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## Issue 3/2017: A model for a sustainable cotton supply chain

SECO is at the core of building a sustainable cotton supply chain for Olam in Côte d'Ivoire.

Olam Cotton is today the second largest cotton merchant by market share in the global trade and is a prioritised Cluster 1 platform within our current growth strategy.

Olam Cotton has a well-diversified portfolio sourcing all varieties of cotton from the Americas, Africa, Asia and Australia and merchandising this cotton to the world's textile markets.

Its global cotton business is differentiated by its approach in Africa, where its integrated ginning model extends across three countries and includes activities from contract farming to ginning. These activities directly improve the livelihoods of more than 100,000 farmers as they produce a growing supply of Better Cotton<sup>1</sup>.

In this third issue of **Olam Insights** for 2017, the Olam Cotton team explains Olam's model and focuses on how an investment in Société d'Exploitation Cotonnière Olam (SECO), originally a small acquisition in Côte d'Ivoire in 2008, is at the core of building a sustainable supply chain for the future with transformational impact on small farmer income through yield improvement and increased volumes.

<sup>1</sup> Better Cotton under the Better Cotton Initiative (BCI) definition refers to sustainable cotton that is produced in a way "that is better for the people who produce it, better for the environment it grows in and better for the sector's future".



Farmer training in Côte d'Ivoire. Olam Cotton's key competitive advantage has been its ability to plan for and deal effectively with supply shocks, price volatility and changing demand patterns.

## Securing global, diversified and Better Cotton for the future

By Ashok Hegde, Global Head & CEO, Olam Cotton

Our journey to the No. 2 position amongst cotton merchants globally has involved both inorganic and organic growth, in tandem with geographic diversification of sourcing. Nine years ago, Cotton was the first platform under which Olam made a major acquisition with the purchase and integration of Queensland Cotton. Today Olam Cotton is a global leader in cotton with volumes exceeding 1 million metric tonnes (MT) annually.

### Return to steady growth

The cotton sector has faced challenging times in the recent past. Our ability to plan for and deal effectively with supply shocks, price volatility and ever changing demand patterns has been a key competitive advantage during these times.

The cotton price volatility of 2011 led to a shift in demand from natural fibres to synthetic fibres. However, by 2014, demand and pricing for cotton began to stabilise. There was a return to steady growth for natural fibres despite continued faster growth in demand for synthetics, indicating a reduced rate of substitution and increasing outright demand for both types of fibre.

In the past two years, the overhang of stock in China has been reduced, marking

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Ashok Hegde, Global Head & CEO, Olam Cotton

the beginning of the end of a period of world surplus and a likely return to more positive demand for cotton. Within this shift, we have seen the influence of governments reduce in the sector and a less encumbered direct market emerging with, for example, cotton in China being sold directly by farmers to ginneries.

Cotton supply and demand have now almost reached a balanced position, with current supply at almost 115 million bales and demand of around 117 million bales. (Source: USDA). At a macro level,



A stronger No. 2 in the US: Olam Cotton will strengthen its grower relationships, warehousing, logistics and trading capabilities there.



global GDP growth of 2% to 3% should be positive for the sector and we expect to see cotton demand continuing to grow in the range of 1.5% to 2% in the coming years.

## Playing to our strengths

Throughout our cotton journey, Olam's purpose of Growing Responsibly has remained at the core of our strategy.

Through Société d'Exploitation Cotonnière Olam (SECO), our operations in Côte d'Ivoire, we have developed a strong and scalable operating template that focuses on small growers' cotton production and integrated ginning (IG).

IG involves the integration of ginning with an outgrower programme and farm extension activities such as provision of agri-inputs and agronomic support to farmers with the objective of increasing yields. It provides for visibility and control over the entire supply chain, from production at farm to processing at gin and delivery of differentiated cotton to textile mill. In addition, community development projects, including supporting maize production for food security, are an integral part of IG. This business model is commercially viable and scalable for long

term sustainable growth. In the coming years we will replicate this model in other select African countries.

