

**Background paper on  
2019 local food procurement policy**



**Informal consultation**

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**World Food Programme  
Rome, Italy**

## 2019 local food procurement policy: background paper

This paper outlines the proposed topics of the policy, its purposes and its main propositions for the Board`s consideration and guidance. It is not a draft of the policy.

1. The policy aims to accelerate WFP`s local food procurement and enhance its impact by:
  - clarifying the context, definitions, concepts and frameworks;
  - defining the value proposition of local food procurement (including pro-smallholder procurement) and local private sector strengthening;
  - providing clear guidance on the process and principles leading to the selection of the best local procurement modality best adapted to specific contexts; and
  - establishing a framework of actions and investments for the next decade.
2. The policy document will be structured in three parts: i) the introduction summarizes the background on WFP`s local food procurement to date; ii) a descriptive part summarizes WFP`s approach to local food procurement; and iii) the final part describes the way forward for significantly scaling up local food procurement in the short and medium term.

## Key propositions of the policy for consideration and guidance

### Basic definitions

3. Under this section, definitions of local, regional, international and pro-smallholder farmer (SHF) procurement are laid out to provide conceptual clarity and the basis for elaboration. WFP procurement is organized in a decentralized way. Food purchases are undertaken by headquarters, regional bureaux and country offices. Preference is given to procuring from developing countries, if it is the best value and in the interests of WFP.
4. The definitions international/regional/local procurement refer to the geographical area where the purchase takes place and not the WFP office undertaking the procurement.
  - **International procurement:** is undertaken on the global market for all commodities taking into consideration donor and country specific restrictions.
  - **Regional procurement:** is primarily undertaken in one of WFP`s six regions for delivery in the respective region. In certain cases, where the commodity is not available, cross-regional purchases are conducted.
  - **Local procurement:** is undertaken in the country where specific commodities are available on the local market and the commodity is required for WFP`s operations.
  - **Locally grown commodities:** can be part of international/regional/local procurement and is normally only agricultural/unprocessed commodities originating in a country where WFP is present operationally.
  - **Smallholder farmers:** there is no unambiguous globally accepted definition of smallholder farmers.<sup>1</sup> In general, WFP uses the 2-hectar criterion for smallholders unless the countries in question adopt another definition.
  - **Pro-smallholder farmer procurement:** “Pro-smallholder procurement” refers to a deliberate strategy or approach from a public or private buyer to procure from

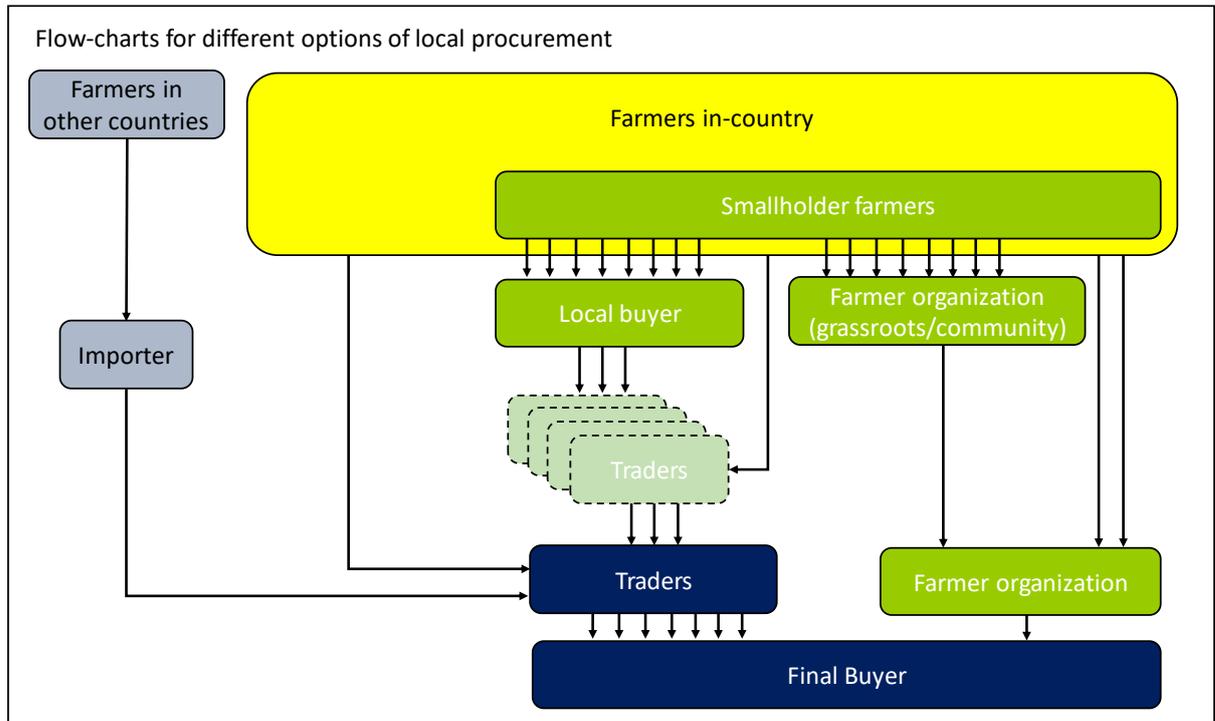
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<sup>1</sup> Pro-Smallholder Food Assistance - A background paper for WFP`s Strategy for Boosting Smallholder Resilience and Market Access Worldwide. WFP 2017. <https://newgo.wfp.org/documents/background-paper-strategy-smallholder-support>.

