

A woman in a patterned dress is seen from behind, carrying a large grey bucket on her head. She is walking on a dirt path in a rural area with lush green trees and a traditional thatched-roof building in the background. A large blue teardrop-shaped graphic is overlaid on the left side of the image, containing the title and company name.

Shea post-harvest progress report November 2018

The Co-Development Company

AAK



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Introduction

Shea post-harvest report 2018

This is AAK's second shea progress report. Since our first report, published in May 2018, the women in West Africa have collected this year's shea fruits and processed them into dry shea kernels. The women are currently delivering the kernels to AAK.

Much progress has been made over the past six months. We have, among other things, conducted a survey engaging almost 1,000 women in our supply chain to give us feedback on our cooperation. This has given us a lot of insights and allowed us to do our due diligence on human rights, by, for example, making sure there is no child labor in our supply chain. The highlights of the survey are presented on page 8–9.

Since our last report, the women of our women's groups program have also received their bonuses from last season. Some of the examples of how the bonuses have impacted the local communities are shared on page 10–12.

Another major progress for us has been to have Proforest do a risk assessment in the shea-growing area of Northern Ghana. Even though AAK has many years of experience operating in the shea areas, it has proven very useful for us to have a third party looking at the sustainability of shea with fresh eyes. You can read more about Proforest's work on page 4–5.

Furthermore, we have been able to identify a series of risk-mitigating activities that we will implement in our shea supply chains to further improve our impact in West Africa.

We hope that you will enjoy the report. We will continue to communicate our progress and increasing impact during 2019.

Mads Feer
Global CSR Manager, AAK






Perspectives from a field visit to Northern Ghana

Sustainability insights from AAK's partner organization Proforest

Aristotle Boaitey and Yacouba Ouedraogo were the two-man Proforest team for this assignment. They came from opposite points of the compass and different backgrounds to meet up for this assignment in Tamale, capital of Ghana's Northern Region. Aristo flew in from the south, from Accra, which is his base for working on sustainable management in timber, oil palm and other commodity supply chains as part of the Proforest Africa team. Yacouba traveled overland from Burkina Faso to the north. He is a rural development expert with a background in forestry and a specialization in business and management skills.

Aristo's home is in the humid, tropical south of Ghana, the land of tall forests, cocoa and palm oil plantations. Yacouba is from Ouahigouya in the north of Burkina, where the savannah woodland thins out into the dry scrub of the Sahel, on the shores of the Sahara Desert. Tamale sits halfway between the two, near the southern edge of the savannah, a vegetation zone that stretches 500 km to the north, in a belt spreading west into Cote d'Ivoire and Mali, and east into northern Togo, Benin and Nigeria. The shea tree is at home throughout this zone and AAK source shea kernels from all these countries.



Proforest is a unique, non-profit group that supports companies, governments and other organisations to implement their commitments to the responsible production and sourcing of agricultural commodities and forest products. AAK and Proforest are long term partners progressing on responsible sourcing together.

Unpredictable weather conditions

A few months earlier, this would have been a desiccated landscape of ochre and grey, the ground parched or burned, and only the trees scattered through the agroforestry parklands bear some dusty green foliage. For a month or two in the dry season, the climate is cooled by the harmattan wind from the north, bringing a haze of dust from the Sahara. By March, the heat had returned, building up to the arrival of the rains with mounting humidity, punctuated by violent storms. The rains can be fickle. Farmers are never sure when it is safe to plant their annual cereal crops, or for how long the rains will nourish them. Farming in this land is played as a game of chance with the weather.

Shea trees are not immune from these year-to-year variations in yield, but they offer an opportunity for rural households to diversify their income, a buffer against the uncertainties of rainfed agriculture. Unlike plantation tree crops grown in humid high forest zones, like palm oil, rubber and cocoa, the shea is a naturally occurring tree, the propagation of which cannot be divorced from farming systems, land and tree tenure, governance and the wider ecosystem management. It is not exactly wild. Trees are all self-sown but systematically selected, protected and maintained by farmers in agroforestry parkland systems, combining annual crops, livestock and a fairly narrow range of multipurpose tree species.

