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**Executive Board
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ADMINISTRATIVE AND MANAGERIAL MATTERS

Agenda item 8

LOCAL PURCHASES OF FOOD AND NON-FOOD ITEMS

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This document is submitted for information to the Executive Board.

Pursuant to the decisions taken on the methods of work by the Executive Board at its First Regular Session of 1996, the documentation prepared by the Secretariat for the Board has been kept brief and decision-oriented. The meetings of the Executive Board are to be conducted in a business-like manner, with increased dialogue and exchanges between delegations and the Secretariat. Efforts to promote these guiding principles will continue to be pursued by the Secretariat.

The Secretariat therefore invites members of the Board who may have questions of a technical nature with regard to this document, to contact the WFP staff member(s) listed below, preferably well in advance of the Board's meeting. This procedure is designed to facilitate the Board's consideration of the document in the plenary.

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INTRODUCTION

1. Procurement has become a major part of WFP's overall activities. Its procurement of goods and services traditionally accounts for about 25 percent of total United Nations purchases, thus making WFP the largest procurement organization in the United Nations system. Within WFP, procurement responsibility lies with the Transport Division for purchases of land, sea and air transportation services including incidental services for cargo handling and insurance, and with the Procurement Branch of the Management Services Division for purchase of food, non-food items (NFIs) and general services. However, as NFIs represent a relatively small (11.9 million dollars¹ worth purchased by WFP headquarters in 1997) though important component of WFP's procurement activities, and as they consist mainly of motor vehicles, generators, computers and communications equipment purchased from manufacturers and suppliers in the developed countries, this report will focus mainly on WFP's food procurement activities in developing countries.
2. In the past, WFP's food supplies were typically pledged in kind by donor countries. In recent years, however, an increasing share of the resources has been made available in cash. In 1997, WFP purchased about 50 percent of the 2.7 million tons of food aid it provided. Developments underlying this trend include the following:
 - a) **Changing priorities for food aid.** During the nineties there has been a marked increase in the share of food aid used in emergency situations. Donor pledges for relief operations typically involve more cash than food. Cash resources are normally required to meet transport and handling costs of in-kind food pledges, but increasingly cash is also used for regional procurements in order to speed up the delivery of assistance.
 - b) **Changing donor policies.** A number of donors adopted policies that strengthened their flexibility in resourcing food aid programmes. This includes local purchases in years with exceptionally good harvests in the recipient country, or use of triangular transactions in situations where this is more cost-effective and practical.
3. Over 90 percent of WFP's food purchases are in the form of cereals both whole grains and processed commodities (see Chart III in the Annex). The remainder is made up of pulses, edible oils, sugar, salt and milk powder.
4. To ensure consistency in the application of procurement principles throughout the United Nations system, although mainly for non-food items, WFP works closely with all other United Nations agencies and regularly participates in inter-agency meetings on procurement issues. Where appropriate, WFP also subscribes to common standards, such as those set by the Inter-agency Procurement Services Office (IAPSO) for official vehicles. In various situations, WFP has both effected purchases on behalf of other United Nations agencies and has itself utilized the procurement actions of sister agencies for its own needs. In all instances, overall cost-effectiveness is the guiding principle.
5. In general, WFP's procurement is based on competitive bids. For large purchases, formal tenders are issued, and strict procedures for receipt and opening of bids are followed under the close scrutiny of the Office of Internal Audit. In recent years, limited procurement authority has devolved to the country offices as part of the decentralization effort, and to

¹ All monetary values are expressed in United States dollars.



improve the response to emergency situations. Nevertheless, country offices are expected to adhere to established procedures to ensure appropriate levels of checks and controls.

DEFINITIONS

6. *Local purchase* of food is defined as buying food in a developing country for use or consumption in that country.
7. *Triangular purchase* of food is defined as buying food in a developing country for use or consumption in another.

