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Profitability, sustainability and risk

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Being engaged, profitably and sustainably, from farmer to market

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Abstract



The role of the smallholder in supplying national and international products is significant, particularly as populations and markets are continually increasing. In emerging economies many governments are now under-resourced and direct support to smallholders has reduced; this has directly resulted in yield and quality decline and continual soil degradation. Olam, like others, is dependent on smallholder supply chains for many of the products within the businesses we operate. In response, the role of the private sector in supply chains has progressively changed over the past 10 years, taking up the role of delivering extension-based services to smallholder farmers so they can continually rise to the challenge of the growing markets. Olam has invested heavily in supplying technical training support, inputs and finance to ensure our supply chains are continually developing through increased integration with our farmers to ensure these important supply chains are not put at risk. Olam's model is to invest in processing units and then build the community farmer-based supply chains to keep that processing unit fully operational.

I will start with a quick overview of Olam International, how we operate then explain our role in food security, how do we link to smallholder farmers. Olam is a multinational agri-business company listed in Singapore. Interestingly the company started its business in 1989 in Nigeria, so Africa is very much still a large portfolio of the company. But the company has expanded across several major products. We're a very diverse agricultural business, most people actually say we're the most diverse agricultural business in the world compared with peers such as Cargill, Dreyfus, Bunge and ADM (Fig. 1).

So we try and display the company here on five what we call major platforms. We have a lot of work in edible nuts, spices and beans – and edible nuts, spices and beans of course takes us all over the world, particularly the fact that we're here in Australia with our almond

Figure 1. Olam has a diverse agricultural portfolio.



production. We’re also diverse across India, Africa and so on in the other nut categories. Then we’re also very much involved in the coffee and the cocoa space and I’m sure you can appreciate a lot of these products are very smallholder driven. I want to talk about how we develop those relationships with smallholders in the next few slides.

We have also set up a very large packaged food and food staple business which is basically selling into Africa and Asia. We’re not selling a lot of packaged foods into the more developed economies but we specialise in the emerging economies and that’s a very interesting part of our business model because our objective is to deliver high volume low cost food into these major economies and particularly into the urban environments as well. Then our last category in terms of production is our industrial raw materials where we’re looking at natural fibres where of course we’re doing a long of cotton. Cotton of course is globally we operate but of course a big portfolio there in Australia after taking over Queensland Cotton in 2007.

We also do a lot of work in the rubber and wood products division. Then we also have a commodity financial services unit based out of India. And we also have our packaged food fertilisers business as well. So that’s just giving you an example of our breadth in portfolio in agribusiness. This

next slide (Fig. 2) shows how we operate across the supply chain, because supply chains are much more complex than many people can

Figure 2. An outline of Olam’s value chain.



sort of reach and understand. So on the left hand side we have what we call selective upstream areas where Olam is actually operating in the supply chain. Olam is a significant corporate farmer across the world and we’re producing in tree crops, we have annual crops, we have dairy farming and we have our forestry concessions.

Just in terms of scale the current Olam portfolio is, we’re operating across 2.1 million hectares of land globally which is under leasing agreements. And I do stress that word leasing because obviously we’re involved in Africa, Asia, Australia, USA and Latin America in a lot of land operations; and these are all under leasing agreements with governments and so on. So that’s 2.1 million hectares of highly invested upstream business in quite a broad portfolio.

Olam’s core business

Then the core business of Olam is this supply chain segment in the middle where we’re looking at how we source from smallholders and how we source from large scale contracted producers and how we’re basically part of this large scale trading network. When we map Olam what’s been interesting for me in my job role is really looking at number

one, how we do our business in terms of our corporate responsibility but also of course how we build these long term sustainable supply chains. When we map our supply chains we're actually linked to 3.9 million smallholder farmers across the world.

And we've calculated that at every single one of our origin countries where we're producing these products, for example we're active in 28 African countries, we're active over Asia, we're active over Latin America and of course the U.S. and Australia. When we link to our farmers and you start seeing 3.9 million that's a huge portfolio where we are now, developing stronger and stronger linkages to those 3.9 million of which 350,000 farmers are now fully recorded and traceable to Olam. Where we're offering services and so on, which I'll talk about on another slide, also importantly we develop linkages to the other farmers through market access agreements, a much looser input supply, financing and so on. But the main challenge of supply chains is how you work closer and improve your linkage to those smallholders.

