

SDM: Case Report OLAM & FairMatch Support Côte d'Ivoire

Service Delivery Model Assessment

June 2017



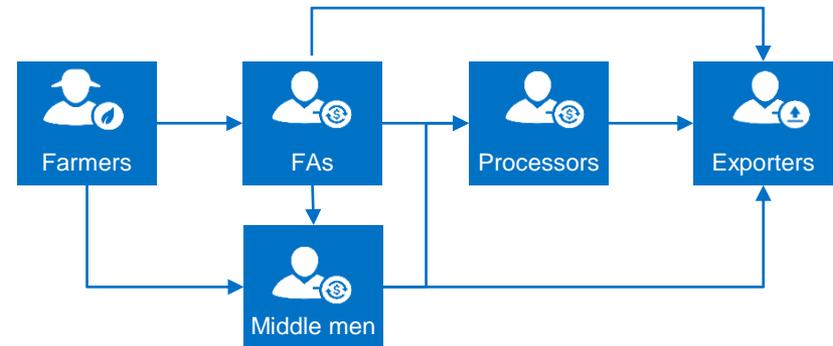
Context – sector and case owner

OLAM



- OLAM is the only fully integrated player operating in the cashew supply chain in Côte d'Ivoire
- Active since 1994 in Ivory Coast, next to cashew, cocoa, coffee, cotton and rubber
- For cashew, operates mechanical cashew processing plant in Bouaké and manual processing plant in Dimbokro, providing jobs to 4,500 workers (80% women)
- At the Bouaké plant, through SCGP; RCN is sourced from 7 cooperatives and 15 clusters of farmers

