

# Study of Social Entrepreneurship and Innovation Ecosystems in South East and East Asian Countries

Case Study: Kennemer Foods International,  
Philippines

The Japan Research Institute

Office of the Multilateral  
Investment Fund

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Ecosystems in South East and East Asian Countries**

**CASE STUDY**

**Kenninger Foods International, Inc., Philippines**

**Multilateral Investment Fund**

**The Japan Research Institute**

**October 2016**

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- Tomohiro Hamakawa, Co-founder & Managing Director of Earth Company
- Vesi Kertikova, Investment Manager, Southeast Asia, LGT IMPACT VENTURES
- Yoshi Tabuchi, Managing Director of Social Investment Partners

# 1. Introduction

<b>Name: Kenemer Foods International, Inc. (KFI)</b>	
Description	Kenemer Foods International, Inc. (KFI) is a agribusiness venture in the Philippines that trades s high-quality fermented cacao beans sourced from smallholder farmers.
Founded	2010 (Davao, Philippines)
Legal format/ Certification	Limited company In 2015, KFI was certified as an inclusive business, which qualifies for tax deduction, by the Philippines Board of Investments
Num. employees/volunteers	About 500 employees
Geographical reach	Operation (planting trees and setting up cacao centers): Mindanao, Visayas and Palawan Offices: Davao, Tagum, Dipolog, Carmen (Bohol), Puerto Princesa and Makati.
Recognition & Awards	Recognized as the “Most Impactful Non-Profit/Social Enterprise” together with LGT VP in the Singapore Venture Capital and Private Equity Association 2015 Award <sup>1</sup>
<b>Social innovation variables</b>	
1. Innovation type	Delivers an end-to-end solution for improving local cacao farmers’ livelihoods by providing them with high-quality planting materials, farm inputs, technical assistance, appropriate financing and access to global markets.
2. Social impact	- Smallholder farmers’ increase in their household income by fourfold. - Farmers’ reduced risk of financial and climate shocks due to higher income, increasing savings and improved resilience of cacao trees. - Farmers’ improvement in farming practices including reduced need for pesticides.
3. Financial sustainability	KFI does not disclose its financial data. According to its investor, KFI has reached its breakeven point and is in its expansion phase. Farmers start earning annual net profits from the second year and about USD 3,000 from the fifth year.
4. Key partners and supporters	KFI has built partnerships with corporates including Mars Inc., farmer cooperatives, provincial governments, Land Bank of the Philippines and indigenous tribes.
5. Scalability and replicability	With its rapid spread of production sites, KFI’s business is proven to be scalable for all stakeholders of the agricultural value chain. KFI’s cacao development model with Mars is highly replicable as proven by similar cases in Indonesia and West Africa.
References	<a href="http://www.kenemerfoods.com/">http://www.kenemerfoods.com/</a>

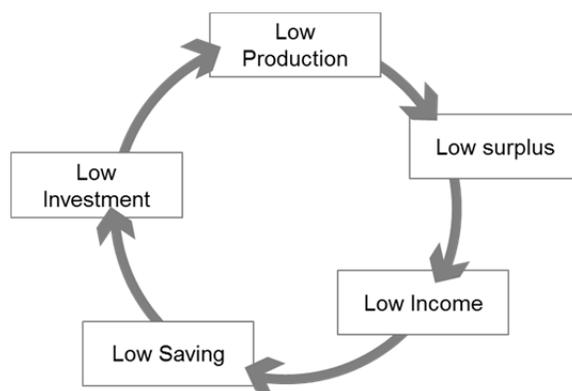


<sup>1</sup> <http://svca.org.sg/wp-content/uploads/2015/10/SVCA-Awards-2015-Press-Release.pdf> [Accessed 25 April 2016]

## 2. Local Social Issue and the Challenge

In the Philippines, the agricultural sector plays an important role employing 30% of the population<sup>2</sup> and producing 11% of the GDP in 2014.<sup>3</sup> At the same time, the sector suffers from a high poverty rate, estimated at 37%. An average agricultural worker only makes about USD 3.50 a day. Most farmers in the Philippines are trapped in a vicious cycle: they do not have enough capital to afford high-quality farm inputs, such as high-yield seeds and fertilizers, to increase their production; they cannot increase their income due to low yield coupled with lack of direct access to the markets,; therefore, they cannot invest in their production in order to break the cycle of poverty.

**Figure 1 The vicious cycle of smallholder farmers in the Philippines**



In the Philippines, coconut is one of the main export crops, planted in 3.5 million hectares out of some 9.7 million hectares of agricultural land. However, because of the low density of coconut trees, roughly 72% of the land in coconut farms is empty. The average annual gross revenue of a coconut farmer in the Philippines with one hectare of land is approximately USD 450 a year, or USD 1.2 a day. It is almost impossible for a smallholder farmer to make coconut production as his/her main crop to adequately provide for the needs of the entire family with 4 to 5 members, much less to invest into necessary farm inputs and technologies for increasing yields.<sup>4</sup>

<sup>2</sup> <http://data.worldbank.org/indicator/SL.AGR.EMPL.ZS> [Accessed 25 April 2016]

<sup>3</sup> <http://data.worldbank.org/indicator/NV.AGR.TOTL.ZS/countries> [Accessed 25 April 2016]

<sup>4</sup> <https://www.weforum.org/agenda/2016/03/5-ways-to-reduce-poverty-among-smallholder-farmers/> [Accessed 25 April 2016]

### 3. Solution and Social Impact

According to its website, “Kennemer Foods International, Inc., (KFI) is an agribusiness company that specializes in growing, sourcing and trading high-quality agricultural crops such as fermented cacao beans produced by smallholder farmers”.<sup>5</sup>

The global cacao demand has been increasing rapidly. According to the World Cocoa Foundation, the global cacao production has increased by 13% from 4.3 million tons in 2008 to 4.8 million tons in 2012. This means that the global production has increased at the average rate of 3.1% each year from 2008 to 2012. By 2020, the global cacao production is expected to reach 5 million tons but with 1 million ton in deficit.<sup>6</sup>

Cacao trees grow in tropical environments within 15-20 degrees of latitudes from the equator. The Philippines has ideal soil and climate to grow cacao trees. However, it produced only 4,876 tons of cacao beans per year in 2013, much lower than its neighbor Indonesia, which is the world’s leading cacao producer producing 777,500 tons in 2013.<sup>7</sup>

KFI first started as a buying and post-harvest center for wet (fresh) cacao in Davao City, Mindanao. However, it quickly learned this original business model’s limitations and started experimenting to shape its business model today.