Investment in processing

Then the last segment is the area that Olam's invested in hugely over the last, I would say eight years, which is basically about processing. We now have 135 global processing units which we've built all over the world, particularly now we are building them closer to the production segment of the supply chain. So our business objective is to basically build a processing unit then build a supply chain around that processing unit. So that can work with a cashew processing plant in Cote d'Ivoire where we build a plant that can process 30,000 tonnes cashew then we build a network of 40,000 farmers within a 200 kilometre radius of the processing unit to build that product for our business. This of course also happens in our coffee processing, cocoa processing, wheat milling and so on.

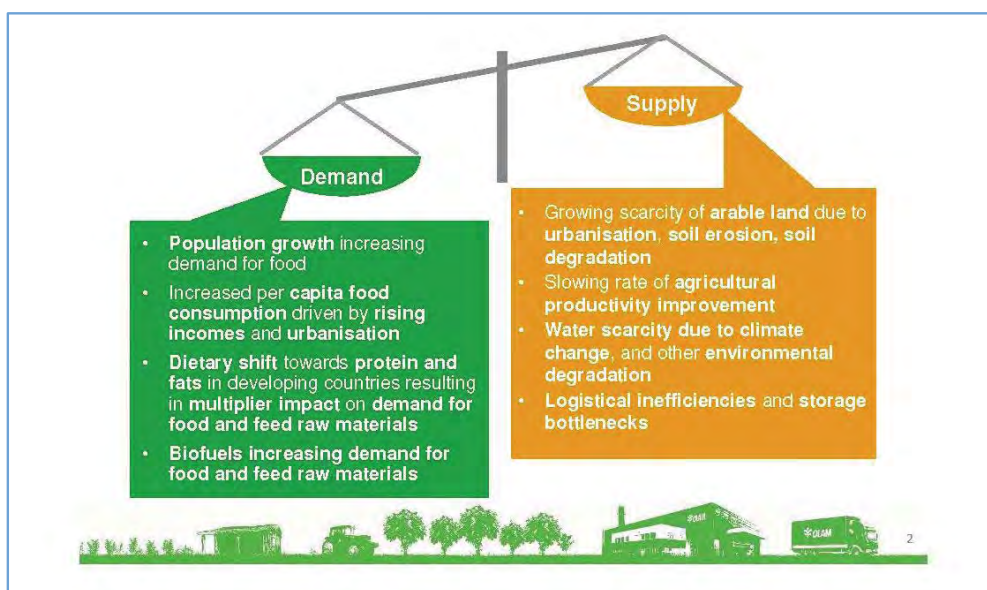
So it's all very much about integration, building the supply chains to be closer and closer to the factory. This improves a lot of logistics, a lot of efficiency, it's obviously reducing our carbon footprint hugely as we knock down this product from a raw material into a processed item and then we sell it to our customer. So if you look at Olam and you said who is a customer, a customer of Olam is typically a Unilever, a Nestle, a

Mars, a Costco, General Mills, Kraft etc., as well as multitudes of smaller customers. We link now to between 12,500 and 13,000 global customers, bringing all of these products through the supply chain.

In the last year we handled 15 million tonnes of products which came from a land footprint of 11.8 million hectares. And I think that's an important area to understand, and this is where we're working a lot with governments and other partners, is that we are directly responsible for 2.1 million hectares. But what are we doing about the environmental and social risk of managing all this other land where we're working with producers on their own land, how do we influence them to improve their productivity, and of course contribute to the national/international food security?

This is just a very quick sort of snapshot and I won't dwell on this but I'm sure you can appreciate that as we're going forward in this world we are really struggling on these demand/supply ratios (Fig. 3). We are now in a situation where a lot of our products, and I'm not sure if you follow the cocoa markets but cocoa is a product which is progressively moving into deficit. And also we're seeing a lot of deficits in other commodities where we have a lot of competition in the change in the commodity cycles.

Figure 3. The growing imbalance between supply and demand for agri-commodities.



The four 'Fs'

For example at Olam we study every day the four 'Fs', F number one is food for human consumption, number two F is food for animal feed consumption, number three of course is fibre and number four is fuel. So when we talk now in events like this we're trying to get people to really understand that agriculture is about energy, it's not about food now, it's not about producing food and fibre, it's producing energy. Last year in the U.S. more than 50 per cent of the corn produced was consumed in the fuel market, it went to ethanol. And this is very strongly happening across the world where we're seeing a lot of agricultural products being diverted for fuel and coming out of the agricultural markets.

