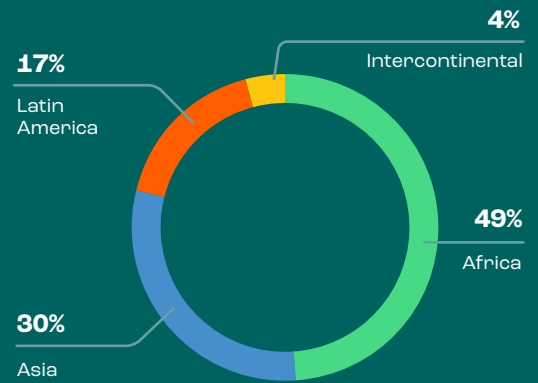


Figure 6. Opportunities distributed by Business Type (end Q1 2025)

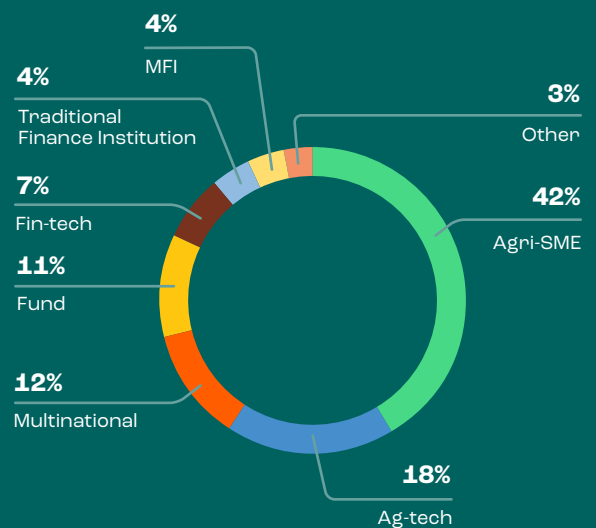
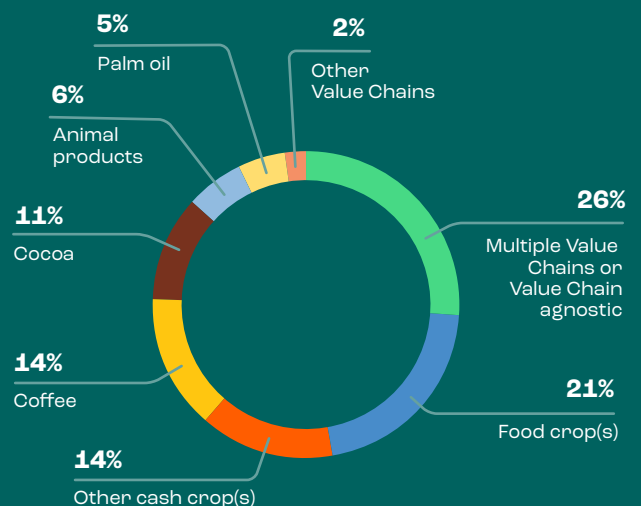


Figure 7. Opportunities distributed by Sector (end Q1 2025)



Reasons for pipeline opportunities being discontinued

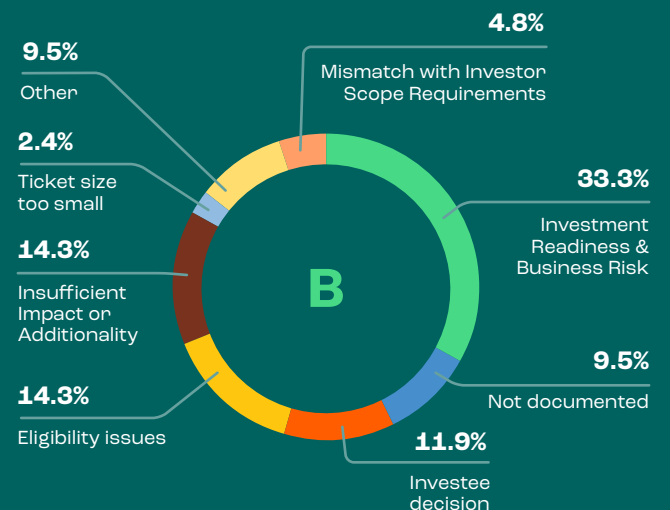
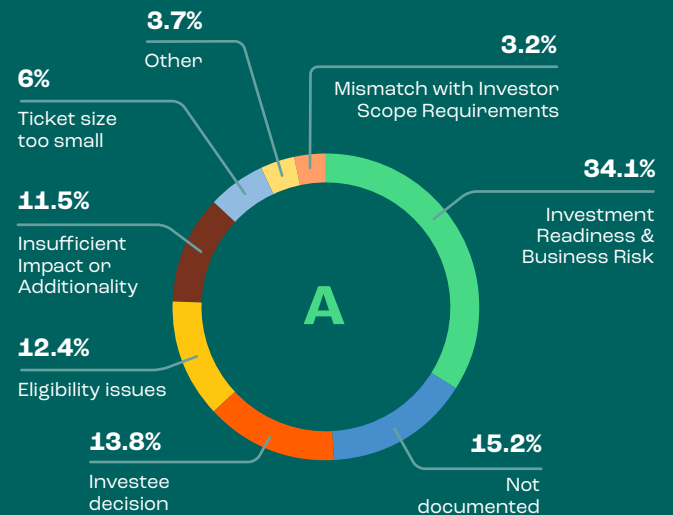
A significant portion of the discontinued pipeline opportunities were ultimately dropped based on the judgement of the Fund Manager. We believe there is much to learn about why these pipeline opportunities did not materialise as investments.

In line with existing literature (I&P, 2025; ISF Advisors & CASA, 2022; ISF Advisors, 2025c), **investment readiness and business model risk (page 26) were the biggest factors as to why opportunities were cancelled.**

Investment readiness and other key reasons—such as fit with the Fund’s capital structure (page 42), the type of finance sought by investees (page 32), and meeting the Fund’s impact (page 44) and additionality (page 46) requirements—are discussed later in this report. In just over 10% of the opportunities, the investee decided to halt the process because they were seeking better terms or stopping fundraising altogether.

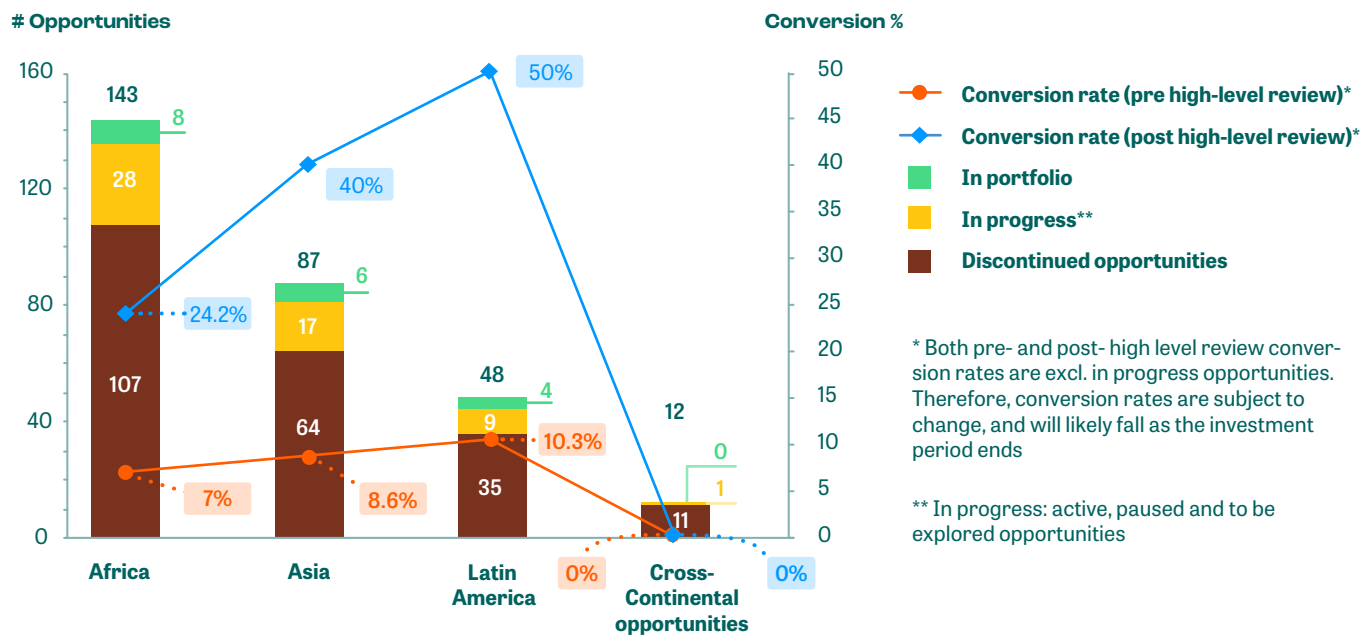


Figure 8. Distribution of reasons for opportunities discontinuing looking at (A) all discontinued opportunities, and (B) opportunities discontinued after initial high-level review



Geography matters? The Fund's experiences across three continents

Figure 9. Conversion of opportunities to portfolio, distributed by geography



The geographic distribution of pipeline opportunities and their relative conversion to the portfolio tells us not only about certain dynamics within those geographies—such as investment readiness or the ease of investing in those markets—but also about different origination strategies that were deployed. For instance, pipeline origination in Latin America had a relatively high conversion rate due to a more intentional origination strategy that relied on key partners in the region. Alternatively, India has emerged as a key destination for pipeline origination and portfolio investments thanks to its relatively mature ecosystem of agtechs and fintechs, as well as deep capital markets. Annex 4 dives deeper into the experiences of the Fund across different geographies.

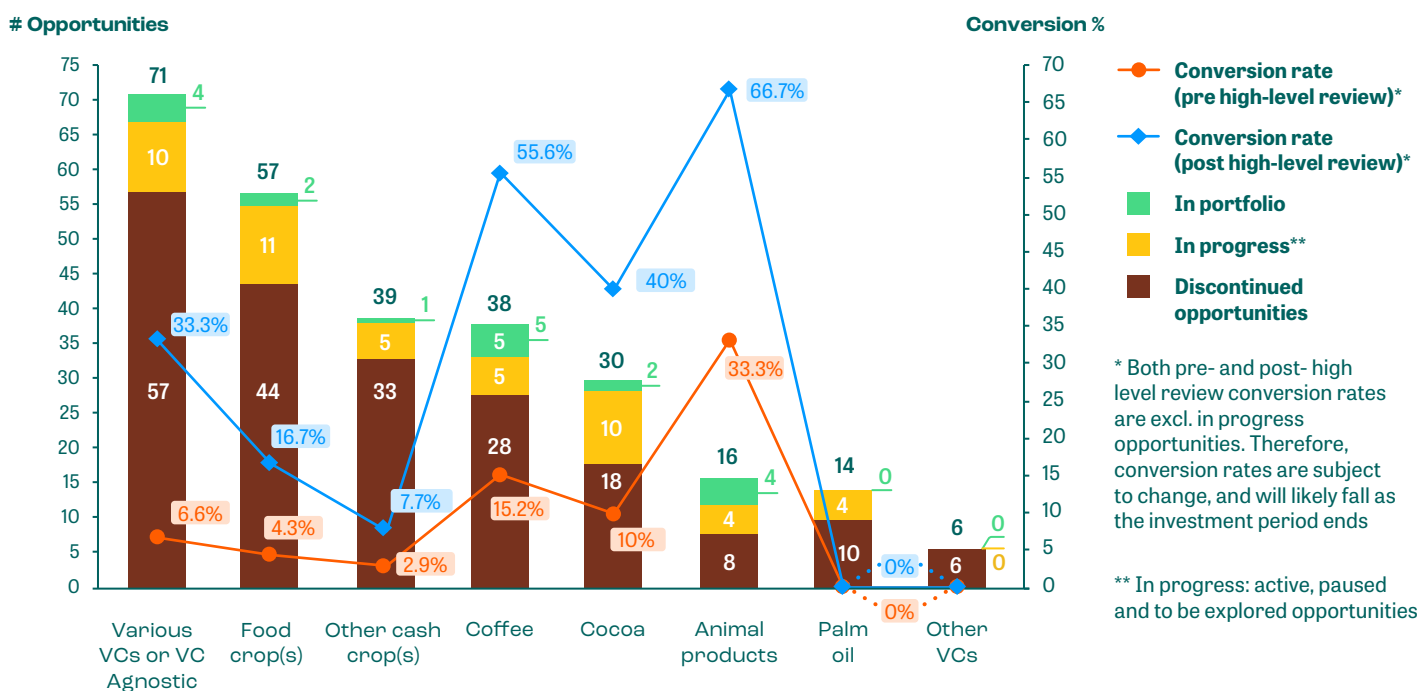


So What? Key Takeaways

- ➔ Pipeline opportunities introduced to the Fund from intermediaries such as IDH and the Senior Investors were more likely to get filtered out prior to screening compared to those initiated by the Fund. This was often driven by intermediaries' inadequate awareness of the Fund's eligibility criteria and different interpretations of investment readiness. **It is therefore important to invest in the sensitisation and capabilities of intermediaries to improve the average quality of opportunities**—while being mindful of the time commitment of these time investments.
- ➔ **Strong partnerships with potential co-investors can create efficiencies in pipeline origination.** The Fund's experience resonates with earlier findings from the *Profit and Impact: Lessons on Operational Efficiency in Agri-SME Lending* (Small Foundation, 2020). For instance, the Fund has partnered with Oikocredit on several transactions in Latin America, which has made the investment process increasingly more efficient.
- ➔ Despite a need for equity in all geographies the Fund focuses on, equity transactions have been largely concentrated in India. This is driven by a favourable pool of equity investees, as well as the fact that the Fund can only make equity investments in India due to local regulations.
- ➔ **The level of market fragmentation and relatively shallow capital markets in Africa (and, to a lesser extent, Latin America) make equity transactions less appealing** when operating a close-ended Fund.

Value chains: Investing across a range of market systems

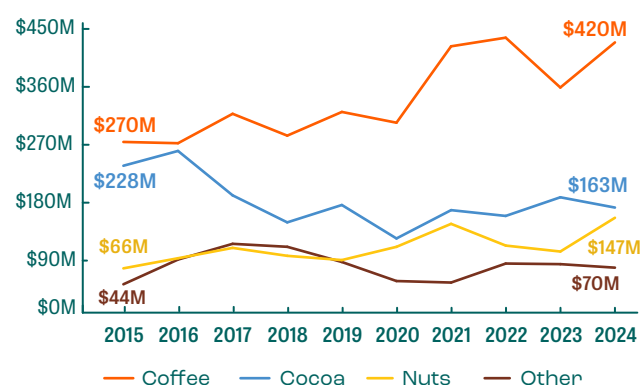
Figure 10. Conversion of opportunities to portfolio, distributed by value chain



The Fund invests in a wide range of value chains—driven by investment criteria that specify focus crops and maximum exposure, but also a value chain’s potential to deliver high-impact investment opportunities. This flexibility sets the Fund apart from many peer investors, such as fellow members on the [Council on Smallholder Agricultural Finance \(CSAF\)](#), who typically focus on providing trade finance in export value chains (Figure 11).

