CASE STUDY 2024

COCOCA / HORAMAMA COFFEE DRY MILL

INTRODUCTION

Kampani is a unique social impact investment fund that works to unlock the potential of entrepreneurial farming in the Global South. Kampani does this by providing long term, uncollateralized, patient growth capital to producer cooperatives and high-impact agri-SMEs, primarily for capital expenditure investments. Kampani specialises in providing small investment amounts (maximum of €500 000) in agro-food value chains. Social impact is a crucial part of Kampani's investment decision-making, with a focus on improving smallholder farmers' incomes and positions within agricultural value chains.

As an impact investment fund, Kampani is unique in the way that it sources its deals. Kampani collaborates directly with its NGO shareholders who, typically, have an in-country presence and work directly with producer cooperatives and agri-SMEs and are able to ensure that potential investees are investment-ready. These NGO shareholders (together with a handful of other trusted partners) form a synergistic multi-stakeholder model that interacts with the investee throughout the entirety of the investment process. Additionally, regardless of the financing mechanism Kampani uses in its deals, Kampani requires a mandatory seat on the board (with minority protections) of all its investees to strengthen and grow governance and management capacities. Kampani board representatives are located in the country/region where the investee operates and are selected on the basis of particular skill sets and expertises to add value to the investee.

Kampani made its first investment in 2016 into COCOCA, a Fairtrade certified coffee cooperative union based in Burundi (East Africa). As part of the deal, Horamama Coffee Dry Mill was created as a separate legal entity and wholly owned subsidiary of COCOCA. Kampani invested $324 000 through a subordinated loan. Truvalu, which was called ICCO Agribusiness Booster (a Dutch impact investment fund) at the time, invested an additional $100 000 via the same loan agreement. The investment allowed COCOCA to purchase the dry milling factory via an asset deal and to vertically integrate its supply chain up until the point of export. COCOCA-Horamama had a two-year grace period on the principal and a loan duration of five years. In 2020, Kampani made a follow-on investment of $150 000 to COCOCA-Horamama to purchase additional machinery and business supplies. COCOCA-Horamama repaid the original loan in 2021 and completed repayments on the additional loan at the end of 2023.

