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Programme
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de Alimentos

**Executive Board
Third Regular Session**

Rome, 19 - 22 October 1999

ADMINISTRATIVE AND MANAGERIAL MATTERS

Agenda item 10

For information

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Distribution: GENERAL

WFP/EB.3/99/10-A

30 August 1999

ORIGINAL: ENGLISH

REVIEW OF THE METHODOLOGY ON LOCAL PURCHASES

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This document is submitted for information to the Executive Board.

The Secretariat invites members of the Board who may have questions of a technical nature with regard to this document, to contact the WFP staff focal point indicated below, preferably well in advance of the Board's meeting.

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INTRODUCTION—BACKGROUND TO THE PAPER

1. At its Annual Session of 1998, the Executive Board considered a paper on Local Purchases of Food and Non-food Items (WFP/EB.A/98/8-B). As indicated in that paper, the overriding considerations for WFP in undertaking local and regional purchases of food are that the purchases:
 - a) are more cost-effective than importing food commodities;
 - b) are more timely in supplying food aid; and
 - c) provide more appropriate food commodities to WFP's beneficiaries.
2. In reiterating the importance of local food purchases, the Board urged the Secretariat to be aware of the possible positive or negative consequences of such purchases on production, markets and local prices. In addition, the Board requested the Secretariat to present a document explaining the analytical processes undertaken prior to effecting local purchases of food, so that these activities are carried out in optimal conditions, and avoid giving rise to negative effects.
3. In 1999 the Secretariat conducted a review of WFP's procedures for effecting purchases of food in developing countries. The review included missions to East and West Africa to identify the possible negative consequences of past purchases on local markets.

WFP Principles for Purchasing Food in Developing Countries

4. When purchasing food in developing countries, WFP is generally guided by three basic principles to avoid driving up local food prices:
 - a) to the extent possible, food purchases are made through competitive tenders to ensure that prices are in line with the prevailing market;
 - b) to the extent possible, WFP avoids purchasing during the agricultural lean season; and
 - c) to the extent possible, WFP avoids purchasing in food-deficit areas.

CONCLUSIONS OF THE REVIEW

5. The current principles used by WFP in guiding local procurement of food appear to have helped avoid significant distortions of local food markets or inflated prices. The review of WFP's procedures for local food purchases found no indication that such purchases had adversely disrupted markets in developing countries. Nor were there any indications that such local food purchases had had other negative impacts on local consumption, even in markets where WFP purchases accounted for a significant share of the marketable food surplus.
6. The *WFP Food Procurement User Guide*, introduced in 1996, and the appointment of specialized staff in country offices to undertake procurement, have helped to improve local purchase activities. The general approach of using import parity pricing ensures that prices paid are not above prevailing international prices.



7. Nevertheless, the review found that WFP food purchases in developing countries did not always follow a systematic approach, and recommended that current procedures be strengthened to help ensure that WFP food purchases are undertaken in a well-planned and coordinated manner, with the fullest possible knowledge of the prevailing market situation. In particular, the review suggested that WFP procurement procedures should be more systematic in:
- a) developing a country situation analysis;
 - b) maintaining up-to-date market intelligence;
 - c) preparing an annual food procurement plan;
 - d) establishing systems to coordinate WFP food purchases with those of other significant food purchasers; and
 - e) reviewing prices before finalizing purchases.

Country Situation Analysis

8. A country situation analysis should be required for each developing country in which WFP purchases food, providing WFP food procurement and food programming staff the basic information necessary to plan for food purchases as part of the WFP food pipeline for the country or region, as well as forming the basis for hand-over notes when procurement staff are rotated. The country situation analysis should include the basic information on the country's food systems, such as:
- a) main food crops and food-producing areas, including usual overall levels of production, and areas of regular food deficit;
 - b) main agricultural seasons by crop and area, including indications on the optimum periods for purchasing food in local markets;
 - c) latest food balance sheets, including overall food needs and any specific consumption habits that WFP should take into account when purchasing food;
 - d) basic data on food markets, including relative size, location and importance;
 - e) exports and imports of food commodities, and major barriers to the free flow of food;
 - f) inter-regional trading and transport networks; and
 - g) data on major traders.
9. As these basic data are unlikely to change frequently, the country situation analysis would only need to be updated periodically, as required by significant changes in the country's food situation.