The Fund’s experience across a range of value chains has required navigating through different market dynamics (such as price volatility and climate exposure) and assessing a plethora of investment opportunities while ensuring both additionality and impact. These circumstances and experiences have provided different insights across the various value chains, which are discussed in more detail in Annex 5.

Figure 11. CSAF member lending by value chain (CSAF, 2025)





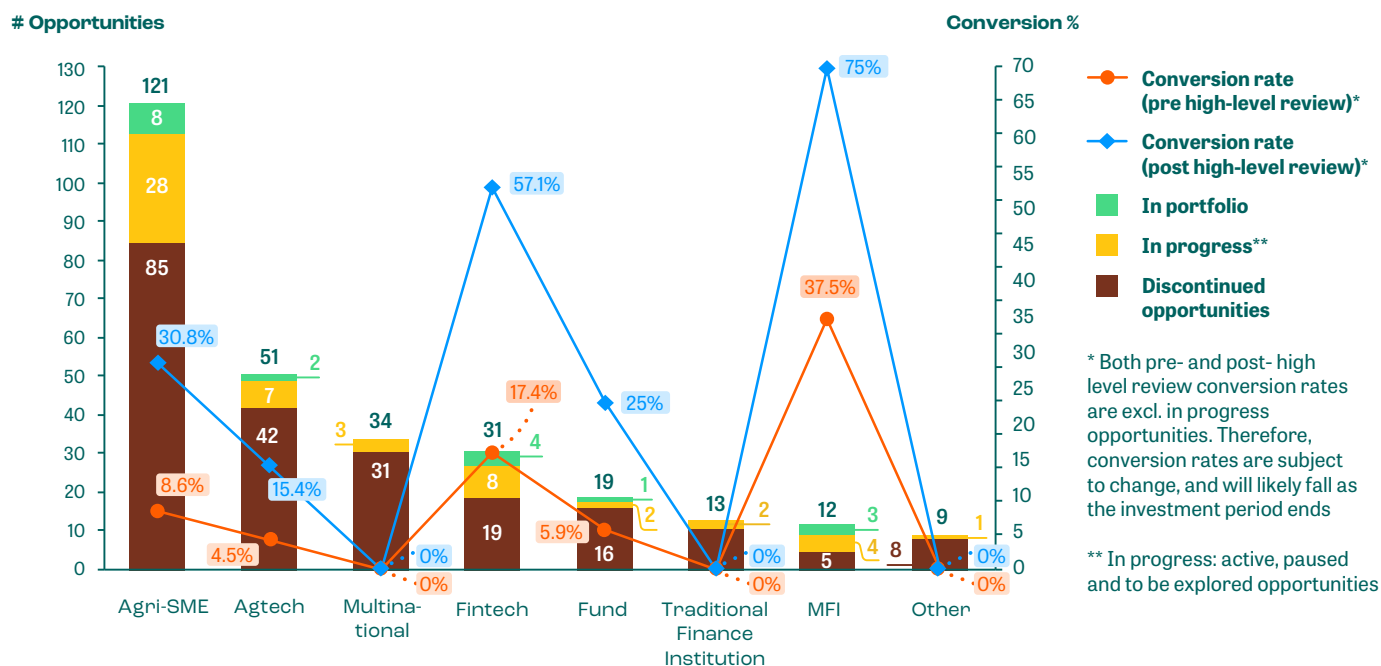
So What?

Key Takeaways

- ➔ **Being able to invest in a broad range of value chains supports portfolio risk diversification and creates greater opportunity for the Fund to find impactful business models.** However, strict minimum exposure limits for specific value chains reduce the Fund's nimbleness when deploying capital under uncertain conditions. For example, two years of adverse climate shocks (among other structural issues) resulted in skyrocketing cocoa prices and a more volatile market. This made the Fund's proposition of longer-term financing less appealing for investees while the need for short-term investments in cocoa remained.
- ➔ **If strict minimum exposure limits are adopted, it is important to factor in temporary or permanent flexibility elsewhere.** The Fund's experience in cocoa was exacerbated by a combination of minimum exposure and aiming to be financially additional. As a result, investments in cocoa have focused on financial service providers and longer-term CAPEX. Yet, without the additionality requirements, the Fund could have pivoted to shorter-term working capital during the more challenging market conditions.
- ➔ There have been few additionality challenges in food crop value chains, which are often underserved by the investment community due to a perception of being higher risk compared to cash crops. While it is too early to confirm or refute this risk hypothesis, **the ability (or lack thereof) to provide local currency financing presents a key challenge in food crop value chains.** Most actors, especially agri-SMEs operating in food crops, conduct their business in local currency with limited access to hard currency. Lending in hard currency creates a mismatch that undermines repayment ability; however, lending in local currency is often too expensive for actors like the Fund. Efforts to increase the availability of affordable domestic funding are therefore crucial for the development of food crop value chains (OECD, 2025).

Business type: serving the smallholder finance ecosystem

Figure 12. Conversion of opportunities to portfolio, distributed by business type



Unlike many peer investors who target a particular type of actor (such as agri-SMEs), the Fund has a wide mandate in terms of who it can invest in—provided that there is sufficient smallholder impact. This carries multiple advantages, as explained later in this report (page 46). The number of pipeline opportunities from different business types is naturally biased by the origination strategy and the networks of the Fund. However, the relative conversion rates of the different business

types provide insights into the level of alignment with the Fund's offering and the willingness and capacity of potential investees to engage with smallholder farmers. In Annex 6, there is further discussion of the Fund's experience engaging with different types of businesses.



So What? Key Takeaways

➔ **Sourcing-focused businesses**—such as many agri-SMEs and multinational traders—tend to offer a different impact profile that is complementary to **service-focused** businesses, such as MFIs, agtechs and fintechs. Research (IDH, 2020; CASA, 2025) has shown that sourcing-focused businesses tend to deliver deeper impact at smallholder level, but at a lower scale, whereas service-focused businesses are more likely to deliver shallower impact to a greater number of smallholders (Figure 13 & 14). **Combining these business types into one portfolio allows for a mixture of breadth and depth of impact. Going a step further by making complementary investments between sourcing- and service-focused businesses can unlock even more impact potential.**

➔ The Fund has not overcome the lack of appetite from certain ecosystem actors—particularly on-lending facilities with multinational traders and traditional financial institutions. In both cases, other instruments are more compelling. **For multinational traders, grants or grant-based instruments that subsidise on-lending on a ring-fenced basis, or structured partnerships with MFIs that already have the lending infrastructure, may be better options.** For commercial banks, **origination incentives combined with first-loss guarantees, such as those provided by Aceli Africa, appear to have stimulated lending to the sector** (albeit to agri-SMEs and not directly to smallholders).

Figure 13. Farmer income vs. farmer reach, by business model (CASA, 2025)

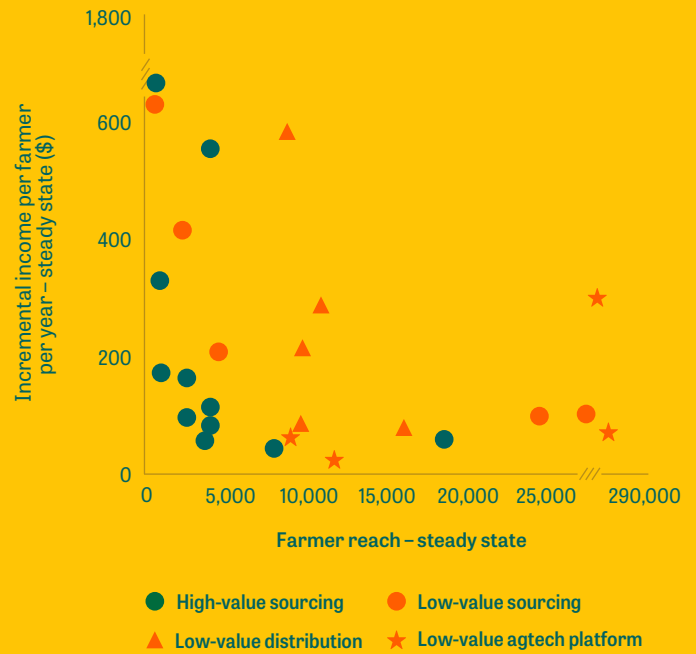
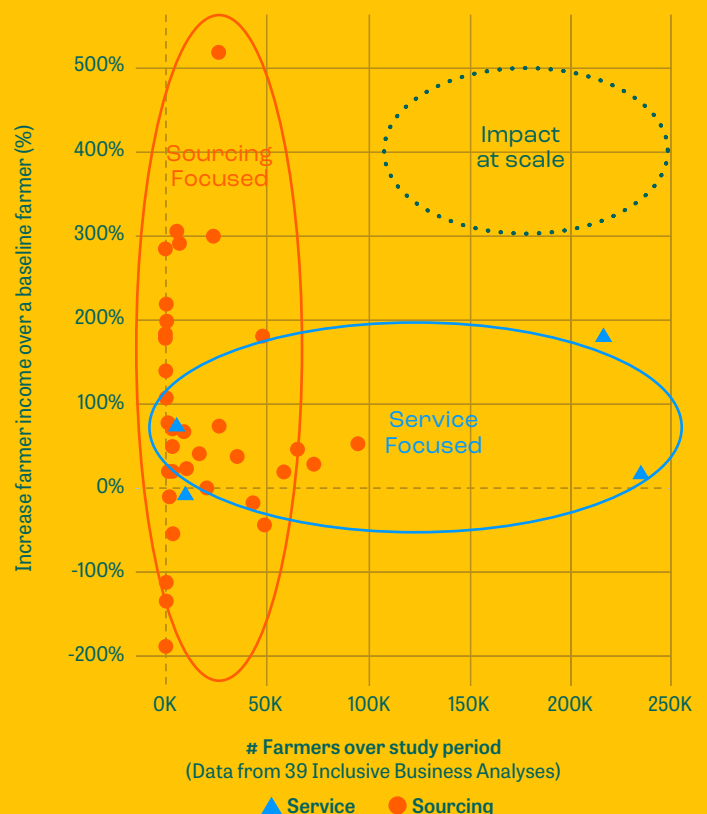


Figure 14. Relation of scale and impact for service vs. sourcing business models (IDH, 2020)



Navigating Investment Readiness and Real Risk

Across the smallholder finance landscape, **investment readiness and the inherent risk of smallholder-inclusive business models** remain the most persistent and complex challenges. These impact not just which opportunities get funded, but also how long the investment process takes and how successfully capital can be deployed. As highlighted earlier ([page 19](#)), it is the Fund's **single most common reason for deals not progressing**—particularly with agri-SMEs and, to a lesser degree, agtechs and fintechs (with the notable exception of India).

Encountering investment readiness and business model risk was an expected challenge for the Fund. There are considerable and real risks in engaging with business models in smallholder-anchored value chains (Aceli Africa, 2023; ISF Advisors, 2025c). At the same time, the market segment is considerably underserved and presents many opportunities for impactful investments (ISF Advisors & CASA, 2022). In this section, we discuss the key risks inherent in the businesses that the Fund has sought to engage, and then explore lessons learned from encountering, assessing and mitigating such risks.

The key risks inherent in this market segment

Much has been documented about the risks inherent in smallholder-anchored agricultural markets (Aceli Africa & Dalberg Advisors, 2020; GIIN, 2023; ISF Advisors, 2025a; ISF Advisors, 2025c). **Smallholder-inclusive businesses are exposed to a number of external factors, such as production risk, climate exposure, political instability, weak enabling environments and market informality.** Many of the businesses encountered are operating close to primary production, none more so than Agri-SMEs are often concentrated in a single or few regions

and crops, which increases their exposure to climate risks and market volatility (such as price fluctuations), as well as irregular cash flows resulting from seasonality. These factors can drastically impact the volatility of a business' financial performance. A weak enabling environment with high levels of informality can affect all actors in the ecosystem. For agtechs and fintechs, inadequate technological infrastructure can impede functioning and coverage, while low digital literacy can limit meaningful adoption. A lack of credit registries and weak financial sector regulation can impede the ability of actors, such as MFIs and commercial banks, to assess the creditworthiness of smallholder borrowers and manage credit risks. Similarly, pervasively high interest rates in several geographies impose restrictive borrowing costs across the ecosystem, exacerbating business model risk and limiting growth opportunities.

Beyond external risk factors, the investment readiness of many businesses is lacking and business model risk is high—especially for a number of agri-SMEs that the Fund has encountered. Common gaps include weak operations, unreliable financials and inexperienced leadership. Also, governance structures are often underdeveloped; for instance, some companies have a single board director who is also the sole shareholder, raising concerns about oversight. Even though many potential investees have highly capable staff members, the depth of talent is often weak and succession planning is limited, creating significant key person risk. This can be exacerbated by high labour turnover in markets where competition for talent is rife. This can ultimately impede businesses' ability to effectively manage the growth expected by many investors.

Assessing these risks through the investment process

A recurring challenge in assessing investment readiness is the limited availability of reliable, standardised data on farmer repayment, crop cycles, pricing trends and operational benchmarks. Strategic documentation is another common gap; business plans are often missing or underdeveloped, and potential investees sometimes lack a clear understanding of their market position and competitive landscape. Moreover, few potential investees have risk management and mitigation systems in place. Some potential investees, particularly agri-SMEs, seek financing while lacking proper audited reporting and accounting software. **Even when there is good data to undertake due diligence, the lack of comparable data across the sector makes benchmarking potential investments particularly challenging.** Data gaps ultimately drag out the investment process and make it more difficult to assess business models.

Further delaying the investment process is the reality that many businesses targeted by the Fund lack established systems for environmental and social risk management or data reporting. The Fund's "Know Your Customer" and compliance requirements, environmental and social risk requirements, impact frameworks and reporting expectations are often more comprehensive than what businesses have encountered with local banks. While these requirements are essential to protect farmer outcomes and ensure responsible investment, agri-SMEs and early-stage tech businesses often require more technical support and back-and-forth to meet the Fund's standards (including support on reporting, client protection and gender-related issues). This back-and-forth can improve the business practices of potential investees but comes at the cost of efficiency. At the same time, the Fund has observed that many businesses lack legal expertise or compliance resources, often resulting in delays.

Adaptations and Adjustments

Inclusive Business Analyses on a Pre-investment Basis

- ➔ Either as a precursor or a complement to investment due diligence, the Fund has utilised IDH's [Inclusive Business Analysis \(IBA\)](#). IBAs seek a better understanding of a business' smallholder engagement model by mapping out service and/or sourcing interactions, determining the business case and the corresponding impact case for smallholder farmers, and using this to develop recommendations for how to strengthen the business model. When used pre-investment, IBAs can be helpful to assess impact risks and certain supply-side risks.
- ➔ Since IBAs are not specifically designed for investors, they can be an effective complement to due diligence—but not a substitute. Also, while valuable for deep evaluation, IBAs can be costly and resource-intensive if there is no guarantee that the Fund is going to invest. As a result, the team has had to deploy these selectively—mostly for complex or early-stage business models.