Firstly, there was not enough cacao production remaining in the country. Farmers were harvesting cacaos only from old low-yield trees and were not planting new trees. Also, Cacao trees are sensitive to sun, wind, pests and diseases, and thus need proper care from farmers. However, farmers were not trained how to plant and take care of cacao trees. To address this issue, KFI experimented with intercropping cacao in coconut plantations by utilizing the large gaps between coconut trees to plant cacao (see the image below). Given that the ideal environment for cacao trees is 30% shade and 70% sun, this intercropping makes a perfect condition for cacao growing without cutting down the existing coconut trees.

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<sup>5</sup> <http://www.kennemerfoods.com/about/> [Accessed 25 April 2016]

<sup>6</sup> World Cocoa Foundation. “Cocoa Market Update”. (<http://www.worldcocoafoundation.org/wp-content/uploads/Cocoa-Market-Update-as-of-4-1-2014.pdf>) [Accessed 25 April 2016].

<sup>7</sup> (<http://faostat3.fao.org/download/Q/QC/E>) [Accessed 25 April 2016]

**Figure 2 Cacao trees planted between coconut trees**



(Source: <http://manilastandardtoday.com/>)

Secondly, margins for selling wet (fresh) cacaos to wholesalers were low. Consequently, KFI purchases wet (fresh) cacaos and ferments cacao on its own in order to increase the margins.

The third limitation was adequate finance. When KFI started its business, there were no loan products available for high-value but long-gestating crops such as cacao. In 2010, KFI partnered with the Landbank of the Philippines, a government financial institution with focus on rural economic development, to launch Cacao 100, a program that provides credit for intercropping of cacao in coconut areas or planting cacao in idle land. The loans are designed to meet specific needs of cacao farmers, cooperatives and agribusiness corporations: up to seven-year term for the establishment of new cacao plantations; a grace period on principal and interest considering the lower productivity of a newly established farm in the first few years.<sup>89</sup>

Finally, farmers lacked adequate technology and knowledge necessary to produce high-quality cacaos as well as direct access to the markets. KFI developed a holistic program that provides farmers with the resources and tools they need to grow and harvest high-quality cacao throughout the whole agricultural value chain: supplying planting materials; training and agricultural technology to smallholder farmers; and marketing and distributing to large international buyers. By working with cooperatives that serve as conduits of the Landbank loans, KFI groups farmers into small clusters and provides them with an extensive training

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<sup>8</sup> <https://www.weforum.org/agenda/2016/03/5-ways-to-reduce-poverty-among-smallholder-farmers/>[Accessed 24 April 2016]

<sup>9</sup> <https://www.landbank.com/cacao-100-programs>[Accessed 24 April 2016]

program. With farmer leaders designated as “Cacao Doctors”, who serve as franchise holders, the program became popular and spread throughout Mindanao, southern Palawan, Cebu, Bohol and Leyte. Each cacao doctor coaches a set of 25 growers in a farmers cluster and becomes the consolidator of their produce. The program provides farmers with planting materials, fertilizers, pesticides, cash and knowledge for the establishment and maintenance of their farms. While the program was first introduced in 2012, it scaled up in 2015 when the first batch of farmers started to reap the cacao beans after a two-year gestation period.<sup>10</sup>

Once the cacao trees mature (about three years) and trading volumes reach a critical mass, KFI expects to bolster farmers’ income by 4-6 times<sup>11</sup> by exporting locally produced cacao beans to Mars and other multinational chocolate companies. Additional revenue streams from seedling sales fund the growth of KFI’s field teams until the cacao trees mature. KFI has also developed the operation of managed farms for indigenous tribes, which is still in its tree-growing stage.<sup>12</sup>

Recently, the Philippine government started implementing policies to support cacao industry by realizing the high potential growth. For instance, in 2016, the local government of Mindanao, where 90% of the country’s cacao beans are produced, has started a program of planting new cacao trees with a goal of reaching 100,000 million tons by 2020.<sup>13</sup> KFI has been working closely with the Department of Agriculture, Department of Agrigarian Reform and Landbank, which is under Department of Agriculture, to help revive the dormant cacao industry by providing inputs for designing new support system, such as a long-term loan scheme.

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<sup>10</sup> <http://manilastandardtoday.com/business/192510/dutch-ceo-revives-mindanao-cacao-industry.html>[Accessed 22 April 2016]

<sup>11</sup> This is a conservative estimation. In the Philippines, a farmer’s average annual income is about USD 500 (PHP 25,000). When cacao trees mature at Year 5, from a famer can make about USD 3,000 (PHP 150,000) net of inputs in a year. This means a farmer can increase his/her income by 6 times. (Interview with Ms. May Lynn Lee, Chief Operating Officer, by the Japan Research Institute)

<sup>12</sup>

[http://www.swissrefoundation.org/what\\_we\\_do/global\\_programmes/social\\_entrepreneurship/KFI.html](http://www.swissrefoundation.org/what_we_do/global_programmes/social_entrepreneurship/KFI.html)[Accessed 22 April 2016]

<sup>13</sup> [www.mindanaotimes.net/mindanao-to-intendify-production-of-coconut-coffee-cacao-official](http://www.mindanaotimes.net/mindanao-to-intendify-production-of-coconut-coffee-cacao-official)[Accessed 24 April 2016]

## 4. The Social Entrepreneur



Simon Bakker is the Founder and CEO of Kennemer Foods International. He is originally from the Netherlands, but is based in the Philippines. In 2016, he was selected as “Social Entrepreneur of the Year” by the Schwab Foundation<sup>14</sup> for his achievement of establishing a sourcing network of 10,000 Filipino farmers who stand to gain an average income increase of 500 percent.