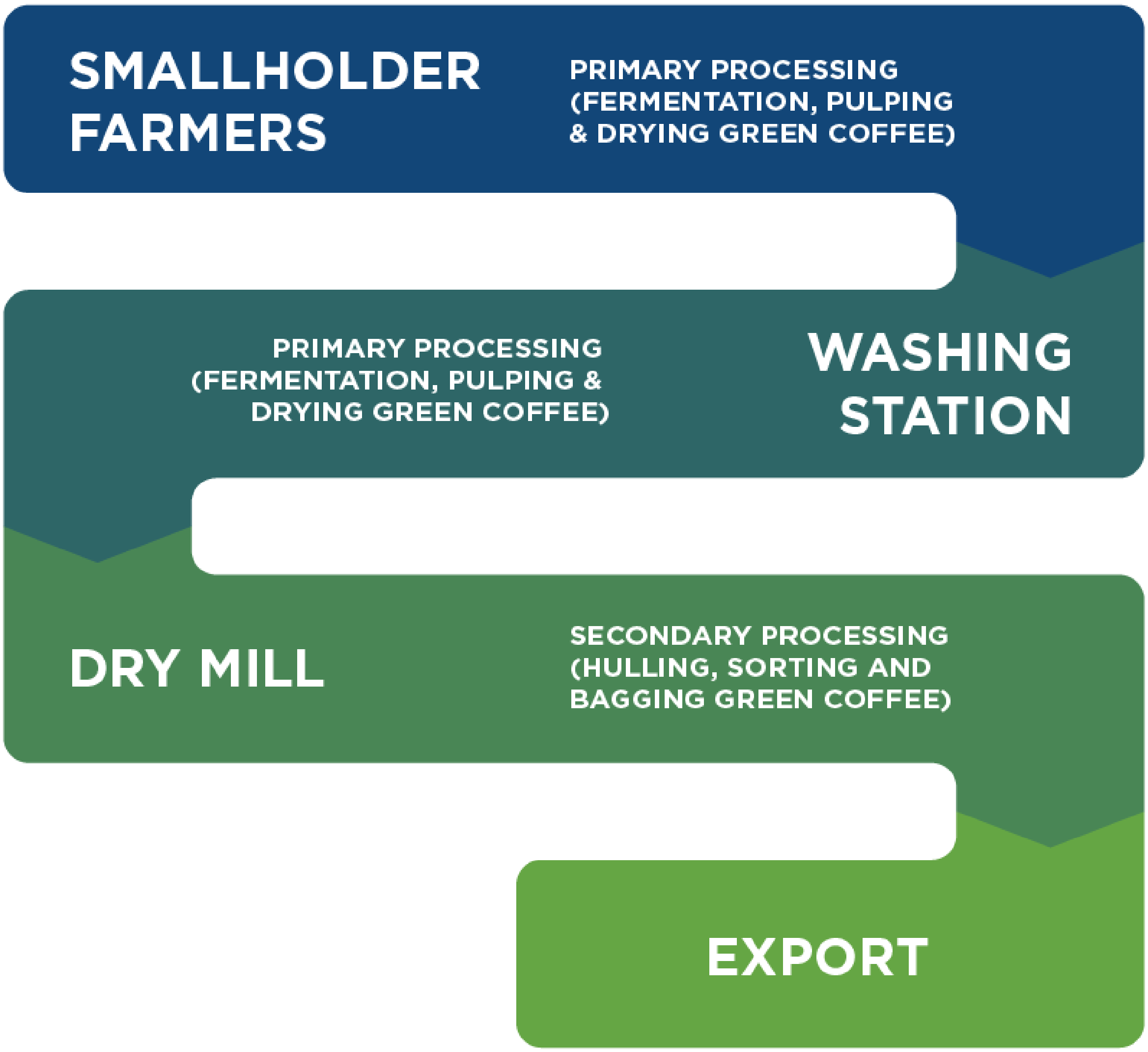
This case study explores the successes and challenges of this investment. In particular, it considers the investment's impact on the efficiency and quality of green coffee processing as well as the sense of empowerment for smallholder coffee farmers in owning a dry mill. This case study also explores some key lessons learnt which may strengthen future investment endeavors. The findings are based on a comprehensive field research process commissioned by Kampani in 2024 in order to assess this pioneering investment. This included field visits to the COCOCA office, Horamama dry mill and randomly selected cooperatives. Interviews and surveys were conducted with 45 farmers as well as 11 key partners from Kampani's multi-stakeholder model.

COUNTRY CONTEXT

Burundi is a small, landlocked country in East Africa that is one of the poorest nations in the world. In terms of coffee production, Burundi is the smallest coffee producing nation in East Africa and is known for its highly irregular supply. Burundi produces, on average, less than 0.5% of the total global green coffee supply but coffee is crucial to Burundi's economy. Between 2000 and 2014, revenues from coffee exports generated between 70 – 80 per cent of total foreign exchange earnings (World Bank, 2012). The sector employs as much as 600 000 rural households, which is 40% of the national population with farmers tendering between 50 to 250 coffee trees (USAID, 2010). Burundi's geoclimatic features allow for high value arabica coffee production with a unique cup profile that attracts buyers of high quality coffee.

Like other African nations, coffee production in Burundi has a colonial beginning, followed by a period of nationalisation after independence with eventual pressure by international organisations to liberalise the sector. In 2009, the government of Burundi began to release its physical assets and reformulate the institutional arrangements for the coffee sector, including the sale of coffee processing sites known as 'washing stations.' This allowed farmer-owned cooperatives (as well as private sector enterprises) to own these facilities and market their coffee directly to international buyers.

Simplified depiction of the Burundi coffee value chain



INVESTMENT RATIONALE

Kampani was introduced to COCOCA through the King Baudouin Foundation. COCOCA initially asked Kampani to finance the construction of a new dry mill. Not long after this introduction, a unique opportunity presented itself. In 2015 a Swiss-owned company ceased operations in Burundi and sold its assets which included a coffee dry mill – a processing facility where green coffee is hulled, sorted and bagged according to customer specification before being exported. For less than the cost of constructing a new dry mill with a capacity of 2 tons per hour (COCOCA's initial plan), COCOCA had the chance to acquire an existing dry mill with a capacity of 6 tons per hour.