So What?

Key Takeaways

- ➔ Given the Fund's focus, investment readiness and business model risk will always be a feature. **Increased experience has ultimately been a key driver in improving the Fund's ability to identify high-potential opportunities.** For IDH, such experience will be key for new initiatives (such as One Acre Ventures) and future mandates, such as the follow-on fund of the IDH Farmfit Fund.
- ➔ At the same time, **efforts by the sector to develop tools, facilitate the sharing of due diligence and data, and improve market transparency—for example, through the development of sector reports and benchmarks—can speed up learning for new entrants.**
- ➔ Pre-investment IBAs on an individual pipeline opportunity basis are not often economically viable for a fund to absorb, despite the value they can offer. **To increase the use of such tools, grants for pre-investment analyses of pipeline opportunities should be considered.** Similarly, the cost of such tools can be reduced through the development of slimmed-down versions, such as the Rapid Diagnostic IBA (working title) that is currently under development by IDH.
- ➔ **Standardising metrics and due diligence, in addition to the aggregation of data to create benchmarks, can facilitate a more efficient assessment** of businesses' investment readiness, supply chain risks and impact potential. The availability of business model data—such as that made available through initiatives such as [6Odb Signal](#), [Agbase](#) and [IDH's Farmfit Insights Hub](#)—presents an opportunity for the sector to strengthen investment processes and the allocation of capital.

Mitigating the risks with technical Assistance

Technical assistance (TA) plays a vital role in enabling investment readiness and strengthening business models. TA can help businesses build the systems, governance and processes needed to qualify for, and absorb, capital. For many companies—particularly those operating in smallholder-focused and climate-vulnerable sectors—TA can be the deciding factor between a promising model and an investable one. Whether it's improving ESG risk compliance, strengthening financial planning, or upgrading farmer-facing technologies, TA helps bridge the gap between impact potential and bankability.

Over the past five years, the Fund has seen firsthand how targeted TA can strengthen business fundamentals, particularly around operational integration and climate resilience. However, in line with broader sector trends, the Fund's TA resources are modest and primarily allocated post-investment. This reflects a wider pattern: the *Concessional Capital Agri-SME Funds* (ISF Advisors, 2025a) report found that 17 out of 18 funds surveyed had dedicated post-investment TA facilities. **Pre-investment TA has value but is economically less advantageous for a fund or investor to deploy.**

For the IDH Farmfit Fund, the incentives to use limited TA funds on a pre-investment basis are few. As discussed in more detail later on, the Fund has sought to benefit from TA facilities managed by the IDH Foundation, including the [IDH Farmfit Africa programme](#), for pre-investment TA. Aligning on timing between TA facilities and a fund's investment period is crucial and challenging, since TA interventions need several years to strengthen business models before they are investment ready. Ideally, staggered start dates can ensure that viable pipeline opportunities emerge from TA programmes earlier in the investment period of a fund.

Beyond TA facilities managed by IDH, another fundamental challenge that limits the creation of investment-ready pipeline opportunities is the fact that **many traditional TA programmes are not sufficiently geared toward developing investment readiness or strengthening business models. Relatedly, collaboration between finance providers/investors and TA providers is limited.** This is partly driven by incentives and objectives: Investment readiness is often harder to measure and not prioritised by TA donors, who prefer to focus on field-level impact. It is also a result of expertise and resources. Many staff working on traditional TA programmes may not have familiarity with, or tools on, how to drive investment readiness.



So What?

Key Takeaways

- ➔ **Donors and development actors should either drive integration of investment readiness and core business support into technical assistance programmes or finance fully-focused investment readiness TA facilities**, such as those managed by [Technoserve CASA](#), [ADA SSNUP](#) and [IDH Investment Development](#).
- ➔ To facilitate this, it is essential that NGOs and other actors taking up investment readiness TA **are supported with the right combination of skills, incentives and resources** to appropriately address need. **Setting up investment readiness TA will also require collaboration with finance providers/investors** to ensure efforts are focused on the right topics.

Adaptations and Adjustments

Investment Development Hubs

Recognising the gap between traditional, donor-driven TA facilities and the experiences of investors such as the Fund, IDH has created Investment Development Hubs in Colombia and East Africa. Within these Hubs, local teams guide agri-SMEs on an investment readiness journey, helping them meet the requirements of financing partners and connect with the right impact funds or local financial institutions.

For instance, reVive (the IDH Investment Development Hub) in Colombia provides specialised and localised TA for projects to become ready for investment, while also promoting sustainable land management and land restoration through a gender-intentional approach. The Hub is equipped with investment advisors who can guide companies in strengthening their business models and investment readiness, ensuring that TA goes beyond field-level impact. Within the first year of the reVive Hub (launched May 2024), 24 TA projects were structured and 3 companies received investment.

IDH Investment Hub Offering



The Type of Financing Sought: What Have Businesses Been Looking For?

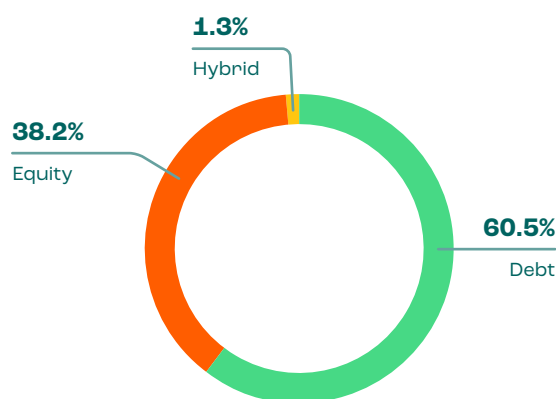
The Fund was designed under the premise that capital markets have failed not only to provide the amount of capital required (ISF Advisors & CASA, 2022), but also the right type of capital. For example, does the instrument align with the investee's cash flow profile? Does the tenor allow the investee to plan for the long term? Does the transaction size meet the investee's financing needs? Later in this report, we share lessons learned from the provision of flexible and patient capital (page 50) and how that has opened opportunities for impactful investments. In this section, however, we look at the type of capital sought from, and deployed by, the Fund—and how, in some cases, this deviated from expectations.

More equity, less guarantees?

The Fund can offer debt, equity, hybrid instruments and guarantees. One of the initial assumptions of the Fund was that it would pursue a lot of farmer on-lending transactions by large multinational traders, mainly financed by debt and/or facilitated by guarantees. However, this assumption stemmed, in part, from previous transactions with Neumann Kaffee Gruppe and other traders, which were grant funded—meaning that the pricing offered was attractive for more parties. For the Fund, **pricing the risk of a first-loss guarantee makes it more difficult to make first-loss guarantees economically viable.** At the same time, risk-sharing structures offered to financial institutions and traders that would provide viable risk-adjusted returns were overly complex and not appealing for investees, **who would rather have funded instruments, such as subordinated loans.**



Figure 15. Fund portfolio, distributed by financing



The demand for equity was, and remains, higher than anticipated. From the investee perspective, equity supports investment in growth and innovation. As the Fund shifted focus to serve a different segment, **equity proved an essential tool for investing in high-potential businesses.** This shift allowed the Fund to target several transformative business models with financial and agricultural innovations that have considerable impact potential and reach. These more innovative business models are often young and lack the cash flows to pay debt; equity or mezzanine is often more suitable as it can more effectively be used to finance operating expenses.

By taking an equity position, the Fund is also better positioned to engage with businesses to make their models more smallholder inclusive and use its expertise to guide investees through that process. For example, the Fund deployed equity in an MFI to reduce their cost of capital and enhance delivery mechanisms, with the aim of improving access to affordable credit for smallholders.

Equity is not without its challenges, however—particularly when it comes to the Fund’s liquidity and ability to exit ([page 41](#)). Such factors help explain why equity investments to agri-SMEs by investors like the Fund are limited, **despite a considerable need for equity to support their growth. The potential returns from agri-SME equity investments do not compensate for the risks, relative to other actors.** For agri-SMEs, the exit opportunities are highly constrained and many enterprises are averse to relinquishing control over their business models.

Adaptations and Adjustments Equity Exposure

Equity has proven an essential tool in allowing the Fund to invest in more innovative and transformative tech solutions. As a result, the Fund increased its maximum equity exposure from 20% to 30% of the Fund’s total size. Key equity investments include [Avanti](#), [Kaleidofin](#) and [Stellapps](#) in India, in addition to [Agora Microfinance](#) in Zambia. Beyond these existing investments, the demand for equity remains high, but the exposure limits and the Fund’s need for cash flow ([page 39](#)) restrict its ability to serve these opportunities.



So What?

Key Takeaways

- ➔ There is considerable demand for equity investments across the sector. However, the capital structure of the Fund means that it must prioritise actors with the most transformative potential and that provide higher risk-adjusted returns. **This mismatch between the demand and supply of capital at a Fund level reinforces the need for new vehicles and initiatives to increase the flow of equity to actors underserved by the Fund.**
- ➔ The Fund welcomes initiatives, such as [Financing Agri-SMEs in Africa \(FASA\)](#), and the role that they play in facilitating increased flows of debt and equity to agri-SMEs. For instance, as a fund of funds FASA typically invests junior equity or subordinated capital into investment funds focused on agri-SMEs. This de-risking attracts further investment into these funds—many of which have capital and operating structures more aligned with equity investments in agri-SMEs—and ultimately should significantly expand the pool of equity available to agri-SMEs.

Where the type of financing requested meets the Fund's strategic fit

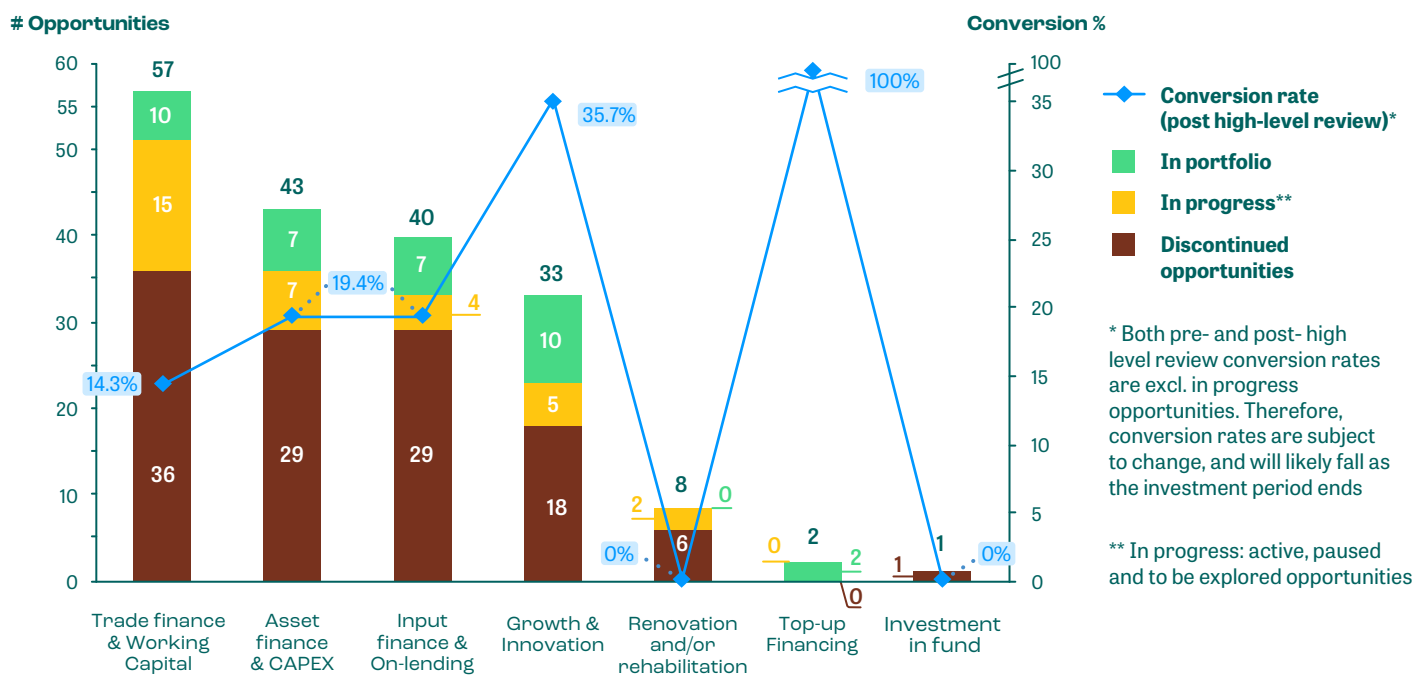
The Fund's investment approach centres on the idea of providing longer-term, tailored and more flexible financing (page 50). At the same time, potential investments need to be a strategic fit with the Fund's intended impact (page 44) and be aligned with the Fund's relatively unique capital structure (page 55). What the Fund is looking to provide does not always align well with what investees are seeking. Such mismatches can be driven by immediate business needs, investee preferences and familiarity:

- **Immediate business needs vs. longer-term growth and innovation** – Many potential investees may be looking for financing to support day-to-day operations and immediate cash flow needs. This is especially the case for many agri-SMEs, which are operating

on a short-term, season-to-season basis. While this financing is needed, the Fund sees less additionality or smallholder impact in this segment and instead orientates toward growth capital and financing for investment.

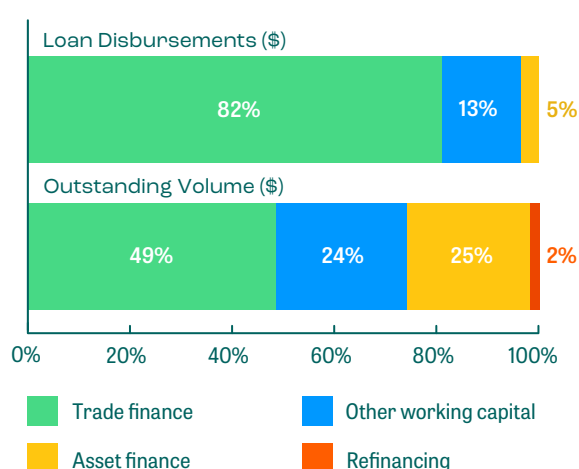
- **Investee preferences** – Some investees prefer to avoid the risk of longer-term instruments or, in the case of equity, are wary of diluting their ownership. Alternatively, the pricing available from the Fund may not be appealing for some investees.
- **Familiarity** – Many potential investees are not necessarily aware of the Fund's offering and the value that it can bring to them over the long term. While the Fund targets a broader range of actors, sector research has shown that few agri-SMEs fully understand, or are currently able to articulate, their need for financing to mitigate or adapt to climate change (ISF Advisors & CASA, 2022).