There is a single harvest of shea kernels each year and gathering it in is almost exclusively the preserve of women. It is estimated that more than 4 million women are involved in shea harvesting and processing in West Africa. This is rather more than the 2.5–3 million smallholders involved in palm oil production world-wide. Income from shea is modest by comparison with palm oil, but its significance for livelihood security is enormous. Generally, this income passes through the hands of women to support expenditure on household essentials. It fills a critical income-gap at the start of the rainy season, when food stocks from the previous annual harvest are low and the current season's crops are yet to yield. And shea is also an important local food source – both in the form of the shea butter, which is used in the preparation of traditional meals, and the flesh of the nutrient rich

shea fruit, which ripens around the shea kernels from May through to July. About half the shea harvest is processed and consumed locally or goes to meet national or regional market demand. However, the volumes exported to feed international markets have grown rapidly in the past 15 years, most destined for use as cocoa butter equivalent.

Impacts of and risks to AAK's shea supply chain

This year, the rains arrived on time and in relative abundance. So, Aristo and Yacouba arrived in northern Ghana to find a lush green landscape, with farmers busy in their fields planting and tending the new season's crops. They had five days to observe and inquire into the sustainability impacts of and risks to AAK's shea supply chains. Already they had conducted desk-based research into the issues at play. Aristo had met with the team at the Global Shea Alliance in Accra. For Yacouba, this was already very familiar territory, as he has many years of experience in the region, working on the development of small enterprises based on non-timber forest products, including shea. For Aristo and Proforest this was a new departure. A new supply chain with sustainability issues very different from many globally traded oils and fats. Aristo and Yacouba had lined up a series of meetings with stakeholders and key informants. They met with women's groups directly involved in shea collection, and with traders who buy their produce. They met with people from government, industry and research institutions, civil society organizations and social enterprises. Their itinerary took them to the north and east of Tamale, into the territory of the Dagomba people; to the Gonja town of Damongo to the north-west; and northwards to Bolgatanga and Paga, right on the border with Burkina Faso. And of course, they also met and discussed with staff from KI Ghana (AAK) to get their perspective on the challenges and opportunities for responsible sourcing within their operations.

On their short tour of northern Ghana, Aristo and Yacouba found new demands on the land and natural resources, evidence of changing climate patterns, expectations of improvement in livelihoods and a shea sector that is itself growing and evolving to feed bigger global markets. They suggested some promising good options for AAK to ensure they source responsibly and secure future supply of shea kernels to meet this growing global demand.

Tony Hill,
Director of Smallholder Support Programme, Proforest

AAK Shea DASHBOARD



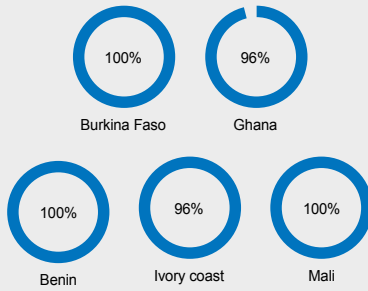
TRADITIONAL SUPPLY CHAIN

Supplier engagement

% of suppliers having signed the supplier code of conduct – Q3 2018



Supplier Code of Conduct

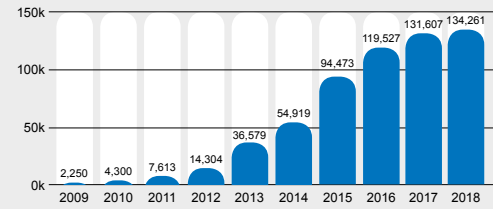


KOLO NAFASO (women's groups)

Traceability to women's groups level

100% traceable and segregated*

Number of women enrolled in Burkina Faso and Ghana

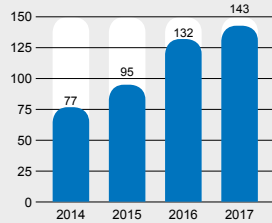


* The shea kernels from the women's groups program (Kolo Nafaso) are fully traceable to women's groups level and kept separated from the ones from the traditional supply chain all the way from sourcing to end product.

