Purchase for Progress (P4P)

Damien Fontaine

April 2014
Purchase for Progress (P4P)

VIDEO: Progress so far

WFP’s Purchase for Progress (P4P) initiative is generating a wealth of information on connecting smallholder farmers to markets. As the pilot initiative goes into its final year, this video shares important lessons learned and challenges identified to date.

Date: 12 November 2012

Topics: Purchase for Progress

Channels: Stories
P4P rationale

• As the world’s largest humanitarian agency, WFP is a major buyer of staple food.
• In 2013, WFP bought US$1.16 billion worth of food globally.
• **Shift from food aid to food assistance**: use WFP’s purchasing power to catalyse development of agricultural markets
• Historically mainly in-kind food aid, but now more than 80 percent of this in developing countries.
• P4P one step further: pilot to test if we can procure directly from smallholder farmers.
P4P Quick facts

Guatemala
Honduras
El Salvador
Nicaragua
Mali
Burkina Faso
Ghana
Sierra Leone
Liberia
Ethiopia
South Sudan
Kenya
Uganda
Democratic Republic of the Congo
Rwanda
Tanzania
Malawi
Zambia
Mozambique
Afghanistan
Laos
P4P Development hypothesis
The P4P entry point

P4P = Procurement (WFP) + Capacity Building (Partners)  [P4P Writesshops, 2011]

WFP procurement – WFP brings the market

Govt, NGOs, UN agencies and private sector already supporting the smallholder sector (farmers & FOs) – capacity building & technical assistance
Approaches

Key Drivers:
- SHF Production/Productivity
- SHF Storage/Aggregation
- SHF & FO Marketing
- FO Capacity
- Women’s Engagement
- Financing
- Buyer Behavior
- Enabling Environment

SHF market access and changing emphasis on key drivers over time
How does it work?

WFP Local Procurement – the Foundation of P4P
Principles of acceptable, timely and cost efficient food procurement has remained the same for P4P purchases.
Targeted P4P Market Entry Points

Consumers

Retailers

Large-scale Food Processors/Large-scale Millers/
Large-scale Wholesalers

Blended Food or Small-scale Processors

Farmer Organizations
  Third Tier
  Second Tier
  First Tier
*Levels and characteristics of FOs are different in each P4P country

Warehouse Receipts System

Commodity Exchange

Medium-scale Traders

Small-scale Traders (Collectors)

WFP Point of Entry RP/LP

Agricultural inputs & services

Smallholder Farmers
Commodities purchased

Contracted quantities (mt) in 20 pilot countries, by commodity
Sept 2008 - June 2012

- **Maize**: 74%
- **Rice**: 8%
- **Pulses**: 7%
- **Other Cereals (sorghum, millet, wheat)**: 5%
- **Processed Food (flours, UHT-milk, veg. oil)**: 4%
- **Blended Foods (CSB, HEB, HES)**: 2%
<table>
<thead>
<tr>
<th>P4P Countries</th>
<th>FOs currently targeted under P4P</th>
<th># of Farmers currently targeted under P4P</th>
<th>% Women Members</th>
</tr>
</thead>
<tbody>
<tr>
<td>Afghanistan</td>
<td>7</td>
<td>584</td>
<td>0%</td>
</tr>
<tr>
<td>Burkina Faso</td>
<td>7</td>
<td>292,607</td>
<td>50%</td>
</tr>
<tr>
<td>DRC</td>
<td>13</td>
<td>9,346</td>
<td>34%</td>
</tr>
<tr>
<td>El Salvador</td>
<td>20</td>
<td>8,588</td>
<td>34%</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>30</td>
<td>587,127</td>
<td>13%</td>
</tr>
<tr>
<td>Ghana</td>
<td>26</td>
<td>1,524</td>
<td>48%</td>
</tr>
<tr>
<td>Guatemala</td>
<td>64</td>
<td>8,033</td>
<td>37%</td>
</tr>
<tr>
<td>Honduras</td>
<td>21</td>
<td>10,080</td>
<td>24%</td>
</tr>
<tr>
<td>Kenya</td>
<td>74</td>
<td>9,955</td>
<td>60%</td>
</tr>
<tr>
<td>Liberia</td>
<td>26</td>
<td>2,744</td>
<td>70%</td>
</tr>
<tr>
<td>Malawi</td>
<td>21</td>
<td>14,581</td>
<td>45%</td>
</tr>
<tr>
<td>Mali</td>
<td>12</td>
<td>19,432</td>
<td>48%</td>
</tr>
<tr>
<td>Mozambique</td>
<td>20</td>
<td>38,943</td>
<td>39%</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>15</td>
<td>8,920</td>
<td>34%</td>
</tr>
<tr>
<td>Rwanda</td>
<td>28</td>
<td>24,933</td>
<td>45%</td>
</tr>
<tr>
<td>Sierra Leone</td>
<td>23</td>
<td>7,385</td>
<td>55%</td>
</tr>
<tr>
<td>South Sudan</td>
<td>11</td>
<td>2,912</td>
<td>31%</td>
</tr>
<tr>
<td>Tanzania</td>
<td>28</td>
<td>18,999</td>
<td>41%</td>
</tr>
<tr>
<td>Uganda</td>
<td>55</td>
<td>55,364</td>
<td>56%</td>
</tr>
<tr>
<td>Zambia</td>
<td>58</td>
<td>5,049</td>
<td>44%</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td><strong>559</strong></td>
<td><strong>1,127,106</strong></td>
<td><strong>29%</strong></td>
</tr>
</tbody>
</table>
Although targeting criteria are **country-specific**, FOs usually selected based on fairly **common (across countries) selection criteria**, such as:

