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UPDATE ON WFP FOOD PROCUREMENT



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NOTE TO THE EXECUTIVE BOARD

This document is submitted to the Executive Board for information.

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 points indicated below, preferably well in advance of the Board's meeting.

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Should you have any questions regarding availability of documentation for the Executive Board, please contact the Conference Servicing Unit (tel.: 066513-2645).

* Procurement Division

FACTS AND FIGURES

1. In 2013, WFP procured 2.1 million mt of food valued at USD 1.16 billion from 91 countries. WFP's food basket is sourced from a network of local and global suppliers, including governments and smallholder farmers. This consists mainly of staples such as cereals, pulses and vegetable oil and special nutritious foods. Of the food purchased, 50 percent was sourced from countries and regions where WFP operates.
2. Cereals, mainly rice, maize and wheat, accounted for 1.4 million mt – 68 percent – of the food purchased. Wheat and maize were the main cereals procured in 2012, while rice purchases increased by 54 percent in 2013 to 381,000 mt to supply the major emergency responses for the Syrian Arab Republic and the Philippines. WFP also purchased 400,000 mt of maize and maize meal, mainly in Africa for operations in Africa.
3. Of the 2.1 million mt purchased in 2013, 79 percent (77 percent in 2012) valued at USD 918 million was purchased from 72 developing countries. The remaining 21 percent valued at USD 242 million was purchased from developed countries.
4. WFP purchased its largest quantities of food from: i) India – 339,364 mt valued at USD 128 million; ii) Turkey – 179,492 mt valued at USD 126 million; and iii) Ethiopia – 154,431 mt valued at USD 67 million. The table below shows the top 15 developing countries from which WFP procured food in 2013.

TOP 15 FOOD PROCUREMENT COUNTRIES, 2013		
Country	Quantity (mt)	Value (USD thousands)
India	339 364	127 678
Turkey	179 492	126 039
Ethiopia	154 431	67 175
Indonesia*	59 860	55 897
Pakistan	102 733	47 776
Egypt	67 123	47 217
South Africa	96 651	45 686
Sudan	87 588	30 298
Malawi	56 616	27 293
Zambia	77 639	27 113
Myanmar	53 652	25 561
Viet Nam	54 907	21 956
United Republic of Tanzania	51 286	21 203
Yemen**	40 707	19 749
Lebanon	16 575	18 838

* Palm oil of Indonesian origin; average cost USD 850/mt.

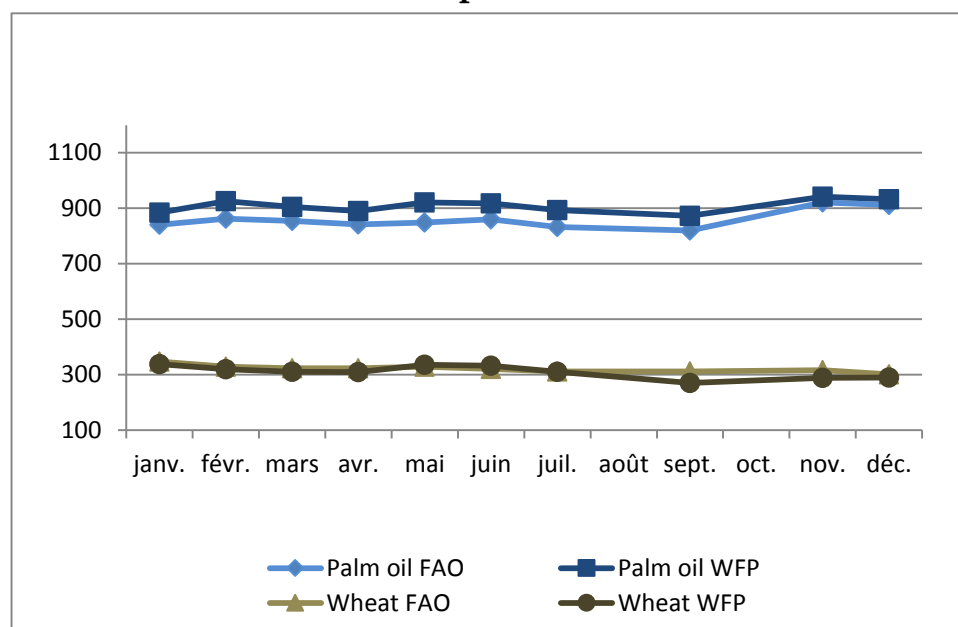
** Wheat flour processed locally from imported wheat.