Local and triangular purchases

8. WFP's experience with local and triangular purchases on a large scale began in Asia in the seventies as a result of the influx of Cambodian refugees into Thailand. This practice was introduced in Africa in the early eighties, beginning with the purchase of maize surpluses from Zimbabwe. Since then, under different themes such as "Triangular Purchases", "South/South Transaction" and "Africa for Africa", WFP's purchases from developing countries have increased substantially. In Asia and Latin America, WFP purchases from developing countries in the regions are transacted not only for neighbouring countries but also for shipment to destinations in other parts of the world. The initiation of WFP's humanitarian intervention in the Democratic People's Republic of Korea (DPRK) provided additional boost to volumes, particularly of rice, purchased in South-east Asia.
9. As illustrated in Chart I in the Annex, WFP's food purchases from developing countries in monetary terms since the beginning of the present decade have hovered at around 60 to 70 percent of overall purchases worldwide (see Chart IV). In 1997, WFP purchases of food in value terms reached an all-time high of 323 million dollars (equivalent to 1.367 million tons), but the proportion purchased from developing countries fell from 69.9 percent in 1996 to 62.5 percent in 1997. The substantial increase in overall purchases and the decline in the percentage of procurement from developing countries is mainly due to a fundamental change in how Canada's contribution to WFP is made. Traditionally, the Canadian Government purchased cereals from the Canadian Wheat Board for their in-kind cereal contributions to WFP. However, starting in 1997, WFP was requested to effect the purchases from the Canadian Wheat Board on behalf of the Government of Canada. Therefore, the percentage share of purchases from developing countries in the 1997 figures is less dramatic in substance than a superficial reading of the chart would suggest.
10. Among the developing countries, purchases in Africa constitute the major percentage share, with southern Africa alone accounting for about 25 percent in both tonnage and value terms. An interesting development for WFP in this area was the dramatic increase in cereal purchases from Ethiopia, which experienced bumper wheat crops. WFP purchases from the country rose from about three million dollars in the two previous years to nearly 28 million dollars (representing 92,400 tons of cereals) in 1997.
11. In Asia, Viet Nam (11.7 million dollars) and Thailand (15.4 million dollars) continue to enjoy significant sales to WFP, mainly due to large purchases of rice for DPRK. China also benefited from WFP's programme in DPRK. WFP's purchases from China grew from 7.2 million dollars in 1996 to 11.6 million dollars in 1997.



12. Other developing countries which were added to WFP's list of suppliers in 1997 were Guyana and Palestine. In 1997, WFP purchased food commodities from 53 developing countries.
13. In support of local and triangular purchases, WFP has been steadily increasing the number of procurement specialists in country offices. By 1996, WFP had Procurement Officers in Kenya, Tanzania, Turkey, Uganda and Zimbabwe. The Procurement Officer in Tanzania was moved to Ethiopia in 1997. During 1998, Procurement Officers will be assigned to India and Côte d'Ivoire.

LESSONS LEARNED IN TRIANGULAR AND LOCAL PURCHASES

14. Over the years, WFP has learned many lessons from its purchasing experiences in developing countries around the world. Trade and supplies in developing countries, particularly in "emerging markets", are more sensitive to variable factors than they are in established markets of developed countries. These sensitivities often extend to factors which do not normally play a role in commercial transactions in established markets. Included in these factors is government involvement, which sometimes detracts the transaction away from customary commercial practice.
15. Purchasing from developing countries therefore requires considerably more effort and staff resources than for similar purchases from international or established markets. Moreover, WFP has learned that the following considerations are crucial when making purchases from newly emerging markets:

Coordination

16. There are cases where the local market has been disturbed and local purchases by food-aid-buying organizations have been impaired because buyers have not coordinated their purchases. One example is Uganda where, during 1994 and 1995, various organizations tried to buy food that was not available in the quantities demanded. The result was high prices and numerous contract defaults, as suppliers competed for insufficient stock to meet delivery requirements. In contrast, coordination has been very effective in the massive local purchase programme in Ethiopia which began in 1996.

Monitoring supply factors

17. Constant monitoring of relevant market factors is necessary to determine whether proposed purchases are feasible, and to assess and assist with contract implementation. Stock verification before, during and after tender proceedings is critical to increasing the reliability of contract delivery (by reducing the risk of contract defaults). At the same time, cost-effectiveness is enhanced as farm-gate prices, storage, cleaning and transport costs can be determined, or reasonably predicted, through information gathered. The same information can serve as the basis for decisions on whether to buy and what purchase procedures are most appropriate.
18. Market analysis undertaken during field visits is important to determine whether prices offered are the result of natural factors in a competitive market, or perhaps derive from collusive or monopoly factors leading to profit margins for suppliers that could be considered overly excessive, and destructive to natural market trends. Market analysis is also helpful to determine if local consumers are being adversely affected by farm-gate prices abnormally rising due to the purchasing activities of food-aid buyers.



19. WFP has painfully learned that contractors often default when WFP does not take the precautionary measure of ensuring that the suppliers have stock before contracts are signed. For example, in early 1997, WFP signed contracts with eight suppliers in Ethiopia for delivery of a total of 32,000 metric tons of cereals. Contracts were signed on the basis of suppliers winning bids and presenting bid/performance bonds valued at six percent of the total contract values. Stock verification was not undertaken and, of these contracts, only 11,000 metric tons was delivered (34 percent of the contracted quantity). Most of the suppliers that signed contracts during this time period did not hold sufficient stocks to meet the delivery requirements at the time of contracting.
20. The situation improved dramatically when in April 1997 WFP implemented a system of stock verification before signing contracts. In the remainder of 1997, contracts for 69,000 metric tons of cereals and 4,000 metric tons of beans were signed with defaults totalling less than 1,000 metric tons, equal to 1.3 percent. Suppliers were requested to bid for only those stocks that were readily available, with stocks verified before contracts were signed. Stock verifications discourage speculation and encourage suppliers to contract only for quantities within their financial capacities.

