

CASA Technical Assistance Facility Inclusive Business Case Study

Kentaste

Company: Kentaste

Sector: Coconut

Country: Kenya

Investor partner: DOB Equity

Project date: 2021 - 2024

Investment:

Kentaste has received equity investments from DOB Equity and Acumen, and debt from AHL Venture Partners, Alterfin and Grassroots Business Fund.

Company description:

Kentaste is the largest Kenyan producer and seller of coconut oil, milk and cream, which it sells in over 1,000 retail outlets. The company operates two processing facilities on the coast of Kenya and sources from approximately 3,000 smallholder farmers. Its quality coconut-based products target both the food and personal care market and are available across East Africa.



Commercial Agriculture for Smallholders and Agribusiness

Our approach

The Commercial Agriculture for Smallholders and Agribusinesses (CASA) Technical Assistance Facility (TAF) supports agribusinesses that source from smallholder farmers across Sub-Saharan Africa and South Asia. Our approach involves working closely with agribusiness management teams to develop an Inclusive Business Plan (IBP) – a roadmap for the agribusiness to deepen, broaden or strengthen supply chains in a way that delivers value to both smallholders and shareholders.

An Inclusive Business Plan (IBP) is a piece of thorough analysis produced over 3-6 months that:

- Diagnoses smallholder supply chain challenges;
- Identifies or validates the inclusive business growth opportunity, aligned to commercial objectives, identifying opportunities for greater commercial and smallholder impact;
- Quantifies the opportunity in terms of commercial value for the business and impact for smallholder farmers;
- Lays out a strategy to access the opportunity including investment and any partners required;
- Maps out an implementation plan; a linked package of technical assistance and blended finance structure, including required partnerships to support the inclusive business model.

As part of the IBP, we work with agribusinesses to more clearly define specific climate change and environment (CCE) risks and opportunities, all the way from how inputs are being accessed to how product is being delivered to end-markets. A thorough CCE diagnostic helps us to guide businesses to integrate climate mitigation and adaptation strategies into their business models in a commercially viable way; and identify opportunities to create sustainable improvements in the livelihoods of the smallholder farmers from whom they source. We also use a gender responsive diagnostic tool to identify areas to expand and deepen inclusion of women. We work towards sustainably increasing economic opportunities for women suppliers through support to agribusinesses to adopt more gender-responsive practices whether that is related to supply chain participation, service delivery or contracting and payments to women suppliers.

Finally, we work alongside investors and the agribusiness to operationalise the IBP. Since 2020, we have also been able to provide core business technical assistance to sourcing businesses that are experiencing disruptions in their smallholder supply chain due to COVID-19.

This case study is one example of our technical assistance provided around a coconut manufacturer in Kenya; and captures our progress to date.



Coconuts,

originating from the Indo-Pacific region, are now produced in tropical regions across the globe and are used for many purposes, from food to cosmetics to hardwares.

Coconut palms were introduced into Kenya in the 16th Century and have since become a crop of considerable economic importance.

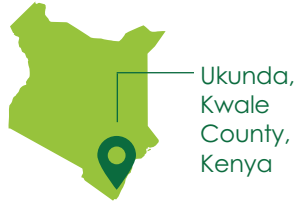
>80%

of coastal farming households derive their livelihood incomes directly or indirectly from coconut trees.

Kentaste company overview

Kentaste is a 
~\$3,000,000
coconut processor

Location:



Daily processing capacity:

35,000
to
40,000
coconuts 



The business currently sources **800,000 to 1,000,000 coconuts per month** from **3,000 smallholder farmers**

64%

of the farmers are organic and Fair for Life certified.



Kentaste processes its coconuts for bulk export and into retail products, including coconut milk, coconut cream, virgin coconut oil, desiccated coconut and coconut flour, primarily for the local and regional market.

With an estimated 50,000 coconut farmers along the Kenyan coast, there is significant opportunity to grow the coconut business and increase the company's scale. In addition, there is opportunity to deepen incremental financial benefits for smallholder farmers given current yields, quality and prices.