5. The predominance of food purchased from India was a result of competitive pricing, particularly for rice, wheat, sorghum and sugar. Turkey provided both a competitive market for purchases and savings in lead times for WFP's emergency response in the Syrian Arab Republic. Attractive prices increased the purchases of pulses in Ethiopia, where local procurement through Purchase for Progress (P4P) and production initiatives for specialized nutritious foods are major elements of WFP's work.
6. The top five purchasing country offices in 2013 were Ethiopia, Yemen, Pakistan, Myanmar and the Sudan, which accounted for 20 percent of all WFP food purchases in 2013 and was in line with the large operational requirements of these countries.
7. Of the WFP food purchased in 2013, 40 percent was handled by the Headquarters-based international purchasing group to maximize economies of scale. The regional bureaux made 25 percent of all WFP purchases in 2013; the Bangkok and Johannesburg bureaux accounted for most of these, with rice and maize for regional and global operations. Country offices purchased the remaining 35 percent, primarily for use in their own operations.

THE MARKET ENVIRONMENT

8. The Cereal Price Index of the Food and Agriculture Organization of the United Nations (FAO), which averages 26 markets, fell by 7 percent from 236 points to 219 between 2012 and 2013. As a result the WFP procurement price of rice fell, aligning it with market prices. In Viet Nam, for example, rice prices fell by 14 percent from USD 430 per mt in 2012 to USD 370 per mt in 2013. United States wheat purchased for Yemen fell by 7 percent from USD 400 per mt at the beginning of 2013 to USD 372 per mt at the end of the year. The following figure shows the correlation of prices paid by WFP for oil and wheat and the FAO indices.

Correlation of WFP oil and wheat prices with FAO indices (2013)



9. Record rice harvests were recorded for the third consecutive year in 2013, leading to a fall in prices in the second half of the year. But the fall in prices did not benefit WFP because its huge operation for the Syrian emergency required medium-grain rice, which is more difficult to source and more expensive than the long-grain variety available in Asia.

LOCAL AND REGIONAL PROCUREMENT; PURCHASE FOR PROGRESS

10. Local and regional procurement make an important contribution to local economies. WFP prefers to purchase food in places close to the areas of need when prices and conditions permit: 50 percent of the food procured is purchased and distributed in the countries and regions where it operates. Sorghum, maize, wheat flour and beans are the main foods purchased locally.
11. Local and regional food procurement are often the most economical options. Decisions as to where to buy are informed by the import price parity tool, which compares the local, regional and global costs of purchase and delivery to final destinations to establish the best value for money. In 2013, the Ethiopia, Mali, Myanmar and the Sudan country offices locally purchased 226,000 mt of food valued at USD 100 million for their country programmes: sourcing from outside these countries would have cost WFP an additional USD 28 million. Local purchases also reduce operational lead times and meet the preferences of beneficiaries.
12. Michigan State University researched the effects of local purchases of maize, beans, and high-energy protein supplements on local economies in Ethiopia, Malawi, Mozambique and Uganda. The two major findings are: i) that market distortions were limited; and ii) that positive effects were observed in the quality of foods traded in markets.¹
13. WFP purchased 235,000 mt of special nutrition products in 2013, of which 98,000 mt – 42 percent – was sourced in Europe. These products require sophisticated processing equipment and high-quality raw materials. Production capacity is being stepped up in developing countries to meet demand; the considerable capital investment required must be based on sound business cases involving WFP, governments and the commercial sector. Local initiatives also require investment in capacity development to upgrade national regulatory frameworks.
14. Between 2008 and 2013, WFP procured 430,000 mt of food from smallholder farmers. In addition, some 700,000 smallholder farmers, agricultural technicians, traders, school staff and warehouse operators attended training organized by WFP and its partners. Smallholder farmers supported by P4P sold an additional 200,000 mt to markets beyond WFP.
15. Experiences documented in the ongoing independent evaluation of the P4P pilot indicate that it has had a significant impact in the 20 countries involved. It is clear that the pro-smallholder procurement approach of P4P, combined with partners' capacity development, make it possible to leverage WFP's purchasing power to help smallholder farmers to enter formal market systems. This experience is the foundation of WFP's plans to scale up procurement from smallholder producers.