Employee statistics

West Africa

Number of permanent AAK employees in West Africa



86% increase between 2014 and 2017

% of employees having signed the AAK code of conduct



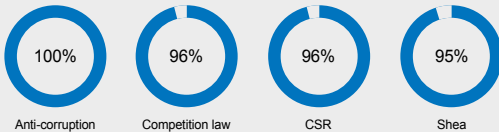
% of employees trained in first aid



% of target group trained

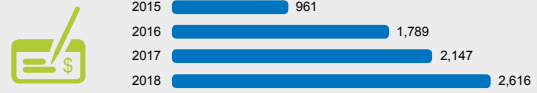


Training



AAK engagement

Number of bank accounts AAK has opened for the women's groups



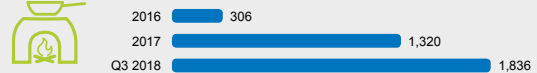
Number of village visits by AAK extension officers



Number of kilometers driven by AAK extension officers



Number of rocket stoves built



Tracking progress

We are progressing according to our expectations as you can see on the dashboard page 6. Some key aspects of the dashboard are highlighted below.

Supplier Code of Conduct

Since our last report, we have started own shea sourcing operations in Ivory Coast, and all our suppliers in Ivory Coast have signed our supplier code of conduct. Our supplier base is dynamic, some join AAK while others leave. At the time of reporting, 96 percent of our suppliers in Ghana had signed our supplier code of conduct, and 100 percent had signed in Burkina Faso, Benin, Ivory Coast, and Mali.

Training of employees

Some functions in AAK require specific training related to CSR issues. Currently, 100 percent of our relevant employees in West Africa have received a training on

anti-corruption; while 96 percent have received training on competition law. 96 and 95 percent are trained in CSR, responsible sourcing of shea, respectively.

Number of women enrolled in Kolo Nafaso

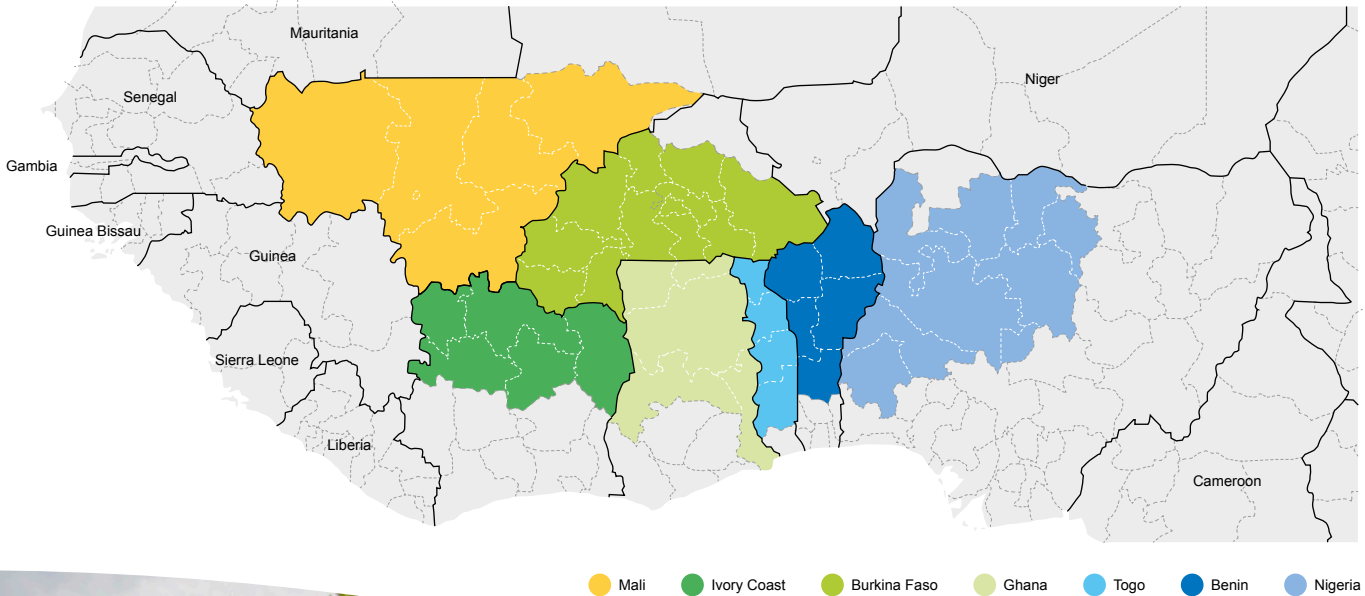
In 2018, focus has been on consolidating the work we are doing with the existing women's groups. On top of the consolidation work we managed to increase the number of women enrolled in Kolo Nafaso from 131,607 women in 2017 to 134,261 women in 2018.