smallholder farmers with the objective of improving their access to formal markets.<sup>2</sup> Pro-SHF procurement often occurs at local level but can in principle also occur in regional or even international procurement.<sup>3</sup>

### Value chains and value chain analysis

- This section provides an overview of the value chains as they are relevant to WFP's food procurement. A generic value chain for different forms of local procurement is illustrated below:



- A value-chain analysis would identify potential inefficiencies or imbalances each of which would require different approaches from WFP.

### Value proposition

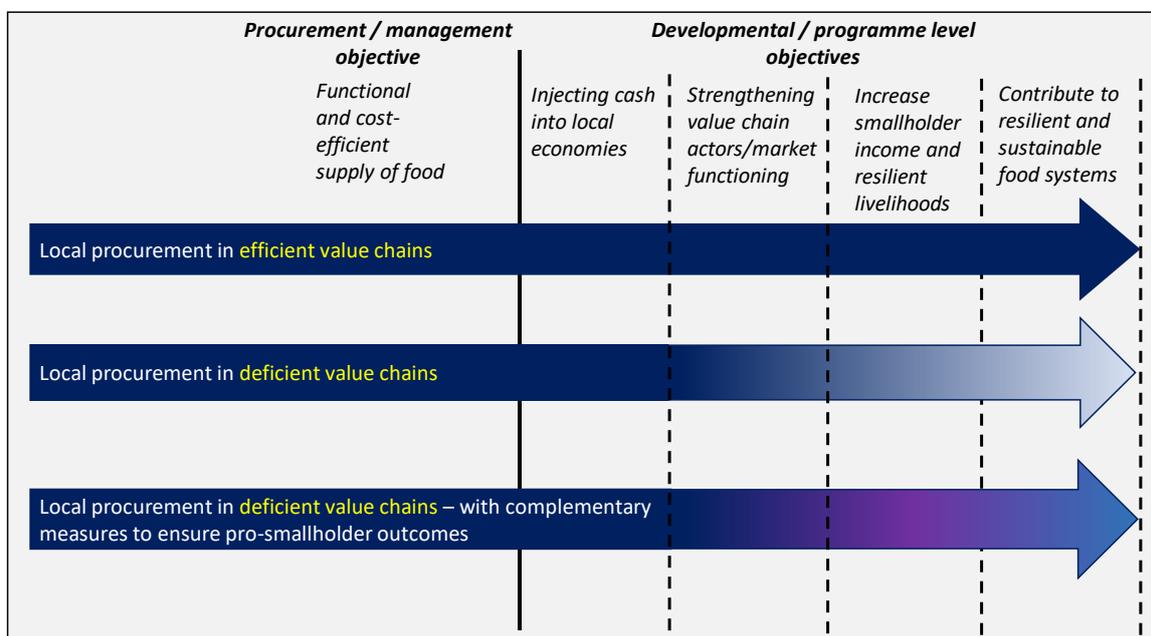
- The value proposition of the policy is to promote a significant expansion of WFP's local procurement. Through increased local and pro-smallholder food procurement WFP can leverage three important comparative advantages: i) WFP's purchasing power; ii) WFP's food marketing expertise; and iii) WFP's facilitation power.
- Local procurement as such can achieve the overall management objective of ensuring a reliable and cost-efficient supply of food for WFP operations. In addition, local procurement can also promote more programmatic/developmental objectives, including: i) injection of cash into local economies; ii) increased turnover and business involvement of local traders strengthening local markets (potentially reducing prices and the purchasing power of beneficiaries of cash-based transfers); iii) enhanced engagement with the private sector; iv) smallholders incentivized by enhanced income opportunities to increase production, productivity and quality; v) all actors improving the quality standards of their contributions to the value chains and thus making food systems more resilient and sustainable (and with