Market Intelligence

10. Up-to-date market intelligence should be basic to planning food purchases in developing countries. Information on the situation of the main suppliers within a country or region, together with market prices, forms the core data on which to base local purchase decisions, providing a guide as to whom to buy from to achieve maximum reliability and cost-effectiveness and when to time purchases. The regular compilation of market intelligence helps to guide decisions on when, where and how much food WFP should purchase.



11. Market intelligence includes data on:
 - a) the expected harvest and the quantity of food likely to be available for purchase locally, which in some countries will be derived, *inter alia*, from FAO/WFP Crop and Food Needs Assessment Missions;
 - b) prevailing prices and their likely changes;
 - c) other likely significant food purchases, including commercial exports and purchases by local institutions, such as the military, schools, hospitals or prisons;
 - d) estimates of stocks held by traders, potential disruptions to trade systems, possible delivery delays, etc.; and
 - e) expected flows of food within the region.
12. The quality of information available will vary among countries, and needs to be critically assessed accordingly. Primary sources of data include relevant Government ministries (such as Agriculture or Finance), other United Nations agencies (e.g. FAO), bilateral agencies (such as Famine Early Warning System—FEWS), NGOs, and trader networks. In some cases WFP's own Vulnerability Analysis and Mapping (VAM) information system may be the primary source of data.
13. Market intelligence data should be systematically shared with pipeline management staff, within the country and region, and with the regional procurement officer and the Purchasing and Contracts Branch at headquarters, to guide decisions on whether to purchase food locally or regionally, or to import in kind.

Annual Food Procurement Plans

14. On the basis of the market intelligence available, an annual food procurement plan should be prepared for each developing country in which WFP purchases food, identifying (to the extent and level of detail possible, given the prevailing circumstances) what quantity of food can reasonably be expected to be available for purchase, the period when purchases should be undertaken, and the most likely sources for different commodities.
15. The plan should be prepared at the start of each harvest period, on the basis of the best available information, and regularly updated as more reliable information becomes available. Monitoring food supply throughout the purchase period helps to further ensure that WFP purchases do not inadvertently have negative effects because of unforeseen changes in food availability, either locally or regionally.

Establishing Coordination Systems

16. To the extent possible, WFP should coordinate its food purchases with other significant purchasers in the country to ensure that sudden surges in market demand do not drive up prices, and to prevent contract defaults that are more likely to occur when multiple buyers compete for limited supplies.
17. Wherever feasible, the coordination mechanisms should include some means of information sharing with the market agents. The regular dissemination of information among agents in food markets helps reduce price distortions caused by asymmetrical information.
18. Coordination mechanisms will vary according to the circumstances within each country. In some countries the Government will take the lead in bringing the different agencies together at appropriate times. In other cases, regular donor meetings may provide an



appropriate forum for the exchange of market information. Coordination might also be undertaken within a famine early warning framework, such as that established by FEWS.

19. Where no appropriate coordination mechanism exists, WFP Food Procurement Officers should have responsibility for helping establish an appropriate system, including providing secretarial and technical support to the meeting organizers, as necessary.

Review of Prices Prior to Finalization of Purchases

20. Prior to finalizing a local food purchase, WFP Food Procurement Officers should systematically compare the prices obtained through competitive tenders with the prevailing market prices for the same or similar commodities, to ensure that WFP prices are in line with the local market. The prices obtained through competitive tenders should also be compared with the export parity price (FOB) and the import parity price (c.i.f.) for similar commodities. This information should be included in the report to the Committee on Commodities, Transport and Insurance (CCTI), prepared for each purchase.

Additional Ways to Limit Adverse Market Effects

21. The review also noted some additional ways in which WFP could help to limit any possible adverse effects its local purchasing of food might have on markets and consumers. These include:
 - a) intensifying efforts to improve market intelligence as WFP's share of the market increases, including, if necessary, funding studies to obtain primary data;
 - b) avoiding tendering for large allotments (in comparison to the prevailing market), particularly if the overall quantities of WFP's local food purchases in the country or region are increasing (when pressure is greatest to increase the quantity sought under each tender, and so minimize workload);
 - c) avoiding tenders overlapping (which gives the impression that WFP is under strong pressure to purchase, and thus will tend to drive up prices); and
 - d) in poorly developed food markets, limiting WFP's purchases to stocks actually held by suppliers at the time of tender, to prevent WFP draining food from subsistence farming households.