While we work towards creating greater value from our business in Africa and improving livelihoods for smallholders there through IG, we will also continue to strengthen Olam Cotton's domestic market positions in the three largest cotton producing countries – US, China and India. This will be achieved through larger volumes in merchandising and handling, which also drive accumulation of on the ground market intelligence to support our overall trading capabilities.

In Australia, we work with joint venture partners who are land owners such as Rural Funds Management to lease and operate cotton farms. In doing so, we achieve the economics of cotton farming without having to own the assets – which also directly supports our ginning capacity there.

Through these strategies, we will continue to diversify Olam Cotton's earnings profile. Through IG along with the current trading business, Africa is expected to contribute 25% of Olam Cotton's profits while the Americas will contribute about 35%, Asia 25% and Australia 15% in the next three years.

### About the author: Ashok Hegde

Ashok Hegde is the Global Head and CEO of Olam Cotton as well as the Chairman of Olam's Executive Capital & Investment Committee. Ashok joined Olam in 1994 in Benin, West Africa and from there he led Olam's diversification into South East Asia. In the last 23 years, he has held a broad spectrum of roles including Country Head of Indonesia, Regional Controller in South East Asia, Global Head of Wood Products and Natural Rubber, and Head of Risk Management & IT. Ashok is an engineering graduate with post graduate qualifications in Business Management from the University of Pune, India.



## Building sustainable cotton supply chains in Africa

By Anupam Gupta, Senior Vice President, Olam Cotton

Africa produces 1.5 million MT and exports 90-95% of its cotton production, accounting for 18% of global trade. It is central to Olam Cotton's core objective of delivering traceable and sustainable cotton to the world's textile mills.

We have built a sizable cotton business in Africa consisting of integrated ginning (IG), trading and exports. Olam Cotton has achieved preferred partner status in most origins and markets, offering differentiated products through the Better Cotton Initiative (BCI) and Cotton made in Africa (CmiA), both of which provide traceability throughout the supply chain.

By directly engaging with farmers, we have put Olam's core purpose of Growing Responsibly into practice, improving the livelihoods of thousands of farmers along the way, in close partnership with development agencies including IDH, USAID and BMF.

In our view, Africa holds the highest agronomic potential for growth in the cotton sector. Current yields are relatively low, leading to high cost of production per hectare. There is a potential to improve

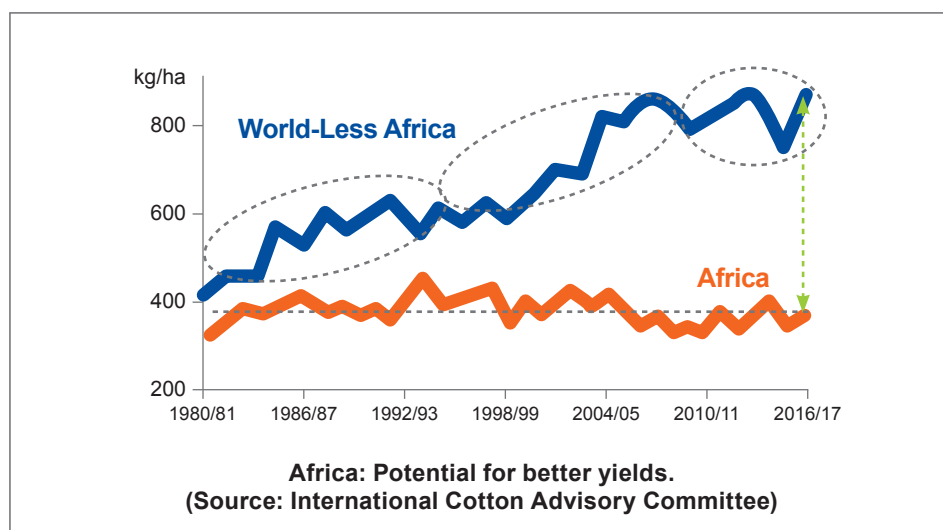
yields significantly through deeper farmer engagement, deploying better agronomic practices and the use of higher quality agri-inputs, thereby bringing down production costs.

Through our IG model, which is key to sustainable production and improving yields, we intend to scale up current locations and replicate in other select countries within Africa.

