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Abridged version of report on the implementation of IMS in Fairtrade cocoa SPOs in West Africa

By Dr Tedd George, January 2020

I) Background on author

Dr Edward George (aka 'Tedd') is an independent consultant, advising on African markets, commodities, trade finance and disruptive technology. He advises on a number of Fintech & agritech projects and is a regular speaker on the conference circuit and commentator in the media (see @DrTeddGeorge for details). Tedd has a number of specialities, including disruptive technology (Fintech, blockchain, agritech & regtech), soft commodities (cocoa, coffee, cotton, cashews & rice), agribusiness, trade and trade finance. For a full professional background see his LinkedIn page: <https://www.linkedin.com/in/edward-george-5840b17/>

II) Background to IMS project

Fairtrade, FLOCERT, licensees, farmers and Small Producer Organisations (SPOs) need to digitalize certain activities for better tracking, assurance of SPO members and professionalization of Fairtrade SPOs. This project involves cocoa SPOs in Ghana and Côte d'Ivoire with the main focus on Côte d'Ivoire. SPOs are supported in strong service delivery to members via Internal Management Systems (IMS) systems. SPOs have capacity to identify and implement improvements to training based on field-level monitoring of adoption. SPO capacity is strengthened via effective IMS so that they can better manage their organizations and provide clear benefits for their members and their commercial partners. An effective IMS is a critical tool to contribute to the organisational development of a SPO. Use of these systems are a prerequisite to access premium markets.

New FT Standards which came into force this year made it mandatory for certified SPOs to have IMS by their third year of certification. There is therefore an urgent need for SPOs to make progress with developing their own IMS.

This project seeks to:

- Make appropriate IMS systems accessible to Fairtrade SPOs in an affordable way
- Ensure SPOs take ownership of their data and benefit from the use of that data
- Identify and realize additional benefits of IMS for SPOs and their members, particularly in relation to access to credit and other financial services

The project will align with existing and planned data collection systems at Fairtrade International to maximize the opportunity for the data to further the objectives of Fairtrade.

The first phase of the project runs from 1 September to 31 December 2019 and forms of the basis of this report. This phase includes a review of FT's IMS policy & information systems,

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field research in Côte d'Ivoire in mid-October to visit SPOs and meet with their IT and other partners, and engagement with FT's legal and compliance teams.

The key deliverables by the end of Phase 1 include:

- 1) The project manager will have supported FTA to commission a software provider to develop a cost-effective IMS model that can be trialed at four selected SPOs.
- 2) The project manager will ensure there is the functionality in the IMS for Fairtrade International to collect relevant legal and compliance data from the IMS.
- 3) The project manager will work with a sample of SPOs to understand what level of cost is viable and sustainable for their organizations.
- 4) The project manager will identify and explore with relevant financial and banking partners, how transaction data recorded in IMS for deliveries of cocoa and payment of cocoa to SPO members, can facilitate access to financial services such as credit, crop insurance etc.
- 5) The project manager will work with Fairtrade International's Monitoring, Evaluation and Learning (MEL) team and Legal team to ensure that any IMS system deployed will have a relevant legal framework and data sharing agreements in place to allow Fairtrade International to collect SPO data and that there is a relevant monitoring and evaluation process in place to measure the success of the pilots.
- 6) The project manager will work with FLOCERT to ensure future assurance needs are incorporated into the software. Any new or updated systems must support SPOs to comply with the [Fairtrade Cocoa Standard](#) IMS requirements (section 3.1).

The IMS system should include the following functions:

- A digital payment system to make and track SPO payments to their members for cocoa purchased, any cash element of the Fairtrade Premium and Fairtrade Minimum Price differential payments.
- A digital process for needs assessment of the SPOs and their members in order to facilitate the decision-making process for all investments.
- An interface with relevant financial and/or banking partners enabling access for SPO members to open bank accounts.
- An interface with forest cover monitoring systems to allow easy transfer of farm polygon coordinates, if pragmatic.
- A functionality for effective record keeping of farm costs and income by illiterate and semi-literate farmers, to enable sound farm management decisions.
- Cost effective pricing for the IMS to enable roll out to Fairtrade certified SPOs.