Next year we will focus on increasing the number of women further.

Traceability

Below you can see our shea supply base map showing the origin of the shea that AAK is buying this season.

AAK shea supply base map

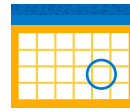


Kolo Nafaso –

Direct feedback from the women's groups

AAK regularly conducts surveys to receive feedback from the shea-picking women we directly work with. In 2018, we conducted surveys in Burkina Faso and Ghana. Almost 1,000 women responded to our questionnaire. The solid base of learnings that we gathered through the surveys are shared below.

	Total:	Burkina Faso:	Ghana:
Number of respondents:	951	626	325
Median age:	43,5	45,1	42
Age range:	18-80	18-80	20-75
Years working with AAK:	3,35	4,1	2,6



88%

are convinced that the pre-financing from AAK arrived at a good time last season.



98%

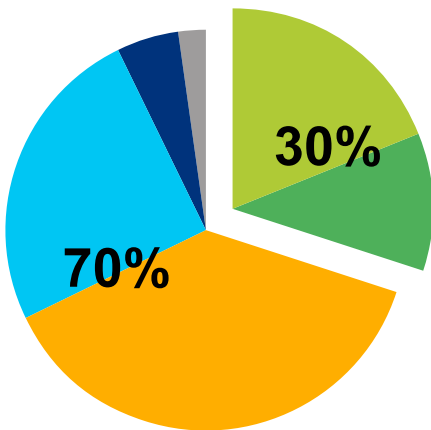
state selling shea kernels is a good way to make money.



92%

are satisfied with the way AAK works with the group.

How did you spend the pre-financing money?

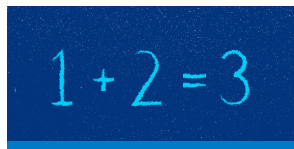


Investments for future returns

- 38% - Agricultural activities
- 25% - Schooling of children
- 5% - Other Income-generating activities
- 2% - Savings

Ensuring food security and basic needs

- 19% - Purchase of food
- 11% - Purchase of household items



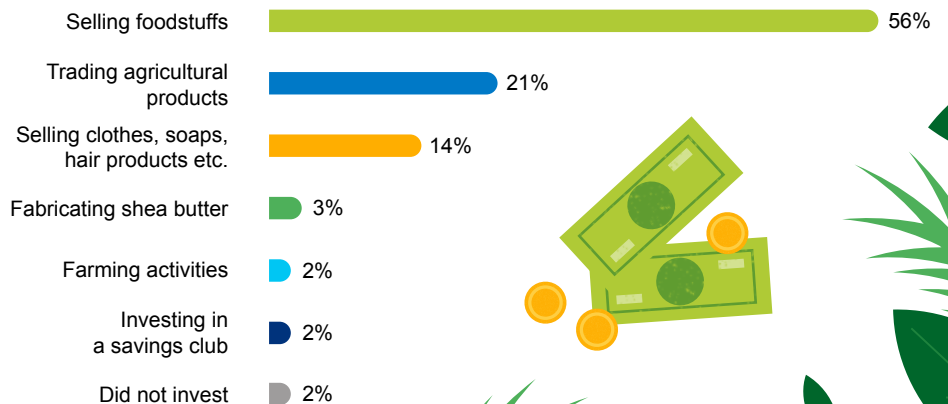
The right to go to school

78% of the women say that their children participate in collecting shea.