This is also another issue where there is competition for these products to meet, a lot of government commitments – for instance in Europe five per cent of fuel has to be from non-fossil fuel sources so the only option is to turn to agriculture to find that five per cent. And this is also happening, I'm sure you're aware, across the world where agriculture is completely shifting in its pattern. And we're also seeing vast amounts of agriculture products going into animal feed, which of course is to feed the growing meat markets of India and China, where we're now seeing a lot of agricultural products being required. This is leading to a lot of inefficiency as grains are being converted into meat production then to human consumption instead of being for direct human consumption.

Then the other areas that we talk to with governments are all the problems we have on logistics and infrastructure. I'm of course on the back foot joining this conference because I'm not sure what you've spoken about earlier in the day, but from an Olam point of view we have huge inefficiencies in ports, roads, infrastructure, water distribution and electricity.

Managing the business

For Olam as we go forward, in the job role I'm working with with all of our teams globally, we look at these seven key areas which we have a

huge interest in because I'm going to use the expression material areas (Fig. 4). These areas are material to how we manage our business. So

Figure 4. Seven environmental and social focus areas.

Area	Pledge
 Land	Selecting and managing land responsibly
 Water	Responsible use of water for our own needs without impacting the needs of others
 Climate change	Adapting to climate risks and opportunities for Olam and communities
 Livelihoods	Supporting thriving communities
 Labour	Providing a safe workplace where everyone's rights are respected
 Food security	Improving access to affordable food
 Food safety	Improving food safety and quality across our business

obviously you can see on the slide that we're looking at land as a key area and I've mentioned that already. Water I'm sure that you can agree is a huge issue to agriculture and of course Australia is really expert on how to manage water as a resource. And I have to say we're learning tremendously with our colleagues in Australia and we transfer the learnings from Australia into a lot of our agricultural supply chains – for example, how to apply irrigated water into coffee plantations in Tanzania and Zambia, how to irrigate in Nigerian rice farms, and how to support smallholders in water management.

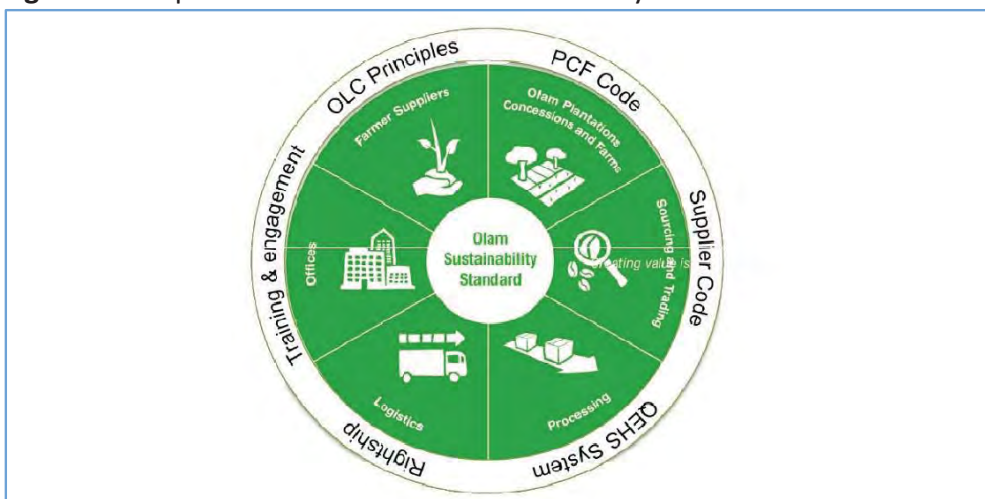
Then of course we're following constantly the climate change debate and how we build adaptive strategies within our smallholder networks. How we look at reforestation, how we're looking at shade trees, how we're looking at basically moisture conservation, improvement in soil to retain that moisture. And the biggest I'm going to say 'threat' to Olam is basically about livelihoods. When we go around the world and you're in Africa, you're in Asia, what is sad is that many people you talk about in the smallholder networks quite frankly don't want to be farmers and they're discouraging their children to be farmers. There is a direct association with agriculture and poverty in many of these countries. So we're working really hard on how we improve those communities, how we look for inclusive growth, how we look at improving community

infrastructure through education, health, water, how we work with donors, how we work with governments to stabilise these agricultural communities.

Then of course labour is a big issue. Olam has 23,000 full time employees but we have up to 40,000 casual seasonal workers working across our networks across the world, across the growing season. Then of course food security has a large impact on companies that are working in all of these emerging economies and quite frankly emerged economies, where we're very much part of the food security. How we build food security and good nutritional standards to these communities, how we improve not only cash crops but how we also improve food crops to these communities so people are contributing to both national and international food security. And then the last area is food safety because we are bringing products, food products into the market.

