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Building long term agricultural partnerships in Africa: four lessons from the Olam experience

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Focus Emerging Africa offers increasing opportunities, both as a growing consumer market and a vibrant production centre. Of course there are challenges and risks, but these are surmountable with the right management approach – involving and developing local stakeholders, facing up to local conditions, and working for long-term solutions. Sunny Verghese, co-founder and CEO of Olam, discusses his company's 25 years of successful development in agricultural and related sectors across 25 countries in Africa.

There is a growing interest in the opportunities in Africa, both as a vibrant, low-cost production centre and as a burgeoning consumer market, given the persisting trends that underpin its promise. Africa has more than half the world's fertile yet uncultivated land; uses only 2 per cent of its renewable water resources compared to a global average of 5 per cent; its GDP is likely to rise to USD 2.6 trillion by 2020 [1]; has a rapidly increasing population, one of the world's youngest and its cities are growing. And I could go on.

Even those previously less convinced by its potential agree that Africa has quickly progressed from a frontier market to a must-be-there one. Yet many still argue that the risks outweigh the opportunities. While I understand this, I do not agree.

Africa is at the heart of Olam. The continent has been strategically important to us since we began our business in the agricultural sector 25 years ago, sourcing cashews from Nigeria. Today we are present in 25 African countries, with significant operations in our big five: Nigeria, Ghana, Côte d'Ivoire, Gabon and Mozambique. Over the years, we have built our sourcing skills to selectively integrate plantations and farming, such as palm oil in Gabon and rice in Nigeria, with processing, such as cocoa and cashew in Côte d'Ivoire, and packaged foods manufacturing and distribution in Nigeria, Ghana and other parts of West Africa. This has enabled us to develop a deep understanding of the potential, as well as the diverse challenges presented along each part of the agricultural value chain in Africa.

In recent years, Africa has made significant progress in shaking off its risky reputation. The end of many major armed conflicts in the region has been marked by growing democratisation and improving macro-economic and financial stability. But countries are still dogged by challenges from infrastructure deficits to low literacy, while pockets of insurgencies still exist around the continent, making Africa appear too difficult to many companies and investors.
In our 25th year, we have the distinction of being both born in Africa and a global company. We have experienced our share of challenges and success and, today, we are more committed than ever to the continent. Along the way, we have learnt some valuable lessons.

Lesson 1: Embed smallholder farmers into your supply chain

Sixty per cent of the world's uncultivated arable land is in Africa, leading some companies, and to some extent policy makers, to an erroneous conclusion that the opportunity is mainly in large-scale agriculture. Their argument is that for an agricultural revolution in Africa to take place it must depend on converting or reclaiming degraded swathes of land for large-scale commercial farming. With our palm oil plantations in Gabon and coffee estates in Zambia, we see the efficiencies of such models, if undertaken responsibly, but the potential of the smallholder should not be ignored.

With Olam extension workers having spent years working with smallholders, one of the most important opportunities we have identified is the potential for increased yields and improved farm productivity. Lack of farming know-how, along with limited spare cash for inputs such as fertiliser, means that smallholder yields can fall behind those in other global regions. Take cotton for example, Africa used to produce more than 2 million tonnes of cotton but its share in world production has declined from 8 per cent to 5 per cent as adequate investment was no longer committed to agricultural research, acceptance of development in bioscience processing and research.

Today the average African yield is around 320kg of cotton lint per hectare – about 50 per cent less than the global average. When compared to Australia, it is even lower – just 16 per cent of the typical yield. So the potential to get more cotton from current plots in Africa is clear if smallholders are given the same advantages in terms of market access, finance, access to inputs and knowledge of good agricultural practices as their international competitors. Quite literally, it means rolling up one's sleeves and working alongside the farmers and building their capacity to adopt better farm practices.

Through the Olam Livelihood Charter (OLC),[2] we are trying to do just that. We engage directly with cotton farmers across Africa, providing agricultural inputs and agronomic services to improve yields and quality, motivating them to increase their productivity by providing an assured income. The figures speak for themselves: our cotton business in Côte d'Ivoire, SECO, has gone from a network of 3,071 farmers in 2008–09 to 16,247 farmers in 2013–14. The average cotton yield in 2011–12 was 1,068 kg per hectare compared to 626kg in the first season. These results have been key to Olam becoming the leading supplier of African cotton, complementing our leading positions in Australia and the USA.

Farming models are adaptable; it does not have to be an either-or debate, namely, we do not need to see the future of African farming as exclusively plantations or smallholders. In fact, combining both in a nucleus model, as we have done with rice and are doing with palm oil, is sometimes the best way forward – a win-win for all concerned.

Take our Nigerian rice operation. Our central commercial rice farm of 10,000 hectares acts as the nucleus, providing employment to the local community and therefore income and new agricultural skills to invest in surrounding smallholder farms. These farms also participate in an outgrower scheme, meaning that we provide them agricultural inputs, micro finance, extension know-how, and we then buy their rice at prevailing market prices in addition to the rice grown on the commercial farm. Currently, we are buying from more than 3,000 farmers. Through commitment to the model, we expect outgrower numbers to exceed 16,000 by 2018, equating to about 60,000 tonnes of rice per year and an increase in average yield per smallholder of more than 100 per cent once agri-inputs and the new techniques learned from the nucleus farm are applied.