Figure 16. Conversion of opportunities to portfolio, distributed by use of proceeds



Unsurprisingly, working capital financing was the most prominent use of proceeds, while trade finance was the funding instrument most requested by potential investees, especially agri-SMEs (Figure 16). This aligns with patterns identified in existing research and sector data, such as CSAF lender's data, which illustrates that almost three-quarters of volume goes to trade finance and other working capital (Figure 17). Nonetheless, it is important to make the distinction between the financing need of the market and what investors can serve. There is considerable need for longer-term finance (including long-term working capital), but the addressable demand for it is much smaller as it is often less attractive to lenders. On the other hand, trade finance and shorter-term working capital can be appealing to investors due to a lower risk profile, but also to investees who may not have the balance sheet and risk tolerance to absorb longer-term types of finance. With this context, the Fund especially targets longer-term finance where additionality can be higher—a segment targeted by just a handful of other CSAF members and affiliates (such as AgDevCo, Kampani and Ecotierra).

Figure 17. CSAF member disbursement and outstanding loan volume by use of proceeds (CSAF, 2025)



The resulting conversion rate from pipeline opportunities to the portfolio is, therefore, relatively low for trade financing and working capital. In addition to longer-term working capital, the Fund seeks to support investees with capital focused on innovation and growth (including expanding to new geographies and market segments, testing new products), allowing more value capture (CAPEX) and/or facilitating access to finance.

Koa

Koa, a Fund investee and agribusiness in Ghana, has an innovative business model that upcycles cocoa pulp into new products. However, processing capacity was constrained, which inhibited the ability to source more volume from more farmers. Together with the Landscape Resilience Fund, the Fund provided a seven-year term loan to finance the construction of Koa's second factory in Achiase, Ghana; a CAPEX-intensive project that most financiers, including development banks, were unable or unwilling to support, as it fell outside typical risk parameters.

Familia Aldea

Aldea, a farmer-led coffee business in Nicaragua operates in a challenging enabling environment where access to finance is limited, especially when it comes to financing much-needed investments in smallholder climate resilience. Where an earlier Fund investment supported the construction of Aldea's state-of-the-art coffee mill, a follow-on loan in 2024 focused on enabling access to finance at the farmer level. The four-year term loan was directed to Aldea's affiliated MFI to support smallholder on-lending to finance shade trees, agroforestry systems and participation in carbon farming initiatives.



So What?

Key Takeaways

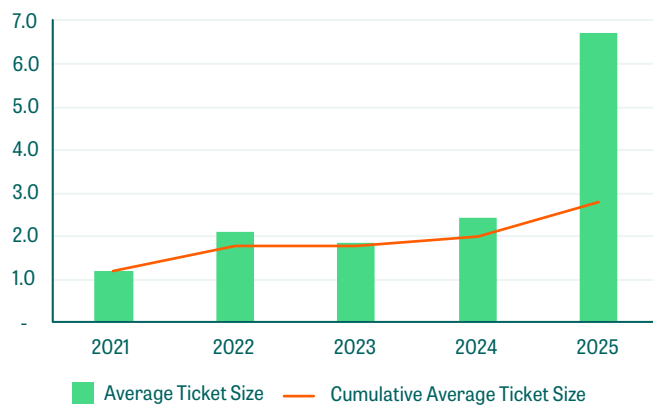
- ➔ The blended finance sector typically builds mandates and instruments based on available capital, rather than assessing on-the-ground financing needs and structuring finance facilities for it. **Capital supply and donor requirements ultimately drive what finance is offered. From an impact perspective, a shift to more demand-driven approaches could better meet the needs of the sector.**
- ➔ **Some use cases of investment (i.e., use of proceeds) need a different toolset**, especially when there are long periods of highly limited cash flows. This can **especially be the case for the rehabilitation and renovation of tree crops and investments focused on regenerative agriculture**. While these opportunities were limited in the Fund's pipeline, emerging sectoral need will require different vehicles and instruments. For instance, Smallholder Agroforestry Finance (SAF) that has been set up to provide long-term, low-cost pre-funding in the form of non-recourse loans secured by expected future carbon credits. Similarly, renovation of tree crops can tap into carbon credit markets and payment for ecosystem service contracts.
- ➔ With hindsight, the Fund underestimated the value of having a comprehensive set of communication materials to explain the Fund and its criteria. More effort dedicated to general communication about the Fund could reduce the number of non-eligible pipeline opportunities (such as agri-SMEs seeking short-term working capital), as well as in generating pipeline from other actors (such as MFIs looking to expand their smallholder/rural propositions but not aware that the Fund can serve their needs). This also reduces the necessity of bilateral discussions to build awareness. **For fellow investors taking non-standard approaches, investing time in communication materials is recommended.**



Sizing up: ticket size

The Fund's need for co-investment (page 52) means that its ticket size is a proportion of the overall deal size. At the same time, ticket sizes need to be commensurate to the resources required to close investments in order to be economically viable. This combination, together with the types of opportunities targeted by the Fund, means that the majority of pipeline opportunities are concentrated in the EUR 1-10 million range. However, **economic viability with respect to ticket size has played a larger role in the investment process in recent years.** The average ticket size for the Fund has gradually increased over time, reflecting some of the constraints of its capital structure (e.g., the need to deploy within a fixed investment period).

Figure 18. Average ticket size of IDH Farmfit Fund



* A single USD10m transaction has been a driver of the higher ticket size in 2025

So What?

Key Takeaways

- ➔ **The economics of the Fund ultimately make smaller transactions less appealing.** At the same time, limited investment periods and the need for cash flows can also push funds to increase ticket sizes.
- ➔ **There is a considerable need for agribusinesses targeting deal sizes of USD 500,000- USD 2 million** (AgBase, 2024). We believe that different investment vehicles must be established to serve that portion of the market. For instance, IDH Investment Management has partnered with One Acre Fund, on One Acre Ventures, which targets financing needs of USD 250,000-750,000, while AgDevCo Ventures has been established to focus on investments between GBP 750,000 and 2.5 million. Furthermore, locally managed investment vehicles can support reaching lower ticket sizes by reducing the cost base of a fund manager.

Part 2

The Supply of Capital



How the Fund has Embraced Challenges Faced by the Sector

For any fund investing in agriculture in the Global South, there is a need to navigate through complexity at the same time as being appealing to investors. The IDH Farmfit Fund is not immune to this. Over the past year, a number of valuable reports have shared insights on the challenges and opportunities faced by investment vehicles in the sector. These include, but are not limited to: *How can African SME Funds Mobilise More Capital (I&P, 2025)*, *Concessional Capital for Agri-SME Funds (ISF Advisors, 2025a)*, the *CSAF 2025 State of the Sector Report (CSAF, 2025)*, and *Financial Backbones: Capital Facilitation for Systems Transformation (Hofstetter, et al., 2025)*. In this section, we reflect on the realities of being a first-time fund manager, management fee structures, fund liquidity and structure ([page 42](#)) and first-loss coverage ([page 43](#)). The Fund's experiences here are not unique; our aim is to complement existing literature with a first-hand practitioner's perspective.

Being a first-time fund manager from the perspective of the IDH Farmfit Fund

Given the scale and nature of the demand for capital in this sector, **it is vital not only that the supply of capital increases, but also that the variety of investors and products expands.** First-time fund managers, like the Fund, play a crucial role in addressing the financing gap, and research confirms the value that they bring to the sector (I&P, 2025). However, first-time fund managers also must contend with a number of challenges. For instance:

- **First-time fund managers often need to establish the systems, policies and team**

to execute. This means that the runway is ultimately longer and the manager absorbs many costs. In the case of the Fund, most costs were borne internally during this period, with additional support from IDH.

- **Establishing a fund takes time away from investment.** Given relatively short investment periods, a fund must be able to dedicate sufficient resources to building pipeline. Setting up and fundraising at the same time as origination can cause delays in deployment. This was the case for the Fund: The investment period started in 2019, but final close was a year and a half later. After that period, both the speed of deployment and the efficiency of the investment process improved.
- **First-time fund managers often operate at sub-scale, further increasing transaction**

costs. Managing a single fund also reduces potential economies of scale for activities like operations and compliance. When multiple investments reached the same stage at the same time, the Fund experienced short-term bottlenecks due to limited staff, particularly on the operational, impact and E&S risk capabilities.



So What?

Key Takeaways

- ➔ **The value of grants for designing and establishing funds should not be underestimated.** Grants can ensure that funds have the appropriate time to conduct feasibility studies, gather proof of concept, develop a team, set up legal structures and begin to establish systems and policies. This can help overcome the 'valley of death' where income for a fund is minimal (I&P, 2025).
- ➔ **Investment periods should, in several cases, start at the last closing instead of the first closing—particularly for first-time fund managers** who do not benefit from having a pre-existing infrastructure. This allows the investment period to be more effectively dedicated to deploying capital instead of securing additional funding.



Management fee structures: making fund economics work

Management fees of 2% are commonplace in the broader investment sphere (ISF Advisors, 2025a). When it comes to impact investing—and SME funds in particular—fees often range between 2.25% and 3.25%, representing higher relative transaction costs (I&P, 2025). The Fund adopts a management fee of 2.75%, with a discount of up to 2.25% on undrawn amounts on the commitment from corporate investors. This structure was adopted to lower the barrier for private sector companies to invest in the Fund. This differs from the norm in that fees are not generated based on committed capital, but rather deployment.

Taking a more one-size-fits-all or off-the-shelf approach to investment can help funds navigate the relatively narrow room afforded by management fees in this sector. Such approaches allow for automation at different stages of the investment process, which can generate operational efficiencies (Small Foundation, 2020). **With hindsight, the Fund was too optimistic with the original financial model. Ultimately, the management fee structure charged by the Fund is arguably not commensurate with its mandate and approach, particularly when it comes to the tailored and hands-on investment process and (page 50) the requirements on co-investment, (page 52) which both increase the complexity of transactions.**

Given the size of the Fund, the headline 2.75% management fee appears at the surface to be sufficiently well-aligned with its approach. However, the size of the discount on undrawn amounts ultimately creates a perverse incentive to elevate capital deployment above all else. Given that the Fund has chosen to maintain the same standards on impact and additionality since inception, slower capital deployment and the subsequently lower fees have presented a more challenging financial picture.



So What?

Key Takeaways

- ➔ Smallholder agriculture is inherently complex. The Fund believes that it is important to embrace that complexity with a more hands-on and tailored approach if we are to transform the system and deliver impactful outcomes. However, **complexity requires more time and resource—and this needs to be reflected in management fee structures**, especially where significant market development work is needed (ISF Advisors, 2025a).
- ➔ The ambitions, instruments and mandate of funds are often established after the fee structure is negotiated, as was the case for the Fund. **Setting the management fee on drawn capital creates perverse incentives to deploy quickly that can conflict with impact ambitions** and financial returns. For funds taking similar approaches, we discourage such management fee structures.
- ➔ **To address the limitations of traditional management fees, funds can explore alternative revenue streams**, such as providing technical assistance or advisory services to SMEs and other actors (ISF Advisors, 2025a; I&P, 2025). This diversification can enhance the financial sustainability of the investment manager, but may also create potential conflicts of interest.

Managing liquidity and a close-ended structure

The Fund is a close-ended fund that started with an initial five-year investment period (since increased to six years), with a 15-year term (with no extensions). This is slightly different to many funds in the sector that operate with 10-year terms and two optional one-year extensions (I&P, 2025). The extended term of the Fund has equipped it to provide patient capital (page 50) needed to support business model innovation and realise the resulting impact. However, the Fund's ability to capitalise on its longer term is limited by the investment period. This constraint was amplified by early challenges—including operational delays exacerbated by COVID-19—which resulted in lower-than-anticipated deployment in its first years.

With the management fee tied to deployment, liquidity and cash flow from investments is needed to cover the fee and operational expenses, like accounting, audit, compliance, legal and tax advisory. **For the Fund, there has often been a tension between the mandate, impact ambitions and its structure.** More impactful and patient investment structures—such as those including longer grace periods or equity—reduce cash flow for operating expenses. Furthermore, the close-ended structure makes equity investments less appealing, especially when nearing the end of the investment period. The uncertainty of the exit horizon may also increase pressure to exit investments when approaching the maturity of the Fund. Challenges around liquidity are not unique to the Fund; (I&P, 2025) finds that many agri-SME funds place high priority on liquidity, influence structuring decisions and investment choices.



So What?

Key Takeaways

- ➔ The impact investment sphere prioritises the liquidity of investors, and this is unlikely to change in the near term. Therefore, **creative approaches are needed to satisfy the liquidity needs of investors while balancing the liquidity needs of impactful investing in the sector.** One approach growing in popularity is open-ended hybrid fund structures with two share classes: one with a more traditional window for exit and another with equity (I&P, 2025). **For the Fund, such a hybrid approach would have been preferable, as it would allow some investors certainty about liquidity while retaining flexibility for the Fund by having permanent equity.**
- ➔ **Combining debt and equity investments, as the Fund does, provides a good balance between liquidity and return** for senior investors. Equity investments are ultimately less liquid but can enhance the returns available to investors. Debt investments, on the other hand, are a crucial source of income and cash flow.

Crowding in senior investors with first-loss cover

Concessional Capital for Agri-SME Funds (ISF Advisors, 2025a) reports that **the degree of concessionality in the capital stack of a fund is often based on the risk tolerance of senior investors**, where it either reduces the risks they take or enhances returns, rather than necessarily creating benefits for the underlying investees. ISF goes on to argue that, when looking at portfolio losses, funds often have senior protections that significantly exceed the estimated portfolio losses. There are some parallels with the Fund, which is arguably over-concessionalised. While benefits are indeed accruing to underlying investees, the level of protection afforded to senior investors is high, with a EUR 50 million first-loss tranche from the Dutch Ministry of Foreign Affairs.



So What?

Key Takeaways

- ➔ While senior investors will probably continue to ask for substantial first-loss protection, donors should consider where their subsidy is most impactful. For the Fund, senior protection was crucial in being able to attract capital from senior investors at the scale desired, especially given its unique investor base. However, from a market standpoint, the level of protection is arguably not a good allocation of scarce resources, which could better support beneficiaries. **Evidence-based efforts to better assess the appropriate level of concessionality are clearly warranted.**
- ➔ As IDH and IDH Investment Management, we are keen supporters of the [Catalytic Capital Framework](#) being developed by the Agri-SME Learning Collective. The framework seeks to support donors, financial intermediaries and practitioners in developing harmonised standards and benchmarks for catalytic capital (GDPRD, 2025). This should create deeper understanding of the appropriate levels of catalytic capital needed, such as the level of concessionality for funds.
- ➔ Given the high level of protection required/requested by senior investors and the need to attract their capital, **funds may explore how they can better subsidise returns instead of providing so much risk coverage.**



What makes the IDH Farmfit Fund different

The Fund is definitely not the only investment vehicle trying to deliver impact at smallholder farmer level; there are a growing number of investment vehicles operating in this space, not least the members of the Council on Smallholder Agricultural Finance (CSAF). However, the Fund is arguably one of the most intentional about smallholder impact. This manifests in multiple ways, from being explicit about making smallholder finance an asset class to the development of the Agri-focused Client Protection framework and the unique and ambitious design of the Fund. **This design was grounded in evidence and experience but included many untested assumptions.** From a learning perspective, we believe that sharing insights on these assumptions and design features is valuable for the sector, irrespective of the success of the different elements. In this section, we dive deeper into the Fund's approach to additionality ([page 46](#)) and impact, reflect on flexibility at the portfolio level ([page 46](#)) and instrument levels ([page 50](#)), and discuss the explicit focus on mobilising capital ([page 52](#)) both at Fund and investment level. We finish the chapter with some reflections on the relationship of the Fund with the broader IDH Group ([page 56](#)).