- Presence of supply-side partners supporting the FO on production and post-harvest
- FOs focused on staple commodities
- FOs capable of producing a surplus and capable of aggregating a min quantity (country specific)
- Composed largely of smallholder farmer members (country specific definition)
- Legally registered and possess a bank account
- With a minimum set of women represented as members and/or in leadership position, or with the intention to achieve an increased gender balance (30-50% women)
Farmers’ Organizations targeted (Sep 2013)
Reliance on Partnerships across the value chain

FARMERS’ ORGANIZATIONS, SMALL/MEDIUM-SCALE TRADERS, WAREHOUSE RECEIPT SYSTEMS, PROCESSORS

CREDIT

PRODUCTION

DEMAND
WFP and other buyers, traders, government

POST HARVEST HANDLING & QUALITY

INFRA-STRUCTURE

RESEARCH & MONITORING & EVALUATION

POLICY ENVIRONMENT & Advocacy

Capacity Development
Women’s social and economic empowerment
Achievements
P4P Procurement levels and achievements

- **WFP**
  - 431,542 mt contracted, at a value of US$ 167 million.
  - 287,041 mt delivered to WFP (66%), worth US$ 117 million put more directly in the pockets of SHFs
  - 455 FOs have signed contracts with WFP in 20 countries, 379 FOs have so far delivered
  - 21% default on completed contracts
  - Procurement levels increased during 2010 as more COs started implementation, decreased during 2011 (drought year) and resumed in 2012.

- **Procurement from FOs** has been the main modality/entry point, but wide variety in type and capacity levels of P4P FOs. Most are considered “low capacity” and have had little collective marketing experience prior to P4P

- **Beyond WFP**
  - Estimated sales over 200,000 mt, at a value of over US$ 50 million

- Governments are starting to procure portions of their strategic reserves (often 30-40 percent, more directly from smallholders, using P4P as an example.

- Private sector is starting to recognize the potential of investing in smallholders as new suppliers.
Capacity building

- **Training**
  - Over 712,000 smallholder farmers, lead farmers, agricultural technicians, small and medium traders, school staff and warehouse operators have participated in training activities
  - On average 28% of trainees were women

- **Equipment and infrastructure**
  - Storage
  - Post-harvest handling equipment
  - Processing equipment (labour-saving for women)

- **Access to credit**
  - Facilitate relationships with financial institutions
Presence of WFP as a buyer has attracted other value chain supporters, such as financial institutions.

Kaptebee Sach-Angwan Youth Group, Kenya
“Passing the torch”
Key Challenges when engaging with FOs

• Changing mind-set and practices – not likely in 5 years timeframe for low capacity FOs.
• Risk of creating dependency on a “good and patient” buyer such as WFP.
• Unrealistic price expectations from FOs
• Defaults & delays increase when you work with lower capacity FOs => risk to WFP pipeline (or to Govt’s National SF pipeline)
  – Partly also linked to long procurement procedures and price volatility
• Trickle down to the farmer?
Learning & Sharing
More information from P4P

Web: www.wfp.org/p4p

Email: wfp.p4p@wfp.org

Twitter: @WFP_P4P
#Purchase4Progress
Good governance

- Thorough procedures are important for accountability and transparency

- Core mandate around food recipients → price and quality constraint

- For the other parameters: flexibility
<table>
<thead>
<tr>
<th>Suppliers</th>
<th>Standard LRP</th>
<th>P4P</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-qualified suppliers (mostly larger traders), that are legal registered, have financial capacity, delivery capacity, and a good performance record.</td>
<td>Pre-qualified smallholder FOs and small and medium traders</td>
<td></td>
</tr>
</tbody>
</table>
| Contracting mechanisms | Competitive tenders | • Competitive tenders  
• Pro-smallholder competitive tenders (section 3.4.1)  
• Direct contracts  
• Forward contracts  
• Commodity exchanges  
• Purchasing through warehouse receipts systems  
• Developing links with food processors |