Thanks to Kampani's financing, COCOCA was the first cooperative union in Burundi to acquire its own coffee dry mill. At the start of the investment, COCOCA had just completed their first season with their own export license. Acquiring the dry mill was an opportunity to bolster the union's unique position as a producer-owned exporter, especially given the history of coffee production in Burundi.

The core problem that Kampani's investment aimed to address were the inefficiencies and poor quality of service that COCOCA cooperatives faced during the dry milling phase of production. Prior to COCOCA acquiring Horamama Coffee Dry Mill, COCOCA cooperatives consistently experienced theft of green coffee and parchment, delayed starts to milling, low levels of customer service (e.g. dry mills not following the milling schedule they promised to) and poor quality control during processing and storage. These issues, together, led to a lack of traceability (volume and quality), loss of income for cooperatives, frustrating delays to export that negatively impacted cash flow in COCOCA and customer dissatisfaction. If COCOCA owned a dry mill, it was anticipated that coffee flows will be rationalised and the removal of the current bottlenecks would enable the cooperatives to sell more coffee to COCOCA[1]. It was also assumed that cooperative members were side-selling their parchment coffee and that COCOCA owning a dry mill would reduce this side-selling and increase its effectiveness as a producer organisation. Owning an asset would also allow COCOCA to diversify and increase its revenue streams as COCOCA would be able to provide dry milling services to other coffee producers. Lastly, in terms of the new opportunities created by the liberalisation of the coffee sector in Burundi, there was clear opportunity for COCOCA to further distinguish itself in the market with a unique selling proposition as a fully independent producer and exporter that would be compelling to buyers from both a quality and development perspective.

KAMPANI'S RISK MITIGATION STRATEGY

As part of its standard risk mitigation strategy, Kampani ensured that its client was supported from a variety of angles through a unique multi-stakeholder model. The deal was sourced by the King Baudouin Foundation (KBF), as mentioned above. The Foundation's experience in supporting COCOCA for several years prior to the deal, helped establish trust between Kampani and COCOCA. The Foundation's relationship with COCOCA also lent considerable credibility to the initiative.

Kampani financed the acquisition of the Horamama dry mill in partnership with Truvalu. Through its country office, Broederlijk Delen provided support and expertise to the investment (especially with regard to governance) while Alterfin continued to provide working capital (until it was made illegal by the Burundi Central Bank). Together with these partners, Kampani helped COCOCA/Horomama overcome numerous obstacles and crises.

A final key feature of the Kampani risk mitigation strategy is to have a representative on the board of COCOCA as well as Horamama. This is the main conduit to provide added value as well as to ensure accountability by the cooperative union during the investment period. Kampani's representative was the Country Director for Broederlijk Delen. The Truvalu representative was a Burundi coffee sector expert.

While the challenges and lessons from this investment are outlined in the sections that follow, the experience of this investment clearly highlights the strength of the Kampani risk mitigation strategy.

KAMPANI
Investing in family farming

truvalu.