99,7% say it doesn't prevent them from going to school.

AAK highly encourages the women to send their children to school.

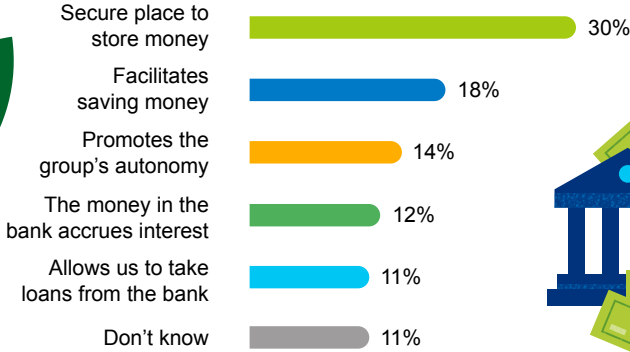
What were the other income-generating activities that you invested in?



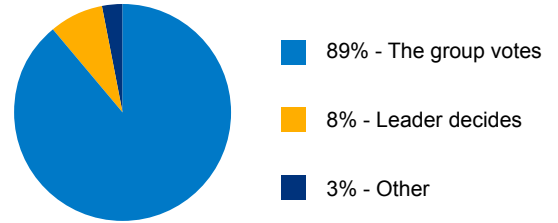


79% of the women groups have access to a bank account.

What are the advantages of having a bank account?

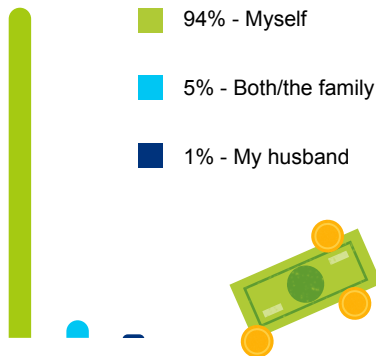


How do you decide how the money of your bonus should be spent?

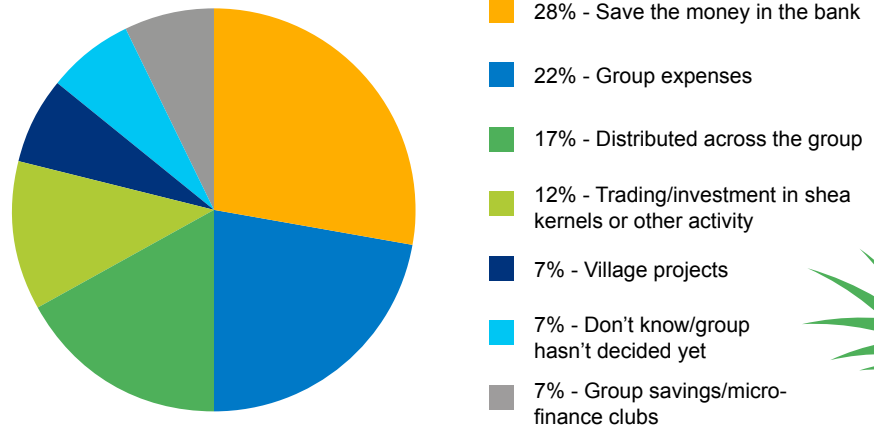


AAK will follow up to make sure that in the future it will be a common decision of the group how to invest their bonuses.

Is the money from selling shea for yourself or your husband?



How did you use the money from your bonus?



“AAK’s work has shown us the value of our shea trees.”



“The work is transparent and helps us solve our problems at the time of the pre-financing”



“We share the bonus to pay for the schooling of our children”



“AAK has helped us pay for schooling, buy agricultural inputs, and medicine for ourselves”



Investing group bonuses for the community

Examples from Northern Ghana

Quality and volume are the criteria to earn an annual bonus. Unlike payment for the collected shea kernels, which go to individual women, the bonus is paid to the women's groups. It is then up to the group members to decide what to spend

the money on. More often than not, we see that the women choose to spend the money on initiatives that benefit not just themselves, but also the rest of their community.