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- Where required and with the agreement of the relevant SPO, Fairtrade International will be able to collect data from SPOs as part of mutual agreements between the SPO, Fairtrade International, members of Fairtrade and buyers of Fairtrade cocoa.

III) Key findings

After drawing together the evidence and considering the objectives of the IMS project, here follow my key findings:

- 1) The question of how data is collected, shared & analysed within Côte d'Ivoire's cocoa value chain is hugely complex, involving numerous partners and touching on many competing and interrelated issues (e.g. traceability, sustainability, child labour and environmental protection). SPOs fit uneasily into this data chain, collecting and sharing data as directed by their regulators, certifiers and commercial partners, but gaining little or no value from the data flow.
- 2) FT's 'Guidelines on setting up an Internal Management System (IMS)' is a comprehensive overview of the requirements & uses of an effective internal system for managing business information. But given the guidelines' broad scope and highly detailed content, they are unimplementable by SPOs, many of which have yet to comply with 5% of the standards and systems outlined in the document. As it stands the IMS strategy outlined is far too ambitious to be delivered.
- 3) SPOs are all implementing their own IMS projects, with a range of different partners and capabilities. Some SPOs, notably SPO Z and SPO Y, are highly advanced in their data collection & automation, and several use platforms that could form the basis of the model/framework to be used by other SPOs. But other SPOs have only basic data management (on laptops and spreadsheets), still use paper receipts and invoices and rely on delegates to enforce key compliance requirements (e.g. checking children are attending school, ensuring all beans received from certified farmers have not been mixed with non-certified production).
- 4) SPOs have numerous partners, each with its own data demands. To give one example, SPO X provides data not only to FT and Utz/RA, but also to the regulator (CCC), its banking partner (BCP) and an array of traders/offtakers, including Trader A, Trader B and Brand A. This means that any approach to develop a one-size-fits-all IMS solution for SPOs will not work as the requirements of each SPO vary so greatly.
- 5) Several traders operate their own sophisticated systems which produce high value data on farmers, their farms, dependents and cocoa flows. But these systems and the data in them are proprietary. Little or none of the data are shared with SPOs. Traders often post contractors to the SPOs to collect, analyse and send the data needed for their systems, so no SPO staff know how the systems work or how to use the data in them. This makes these systems disempowering for SPOs, giving them no ownership over their data or knowledge of how to extract value from it. There is a

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further question over data ownership, with data fed into proprietary systems belonging to the trader, not the SPOs (even though this is data about them).

- 6) Despite the lack of effective IMS in most SPOs, they are collecting rich, detailed and relevant data on farmers, their dependents, farms and cocoa deliveries. Most SPOs have sufficient data to make any farmer bankable (ID, farm details, cocoa delivery history, repayment history, certification), yet most farmers have no bank account and only a small proportion are using micro-insurance services. This is partly because the data created by SPOs is disaggregated and little of it is being shared internally or analysed. This creates gaps in compliance (e.g. checking whether kids are attending school) and greatly hinders the automation of impact monitoring & surveys. There is literally a treasure trove of data that could be leveraged to secure financing and improve traceability systems, but currently most of it remains unused.
- 7) As a result of the above factors, SPOs have little sense of ownership of the data they produce and share, nor do they understand its value or know how to extract value out of it. For most staff data collection is “fire-and-forget”: once the data has been input into the certifier or offtaker’s system or sent to accounts, it sits idly on a server or in a spreadsheet. Giving SPOs a sense of ownership of their data will require a mental shift among staff as well as investment in training to improve the data management systems.
- 8) A final consideration are the regulatory standards being drafted by the Ivorian government which reflect best international business practice. It is possible that the government will impose its own IMS system on SPOs, regardless of the systems they are operating. This makes it even more urgent that SPOs review their data management systems (where they exist) and organise their data infrastructure in order to ensure that key issues like deforestation, fraud detection and child protection are embedded. If properly done, this will position each SPO well to plug into any platform created by the government and migrate their data across to it smoothly.

IV) Key recommendations

Based on the research carried out, I propose the following recommendations for delivering the key objective of the IMS project: to empower the SPOs to have ownership of their data, understanding of its value and the knowledge to exploit this & manage the data effectively.