According to an interview with The Standard, Bakker established KFI not to start a social business or inclusive business but to start a regular business.: “We did not set out to make an inclusive business. For us, working with smallholder farmers makes business sense”. He continued to explain his views on running a socially conscious business in this way: “It is not a charity. This is an equal business transaction. We wanted to make good quality cacao and chocolate. We are a regular business and we happen to have a lot of social benefits and we are now happy to be called inclusive”.<sup>15</sup>

Before his role at KFI, Bakker was one of the founding investors of and served as the Chief Financial Officer of Enderun Colleges. Prior to that, he was Managing Director for Asia Pacific at Fidelity National Information Services, a US banking and payment technology company. Bakker holds a Masters degree in Economics from the University of Amsterdam.

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<sup>14</sup> The Schwab Foundation for Social Entrepreneurship provides unparalleled platforms at the regional and global level to highlight and advance leading models of sustainable social innovation. It identifies a select community of social entrepreneurs and engages it in shaping global, regional and industry agendas that improve the state of the world in close collaboration with the other stakeholders of the World Economic Forum.

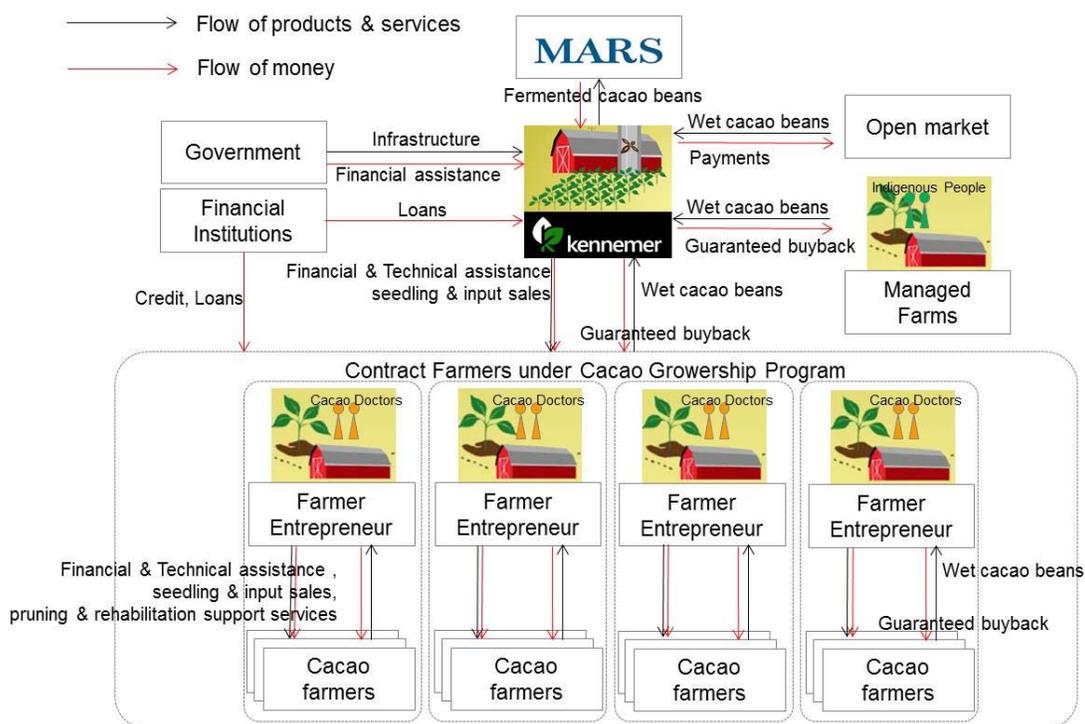
<sup>15</sup> <http://manilastandardtoday.com/business/192510/dutch-ceo-revives-mindanao-cacao-industry.html>[Accessed 22 April 2016]

## 5. Business Model

### 5.1 Business Model

As depicted below, KFI's business model encompasses various stakeholders including the government, financial institutions, cacao suppliers, and international buyers like Mars.

**Figure 3 Business model of KFI**



KFI sources cacao beans through three channels: (a) contract farmers, (b) managed farms and (c) open market. Each of these channels will be explained in turn.

#### (a) Contract farmers

KFI signs 10-year contracts with cacao farmers to build a long-term supply chains. Through its Cacao Growership Program, KFI offers its contract farmers access to high-yielding planting materials, farm inputs, ongoing technical training and support, and access to global markets. KFI also arranges access to crop-appropriate financing from public and private sources. More details of the Cacao Growership Program are provided in the next section.

### **(b) Managed farms**

KFI partners with indigenous communities to develop larger-scale cacao farms on their ancestral lands. KFI rents farmland from indigenous communities and employs their people as farmers. In this way, while the communities remain the owners of the land, the managed farms create employment and revenue-sharing opportunities for indigenous people, thus preventing further exploitation of their land and reducing migration pressure on them.

### **(c) Open market**

KFI purchases cacao beans on the open market, then processes and sells the cacao to international chocolate manufacturers and cacao traders.

## **5.2 Main Characteristics**

The most unique part of KFI's business model is its Cacao Growership Program, which KFI offers its contract farmers for free. By providing best practices and technologies including access to low-interest finance, high-yield seedling and fertilizers and other necessary agricultural inputs, training and follow-up support, and marketing to international buyers, KFI enables farmers to break their vicious cycle of low production and poverty. The main characteristics of the Cacao Growership Program are described as below.

