Coconut Holdings Ltd
Grantee Case Study
Background

AgriFi Kenya Challenge Fund (AgriFi) seeks to support productive and market-integrated smallholder agriculture through the provision of financial support to agri-enterprises. The aim is to contribute to improvements in the capacity of smallholder farmers/pastoralists to practise environmentally sustainable and climate-smart agriculture as a business in inclusive value chains. AgriFi’s objectives are aligned with the Government of Kenya’s aspirations for the agriculture sector as embodied in its Vision 2030, the Big 4 Agenda, and the Agricultural Sector Transformation and Growth Strategy (ASTGS).

This is one of a series of 6 case studies commissioned to extend key lessons and recommendations from grantee level review and analysis. A previous research phase explored high priority impact areas including gender, youth, nutrition, and climate smart agriculture (CSA) with a view to supporting effective design, targeting and implementation of AgriFi. These case studies test some of the logic and understanding of that research, illustrating effective strategies, issues of concern, and areas with potential for increasing positive impacts.

The suite of case studies include two (of 8) Call 1 grantees, three (of 12) Call 2 grantees, and one non-grantee as a counterfactual. Grantees from the COVID-19 Response and Recovery Call and Call 3 have not been included due to insufficient progress with project implementation at the time of fieldwork. Grantees were selected for inclusion on the basis of VC (i.e. broadly representative of the wider portfolio), geography (i.e. reasonable geographic spread), and relevance to key impact areas (i.e. strong learning potential). Fieldwork was conducted in late June and early July 2021 in compliance with COVID-19 guidance and restrictions.
Introduction to Coconut Holdings Ltd

Coconut Holdings Limited (CHL), established in 2015, is a privately owned company with operations in the coastal counties of Kilifi and Kwale, and Nairobi HQ, Kenya. The holding company owns and manages Kentaste Products Limited (Kentaste) which focuses on production, packaging and marketing of food, beverage, and cosmetic coconut products; ranging from coconut milk, coconut cream and virgin coconut oil to desiccated coconut and coconut flour for retail and wholesale across local, regional and international markets. CHL is also currently developing a coconut water solution for initial retail on the East African market.

CHL sources its coconuts from ~3,500 smallholder farmers (SHF), of which 77% are male. The company has facilitated certification as Fair Trade and Organic (FTO) for 1,800 of its producers. All its coconuts are sourced within 100 miles of the factory through an established extension programme managed by a team of field officers and buying clerks. Coconuts are aggregated at six collection centres where they are sorted (by organic vs ‘conversion’ status whereby SHF have begun the transition to FTO but are not yet certified), stored (oil content increases with maturity) and finally dehusked prior to transport to the factory for processing. The company processes between 30,000 and 40,000 nuts per day (or up to a million per month), a threefold increase since its engagement with the fund.

CHL employs 235 full-time staff (190 men, 45 women) and up to 65 part-time staff during peaks seasons. The company casually employs an additional 1,320 people for field activities such as harvesting and dehusking coconuts. CHL obtains food safety certifications including FSSC 22000 and HACCP. It is the largest producer of coconut products in Kenya.
Project Overview

With support from AgriFI, CHL has been addressing sectoral challenges associated with erratic and seasonal variations in pricing, reliance on traditional agronomic practices and dwindling coconut yields. The company has implemented various activities to combat these challenges, targeting to:

- Register 3,000 additional farmers for training in Good Agricultural Practices (GAP), Climate Smart Agriculture (CSA) and personal finance management;
- Facilitate FTO certifications for new and existing farmers;
- Provide farmers with high-yields and draught-resistant hybrid coconut seedlings;
- Increase market access through strengthening sourcing infrastructure by establishing six solar-powered collection centres;
- Recruit 40 additional FTE staff to work in coconut sourcing and extension services;
- Automate coconut water processing line for value addition; and
- Develop an automated farmer management and payment software (E-Prod App) to reduce paperwork and increase operational efficiency.

CHL is en route to meeting its targets. Principle to these achievements has been making an instrumental investment in and successfully commissioning an automated coconut drying machine, which has markedly increased the factory’s processing capacity and is driving the need for growth and development in all components of the company’s supply chain.

The company also collaborates with apex bodies in the provision of field extension services, trainings, value addition and certification of farmers in the coconut value chain. CHL coordinates with the Agriculture and Food Authority (AFA) for training in seedling production and nursery management. Other collaborators include the Ministry of Agriculture, Livestock, Fisheries and Cooperatives (MOALF&C) for general extension service; Fair Trade Organization for organic certification; in addition to the Nuts and Oil Crops Directorate (NOCD) in research activities and clearance certificates for export of its products.