We now have IG operations in Côte d'Ivoire (SECO), Mozambique and Zimbabwe, and we engage about 100,000

farmers across these three origins. Through SECO and our operations in Mozambique and Zimbabwe, we produce 38,000 MT of lint annually.

SECO in particular has been the flag bearer of our IG business model. Our success in SECO gives us confidence to pursue this winning strategy more aggressively in Côte d'Ivoire and expand it to other origins. We plan to invest US\$60 million of fixed capital over the next few years to expand our IG footprint organically in Africa and scale up production from 38,000 MT currently





A cotton farmer applying fertiliser in his field in Côte d'Ivoire. Potential for responsible growth for the cotton sector in Africa is significant and will benefit multiple stakeholders from farmers to asset-owners.

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Anupam Gupta, Senior Vice President,  
Olam Cotton

to 120,000 MT of lint by 2020, with our three existing businesses accounting for 75,000 MT of lint. This is expected to deliver an EBITDA on invested capital at the higher end of Olam Group's expected supply chain return of 10-13%.

The countries we have identified for IG are large crop producers of about 100,000 MT or more annually, which allows us to grow meaningfully and impact a large number of farmers. They have a good cotton growing culture and effective industry governance.

Effective industry governance is a pre-requisite for the IG model to be successful. In this model, farmer engagement and provision of agricultural inputs to small farmers on credit are key drivers. Effective industry governance ensures performance of contractual obligations between the ginner and the farmer and reduces risk of side marketing, i.e. taking inputs on credit from one ginner and selling the

produce to another ginner.

We believe the basic infrastructure of policy framework, central administrative agencies and industry associations exists within our focus countries, and if the industry players, particularly leaders such as Olam Cotton, show initiative and willingness, the governance of the sector can be strengthened.

With a strong industry framework, farmers and ginners can take a long term view of the engagement and invest accordingly in activities such as improving soil fertility, seed research and training in good agronomic practices, which will deliver a more enduring payback over several crop seasons.

Olam Cotton believes the potential for responsible growth for the cotton sector in Africa is significant and we will continue to be a central driver of that growth in a way that benefits all stakeholders.

## About the author: Anupam Gupta

Anupam Gupta is Senior Vice President and head of Olam's Cotton business in Africa. He has been part of the Olam Cotton team for the past 17 years. He is a member of the governing council of the Better Cotton Initiative, which is engaged in making the cotton production system socially, economically and environmentally sustainable and equitable for all participants in the cotton value chain. Prior to joining Olam in 2000, Anupam worked with several manufacturer exporters in the textile sector for about eight years. Anupam is a Mechanical Engineer and holds a Master degree in International Business from the Indian Institute of Foreign Trade in New Delhi.



## Developing and scaling SECO

By Nitin Mittal, Vice President, SECO

When Olam Cotton created SECO through the acquisition of Ouangolo gin in Côte d'Ivoire in 2008, it had an annual ginning capacity of 35,000 MT of seed cotton with direct access to the 5,000 hectares cultivated by 2,500 farmers in that region. Fast-forward to today, SECO is engaging 16,500 farmers to plant 65,000 hectares of cotton. It is also commissioning a new gin in Ferke of 35,000 MT capacity for the 2017/18 crop season, effectively doubling our current capacity.

SECO's target is to have 100,000 hectares under cotton cultivation by 2020 in the zone that has been assigned exclusively to SECO. This new zoning structure provides a great opportunity for SECO to further

engage with farmers and the community at large, scaling current engagement models as it makes long term investments.

Côte d'Ivoire is the third largest cotton exporting country in Africa after Burkina Faso and Mali, exporting 95% of its cotton production.

From a low of about 76,000 MT of cotton lint produced in 2010/11, the sector has experienced a revival since the end of the civil wars and produced 140,000 MT in the 2016/17 season.

Olam has participated in trading Ivorian cotton since 1989 by buying from ginners and exporting it to international markets. Through the creation of SECO and implementation of our integrated ginning (IG) model, Olam Cotton is poised to deliver a next phase of growth through direct sourcing from the farm gate, organising the supply chain activities efficiently and

accessing the margin available in an integrated cotton supply chain.

