KAMPANI
Investing in family farming

ANNUAL REPORT 2017

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PREAMBLE
BY THE CHAIRMAN

Dear readers,

Kampani today has three deals in its portfolio, having added a deal in Guatemala in 2017. In this annual report we will present their progress and highlight Kampani's risk mitigation strategy.

The Board continues to believe in the added value of our investment strategy and the strength of its network to overcome the many obstacles and challenges.

Needless to say, the Board is dissatisfied with the number of deals closed thus far — while emphasizing that quality always trumps quantity. We remain hopeful — given our promising pipeline — that in 2018 we will be able to see the results of our focus on closing successful deals.

On behalf of the entire Board, I thank you for your continuing confidence and support.

Steven Serneels

SHAREHOLDERSHIP

The current shareholders are:

King Baudouin Foundation
Working together for a better society

rikolto VECO

alterfin

LOUVAIN COOPERATION

BOERENBOND trouw aan land- en tuinbouw

TRIAS DROMEN KRIJGEN KANSEN

SIDI SOLIDARITÉ INTERNATIONALE POUR LE DÉVELOPPEMENT ET L'INVESTISSEMENT

OXFAM Wereldwinkels

Broederlijk Delen TOT IEDEREEN MEE IS

and Private Investors

Once fully invested, Kampani will shift into fundraising mode. This is expected by the beginning of 2019.

DEALS: COCOCA, BURUNDI

VITAL STATISTICS

Country	Burundi
Sector:	Coffee
Investment	Acquisition of a coffee processing plant, i.e. a vertical integration
Total estimated capital expenditure	501.000 USD over three years
Investment type	Subordinated debt over five years
Total loan amount	314.000 USD
Co-investor	Truvalu (formerly known as ICCO Agribusiness Booster), contributing 100.000 USD
Maximum exposure for Kampani	214.000 USD plus guarantor for purchase of factory
In portfolio since	March 2016
Deal sourced by	The King Baudouin Foundation

THE DEAL

In March 2016, Kampani made its first investment: we awarded a subordinated loan to a newly established subsidiary of COCOCA, called Horamama, to acquire an existing hulling factory.

COCOCA is a Fairtrade certified union of coffee producing cooperatives in Burundi. COCOCA's business plan provided for the acquisition or construction of its own hulling factory and warehouse — an activity which was outsourced to third parties.

Hulling is the last link in the value chain before export, and transforms parchment coffee into green coffee. All earlier steps in the process i.e. the production itself and the transformation from cherries into parchment coffee were already carried out by the base cooperatives in their own washing stations. The missing link for a fully integrated value chain was hulling.

The hulling plant acquired in 2016 has now completed its second season of operations. COCOCA has more than doubled the number of containers shipped from 43 to 99 containers. The factory is currently gearing up for its third season since COCOCA took over ownership. Projections show that the number of containers will again increase to around 110.

HIGHLIGHTS FROM 2017

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- Factory is connected to the public power grid
- Installation of automatic sorter
- Completion of construction of additional warehousing capacity
- Interest payments on time and in full.
- First repayment of principal in full and on time

The success of COCOCA cannot be attributed to Kampani alone. The involvement of for example Broederlijk Delen, the King Baudouin Foundation, Alterfin and Truvalu (formerly known as ICCO Agribusiness Booster) remains crucial.

For instance, our role at the level of the Board of Horamama and — going forward — also at the level of COCOCA is vital. We are closely involved in the selection of the new CEO of Horamama, and have facilitated a week of training by Coopburo for the members of both boards.

The decision by the Burundi government not to allow foreign social lenders to lend directly to actors in the coffee sector for the pre-financing of the harvest, could have hurt COCOCA. Without cash to pay its members at the time of the harvest, there is a significant risk of side-selling. Thanks to a creative structure developed by the King Baudouin Foundation, COCOCA continued to have access to the necessary cash. The KBF and one other Kampani shareholder provided a loan guarantee to ING Belgium. ING Belgium in turn provided an inter-bank guarantee to a Burundian bank. This local bank in turn lent to COCOCA. Suffice to say that without this support, COCOCA's growth would have been halted, or even reversed.

