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2018 annual session of the Executive Board

Agenda item 10c): Update on food procurement

President: Dear colleagues, as I anticipated, we managed to catch up and tried to respect our timetable. With your permission and with your agreement, I would propose a short agenda item to conclude with, which is the procurement update which we have already anticipated in our previous discussion.

I propose to move to item 10 c) Update on food procurement in document 10c of the current session. As you may recall, while this document was submitted to us only for information, the Bureau requested that it be tabled for discussion at this Board session. We have Mr Abdulla on the podium and we have also Ms Guarnieri on the podium. I welcome Mr Jakob Kern, the Director of the Supply Chain Division. I congratulate him on his appointment. I also welcome Mr Cesar Arroyo, Deputy Director of the Supply Chain Division on the podium. I kindly ask them to present the update.

Ms. V. Guarnieri, Assistant Executive Director, OS: We recognize that this is late in the day, so thank you also for your perseverance. It is a particular pleasure for me to be able to introduce this with our new Director of Supply Chain, Jakob Kern, by my side and with Cesar (Arroyo) who has been such a pillar in the Supply Chain Division and continues in the role of Deputy here as well.

WFP global food purchases in 2017 amounted to USD 1.4 billion and this represents WFP's largest volume of commodities since 2010, which reflects both the exceptionally high levels of humanitarian needs arising from an unprecedented number of emergencies that we have discussed and represents as well the record levels of support received. The substantial increase in volume, primarily of cereals, was mainly because of the large demand for emergency assistance in a select group of countries, namely Nigeria, South Sudan, the Syrian Arab Republic and Yemen.

Level 3 emergency responses accounted for approximately 48 percent of all food procurement in 2017, representing a 7 percent increase of those purchased for L3s, Level 3 emergencies in the previous year. Innovative procurement modalities and sourcing strategies for major commodity groups were essential tools in meeting these increased demands. WFP bought food from more than 100 countries, with 74 percent of the total by value sourced from developing countries. That is very much in accordance with our strategy of supporting the development of local and regional markets.

WFP's Food Procurement Service also achieved significant progress in terms of increased agility, increased cost efficiency and reliability. In 2017, the service achieved savings of more than USD 43 million. Just under half of that, or USD 22 million, is attributed to commodity substitutions, while the increased use of contracting modalities, such as differential contracts and food supply agreements, allowed WFP to save more than USD 8 million in food costs. An additional savings of more than USD 13 million were achieved by taking advantage of opportunities to purchase from local and international markets when prices were at their lowest.

With that brief introduction, I will hand it over to the Director, Supply Chain.

J. Kern, Director, Supply Chain Division, OSC: Just to confuse and repeat more numbers. The total amount of food we procured was 3 million mt in 2017. That was a record. We have never had that much in WFP history.

As Valerie (Guarnieri) said, the most significant increase was Yemen. The volume of procurement was 176 percent more than the previous year. In Syria, the ban of the Syrian Government to import anything from Turkey resulted in a reduction in Turkish procurement from Turkey by 43 percent against 2016 figures. WFP responded to this ban on Turkish commodities by rapidly shifting our resourcing of food to other countries and also changing some commodities to reduce



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the lead time. The effect was that the lead time was much longer because we had to resource from further away than Turkey.

We have also been working on the implementation of the recommendations of the Proactive Integrity Review, the PIRs, which covered the procurement in Turkey for the Syria operation. Forty two actions were identified as a response to the findings of this PIR in Syria, and 20 of those were assigned to procurement. Eight of them are still being implemented in 2018, the rest have been completed and implemented. We are still working on that.

Headquarters food procurement accounts for 55 percent of all the volume. Forty-five percent of the food is being procured outside Headquarters with a lot of advice from Headquarters, capacity-building, strengthening the capacity in the regional bureau and country office that do 45 percent of the food procurement globally.

The Food Procurement Manual is currently being updated. We will actually close quite a few of the outstanding audit recommendations that are related to procurement.

The Global Commodity Management Facility, the GCMF, remains a key partner on food procurement. The mechanisms allow reduced lead time, as you know from previous presentations. This accounted for 53 percent of all the purchases in terms of USD value. The collaboration between Supply Chain and the GCMF continues to be strengthened to ensure that pipeline continuity and also to maximize the use of contract modalities, such as food supply agreements, to support higher volume transfers.