SECO is also partnering farmers and is registered under the Better Cotton Initiative (BCI) where end-to-end data systems ensure traceability of cotton back to the village where it was produced. This directly supports our target of delivering more sustainable cotton to the world.

## The IG model in detail

In IG, Olam provides agri-inputs and farm equipment on credit to farmers. Basic loan packages comprise fertilisers, herbicides and insecticides, while seeds are provided free. These are then repaid through crop sales post the cotton harvest.

Farmers are trained in good agronomic practices through classroom courses and model farms. Continuous crop monitoring and timely agronomic advice have been





A cotton farmer attending to his farm in Côte d'Ivoire. Potential for yield improvement in Côte d'Ivoire is significant and will benefit farmers and ginners equally.

very effective in improving yields. Financing is also provided for the purchase of agricultural implements, tractors and cattle.

SECO has facilitated the formation of village-level farmer cooperatives so that they can better manage as a group and can coordinate access to micro-finance and other benefits including training. Through these efforts, 120 cooperatives now have bank accounts, compared with fewer than 10 prior to SECO's engagement.

Olam also creates pricing certainty as a committed buyer for farmers' crops, agreeing to a pre-determined price at the beginning of each season. Prices are objectively set by the advisory and regulatory body for the cotton and cashew sector in Côte d'Ivoire (CCA) based on inputs from Interprofessional Cotton Industry Association (known as Intercoton), comprising the cotton company association (APROCOT) and national farmers' association, and then validated by the government. Together these steps create a fair and transparent process.

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Nitin Mittal, Vice President, SECO




Challenges in the IG model

While the IG model is a supply chain operation and much has been achieved, it is path dependent and has a long gestation period. Results come from confidence and capacity building which takes time and requires physical presence in the field. Scaling such a model where we already operate and embedding it in new origins where we intend to grow is a truly long term commitment.

The business can be scaled horizontally by enrolling more farmers while motivating current ones to devote a larger share of their land holding to cotton. Scaling

vertically means increasing farm yield with training and good quality agricultural inputs. Both require continuous engagement with small farmers and community development services over extended periods to gain farmer confidence and cement their commitment to cotton.

The IG model is a highly management intensive operation as a large field-staff team is responsible for driving day to day activities. SECO has 127 field extension staff in 1,200 villages across 65,000 square kilometres in north-central Côte d'Ivoire. Each extension worker manages four or five cooperatives on average. SECO's team also includes a 28-person

Improving livelihoods	
 Training	Specialised training is conducted with inputs suppliers. Nearly 18,000 farmers have undergone training on basic agriculture techniques and pest management.
 Food security	SECO provides fertilisers to support maize production and promote food security in the region. Field staff are also trained to provide basic advice to farmers on food crop cultivation and crop rotation.
 Health	In support of rural health, medical vans sponsored by SECO have provided services to 15,000 farmer families. SECO has also conducted HIV/AIDS sensitisation and testing, and meningitis vaccination campaigns for local communities.
 Education	SECO sponsors village literacy centres for farmers and their families to access basic education and functional literacy.
 Community infrastructure	130 km of feeder roads have been graded and financial credits disbursed for building cooperative infrastructure to improve access to markets and increase population mobility.

agricultural research unit comprising agronomists, cattle programme staff and model farm in-charges; a five-person social projects unit; a 12-person logistics team; and 35 people in finance, IT, administration and HR.

The lack of physical and communication infrastructure in rural areas and the dependence on rain increase the execution challenges in this model. SECO has a system in place to accurately estimate expected farmer production which includes 100% mapping of each farm through GPS to ensure accurate hectare estimation. Within this, 15% of total farms are identified to estimate the yields in each section. Pre-harvest data is collected to estimate farmer output and we track supply against the estimated crop. Our operations and logistics teams then work to ensure timely evacuation of crops to prevent side-selling. The cooperative structure also helps to ensure that loans are repaid.

SECO has successfully overcome challenges and delivered a replicable and scalable business model which is a

source of differentiation for Olam Cotton. Through our initiatives, we have been able to build a symbiotic relationship with farmers and their cooperatives.