Driving impact at smallholder level

Improving the livelihoods of smallholder farmers is integrated into the Fund's approach at multiple stages: the selection of companies to invest in, the structuring of investments and post-investment engagement, and through to the continuous monitoring of impact. From a selection perspective, **the Fund's impact orientation typically means that investees are businesses closer to primary production.** While this increases the risk profile and can deter co-investors, the Fund's commitment to smallholder impact has remained steadfast.

Adaptations and Adjustments Client Protection Framework

- ➔ Building on the experience of the inclusive finance industry, the Fund and Cerise+SPTF began the development of a [client protection assessment tool for the agricultural sector \(Agri-CP tool\)](#). The primary aim was to reduce bad practices in financial or agricultural service delivery that cause harm to smallholder farmers. The Agri-CP tool is structured along [eight client protection standards](#) that many impact investors are already familiar with.
- ➔ Since its development, the Fund has used the Agri-CP tool for all its agri-SME investments to ensure that client protection standards are applied consistently and rigourously in its due diligence and monitoring processes. The tool allows for the identification of gaps and weaknesses that can be remedied through the Development Action Plan. In order to gather feedback on the tool for its enhancement, the Fund and Cerise+SPTF have encouraged other investors to test the tool, with the aim of developing it into a sector standard.

As an example, 12 pipeline opportunities that were otherwise attractive were discontinued due to lack of smallholder angle, and many other opportunities never entered the pipeline for that same reason.

The Fund took a bespoke approach to structuring investments to match business and smallholder needs ([page 50](#)). The conditions attached to these investments is a key lever in how the Fund seeks to generate impact: through improving business practices. To encourage improved business practices, the Fund uses a series of methods in tandem, including:

- **Environmental and Social Action Plan** – Typically used for risk management, ESAPs seek to set out the actions that are needed to manage environmental and social risks.
- **Development Action Plan** – A practice developed by the Fund to change business practices, DAPs seek to address specific gaps and opportunities in service delivery toward, and sourcing from, smallholder farmers.
- **Inclusive Business Analysis (Post-Investment)** – IBAs used on a post-assessment basis aim to assess the opportunities for strengthening a smallholder-inclusive business model.
- **Client Protection Tool** – The Agri Client Protection tool seeks to ensure that services, finance and market access are designed in a way where smallholder farmers are protected (see to the right).
- **Smallholder Economics Assessment** – To understand the potential for impact at smallholder level, due diligence contains an assessment of the business case for smallholder farmers.

While too early to fully judge the impact of the Fund's investments, surveys show that impact is filtering down to smallholders through improved service delivery, expanded access to finance and access to premium markets. Future publications will assess and analyse the impact of the Fund's investments.



So What?

Key Takeaways

- ➔ As highlighted by *Concessional Capital for Agri-SME Funds* (ISF Advisors, 2025a), direct investment allows for deeper impact by facilitating deeper engagement. For the Fund, **offering more sought-after instruments and longer tenors puts it in a better position to influence business practices** relative to short-term loans. For those seeking to take a similar approach, we recommend piloting and using the Client Protection tool and taking inspiration from the Development Action Plans.
- ➔ At the same time, **meaningful engagement with investees is more resource intensive**, with a hands-on approach required for extensive monitoring and actionable feedback loops. Therefore, pursuing such approaches **needs to be balanced against what is reasonable from a management fee perspective and whether there are alternative forms of funding**. For example, where monitoring, evaluation and learning needs are high, grant funding and technical assistance facilities could be made available.

Ensuring financial and non-financial additionality

There are a range of different ways to look at additionality, such as the amount of capital mobilised that otherwise wouldn't have been, the degree to which finance triggers additional impact orientation from the investor, the favourability of terms relative to alternatives and the way capital influences other stakeholders (Agri-SME Learning Collective, 2025). This can make measuring and comparing additionality across investment vehicles difficult. For the Fund, financial and non-financial additionality are intertwined with our mandate of improving smallholder livelihood. To that end, the Fund aims to ensure additionality through blending public and private sector investment, offering long-term flexible instruments tailored to cash flow needs of smallholder-inclusive businesses, taking more junior and higher-risk positions, and supporting investees to make changes in business practices—all to generate impact at smallholder level.

Overall, ensuring additionality has not been a challenge for the Fund given its relatively unique approach. Less than 2.5% of opportunities in the pipeline were halted due to a lack of additionality. **With many peers active in shorter-term debt, the Fund is able to be financially additional through offering longer-term, flexible capital.** Furthermore, the intentionality around use of proceeds and support in improving impact orientation, has driven non-financial additionality. This is especially important for more mature companies that are relatively well-served by other development actors, where financial additionality may be lower.



So What?

Key Takeaways

Financial additionality is often more challenging when engaging with more mature businesses in the pipeline, where ticket sizes are typically larger. At the same time, such transactions can be a boon to the Fund in terms of supporting more cost-efficient deployment. **There can be a trade-off between financial additionality and the economics of the Fund.** In order to navigate this trade-off. For instance, the Fund's hands-on engagement on impact and E&S has been effective at increasing non-financial additionality, with several investments utilizing funding to increase the flow of credit and services to smallholder farmers.

Building a diverse portfolio of impactful investment

While many peers are primarily agri-SME funds, the Fund has intentionally taken a mixed-sector strategy to reach smallholder farmers, allowing it to invest in financial institutions, agtechs and fintechs, and on-lending facilities for large corporations. We believe that a holistic approach can better deliver solutions that drive the position and income of smallholder farmers. Such an approach is desirable for multiple reasons, including the ability to make synergetic investments, as well as diversification in terms of risk, return and impact.

- **Synergetic Investments** – The complexity of smallholder agriculture means that various actors can play a crucial role within a given ecosystem. The Fund's flexibility allows it to target actors that have the potential to fill crucial gaps in the sector. **Being limited to just one type of actor restricts a fund's ability to target leverage points in the market.** Furthermore, as the Fund's portfolio builds, it is able to invest in businesses that complement each other (see below). **The ability to pair localised and value chain-specific business models with presence-less and value chain-agnostic business models is crucial.** For an agri-SME fund this is more challenging, as agri-SMEs are often locally rooted with limited synergies across enterprises. However, an agtech, fintech or MFI can often provide services spanning across sectors and geographies

Complementary through Stellapps and Avanti

In India, the Fund's investments in Stellapps and Avanti demonstrate how complementary services between a fintech and an agtech can collectively enhance outcomes for smallholder farmers. Stellapps is an agtech digitising the dairy supply chain in India and providing bundled services to smallholder farmers, including digital milk payments, advisory and input access. Avanti, a tech-enabled non-bank financial company incorporated in India, partners with ecosystem actors like Stellapps to offer tailored, affordable credit products. This partnership allows Avanti to build on Stellapps' infrastructure and farmer relationships to reduce credit risk and offer appropriately structured loans based on Stellapp's farmer data, while Stellapps benefits from Avanti's financial services that enable farmers to invest in productivity-enhancing inputs. Loans are repaid through milk payments at Stellapps' collection centres, lowering costs and improving repayment. An Inclusive Business Analysis of Avanti found that Stellapps farmers borrowing from Avanti are expected to have a higher net income, thanks to lower interest rates and better milk prices. Despite the fact that different co-investors participated in the separate transactions, this example shows the potential of a more synergetic approach to investing.

Complementary through Agora and CHC

In Zambia, the Fund aims to foster synergy through its investments in Agora and CHC. Agora is a mature MFI providing tailored credit, climate insurance and financial literacy, while CHC, through its subsidiary Griffin Services, is developing a smallholder service model via farmer groups and farmgate depots that deliver inputs, technical support and market access for maize and other grains. An Inclusive Business Analysis of CHC found that smallholders could significantly increase their incomes by combining input finance with extension services and high-quality inputs. This evidence informed the Fund's ecosystem hypothesis, the decision to invest in both actors and the technical assistance provided by the Fund to CHC to further develop its business model and install a digital farmer management system. If successfully implemented, this could eventually enable data sharing with third parties, such as Agora, supporting more efficient credit assessments and paving the way for bundled service delivery. This example highlights the potential for financial institutions and agribusinesses to strengthen each other's service offering and impact when reaching overlapping smallholder communities.

- **Diversification** – The Fund can take higher-risk positions in investments by offering junior and subordinated capital, whereas similar funds often invest on a pari-passu or senior basis. This doesn't necessarily result in the Fund having a higher risk profile, partly because it is able to diversify higher-risk investments (such as agri-SMEs) with lower-risk investments (such as MFIs). The same diversification benefits exist from a return and impact perspective too. Agtech and fintech investments typically offer higher returns (albeit with higher risk), whereas agri-SMEs may offer deeper impact on a smaller base of farmers and lower returns. While there is significant variation within groups, there are emerging patterns from the portfolio that can arguably be generalised at a broader level, see figure 19.

Figure 19. Emerging patterns based on type of business

	 Scale farmers reached	 Income increase	 Risk	 Return	 Risk-Return
Agri-SMEs					
Agtechs & Fintechs					
MFI					

The number of icons in a column represents the relative score of a business type against a category. For instance, the three houses against Agri-SMEs for Income Increase represents that Agri-SME investments tend to have a higher impact on per farmer income. Similarly, the three charts for MFIs on Risk-Return means that MFI investments provide the best risk return relative to the other business types.

So What? Key Takeaways

➔ **The Fund's flexibility has been a major design advantage.** Portfolio diversification can mitigate risks associated with investing in this sector (ISF Advisors, 2025c). For the Fund, this involves spreading investments across various crops, geographies and segments of the value chain, in addition to combining different financial instruments. **Diversification must be balanced;** having pockets of concentration (such as a loose set of focus geographies and sectors) can facilitate synergetic investing and reduce the number of markets that investment managers need to be familiar with.

➔ Some investors may be constrained in taking a synergetic investment approach given limitations on capital structure and mandate or concerns about portfolio concentration in given markets. In such cases, **cross-organisational collaboration can encourage complementary investments and interventions** without compromising on the risk exposure and burden that a single investor may want to take in each market.

Leveraging flexibility at investment level to better meet demand

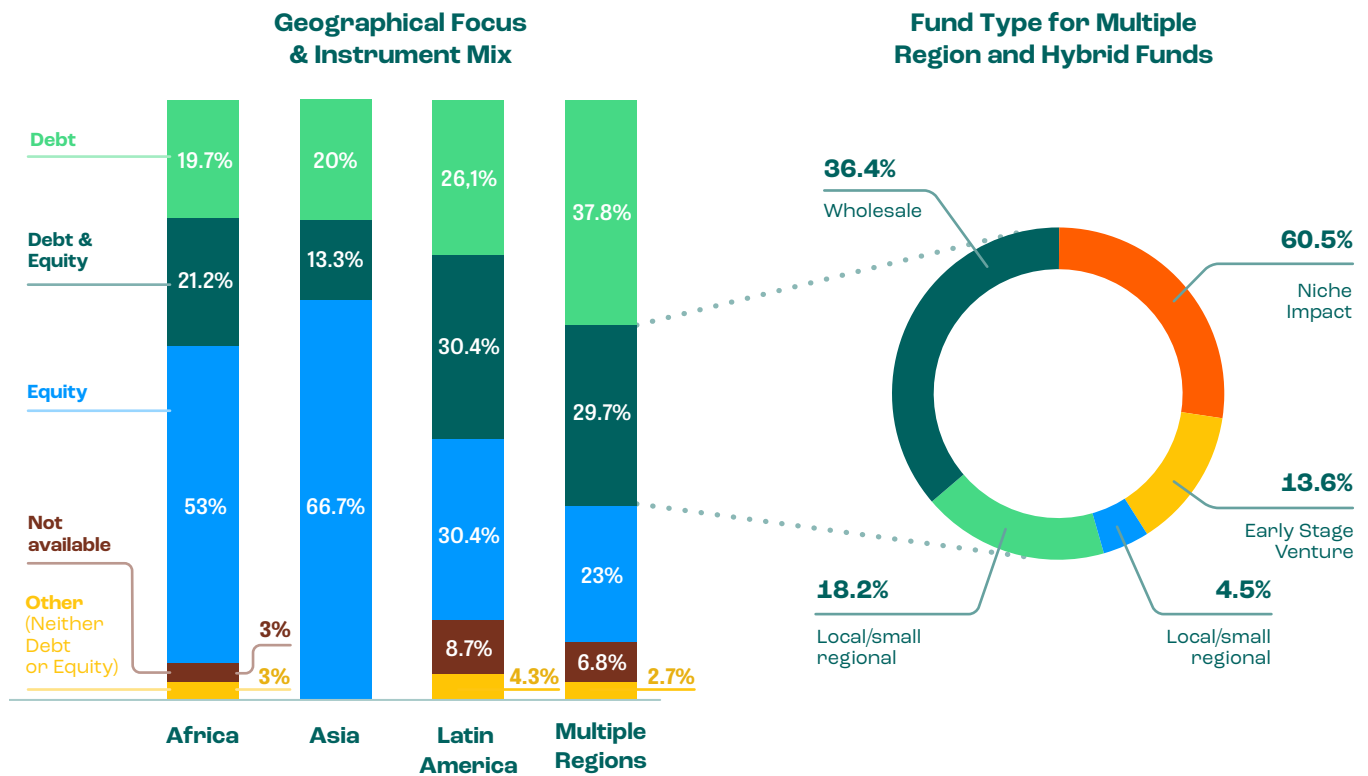
As highlighted throughout this publication, an advantageous tenet of the Fund is the relative flexibility that it has at an investment level. The Fund can invest across a wide range of geographies and sectors, using a mixture of debt and equity. When compared against the full ISF Fund Database (ISF Advisors, 2023), the Fund is one of 22 hybrid funds operating across multiple regions, see figure 19.

A substantial portion of these 22 hybrid funds are wholesale funds. For peers taking a direct investment approach, the Fund often has further flexibility with the tenors and terms that can be offered to investees. This can make the Fund an attractive partner to support long-term innovation

and growth. For instance, such terms have included, but are not limited to the following:

- **Longer Tenors** – The average tenor for transactions in the Fund’s portfolio is above six years.
- **Extended Grace Periods** – Many investments include grace periods before repayments begin, allowing investees to stabilise operations and invest in growth before they need to start making repayments.
- **Moratoriums on interest payments combined with a redemption premium** – This helps to lag the interest costs for an investee, enabling scale-up or factory construction.