### **(a) Access to affordable finance**

In the past, smallholder farmers were able to only borrow high-interest loans from financial agents in their communities. Later on, international aid organizations started providing seedlings to smallholder farmers. However, many seedlings were wasted because farmers could not afford necessary people or equipment to plant seedlings and/or could not afford to buy fertilizers to maximize yield. In an interview with the JRI, Bakker expressed concerns to this trend and emphasized the importance of providing farmers with access to appropriate financial services rather than subsidies in order to promote efficient and effective farming practices as well as to make farmers more responsible. To enable farmers to make the investments needed to plant and cultivate cacao sustainably and productively, KFI helps farmers receive financing for farm establishment from cooperatives, Agrarian Reform

Beneficiary Organizations<sup>16</sup> and rural banks. KFI also provides farmers with seasonal advances for the purchase of proper fertilizers and other necessary agricultural inputs.

#### **(b) High-yield seedling and fertilizers and other necessary agricultural inputs**

KFI ensures that only grafted cacao seedlings of the right clonal varieties are sold to smallholder farmers. The company operates nurseries in several locations throughout the country to develop sufficient stock. Before, the number of trees distributed by aid organizations was too small (about 100 to 200 trees) for farmers to take it seriously. KFI encourages farmers to plant 800 trees in one-hectre land so that cacao becomes dominant cash crop for farmers.

#### **(c) Farmer training and supervision**

KFI agri-technicians train farmers and farmer entrepreneurs in every aspect of the cacao production. KFI partners with cooperatives to identify farmer entrepreneurs designated as cacao doctors and as franchise holders of the program. KFI provides a five-week training over two years, and farmer entrepreneurs who complete the Cacao Doctor Training and Certification Program become certified Cacao Doctors who support groups of farmers.

#### **(d) Cacao Doctor network**

Once certified, cacao doctors coach a set of 25 growers, consolidate beans under the Kenemer buying program, distribute planting material and inputs, and provides pruning and rehabilitation support services to their farmer clusters. Each cacao doctor runs his/her own agri-enterprise with an aim at becoming a mini-KFI.

#### **(e) Monitoring and supervision**

KFI agri-technicians, with the support of cacao doctors, monitor the farmers' progress to ensure they are implementing optimal cacao growing practices. Through regular farm visits and timely reporting, cacao doctors and KFI are able to address issues as they arise.

#### **(f) Guaranteed buy back**

KFI commits to buying the entire food-grade production of cacao produced at minimum prices as 70% of the global markets. In an interview with the Japan Research Institute, Ms.

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<sup>16</sup> Organization of beneficiaries who were allocated a land by Comprehensive Agrarian Reform Program

May Lynn Lee, Chief Operating Officer of KFI, indicated that KFI pays about 85% of the world market price to farmers.

### 5.3 Fee Structure

The pricing of KFI’s fermented cacao beans is linked with the global market price of cacao. KFI guarantees its contract farmers that it will purchase cacao beans at minimum 70% of the global market price. In reality, KFI purchases at about 85% of the global market price.

### 5.4 Target Beneficiaries

KFI’s direct beneficiaries are smallholder farmers, especially coconut farmers and farmers in indigenous communities; KFI’s indirect beneficiaries include the farmers’ families and communities, who are positively affected by the increase in income levels.

## 6. Social and Financial Performance

### 6.1 Social Impact Performance

#### 6.1.1 Social impact achieved

This section describes KFI’s achievements towards its long-term goal of improving livelihoods of local cacao farmers. As of June 2015, KFI was working with 287 cacao doctors and 5,028 contract farmers.<sup>17</sup> By 2020, KFI targets to improve the livelihoods, as well as financial and climate resilience, of 35,000 farmers by integrating them into the company’s cacao production value chain. The table below shows the positive trends of KFI’s social impact.

**Table 1 KFI’s achieved and expected impact (All figures are cumulative)**

	2013	2014	2015e	2016e
# of contract growers	750	4,658	11,013	16,346
# of cacao doctors	13	244	534	801
# of cacao trees planted ('000s)	750	5,439	13,215	19,615

(Source: LGT Venture Philanthropy)

<sup>17</sup>

[http://www.swissrefoundation.org/what\\_we\\_do/global\\_programmes/social\\_entrepreneurship/KFI.html](http://www.swissrefoundation.org/what_we_do/global_programmes/social_entrepreneurship/KFI.html)[Accessed 22 April 2016]

Moreover, the following outcomes are assessed:

**Increased household income:** Smallholder famers increase their household income by four times for the first three years.

**Improved financial and climate resilience:** Farmers mitigate the risk of financial and climate shocks by earning higher income and saving more money. Cacao trees are relatively more resilient against typhoons compared to other crops.

**Improved farming knowledge:** Farmers improve their farming practices by acquiring new skills and knowledge through KFI’s training. Among other benefits, they are able to reduce the need for pesticides, which has both economic as well as environmental consequences.

### 6.1.2 Social impact measurement

KFI monitors its progress towards improving the livelihood of farmers by collecting data such as the number of farmers and cacao doctors whom they supported. It also calculates increase of income by farmers. However, KFI does not disclose how it measures its social impact.

## 6.2 Financial Performance

### 6.2.1 Revenue and expenses

According to KFI’s simulation in 2014, a one-hectare cacao farm with 800 trees can start earning profits from the second year and earn about USD 3,000 in net annual profit once cacao trees mature in the fifth year. KFI started planting cacao trees in 2012 and sold its first batch of cacao beans in 2015. It has already reached a breakeven point according to LGT Venture Philanthropy. However, as a private company, KFI does not disclose its financial data to the public.