The cashew value chain in Côte d'Ivoire

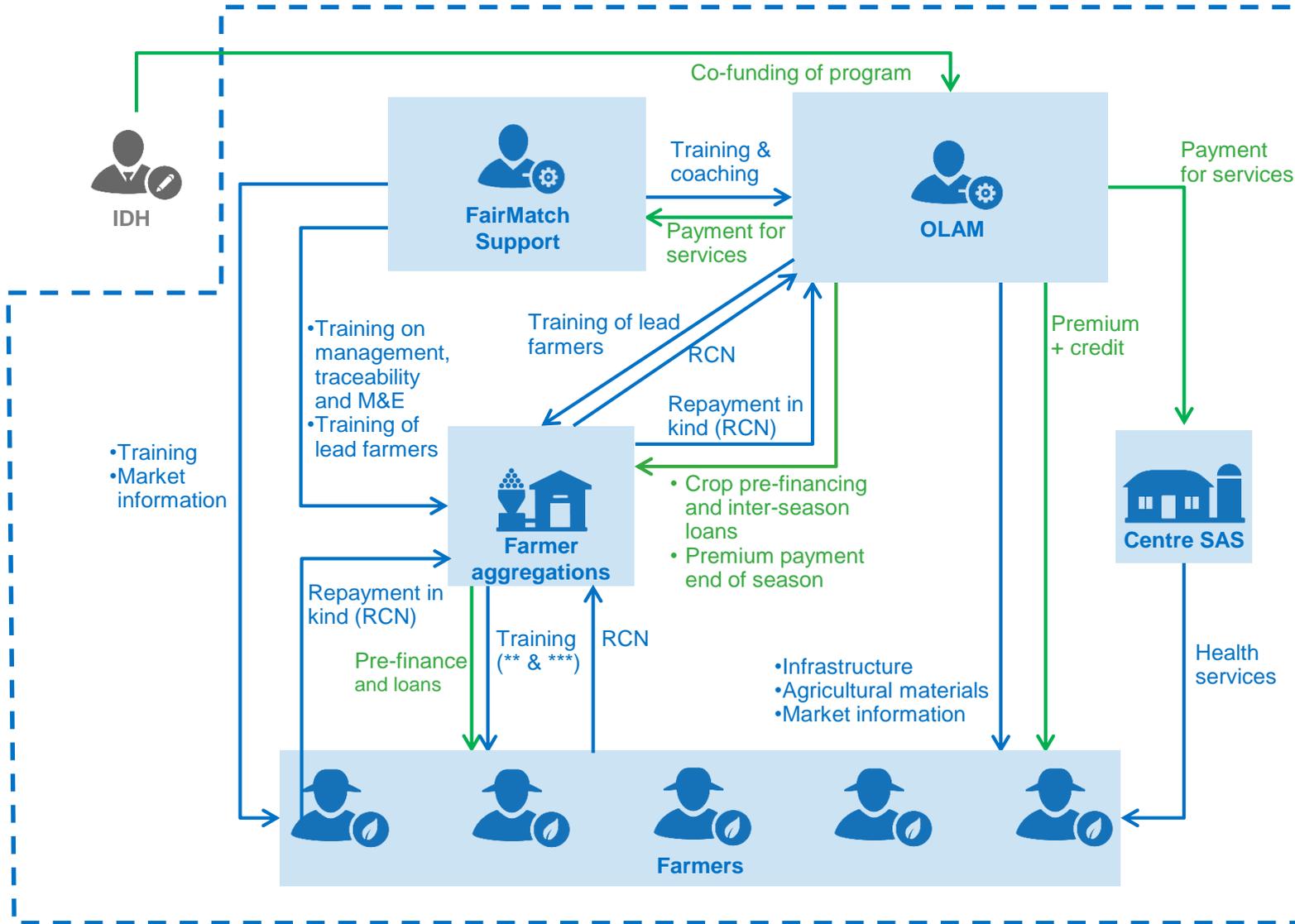


- Raw Cashew Nut (RCN) production in Côte d'Ivoire was estimated at 700,000MT in 2015 (21% of world)*, mostly grown in the North
- Over the past 10 years, Côte d'Ivoire's RCN production has increased by 400%, making it the world's largest producer
- Between 250,000 and 400,000 farmers depend on cashew nut cultivation, the majority being smallholders with 0,5-3 ha*
- Average yields are between 260-416 kg/ha, compared to global average of 840kg/ha*
- RCN is primarily exported to India and Vietnam for processing: currently less than 5-10% of RCN is processed in Côte d'Ivoire, though the Cotton and Cashew Council (CCA) hopes to reach 100% domestic processing rate by 2020

Sources: FMS and OLAM input ; * The African Cashew Sector in 2015, RONGEAD/ACI 2015



Overview of services and revenue flow in the SDM



Legend ← Flow of goods and services → Cash flow



What are the objectives of the SDM

Outcomes per Stakeholder

The SDM aims to ...

	Farmer 	Farmer Aggregation / Coop 	OLAM 
1 Improve quantity & quality of RCN produced at farm level	<ul style="list-style-type: none"> Higher income and improved livelihoods 	<ul style="list-style-type: none"> Higher margins Increased supply of RCN Strengthened market position 	<ul style="list-style-type: none"> Increased supply security and quantity Improved quality
2 Establish a network of strong cooperatives	<ul style="list-style-type: none"> Access to services and peer learning 	<ul style="list-style-type: none"> Improved operating efficiency Increased opportunity to offer services on a sustainable basis 	<ul style="list-style-type: none"> Increased loyalty and sourcing volumes Focus on commercial activities (outsource service delivery) Reduction logistic costs Optimization of service delivery
3 Increase transparency and traceability in the value chain	<ul style="list-style-type: none"> Rewards for increased quality 	<ul style="list-style-type: none"> Rewards for increased quality 	<ul style="list-style-type: none"> Increased traceability Improved learning, reporting & communication Access to sustainable cashew market
4 Improve procurement from cooperatives	<ul style="list-style-type: none"> More reliable off-take 	<ul style="list-style-type: none"> More reliable off-take 	<ul style="list-style-type: none"> Increased sourcing volumes Reduced sourcing costs Improved supply security
5 Segment farmers based on performance and provide tailor-made trainings	<ul style="list-style-type: none"> Services tailored to needs 	<ul style="list-style-type: none"> Services tailored to needs Incentives for performance 	<ul style="list-style-type: none"> More efficient sourcing Higher quality and quantity



Innovation in the SDM

Type of innovation

Description



Organizational support

Use of 3S system

The 3S Sustainable Supply System allows OLAM to record operational data (RCN volumes and quality) in sourcing directly from FAs. In contrast to working with middlemen, this allows OLAM to develop a relationship with its farmer base and increase cooperation between FAs.