CHL’s progress towards achieving its milestones has had demonstrable direct and indirect impacts on gender and youth inclusion, CSA, and nutrition. Indicators of impacts in these areas are highlighted below, while interplay between them, further learnings and links to earlier research are expanded upon.
Impacts Summary & Key Learnings

CHL’s work highlights the potential to create latitudinal impact along a VC through innovation. Its new processing line, including modern equipment for drying and pressing desiccated coconut, has increased processing capacity by 300% and produces export quality products allowing CHL to tap into international markets; the company is now exporting to a dozen countries globally. The new drier processes 1.5 tonnes/day up from 600 kg for the old drier, while new oil extractors work at 4 times the speed of the old one. With the new equipment came the need to acquire international standard food safety certifications; these in turn required the development of an on-site laboratory.

CHL is growing to meet its processing line demand by:

- Increasing sourcing capacity, recruiting more farmers to its outgrower base;
- Developing additional satellite collection centres;
- Promoting and facilitating farmer FTO certification;
- Investing in additional operational infrastructure (warehouses, vehicles etc.);
- Recruiting more permanent staff in all workstreams; and
- Disbursement of high-yielding certified coconut seedlings.

CHL’s strong focus on certifications reflects its commitment to create positive and lasting social and environmental impacts, both for conscious producers and consumers.

One SHF shared that he had been able to effectively quadruple his income from coconuts by converting to organic farming and attaining FTO certification. He reported that his trees have consistently produced more nuts, which fetch premium prices for their organic status. Before this transition, the farmer recalled an annual income of KSh 20,000 (€ 154) which subsequently increased to KSh 96,000 (€ 742), from 100 trees on 2 hectares of land.

Kentaste currently disperses ~KSh 14,000,000 (€ 108,136) per month into sourcing communities. The company offers stable buying prices for organic coconuts, set in conjunction with FFL, while prices on the informal market fluctuate substantially between high and low seasons. Kentaste also sets its price for conventional/conversion coconut uptake above informal market rates.

Furthermore, the company has a Special Projects Fund, where 5% of proceeds from Fair Trade certified products are invested in community development projects such as infrastructure for schools, improved access to health and infrastructure services and agronomy and financial management training. The fund is managed by both farmers and Kentaste employees.
The process flow diagram below highlights the interconnected impacts CHL has achieved through the implementation of improved coconut drying and pressing technology, establishing pathways to gains in employment, CSA and business growth.
Nutrition

Coconuts are highly nutritious fruits; despite being lower in sugars/carbohydrates when compared to other fruits they are high in fats and are a good source of B vitamins, iron and minerals such as magnesium, zinc, copper and selenium. A coconut’s composition – raw white meat, water, high oil content – lends itself to be processed into different products for many uses – encouraging consumption of the whole fruit. In recent years, coconut oil and flour have entered the market as healthy alternative ingredients to other staples. That said, SHF typically do not retain coconuts for their own consumption, with the exception of increased household consumption during the festive season of Ramadan.

Beyond increasing production and consumption of the fruit itself, the tree crop is good for intercropping. Integrated farming approaches are common amongst SHF producing coconuts, including food and cash crops such as maize, rice, cassava, beans, peas, sugarcane, cashew nuts, sweet potatoes and livestock; in turn increasing dietary diversification, leading to improved nutritional status. Kwale and Kilifi counties have a tropical climate and benefit from primary and secondary rainy seasons with an average annual rainfall of 1,060 mm, boasting high agricultural potential. Findings suggest that conversion to organic agriculture positively impacts production; this is explored further in the CSA section below.

AgriFI’s nutrition research highlights that income is a useful but not definitive proxy for supporting nutrition. Though SHF engaged by CHL show improved income, there are additional positive synergies between targeted nutrition trainings, better land use in complying with FTO certifications and nutrition outcomes. In house, CHL also offers nutritious meals for all its staff. These pathways to improved nutrition are grounded by its strong business case; good nutrition leads to increased productivity across the VC.

Gender

CHL notes social and cultural barriers to gender equality in the coconut VC, and despite being an equal opportunity employer still struggles to recruit female staff who currently only make up 19% of its workforce. The company already subscribes to research which recommends avoiding a male-centric appointment process by introducing female supervisors into the employment team; the positions of General Manager, Internal Control Systems Manager and HR Manager (alongside other key positions) are all held by women. CHL reported to be working with Value for Women to better understand and improve organizational gender mainstreaming and internal gender policies. It is also working on creating safe spaces for female employees, including a private locker room, nursing room and daycare facility at the factory.