Finally, in 2017, WFP worked on contract optimization and market intelligence and introduced differential contracts to its food procurement toolkit. This contract modality reduces default rates among suppliers and ensures that WFP pays fair market prices for commodities.

I will stop here and I am happy to answer any questions you may have.

President: I now open the floor for comments and questions and statements. I recognize that we have two requests, one from Hungary on behalf of List E.

The representative of Hungary: I have the honour to speak on behalf of List E.

First of all, we would like to thank WFP Management for the presentation and for the information provided on the updates of the food procurement activities. We note that the scaling up of procurement to increase quantity and value of purchase is due to the increased number of L3 emergencies which accounted for nearly half of the total food purchases. We would like to commend WFP for the efforts made and the results achieved in securing supplies in order to meet the needs arising from the worsening situation of global hunger and to ensure food security and nutrition. We are happy to note the usefulness of the Global Commodity Management Facility and appreciate that WFP is exploring further ways and modalities to fulfil its mandate.

We wish to highlight some particular aspects of WFP's procurement and make some comments on its main tendencies. We fully endorse the increased sourcing from developing countries in accordance with WFP's strategy of supporting the development of local and regional markets. We particularly welcome the increase of purchases from smallholder farmers from the USD 1.7 million reported in 2016 to USD 30.7 million in 2017. While acknowledging the positive developments, we note with concern the purchases from local smallholder farmers are still very low, around 2 percent of the total value of WFP food purchases of USD 1.4 billion in 2017.

We would be happy to get some more information about the quantity and types of food purchased locally from smallholder farms. We understand that price, quantities and quality sometimes means serious challenges for WFP, but we wish to learn more about the main obstacles to a substantive increase of purchases from local smallholders; for example, if and how the internal Food Procurement Manual should be revised. We welcome the smallholder friendly contracting modalities mentioned in the document and we would like to know a bit more about these



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mandated and conditional contracts. Who and on what basis specifies the percentage of the volume that is purchased from smallholder farmers? We wish to encourage the Food Procurement Service together with the Programme and Policy Division to mainstream the best practices from these new modalities into regular procurement processes.

Local purchases from local smallholders has an important secondary impact to foster local markets and to boost local economies, turning WFP's leading principle of moving from saving people's lives to changing their lives into reality. In this regard, we are very much looking forward to the new WFP policy and local procurement of food with a special focus on local smallholders. In light of the discussions held under agenda item 6 d), I would like to express our support to the request of Brazil on behalf of List C and Sudan on behalf of List A to increase the rate of food procurement from small and family farms.

We would also like to emphasize the need for mainstreaming nutrition in management's new policy. Especially, we would like to highlight the possibility of diversification of the staple food basket and have a higher proportion of staples which have more nutrition value; for example, locally grown barley and millet. We would like to highlight the benefits of pulses within the food baskets and also in general as it is well-known pulses are highly nutritious, relatively cheap sources of protein, with a number of other environmental and agro-economic benefits. Their cultivation fosters sustainable agriculture, restores soil fertility, have a low water footprint and contribute to climate change mitigation and adaptation. We appreciate that in order to secure supplies and keep pulses in the food basket, WFP substituted certain types of products within this food category.

We endorse the increased support to regional bureaux regarding activities related to food safety and quality assurance. In this spirit, we encourage WFP to explore ways of collaboration with and rely on services of FAO and other United Nations agencies where appropriate. In addition, we agree with the need for increased engagement with the private sector in the field of food safety and quality assurance, paying due attention to the transparency and accountability which are the main strengths of WFP. We think WFP should make use of the benefits from these partnerships, especially through technical expertise.

President: I now have two further requests from the United Kingdom and the United States of America. United Kingdom, the floor is yours.

The representative of United Kingdom: Just to take the opportunity to welcome Jakob (Kern) in this new role and welcome back to Rome.

We just have a request for clarification. The report says that 74 percent of the total food purchased has been sourced from developing countries, which, of course, is a strategic approach that we agree with. But we would like to ask WFP to clarify which countries, the WFP definition of developing countries, and if this percentage does include contributions in-kind.