IMS pilot and software partner

Given the many partners that SPOs have and their different systems and data demands, a tailored approach is required to deliver each SPO with an IMS that is fit for its needs and fit for purpose. SPOs already labour to meet the data requirements for certification and traceability from multiple partners. Any additional system imposed by FT from above will be viewed as arduous and will bring no sense of data ownership to the SPO. Moreover, there is no need to redo the excellent work carried out by many SPOs in gathering data on farmers, their farms, dependents and cocoa deliveries. The problem is that this data is unused and that all SPOs lack a coherent data strategy.

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I therefore recommend turning the approach of this project on its head and addressing the IMS challenge from the ground up, based on the needs of each SPO. The original TOR proposed a trial of the IMS system in four SPOs. Instead, I propose the pilot be used to develop a model for engaging & supporting SPOs to build their own IMS.

The pilot will aim to create an IMS framework/model which can be used as a benchmark by all SPOs, a road map for implementation tailored to each SPO's level of development, and support to close specific gaps (e.g. enhancing processes, sorting out GPS data, creating MIS). The software partner will work closely with SPO staff and provide training to ensure that by the end of the project the SPO owns the IMS, understands how to use it and how to get value out of the data in it.

An outline of the revised pilot and requirements of the software partner are at the end of this report.

Leveraging traders' and offtaker's data management systems to create IMS

There is an opportunity to leverage the data being input into the management systems of the SPOs' offtakers as the basis for the SPO's IMS system. This will require the cooperation of the offtakers whose systems are proprietary but should be feasible as the data being fed into the system comes from the SPOs themselves. Trader X might be a suitable partner as their own outreach programme is closely aligned with FT's values & objectives for the SPOs.

Analysis of data & automation of reporting

A common theme in my discussions with all players in the cocoa value chain was the need for better analysis of the data being created. Most data created by the SPOs is sent to their partners and never used internally. Even the providers of IMS to the SPOs – Company Y and SPO A – do relatively little with the data they collect, despite its richness and scope.

Better sharing & management of data, and the introduction of Machine Learning (ML), will enable SPOs to use their data to:

- calculate more accurate monthly crop estimates per farmer, instead of the rather crude 'potentiel de livraison' model
- detect fraudulent deliveries, payments & flows
- identify aging trees/farms that need replanting
- identify yield hotspots and underperforming areas
- monitor & foster the training programme
- use data on farmer's attendance at training to improve their credit & risk rating
- identify the most productive farmers who can be surveyed in order to discover best practices that can be scaled across the SPO.

Better sharing of data between FT's teams, projects and Flocert could also be used to:

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- Enhance Flocert's monitoring system to give a broader community profile, giving a wider economic and social picture of the farming community.
- Enhance and automate the impact assessment process, feeding in and analysing data from compliance audits, household income surveys and other projects

A major focus of the project should be on training SPO staff and délégués on the value of data, how to manage it effectively and how to extract value out of it. This requires a mental shift in the staff and is part of the empowerment process which aims to ensure they take ownership of their data.

A key player in this process will be the délégué. Although most have an encyclopaedic knowledge of their farmers, families and farms, all of this is kept in their heads. By offering them tailored digital tools their work can be greatly enhanced. This includes live or regularly-updated MIS about the farmers, their farms, crop yields, input usage and deliveries, as well as training materials & business information. Digital délégués can be used as a conduit for delivering digital content to farmers relating to cocoa, training or education. This could be transferred from the délégué's phone to members using Bluetooth, requiring no signal and at no cost. Délégués could also take photos of farmers to prove they attended training, strengthening the audit process.

Data ownership and protection

A key consideration of the IMS project is data ownership and data protection. Currently SPOs own all of the data they produce, but they do not own the data they feed into the systems used by their offtakers. Any future IMS must comply with Fairtrade's data protection policy as well as with relevant national regulations, notably those produced by the Autorité de Régulation des Télécommunications/TIC de Côte d'Ivoire (ARTCI). In addition, the project must ensure that all data is held by the SPO, that any servers used are based in Côte d'Ivoire and that any data shared with partners is covered by the correct release agreements. This favours a bottom-up approach for building each SPO's IMS system, which will ensure the SPO has *de facto* ownership & control of the data it produces. FT's current data agreement framework being used by Flocert and Codeimpact should be adequate for this project and could be updated if the data requirements change.

