



Sodexo Madagascar: creating linkages between local producers and the mining sector

This case study provides an example of a company building community supply chains by working with local partners.

Background

Sodexo Madagascar is part of the Remote Sites division of the Sodexo Group, a global leader in Food and Facilities Management services (until 2008, the company was known as Universal Sodexo). The Madagascar subsidiary was set up in February 2006, when Sodexo was awarded a contract by QIT Madagascar Minerals (QMM), a subsidiary of Rio Tinto, to build a 'pioneer village' for workers at the site of a major new mining project at Fort Dauphin, in the Anosy region in the southeast of the island.

QMM, a partnership between Rio Tinto (80 per cent) and the Government of Madagascar (20 per cent), gained approval in 2005 to develop an ilmenite (titanium dioxide) mine; the \$850m investment project is the largest in Madagascar's history. Approval by Government was conditional that the mine would deliver local economic development. Production will begin this year, with an initial capacity of 750,000 tons of mineral sand annually. The mine has the potential to supply 10 per cent of global production of the mineral, which is used as a pigment in the production of paint, paper, and plastics.

Sodexo provides all services for the mine related to accommodation and food facilities. It was responsible for the design and construction of the mineworkers' camp, together with logistics and the procurement of supplies, and services such as catering, laundry, housekeeping, entertainment, maintenance, gardening, and waste management. In time, up to 1,400 workers will be accommodated at the site.

Rio Tinto/QMM was committed to maximising the economic impact of the project locally, primarily in terms of labour and sourcing of supplies – and, critically, of foodstuffs. However, this was a particular challenge at Fort Dauphin as the mine is located in one of the least accessible parts of Madagascar, and infrastructure is very limited. Transporting goods by road from the capital Antananarivo can take from one week in the dry season to up to three weeks in the wet season, resulting in high levels of wastage of perishable produce.

Sodexo has aimed to source as much of its fruit and vegetables as possible from local communities: in accordance with its sustainable development policy, it has wanted to become a partner in development, creating local employment, building up local production, and promoting the creation of businesses. Previously, most agricultural production in the Anosy region consisted of subsistence farming, meaning that local food production was limited and did not match the standards of quality, quantity, and consistency required by Sodexo to meet its client's needs. The local population had limited access to education, and skill levels were low, a

difficulty compounded by the number of different languages spoken locally. Purchasing supplies from the capital, would take on average three days to arrive. In order to overcome these challenges, Sodexo worked closely with locally based development organisations.

Key champions

Sodexo is a global leader in Food and Facilities Management services. For 2008 the company reported consolidated revenues of \$20.5 billion and had 355,000 employees operating at 30,600 sites in 80 countries. Sodexo operates a global sustainable development policy, under which it develops local food supplies to support its business operations. See more on www.sodexo.com, in the Corporate Citizenship section.

CARE International is an international NGO with offices in Fort Dauphin, and has been active in Madagascar for more than 15 years. From 2006, in a three-year programme funded by the EU, it ran a farming development programme covering 18 districts in the surrounding area. Producers in three of these districts – Ifarantsa, Ranomafana, and Maliovola – are now working with Sodexo in its sustainable development programme.

The Comité de Gestion de Ressources Naturelles de Mandena (COGE) is an association set up in 2005 by QMM to bring together producers and to support people affected by the mining project. In particular, it provides training for local farmers and addresses needs arising from the impact of the mine.

Tsara Traka is a farmers' association located in Tsivory, 250km from Fort Dauphin. The association has 13 permanent members, who jointly own and cultivate 22 hectares of land. To assist with production, which has been stable since 2007, they employ up to 30 agricultural day labourers, depending on the season.

MAHASOA, an association of 20 banana producers supplying most of their produce to Sodexo.

How it works

In April 2006, after it won the QMM tender, Sodexo worked with the UN's Food and Agriculture Organization (FAO) to carry out a study on farming production in the region on its behalf. The study concluded that, although there was a certain level of local production, the generally poor economic situation in the region and the lack of infrastructure (roads, ports, etc.), combined with political disruption dating back to the 1970s, meant that development in the agricultural sector had stalled, knowledge had been lost, and production had reverted to family-based cultivation. Proper agricultural techniques, organization, and access to markets, transport, and finance were all lacking.

Based on the recommendations of the FAO study, in 2007 Sodexo began working with local partners to develop supply chains for fruit and vegetables. The study identified two groups of local producers – those involved in programmes run by CARE and COGE – as capable of attaining levels of production sufficient to supply the company's needs. The farmers supported by CARE were located in Ifarantsa, Ranomafana, and Maliovola, while COGE targeted producers located around Fort Dauphin, near the mine. Sodexo also began working with the Tsara Traka association, located in Tsivory, and with the MAHASOA association of banana

producers, located at Ambaniala (whose collectors were supervised by CARE).