**Table 2 Financial Viability of one-hectare cacao farm (a simulation by KFI)**

	Year 1	Year 2	Year 3	Year 4	Year 5
Yield kg's/ Tree (Wet beans)	0.00	1.64	4.77	6.14	7.50
No. of trees per hectare	800	800	800	800	800
Price per Kg (Wet)*	USD 0.66 (PHP 32.80)	USD 0.66 (PHP 32.80)	USD 0.66 (PHP 32.80)	USD 0.66 (PHP 32.80)	USD 0.66 (PHP 32.80)
REVENUES of farmers	USD 0 (PHP 0)	USD 859.76 (PHP 42,987)	USD 2507.5 (PHP 125,378)	USD 3,224.00 (PHP 161,200)	USD 5910.66 (PHP 197,022)

Materials	USD 728.80 (PHP 36,440)	USD 495.75 (PHP 16,525)	USD 547.30 (PHP 27,365)	USD 721.30 (PHP 36,065)	USD 873.30 (PHP 43,665)
Labor	USD 135.00 (PHP 6,750)				
Interest			USD 192.54 (PHP 9,627)	USD 119.18 (PHP 5,959)	USD 45.84 (PHP 2,292)
TOTAL COSTS	USD 863.80 (PHP 43,190)	USD 330.50 (PHP 16,525)	USD 739.84 (PHP 36,992)	USD 840.48 (PHP 42,024)	USD 919.14 (PHP 45,957)
PROFIT	-USD 863.80 (-PHP 43,190)	USD 529.24 (PHP 26,462)	USD 1,767.72 (PHP 88,386)	USD 2,383.52 (PHP 119,176)	USD 4531.95 (PHP 151,065)

\*Using conservative estimation. The buying price as of September 2014 was more than PHP 35 per Kg.

Source: Kenemmer Foods International (KFI). Presentation at "Mindanao Food Congress 2014 Business Opportunities in Cacao". September 2014.

**Table 3 Revenues of KFI from selling fermented cacao beans purchased from its contract farmers (a simulation by the Japan Research Institute)**

	2013	2014	2015e	2016e
# of cacao trees planted ('000s) <sup>18</sup>	750	5,439	13,215	19,615
Total yield of wet beans (tons) <sup>19</sup>	0	1,230	12,497	52,222
Total weight after drying the wet beans (tons) <sup>20</sup>	0	455	4,624	19,322
Sales of dried beans (USD) <sup>21</sup>	0	0 <sup>22</sup>	13,872,181	57,966,009
Cost of buying wet beans from farmers (USD) <sup>23</sup>	0	0	-11,791,354	-49,271,108
Revenue of KFI (USD)	0	0	2,080,827	8,694,901
Annual growth rate (%)	-	-	1,016%	418%

According to the Japan Research Institute, revenues of KFI from selling fermented and dried cacao beans purchased from its contract farmers are estimated as above. The revenue in 2016 is estimated to reach USD 8.7 million. Many cacao trees have yet to mature, but KFI experiences a rapid growth with estimated annual growth rate of 1081% in 2015 and 418% in

<sup>18</sup> Project by KFI in its 2014 simulation

<sup>19</sup> Computed based on "Yield kg's/ Tree (Wet beans)" estimated by KFI. For instance, Total yield of wet beans (tons) in 2016 is estimated as 750,000 trees\*6.14 kgs + 5,439,000 trees\*4.77 kgs + 13,215,000 trees\*1.64 kgs + 19,615,000 trees\*0 kg = 52,222,000 kgs.

<sup>20</sup> Weight of dried cacao beans is approximately 37% of the weight of the wet cacao.

<sup>21</sup> Calculated by assuming the global market price of cacao to be USD 3,000/ MT (End of day Community Future Price for Cocoa traded in NASDAQ on June 2, 2016 was USD 3,044/ MT).

<sup>22</sup> In an interview with the JRI, Ms. May Lynn Lee, Chief Operating Officer of KFI, indicated that KFI sold the first batch of cacao beans purchased from its contract farmers in 2015.

<sup>23</sup> In an interview with the JRI, Ms. May Lynn Lee, Chief Operating Officer of KFI, indicated that KFI pays about 85% of the world market price to farmers.

2016.

### 6.2.2 Proportion of income from sales

Most of KFI's income comes from its sales of fermented cacao beans to international buyers. It does not receive donations or subsidies as of May 2016.

## 7. Business Development and Ecosystem Evolution

KFI has managed to achieve scale and receive recognitions in the first six years of its business. KFI's business development process can be categorized into three stages: Start-up, Early and Growth.<sup>24</sup>

**Table 4 A summary of KFI's business development milestones from 2010 to present**

Stage	Year	Description
Start-up	2010	Established Kenemer Foods International Inc
	2010	Started trading cacao beans in open market
	2012	Introduced the Cacao Growership Program to farmers and planted the first set of cacao trees
	2013	Expanded production sites to Davao City, Davao del Sur, Bohol, Compostela Valley, Davao del Norte
	2014	Received financial (investment and loans) and other support from LGT Venture Philanthropy
Early	2015	Reaped the first batch of cacao beans
	2015	Together with LGT VP, won SVCA Award in the category "Most Impactful Funder/Social Enterprise"
	2015	Received a grant from Swiss Re Foundation
	2016	Simon Bakker (CEO) received the Schwab Foundation Social Entrepreneur of the Year

### 7.1 Start-up Stage (2010-2014)

#### (a) Milestones

This period spans from the early days of business establishment to the implementation of its

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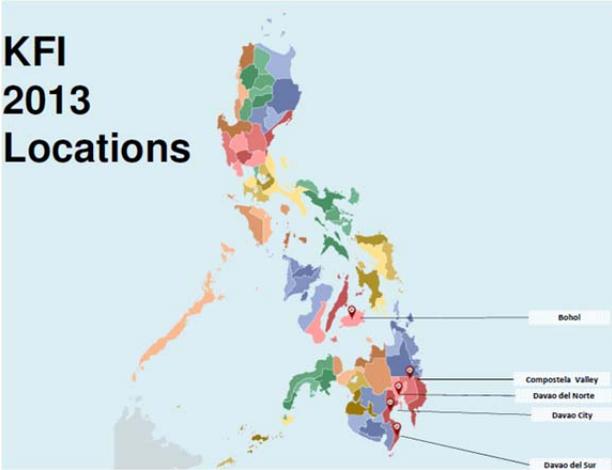
<sup>24</sup> **Start-up stage:** a preparation period for setting up a business or an enterprise. An entrepreneur's team develops a business idea and a business model. In some cases, they have product/service prototypes which are not fully developed or tested. **Early stage:** A period from business initiation until business scale-up. An entrepreneur's team may first deliver its products/ services in a test market to examine its business model. Also, the team may file patents or obtain licenses, if necessary. Once the business model is consolidated, it starts its business. However, the business remains quite small due to lack of capacity and resources. It may reach a breakeven point at the end of this period. **Growth stage:** A period after scaling up the business. The business exceeds the breakeven point and increases its sales, number of beneficiaries, the market share etc. The team revises the business model in order to sustain and/or expand the business, if necessary. In some cases, the team starts to investigate new products/services.