The results have been encouraging. Farm yields in lint terms have increased from 250 kg to 450 kg per hectare, about 20% better than the sector average.

## Mutual benefit

Importantly, SECO's growth has gone hand-in-hand with larger benefits for

farmers through improved livelihoods as part of the Olam Livelihood Charter. In this sense the "integrated" in IG goes far beyond commercial considerations as it represents a key element of Olam's commitment to Growing Responsibly.

By combining our production-focused initiatives with wider community engagement and development, all parties in and around the supply chain benefit in a sustained way.

### About the author: Nitin Mittal

Nitin Mittal is Vice President and business head of SECO in Côte d'Ivoire. Nitin joined Olam in 2001 as a management trainee in Tanzania. Over the past 16 years he has worked in the Edible Nuts platform across various geographies including Tanzania, Brazil, Argentina and India, and was responsible for general management in both manufacturing and trading verticals with special focus on setting up cashew processing in Africa and mechanisation of cashew processing operations in India. Nitin is a post graduate in Business Management from S.P. Jain Institute of Management and Research, University of Mumbai.



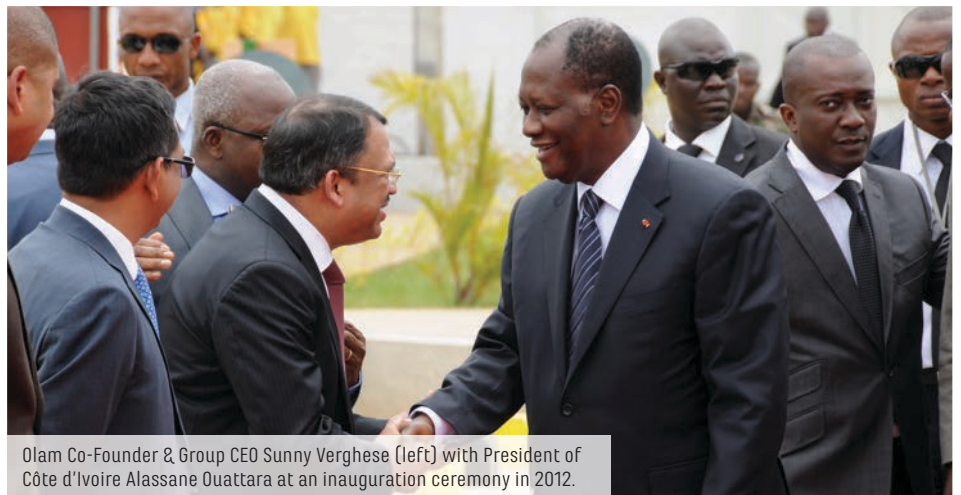
## Côte d'Ivoire: A nation committed to a vibrant cotton sector

By Partheeban Theodore, Country Head, Côte d'Ivoire

Cotton has been cultivated for several decades in Côte d'Ivoire and in the past eight years, the total land under cotton has more than doubled from 185,000 to 400,000 hectares. This makes it the third largest producer of cotton in Africa after Burkina Faso and Mali. Growth has been stimulated by strong public-private engagement to create the right policy framework and a conducive operating environment.

The Ivorian government has backed the industry through farm input programmes and price support when needed. This, coupled with strong farm extension support and capacity building by the private ginners, has greatly benefited local communities and contributed to broader national socio-economic objectives. The government has laid out an ambition for the sector to reach 600,000 hectares by the year 2020.

Cotton and cashew are the two most important cash crops in the northern part of Côte d'Ivoire. There is also a very close link between cotton and cereal production in the country, with most cotton farmers



Olam Co-Founder & Group CEO Sunny Verghese (left) with President of Côte d'Ivoire Alassane Ouattara at an inauguration ceremony in 2012.

encouraged and supported to grow cereals like maize alongside cotton. SECO, as part of its extension support to growers, provides some of the farm inputs for the maize crop, boosting the nation's overall food security.