Just basically I'm sure that when you look at all this you think: how do you actually communicate sustainability, what is the depth? I get very tired of the over-use of the world sustainable. Everything is supposed to be sustainable. What does that mean? Well for Olam you know we set up this sustainability standard (Fig. 5). Our number one challenge was to actually drive awareness internally. Olam is present in 65 countries, we have about 260 companies, subsidiaries within Olam. So how do we actually work and drive sustainability?

Figure 5. A representation of Olam's sustainability standard.



In Olam when you get people who work in supply chains, we get staff that work in our own land management issues, our own plantations and farming businesses, we also have a lot of direct linkage with the smallholders, we have lots of staff working in our processing units, we're also looking at how we manage logistics and also how we train and engage staff across the network.

So this is our sustainability standard where we someone 'what business do you work in?' and if they say 'I work in plantations' then we put them straight away into the Olam plantations, concessions and farms category. Here they come under what we call our *Olam Plantation, Concessions and Farms Code* and we can educate or train people on how their understanding is on environmental management and social management, how we integrate with communities where our plantations are set, how we develop food security to our plantation workers and communities within that area.

So this is just a way of basically bringing our systems and processes together, how we monitor our environmental impacts and social impacts, how we also report. We're always under huge pressure from our investors, from our customers, shareholders and also from our financiers and of course the non-government organisations that we work with; we also need to monitor what agribusinesses are doing. So reporting has become a big issue on companies, how we can display and show transparency and how we can show tractability of supply chain.

Olam's livelihood charter

So coming toward sort of the end of this presentation, because I was told to be brief, we've developed in Olam what we call the *Olam Livelihood Charter* (Fig. 6). I want to dwell on this just for a few minutes because this is how we connect to our smallholder farmers. Now Olam is a business but we've also become a very strong private sector development partner, building partnerships with donors. We have very strong relationships and projects, programs working with USAID in countries like Nigeria, Burundi, Egypt, all over the world.

We also work with the Gates Foundation on a lot of the product that they're interested in and the Gates Foundation is a very strong partner to the private sector. We also do an incredible number of commercial

Figure 6. Olam's livelihood charter.



partnerships with our customers and the reason is that a lot of our customers are feeling threatened by their supply chain so they say how can we invest at the beginning of the supply chain rather than just be a buyer from a company like Olam.

So we've built a considerable infrastructure to link to these smallholder farmers. So we look at eight very distinct principles, we look at how do we manage the finance of these small holders, how do we actually improve their yield and improving yield of course is directly linking to incomes. How do we improve labour practice across the farming? We're all exposed to the risks of child labour, bad application of chemicals, bad adoptive practices in cultivation and so on. So we do a lot of work on labour practices in training our smallholders to improve their practices. Then of course we're looking at market access, how we build that linkage to give fair transparent pricing to smallholders. Then quality, how can we reward farmers for improved quality and then traceability back to that community is now an important prerequisite for our supply chains. Then as I say we look at community development, how can we

invest in those communities to improve those communities and stabilise them. And of course we look at the environmental impact.

So if we look at the next slide (Fig. 7) this is just a snapshot of numbers where you can see that we now have connected to 350,000 farmers which are on a full database. We're now producing one million tonnes of products which we are defining as sustainable through this network.

Figure 7. Highlights from the livelihood charter in 2014.



And Olam brings to market 15 million tonnes of product so one tonne is, one million tonnes is now under this smallholder network under the OLC. But I do stress we also bring RSPO certified palm, rainforest alliance cocoa, coffee, FST timer, organic products etcetera to the market as well on top of this. So one million tonnes is through this network but we bring other product as well.

We have 30 major programs running under this OLC and you can see that we paid 21 million dollars in premium. But what's more interesting for this network is understanding that we as an agricultural business put 183.7 million dollars as loans to farmers which are quote 'unbankable' by most of the banks within the countries we operate. So we're also not just a business but we're a development agency in terms of farmer training, building farmer groups. But we're also a micro-financier, when you look at a lot of these loans at \$150/\$200 that kind of network, so we built this micro-finance network across small holders. And I also stress that buying back from those smallholders costs us 487 million dollars so

its interesting when you look at cash flow and I want the conference to realise that when you start looking at cash flow smallholders it's an important aspect where we can start really understanding how we can build, basically build credit of these farmer groups or smallholders so they can develop their business.

