

Policy on local food procurement

SUPPORTING DOCUMENT



Second informal consultation

3 October 2019

**World Food Programme
Rome, Italy**

The procurement process and contract modalities

The procurement process

WFP's online Food Procurement Manual provides procedures and methodologies to be followed by all purchasing groups in WFP. The main objective of food procurement is to ensure that appropriate food commodities are available to beneficiaries in a timely and cost-effective manner. Procurement should always be fair and transparent and should preferably be local or regional, provided that these options guarantee the best value and are in the best interests of the organization. The WFP process for food procurement consists of the following phases: strategy; planning; sourcing; contracting; and contract management.

Procurement strategy, planning and sourcing

In the standard food procurement process, the Food Procurement Unit at headquarters develops global food procurement strategies in conjunction with other stakeholders, taking into consideration demand and supply forecasts, conditions for seasonal crops and market assessments. The execution of the strategies is supported by integrated procurement plans developed at the global, regional and country levels.

During the sourcing phase, the country offices prepares, as the first step in the purchasing process, an import parity form (IPF) for each purchase. The IPF compares the cost of commodities on local, regional and international markets, taking into account required quantities and delivery times.

The actual process of purchasing food may only start once the required funds are available, which can at times be a challenge for implementing local procurement, for example when country offices must use available funds to cover immediate needs or where funds arrive during a country's agricultural lean season. The Global Commodity Management Facility (GCMF) is a valuable tool for tackling this issue; it gives country offices the possibility to finance their operations with funds from a WFP special account prior to the confirmation of a contribution. The GCMF enables procurement managers to take advantage of market intelligence and seasonal availability and to buy when local market conditions are most favourable.¹

Scaling up local procurement requires strong and coherent decision-making processes that ensure that decisions made during the strategy and planning phase support – and are respected by – decisions in the sourcing phase. The current decision processes in these three phases need to be thoroughly revised to enable the successful implementation of this policy.

Contract modalities

Local purchases are subject to the standard procurement processes of competitive tendering (unless a waiver of competition is justifiable), except in the specific cases described in the Food Procurement Manual. There are two standard contract modalities:

- *Spot contracts* define specific conditions such as commodity type and quality, quantity, delivery period, delivery terms and price. The commercial relationship is restricted to the period of the contract and is typically short-term;

¹ Where this facility is used, GCMF is the entity producing the IPF, and GCMF figures as the recipient of the commodities.

- *Food supply agreements (FSAs)* are framework agreements signed with suppliers in which the basic contractual terms – such as delivery terms, commodity specification and packaging – are set for a certain period and quantity. The agreement establishes a long-term relationship, during which purchases are carried out in accordance with the pre-defined conditions without the need to go through a new tendering process until the term of the FSA expires or the total amount to be spent under the FSA is spent. The use of FSAs has been increasing, including for local purchases.

Pro-smallholder-farmer procurement contract modalities are characterized as direct or indirect, depending on whether purchases are made directly from farmer organizations or through traders:

- A *direct spot contract* is signed with a farmer organization to cover a single purchase, based on the assessed availability of food for immediate delivery. The procurement process can be made smallholder-farmer-friendly either by a waiver of competition or through soft tendering, i.e. a tendering process restricted to farmer organizations (thus excluding commercial traders).
- A *direct FSA* is a framework agreement signed with a farmer organization to cover multiple deliveries during a certain period. The agreement is preferably signed before the start of the marketing season, and the quantity to be delivered is based on expected availability (on the farmer organization side) and demand (on WFP's side). While a direct FSA generally pre-defines contractual parameters, the price is typically set for each purchase at the time of purchase (instead of being fixed beforehand at the signing of the FSA) to reflect local market fluctuations.
- An *indirect conditional contract* is a spot contract signed with a trader for a single short-term delivery. It corresponds to the spot contract used for regular purchases, except that some conditions are specified in the contract to make it pro-smallholder-farmer (for example a minimum percentage of total volume must be sourced from farmer organizations).
- An *indirect mandate contract* is a framework agreement signed with a trader, under which the trader purchases and aggregates the production of farmer organizations on behalf of WFP. Like a direct FSA, the mandate contract is preferably signed before the marketing season, with the quantity based on expected availability and demand. The price in the agreement has two components: the price to be paid by the trader to the farmer organizations, which is defined and controlled by WFP, and a service fee to cover the services provided by the trader. The trader for this kind of contract can be selected either through a tendering process or through a waiver of competition.

Instead of implementing a direct linkage between WFP and farmer organizations, the indirect contract modalities promote interaction between farmer organizations and the private sector players in the value chain. The benefits are twofold. First, the farmers and all other actors in the chain profit from the existing infrastructure and operational arrangements. In addition, the potential gains are multiplied because the farmers link to players with long-term commitments to the chain and to a market beyond WFP procurement.

Indirect pro-smallholder farmer contracts: experience in piloting countries

In 2017, Zambia, the United Republic of Tanzania, Malawi and Honduras were selected as countries to pilot new pro-smallholder farmer contracting and procurement modalities consisting of indirect purchases from farmers using contracts with traders. At the end of the pilot, over 16,000 mt of cereals and pulses had been purchased through these contract modalities.

The Zambia country office selected the *direct FSA* to contract a network of 17 aggregators that had been supplying WFP for several years. The digital application, "Virtual Farmers Market" and the commodity exchange "Zamace" were also incorporated into the pilot, and a total of 5,965 mt of pulses were purchased during the pilot.

The country office in the United Republic of Tanzania opted for the *mandate contract*, which implied the intermediation of a local miller, buying from a set of WFP identified farmer organizations on WFP's behalf. A total of 4,500 mt of maize was purchased through this arrangement until mid-2018.

The Malawi country office tested both the *direct FSA* and the *conditional contract*. In 2017, 2,288mt of maize were procured through the two contract modalities. The contracts remained in place in 2018, allowing the purchase of an additional 3,149 mt.

The country office in Honduras used the *Direct FSA* to procure a total quantity of 354.30mt of small red beans, directly delivered to schools under the national School Feeding programme.