The government has implemented a mutually agreed pricing mechanism for cotton that predetermines the farmer prices at the start of each crop year and provides guidelines for the fair pricing of inputs. This has created a strong degree of certainty for both growers and cotton ginners. In the last three years the government has ensured a minimum farmer price for seed cotton of

more than 250 CFA. These prices were supported through subsidies in 2015 and reduction in taxes in 2016. These moves have incentivised farmers to maintain or increase land devoted to cotton and helped to buffer farmers from price volatility or poor crops in some years.

A strong cotton industry governance framework in Côte d'Ivoire has created a fungible model for transparent, planned and objective development of the cotton sector across different cotton growing regions of the country. The government plays a pivotal role in ensuring smooth governance of the sector. Cotton sector activities are monitored by



CCA (the advisory and regulatory body for the cotton and cashew sector in Côte d'Ivoire), which is mandated with enforcing a pricing mechanism in consultation with the industry and setting up processes and guidelines for various players associated with the sector.

CCA monitors ginners' activities through FIRCA (Fonds Interprofessionnel pour la Recherche et le Conseil Agricoles) which has stipulated, among other things, a recommended ratio of field staff to number of farmers and hectares of planted area covered, to ensure the required personal attention and focus on farm extension support to the farmers. FIRCA conducts annual audits and provides scores for each ginner's quality of service to the farmers. This benchmarking exercise enables the sector to then seek the required support from government and non-governmental agencies for key initiatives such as soil testing, R&D and other aided farmer support programmes.

The government has also been fundamental in facilitating an active dialogue in the sector through Intercoton or the Interprofession – a representative body that regroups all players in the cotton value chain including growers, ginners, cotton seed oil millers and textile players. The objective of the Interprofession is to foster constant dialogue between all value chain partners so that the interests of the entire value chain are taken into consideration before any policy support or regulation comes into force.

The cotton ginners association of Côte d'Ivoire, known as APROCOT, represents the ginners at the Interprofession. Through APROCOT, the ginners are able to represent their interests and contribute to making the cotton sector a more

competitive and viable one. SECO plays a leadership role within APROCOT.

Commencing crop year 2017/18, the government has also allocated exclusive zones to each ginner. This provides an attractive platform for SECO to grow.

For ginners like SECO, the framework put in place jointly by the government and the industry provides the necessary assurances to commit to long term investments. This framework has had a significant impact in encouraging modernisation of farming practices and improvements in total crop care leading to improved yields.

A new initiative for better plant nutrition is being rolled out to test soils in different regions and customise the micro-nutrient requirement for specific soil types. Experimental initiatives in mechanisation are underway to enable farmers to better adapt to challenges posed by erratic rainfall patterns, shorter sowing windows, labour constraints and a parallel focus to increase the overall area under cultivation. The extensive farmer franchise and intensive engagement with farmers has created an ideal platform for innovative IT applications

to engage farmers and eventually link them to digital payment options.

SECO has made great strides in Côte d'Ivoire over the past eight years and has been an active innovator and thought leader in the sector. Close cooperation among industry participants, pro-active and enabling policies, synergistic efforts across the supply chain and an engaged and committed government have shown the power of multiple stakeholders pulling in one direction to deliver sustainable benefits for all.

**"A strong cotton industry governance framework in Côte d'Ivoire has created a fungible model for transparent, planned and objective development of the cotton sector across the country."**

Partheeban Theodore, Country Head, Côte d'Ivoire

#### About the author: Partheeban Theodore

Partheeban Theodore (Parthi) is Senior Vice President and Country Head for Olam's operations in Côte d'Ivoire and Senegal. Parthi joined Olam in 2000 and has played several management roles across West Africa. He was instrumental in setting up the cashew processing business in Côte d'Ivoire and has been closely involved in the integrated cotton ginning business in the country. Parthi holds a post graduate degree in Business Management from the Institute for Technology and Management, Chennai.



#### SECO fact file

Annual seed cotton production	65,800 MT
Annual lint cotton production	28,500 MT
Land area cultivated	65,000 hectares
Farm yield	1,012 kg/hectare (seed cotton) or 450 kg/hectare (lint)
Number of participating farmers	16,500
Ginning capacity	70,000 MT
Share of lint cotton production in Côte d'Ivoire	20%
Employee strength	200
Target land area of production by 2020	100,000 hectares