At the outset, Sodexo consulted individually with each local partner to design the intervention, establishing how much produce could be delivered each week, how, on what day, and, crucially, at what price. The company buys produce directly from the growers and negotiates prices with them. Initially, prices were based on a monthly evaluation by CARE of prices at the local market in Fort Dauphin, but the company now relies on its own monthly assessments. Sometimes it also uses market information from the capital Antananarivo to help decide prices.

Each month leaders of the producer groups meet with Sodexo to establish the quantity and variety of produce available and to negotiate prices for the month ahead. Sodexo orders from the different groups on a weekly basis, depending on seasonal availability. It does not have formal contracts with them. Taking into account transport costs and local inflation, the company tries to help its suppliers define prices that are profitable for them and competitive for Sodexo, without driving up local market prices.

Currently, for its vegetable supplies the company works with approximately 250 producers and 7 collectors in all; it does not have exact numbers for fruit suppliers. Besides bananas, group members supply Sodexo with a wide variety of fruits and vegetables, including tomatoes, courgettes, aubergines, lettuces, green peppers, onions, cucumbers, and papaya. Production is seasonal in nature, which makes volumes unpredictable. The local producers are usually unable to supply all of Sodexo's requirements, and so the company purchases the balance from the local market or retailers in the capital. All the fruit and vegetable in the market is produced in Madagascar.

The produce is delivered to Sodexo in a variety of ways. Rio Tinto sends a 4x4 vehicle every Tuesday to collect vegetables from COGE producers and to deliver them to Sodexo. For the CARE producers, collectors trained by the NGO visit Sodexo every Saturday to take the company's order. They collect the produce over the weekend and then deliver it by bush taxi on Monday morning. They collect payments from the company every Friday. A similar system operates for Tsara Traka and MAHASOA. These associations collect their produce every Friday, with Tsara Traka truck leaving on Saturday and arriving in Fort Dauphin on Sunday.

In addition, Sodexo sends a truck to the local market every Monday morning to make up the shortfall. Local collectors, who ensure that only good-quality products are selected, accompany its representative; these collectors are paid every Friday. On Thursdays other collectors deliver additional fruit and vegetables to the company to complete the week's requirements from local production.

The company also supplies organic compost to farmers supported by COGE to fertilise their land, which is generally of poor quality. Composting food waste from its operations at the mine camp produces this. A microfinance initiative has been set up to enable smallholders to invest in new crops or in improved seeds and inputs. Sodexo is a shareholder in the Institution Financière Régionale de l'Anosy (IFRA), which was established in April 2007.

In addition to fruit and vegetables, the initial FAO study identified a shortage of egg production locally, despite market demand. Consequently, for over a year Sodexo has supported the Lovasoa egg farm, advising and assisting producers on matters relating to hygiene and health

norms. Before beginning commercial production, it conducted a number of laboratory tests to ensure the quality of eggs and the integrity of the supply chain. Since March 2008, it has increased its egg purchases from a monthly average of 8,500 to 17,000 eggs, which meets 47 per cent of its requirements. The project still needs support to expand production, but part of its output is already reserved for sale through local markets and in restaurants in Fort Dauphin.

Post-intervention/innovation situation

In 2008, the company catered for over 700 workers at the camp's three camp dining facilities, providing an average of 68,000 meals monthly (breakfast, lunch/dinner, and takeaway packs). Sodexo purchased 54 per cent by volume of its fruit and vegetables directly from the producers supported by CARE International and COGE and from the Tsara Traka and MAHASOA associations. The remaining 46 per cent was bought locally at the Fort Dauphin market or from retailers in the capital. Although some of the produce at the market is grown locally, much of it comes from the capital, so is not included in Sodexo's sustainable development programme.

Analysis of logistical supply constraints and future demand compared with community producer capabilities shows that experimentation with new produce is viable, and that an increase in smallholder development could in future have the potential to meet all of Sodexo's food requirements. The company's long-term strategy is to buy all of its fruit and vegetables from local producers.

Business costs and returns

The 54 per cent of its requirements that Sodexo sourced from local producers and collectors in 2008 was worth a total of €58,113. The 46 per cent it bought through the local market cost it a total of €70,879. Costs for the sustainable development programme also includes the time of Sodexo employees required to manage it – two in 2006–08 and one currently.

The company's collaboration with local farmers benefits both sides. It means that Sodexo secures guaranteed supplies of fruit and vegetables, while the farmers have guaranteed sales for their produce and are able to develop their farm management skills. Sodexo is a reliable trading partner with an ongoing commitment to local purchasing, which enables farmers to make plans to expand their businesses in future. Over 250 subsistence farmers have acquired the technical and commercial skills to become suppliers to Sodexo. Some of the producers supplying Sodexo sell surplus produce at the local market.