Lesson 2: Land availability for agricultural investment – a central dilemma

Although a somewhat thorny subject, the issue of land in Africa must be addressed. If we are to feed an ever-increasing population, smallholder yield increases will not, on their own, satisfy the growing demand for food and feed raw materials. Gabon for example, with 85 per cent forest cover, can neither hope to make itself food secure, nor reduce its reliance on finite oil reserves without identifying ways of converting degraded wooded and savannah areas to agriculture.

In our farming and plantation operations in Africa, we have a mix of owned and leased land. The utmost care must be taken when acquiring the rights to operate on the land through lease or tenure arrangements to recognise the customary rights of the local population. These arrangements have provided a learning curve for our business as we have encountered a general absence of national land-use plans, an absence of detailed information on the land and a lack of skilled labour.

Many governments, Gabon being a notable example, are making significant progress in overcoming these issues, but private companies also need to take responsibility in helping to ensure regional governments have the same understanding as their national counterparts, and long-term lease conventions are agreed within clear policy frameworks.

Once a project is underway, it is all too easy to curtail communication but companies should avoid operating in isolation. Active and regular engagement with local authorities, village leaders and local representatives needs to be planned, remembering that local stakeholders play a key role in the ongoing development of procedures and policies. Investors that fail to integrate with local communities run a high risk as issues are not grasped and resolved, and the resulting operational and reputational impacts can make management increasingly difficult, at times impossible.

Lesson 3: Adding value down the chain: in-country processing

Increasingly those exporting cash crops recognise the benefits of in-country processing rather than exporting raw material. Not only does this help avoid the impact of transportation bottlenecks, there are a host of other benefits: farmers see a ready market for their crops and are motivated; communities in rural areas start to thrive through additional employment opportunities; and international customers are satisfied as traceability is strengthened and carbon footprints reduced.

One of our most recent facilities is a state-of-the-art cocoa processing unit at San Pedro in Côte d'Ivoire. Part funded by Proparco, who shared our vision of mutual benefits, the plant shortens the supply chain from farmer to processor, allowing for faster processing and fewer losses from deterioration in the tropical environment. Furthermore the plant is contributing to the development of a wide range of local services and businesses, from logistics to maintenance, helping to justify further investment in ports and airports from the government. Such is our conviction in origin processing, the employment it provides and economic development it stimulates that we now have 25 manufacturing facilities across Africa.

Lesson 4: Invest in local talent

It was not easy to get the right talent during our start-up phase 25 years ago as we were small, but we created a pool of locals and expatriates which helped us to establish the business. We are proud to say that many of the people who began with us when we started are leaders today. We remain committed to localisation because it is a sustainable way of growing business, but it is not easy, especially keeping in mind the war for talent that exists in Africa. Today Olam works closely with a number of institutions and business schools across the continent to recruit and develop talent, including the Lagos Business School and the University of Cape Town; we also have managerial programmes in Côte d'Ivoire, Ghana, Kenya and Tanzania. Although there are still big educational gaps, the right skills and talent can be found and developed, as proven by the fact that our San Pedro cocoa processing plant is 100 per cent staffed by Ivoirians.

As part of our commitment to supporting talent development in emerging markets such as Africa, and in celebration of our 25th anniversary, we have launched a scholarships programme aimed at fostering leadership and governance in the emerging markets by supporting aspiring and capable students to pursue higher education in esteemed international institutions. Through the scholarships and, more importantly, the Olam mentoring of awardees, we hope to play our part in creating a generation of change catalysts who will contribute to economic transformation, provide good governance and help develop these emerging economies.
Unlocking mutual value

People often ask me what Africa means to Olam. The simple answer is that we believe in the future of the continent, and that it will be key to our long-term success; we will continue to seek partners for sustainable collaboration on the continent. As we advance to new chapters in our story, our next 25 years and beyond, we look back on the lessons and values Africa has taught us – entrepreneurship, problem-solving, collaboration and responsible growth, to name but a few.

To companies considering investing in Africa, and to those deterred by the risks, remember that no new market – especially any still addressing governance and infrastructure challenges – is without risk. If you go in expecting a completely smooth experience, you are in for a shock. But in many cases, the perception of risk in Africa is disproportionately high to the realities and the opportunities. Do your due diligence and seek and accept the help and advice from and partnerships with local and experienced companies, communities and governments. Be prepared to spend time on the ground, embedding and educating yourself to this most complex but exciting of continents.

I would like to finish by quoting an African proverb that potential investors would do well to bear in mind:

If you want to go quickly, go alone, if you want to go far, go together.

Footnotes:

[1] *Lions on the Move: The Progress and Potential of African Economies*. McKinsey Global Institute, June 2010
[2] The Olam Livelihood Charter (OLC) is a framework that aims to improve the viability and well-being of smallholder farmers currently living at near subsistence levels.