core program through various partnerships. Established in 2010, KFI started out as a cacao-purchasing and post-harvest center in Davao city, Mindanao. KFI soon discovered the insufficient volume of quality cacao beans available in the Philippines, although the world demand of cacao beans continued to increase.

Typical cacao farmers in the Philippines used to grow old cacao trees with low yield. They lacked access to knowledge and technology especially in pest and disease management, affordable financing, technical support, and outreach to international buyers. Stymied by these limitations, Filipino farmers saw very little incentives in planting cacao trees and therefore cacao production was virtually zero when KFI started its business. Since then, in order to give farmers incentives to increase their production and income, KFI has strengthened its program to encompass the complete agricultural value-chain from planting materials, training, agri-technology, to linking to export markets. The program quickly gained traction and spread throughout Mindanao and other areas.

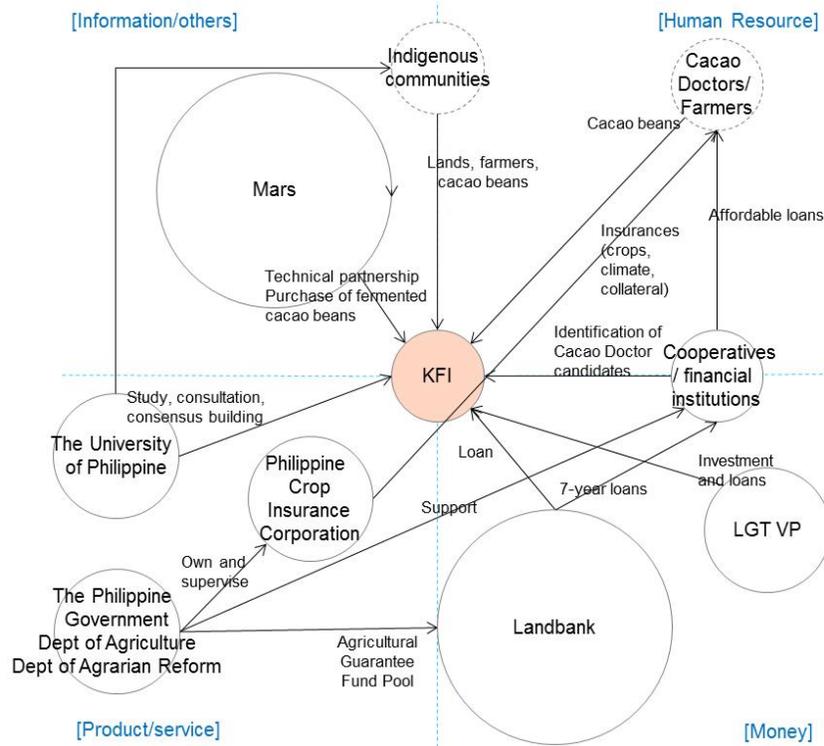
This is the period in which KFI swiftly built its production capacity by providing farmers with comprehensive support throughout the value chain through its Cacao Growership Program. From 2013 to 2014, KFI increased (i) its contract growers by more than six times to 4,658 farmers, (ii) its Cacao Doctors by more than 18 times to 244, and (iii) its cacao trees by more than seven times to 5,439,000 trees. By demonstrating a strong potential of growth, KFI started to attract interests from international investors, such as LGT VP.

**Figure 4 KFI's Geographic Coverage in 2013**



(b) Key supporters

Figure 5 KFI's key supporter map in start-up stage (2010-2014) <sup>25</sup>



In this stage, KFI had a few key supporters, including a former Mars cacao technician, from whom KFI learned best practices in supporting farmers in holistic ways to improve high-quality crop production. In terms of financial support, the Land Bank of the Philippines and the government of the Philippines played important roles.

- **Technical partnership with Mars:** In 2012, KFI and Mars established a technical partnership. As a part of this partnership, Mars asked KFI to hire a technical team from Mars in order to transfer the knowledge and experiences in cacao farming in Mars to KFI. KFI eventually developed its comprehensive Cacao Growership Program based on the Mars Cacao Development Model, which has proven effective in supporting smallholder-based production systems in Indonesia and West Africa. The Mars program

<sup>25</sup> How to look at this key supporter map:

- The name inside the circle represents the key supporters.
- Depending on the kind of support they provide (HR, Product/ services, money, information), the circles are located in respective zones.
- The brief descriptions of the support are written on the arrows.
- The size of the circle expresses the level of impact (high, medium, low).

gives farmers access to high-yielding planting materials, farm inputs and ongoing technical training and support as well as access to global cacao markets.

