



Cultivating Capital for Smallholder Finance

Lessons from 6 years of the IDH Farmfit Fund

Executive Summary & Design Dilemmas

December 2025



**Farmfit
Fund**
Managed by idh invest



idh
transforming markets

Authors

Kafui Adjogatse, Rosalie Dekker

Acknowledgements

IDH would like to recognise the experts whose time and guidance have been critical to the creation of this report. We would like to extend our gratitude to Barbara Visser, Roel Messie, Thomas Kockmeyer, Miguel Tamayo Maertens, Isaac Mungoma, Emmanuel Simon (all IDH Investment Management); Brian Milder (Aceli Africa), Eda Dokle (Council on Smallholder Agricultural Finance and Agri-SME Learning Collective), Luan Mans (Acumen), Ana Orians (Root Capital) and Songbae Lee.

We would also like to thank Gerjo van Dam and Saar de Vries for the design of this report, and Kristin Williams for editing support.

Suggested reference: IDH. 2025. "Cultivating Capital for Smallholder Finance: Lessons from 6 years of the IDH Farmfit Fund" Utrecht.

Disclaimer

Although every effort has been made to ensure that the content of this report is up-to-date and accurate, errors and omissions may occur. The report is provided on an "as is" basis and is not intended as a substitute for the reader's own due diligence and inquiry. IDH does not guarantee or warrant that the report or the information contained in it is complete or free of error and accepts no liability for any damage whatsoever arising from any decision or action taken or refrained from in reliance thereon, nor for any inadvertent misrepresentation made or implied.

This publication is made possible through the funding of our donors, in particular the Dutch Ministry of Foreign Affairs. The findings and conclusions contained within are those of the authors and do not necessarily reflect positions or policies of the Ministry of Foreign Affairs.

Produced by:



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.

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.**