Finally, Kampani has also facilitated a 200.000 EUR grant by DGD (Belgian government) to COCOCA to support its regionalisation. Indeed, one of the main challenges for 2018 is to continue to strengthen the base cooperatives. The DGD grant will over the next two years contribute towards:

- The setting up of knowledge centres closer to the base cooperatives
- The improved exploitation of marketing specific *terroirs*
- The strengthening of the base cooperatives, starting with a Scope Insight analysis

THE SOCIAL IMPACT

COCOCA remains the first and only cooperative player on the Burundi market to own its own dry mill.

The social impact generated by our investment has started to be felt. The efficiency gains, improved traceability and quality control that are the direct result of the acquisition of the hulling factory, contribute to the overall success of COCOCA.

In part thanks to the acquisition of the processing plant, COCOCA continues to attract new member base cooperatives, increases the total volume sold and increases the volume sold at premium prices.

These are some examples of the indicators that we monitor as a proxy for an increase in income for the farmers:

- 32 member base cooperatives in 2016, now 39
- 43 containers shipped last year, this year 99
- 19% sold at Fairtrade conditions
- 27% sold with UTZ certification
- Horamama processed 555 tons for third parties

OUTLOOK + CHALLENGES

The country, currency, and key-man risk remain high. Continued close support from all partners will be required. The past couple of years have not been without their challenges and surprises. But time and time again, COCOCA and Horamama have proven to be sufficiently robust.

The main challenges for the coming year:

- COCOCA is at risk of being the victim of its own success. It is a continuous battle to make sure that the institutional capacity — at the level of the board as well as the management team — remains fully capable of absorbing the growing number of members. It must continue to provide top quality service to all members and meet the ever-increasing expectations from the market.

- COCOCA is also quickly becoming a donor darling. While this creates opportunities, it does place an additional burden on the organisation in terms of reporting obligations, and receiving overseas visitors.

- The appointment of the new CEO and his integration: the new CEO is highly suited to this job and needs to hit the ground running. Indeed, not long after his appointment the factory started running again at full clip. He also carries the heavy burden of putting in place procedures to instil a higher degree of discipline in the management of the team.

- Transparency is key, especially in a rapidly growing member-based organisation. Both at the level of COCOCA and at the level of Horamama, additional efforts will be required so that members can easily track their coffee in the value chain.

DEALS:
Vert, KENYA

VITAL STATISTICS

Country	Kenya
Sector	Fresh vegetables for export, fruit pulp for local market
Investment	Construction of new factory on newly acquired land and acquisition of pulping machinery
Total estimated capital expenditure	1.8M EUR
Investment type	Straight equity combined with a subordinated loan
Size Kampani's equity investment	371.458 EUR (in Kenyan Shilling)
Kampani's Subordinated loan amount	128.542 EUR (in EURO)
Co-investor	Grameen Credit Agricole, contributing 500.000 EUR, fully aligned with Kampani March 2016
Investor loan	800.000 EUR by Fefisol and Alterfin
In portfolio since	November 2016
Deal sourced by	Alterfin

THE DEAL

In November 2016, Kampani completed the transaction with Vert, a Kenyan SME.

Founded in 2000, Vert specializes in the sourcing, grading, packing and export of fresh vegetables such as french beans, snow peas, baby corn, and baby carrots.

Vert aggregates smallholder farmers by organizing them in community-based organizations and supporting them along the production process. Vert's founders want to improve smallholder farmers' living conditions by offering them reliable access to new market channels, technical support and pre-financing services.

Vert decided to diversify its production by launching a mango and passion fruit pulp business. To this end, Vert raised a total of €1.8 million. Using equity and subordinated debt, Kampani contributed €500,000. Throughout 2017, the new plant was being built. It will come on line towards the end of 2018.

HIGHLIGHTS FROM 2017

- Interest payments on time and in full
- Improved board functioning
- Significant progress strengthening the management capacity
- Ongoing construction of new plant
- Preparation for the move to the new location

THE SOCIAL IMPACT

Unlike farmer-owned businesses, the social impact in the case of a privately owned company is at times not so straightforward. Kampani works with companies that have absorbed the concern for the well-being of smallholder farmers in their DNA. Vert is such a company.