Child labour, digital identify and digital land title should be included in the remit

I recommend that child labour monitoring & evaluation be included in the remit of the IMS project. SPOs produce key data for monitoring child labour – including child ages, school enrolment and distance to school from the farm. This can be leveraged to generate alerts when the likelihood of children not attending school is high. Bringing in technologies such as Capture Systems' biometric fingerprint sensors in schools to monitor school attendance could hugely improve the credibility of the child labour audit.

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I also recommend that giving farmers' a digital identity and digital land title, both based on the data collected by SPOs, should be an objective of the IMS project. Both would bring huge benefits to farmers. But each is a complex problem with multiple trust blockages and will require careful study to adopt the most effective model for delivering real change.

How can SPOs fund the development and running costs of their IMS?

The question of how SPOs could fund a fully-functioning IMS is complex, given the many different partners and funding sources they have. Generally SPOs pay for data management out of their operational costs, usually as part of accounting/IT. This is funded from the SPO's capital and income, and generally it has a low budget. There is little capacity for SPOs to substantially increase expenditure on IMS, unless it is funded by other means. The monitoring systems used by SPOs' offtakers are installed, run and managed by the offtakers themselves or by their contractors, with the costs split between the offtakers and the SPOs (who use some of their premium to pay for the systems). But the data on the system is proprietary and SPOs have little or no control over how it is used.

Any IMS project will therefore need to be funded from alternative sources. The first phase of the project – data audit, action plan & training – comes at a high cost and would need to be funded by external partners. The next phase of the IMS project would aim to deliver this to 50 SPOs by the end of the project. On completion of this process, SPOs could then fund the much lower cost of running the IMS (servers, data costs, power) by charging a fee per kilo of cocoa taken out of the premium.

The bottom-up approach of building each SPO's IMS has the added benefit of delivering a long-term impact. Too often projects fizzle out when the funding runs out and leave no lasting benefit. In contrast all of the SPOs involved in this project will be trained how to own, manage and extract value from their data. By the end of the project they should all have a clear data strategy which they can develop even if FT funding for the project dries up.

Mobile network and connectivity

All farmers have mobiles, the most common handsets being Tecno & itel (Transssion), LG and Samsung. Most have working WhatsApp. Charging does not appear to be a problem. The quality & reach of the mobile network varies greatly between the SPOs, with some reporting reliable signals while others are unable to carry out digital transactions in their village or on their farm. The unreliability of the rural mobile network, added to the high cost of sending SMS and downloading content, represents an almost insuperable barrier to digital adoption. In order to address this, I have three recommendations:

- Help the SPOs engage with the dominant telcos in their area (e.g. MTN & Orange) and selected development partners (e.g. Advans) to improve the rural mobile network & get more farmers connected digitally.
- Ensure that all digital solutions are able to function offline, with data being up/downloaded later when the device has a signal or a Wifi connection.

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Explore ways of delivering free or almost WiFi to délégués and members. Internet hubs, powered by off-grid solar units, could be installed in all cooperatives to provide Wifi to staff, délégués and members when they come to deliver beans. Farmers could be given access in return for completing a short questionnaire and would use the signal to transact all their business digitally (e.g. receiving payment for their cocoa, taking out loans). A more ambitious solution would roll out Internet hubs at each of the field warehouses. This would enable délégués to be the digital point of contact with SPO members where they can make digital transactions. This network could be extended across the section using mobile ‘mesh’ networks, enabling all farmers to be connected through each other’s devices.¹ Such a service, which could even be offered for a fee to non-members, could prove transformative for the local economy. Several distributed power companies (Azuri Technologies, M-KOPA Solar and BBOX) could develop functional solutions for each community.

Mobile banking & financial services

Any financing solution must take into account the farmer’s needs, bearing in mind the typical production cycle (around 10 harvests per year, each with a 15-20 day payment cycle) and the farmer’s key financing requirements (school fees, inputs, adverse events). SPOs provide most of their members’ financing, from inputs at the start of the season (paid out of the previous season’s premium) to advances on cocoa deliveries and short-term loans.

To date their involvement with commercial banks (BCP, Banque Atlantique) has been limited, with little uptake of banking products by farmers. This is primarily due to Know Your Customer (KYC) onboarding difficulties and high transaction and banking costs. Mobile money products offered by the telcos (Orange, MTN) are rarely being used for transactions within the farming communities, owing to the unreliability of the mobile network.