King Baudouin Foundation
Working together for a better society

Broederlijk Delen

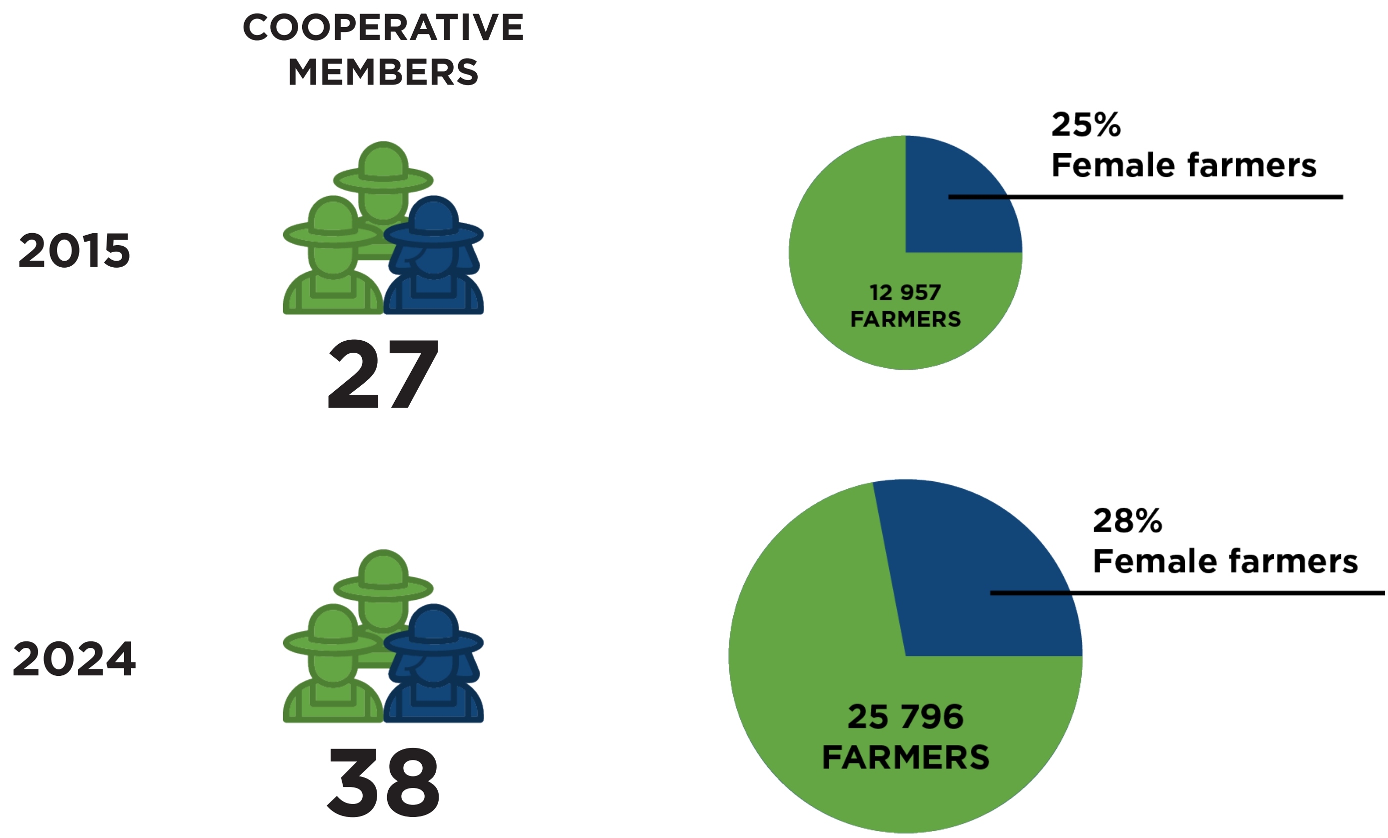
alterfin

[1]*Kampani Annual Report (2016)*

BENEFICIARIES

In 2015, COCOCA had a membership base of 27 cooperatives representing over 12 000 farmers. COCOCA had also proved that it had capacity and expertise to successfully repay three consecutive working capital loans of €400 000 to pre-finance cooperatives. By the 2024-2025 season, COCOCA had expanded to 38 cooperative members representing over 25 000 individual coffee farmers.

As seen in the infographic below, there is considerable variance between the member cooperatives in terms of average production and the number of individual farmers represented. The majority of the cooperatives have (or were in the process of obtaining) sustainability certifications – specifically organic certification, Fairtrade and Rainforest Alliance. Many of the certified cooperatives hold multiple certifications.