Inclusive Growth Opportunity

Kentaste is targeting significant expansion over the next three to five years and expects that most of the growth will be driven by export, particularly retail sales in the USA of organic virgin coconut oil (VCO).

To fulfil management's growth ambitions and meet increased processing demand, Kentaste aims to expand its organic coconut sourcing by five times. This requires significant investments in Kentaste's sourcing operation to address three key opportunities we identified:



Increase share capture amongst existing registered organic farmers



Increase productivity of organic farmers

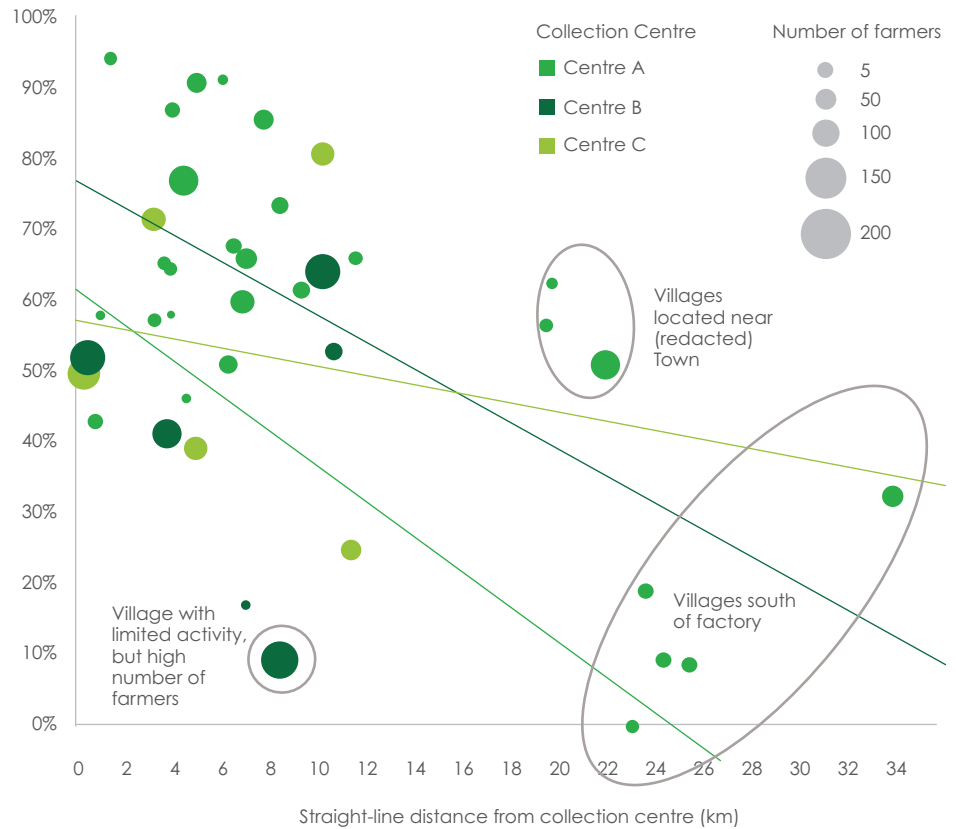


Increase direct and organic sourcing footprint

Purchasing channels for smallholder farmers



In relation to a relatively low share capture, the distance of collection centres (as well as buying clerks and field officers) from villages poses a significant challenge on Kentaste's ability to work with farmers.



We found that this could be optimised by organising farmers into small groups, which will increase coverage and reduce the time and cost of serving farmers. In addition, a network of local buying agents could allow Kentaste to access the long tail of underserved organic farmers at lower cost.

← Commercial rationale for buying agents:

Buying agents can **increase share capture** through serving inactive farmers with smaller harvests and lower incomes who have a preference for cash-in-hand payment.

Buying agents can also **capture leakage from smallholder farmers with larger harvests** who are selling coconuts (after Kentaste has harvested) to other brokers in return for cash when there are delays in collection (and consequently payment).