The company has supported the pre-existing Tsara Traka association to develop and diversify its agricultural production, and has also helped it to establish a viable business plan enabling the 13 producers and up to 30 workers at peak production times, work within a self-sustaining business with an accountable management structure. The Lovasoa egg farm has found new clients, selling 50 per cent of its output to local hotels and restaurants and to private buyers.

Having close relationships with its supply base, Sodexo is able to experiment with new produce, identifying what grows best and what products are the most commercially viable. In addition,

developing local community production contributes to both Sodexo's and Rio Tinto's social licence to operate in Madagascar.

Social costs, benefits, and sustainability

The company estimates that its purchases directly benefit 100 people via the Tsara Traka association, 117 families or 600 direct beneficiaries from vegetables sold via COGE and a further 630 people through the CARE project. Besides these 1330 direct beneficiaries, many more families in the Anosy region benefit indirectly. There is additional wage work created. The 15 tons of bananas sold by the MAHASOA association provided a livelihood for 20 collectors and their families.

No formal impact study has been undertaken. Tété and Viviane Kazy in Fort Dauphin, are a couple that have 3-hectares of land. Supported by CARE International, the couple began 'market gardening' starting with pepper cultivation. Viviane has shared the new production methods with her neighbours resulting in the formation of a producer group made up of 35 families. Tété collects and negotiates the sales of the group's production, currently selling all their produce to Sodexo. When the Kazy family was asked what trade has meant for their family " Mr. Tété mentions that at the time they began to work to transform their farm, Viviane was very thin." Viviane now seems healthy and say's "We used to suffer from a three-months period of poverty with little food and little water, and we were mainly eating manioc. Now we enjoy a healthy diet, and our 5 kids go to school and college."

Some members of the Tsara Traka association have used their earnings to buy houses and plots of land. Others have paid for large family tombs, which in Madagascar are considered culturally important.

The construction of the mine, the first major investment in the region for decades, has had a big impact on local employment and local infrastructure. New roads have been built, along with a new port at Ehoala. The influx of workers has raised fears over the introduction of HIV/AIDS, so Sodexo has introduced HIV/AIDS awareness campaigns.

In addition, the company has provided training on malaria prevention (distributing bed nets to employees) and road safety programmes. It has carried out community activities promoting food hygiene, in the hope of mitigating high local levels of malnutrition. It also participates in cultural events, and has organised a football team made up of employees and subcontractors.

How replicable is the innovation?

Sodexo has established similar community-based sourcing programmes for projects in other countries. In formulating its plan for Fort Dauphin, it drew on its previous experiences around the world, and most particularly in Tanzania, where it has supplied food services to Barrick Gold at the Bulyhanulu and Tulawaka mines. It has recently been contracted to supply services for the North Mara mine, and discussions are ongoing to develop the approach. A similar approach has been proposed to several other clients, including Rio Tinto in Guinea-Conakry and Shell in

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Comment: This figure is drawn from Cyril's e-mail stating 100 beneficiaries from tsara tarka, 630 from Care programme and estimating that the average figure used for family size is 5 for the COGE figure.

Gabon.

This model of smallholder development should be of interest to other companies in the hospitality and food service sectors. It should also be of interest to companies looking to develop food supplies in a region where existing production is limited.

The model is reliant on finding effective local NGO or development partners to work with and is intensive in its approach. Critical to its success is an effective analysis of supply constraints and future demand, relative to community producer capabilities. In this case, analysis enabled identification of the most commercially viable products both for the smallholders and for the company. The farmers' project supported by CARE came to an end in January 2009, but the business relationship is now established and farmers continue to supply produce to Sodexo. The establishment of local institutions enables continued growth in local produce and smallholder development, once NGO programmes have concluded.

Lessons for businesses

- Vertical integration at community level, by working through lead contractors and established farms, provides the following benefits:
 - Selection of new smallholders is based on knowledge of their potential and reliability;
 - The model leverages existing experience in agricultural and enterprise development;
 - The creation of smallholder businesses reduces management costs of smallholder networks over time, while reducing smallholders' dependency on the lead firm.
- Sodexo's buying commitment has enabled the partners in the project to take a long-term approach, allowing them to build trust with local smallholders.
- Sourcing locally can reduce costs and makes the supply chain more reliable.
- Investments in social development, including empowerment of women, alongside business development, ensure that the engagement can be scaled up and that it can include marginalised groups.
- Sourcing from community-based suppliers can enhance a company's social licence to operate in an area.

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