And then lastly the next slide (Fig. 8), just going forward it shows the areas that we're very much challenged on. It is really about how we build meaningful multi-stakeholder collaboration. In Olam we've built great examples where USA is funding a good technical NGO partner helping us to train and build farmers. A donor partner would basically help a business to establish its supply chain. Olam is fully responsible for all of the processing investment. Olam is responsible for the logistics. But where it is difficult in our business model is how we fund the agricultural training, the building of farmers. How do we actually deliver these services which are a high cost in terms of how you link to the smallholders?

Figure 8. The future challenges facing Olam.

Going Forward - challenges 

Delivering small-holder sustainable supply chains will be based on multi-stakeholder collaboration. Development investments are required to promote production of all viable crops creating local **food security** and the sale of surplus food and cash crops into the national and international markets, this will include:

- donors and governments developing and applying new small-holder business models with the private sector;
- demand led research into localised varieties;
- national land registry and tenure agreements;
- small-holder farmer access to applicable financial products, both in terms of loans and viable insurance products; and
- inclusive growth through the application of technology that will link transparently farmers to markets.



So this is an area that we've been building with USAID, with the British Government, the European Union, with the foundations like Gates, IDH and so on and they like the model of what we call matching grants.

When we put a proposal together and say that budget is a \$6 million three-year investment then the actual donor partner will maybe put in \$3 million, so they'll say it's a one-to-one match or it's a two-to one-match. So we bring investment from the donors into the beginning of the supply chain to kick-start this process. And the most important thing is that after three years we use the word localised, we've localised these projects where the donor could fall out of the picture, out of the program. But the program is self-sustaining because the network is built and Olam or the other agribusiness – it's not just about Olam – is now running and embedding that system, financing the system and its up and running.

Help for orphan crops

The other area that I also stress is that we are extremely weak on research in a lot of the varieties or the crops that Olam works in. One researcher actually called them orphan crops. There's very little research into cashew, there's very little research into sesame or products like cocoa which are critical to the smallholder economies. Also we lack a lot of investment in smallholder rice, smallholder cotton and so on in the research.

And the big elephant in the room to be quite honest is all about national land registry and tenure agreements and I would really challenge people in the audience here to say how do you meaningfully engage with governments to actually develop meaningful land registers where smallholders have collateral to trade on this land, how they can build lots on this land. But importantly going forward how can we build commercially viable farms? No-one will ever convince me that if a smallholder has access to two hectares he will move out of poverty. There has got to be commercially viable farming units.

We've got to change; we've got to transform these relationships. We also have to look at how we can be innovative on financial products. Olam is financing farmers, we can't stretch to billions of dollars to finance these smallholders, we have to look at how to deliver low-cost loans more effectively to farmers with viable insurance products. There is no insurance in Africa and this is a big risk to our farmers and to our networks.

Managing technology

And the last point of course is how we manage technology. Technology is going to be the game changer. Olam is investing heavily in technology to link smallholder farmers directly to us. We have technology which is mapping the smallholder farms. And in the last year we've mapped 70,000 hectares of smallholders where we build a portfolio up with those smallholders understanding their farm, understanding their assets, understanding their social status, where they are in terms of family, farming and so on. But more importantly we map how far they are from social infrastructure, how far they are from a primary school, how far they are from a health centre, how far they are from clean, accessible water. So we map all of these products so we can help design and influence the development of those communities based on need. It's not about a whole delivered package, it's about what those communities need.

So basically, just concluding, there are great examples of good partnerships that are truly commercial. Because at the end of the day these partnerships we develop have got to work out for the market. The market is not rich in paying premiums, the market wants to buy sustainable products which are being produced effectively. So the challenge is how we can get these smallholders who are basically already on a very low base, how can we improve their productivity, how can we deliver a landscape approach to community? So companies like Olam now don't look just at cocoa, they look at maize, they look at sorghum, they look at these groups of products that the farmers are producing. But it's very hard to support the food crop side of the community, where we don't have an interest in procuring but we have an interest in stabilising the community. So on that note I'll stop, because I'm sure I've spoken enough. I look forward to any questions and joining the continued debate.

Chris Brett is the Senior Vice-President, Head of Corporate Responsibility and Sustainability at Olam International, a leading agri-business operating from seed to shelf in 65 countries, supplying food and industrial raw materials. He has global responsibility for guiding and supporting the business to further develop and integrate the environmental strategies, culture, tools and actions necessary for building end-to-end sustainable agricultural supply chains.