ANNUAL REPORT 2018

KAMPANI
Investing in family farming

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PREAMBLE
BY THE CHAIRMAN

Dear investors, stakeholders and friends of Kampani,

Kampani today has five deals in its portfolio, having added two more deals in Costa Rica and Indonesia. Two other deals, in Honduras and Rwanda, also received final approval in 2018. Unfortunately, external factors have prevented Kampani and the investee from signing these deals off.

Otherwise, all our investments continue to do well, albeit not without their challenges. In the case of our earlier deals the social impact is also becoming visible, and we are working on a number of promising new deals.

Combined with the experience and depth of Alterfin's investment team and the continued support of Kampani's stakeholders, prospects for 2019 look promising.

As Kampani was nearly fully invested, we started preparing a fundraising round in the second half of 2018. This new capital should allow Kampani to go beyond proof of concept, create a larger portfolio of companies and increase its impact.

On behalf of the Board, I would like to thank Alterfin, the members of the Investment Committee as well as all our investors and stakeholders to make it possible to reach tens of thousands of smallholder farmers and improve their lives.

Steven Serneels

SHAREHOLDERSHIP

King Baudouin Foundation
Working together for a better society

rikolto VECO

alterfin

LOUVAIN COOPERATION

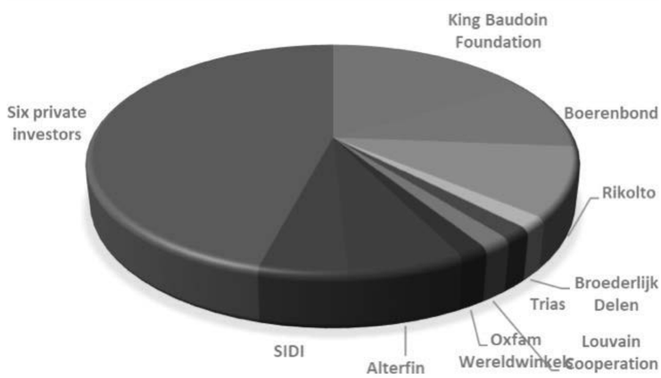
BOERENBOND trouw aan land- en tuinbouw

TRIAS DROMEN KRIJGEN KANSEN

SIDI SOLIDARITÉ INTERNATIONALE POUR LE DÉVELOPPEMENT ET L'INVESTISSEMENT

OXFAM Wereldwinkels

Broederlijk Delen TOT IEDEREEN MEE IS



and Private Investors

DEAL
Cococa, Burundi

VITAL STATISTICS

Country	Burundi
Sector	Coffee
Investment	Acquisition of a coffee processing plant, i.e. a vertical integration
Prime Social Goal	A fully independent and empowered farmer-led actor in the value chain
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

HIGHLIGHTS FROM 2018

- Completion of construction of additional warehousing capacity
- Inter-bank guarantee for harvest pre-financing
- Governance crisis turned into an opportunity as important changes in the risk sharing and further institutional strengthening are being implemented
- COCOCA moved to new offices in Bujumbura

THE DEAL

In March 2016 Kampani made its first investment: we awarded a subordinated loan to a newly established subsidiary of COCOCA, called Horamama Coffee Dry Mill, 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 third season of operations. COCOCA has again almost doubled the number of containers shipped: from 99 to 180 containers, far exceeding the projections of 110 containers. Production next season is expected to be much smaller. In the past season, Horamama also processed significant volumes for third parties.

The phenomenal growth and the exceptional peak in volume, has put the entire farmer movement under stress. As a result, the quality of the coffee and the financial margins also suffered.

THE SOCIAL IMPACT

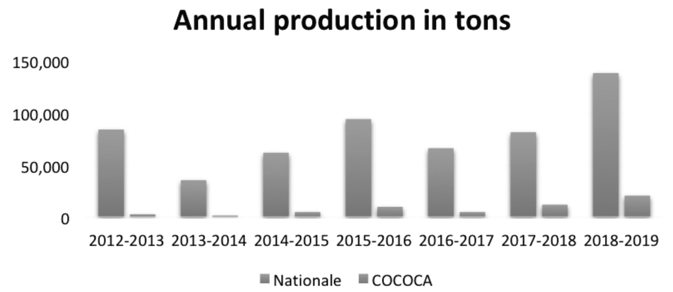
COCOCA remains the first and only cooperative player on the Burundi market to own its own dry mill.

The social impact generated by our investment continues to spread. 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.

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 40
- 99 containers shipped last year, this year 180
- The same volume sold at Fairtrade or Utz conditions as last year
- Horamama processed 1232 tons for third parties, up from 555 last year

At the national level COCOCA continues to consolidate its position. It now represents 15% of the national production (up from 8% before it owned Horamama):



Financially speaking, Horamama did well given the huge increase in processed volume.