The commercial benefits of a closer and more direct relationship between farmers and buyer are increased supply security and product quality.



Social services

Donation of multi-purpose equipment and buildings

Each year, OLAM donates to the best-performing FA a warehouse as well as agricultural equipment. These are used during the cashew season to increase efficiency of farming and logistics. Outside of the cashew season, the structures are used as school buildings and/or community centers, and agricultural equipment is used to cultivate food crops.

This innovation is an incentive for performance and reward for loyalty.



Conclusions: key drivers for success and key risks



Key drivers of success

- This SDM has an explicit drive towards commercial sustainability: by focusing on FAs which are incentivized to take on a bigger commercial role as well as a bigger role in service provision to members, the SDM, if successful, will over time both reduce the SDM costs while also increasing the commercial return.
- As the investment per farmer is relatively limited compared to other SDMs, the commercial return needed to cover costs is also relatively limited.
- At a certain size (400+ members), there is a clear business case for FAs to reach the 3* level. This creates incentives for FAs to move into the 2* and eventually 3* levels.
- For many other SDMs, working with farmer organizations is done to increase efficiency by not working directly with farmers. This SDM is different; it brings OLAM closer to farmers by no longer requiring OLAM to source through middle men. This makes the model more efficient and allows for better and more direct relations with farmers and FAs. For FAs and farmers, the SDM offers access to its services.



Key risks

- For FAs, moving into the 2* and 3* segments appears mainly based on meeting commercial criteria, rather than the quality of service provision to farmers. Therefore, moving to 2* or 3* categories could happen based only on commercial performance, even if service provision is not up to certain standards.
- Impact at the farm level appears to come primarily from training, much of which is delivered to farmers through lead farmers, who are trained directly by OLAM and partners. The actual impacts that are expected at farm level with the current SDM design will need to be evaluated once actual data can be measured.
- The SDM analysis currently assumes farms to be of an average age (11 years) that does not require rejuvenation for the coming 10 years in order to remain at peak productive capacity. For farms that have older trees, this SDM does not provide a means for rejuvenation. Nurseries outside of the SDM are required to allow these farmers to rejuvenate
- Cooperatives require a certain minimum scale in order for this SDM to provide them with an economically sustainable business case



Lessons learned during the study exercise



Opportunities for improvement

- There are no incentives yet for farmers to produce higher quality, as quality is only assessed at the OLAM processing facility, and neither farmers nor FAs receive or have ever received quality premiums. Offering quality incentives can motivate farmers to invest more effort in producing higher quality, which also has a positive impact for OLAM (which can receive higher prices for better quality cashew from buyers).
- Segmentation only at the FA level does not allow for services to be tailored to the needs of individual farmers. A highly capable farmer who is a member of a 1* or 2** FA, for instance, can not currently access the more extensive services available to farmers within such FAs. By working with lead farmers this SDM does try to identify and work with high performers.
- Cashew farms are in general relatively young, and were often planted in only one or two phases, and rejuvenation is not currently practiced very much. For long-term sustainable production, farmers should start practicing continuous equilibrium rejuvenation (every year a portion of their farm rejuvenated). This can avoid the need to do large-scale rejuvenation all at once when the entire farm has passed peak production, which would have a significant impact on net income (by removing a large portion of the farm from production).



Key factors in replication of the model

- The SDM is focused explicitly on building the capabilities of FAs, both as commercial partners for OLAM (allowing them to bypass middle men when sourcing, without having to have relatively high transaction costs when sourcing from individual farmers) as well as SDM partners. Over time, the SDM intends to build capacities of FAs to take over service provision from OLAM.





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