Figure 19. Highlighting the IDH's Farmfit Fund's position in the market (ISF Advisors, 2023)



- **Performance-based pricing** – Investments can feature a reduction in interest rates contingent on certain actions (such as in ESAPs or DAPs) being fulfilled—or may adjust pricing based on the performance of smallholder and cooperative loans.
- **Fixed-to-floating rate loan pricing** – Where short-term pricing is fixed to provide more predictability on financing costs to the investee, before later switching to floating rates.

The patience and flexibility of the Fund's capital have better allowed it to meet the longer-term needs of investees. **The primary challenge is that the flexibility and patience of the Fund's investments don't necessarily align with the Fund's capital structure, as tailoring each transaction brings higher operational costs than standardised loan products.**



So What? Key Takeaways

The Fund recognises the significant need for a range of financing in the sector, from shorter-term trade finance to longer-term patient capital. That said, the Fund seeks to address a major gap in the market for longer-term patient and flexible capital. Compared to many peers (such as CSAF members), this flexibility positions the Fund well to meet the needs of the sector. **However, the same flexibility comes with trade-offs** when matched against 1) a more traditional/restrictive capital and liquidity structure and 2) efficiency. **We recommend aligning such flexibility in investment and portfolio construction with longer investment periods; flexibility in the use of capital to cover operational and management costs; and a hybrid, open-ended structure** when field/company/sectoral level transformation is the end goal.



Mobilising co-investment at the investment level

A key goal of the Fund is the mobilise more capital into smallholder value chains. The Fund seeks to do this on both a fund level and individual deal level, with the overall aim of closing agri-finance gaps. There are several benefits to co-investment:

- **Risk Mitigation** – Co-investment allows for shared risk among multiple investors. Here, the Fund can mobilise investors who may otherwise not invest under such terms, which can be particularly important for longer-term, riskier or more complex transactions that may be needed for transformation.
- **Capital Mobilisation** – For every euro invested by the Fund, approximately EUR 3 of additional investment has been leveraged from co-investors, enhancing the overall capital available to investees.
- **Investor Collaboration** – Collaborating with co-investors often brings additional sector-specific knowledge and networks, which can enhance the effectiveness of investments. For instance, the Fund has been able to offer expertise and support around improving the impact orientation or E&S risk management of investees.
- **Catalysing further Investment** – The Fund is able to give co-investors closer firsthand exposure to viable investments. Through the demonstration effect of viable and impactful transactions, the idea is that co-investment should inspire co-investors to increasingly deploy more capital in the sector.

At the same time, securing co-investment at an individual deal level has created several challenges. For instance, finding and negotiating with co-investors can often slow down investment timelines. Some of the key factors that have influenced co-investment include:

Adaptations and Adjustments

Reducing the Co-investment Burden

- ➔ To ease the ability to find co-investors, the Fund actively aims to build relationships with those it expects to grow with. For instance, there are now several co-investors who have joined the Fund on more than one transaction. The Fund also has a [strategic partnership with Oikocredit](#), which progressively makes future investments more straightforward, as familiarity with each other's processes and approaches can generate efficiencies.
- ➔ Similarly, recognising that smaller transactions are less economically viable due to co-investment, the Fund has secured an increase in the maximum level of participation in each transaction. Total transaction sizes including co-investors would often be around EUR 10 million, which can be too much for potential investees to absorb. In response, the Fund increased its maximum participation rates from 30% to 50%, dependent on the total transaction size. The fund can also do 100% of a transaction if the total deal size is under EUR 1m.

- **High Real and Perceived Risks** – Many potential co-investors view the target markets as unstable, raising concerns about market volatility, production and climate risk, and political instability. Many businesses operating in the space also face numerous internal challenges, such as limited management depth and poor internal controls. These real risks can deter many co-investors, especially those without a specific mandate to focus on the sector. The low willingness of various

co-investors to invest is exacerbated by high perceived risk, often beyond real risks. Research (ISF Advisors, 2025c) shows that higher risk perception can emerge because of unfamiliarity and cognitive biases.

- **Complexity and Aligning on Terms** – Co-investment increases the number of stakeholders involved in a transaction, often meaning that there needs to be alignment on the range of conditions, terms and timelines. At the same time, potential co-investors may also require additional due diligence and legal reviews. Taken together, this complexity can result in delays when compared to transactions carried out by a single investor—and can ultimately result in transactions not materialising.
- **Opportunity Cost of Co-Investment** – Returns from investing in the segment, particularly for agri-SMEs, are often low relative to risk (Aceli Africa & Dalberg Advisors, 2020). Many potential co-investors have a range of other sectors that offer more favourable risk-adjusted returns. Unless potential co-investors have a specific mandate targeting the sector, convincing them to participate in transactions has been more difficult than anticipated, even with first-loss coverage (ISF Advisors, 2025c).

The other major implication of co-investment is the impact that it has on the Fund's economics, especially for smaller transactions. For each co-investment, the Fund effectively has a full set of due diligence, investee engagement and administration, but benefits from a smaller proportion of the overall deal and returns. Thus, for **smaller transactions in particular, co-investment can make potential investees less attractive.**

Experiences in co-investing have allowed the Fund to test several assumptions behind its long-term ambition to make smallholder financing an asset class. For instance, the Fund has seen traction with fellow impact investors and those already active in the smallholder agricultural finance space, but struggles to attract new investors, such as institutional investors and local financial institutions, with its toolset (see Annex 6 [page 75](#)). Despite these challenges, it is important to note that not being able to find a co-investor has only been a driving factor of a deal not progressing in around 3% of pipeline opportunities. Nonetheless, when this does happen, it can mean that resources have been unnecessarily invested in opportunities that never materialise in addition to strained relations with potential investees. Furthermore, in many cases, the co-investment requirement, while not preventing investment, has typically led to delays and increased the cost of transactions.



So What?

Key Takeaways

- ➔ Co-investment brings several benefits, especially in its ability to mobilise capital that wouldn't have otherwise been invested. However, strict co-investment rules reduce the flexibility for a fund, especially when it comes to smaller transactions. In this respect, it is particularly challenging for the Fund to be the first investor in a potential investee. **Setting mobilisation targets at a portfolio level—without (or with limited) hard constraints at the individual transaction level—can reap the benefits of co-investment without all the corresponding challenges on the economic side.**
- ➔ For the Fund, **mobilising capital doesn't always mean being the first investor that brings others into the deal.** The Fund's role in often taking the riskiest position can facilitate transactions that otherwise wouldn't have taken place. In several cases, the Fund has been invited into a transaction that was already more developed. This signifies that there is a need for the Fund to de-risk, add expertise or take a broader role in engagement (such as in supporting impact orientation).
- ➔ **For the sector, an excessive focus on who mobilised whom can result in suboptimal collaboration; yet for many donors and senior investors, there are strict requirements on mobilising capital.** For instance, investors may prioritise transactions based on their ability to attribute instead of the impact generated; prefer to invest on a standalone basis instead of co-design and risk sharing; or see each other as competitors rather than peers—all of which reduces the ability to invest in a systemic fashion.

Investor scopes at the portfolio level

IDH believes that meaningful, lasting change happens when people choose to work together with purposes. Through convening coalitions of market actors and fostering direct partnerships, the Fund is better able to overcome the many challenges in smallholder agricultural markets. Driven by this conviction, the Fund sought to bring a range of actors to its investor table: from **financial investors** with a lot of experience in the sector as large, but less proximity to this segment of the market, to **non-financial investors** with a lot of proximity to this segment of the market, but no track record of investment. This pool of actors allowed the Fund to demonstrate the viability of agri-finance investments, while also serving as a potentially valuable source of pipeline.

To bring together this coalition while respecting individual strategies and goals, the Fund negotiated different investor mandates with each of the senior investors. This approach means that the Fund remains one capital pool with shared pro-rata risks and returns, but the initial drawdown and application of capital need to align with different mandates. **From a design standpoint, the Fund underestimated the challenges of negotiating such a structure.** For instance, each investor mandate represents varying priorities that can make it difficult to maintain a single coherent strategy. Furthermore, different investors look at investments with very different criteria. With financial investors, the focus is on the individual merits of each investment. With corporate investors, there is a need to align with strategy, supply chains and internal policies. **In a period of intense disruption to international supply chains such as coffee and cocoa, a lack of flexibility can mean that pipeline dries up for certain investors, impeding the Fund's ability to deploy capital as more flexible mandates are used up in earlier years.**



So What?

Key Takeaways

- ➔ If working with a coalition of actors where natural interests and approaches vary, **senior investors and investors should provide capital on pooled terms** rather than having mandates for each investor. This way, interests can be sufficiently aligned at the outset, **allowing a fund to pursue a single strategy**. In the case of the Fund, the risk appetite of different senior investors has also varied. In such a case, a tranching fund could allow the interests of the senior investors to be better aligned with their risk appetite. Here, the level of protection of each senior investor should be commensurate in the structure.
- ➔ **There is a lot of potential value from finding opportunities aligned with the value chains of corporate investors.** Alternative approaches can pursue strategic partnerships with corporate investors on a deal-by-deal or facility basis, which may be better suited to addressing more targeted corporate needs without the added complexity in the capital structure.

Evolving the IDH and IDH Farmfit Fund relationship

Across the broader development sector, there are numerous examples where traditional grant-based organisations have sought to add investment capacity. The driving factors in those cases are like that of IDH and the IDH Farmfit Fund. **Building on IDH's pre-existing work on technical assistance, learning and innovation, and market convening, a fund was a logical step to address persistent financing gaps for smallholder-inclusive business models**, several of whom were already served by IDH. This would allow for the scaling of high-impact business models, moving beyond one-off grants to a more sustainable pathway for private sector development.

Being a part of IDH brings numerous benefits to the Fund. For instance, the relationship allows the Fund to leverage IDH's extensive networks, knowledge and resources. IDH has provided insights to build the Fund's understanding of value chains, as well as targeted support to potential investees. Access to market information, such as [Inclusive Business Analyses](#), supports investment managers in familiarising themselves with a market and checking assumptions. Similarly, the partnership allows IDH and the Fund to share insights with the sector, such as this report.

The biggest surprise, however, has been the relatively limited conversion of pipeline developed from IDH programmes. **Both the Fund and IDH underestimated the challenges in bridging grant-focused technical assistance programmes with an investment vehicle.** Despite many efforts to align, the majority of pipeline opportunities presented to the Fund by IDH did not make it to the screening process. This was due to a few crucial mismatches. Firstly, many donor-funded TA programmes prioritise field-level impact outcomes—such as farmer incomes, gender equality and reduced greenhouse gas emissions—while neglecting core business support.



So What?

Key Takeaways

- ➔ There are many advantages to integrating investment into a broader grant-based strategy. **By incorporating investment readiness and core business support in grant-based programmes, companies can be put on a pathway to more sustainable impact. This can also be an effective pipeline building strategy. However, this requires sufficient alignment** that may not always be feasible if investment readiness is undervalued by donors.
- ➔ At the same time, the economics of a fund manager may not allow for staff to dedicate much time to improving the investment capacity of the grant-based/parent organisation. Therefore, **the grant-based/parent organisation should invest in resources and capacity-building to facilitate smoother alignment.** IDH has already taken a step in this direction with Investment Development Hubs and the hiring of Investment Advisors within the Foundation.

Such projects can generate a lot of impact on a short-term basis but are often less appealing for investors—which makes sustaining impact more challenging.

Even when TA programmes are oriented toward improving business models and connecting businesses to the impact community, these mismatches can exist. For instance, the [Farmfit Africa Program](#) that ran from 2018 to 2024, ran independently from the Fund but envisaged bridging TA and investment. The programme sought to make impact at field-level (especially income, gender, climate and food security), business-level and sector level—in many ways aligned with the Fund. However, this overlap did not generate the expected level of matchmaking, in part due to timelines. When many opportunities were presented to the Fund from the Farmfit Africa Program, they were too early in their TA trajectories and not sufficiently investment ready. Later, when these business models had been strengthened, the Fund's available capital to invest in food crops was more constrained. There was also often a mismatch between demand (which was more focused on short-term local currency working capital) and the Fund's mandate.

The untapped potential of the relationship between IDH and the Fund has provided valuable insights into how to better integrate and collaborate going forward. These insights are embedded in the new Multi-Year Strategy, while the addition of new funds and mandates should reduce gaps between IDH technical assistance programmes and concessional capital.

Adaptations and Adjustments

A More Integrated Proposition in the IDH Multi-Year Strategy

- ➔ **The IDH Multi-Year Plan 2026–2030 places investment at the heart of its market transformation agenda.** The new strategy repositions investment not merely as a funding mechanism but as a strategic lever to catalyse systemic change. Through a Finance@Scale programme cluster and the establishment of Investment Development Hubs, IDH aims to mobilise considerable sums of private capital and close the agri-finance gap by aligning financial flows with inclusive, climate-resilient agricultural systems. Investment is now embedded across IDH's Theory of Change, with clear KPIs tracking both mobilised and catalysed finance—and is used to incentivise better business practices, support long-term sourcing relationships and drive landscape-level transformation.
- ➔ The integration of investment into the core strategy of IDH will result in much stronger alignment with the Fund and IDH Investment Management. Investment Development Hubs staffed with investment professionals will build pipelines of investable agribusinesses, directly addressing the lessons learned from historic collaboration. **This alignment allows for a more coherent and scalable approach to agricultural market transformation—** where technical assistance, policy engagement and investment readiness are bundled into integrated solutions.

Part 3

Harvesting Lessons Learned





Over the past five years, IDH (IDH Farmfit Fund) has shown that it is possible to deploy flexible, patient, risk-tolerant capital to smallholder-inclusive business models at scale. The Fund's ability to invest across a diverse set of geographies, sectors and business types—combined with a hands-on, tailored approach—has enabled it to reach underserved segments and mobilise significant co-investment. Key adaptations, such as increasing equity exposure, lowering co-investment requirements, building strategic partnerships and refining origination strategies, have strengthened the Fund's ability to respond to market realities. These experiences have validated the Fund's design choices while also reinforcing the importance of flexibility, intentionality and learning in navigating a complex investment landscape.

At the same time, several assumptions underpinning the Fund's original design did not hold. The anticipated traction with multinational traders and traditional financial institutions proved limited, and the readiness of pipeline emerging from TA programmes was lower than expected. Co-investment requirements, while catalytic in theory, introduced operational inefficiencies—particularly for smaller transactions. These challenges have yielded valuable insights that are already shaping the Fund's follow-on strategy. By embedding investment readiness more structurally at IDH, aligning fund design with investee realities and leveraging its learnings through new initiatives (such as One Acre Ventures, LATTE (Latin America Climate Resilience Coffee Facility) and the Agricultural Transformation Fund – working title), IDH Investment Management is well-positioned to continue driving impact in smallholder finance.

Design Dilemmas:

Where Impact and Finance Intersect

As part of this learning journey, we want to highlight some of the key trade-offs that the Fund experienced and the design dilemmas (DD) behind future initiatives.