MEMBER COOPERATIVES	
Average production	2 740 kg - 1 169 000 kg
Range of individual members	12 – 4 290
Certification	25 cooperatives (Organic, Fairtrade and Rainforest Alliance)

Based on internal data provided by COCOCA (April 2024)

RESULTS

IMPROVED EFFICIENCY AND SERVICES

All cooperatives surveyed noted that it took less time for their coffee to start the milling process after the creation of Horamama Coffee Dry Mill. Some cooperatives remarked that they were better able to meet their export deadlines when milling at Horamama. The annual reports of COCOCA-Horamama confirm this and show, on average, a wait time of 3 weeks between when the first parchment of the season is first delivered to the dry mill and when milling begins. Meeting export deadlines is critical for cooperatives to demonstrate to buyers that they are reliable partners and potentially secure better deals with buyers.

Additionally, COCOCA's outturns (conversion of parchment to green coffee as a percentage) before owning the dry mill were, on average, 78,31%. This is a relatively good outturn average as 80% is the industry standard. After acquiring and operating Horamama, COCOCA was able to maintain these relatively good outturns for parchment to green coffee. Between 2016 and 2022, outturns were on average 78,17%. In some years between 2016 and 2022, outturns hovered around 79%.

It is important to note that although the outturn percentages did not improve remarkably as compared to the percentages of third party service providers, the data suggest that COCOCA-Horamama took more responsibility and were empowered to start thinking about how to improve this percentage as a result of the investment. Owning a dry mill provided COCOCA with a direct and immediate way to have a complete overview of outturns of different base cooperatives (as opposed to requesting and waiting for these reports to be generated by a third-party service provider). Similarly, access to this data enables COCOCA to systematically benchmark its outturns against those of third-party clients which would not have been made available from a third-party dry mill service provider.

The interview and survey data with cooperative leaders and members collected during fieldwork show clearly that there is an appreciation of Horamama amongst farmers. Farmers are proud that they own a dry mill and, in particular, farmers feel more secure milling their coffee at Horamama as they perceive no risk of their coffee being stolen or switched with other coffee as was the case when milling with other dry mills. Almost all cooperatives also noted that they now enjoy the experience of knowing that their coffee is being prioritised over non-COCOCA members. Early scheduling in milling is a huge advantage in terms of meeting export deadlines (and thus improving cash flow) and definitely an improvement in services from previous dry mills where a higher level of negotiation and influence would have been needed to achieve the same benefits.

Interestingly, several cooperatives noted that owning a dry mill allowed them to send a cooperative representative to the mill to oversee their coffee as it is being dry milled. This is an interesting signal in the data as this is not a special privilege: any client using any dry mill is always allowed to be at the dry mill when their coffee is being milled to ensure traceability and, in particular, is needed and required to be at the dry mill to manage day labourers after milling. Similarly, several cooperatives also commented that they now receive milling reports from Horamama which they did not receive before. Again, these reports are not a unique feature of Horamama as all dry mills are required to report on how the coffee parchment of their clients is transformed into various grades of green coffee given the high economic value of the product. This suggests that either cooperatives were not informed or aware of their rights as dry mill customers prior to COCOCA acquiring the dry mill or cooperatives were possibly being mistreated by other dry mills because they were perceived as second-class clients (in comparison with other clients) owing to their education or socio-economic level. Owning a dry mill has thus facilitated a relative level of empowerment for cooperative members who have clearer insight into their rights as clients.

In summary, the acquisition of the dry mill resulted in improved services on a number of fronts but the expected efficiency gains (outturn) did not materialize.

IMPROVED GREEN COFFEE QUALITY

Improvements in green coffee quality are primarily measured by a decrease in visual green coffee defects as well as moisture level content and sensory evaluation (taste and smell). Improvements in green coffee quality are not primarily affected by whether or not a producer owns and operates its own dry mill. Green coffee quality is firstly dependent on growing conditions, investments, and agricultural practices at farm level and secondarily dependent on management practices and investments at washing station level (processing and storage).

However, there is evidence to show that COCOCA owning and managing a dry mill provides a direct feedback loop of data to have a complete overview of green coffee quality of different base cooperatives as well as third-party clients. Dry milling reports reveal the farm-level investments and production practices at the washing station level and whether these were best practice or not. During the 2018 - 2022 coffee seasons, the Horamama dry mill management team observed that COCOCA cooperative coffee needed to be hulled twice far more frequently than third-party client coffee. The recycling of coffee was primarily mentioned because it caused delays with export which in turn created delays in receiving revenue for cooperatives and increased production costs. Despite the variability among individual member cooperatives, it is clear that the data Horamama was producing as part of its operations was motivating enough to catalyse discussion about improving pre-processing, processing and storage practices upstream to improve green coffee quality within COCOCA as a whole.