THE FORWARD PURCHASE FACILITY

16. At its 2012 Annual Session, the Board approved a doubling of the Forward Purchase Facility (FPF) ceiling to USD 300 million, and a further expansion to USD 350 million at its 2013 Second Regular Session. The level of funding for the FPF provides an opportunity for WFP to optimize its procurement of 1.5 million mt of food.
17. Purchases under the FPF have doubled since its creation in 2011, and increased significantly in 2013 to 42 percent of all procurement – 872,984 mt valued at USD 475 million; FPF procurement of special nutritious foods, rice and dry pulses increased.

¹ The full report may be found at: <http://documents.wfp.org/stellent/groups/public/documents/reports/wfp263955.pdf>

18. To complement the FPF, two additional corridors were opened in Latin America and the Middle East in 2013 to enable the positioning of food stocks and reduce delivery times.

EMERGENCY SUPPORT

19. The FPF modality was a fundamental element in WFP's responses to the four Level 3 emergencies in 2013 in the Central African Republic, the Philippines, South Sudan and the Syrian Arab Republic.
20. WFP procured and delivered 40,000 mt of rice in a matter of weeks following typhoon Haiyan in the Philippines, and 250 mt of high-energy biscuits were airlifted from FPF stocks at the United Nations Humanitarian Response Depot hubs in Dubai and Brindisi. Pre-positioned FPF stocks in East Africa and West Africa facilitated rapid deployment of assistance to displaced populations in the Central African Republic and South Sudan.
21. The Syrian crisis presents numerous operational challenges arising from constrained access and irregular funding patterns. WFP has changed from its usual procurement approach of spot tendering to exploit the proximity of major food suppliers in neighbouring Turkey, setting up supply agreements for foods such as lentils, bulgur wheat and pasta to complement FPF procurement.
22. The agreements are for three to six months. They provide for fixed prices, supplier commitment to maintain stocks for immediate dispatch and a commitment by WFP to pay a percentage of the price if it does not purchase a minimum of the stocks.

Special food supply agreements

In November 2013, WFP signed food supply agreements for six months' supply of lentils from Turkey – 36,000 mt – at low post-harvest prices. Knowing WFP's requirements six months in advance, suppliers could ensure that adequate stocks were available at attractive prices. Since November the price of lentils has gradually risen, but WFP saved USD 530,000 and avoided supply gaps by having the agreements in place.

PROCUREMENT ON BEHALF OF GOVERNMENTS

23. WFP regularly extends its procurement capacity to governments. In 2013, WFP bought 37,600 mt of food valued at USD 20.5 million through its trust funds on behalf of Colombia, El Salvador, Ethiopia, Honduras, India, Liberia and Nepal for social programmes such as school feeding. Trust fund purchases are made in accordance with WFP's procurement policies to ensure optimum value, food safety and quality.

FOOD SAFETY AND QUALITY MANAGEMENT

24. WFP's shift from food aid to food assistance gives greater prominence to nutrition and the deployment of tools to address the Zero Hunger Challenge. WFP's programme toolkit includes cash-based transfer mechanisms and a larger food basket to provide increased nutrition and address beneficiary tastes. Local and regional procurement coupled with increases in national manufacturing capacities support the food-assistance agenda.
25. Food safety and quality management along the supply chain have been improved in recent years, taking into account the challenges inherent in handling processed foods and the procurement risks associated with working in emerging markets.

26. Part of this work is the transition from quality control based on end-product testing to quality management with an emphasis on risk prevention and mitigation, including a framework for incident management and risk communications. This integrated approach addresses:
- challenges along the supply chain – planning, procurement, oversight, transport, storage and distribution;
 - challenges along product value chains – manufacturing, shelf life, specifications, packaging, standardization and development; and
 - limitations of the operational context – national regulatory frameworks and laboratory facilities.
27. This work is supported by partners such as FAO, donor governments and private-sector partners, bringing together technical knowledge, industry best practices and WFP's operational expertise and experience.
28. In 2013, WFP commenced the rollout to the regional bureaux of food-quality software (FOQUS), an IT-based platform used by food technologists, procurement officers and inspection companies with a view to capturing trends in quality improvements and streamlining and standardizing the tracking of food safety and quality along supply chains.