The representative of the United States of America: We also welcome Jakob (Kern) to his new position and happy to see him here.

The United States appreciates this update on food procurement. Procurement is at the heart of this organization's work. It is critical for WFP to have robust policies, practices and controls in place.

To echo the representative from Hungary and List E, we are very supportive of the increase in local procurement and happy to see the diversity of source countries that came through in this report, especially developing countries. We underscore the need to ensure safety and quality control, but we are very supportive of this general direction. Just to echo those sentiments.

The United States appreciates the mention of WFP's work to address previous audit and oversight findings with respect to food procurement. We seek additional information on implementation



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to address the underlying causes of the recurrent findings of recent audits and Proactive Integrity Reviews in the areas of vendor management guidelines and manuals, training and safety and quality of the food purchased.

Given the significant risks for waste, fraud and abuse within the food procurement system, we would appreciate an update on how WFP has continued to strengthen its internal controls based on the lessons learned, particularly in the Middle East Region.

As also noted by the Audit Committee's report, the United States delegation cautions WFP management not to lose focus on the risks in traditional food distribution processes while it continues to scale up cash-based transfer programming. We urge WFP to ensure that systems and capacity remain in this area through continued investment. We note that WFP plans to develop a new procurement policy and look forward to working with the Board and management on that document.

The representative from Argentina (original language Spanish): Just a brief statement at the end of the day. I simply would like to ask for clarification on paragraph 5 of the report. It says there in paragraph 5 there is a high demand for non-genetically modified white maize. My question for the Secretariat, therefore, regards this non-genetically modified. What is the scientific basis for this? What would be the reason? Is it not harmful for health? I would like to understand the criterion and why there is this high demand.

President: Any further requests? I see no further requests for the floor. I am turning back to the podium and give the floor to Valerie (Guarnieri).

Ms. V. Guarnieri, Assistant Executive Director, OS: On the last question, just to highlight that the standards on what constitutes genetically modified food are set by WHO and FAO under the Codex. Our role is basically a broker between nations and what their regulations are and the assistance that we provide. Nations determine whether they accept genetically modified food or not. In those countries when we are working, then we adhere to those national regulations in our provision of support and take that into account with our procurement. We have found over recent years that it has become more difficult to meet the demands for non-genetically modified maize in particular. That is an area that we just continue to face challenges.

In terms of countries, the developing countries that we are procuring from, the table in the document that you have includes the list of our main source of countries. The ones that fall within the percentage that we classify as purchasing from developing countries include Sudan, Nigeria, Uganda, Zambia, South Africa, Pakistan, India and Rwanda. I will now turn to Jakob and Cesar to answer the question on smallholders and other issues.

J. Kern, Director, OSC: On Hungary, smallholder – and I think that was a question that was also asked in the session before. The GCMF is a USD 20 million facility that can be rotated. The maximum two to three times a year, so it could be up to USD 60 million a year. Last year was USD 30 million.

In countries, and the 10 percent, we have to qualify that this is in countries where we have significant investment in programmes like P4P, Post-Harvest Losses, Farm to Market Alliance. In those countries, we aim to get 10 percent of the total procurement. In the ones we have made significant investments, we actually have reached it. We have to qualify that statement to reach the 10 percent because it is not just the procurement issue; it is a programmatic issue. Smallholder farmers need programmatic support to be able to actually sell commodities to WFP. Even if we wanted to buy, there is a lot to do on the programmatic side to prepare these smallholder farmers to become sellers, vendors to WFP.

You mentioned that we change the guidelines. We changed our contracting modality; we allowed smallholder farmers to beat, or we said if you buy locally, you have to buy so many percentage



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from smallholder farmers. On the procurement side, we did quite a lot to make it easier for smallholder farmers to sell food to WFP. As I said, it needs a comprehensive approach. It is not just the procurement activity; it is a programmatic activity to help these smallholder farmers. We are working very closely with the Policy and Programme Division to increase these percentages and to increase also the countries where we actually do purchase from smallholder farmers.