As a result, cash is king in the farmer villages and any banking solution needs to address the requirement for cash payments to be a part of the digital solution.

In order to improve the availability of financial services to farmers, SPOs should work with their banking partners to address the following barriers to adoption:

- 1) Easing onboarding and KYC processes. The lack of formal ID and credit history are blocking many bankable farmers from opening bank accounts and securing lending. FT can help SPOs work with their banking partners to feed the data they have on farmers (ID, farm, production) into the bank’s system, automating most of the KYC & onboarding process.
- 2) Reducing banking and transaction fees and, where possible, offering free digital payments. Currently farmers need to provide an opening balance of XOF 10,000 to open a bank account, which is a major disincentive. Similarly, transaction costs for digital payments are around XOF 50, making cash a preferable option for all but the

¹ Farmstrong is deploying this technology in its cooperatives. See this article for an outline of how mobile mesh networks function: <https://medium.com/rightmesh/what-is-mobile-mesh-networking-964732814943>

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largest payments. Ecobank's free Xpress mobile banking account could be an option (as there is no charge for payments within country), although the quality of the local mobile network will determine whether this is feasible in rural communities.

- 3) Helping develop offline mobile payment solutions that enable farmers to transact without 3G or 2G, uploading & downloading data when they have a connection. There are a number of tech solutions that could work (some involving webchat), but the key will be ensuring there is no additional cost in using the service (e.g. having to pay for SMS alerts).
- 4) Encouraging banks to take risk on the SPO's lending to farmers. Most SPOs have data on farmer's cocoa deliveries and loan repayment records stretching back several seasons. Given that banks are already financing the SPOs and can't lose the same money twice, it makes sense for them to take the next step and take direct risk on the farmers. Bank A is taking 50% of risk on SPO X's farmer lending in 2019/20. By carefully using data on farmers the bank can decide which to lend to and gradually move from taking risk to direct lending.
- 5) Working with farmer communities and the bank's distribution partners to boost the number of cash-out options in farmer villages. This goes to the centre of the debate over cash versus digital/mobile payment. The reality on the ground is that cash is king and farmer villages are starved of liquidity. A larger network of agents is needed to enable farmers to cash-out of their mobile wallet or bank account whenever they need to. Paradoxically by giving farmers more options to cash-out from digital they will be incentivised to carry out more of their transactions digitally, weaning them off cash. If a farmer knows he can get cash whenever he needs it, he'll be more likely to accept a digital payment from a neighbour and leave a balance on his wallet overnight. Over time, digital payments could make up the lion's share of transaction value, with cash retaining a role for small local payments. Ultimately it's about letting cash and digital co-exist, incentivising digital usage while at the same time recognising cash's primacy in the off-grid informal economy.
- 6) Only where there is no banking partner or poor service from an existing partner should SPOs consider switching banks. Given the complexity of KYC & onboarding processes, the initial focus should be on maximising value from existing relationships. This can be facilitated by comparing the offering of the same bank to other SPOs and selecting successful innovations to roll out to all SPOs.

V) Revised scope of work & requirements for the software partner tender

Given the above findings & recommendations, I propose revising the scope of work for the software partner to the following:

- 1) Carry out pilot in 3 types of SPO, each reflecting different levels of IMS development:

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- a. Group 1: certified SPOs with a developed IMS (e.g. best performing SPOs under SPO Z's umbrella)
 - b. Group 2: SPOs in the 2nd & 3rd year of certification (when they are approaching the deadline for having a fully-functioning IMS)
 - c. Group 3: SPOs using an offtaker system with no working IMS of their own.
- 2) Engagement with SPOs during pilot will include:
- a. Full data audit and mapping of SPO data flows, in order to understand what works, what doesn't and what key flows/analysis is missing
 - b. Developing data management strategy for each SPO, including a road map for implementation of IMS and work plan for closing priority gaps
 - c. Where possible, integrating existing data collection & flows into the IMS (in order to avoid starting from scratch or duplication of effort)
 - d. Training all SPO staff (administration & délégués) in how to use data and extract value from it. It is essential that there is knowledge and expertise in using the IMS across the SPO, and not concentrated in a single data officer. High turnover for talented staff is an endemic problem for SPOs and there needs to be strong and diversified capacity in managing the IMS in order to avoid any disruptions when staff move on.
- 3) Each type of SPO will require a different engagement from the software partner:
- a. Group 1: review & optimisation of data collection, transmission & analysis, develop IMS capabilities where missing (e.g. GPS mapping, more accurate farmer metrics), develop MIS for SPO managers and délégués
 - b. Group 2: review progress with implementing IMS and help craft roadmap to ensure all requirements are met by the end-year deadline, with a data management plan for the post-certification period
 - c. Group 3: reviewing SPO's offtaker systems & engaging with offtakers to see how these systems can be leveraged to form the basis of the SPO's IMS, as well as helping craft road map to migrate data into IMS
- 4) On completion of the pilots, the software partner will draw together its findings to develop:
- a. An IMS model/framework for all FT SPOs, including all desired capabilities in a phased roll-out. This model must be flexible, modular and designed to enable any SPO to slot into it, regardless of the level of its IMS development. The model will include a phased implementation process and a selection of IT/telco/banking partners for each capability, delivering value at each phase while recognising that all SPOs do not have the same requirements.
 - b. A process for supporting IMS development for the three different groups of SPOs, each tailored to the SPO's level of IMS development
- 5) Creation of templates for Top Ten MIS reports for SPOs, based on their needs

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- 6) Automation of data collection on the ground wherever possible (using digital channels) as well as the distribution of reports, using live or almost live data
- 7) Assistance with data analysis; this could include building models for scoring farmers (yields, sustainability) and identifying best and worst performing areas

The ultimate aim of the pilot is to ensure that by its end the SPO has full ownership of its data, fully understands how to manage the IMS and has the knowledge to extract value from its data (e.g. to get financing for farmers, to improve efficiency).

Requirements for bidding software companies

Software companies pitching for the tender should meet the following requirements:

- A tried and tested data management platform
- Expertise in dealing with the systems used for the management of commodity flows, payments & traceability
- Evidence of historical transactions over several seasons (no start-ups)
- Experience dealing in Côte d'Ivoire's cocoa sector, including familiarity with the legal system, the cooperative model & the country's cocoa value chain
- Experience dealing with complex projects involving numerous stakeholders & other software partners
- Ability to deliver training to FT and SPO staff so that they can take full ownership of the resulting IMS, understanding how to extract MIS & value from the data

Other requirements for running pilot

Given the complexity of the project and the high number of stakeholders, the pilot will require an overall project manager. This role will have the following deliverables:

- Managing the relationship between the software partner and the project's many stakeholders, including the SPOs, regulators, FT's MEL team, Flocert, traders & offtakers, and IT service providers, to ensure that the project is aligned with FT's broader digital strategy and is fully compliant with its policies
- Monitoring progress of the SPO pilots through regular update calls (e.g. once per week) and ensuring that the agreed deadlines and outputs of the pilot are met
- Working with the software partner and SPOs to draw together the findings in a report; this will include key findings, an explanation of the proposed IMS model and approach for each type of SPO, and recommendations & costings for the roll-out of the IMS project to 50 SPOs

Given the absence of a resource in FT to carry out this work, it is recommended to hire an external consultant to carry out this role for the duration of the pilot.

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Proposed timetable of pilot

The pilot will run during H1 2020 till end-June 2020. The pilot will focus on three types of SPO, with 1-2 SPOs selected in each group (depending on budget constraints).

- 1) Group 1: SPO with existing IMS (1-2 SPOs under SPO Z umbrella would be ideal)
- 2) Group 2: SPO in 2nd or 3rd year of certification phase
- 3) Group 3: SPO using offtaker's proprietary information management system (e.g. SPO W or SPO Y)

On completion of the pilot, the software partner and project manager will have produced:

- A model for supporting the 3 different kinds of SPOs, with an IMS roadmap, approved solutions & partners, training & IT/coding requirements
- Costing for each model, with likely timeframe for implementation depending on how much work is needed & the time required to train staff (e.g. 6 months to 1 year)
- Proposal for rolling out these models to a selection of 50 SPOs in FT's Ivorian network from H2 2020 onwards (using funds raised for Phase 2 of the IMS project)