<sup>2</sup> *Ibid.*

<sup>3</sup> However, these cases are less relevant for the present policy – and will face traceability challenges that increase with the distance between the countries of the supply contract and of the food origin.

potential positive effects on more diverse and healthier nutrition), and vi) strengthen female participation through the engagement of organized female farming groups.

9. The layering of these objectives, and how their achievement depends on the functioning of relevant value-chains, is illustrated below:



## WFP approach to local food procurement

### Local food procurement

10. In view of the above definition on local and locally grown procurement, in 2018, 50 percent (1.8 million mt) of the 3.6 million mt of total food procured by WFP were undertaken locally, and 33 percent (1.2 million mt) is considered as locally grown commodities, i.e. food grown in the country where the procurement was concluded and where WFP has ongoing operations. In addition to this, 79 percent (in mt) of all food procurement was undertaken in developing countries.<sup>4</sup>

### Recent experience and lessons learned

11. The development of the local procurement policy is informed and guided by a wealth of knowledge and lessons learned from WFP's many years of experience procuring in developing countries as well as through the Purchase for Progress project and efforts to promote access of smallholder farmers to markets (including pilots to test pro-smallholder farmer contract modalities) and field missions. This past work also assists in establishing realistic expectations as to how close to the farmgate WFP can get while still ensuring value for money.

### Contract modalities

12. Contracts for local procurement can be entered by country offices, regional bureaux and headquarters, and are subject to the standard procurement processes of competitive tendering (unless a waiver of competition is justifiable). There are two prevailing standard contract modalities: i) Spot contracts; and ii) Food Supply Agreements (FSAs).

<sup>4</sup> As defined by OECD.

13. Pro-smallholder farmer procurement contract modalities can be distinguished to be direct or indirect, depending if purchases are done directly with farmer organizations (FO) or through traders: i) Direct spot contract; ii) Direct FSA; iii) Indirect Conditional Contract; and iv) Indirect Mandate Contract.

#### **Parameters for decision making on local procurement**

14. WFP's decision-making process leading to the selection of the best local procurement approach and contractual modality to apply in a given country or region needs to be based (besides import parity) on the following four aspects: i) the **context** of the purchases; ii) the **outcomes/impact** that WFP wants to achieve; iii) a **value-chain analysis** of the concerned commodities; and iv) the **capacity** of value-chain actors.
15. In terms of WFP's current procurement, the effectiveness of a procurement action is determined by various factors including, cost-efficiency, timeliness of delivery, appropriateness of the commodity to meet the dietary needs of beneficiaries, impact on the local/regional markets, donor/country specific restrictions, and other considerations specific to the operation for which the commodities are procured.
16. To ensure cost-efficiency the prices of the local or regional markets must be compared with those available on international markets. Procuring locally will be cost-efficient only if the local price is below the Free on Board (FOB) international price once the sea transportation, port and handling charges, inland transport and any other associated costs have been added to the FOB price. Import parity is the cost of supplying food commodities locally, regionally or internationally to the same named delivery place in the recipient country and is what generally determines WFP's procurement.