Design Dilemma 1

(Co-)investment in an environment of high perceived and real risks

Requiring co-investment at the transaction level has been both a strength and a constraint for the Fund. On the one hand, it has enabled risk sharing, established complementary partnerships and mobilised an estimated EUR 3 for every EUR 1 invested, demonstrating the viability of smallholder-inclusive models. On the other hand, it has introduced hurdles, particularly for smaller or more complex deals where aligning with co-investors on terms and timelines has delayed transactions. Co-investment challenges are especially present in a sector where perceived risks (due to unfamiliarity and cognitive bias) often exceed real risks, such as political instability, climate volatility and weak financial infrastructure (ISF Advisors, 2025c). Many investors, especially those without a specific mandate for smallholder agriculture, default to safer, better-known sectors. While the Fund has adapted by increasing its maximum participation rate and building repeat partnerships, the experience suggests that **setting mobilisation targets at the portfolio level—rather than enforcing them per deal—may offer a more flexible and catalytic approach.**

Design Dilemma 2

A disconnect between traditional TA programme approaches and investor requirements

Technical assistance (TA) is widely recognised as a critical enabler of investment readiness and business model optimisation. However, the way TA is structured and deployed in non-investment vehicle aligned facilities often creates a mismatch with investor needs. Most TA programmes aimed at smallholder farmers are designed to deliver impact outcomes rather than prepare businesses for capital absorption, and TA facilities for investment funds are typically geared toward post-investment support. Many businesses introduced to the Fund (even through IDH programmes) were still early in their TA journey and not yet ready for investment. The trade-off lies in timing and resourcing: While pre-investment TA can be catalytic, it is costly and difficult to justify without a clear investment outcome. Bridging this gap requires more integrated models (such as IDH's Investment Development Hubs) that **better align TA with investor needs, as well as dedicated funding to support pre-investment engagement where the commercial case is insufficient.**

Design Dilemma 3

Balancing a client/impact-centric approach with a traditional fund setup

The Fund was designed to be impact-centric, with a strong emphasis on tailoring instruments to investee needs and structuring transactions in ways that support smallholder-inclusive business models. This included longer tenors, extended grace periods, performance-based pricing and the use of Development Action Plans. These features have enabled the Fund to reach underserved segments and influence business practices in ways that more standardised approaches cannot. However, this level of customisation and engagement is resource intensive. As noted by *How can African SME Funds Mobilise More Capital* (I&P, 2025), many SME funds operate at sub-scale and face challenges in covering operational costs—particularly when fee structures are tied to deployment rather than committed capital. For the Fund, **the tension between its ambitions and its capital structure has been a recurring theme**, especially given the complexity of its mandate and the expectations of its diverse investor base.

At the same time, the Fund's impact ambitions have required careful prioritisation. While the desire to integrate multiple impact lenses (such as gender, climate resilience and youth) is well-founded, doing so during due diligence can overwhelm both the Fund and potential investees.

Sequencing impact interventions over time can be more effective than front-loading requirements. The Fund has increasingly adopted this approach, using post-investment TA and ongoing investee engagement to phase in additional impact dimensions. This allows for a more manageable investment process while still supporting long-term transformation.

The trade-off is between depth and efficiency: Meaningful impact requires flexibility, but that flexibility must be matched with fund structures that allow for it, whether through adjusted fee models to accommodate high-touch engagement or complementary grant funding for post-investment TA.

Design Dilemma 4

Determining which investees will allow the Fund to meet impact and return goals

The Fund's ability to invest across a range of business types—agri-SMEs, MFIs, agtechs, fintechs, traditional financial institutions and traders—has allowed it to build a portfolio that balances depth and breadth of impact. Agri-SMEs, for instance, often deliver deeper engagement with smallholders but tend to be less investment-ready and offer lower returns. In contrast, tech-enabled service providers can scale faster and offer stronger financial upside, albeit with shallower farmer engagement. MFIs are typically more mature and easier

to transact with, but their smallholder exposure is often limited. The Fund's flexibility in tailoring instruments, such as equity and subordinated debt, has been key to navigating these trade-offs and aligning financial and impact objectives.

However, the Fund has also encountered actors it is structurally less equipped to serve. Traditional financial institutions, for example, often require a different toolset—such as the origination incentives and portfolio-level first-loss guarantees deployed by Aceli or interventions by policymakers. Lending is not core to traders' business models, and banks are often deterred by high risk and regulatory constraints. In these cases, the Fund's offering has proven too complex or insufficiently attractive. The lesson here is **not that these actors should be excluded, but that different tools, vehicles and regulations are needed to unlock their potential in the smallholder finance ecosystem.**

For example, Zambia's 2017 legislation that allows banks to use guaranteed off-take contracts as loan collateral has enabled the emergence of [tripartite financing agreements](#) between traders, farmers and banks (Aceli Africa & ISF Advisors, 2025). Similarly, India mandated that the financial sector increase loans to the agriculture sector, which amplified flows to smallholder farmers and other ecosystem actors.

Design Dilemma 5

Portfolio Diversification across sectors and geographies vs. a more targeted, concentrated and systemic approach

The Fund's ability to invest across a wide range of sectors and geographies has supported portfolio risk diversification and created opportunities to pursue high-impact investments in underfinanced areas. This flexibility has been particularly valuable in building a portfolio that balances exposure across food crops, cash crops and value chain-agnostic models in the face of several constraints in capital structure and investment policy. However, this breadth comes with trade-offs. Building deep familiarity across multiple markets can be resource-intensive and dilute the Fund's ability to drive systemic change in each geography or sector. A more concentrated strategy, focused on a limited number of countries or value chains, could enable deeper engagement with local ecosystems, stronger partnerships and more transformative outcomes—but would come at the expense of higher portfolio concentration and less flexibility. **Diversification can enhance resilience, but systemic transformation may be more feasible when efforts are focused and layered within a defined context.**

Key Recommendations for a More Fertile Investment Ecosystem



Impact Investors

- **Utilise our lessons learned in design –** We invite those designing a new investment vehicle to learn from the Fund and consider the key trade-offs in our design dilemmas. For instance, tailored instruments, longer tenors and hands-on engagement can unlock deeper impact, especially in underserved segments. However, these approaches are resource-intensive and must be matched with fund structures that allow for longer investment periods, flexible fee models and sufficient operational bandwidth.
- **Collaborate on co-investment and complementary investments –** Strategic co-investment partnerships that include data sharing, combined due diligence and pipeline development can reduce transaction costs, improve deal conversion and unlock scale. This is particularly true when investors share due diligence, align on terms and build trust through repeat engagements. Complementary investments can be equally powerful. Even without direct co-investment, coordinated strategies can strengthen market systems and deliver more holistic outcomes for smallholder farmers.
- **Contribute to shared learning and strategic alignment across the sector –** Sector-wide progress depends on more than capital: it requires shared insights, harmonised frameworks and aligned incentives. Impact investors should actively participate in learning platforms (e.g., CSAF, Agri-SME Learning Collective, SAFIN), contribute to benchmarking efforts and collaborate on advocacy to shift perceptions of risk and return.



Senior Investors & Limited Partners

- **Support hybrid and open-ended fund structures to enable patient capital -** Liquidity preferences can often constrain the ability of funds to invest in longer-term, transformational opportunities. As noted by *How can African SME Funds Mobilise More Capital* (I&P, 2025), hybrid structures with permanent equity and flexible exit windows can better align senior investor needs with sector realities. Similarly, several of the larger-scale microfinance funds have managed to do so by being open-ended.
- **Align fee models with fund complexity and mandate –** Funds targeting underserved segments and offering tailored instruments require more time and resources. Fee structures based solely on deployed capital can create perverse incentives and undermine impact ambitions. As *Concessional Capital for Agri-SME Funds* (ISF Advisors, 2025a) highlights, higher fees or complementary grant funding may be warranted where significant market development work is required.
- **Invest on pooled terms to enable coherent strategy and efficient deployment –** Pooled terms allow for more coherent portfolio construction and reduce the burden of managing multiple scopes, providing funds with much needed wiggle room. Conversely, fragmented investor mandates—while sometimes necessary to attract diverse capital—can create operational inefficiencies and limit strategic flexibility.



Support Organisations

- **Embed investment readiness and core business support more structurally into TA programmes** – Many TA programmes focus on impact delivery without preparing businesses for capital absorption. Embedding investment readiness—including governance, financial systems and strategic planning—into TA design can help businesses graduate from grant support to commercial capital.
- **Build market transparency on investment in smallholder – inclusive business models** – Weak data on business model performance and impact undermines investor confidence and increases due diligence costs. Existing efforts (such as 60 Decibels Signal, Agbase and IDH's own Farmfit Insights Hub) are valuable, but scale and uptake need to be supported. Support organisations can help harmonise metrics, facilitate data sharing across TA and investment actors, and build the evidence base needed to attract capital. This includes not only impact data but also operational benchmarks, financial performance indicators and sector-specific risk profiles that can support more efficient screening and structuring. Furthermore, most of the literature available on investment in smallholder-inclusive business models focuses on agri-SMEs. To better understand capital flows, research on other ecosystem actors is crucial.
- **Investigate obstacles and enablers for demonstration effects** – Despite growing investment activity, demonstration effects remain limited with many investors still perceiving smallholder finance as too risky or niche. Support organisations can play a key role in unpacking these perceptions through targeted research, such as the ISF Risk Perception Study, and by developing knowledge products that showcase viable business models and successful transactions. Understanding

what drives or hinders investor confidence beyond data can shape more effective advocacy and engagement strategies.



Donors & Governments

- **Consider most effective use of concessionality** – Donor capital should be deployed where it unlocks the most value, whether through risk mitigation, return enhancement or enabling market development. (ISF Advisors, 2025a), (I&P, 2025) and the Agri-SME Learning Collectives Catalytic Capital Framework all highlight the need for more evidence-based approaches to concessionality, avoiding the over-subsidisation of senior investors. At the same time, the Fund's and others' experiences highlight the need for grants to support technical assistance, foreign currency lending/hedging, impact management and operational costs for first-time fund managers.
- **Embed investment readiness into programmes and strategies** – Donors, through embedding investment readiness in their own strategies and mandating it in the programmes which they finance, can help bridge the gap between grant-based support with concessional and commercial capital. Similarly, donors should ensure that grant funding for TA is well aligned with fund investment periods.
- **Strengthen enabling environments for agri-finance** – Donors and governments can play a critical role in reducing real and perceived risks by improving credit registries, land tenure systems and financial regulation. As documented by *Role of Government in Rural & Agri-Finance* (Aceli Africa & ISF Advisors, 2025), these interventions lower barriers for investors and improve the viability of smallholder-inclusive business models.

Part 4

Annexes



Annex 1:

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Annex 2: Methodology

This report is based on a mixed-methods approach, combining both quantitative and qualitative data to generate insights into the Fund's strategy, experiences and contribution to smallholder finance market development. The analysis draws on the Fund's first five to six years of activity, using internal data, investment documentation and stakeholder perspectives to highlight key patterns, challenges and lessons. These insights reflect real-world conditions across diverse geographies and value chains, and form the basis for the thematic reflections presented in the report.

Quantitative analysis was conducted primarily using Excel and focused on internal pipeline and portfolio data. The analysis enabled us to understand patterns in deal flow, portfolio construction, investor interest and barriers to execution. In total, the data for 290 investment opportunities, of which 217 officially discontinued, was reviewed. ***(Note: due to timelines when preparing this publication, information on the current Fund's portfolio is reflected as per the end of Q2 2025. All other quantitative data analyses in this report are based on data as per the end of Q1 2025).***

Qualitative analyses used a broad set of internal documents, external sources and stakeholder engagements. For instance, we frequently leveraged internal documentation related to the Fund's structure, original design, mandate, governance and General Investment Principles (GIP) throughout this document. Furthermore, Using Atlas.ti, including its secure AI-supported conversational analysis feature, we extracted key themes and trends, recurring challenges and strategic learnings from investment documentation (e.g., Investment Proposals, meeting notes). To complement investment documentation, we drew on public sectoral reports (see Bibliography) and commissioned studies by the Fund, including the Risk Perception Study and the Farmfit Fund Landscape Study, which provided additional context and comparative insights. In total, 331 documents were reviewed using Atlas.ti, of which 313 were internal documents.

Lastly, to deepen explanations and triangulate initial findings, we conducted a series of interviews and internal sense-making sessions with members of the Fund team. Findings were further validated and enriched through a full-day roundtable with key stakeholders of the IDH Farmfit Fund.

Annex 3:

The IDH Farmfit Fund Investment Process



Annex 4:

The Fund's Investment Experience by Geography

Africa

- IDH has a strong presence in sub-Saharan Africa, being active in a wide range of countries and regions. The Fund has staff strategically located in Kenya, serving primarily East and Southern Africa.
- This means that the Fund was introduced to a considerable number of opportunities through IDH (and other partners), and is well positioned to leverage the network and presence of its own staff.
- The relatively lower conversion rate highlights the high number of inbound requests which didn't align with the Fund's criteria or were not sufficiently investment ready (which was a bigger factor in Africa than elsewhere).

Asia

- The Fund targeted transactions largely in countries where IDH has a presence: India, Indonesia and Vietnam.
- India has emerged as a key destination for pipeline origination and portfolio investments thanks to its relatively mature ecosystem of agtechs and fintechs and deep capital markets.
- The businesses typically found in India—scalable and tech-enabled, operating across multiple crops and value chains—are well suited to equity financing, which is the only viable instrument for international funds under Indian regulation. The Indian market also offers clearer exit pathways for equity investments, making it particularly appealing.
- Beyond these countries, many other Asian markets are more fragmented, making them less attractive for similar investment.

Latin America

- Compared to the other regions, Latin America had a relatively high conversion rate.
- This is due, in part, to a more intentional origination strategy that relied on key partners in the region, given the lack of pre-existing presence.
- At the same time, the region's natural focus on coffee and cocoa aligns well with the Fund's focus crops.
- Developmental money is being redirected away from Latin America to other regions due to changes in public policy and spending by donors. This has not been a hurdle to co-investment for the Fund, but a continuation of this trend could present both challenges (in terms of reduced TA for investment readiness) and opportunities (in terms of a shift from grant-funded actors seeking concessional funding) later on.

Cross-Continental

- Cross-continental deals typically involve large international traders sourcing cash crops across multiple countries. Such transactions are not easily found.
- The rationale for such transactions being cross-continental is that they allow economies of scale that increase appeal to both investees and the Fund.
- The inspiration for these transactions was based on [Neumann Kaffee Gruppe's Smallholder Livelihood Facility](#), but designing and closing such transactions has not been viable (see Traders in the Business Type section).

Annex 5:

The Fund's Investment Experience by Value Chain

Cocoa

- Cocoa is a focus value chain for the Fund, building on IDH's long-term and extensive involvement in cocoa value chains, in addition to relationships of its senior investors.
- The Fund's investments typically target financial inclusion (e.g., [Advans](#)), more sustainable practices and business model innovation (e.g., [Koa](#)).
- Cocoa has been a relatively crowded sector, and the Fund has a high hurdle for additionality, limiting the investments available and suitable to the Fund's mandate. The top tier of exporting and investment-ready cocoa cooperatives are well-served by the financial sector, typically through short-term finance.
- Erratic weather patterns, vulnerability to pest and disease, market volatility and rising prices in the cocoa sector have increased the risk profile of cocoa investments (CSAF, 2024) but also mean that longer-term transactions, such as those prioritised by the Fund, are less appealing.