The new plant in Machacos is expected to come on line in late 2018. In other words, the social impact on smallholder farmers of our investment cannot yet be felt.

Vert started tracking a number of social KPIs. They allow us to monitor how many farmers benefit from their relationship with Vert, as well as how and to what extent they benefit.

While the impact on the smallholder farmers will become more apparent in the years to come, the impact of our involvement on the governance of the company is already evident.

Kampani's appointee on Vert's Board, Masood Shariff, plays an important role role (see the quote below).

"I feel compelled to share this with you. Masood has been very very helpful and supportive. I would not wish for a better mentor. Thank you ever so much. Keep holding our hands. Your support is not modest, it goes a long way. We appreciate it." **— Jane Maina, CEO of Vert**

OUTLOOK + CHALLENGES

Vert is making a very big leap. This time next year, we will know more. The move to the new site will have been completed and the production of mango pulp should have started.

The main challenges for the coming year:

- The continuation of the strengthening of the management capacity, including the hiring of a CFO, and of the governance structure and processes
- Increase the number of farmers from which Vert sources
- Maintain its competitive edge in the fresh vegetable business line
- Successfully bring on line the new factory and the marketing of the mango pulp

DEALS: FECCEG, GUATEMALA

VITAL STATISTICS

Country	Guatemala
Sector	Coffee and honey, expansion to organic whole sugar (panela)
Total estimated capital expenditure	600.000 USD
Investment type	Subordinated loan
Total loan amount	500.000 USD
In portfolio since	June 2017
Deal sourced by	Alterfin (first contact made by Rikolto)

THE DEAL

In June 2017, Kampani completed the transaction with FECCEG, a Guatemalan cooperative.

FECCEG was established in 2006. FECCEG has almost 900 member-families. Its members are mostly indigenous people in the West of the country. Originally, FECCEG was only a coffee producer and exporter. It is also active now in the production and commercialisation of organic honey. Nonetheless, coffee remains by far its members' most important activity.

With the financing provided by Kampani, FECCEG is building a factory for the production of organic panela (whole brown sugar). The highly fragmented nature of the traditional panela production and the threat of noxious levels of acrylamide in traditional production methods, have thus far prevented this market from developing internationally.

The total estimated CAPEX amounts to 674k USD. FECCEG contributes 95k USD with land and in-kind support. Some 240k USD is needed for the construction of the factory building itself and another 291k for the equipment. Kampani contributes 500k USD via a 6-year subordinated loan.

HIGHLIGHTS FROM 2017

- Signing of loan agreement with Kampani
- Obtaining export licence for panela
- Acquisition of the land and start of construction of the processing plant
- Recruiting sugar cane producers and expanding production of the raw material
- Completing procedural aspects such as obtaining the environmental licence and construction permit

THE SOCIAL IMPACT

Guatemala, the country that has known the most violent civil war in Latin-America, still struggles with the aftermath and with extreme inequality. The South-West of Guatemala (where FECCEG works) is a mountainous region where the population is largely indigenous. People live off small-scale agriculture, livestock and coffee cultivation. There is a shortage of farmland for the growing population, and often the ground has been exhausted by years of cultivation of corn and beans with chemical fertilizers and pesticides.

In short, FECCEG represents a particularly vulnerable group of farmers. Belonging to FECCEG is a solution to common, but major, problems such as:

a) Dependency on local buyers and intermediaries who pay low prices.

b) Lack of a processing plant to process quality products for international markets.

c) Lack of access to specialized market niches in the United States and in Europe.

The deal was signed too recently to usefully report on progress with regard to the social impact indicators.

OUTLOOK + CHALLENGES

As with the start of any new activity, FECCEG was confronted with a number of challenges ranging from the bureaucratic (obtaining the building permit took over 6 months) to the operational (satisfying exacting demands of international buyers). It now also seems clear that this new business lines is facing opposition from the conventional sugar producers in the area.