#### **Guiding principles**

17. The below principles act as a guidance framework for procurement related decisions.
  - Saving lives – changing lives – meaning procuring as much food for beneficiaries as possible with the available funds
  - Sustainability – not distorting existing markets and prices; and promote lasting improvements to markets and food systems where relevant
  - Fair trade – meaning promoting that each value-chain actor receives the share of the end price that corresponds to the value added
  - Doing no harm – avoiding inflationary effects, dependencies, etc.
  - Innovation – for example, with respect to efficient ways of tracking the origin of food and prices paid between value-chain actors; enhancing capacities of actors to engage in e-commerce, etc.
  - Partnerships (see below)
  - Context-specificity – adjust procurement strategies to the specific opportunities, needs and risks

#### **Current initiatives**

18. Home-grown school feeding (HGSF) initiatives connect smallholder farmers to school meals programmes. These are highly prized by governments and regional bodies worldwide.
19. The Purchase for Progress (P4P)/smallholder agricultural market support (SAMS) programme leverages demand for food from WFP and other institutional buyers in support of smallholders.

20. The Rural Resilience Initiative (R4) enables vulnerable rural households to increase their food and income security in the face of increasing climate risks through comprehensive risk management, featuring uptake of new technologies linked to access to crop insurance, savings, and credit.
21. The post-harvest loss (PHL) initiative promotes affordable post-harvest management technologies and practices that cut post-harvest losses significantly.
22. The Farm to Market Alliance (FtMA) is based on a global partnership with large private companies. It seeks to boost smallholder incomes through formal long-term contracts backed by facilitation of key value chain services.

### **Partnerships**

23. The scale-up of local procurement requires a high level of engagement with partners who are key for accessing required information during the planning phase and for promoting enabling conditions during the execution phase. Strong partnerships are thus needed both at global and local level, including:
  - Governments (national and local authorities)
  - Local stakeholders (farmers and traders)
  - National academia and research centres
  - National and international civil society
  - United Nations agencies (e.g. WHO and UNICEF) and Rome-based agencies.
  - Private sector

## **The way forward**

### **Areas of investment**

24. The implementation of the policy will require WFP to strengthen its own capacity, systems, processes and procedures, and secure upfront resources for those needed investments. It will also require staff at all levels (from managers to supply chain and programme staff) to develop the necessary capacities to understand and apply the policy in their respective environments through integrated programming. More specifically, the following thematic areas will require upfront investments:
  - Developing innovative tools for the traceability or the origin of food and the prices paid at different value-chain links
  - Value-chain analysis – tools (at headquarters level) and capacity at country offices to implement (with support from headquarters and regional bureaux)
  - Right-sizing the offices that will be involved with increased levels of local procurement
  - Aligning local/regional procurement strategy and market intelligence with the Supply Chain Division's strategic priorities and – where applicable – with developmental priorities as reflected in the respective country strategic programmes (CSPs).
  - Defining measurement criteria of the procurement targets for smallholder farmers (for implementation, transition, report progress, improvement process/workshops, etc.)
  - Capacity strengthening of governments
  - Capacity strengthening of value-chain actors

- Increasing the linkages with national institutional procurement and with CBT
- Strengthening the linkages with nutrition

### **Risks**

25. When scaling up local and pro-SHF procurement, a number of risks have to be considered:
- Local procurement may increase the risk to supply breaks, to the extent that local value chains are vulnerable to seasonal fluctuations, or other disruption of supply.
  - Procuring large volumes of food in a country may have inflationary effects that would negatively affect in particular the poorest households.
  - Markets and prices change constantly, in step with seasonal fluctuations, the arrival and departure of different value-chain actors, international influences, etc.
  - The closer to the farm gate WFP procures, the higher may be the risk of poor food quality.

### **Next steps**

26. The policy will be implemented in two phases:
- The first phase will be described by a detailed implementation plan to be prepared as soon as the policy is approved. This plan will cover a period of two to three years, and will include a set of concrete activities (each with a budget that needs to be resourced).
  - After this initial period, consolidated procedures and systems will be finalized and disseminated to promote full mainstreaming of increased scale up of local procurement.