Renovating the local school



The women's groups Kinyobaan and Titirtob are both based in the village of Tinangeria in Ghana. A few years ago, the community built a new school building, but did not have enough funds to plaster the walls or install doors to the class rooms. The members of the two groups decided to pool their bonus money and fund both the plastering and the installation of doors.

Inside the classroom of the school, with wall plastering and doors paid for by the women of Tinangeria, using the bonus money from AAK.



"We are planning to buy desks and chairs for the school if we get a bonus next season."

Kobiche Danaa, the secretary of Titirtob women's group



"I know that it is the women's business, but I am really, really happy to see that their business benefits all of my community."

Nakpali Naa, Chief of Tinangeria

Renovation of boreholes



Water is a rare and vital resource in Northern Ghana, so when the boreholes in Grushie-Zongo started having problems with broken valves and leaking pipes, it didn't take long for the members of the Tagnanme and Nitagar women's groups to decide to use their bonus money to install new valves and pipes. This way, water supply was secured in time for the dry season – not only for the village, but also for the local school, which serves children from seven surrounding villages.



“The alternative to the borehole is to fetch water from the river – but that is a long walk (almost 5 kilometers), so we're really happy that our borehole is working again thanks to our bonus.”

*Augustina Andrews,
Chairwoman of Nitagar women's group*



Augustina Andrews, second from the right and chairwoman of Nitagar women's group, and her fellow group leaders can once again pump water from the underground using the village borehole.

Electrical installations at the community health clinic

Health services in Northern Ghana are far from ideal, so in Sisipe the community constructed a building to serve as a health clinic, and to be used by the nurses from Ghana National Health Services. The nurses come by the village once every couple of months to do antenatal health checks and monitor the health and development of newborns. The building was made without electrical installations, so the women from the Kagbon Ma To and Aben Kukoei women's groups decided to use their bonus to install wiring for lights and fans and pay the needed fees to get the building connected to the main line running to their community.



“Because of the bonus, everything is now ready for the electricity company to connect the building to the main line.”

*Addisheitu Iddrisu,
Chairwoman of Aben Kukoei*



“It may not seem of much, but fans are a huge relief when the thermometer reads more than 40 degrees, and the women can soon attend health check-ups for themselves and their children under much more comfortable conditions.”

*Addisheitu Iddrisu,
Chairwoman of Aben Kukoei*

The middlemen relationship

Middlemen are of key importance for sourcing shea

Shea being a widespread crop over vast areas, AAK relies on working with many suppliers in our conventional supply chain to buy the shea kernels in the bush and transport them to the AAK collection points.

In total, AAK has more than 100 suppliers across West Africa. Even though new suppliers are coming in and others are leaving, most have been with us for many years.

Adande Amelie Dohoue in Benin is one of our most loyal suppliers and she has recently celebrated 25 years working with AAK!