Active farmers with small harvests can also sell to Kentaste through buying agents that will **reduce the number of small harvests Kentaste's vehicles have to collect** and improve logistics efficiencies.

COVID-19 TA Support

In addition to the IBP, CASA TAF has been providing Kentaste with COVID-19 TA support. In 2020, there were prolonged rains throughout coastal Kenya which both restricts quality and quantity of coconuts that are grown (extends maturity period of coconuts). Further, due to COVID-19 social restrictions, farmers were not able to get external help or practise proper farm management as they otherwise would have, which drives down quality of produce. These smallholder farmers heavily depend on coconut farming for food as well as income generation. However, their profitability depends on the maximum utilisation of key inputs (e.g. quality planting materials, fertilisers, and pest and disease management) and the adoption of good agricultural practices while reducing costs. Equipping smallholder farmers with best crop practices is essential as well as a continuous process.

CASA TAF provided COVID-19 support to the farmers with a focus to adapt and strengthen the company's farmer training curriculum and delivery, including an emphasis on climate smart agricultural practices. 1,326 farmers were trained on coconut good agricultural practices.



We also saw an opportunity to optimise yields and quality through enhanced extension content and delivery channels. Maintaining a close relationship with farmer groups and providing training to lead farmers would allow for one channel to deepen training provided to individual farmers. In addition, supplementing extension team and farmer group training with low-cost digital extension methods (i.e. videos) would provide cost-effective solutions for GAP and compliance training delivery.



Given Kentaste's growth ambitions, even after improving share capture and farmer productivity, we identified a need to continue to expand the sourcing footprint into neighbouring areas. Dedicated senior management oversight of sourcing will ensure that inclusive innovations from existing sourcing areas are replicated as the business expands

Based on the identified opportunities, CASA TAF recommended, and is now supporting, a combination of initiatives with technical assistance that will grow volumes and bring more smallholder farmers into Kentaste's inclusive sourcing model, while improving smallholder loyalty and productivity through improved service delivery to farmers. These include:



Establishing farmer groups in 10+ villages with high production potential, but that are difficult to serve.



Piloting a village-based agent aggregation model targeting villages and farmer segments that the business currently struggles to serve cost effectively.



Implementing a blended digital (i.e. video based training solutions) and in-person extension model. Training videos will be used by extension agents covering key agronomic topics related to organic compliance, organic input use, and pest control.



Developing the business plans to move to a market price indexed pricing model that will enable Kentaste to compete more effectively with brokers while continuing to offer farmers a premium price.

We recently launched four distinct projects that cover these initiatives, where implementation and progress will be tracked over the next two years.



CASA TAF has developed a long list of

+100

possible climate change and nature positive interventions which, through our diagnostic assessment, is whittled down to a curated short-list of potential options.



These potential climate smart and environmentally sound opportunities are selected considering business appetite, CASA priorities, business and smallholder farmer impact.

Climate and environment interventions

Applying our CCE method with Kentaste, we examined each step in the coconut value chain by understanding what the current practices of farmers and Kentaste are, what potential environmental and climate threats they face, and what environmentally responsive activities the agribusiness would be interested in pursuing based on experience.

Using this data, we assessed each opportunity on CASA TAF's long list of potential opportunities (see textbox) against business appetite, alignment with CASA TAF's priorities, and potential business and farmer impact. Based on the diagnostic, CASA TAF is assisting Kentaste to explore the feasibility of biochar production from coconut husks, embedding climate smart agricultural practices into extension services, and supplying smallholder farmers with diverse seedling varieties.

While the climate smart agricultural practices and seedlings are intended to improve the resilience of smallholder farmers and secure supply for Kentaste, the production of biochar from coconut husks is a potential waste management solution and may generate returns from carbon credits in the medium and long term. The biochar also serves as a soil amendment that increases nutrient retention and improves soil health in the long run.