Prompt payments

21. Cash flow is often a major problem for traders and suppliers in developing countries and is one of the main causes for defaults. Prompt payments ensure that suppliers have the necessary funds for transporting their stock and effecting more purchases.

BENEFITS OF TRIANGULAR AND LOCAL PURCHASES

22. There are immense benefits in triangular and local purchases in developing countries. Some of the key benefits are:
- Help develop local infrastructure.** Purchases in developing countries are fundamental to the migration from aid to trade, providing a firm basis for sustainable development. The development of trade often promotes a host of other dependent or complementary local industries from farming to trading (including trades in incidental products such as fertilizers, and jute or plastic bags) and transport.
 - Enhance commodity acceptability.** A staple food bought locally or regionally can, in many cases, be more appropriate than a commodity purchased or donated from a distant source. Not only is this approach more acceptable to the eating habits of the recipients, it also avoids the risk of dependency on non-local food commodities.
 - Increase timelines of supply.** Food purchased locally or in neighbouring areas can often be delivered more quickly than foreign imports which require long sea voyages. However, this advantage has to be set against less consistent trader reliability in developing markets. The inclusion of penalty clauses can mitigate some of these delivery uncertainties.

WHAT DONORS CAN DO

23. The added benefits derived from local and triangular purchases in terms of sustainable development are clear. Donors can contribute to this value by making more donations in



cash with the highest degree of flexibility in the determination of its use so as to take advantage of changing supply situations in developing countries. However, as cost-effectiveness is dependent on seasonal considerations, the timeliness of such cash contributions is also crucial.

WHAT GOVERNMENTS IN SUPPLYING COUNTRIES CAN DO

24. **Trade promotion** is often lacking in many developing countries. In these markets, suppliers are usually small companies which do not have international links or are unable to afford extensive marketing programmes. On the other hand, buyers buy what they know. Governments, usually through their trade bodies or associations, can assist by organizing seminars or exhibitions; embassies can send regular information on product availability and specifications.
25. **Establishing trade laws consistent with international commercial practice** is fundamental to any successful drive to improve trade. In WFP's experience, the absence of such regulations often encourages governments to get involved in commercial transactions, resulting in loss of confidence by buyers. There must be free and fair arbitration laws for expeditious settlements of trade disputes.
26. **Provision of basic infrastructure and support services** is another area where governments in supplying countries can assist their farmers and traders. All too often, farm surpluses cannot be purchased because of the absence of access roads, warehouses or quality and quantity control mechanisms. Money spent in these areas is better seen as investments which will yield quantum returns rather than as mere expenditures.
27. **Provision of credit facilities** is a major support which governments can give to local entrepreneurs. In many developing countries, business continues to be in the hands of international business houses rather than local traders; this is because, in the absence of local funding, large conglomerates provide the required credit facilities. This was the case in Uganda until the market was liberated in the early nineties and local finance houses were established. Today, WFP purchases directly from local Ugandan traders.

REGISTERING POTENTIAL SUPPLIERS WITH WFP

28. Purveyors of suitable goods are encouraged to indicate their interest in supplying to WFP by completing a registration form available from the Procurement Branch, Management Services Division. Following a screening process, successful applicants will be placed in a roster for future invitations to bid when such goods or services are required.



ANNEX

CHART I

Percentage purchased in developing countries

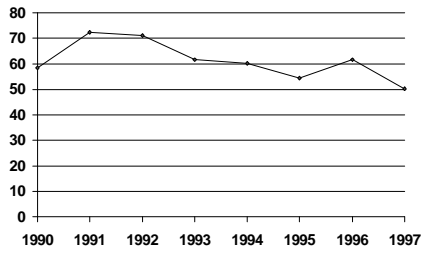


CHART II

Food purchase statistics in million dollars (total and developing countries only)

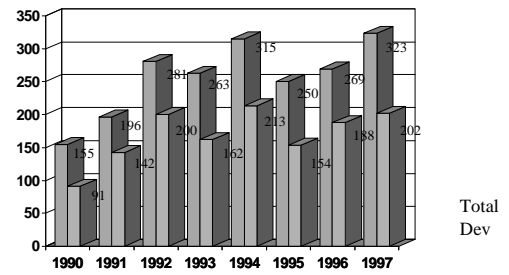


CHART III

Food purchase statistics in tonnage (total and developing countries only)

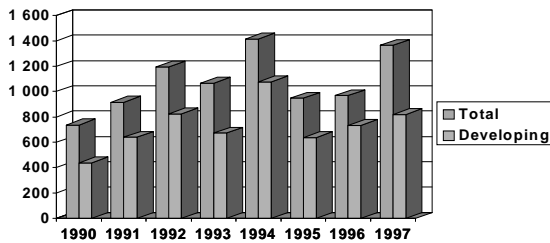


CHART IV

1997 Commodities Total 1,367,000 tonnes