### Procurement requirements

<table>
<thead>
<tr>
<th>Price</th>
<th>Standard LRP</th>
<th>P4P</th>
</tr>
</thead>
<tbody>
<tr>
<td>Determined by authorized contracting mechanisms but not to exceed import parity</td>
<td>Determined by authorized contracting mechanisms but not to exceed import parity</td>
<td></td>
</tr>
<tr>
<td>Quantities</td>
<td>Preference for relatively large quantities</td>
<td>Will consider much smaller quantities to accommodate suppliers’ capacities</td>
</tr>
<tr>
<td>Performance bond</td>
<td>5–10%</td>
<td>None</td>
</tr>
<tr>
<td>Quality</td>
<td>WFP standards (or relevant recipient country standards)</td>
<td>WFP standards (or relevant recipient country standards)</td>
</tr>
<tr>
<td>Bagging</td>
<td>Bagged in 50 kg bags and marked with WFP logo</td>
<td>Flexible: may subsidize bagging and/or waive marking as needed to accommodate capacity of supplier</td>
</tr>
<tr>
<td>Delivery terms</td>
<td>DDU to specified destination (usually WFP warehouse) on specified date</td>
<td>Flexible: WFP may collect the commodity, modify delivery locations, allow extended delivery times, etc.</td>
</tr>
</tbody>
</table>
# Procurement modalities & channels

<table>
<thead>
<tr>
<th>Procurement/Contract modalities</th>
<th>Procurement channels/sources-approach</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Competitive (adjusted) tenders</strong></td>
<td><strong>1. Farmers’ Organizations</strong> (1&lt;sup&gt;st&lt;/sup&gt; tier, 2&lt;sup&gt;nd&lt;/sup&gt; tier, 3&lt;sup&gt;rd&lt;/sup&gt; tier; low/medium/high capacity levels)</td>
</tr>
<tr>
<td>FOs/suppliers compete among each other but tenders are “adjusted” to suit suppliers’ capacities</td>
<td></td>
</tr>
<tr>
<td><strong>2. Direct contracts</strong></td>
<td><strong>2. Small &amp; Medium Traders – linked to SHFs:</strong> procurement through SMTs but SMT act as collectors of SHFs’ produce and/or distribute inputs to SHFs/FOs</td>
</tr>
<tr>
<td>Competition is waived &amp; quantities/prices directly negotiated with the suppliers. Prevailing local market prices, IPPs and price of last tenders taken as reference</td>
<td></td>
</tr>
<tr>
<td><strong>3. Forward delivery contracts</strong></td>
<td><strong>3. WRS/CEX – linked to SHFs &amp; FOs:</strong> procurement through WRS/CEX &amp; building SHFs/FOs capacities to access WRS/CEX</td>
</tr>
<tr>
<td>Competition waived. Contract negotiated at planting season or in advance of harvest to provide assured market to supplier, help plan production/marketing and facilitate access to credit. Prices can be renegotiated closer to delivery</td>
<td></td>
</tr>
<tr>
<td><strong>4. Processors – linked to SHFs &amp; FOs:</strong> procurement through Processors &amp; linking SHFs/FOs to processors</td>
<td></td>
</tr>
</tbody>
</table>
Approach 1: Buying from FOs

- Buying from FOs of various capacities (high, medium, low) who are receiving supply-side support on production and marketing
- Linking procurement modalities to FOs capacities – progression from non competitive to competitive modalities
- Investment in storage & warehousing equipment

Approach 2: Support to emerging structured trading systems

- Supporting WRS & Commodity Exchanges through
  - direct support for the establishment of WRS
  - purchasing through WRS/CEX to create a “pull-in/follow-in effect”
- Working with farmers’ organisations to build their capacities to participate in structured trade

Approach 3: Small and medium traders

- Enhance competition among buyers & provide alternative market for farmers’ surpluses
  - Engage traders as collectors of farmers’ produce (agro-dealers in Kenya)
  - Investment in marketing equipment– stitching machines, weighing scales

Approach 4: Developing local food processing capacities

- Connecting farmers’ organizations to established food processors
- Developing local processing capacity – biscuits, supplementary feeding products

Approaches are combined to fit country context

Common approach in all countries

Ethiopia, Malawi, Tanzania, Uganda and Zambia

Mozambique and Kenya

Afghanistan, Ethiopia, Guatemala, Mozambique, Zambia