The scope of the current biochar project is to conduct a feasibility study looking at:

1

Farmer impact through potential increases in yields

- we plan to design field trials and apply biochar to mature coconuts, coconut saplings and alternative crops of coconut farmers to measure its effects. Delivery mechanisms to make biochar available to farmers as a soil amendment will also be studied.

2

Cost-benefit analysis for the agribusiness – we are examining the investment needed and potential returns of producing biochar at the collection centres or at the factory using batch and continuous feed processing systems. While the two systems show returns within a 3 to 5 year timeframe, the main assumption driving this is the ability to sell credits in a nascent carbon market. In the short-term, we foresee that funding for these kinds of initiatives will still be through technical assistance investments since carbon and biochar projects have a limited track record showing returns. Even with carbon projects, there is high execution risk due to the investment needed to set up required equipment and monitoring and verification processes.

Expected Results & Impact

Kentaste will need to make significant investments into its sourcing operation to drive organic coconut volumes through improving share capture, enhancing smallholder productivity, and expanding its footprint.

The IBP developed provides a comprehensive sourcing strategy for Kentaste, with a focus on incremental improvements to the operating model with the potential to drive volume growth and increased efficiency for the business, as well as net income benefits for farmers in the supply chain.

The initiatives will have a significant impact on the company's bottom line and sustainably increase smallholder household incomes. →

4,000 

smallholder farmers will be reached by the IBP



Kentaste will benefit from more than doubling its coconut sourcing, which will help it meet its growing demand, as well as reduce the costs associated with sourcing these coconuts.

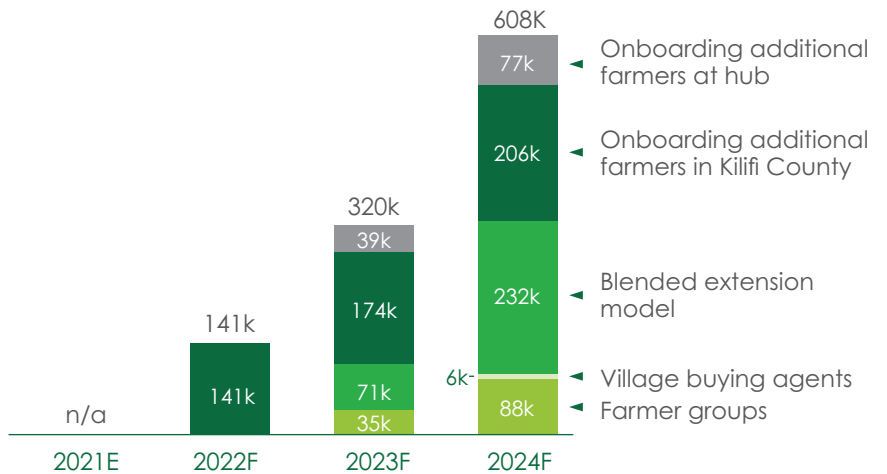




£115

..... \$151
average incremental net income benefit for farmers per annum by 2024

Total net income gains to smallholder farmers (2021E-2024F)

Thousands of USD



-	c.3.0k	c.3.5k	c.4.0k		Number of farmers benefitting
-	\$48	\$92	\$151		Average benefit per farmer



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[www.casaprogramme.com/
technical-assistance/](http://www.casaprogramme.com/technical-assistance/)

The FCDO-funded Commercial Agriculture for Smallholders and Agribusinesses (CASA) Technical Assistance Facility (TAF) partners with investors with development interests to increase the smallholder impact of existing investments. We design, co-fund, and manage delivery of inclusive technical assistance (TA) projects at selected agribusinesses that can drive commercial and social impact by strengthening, deepening, or broadening inclusive supply chains.

Over its five-year life cycle, the CASA TAF will collect data on the impact of inclusive technical assistance, not only at the farmer-level, but also at the portfolio company and investment fund level. The objective is to learn and to influence DFIs, impact investors, commercial investors, and TA providers on the significance of generating compelling evidence to track commercial and development impact metrics, thus demonstrating the value of inclusive TA.