P&L IN EUR	YEAR 2018–2019	YEAR 2017–2018	YEAR 2016–2017
Operating income	490,948	262,315	103,209
Cost of sales	(168,705)	(100,850)	(72,862)
Operating profit	225,111	95,140	(31,548)
Profit (loss) before tax	166,843	39,967	(40,839)
Profit (loss) after tax	116,790	27,977	(41,871)
1 FBU = 0,00049 EUR			

Note, however, that at the consolidated level, COCOCA and its members accrued a significant loss in the past season. Too large a share of the volume was sold at low prices due to the lack of capacity to deal with this peak in volume (and the obligation by the government to purchase the entire crop) as well as the significant decrease in the world market coffee prices. The entire coffee sector in Burundi was, of course, affected by these events. It is worth pointing out that COCOCA did well compared to its competition in this regard.

The involvement of Kampani's partners for this file — Broederlijk Delen, the King Baudouin Foundation, Alterfin, Truvalu (formerly known as ICCO Agribusiness Booster), and DGD — remains crucial.

OUTLOOK + CHALLENGES

This investment is expected to continue to require a lot of attention. Continued close support from all partners will be required.

The main challenges for the coming year:

- A solution has to be found to set the incentive structure right. The members are insufficiently incentivized to improve the quality of the coffee and the quality is not consistent.
- Local banks are not willing to lend to the base cooperatives directly. COCOCA therefore bears the financial risk without being owner of the coffee. This too needs to change as it is untenable.
- COCOCA and Horamama require an integrated forward cash flow planning.
- Continued institutional strengthening is needed. Some board members have a conflict of interest
- Meet its financial obligations to its creditors

DEAL
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
Prime Social Goal	Provide reliable access to the market and a diversification of income for thousands of outgrowers
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 Foundation, contributing 500.000 EUR, fully aligned with Kampani
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. The construction phase was completed in 2018. Vert is now fully operational in its new location and in early 2019 the mango pulp line started production.

P&L IN EUR	YEAR 2018 - 2019 (AS AT APRIL)	YEAR 2017-2018	YEAR 2016-2017
Operating income	2,264,434	2,937,751	2,904,001
Cost of sales	1,831,927	2,501,404	2,362,661
Gross profit (loss)	432,507	436,346	541,340
Profit (loss) before tax	(8,891)	35,306	249,226
Profit (loss) after tax	(10,055)	22,713	233,989
1 KES = 0,0088 EUR			

As of next year the new business line is expected to start generating a revenue stream, rather than only costing money. The financial results are therefore expected to improve.

HIGHLIGHTS FROM 2018

- Interest payments on time and in full
- Completion of construction of new plant
- Existing business line moved to new plant
- New business line, mango and passion fruit pulp, ready to start early 2019
- Additional long term financing secured

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.

With the completion of the construction of the pulp processing line, Vert started purchasing significant volumes of mango at the end of 2018. Vert made the sales of the first 100 drums of mango pulp in 2019. A product which had been worth nothing, which was going to waste, namely second grade mango, all of a sudden represented an additional income stream for several thousand producers who had been long awaiting this development.

OUTLOOK + CHALLENGES

Vert has successfully made a very big leap. The move to the new site has been completed and the production of mango and passion fruit pulp has started.

The main challenges for the coming year:

- The continuation of the strengthening of the management capacity and of the governance structure and processes
- Increasing the the number of farmers from whom Vert sources
- Maintaining its competitive edge in the fresh vegetable business line
- Increasing sales and improving operational efficiency of the pulp business line
- Preparing the next phase of expansion

DEAL
FECCEG, Guatemala

VITAL STATISTICS

Country	Guatemala
Sector	Coffee and honey, expansion to organic whole sugar (panela)
Investment	Acquisition of land and construction of panela production unit
Prime Social Goal	Provide reliable income stream to farmer community not previously benefiting from work of FECCEG
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)

HIGHLIGHTS FROM 2018

- Completion of the construction phase
- First purchases of sugar cane from 45 producers
- First sales of panela
- High growth in the coffee business line

THE DEAL

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

FECCEG was established in 2006 and 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 now also active in the production and commercialisation of organic honey. Nonetheless, coffee production remains by far its members' most important activity.

With the financing provided by Kampani FECCEG built 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 amounted to 674k USD. FECCEG contributed 95k USD with land and in-kind support. Some 240k USD was needed for the construction of the factory building itself and another 291k for the equipment. Kampani contributed 500k USD via a 6-year subordinated loan.

THE SOCIAL IMPACT

Guatemala still struggles with the aftermath of its violent civil war 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.