I think in terms of the food basket, this is a constant struggle. You have a certain amount of funds. You have a certain amount of people you want to support. What is the balance between supporting as many as possible or supporting fewer with a much higher value food basket. I think that is a constant struggle that WFP is dealing with in every country. Where do you draw the line? In Syria, we had a certain standard. We would not go below a certain kilocalorie value for a food basket. We said if it is food, it has to be at least 1,500 kilocalories per person per day. Below, it would not make sense. We never reached 2,200 that would be necessary as a standard.

There was a question of what we are buying from smallholder farmers. It is mainly maize, rice and pulses. Again, it is the easy commodities in order to diversify. They need a lot more support than just us going and say we buy chickpeas from you. They need much more to become a chickpea vendor to us or anything other than the commodities that they are normally growing anyway.

The PIRs. I will let you answer this one.

C. Arroyo, Deputy Director, Supply Chain Division, OSC: to address the local procurement policy. We are working on it in coordination with the Programme colleagues. We intend to finalize the local procurement policy and present it to the Executive Board by the end of 2018 and start implementing it by 2019.

The local procurement policy is a complex one as we need to bring those markets to safety levels. Most of them are. We are working with the local partners to make sure that they are linked to the different standards that we require from them. I will stop there on the local procurement.

Ms. V. Guarnieri, Assistant Executive Director, OS: One last comment and that is just to correct a little bit in terms of Cesar (Arroyo). We have had a discussion. I think the Local Food Procurement Policy requires quite some work and some discussion with the membership in order to take into account your thoughts and your consideration and also to ensure that we can still meet the demands on the ground. Given that we have had a change in management with Jakob (Kern) coming in, also a change with me coming into the role, our ideas that we would have a draft policy ready for a first consultation in early 2019 and that we would then be looking to come to the Board at next year's annual session with a consulted policy for your approval. We will be having those conversations and finalizing it with the Bureau. But we will need a little bit more time to have the sort of well-thought through strategy that this very important topic deserves.

M. Juneja, Assistant Executive Director, RM and CFO: Just a clarification first of all on the USD 20 million that we discussed as part of the USD 500 million ceiling for the GCMF. As we said in the document on advanced financing, we expect that to be rotated less frequently or rotated less than the remainder of the GCMF. That is because of the longer procurement lead times and the need to give credit to smallholder farmers. As we seek to use this for smallholder farmer procurement, we do not expect a high level of rotation as we do for the rest of the GCMF.

Also, listening to the discussion about leveraging the GCMF for smallholder farmer purchases, I wanted to emphasize that GCMF does have a safety net of USD 6 million to cover any risks in the management of GCMF. That is a safety net that is basically never used. What I am trying to say here is that I believe we do have an opportunity to take greater risks under the GCMF and to do so for the purposes of smallholder farmer procurement.

The final point I wanted to make is something that was briefly discussed at the Finance Committee. I apologize to Valerie (Guarnieri) for not having discussed that directly with her. That is that as we



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refer to smallholder farmers, there is not actually an unambiguous global definition of smallholder farmers. We do follow in WFP what is generally the discussion that was had in formulating SDG2 and that is essentially to focus on land-holding size in defining smallholder farmers. That is generally regarded as 2 ha. But even 2 ha is very significant, even in some of the countries that Jakob (Kern) referred to. Perhaps as we move further in the clarification of our policies, this is also something that we may have to address, which is what do we mean by a smallholder farmer. That may be context-specific in the development of the policy.

President: Colleagues, thank you very much for your active and open discussion on this very important item at this late hour. It is really appreciated. Since this agenda item was presented to the Board for information, we do not have any draft decisions. But we are really looking forward to having the first draft of the policy at your earliest possible convenience. I also would like to say that the outcomes of this discussion will be duly reflected in the summary of the work of this session.

With this, I conclude this agenda item. We also conclude today's work a couple of minutes in advance. I hope you do not mind. But before adjourning, I pass the floor to the Secretary to make some announcements.

Ms H. Spanos, Secretary to the Executive Board, PGB: It is just one announcement to remind that for tomorrow morning at 8.30 is the Regional Bureau for Southern Africa consultation with the Permanent Representatives from the region. That is taking place in 6R00, 6th floor, Red Tower, Conference Room 00. And that is it. Thank you.

President: With this, thank you again, everyone, for your constructive participation. I am looking forward to meeting all of you at 10.00 sharp in order to start the meeting. The meeting now is adjourned.