For the coming year, FECCEG's challenges specific to the panela business line are expected to be:

- Securing enough supply of the raw material
- Producing panela with acceptable levels of acrylamide for international buyers
- Secure more buyers

FINANCIAL RESULTS 2017

BALANCE SHEET IN EURO

	2017	2016
Fixed assets	**371.459**	**371.459**
Intangible fixed assets	-	-
Tangible fixed assets	-	-
Financial fixed assets	371.459	371.459
Current assets	**905.291**	**974.342**
Credit portfolio	789.654	199.980
Cash and cash equivalents	75.723	767.767
Other accounts receivable	39.914	6.595
Total Assets	**1.276.749**	**1.345.801**
Equity	**996.646**	**1.203.109**
Paid-in capital	1.525.000	1.525.000
Issuance premium	24.000	24.000
Accumulated results	-552.354	-345.891
Liabilities	**280.103**	**142.691**
Long term liabilities (>1 year)	74.627	97.868
Short term liabilities (<1 year)	195.798	35.786
Other liabilities	-	-
Transitory accounts	9.678	12.038
Total liabilities and equity	**1.276.749**	**1.345.801**

The balance sheet reflects the new investment we have made in Guatemala. The credit portfolio grew and the cash balance dropped. In 2017 there was no need to issue a capital call.

PROFIT AND LOSSES STATEMENT IN EURO

	2016	2017
Operating income	1.406	438
Operating expenses	219.286	214.874
Gross margin	-217.880	-214.436
Financial income	19.035	43.223
Financial expenses	-6.212	-35.248
Result	-205.056	-206.460

The 2017 negative net result is larger than budgeted. The evolution of the USD/EUR exchange rate accounts for most of the discrepancy. Accounting practice requires latent negative exchange rate effects to be booked. Note that this effect does not constitute cash out for the company. All interest payments were made in full and on time. The actual cash burn in 2017 was around 5.000 EUR larger than budgeted.

GOVERNANCE

The members of the Board of Kampani:

- **Steven Serneels**, independent (Chairman)
- **Pieter Verhelst**, Senior Adviser, Boerenbond
- **Jan Vander Elst**, Head of Finance, King Baudouin Foundation
- **Chris Claes**, Co-executive Director, Rikolto (formerly known as VECO International, Vredeseilanden)
- **Felix Vanderstricht**, General Manager, Louvain Cooperation
- **Jean-Marc Debricon**, General Manager, Alterfin
- **Wouter Vandersypen**, Executive Director, Kampani

The members of Investment Committee of Kampani:

- **Wouter Vandersypen** (Chairman of the IC)
- **Luc Basstanie**, Senior Investment Manager, AIF, Boerenbond,
- **Dimitry Van Raemdonck**, Manager Direct Investments, BIO (member in his private capacity and with observer status)
- **Christ Vansteenkiste**, Rice Cluster Coordinator, Rikolto
- **Patrick Eeckloo**, Program Manager, Trias
- **Suzy Serneels**, Program Coordinator, Broederlijk Delen
- **Karin Winters**, General Manager, Lawsquare, succeeded by Pierre Queritet, Director, Lawsquare
- **Hugo Couderé**, Senior Adviser, Alterfin

Kampani is grateful to these mandate holders, who fulfil their responsibilities at no financial cost to Kampani.

THANK YOU TO OUR PARTNERS

Operational Partners

Agriterra, our preferred partner to
make cooperatives more bankable via their locally present business advisers

Truvalu, formerly known as ICCO Agribusiness Booster, a like-minded social impact investor with whom we co-invest in Burundi.

Exchange provides technical advice.

Other Support

For legal support on the deal structuring and contracting, we are grateful for the pro bono support from the Brussels-based law firm **Van Olmen & Wynant**.

For tax and legal advice, we are grateful for the pro bono support from **PwC Belgium**.

Our accountant, **Vandelanotte**, has also provided Kampani with stellar support at sharply reduced fees

For all our international transfers, we appreciate **KBCBrussels**' sharply reduced fees.

Thank you to Alterfin
Alterfin is intimately linked to Kampani. As Kampani's portfolio manager, Alterfin provides key services such as helping with deal screening, and developing due diligence reports to help inform the investment decisions taken by Kampani's Investment Committee.

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