Coffee

- Like cocoa, coffee is a focus value chain where the Fund can leverage the relationships of IDH and its senior investors.
- Investments in coffee value chains have been mixed, including CAPEX for growth (e.g., [Aldea Coffee](#)) and increased value capture, targeted financial inclusion (e.g., [Aldea MFI](#)), long-term working capital (e.g., [JKCC](#)) and a [producer organisation trade finance facility](#) together with Oikocredit.
- The coffee sector has also faced challenges with erratic weather patterns and market volatility (CSAF, 2025). In 2023, extreme weather events caused by El Niño negatively impacted coffee yields and quality, leading to a drop in global stocks and a spike in prices.
- Nonetheless, these challenges and the resulting price spikes have been less pronounced than in the cocoa market. The main consequence has been delays rather than cancellations.

Food Crops

- Food crops comprise a relatively high number of investment opportunities, particularly in Africa—with demand emerging from agri-SMEs, in particular.
- Food crops are relatively underserved by the impact investment community due to concerns over risk and the fact that many investees seek local currency financing.
- For the Fund, food crop investments are appealing due to growing demand (especially in Africa), as well as the high participation of smallholders in these value chains. This offers high impact potential in terms of farmer reach, farmer income, gender, climate resilience and food security.
- To that end, the Fund's investments have typically sought to strengthen inclusive business models and boost access to finance, supporting the development of value chains.
- Key challenges that explain a relatively low conversion rate include: market informality, lack of competitiveness of smallholders against larger producers and the fact that the Fund cannot provide local currency financing due to the hedging costs.

Animal Products

- The animal products value chain is appealing due to increasing global demand for dairy and meat, the food security and nutritional advantages, and the potential for improving smallholder livelihoods.
- While also exposed to certain climate shocks (e.g., heat stress), animal products tend to have more adaptive potential. Animals can be moved, treated and buffered with feed reserves. This means that they can provide considerable income diversification benefits for smallholders, albeit at the expense of increased greenhouse gas emissions and animal welfare considerations.
- The adaptive potential of animal products, in addition to the regularity of cash flows throughout the year,

reduce risks in the value chain, making the sector appealing to investment. These factors partly help explain the relatively high conversion rate of investment opportunities.

- The Fund's investments in animal products have focused on productivity enhancement, geographical expansion and technology adoption.
- Local currency financing has been a barrier. To overcome this, the Fund has sometimes used equity and hybrid instruments as a workaround.

Palm Oil

- The fund had explored several investments in • The fund explored several investments in palm oil value chains, especially in Indonesia, but was unable to find any deals that aligned with its eligibility criteria, mandate and senior investor requirements.
- With several larger palm oil companies, investment opportunities sought to encourage deeper integration of smallholders. However, traction from larger players was limited due to the complexity and cost.
- Opportunities where smallholders were already integrated were typically small-scale and not investable.

Value Chain Agnostic

- Value chain-agnostic businesses tend to attract larger ticket sizes. These businesses are typically tech- or MFI-driven. By operating across multiple value chains, they can attain broader farmer reach and tend to have more scalable models.
- Such value chain-agnostic businesses can be more favourable for investors, particularly venture capital investors seeking high growth potential.
- In fact, all value chain-agnostic investments that the Fund has made have been equity investments into fintechs with high potential farmer reach and higher expected returns.

Annex 6:

The Fund's Investment Experience by Business Type

Agri-SMEs

- Agri-SMEs play a crucial role in delivering farm-level impact through holistic service provision and access to markets.
- Given the deep impact that agri-SMEs can generate, the Fund is typically willing to accept higher risk levels associated with agri-SME lending, including their limited-to-no collateral and lack of access to other sources of funding due to business model maturity.
- The Fund seeks to achieve competitive financial returns by investing in commercially viable agri-SMEs that demonstrate strong growth potential. The target ticket size of the Fund also naturally limits its focus to medium and larger SMEs. As finding these agri-SMEs while remaining additional is challenging, the conversion rate relative to other business types is lower.
- Investment readiness was the key barrier. Many agri-SMEs introduced to the Fund by IDH were not at the required level of investment readiness; they were either relatively early in their technical assistance trajectories or technical assistance was not geared toward investment readiness.
- Where the Fund does invest, the longer tenors offered for CAPEX—often paired with generous grace periods (on interest and principal repayments)—position agri-SMEs well to develop and scale their operations.

The Financial Sector

- The Fund's experiences with **traditional financial institutions**, such as commercial banks, has been in stark contrast to its experience with **microfinance institutions** (MFIs).
- The initial expectation was that traditional finance institutions would be a key partner in developing smallholder on-lending facilities. In reality, many banks were deterred by the high risks and operational costs associated with serving

smallholder farmers, as supported by *Towards Market Transparency in Smallholder Finance* (IDH, RAF-LL, Dalberg Advisors, 2022). Given their prudential requirements and fiduciary duties, many financial institutions prioritise lending to other sectors offering better risk-adjusted returns (ISF Advisors, 2025a).

- Inspired by a landscape study commissioned by the Fund (Center for Financial Inclusion, 2023), we found more traction with MFIs where financing has been used to reduce operational costs, expand lending portfolios and support the development of new products to enhance smallholder impact.
- Relatively high conversion rates for MFIs also reflect the fact that they are regulated and typically more mature businesses, which ultimately eases the investment process.
- That said, returns and additionality for MFIs are relatively lower, while the overall pool of MFIs aligning with the Fund's mandate and requirements is limited.

The Innovators

- Given that agtechs and fintechs are often not bound to a single region or value chain and tend to focus on a particular service or technology, they are particularly scalable and can be integrated into the business models of other actors. From a portfolio perspective, this allows the Fund to identify investment opportunities that are complementary to existing portfolio investments ([page 46](#)).
- For fintechs and agtechs, the focus has been on equity investments, driven by the need for significant upfront capital to develop technology solutions.
- When assessing opportunities from innovative companies, key risks can include their level of maturity and concerns over their capacity to scale.
- The higher expected, but uncertain, internal rate of returns support achieving the Fund's targets for financial returns while also driving innovation in the agricultural sector.

(Multinational) Traders

- The Fund's intention to engage with multinational traders to set up smallholder farmer on-lending facilities, inspired by the [NKG Bloom Financing Facility](#), did not materialise as expected.
- The facilities have not been sufficiently interesting for traders, for whom lending is not a core business of traders. They are not equipped for it, and it incurs considerable upfront (e.g., systems, infrastructure) and ongoing costs (e.g. credit control, loan administration).
- Traders ultimately want to use their working capital for core activities. Under market conditions whereby output prices are higher, there is a greater opportunity cost to diverting working capital to facilitate on-lending.

Annex 7:

Executive Summary from ISF Risk Perception Study (2025)

Drawing on a literature review and interviews with over 20 sector experts and practitioners, the report explores factors explaining gaps between perceived and actual risks in the smallholder finance sector. This analysis acknowledges the sector's high risks and is based on the premise that investors' risk perception often exceeds the real risks.

The study confirmed this initial hypothesis. Key risks affecting this space—especially production, farmer, climate, human capital and country risks—are exacerbated by uncertainty caused by long-tail events (e.g., climate shocks, political instability) and cognitive biases toward emerging markets, agriculture or smallholder farmers (e.g., lack of familiarity, preconceptions or confirmation biases). The risk perception gap is generally linked to investors' distance to the underlying investees. Risks are generally perceived similarly across regions. In addition to a high-risk perception, investor interest in the space is curbed by low returns, high transaction costs and illiquidity.

Risk mitigation tools are key in alleviating investor concerns. At the investee level, Technical Assistance (TA) emerged as a strong de-risking mechanism; its effectiveness is hindered by restrictive uses and burdensome deployment processes. Investors value pre-investment TA, but it is less commonly available. Portfolio diversification, off-taker involvement and proximity to investments serve as strong natural hedges to mitigate risk. Insurance, while valuable in transferring weather and crop-related risks, remain underutilised due to high premiums and limited awareness among farmers.

At the fund level, risk mitigation tools like junior/first-loss capital, guarantees, intermediation strategies, co-investments and TA for fund managers are critical but often insufficient to sway those unfamiliar with the sector. Downside protection through junior capital is the preferred risk mitigation tool for senior investors. However, some investors may perceive it as signalling

high risk or potential future losses. Some investors may also require additional return-enhancement features.

Past and future trends shape investor engagement with smallholder finance. In the past few years, business environments in emerging markets seem to have shown little improvement; generally, professional skillsets and local institutions remain weak. Looking forward, climate change and technology are driving disruption but also paving the way for novel solutions and businesses. Funding sources are also evolving, given decreasing development budgets in the Global North and the emergence of new players.

To effectively attract investment in smallholder finance, it is crucial to address perceived risks but also highlight the unique value proposition of funds like the IDH Farmfit Fund. For the Fund, this involves leveraging IDH's established brand and on-the-ground expertise, clearly communicating the Fund's value proposition—emphasising its flexibility in tailoring investments to company needs and its role in bridging market gaps—considering partnerships with organisations with complementary capabilities and refining the Fund's investment narrative while preparing future fundraising.

Demonstrating consistent returns and building a robust dataset are critical to instilling investor confidence. However, data alone cannot address entrenched biases. Overcoming deeply rooted biases may require the development of knowledge products that unpack successful case studies or zoom into a specific geography or value chain. It may also require advocacy work and active collaboration across the industry. Initiatives like the Financing for Agri-SMEs in Africa (FASA) Fund, which will gather performance data from a wide range of agri-focused funds, and the Catalytic Capital Framework by the Agri-SME Learning Collective can drive knowledge-sharing, alignment and engagement.

Adaptations and Adjustments

Risk Perception Study (ISF Advisors, 2025c)

To further explore and evaluate experiences of securing co-investors, in 2024 the Fund commissioned a study by ISF to dive into how risk perception influences different actors.

- ➡ **Development Finance Institutions** are government-backed financial institutions with both a commercial and development mandate—aiming to generate financial returns, albeit lower than what institutional investors would demand for that level of risk. They **typically participate in smallholder farmer finance as senior investors in funds**, making sizeable contributions. For this reason, their presence is critical for the funds' scale, but their limited appetite for risk **often requires risk-mitigation tools**, such as guarantees, or protection from junior capital. These investors prioritise investments in funds with significant additionality potential, as long as the risk of their investment is low and the opportunity generates a positive spread over the base rate. At the investment strategy level, they are normally interested in using risk mitigation levers (i.e., intermediation strategies). **When investing in companies directly, they prioritize mature businesses in established markets**, often requiring large ticket sizes and involving lengthy approval processes.
- ➡ **Institutional investors**, including pension funds, have **limited risk appetite and a focus on returns**. Most do not have specific mandates for emerging markets or agriculture, reducing their likelihood of engaging in smallholder finance. For those with natural capital or agriculture mandates, these are **generally deployed in developed markets**. Even with specific impact mandates, the perceived opportunity cost of diverting capital from sectors with stronger risk-adjusted returns often precludes significant involvement in this space. When considering emerging market investments, institutional investors **generally gravitate toward higher-income, more stable countries**, such as Brazil, Chile, or South Africa, and intermediation strategies. Generally mentioned limitations are weak legal frameworks, specifically related to land tenure, and the ability to find opportunities to deploy large ticket sizes. Since institutional investors' minimum ticket size can be in the hundreds of millions, they **require large-scale funds or transactions**, thereby overlooking a large part of the smallholder finance space.
- ➡ **Commercial banks** generally exhibit a **low risk tolerance, are constrained by regulatory requirements** around capital reserves and prioritise sectors with more favourable risk-adjusted returns. When engaged in the agricultural sector, local banks tend to prioritise well-established value chains and/or longstanding client relationships.
- ➡ **Philanthropies and private endowments of capital** (e.g., family offices) look to maximise impact while preserving their capital base. With flexible capital, capital preservation-focused investors seek opportunities to fill critical funding gaps left by other capital types. While they can sometimes forgo upside, **they have limited risk appetite**—losses can diminish their capital base and limit their ability to generate impact in the long run. **Ticket sizes are normally smaller than DFIs** and financial return orientation (i.e., commercial, sub-commercial) varies.
- ➡ **Impact investors** generally feature **sub-commercial mandate, targeting both positive financial returns and impact generation**. Tranched capital structures are widely used: risk-tolerant investors take junior positions to address the high risk perception of senior investors. **A funds' risk appetite is influenced by fund term, investment strategy and capital structure**. Impact funds often **integrate natural hedges into their strategies to manage risks**, such as investing across diversified value chains and combining debt and equity instruments.

Annex 8: Portfolio List

Name	Countries	Sector	Business type	Instrument	Investment Amount	Currency	Year of Investment
Advans CIV	Côte d'Ivoire	Cocoa	MFI	Debt	€1-2.5m	EUR	2024
Agora Zambia MFI	Zambia	Food crop(s)	MFI	Equity	€1-2.5m	USD	2024
Aldea Coffee	Nicaragua	Coffee	Agri-SME	Debt	€1-2.5m	USD	2021
Aldea MFI	Nicaragua	Coffee	MFI	Debt	€2.5-5m	USD	2024
Atlantic Commodities	Vietnam	Coffee	Agri-SME	Debt	<€1m	USD	2022
Avanti Finance	India	Multiple VCs / VC Agnostic	Fintech	Equity	€2.5-5m	EUR	2023
Avanti Finance Follow-on	India	Multiple VCs / VC Agnostic	Fintech	Equity	€1-2.5m	EUR	2024
CHC Commodities	Zambia	Food crop(s)	Agri-SME	Debt	€2.5-5m	USD	2022
Hatch Africa	Kenya, Ghana, Côte d'Ivoire	Animal Products	Agri-SME	Debt	€2.5-5m	USD	2023
JKCC	Uganda	Coffee	Agri-SME	Debt	€5-10m	USD	2025
Kaleidofin	India	Multiple VCs / VC Agnostic	Fintech	Equity	€5-10m	EUR	2025
Koa	Ghana	Cocoa	Agri-SME	Debt	€1-2.5m	CHF	2022
LendXS	Kenya	Multiple VCs / VC Agnostic	Fintech	Hybrid	<€1m	EUR	2021
Mvuvu Holdings	Mozambique	Animal Products	Agri-SME	Hybrid	€1-2.5m	EUR	2021
Oikocredit Trade Finance Facility	Honduras, Guatemala, Costa Rica, Ecuador, Peru, Nicaragua, Colombia	Coffee	FSP	Debt	€5-10m	USD	2025
Stellapps	India	Animal Products	Agtech	Equity	€2.5-5m	USD	2022
Stellapps Follow-on	India	Animal Products	Agtech	Equity	€1-2.5m	EUR	2024
Uniespecies	Guatemala	Other cash crop(s)	Agri-SME	Debt	€-*	USD	2022

*Investment amount not disclosed due to local sensitivity.