Cooperative representatives filling out a survey during field research

LESSONS LEARNED

The acquisition of the coffee dry mill at a very good price was a golden opportunity for both Kampani and COCOCA given the unique historical moment of liberalisation in Burundi's coffee sector. The purchase of this facility highlights Kampani's willingness to 'go where no others go' and ability to invest in projects with the potential to positively impact the livelihoods of smallholder farmers. Although the contributing factors to this investment are relatively unique, there are still key lessons which can be applied in other contexts.

INVESTING IN GOVERNANCE AND HUMAN CAPITAL

While there were improvements in efficiency and services following the acquisition of the dry mill by COCOCA, a lack of management expertise impeded more radical improvement. While the purchase of the dry mill was a 'once in a lifetime' opportunity, the management team faced a steep learning curve as they learned on the go what flow efficiency means at the dry mill level and how best to optimise this. Given the realities of Burundi coffee's precarious and highly cyclical market position as well as COCOCA being a relatively new organisation, financial stability and increased revenue for the dry mill has been challenging. On the one hand, the fact that COCOCA was able to repay both the initial and subsequent loans from Kampani within the stipulated time frame is a significant achievement. At the same time, ongoing governance and management issues (on top of challenging external factors such as the role of the coffee regulator in Burundi) are potential barriers to long-term financial stability and economic redistribution to COCOCA members. A more explicit recognition by Kampani of the enormous challenge and steep learning curve for the COCOCA/Horamama management would have been appropriate. In this case, Kampani's approach should have been more hands-on given the ambition of this investment.

It is clear that the production data that COCOCA gained from operating a coffee dry mill provided access to a new way of thinking about production and how to guide future investment into cooperatives. A key lesson learnt is the need to include partners within multi-stakeholder investment models who are data experts and have capabilities to train agribusinesses in low-tech environments on how best to optimize their data for optimum economic benefit as well as facilitate longer term good governance and management systems. Additionally, deal-specific vision for what constitutes longer-term success in terms of both commercialisation and social impact is critical. Finally, implementing mid-term or formative external evaluations which consider not only loan repayment progress but also governance systems may help to catch management issues earlier within the investment process.

WORKING WITH A COOPERATIVE UNION

Many of the social impact outcomes of Kampani's investment into COCOCA were predicated on efficient management and governance practices by COCOCA. COCOCA is a cooperative union, composed of 38 individual cooperatives spread over four regions. These individual cooperatives do not have the same levels of financial or human capital and the volume of coffee production varies between member cooperatives. The number of individual members within COCOA-affiliated cooperatives varies from 12 to 4 290. All COCOCA member cooperatives were given the opportunity to purchase shares in Horamama in 2017 to communicate that all cooperatives 'own' Horamama equally. After five coffee seasons, almost 40% (14 out of 38) of the cooperative shareholders had not yet paid in full towards their share capital. This suggests that some member cooperatives are not generating enough revenue to cover their shares or some cooperatives do not see the value of co-owning a dry mill.

Over the investment period, Horamama's biggest customer segment were COCOCA cooperatives. When COCOCA and/or its member cooperatives face challenges and are unable to pay Horamama dry milling fees, these challenges typically directly impact Horamama's operations and cause negative cash flow which decreases flow efficiency. For example, although Horamama completed dry milling for COCOCA cooperatives on time during the 2018 coffee season (despite it being an unusually large harvest), COCOCA itself had not yet secured its annual export license from the regulator which meant it encountered cash flow problems which had knock-on effects for Horamama.