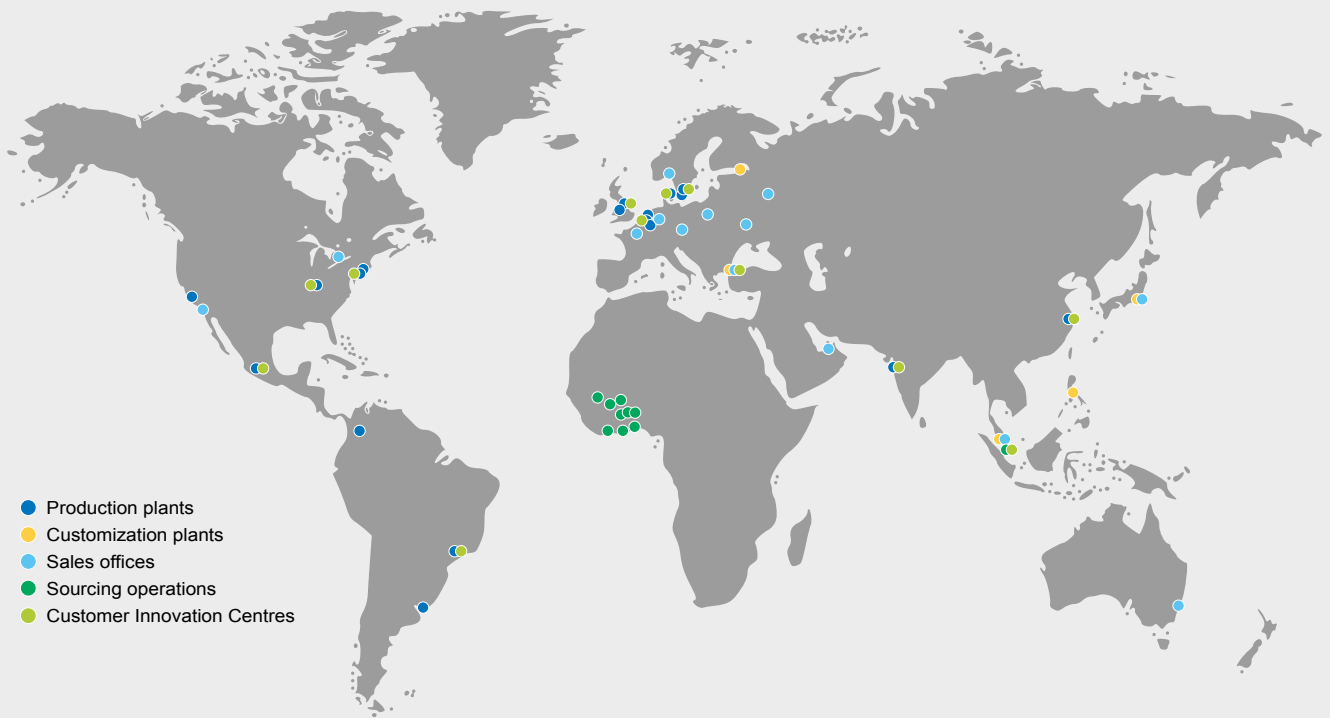
Adande Amelie Dohoue delivered 100 tons during her first season and even such quantity was difficult at that time due to the lack of roads. She used to spend more than two weeks at the time in the bush to be able to buy 15 tons of shea and she was even stung by a scorpion during her search for shea, resulting in weeks of high fever. In 1995, when AAK in Benin had its first two seven tons truck, she could deliver 500 tons. She has been supplying AAK ever since.

Maintaining supplier relationships

We meet all our suppliers several times every year. A handful of meetings are held prior to the opening of the season where we discuss opening dates, starting prices, contracts, quality, traceability, etc., but we also sign/renew “Code of Conduct for Suppliers of Raw Materials” and similar documents. Once the season starts, the frequency changes and we meet suppliers daily. We need to stay close to our suppliers in order to know as much as possible about a market that is not transparent – it is extremely difficult to get a true understanding of the availability in the market. Our primary source is our suppliers. Below a picture of such meeting in Bobo-Dioulasso in Burkina Faso, where the current state of the 2018/2019-season is being discussed.

For us at AAK, the suppliers are important partners in our supply chain. We are business partners and we rely on each other. If our middlemen are successful, so are we. If we are successful, so are our middlemen.





We are AAK

AAK is a leading provider of value-adding vegetable oils & fats.

Our expertise in lipid technology within foods and special nutrition applications, our wide range of raw materials and our broad process capabilities enable us to develop innovative and value-adding solutions across many industries – Chocolate & Confectionery, Bakery, Dairy, Special Nutrition, Foodservice, Personal Care, and more.

AAK's proven expertise is based on more than 140 years of experience within oils & fats. Our unique co-development approach brings our customers' skills and know-how together with our own capabilities and mindset for lasting results.

Listed on the NASDAQ OMX Stockholm and with our headquarters in Malmö, Sweden, AAK has 20 different production facilities, sales offices in more than 25 countries and more than 3,400 employees.



We are AAK – The Co-Development Company.