EVOLVING WFP CORPORATE PROCUREMENT DIRECTIONS

29. The increasing use of the FPF, new internal financing mechanisms, evolving risk management tools, transfer modalities such as cash and vouchers, and programmes such as P4P enable WFP to continue the shift from spot purchasing to large-scale sourcing. WFP's business plan for procurement focuses on:
- i) developing corporate sourcing plans to achieve cost savings;
 - ii) streamlining procurement processes to reduce lead times;
 - iii) increasing purchases from smallholder farmers; and
 - iv) ensuring that all food distributed is safe and of good quality.
30. Together with demand planning and logistics, procurement is a fundamental part of an efficient supply chain. Financing mechanisms such as the FPF and new contracting tools support larger-scale sourcing decisions based on market intelligence and seasonality in the countries where WFP operates. To exploit these opportunities, WFP is implementing an integrated supply-chain approach from planning to delivery.
31. In 2013, WFP worked with experts from the University of Manitoba to identify best practices for managing and mitigating food price risks using market intelligence and tools. The resulting models and tools, to be rolled out in 2014, will inform procurement decisions: they will include monthly tracking of prices in the 31 markets where WFP procures the bulk of its food.
32. The business process review identified the need to streamline procurement processes. In accordance with one of its recommendations, delegation of food procurement authority to regional and country directors was increased to USD 500,000 for competitive tendering in all programme categories and trust funds; purchasing authority had previously been limited to emergency operations. The aim is to place decision-making closer to operations. Monitoring and oversight mechanisms will be put in place, supported by risk-management

tools encompassing fluctuations in food prices, process oversight, quality assurance and vendor management.

33. By building on the P4P pilot and leveraging the network of market actors, WFP is seeking to connect smallholder farmers to commercially sustainable sources of demand other than WFP – the private sector and government food reserves, for example. Four modalities are being developed:
- i) expanding P4P and increasing the amount of food purchased from farmers;
 - ii) working with larger suppliers to aggregate smallholder produce, and making it a condition of purchase contracts;
 - iii) bringing together WFP demand with the demand of other large buyers, with longer-term purchasing agreements and a capacity-development component to create a “Patient Procurement Platform” that provides longer delivery times for smallholder farmers; and
 - iv) using an integrated model with partners to address input and production challenges linked to private-sector and public-sector demand: the large tonnages of food involved will provide the incentive to address market bottlenecks and problems encountered by smallholder farmers such as access to finance, insurance and extension services; on the purchasing side, risk reduction and mitigation tools will cover issues such as side-selling, delivery delays and quality control.
34. The aim is to enable smallholder farmers to participate in competitive markets, increase their yields and augment their incomes over four years. In the first phase, WFP-commissioned market studies in a few target countries will inform the design of country-specific business plans and guide engagement with other actors to form the patient procurement platform.

PROCUREMENT CAPACITY AND STAFF DEVELOPMENT

35. At the end of 2013, WFP had 31 international professional food procurement officer positions – 8 at Headquarters and 23 in the field. Of these, 5 were funded through P4P. There were 15 national food procurement officer posts and 2 junior professional officer posts for procurement, funded by Japan and Germany.
36. Procurement staff attended the Public Procurement Training and Certification Programme accredited by the Chartered Institute of Purchasing and Supply. Regular meetings of procurement staff were held to discuss future strategies and other procurement-related issues. Industry experts were invited to speak and to engage staff on issues such as processes, market analysis and risk management.
37. The new procurement approach requires additional knowledge and skills to enhance WFP’s market intelligence and to incorporate industry best practices with regard to contracts, risk-reduction instruments and the management of trader/supplier relationships. To build its competencies, WFP will provide internal and external training and secondments to private-sector organizations, and will employ market consultants.

ACRONYMS USED IN THE DOCUMENT

FAO	Food and Agriculture Organization of the United Nations
FOQUS	food-quality software
FPF	Forward Purchase Facility
P4P	Purchase for Progress