An additional challenge for COCOCA/Horamama is the balance between seeking out non-member or third-party clients (who generate additional revenue for the business) and the responsibility towards member cooperatives in terms of providing high quality services which meet the needs of the cooperatives. Horamama attracted 19 different non-member clients between 2018 - 2022, only three of those non-member clients were consistent throughout this period. This suggests that non-member retention was either difficult or not a priority for Horamama or that Horamama was focused on providing services to COCOCA member cooperatives. In 2020, Horamama implemented a discounted dry milling rate for third party clients in order to attract more private clients. This highlights the tension between operating the dry mill profitably (by attracting more clients) which would hopefully benefit cooperatives in the long term through dividends on their shares as members, versus short-term operating costs for individual member cooperatives.

In terms of services to members, COCOCA implemented a combined pre-financing and milling fees structure for base cooperatives, meaning that cooperatives have little choice but to accept the service they receive at Horamama as milling elsewhere will mean a loss of income. On the one hand, this system arguably helps reduce the threat of 'side-selling' to other dry mills and promotes a consistent flow of revenue for Horamama. However, this may also create a cycle of lock-in and disempowerment of member cooperatives. In 2021, fifteen cooperatives left COCOCA to form their own union. While this is a perfectly normal trajectory in the life cycle of agricultural cooperatives according to academic research, it also reflects the challenges of a cooperative-led enterprise which should operate as a democratically, member-driven organisation while also generating surplus revenue.

Whilst the research base on agricultural cooperatives is quite dense, the research base (including practitioner generated reports) around cooperative unions and federations is relatively thin. From the limited research that does exist about cooperative union/federation governance, the data suggests that governance and management work best in unions/federations when there are a small number of base member cooperatives (10 or less) with equal or close to equal financial capacity. Efficiency in management decisions seems to be correlated with a more even distribution of power amongst a smaller number of constituent cooperatives as there is less chance of the 'free-rider problem' or significant divergence in member cooperatives' appetite for risk. This project is an important case study on the benefits and challenges of working with cooperative unions with such a diverse membership and holds lessons for future investments into such cooperative-run enterprises.

Finally, Kampani's single focus on the dry milling and reliance on partner organisations to work on improving the other elements in the value chain was suboptimal. The expected improvements in quality were simply not there, or at least not consistently so. For future investments in coffee cooperative unions, Kampani should consider being more involved across the value chain. For instance, additional investment at the washing station level to facilitate a minimum level of infrastructure and management capacity to ensure higher quality production; an importing and sales office abroad in strategic markets to presell coffee before each harvest and market certified coffees to committed buyers, and partnering with organisations that provide microcredit for agro-inputs to stabilise the cyclicity of production.

CONCLUSION

Kampani's investment in the Horamama demonstrates the fund's willingness to 'go where others do not', to be equipped to handle the inherent but substantial risk of agriculture, and to invest in opportunities that have significant potential to improve the livelihoods of smallholder producers.

In some ways, this investment was a once-off opportunity and is unlikely to be replicated in the future. However, the key elements of this investment (providing financing for hardware to fragile cooperatives in difficult country contexts) remain at the heart of Kampani's work today and there are lessons which can be carried forward. Agri-business is inherently risky and Burundi is a historically challenging country in which to conduct business. Beyond the challenges identified in this case study, the project also had to contend with a governance crisis at the level of COCOCA, highly volatile coffee prices and production volumes, legal challenges in securing the land title of the dry mill, scarcity in local currency and fuel as well as changing government policy regarding the privatization of coffee production.

Despite these challenges, COCOCA was able to repay their loan in full and continues to operate today. Horamama remains Burundi's only cooperative-owned dry mill and COCOCA represents around 15% of national coffee production[2]. In addition to improvements in terms of efficiency and quality, this project was the proving ground for Kampani's multi-stakeholder model. Through this model, this unique investment materialized, offering new levels of agency to COCOCA's smallholder farmers and helping to reduce their longer-term vulnerability.

For Kampani, this investment yields some valuable lessons learned about the extent of its involvement and how to approach a relatively weak and unstable union of diverse base cooperatives. It would be fair to conclude that a more hands-on approach and engagement across the wider value chain could have generated greater impact for Burundian coffee producers.

Twaranyuzwe Cooperative facilities

[2] *Kampani Annual Report (2022)*

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COCOCA

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Design: Studio Bear