At SHF level, coconut farming continues to be male dominated, largely due to socio-economic drivers. That said, CHL reports that more women are venturing into the business; of their current
Outgrower base of 3,500 SHF, about 25% are women. Beyond limited opportunities for land and permanent crop tenure, labour requirements for coconut farming also constrain women. Specifically, the process of harvesting coconuts – which is physically intensive especially when climbing and harvesting from the East African Tall Coconut – is traditionally a task assigned to men. However, in line with traceability requirements set by certification standards, CHL pays harvesters (KSh 1 per nut harvested) to do this job on behalf of the SHF. While this goes against arguments discouraging labelling occupation or activities as gender-specific, as highlighted in the gender paper, if this task is arranged and financially absorbed by CHL then it can create more space for female SHF in the coconut farming economy. CHL plans to incentivize women into coconut farming through targeted distribution of seedlings through its coconut seedling program.

Furthermore, to encourage female participation, CHL targets its training at mixed gender groups/audiences. The company has also implemented a Farmer Advance Program, where SHF typically request advances for school fees and medical expenses. CHL tracks the SHF historical sales to Kentaste as a form of “credit score” and uses nuts as collateral. Female farmers tend to use the facility less than male farmers; only 9% of female farmers have taken a loan compared to 26% of male farmers. This is likely a consequence of both limited awareness of the facility – women farmers attend fewer trainings despite efforts to encourage participation – and lack of empowerment to understand and feel comfortable with its obligations.

**Youth**

Comparable to constraints on women’s inclusion in the coconut VC, macro trends also point to lower youth integration, especially at producer level. With increasing population pressure, land subdivision and ownership by youths is even more rare. Though this restricts youth representation in primary production of coconuts, there is higher youth integration further down the VC. Incentivized by salaried employment opportunities, youth tend to migrate to urban/peri-urban areas. The story runs true across Kenya and is reflected amongst CHL’s factory employees, of whom 77.5% are youth.

To maximize productivity, CHL operates 24 hours, 6 days a week with three 8-hourly shifts. Not only is this financially rewarding for the company, but it also has positive social impact, especially for students who pursue studies concurrently and for working mothers who can pick up their children after a shift. Lastly, youth are more likely to work in dehusking coconuts at the collection centres, prior to transport to the factory. Although dehusking is physically demanding, it can also be very lucrative casual employment. CHL pays KSh 1 for every dehusked coconut and dehuskers can average between 2,000-2,500 nuts per day – that is KSh 2,000-2,500 for a day’s labour, or € 15-19. By comparison the minimum wage for unskilled agricultural labour in Kenya is KSh 12,522 per month.

**Impacts of COVID-19**

COVID-19 has negatively impacted Kentaste’s operations; particularly delivery of training, effective supervision of field activities, transport, and processing. Training programmes were affected by reduction of group sizes to meet mandated health and safety protocols, impacting timelines and budget to reach targeted farmers. Reduced mobility and curfews also meant fewer farmer visits by staff were possible, ultimately compromising the efficiency of agricultural extension programmes.

Furthermore, CHL’s market segment demand from the food, beverage and hospitality industry virtually shut down completely. Consequently, the company saw a 10% drop in revenue and forced them to look for alternative markets.
Innovation leads to impact. Indicators of CHL’s social and economic empowerment, largely driven by its adoption of new technologies, are grounded in the company’s commitment to CSA and low environmental impact. Through its outgrower base, CHL currently has 6,299 ha under CSA and 2,000 of 3,500 SHF are successfully FTO certified; 450 farmers are in the conversion stage of achieving the certification.

Inherently, tree crops are identified as having strong CSA impact by creating potential for integrated farming approaches – which in turn optimize opportunities to increase productivity. These approaches are key to building resilience and mitigating climate risks in the face of climate change. CSA methods are at the heart of organic farming, which are taught to all SHF pursuing FTO certification, including: practicing crop rotation and intercropping, composting, mulching, use of bio-fertilizers, GAPs on soil and weed management alongside no application of synthetic inputs. Specifically, improved soil and crop management mitigates against soil erosion whilst also conserving biodiversity and improving hydrology. As indicated earlier, testimonials from farmers point to increased productivity of their coconut crops after switching to organic farming. SHF are further incentivized by price premiums received for organic coconuts (usually KSh 1-2 more than conventional nuts).

Additionally, the versality of coconuts reinforces its business case as a climate smart crop. If processed effectively, all products and by-products of the nut can be used – as such, CHL is working towards being a zero-waste producer of coconut through R&D into new products as well as innovating to improve technologies used to produce existing ones. For example, the company intends to commission its coconut water solution by December 2021, a by-product previously channelled into livestock feed. Husks are commonly used as mulch at farm level, for producing growth media peat for seedling sleeves and other artisanal domestic products such as doormats and mattresses. Finally, shredded coconut shells are used as fuel for the drying machine which reduces waste and reduces reliance on other fuel sources with the benefit of having no cost. These circular economy practices, both at farm and factory level, and its promotion of certified organic farming set CHL aside as a business striving to create lasting, inclusive and positive social and environmental impact.