- **Land Bank of the Philippines:** In 2012, KFI supported Land Bank of the Philippines, a state-owned bank with a mission to promote rural economic development, to develop a 7-year crop finance program, known as the CACAO 100 Program, which provides loans for the establishment of new cacao plantations with a grace period of principal and interests. Before, there was no such long-term finance program available for farmers who need to invest in growing crops with long gestation periods. The Japan International Cooperation Agency partially funded this USD 10 million (PHP 500 million) loan program. CACAO 100 program provides indirect but critical financial support for KFI by providing long-term loans to KFI's contract farmers through farmers' cooperatives.
- **The Philippine Government:** In 2009, the Philippine Government established the Agricultural Guarantee Fund Pool, which guarantees up to 85% of loan principals for smallholder farmers by allowing private sector lenders to collateralize loans through the payment of guarantee fees. Department of Agriculture (DA) and Department of Agrarian Reform (DAR) launched a fund under Landbank to lend to cooperatives and Agrarian Reform Beneficiaries. Also, it provides farmers with free-premium crop insurance through Agrarian Reform Beneficiaries.
- **Philippine Crop Insurance Corporation:** The Philippine Crop Insurance Corporation offers financial products including crop insurance, collateral insurance, drought insurance and typhoon insurance. Such credit and operational risk-mitigation products enable smallholders including farmers working for KFI to access financial services in the formal banking sector and to invest in necessary inputs for the future.
- **Farmer Cooperatives:** Cooperatives, together with KFI, promoted cacao cultivation to existing coconut farmers by explaining how cacao production is beneficial in the context of coconut farming. Once farmers understood the benefits, they convinced and brought in other farmers. Cooperatives also helped KFI identify suitable candidates for cacao doctors.
- **Cacao Doctors:** In accordance with KFI, "Cacao Doctors are farmer entrepreneurs who, with intensive training from Kennemer, become consolidators of beans under the Kennemer buying program, distributors of planting material and inputs and providers of pruning and rehabilitation support services. Cacao Doctors will each run their own

for-profit agri-enterprise and provide ongoing coaching and support services to the farmers in their clusters”<sup>26</sup>.

- **The University of the Philippines:** In 2013, the University of the Philippines signed an agreement with KFI and an indigenous group in Mindanao for an agro-forestry development project aiming to improve the economic well-being of the indigenous community. KFI had expressed its interest in establishing a cacao plantation in the UP Mindanao Land Reservation in Marilog, which is part of the ancestral domain of the Obu-Manuvu indigenous people. The University conducted a close study of the community, series of consultations and consensus-building with relevant parties, which resulted in the signing of the three-party agreement.
- **Indigenous communities:** Indigenous communities have been lending their land to KFI for building cacao plantations. In turn, KFI employs indigenous people as farmers at the plantations. In this way, the communities can preserve their land and provide people with employment opportunities within their communities rather than migrating to urban areas. KFI is committed to the social and economic development of indigenous communities.
- **LGT Venture Philanthropy (LGTVP):** Funded by a combination of the Princely Family of Liechtenstein, the LGT group, and its clients, LGT Venture Philanthropy is a global impact investor that supports organizations with social and environmental impact. In 2014, LGTVP decided to support KFI in the following ways: i) equity and debt to finance the development of additional post-harvest centers, nurseries, and managed farm in cooperation with indigenous tribespeople in Davao; ii) access to LGT VP’s network, the LGT Employee Donation Program, other alternative funding resources, as well as ongoing mentoring support.

## 7.2 Early Stage (2015-present)

### (a) Milestones

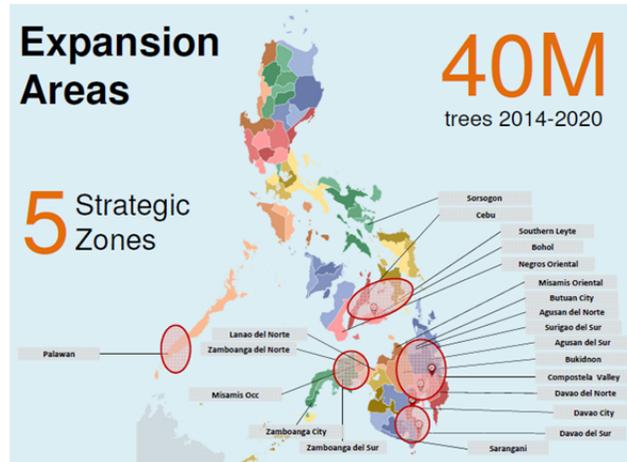
This is the period from the first batch of KFI to expansion of cacao beans sales. and Swiss Re Foundation, which will be described in more detail in the following section. It also received international recognitions such as the "Most Impactful Funder/Social Enterprise of the Year" in the Singapore Venture Capital & Private Equity Association (SVCA) Awards in 2015. KFI aims to continue expanding its production scale at a swift pace to grow 40 million cacao trees

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<sup>26</sup> <http://www.kennemerfoods.com/programs/cacao-doctor-network/>[Accessed 24 April 2016]

in five strategic zones by 2020.

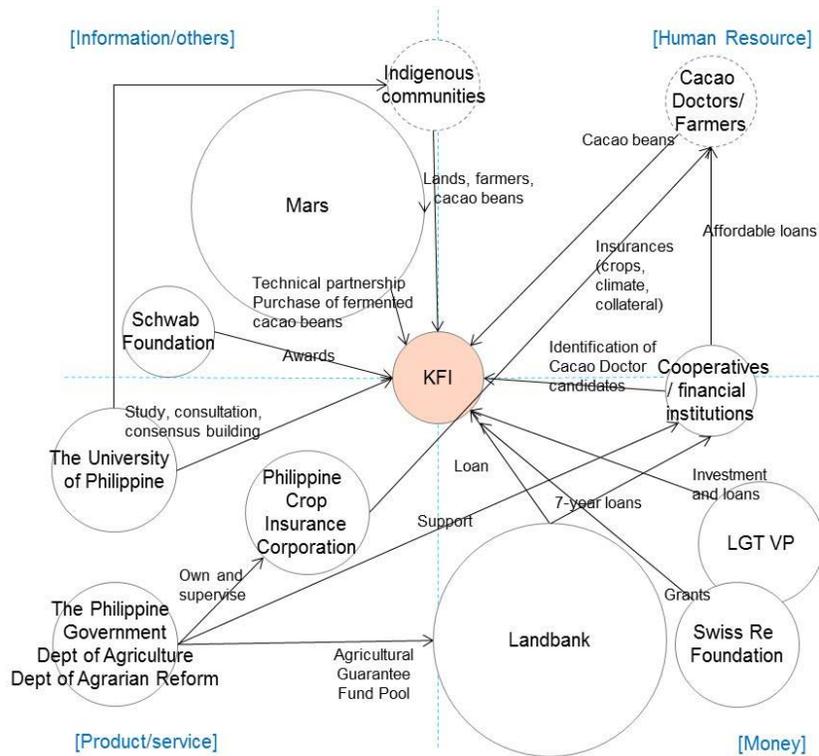
**Figur 6 KFI's Expected Geographical Coverage by 2020**



Source: Kenemmer Foods International (KFI). Presentation at "Mindanao Food Congress 2014 Business Opportunities in Cacao". September 2014.