With the first purchases of sugar cane, some 45 producers found an additional source of income. The number of producers moving into the production of sugar cane will continue to increase in the coming years.

OUTLOOK + CHALLENGES

In 2018, FECCEG sold its first containers of panela. FECCEG currently has difficulty breaking into this market and it is challenging to get a decent price.

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

- Securing more buyers
- Scaling production
- Preparing for expansion to other parts of the country
- Getting better prices

DEAL
Cassia Co-op, Indonesia

VITAL STATISTICS

Country	Indonesia (Sumatra)
Sector	Cinnamon, other spices and essential oils
Investment	Acquisition of grinder
Prime Social Goal	Transparent and correct pricing and income diversification
Total estimated capital expenditure	650.000 USD
Investment type	Subordinated loan
Total loan amount	500.000 USD
In portfolio since	May 2018
Deal sourced by	Alterfin and Rikolto

HIGHLIGHTS FROM 2018

- Signing of loan agreement with Kampani
- Purchase of the grinder
- Expansion of production of patchouli essential oil
- Upgrading of buildings to meet international hygiene standards

THE DEAL

In May 2018 Kampani completed the transaction with CassiaCo-op, an Indonesian SME. PT Cassia Co-op (CassiaCo-op) is a Limited Liability Company incorporated in Jakarta in 2011. CassiaCo-op mainly sources, processes and markets cinnamon and patchouli oil.

Most of the *Cinnamomum burmannii* in today's world market originates from Indonesia. Some 80% of the global production grows in one unique area on the island of Sumatra, called Kerinci (Jambi province). CassiaCo-op was the first – and remains the only – cinnamon processing and exporting company to set up in Kerinci, in the heart of the cinnamon growing area.

Thanks to Kampani's investment CassiaCo-op will be able to acquire its own grinder to convert the crushed cinnamon into powder. From a business perspective alone this vertical integration makes sense as it generates important efficiency gains, saving on both direct and indirect costs. In addition, by moving this part of the downstream added value into the heart of the production zone, CassiaCo-op will also be able to further shorten the supply chain, reflecting its social mission. Currently only a tiny portion of the cinnamon produced in Indonesia leaves the country in powdered form.

THE SOCIAL IMPACT

Having sustainability at its core, by sourcing directly from the producers, and by doing the processing in the production zone, CassiaCo-op has already made a significant, lasting, and positive impact on the area and its smallholder farmers. The shortening of the supply lines that Kampani's investment will generate allows further strengthening of the company. This, in turn, will allow it to sustain and expand the social impact it generates for smallholder farmers.

The first aspect of the social impact is giving the producers options. CassiaCo-op is transparent about the price setting, pays according to quality, and pays a premium for certified cinnamon. All too often conventional buyers take advantage of the producers, citing humidity or quality concerns. CassiaCo-op constitutes a secure market right at their doorstep. If the price is better elsewhere, the producers always have the option to sell to another buyer.

CassiaCo-op also provides and pays for the organic and Rainforest Alliance certification. As the only buyer to do so, it can tap into niche markets and obtain, and pay, higher prices.

A final illustration of this attractive approach has to do with patchouli, CassiaCo-op's other business line. Patchouli oil is derived from a highly fragrant bushy herb and is a key ingredient in the cosmetics industry. Since cinnamon is harvested highly irregularly (a tree tends to be 15 to 20 years old before it is harvest-ready), CassiaCo-op has sought a way to allow the farmers to generate a more regular income. That is precisely what patchouli provides as it is an excellent intercrop when the cinnamon trees are young.

While we are convinced that the social mission is integral to the DNA of this company, the loan agreement provides for the necessary clauses, such as a mission lock, to help secure the social impact. In the coming years we should be able to report on the progress.

OUTLOOK + CHALLENGES

Cassia Co-op is a professionally run company with a strong board. It is expected to continue expanding the production of essential oils. The margins of the cinnamon business line are expected to improve when the grinder comes on line.

For the coming year, Cassia Co-op's challenges are expected to be:

- Installing and calibrating the new cinnamon grinder
- Securing the required certifications that prove hygiene standards are being met
- Securing the market for ground cinnamon
- Managing the growth of the production of essential oils

DEAL
Coopeassa, Costa Rica

VITAL STATISTICS

Country	Costa Rica
Sector	Organic coffee, banana, expansion to organic pineapple
Investment	Expansion of acreage devoted to pineapple
Prime Social Goal	Expansion to high-margin cash crop
Total estimated capital expenditure	630.000 USD
Investment type	Subordinated loan
Loan amount	580.000 USD
In portfolio since	July 2018
Deal sourced by	Alterfin and Rikolto

THE DEAL

The connection between Kampani and COOPEASSA, a cooperative in Costa Rica, was established by Rikolto (formerly known as Vredeseilanden/VECO) during the Building Trust Seminar at the end of 2016. In July 2018, Kampani completed the transaction.

Founded in 1984, COOPEASSA is relatively long-standing for a cooperative. The current leadership is its "second generation". COOPEASSA operates in the south of the country. It has a 4M USD turnover in coffee alone, which historically was its only activity.

COOPEASSA's members have felt the need to expand to a crop that generates an income year round. The income from coffee is just once a year. It has therefore entered into the organic production of a variety of exotic fruits like pineapple and banana. The climatic and soil conditions are excellent for these crops and they have a good access to the US market.

COOPEASSA has an ambitious investment programme, the management capacity to carry it through, an expanding and stable membership base, a proven track record, and a demand for its product that exceeds their production.

But it also has a weak balance sheet. Just like most cooperatives the profits are upstreamed to the members, and it therefore remains stubbornly undercapitalised.

By providing subordinated debt Kampani strengthened the balance sheet. Its investment allows for an accelerated expansion of the acreage devoted to the production of organic pineapple, enabling COOPEASSA to tap into this promising and high-margin niche market. While Coopeassa was initially shipping one container per week, this has now increased to 3 containers a week thanks to Kampani's investment.

HIGHLIGHTS FROM 2018

- Signing of loan agreement with Kampani
- Increased production of organic pineapple from 1 to 3 containers per week
- Part of the volume shipped as frozen pieces
- Increased professionalization and institutional strengthening

THE SOCIAL IMPACT

Clearly, Costa Rica as a country is relatively rich compared to, for example, nearby Guatemala and Honduras. Nonetheless, the smallholder farmers in Costa Rica are confronted with the same constraints as anywhere else (as exemplified by the lack of long term investment capital). The cooperative plays a crucial role in empowering the farmers concerned, providing opportunities for a diversified income, access to niche and high margin markets, certification, training, access to credit, and technical assistance.

COOPEASSA has a rich and long history in this regard. By expanding into organic fruit production and processing, it aims to continue contributing sustainably to the well-being of its members and the general economic development of the area. It is also recognised by the government as an important catalyst for growth in this part of Costa Rica, far from the areas benefiting from the tourist industry.

OUTLOOK + CHALLENGES

Coopeassa is a stable and well-run cooperative. But not every business line is as profitable. Going forward, it may need to restructure. The business line Kampani invested in, i.e. the production of organic pineapple, is doing even better than expected. But we would like to see the impact spread to more producers over time.

For the coming year, Coopeassa's challenges are expected to be:

- Professionalization governance, in preparation of further investments
- Profitability of some business lines
- Spread of social impact to more producers

FINANCIAL RESULTS

BALANCE SHEET IN EURO

	2018	2017
Fixed assets	**371.459**	**371.459**
Financial fixed assets	371.459	371.459
Current assets	**2.240.293**	**905.291**
Credit portfolio	1.850.393	789.654
Cash and cash equivalents	301.689	75.723
Other accounts receivable	88.211	39.914
Total Assets	**2.611.751**	**1.276.749**
Equity	**2.429.008**	**996.646**
Paid-in capital	3.050.000	1.525.000
Issuance premium	24.000	24.000
Accumulated results	-644.992	-552.354
Liabilities	**182.743**	**280.103**
Long term liabilities (>1 year)	68.995	74.627
Short term liabilities (<1 year)	90.928	195.798
Transitory accounts	22.820	9.678
Total liabilities and equity	**2.611.751**	**1.276.749**

The balance sheet reflects the new investments we have made in Indonesia and Costa Rica.
The credit portfolio grew significantly.

PROFIT AND LOSSES STATEMENT IN EURO

	2017	2018
Gross margin	-214.438	-245.581
Financial income	43.223	140.678
Financial expenses	-35.248	-12.263
Result	-206.462	-92.640

GOVERNANCE

The members of the Board of Kampani:

- **Steven Serneels**, Independent (Chairman)
- **Hannelore Beerlandt**, CEO Agricord and Chair of ENABEL
- **Pieter Verhelst**, Senior Adviser, Boerenbond
- **Jan Vander Elst**, Head of Finance, King Baudouin Foundation
- **Chris Claes**, Executive Director, Rikolto (formerly known as VECO International, Vredeseilanden)
- **Jean-Michel Pochet**, 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,
- **Pierre Harkay,** Manager Development and Sustainability Unit, BIO-Invest
- **Christ Vansteenkiste**, Rice Cluster Coordinator, Rikolto
- **Patrick Eeckloo**, Program Manager, Trias
- **Stefaan Calmeyn**, Policy and South Department, Oxfam WW
- **Pierre Queritet,** Director, PwC Legal
- **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 Alterfin

alterfin
Investing in sustainable development

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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