**(b) Key supporters**

**Figure 7 KFI's key supporter map in early stage (2015-)**



This stage can be characterized by the emergence of numerous international donors and recognitions. Through demonstrating rapid growth, KFI managed to attract global investors.

- **Swiss Re Foundation:** In 2015, the Swiss Re Foundation, a corporate foundation of a global wholesaler of reinsurance, provided grants to cover the capital expenditures associated with setting up two Kenemer Cacao Centers and enrolling 30 Cacao Doctors as well as 500 cacao farmers in the Growership Program. [Swiss Re Foundation] The foundation provided KFI with the grant under the condition that KFI will also cover 40% of the costs.
- **Schwab Foundation:** In 2016, the Schwab Foundation selected Simon Bakker, the CEO of KFI, one of the Social Entrepreneurs of the Year. Being one of the most prestigious awards for social entrepreneurs, this award helped KFI to enhance their publicity and brand image.

## 8. Scalability and Replicability

What are the necessary conditions for the KFI model to further scale and be replicated in the future? The table below addresses this question by addressing various aspects of the KFI business.

**Table 5 Key Elements of Scalability and Replicability**

	Key Factors
Scalability	<p>(a) <b>Increase in cacao centers:</b> KFI plans to build cacao centers throughout the country. It needs suitable local partners, such as cooperatives, to persuade enough farmers to plant cacao trees.</p> <p>(b) <b>Increase in Cacao Doctors:</b> Well-trained Cacao Doctors are the key for supporting farmers to produce more high-quality cacao beans. KFI needs to balance volume and quality: train enough numbers but not sacrifice training quality. KFI can select top-performing Cacao Doctors to be trainers-of-trainers who coach other Cacao Doctors to contribute to securing volume.</p> <p>(c) <b>Expansion of distribution network and low distribution costs:</b> The Philippines not only is an archipelago consisting of thousands of islands, but also faces challenges in poor infrastructure. KFI is addressing this challenge by building the network of cacao doctors and local farmers cooperatives. Also, as a part of its policy to make Mindanao a major cacao production site in the country, the local government has been investing in logistical infrastructure such as roads. KFI needs to develop a extensive distribution network at low enough costs for its business to scale in the future.</p> <p>(d) <b>Holistic services available for farmers:</b> Holistic services, such as finance, training, seedling and farm inputs, enable farmers to increase their production as well as income. Thus, more farmers join just by hearing the stories from their neighbors.</p>

Replicability	<p>KFI's cacao development model with Mars is highly replicable as proven by similar cases in Indonesia, Vietnam, and West Africa. [htt2]</p> <p>(a) <b>Geographic conditions for raising cacao trees:</b> The right geographic conditions need to be met to raise high-quality cacao trees.</p> <p>(b) <b>Grooming Cacao Doctors:</b> Cacao Doctors are prominent replicators of the business model as well as social impact created on ground.</p> <p>(c) <b>Distribution channel:</b> The KFI model hinges on developing a sound supply chain infrastructure and managing distribution costs.</p>
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## 9. Final Reflections

### (a) Presence of Cacao Doctors as local entrepreneurs and focal points of the last-one-mile distribution network

KFI's experience in training Cacao Doctors indicates that local enterprises can indeed be an effective force for change: working hand-in-hand with the public sector, organizing and channeling resources to smallholders<sup>27</sup>, and also they are "Role model" for those small farmers. Also, these cacao doctors serve as focal points of the last-one-mile network. Collecting cacao beans from farmers dispersed in rural areas with poor infrastructure is a big challenge. Cacao doctors collect cacao beans from farmers in their groups and deliver to post harvest centers.

### (b) Access to financial services for smallholder farmers

The availability of loans, credits, and operational risk-mitigation products enables smallholders to tap into the resources of the formal banking sector and invest in the future. Without access to such financial services, smallholders cannot break the cycle of low farm productivity and low income. However, there was no long-term loans available for crops with long gestation period, such as cacao. Thus, KFI not only partnered with microfinance institutions to provide its contract farmers with access to finance, but also it partnered with a wholesale bank to design long-term loan scheme for those microfinance institutions, which would benefit even the farmers who are not associated with KFI. Such holistic approach of providing farmers with necessary support throughout the value chain can be said to be KFI's innovation.

### (c) Promoting more effective use of existing local assets

KFI's success also stems from discovering a new value in existing local assets. KFI first tried to

<sup>27</sup> <https://www.weforum.org/agenda/2016/03/5-ways-to-reduce-poverty-among-smallholder-farmers/>

grow coconut trees but then discovered the inefficiencies in the business. As a result, the social enterprise was able to develop a new model in which farmers grow cacao in idle spaces on coconut farms. This incremental approach, instead of a replacement-approach, prevented farmers from cutting down their existing crops.

**(d) “Inclusive business” as a byproduct, not an end**

Bakker’s original motivation did not involve starting an inclusive business. His true aim focused on developing a business model with high profitability and sustainability. For instance, his idea of utilizing coconut farms to grow cacao trees resulted from exploring ways to secure high-quality cacao with relatively low production costs.

**(e) Creating sustainable value chains with all stakeholders**

By learning from the Mars model, KFI developed an approach in which all stakeholders from different sectors such as farmers, communities, financial institutions, government, and universities can benefit. This cross-sector collaboration and partnership became the key in achieving scale and sustainability