

SUMMARY P4P PROCUREMENT REPORT: SEPT 2008 – SEPT 2011

- Updated November 2011 -

HIGHLIGHTS

As of end September 2011, **191,553 metric tons** (mt) of commodities had been contracted under P4P modalities.

Of this:

- 65 percent had been contracted from **farmers' organizations** (none of these are "large", although they are of various scales - first tier: primary producer groups; second tier: forums - or 4-6 primary producer groups marketing together; and third tier: larger groups of forums marketing together, often umbrella farmers' organizations that cover a region or province of a country).
- 23 percent had been contracted through **commodity exchanges**
- 8 percent from small and medium scale **traders and agro-dealers**
- 3 through **warehouse receipt systems**
- 1 percent from **processors**.

Out of this contracted total, over **117,700mt** have been delivered to WFP (and hence paid for); **29,565mt** are pending delivery and **44,280mt** has been confirmed defaulted. It is important to note that a default is not necessarily a negative outcome as farmers may have received a higher price than that offered by WFP. A breakdown and analysis of the reasons behind the 23% default rate is contained in this report.

During the first year of P4P implementation, 9% of the total food purchased by WFP in P4P pilot countries was procured through P4P modalities. During 2011, this P4P purchases have increased to 13% on average of total food purchases.

The drought in the Horn of Africa has greatly reduced available surpluses in Kenya and Ethiopia. This has led to a rapid increase in the market price of maize after most contracts had been signed. As a result, many farmers' organisations were not able to bulk the required quantities, as many farmers decided to side-sell to traders at higher prevailing market prices.

Compared with 2009 and 2010, there has been significant diversification of commodities purchased through P4P modalities. In 2009 fortified commodities represented less than 1% of total purchases while in 2010 they represented more than 2% of total purchases; also, pulses have seen a 3% increase in proportion in 2011. Cereals still account for 89% of the food contracted under P4P. Different types of pulses (beans, red beans, white beans, peas, cowpeas) account for 9% of total P4P contracts.

Introduction

This report aims to provide a snapshot analysis of P4P specific data extracted from WFP's Procurement Database (covering the period Sept. 2008- 30 Sept. 2011), complemented by a global procurement analysis (P4P versus non-P4P) from 2009 to Sept 2011.

Of the 21 P4P pilot Countries,¹ **20** have now purchased under P4P pro-smallholder modalities.

The detailed procurement data includes information on contracted amounts, on quantities actually delivered and defaulted by country, by P4P procurement modality, by vendor typology and by commodity. The report contains the following information:

GLOBAL PROCUREMENT ANALYSIS [pages 3-5]

1. P4P purchases as a percentage of total purchases in P4P countries (P4P/non-P4P) [*Jan 2009 – Sept 2011, WINGS*]
2. Evolution of P4P purchases by year [*Sept 2008 - Sept 2011, Procurement tracking system*]

ANALYSIS OF P4P CONTRACTS BREAKDOWN [pages 6-10]

Cumulative P4P Contracts (Sept 2008 - 30 Sept 2011)

1. by P4P activity
2. by vendor typology
3. by commodity

ANALYSIS OF DEFAULTS & REASONS [pages 11-14]

Deliveries and defaults (Sept 2008 - 30 Sept 2011)

1. by country
2. by vendor typology
3. by P4P activity

Main reasons stated for defaults & frequency of reasons (Sept 2008 - 30 Sept 2011)

ANALYSIS OF LOCAL PURCHASE COSTS WITH RESPECT TO IMPORT PARITY PRICE (IPP)[pages 15-16]

Costs with respect to IPP (Sept 2008 - 30 Sept 2011)

1. by country and by commodity

¹ **Laos** has not yet submitted Quarterly reports as P4P has not yet started in Laos. Laos has conducted a P4P assessment in early 2010 with Luxembourg funding, but is still seeking for funds for P4P implementation. The Country Implementation Plan has been approved.

GLOBAL PROCUREMENT ANALYSIS

1. P4P purchases as a percentage of total purchases in P4P countries [1 Jan 2009 – 30 Sept 2011]

Origin Country	Total Contracted NON P4P (MT)	Total Contracted P4P (MT)	Total Tonnage P4P + Non-P4P	% P4P Purchases
AFGHANISTAN	40,490	5,069	45,558	11%
BURKINA FASO	31,383	4,131	35,514	12%
DRC**	23,092	227	23,319	1%
EL SALVADOR	13,800	3,035	16,834	18%
ETHIOPIA	374,566	22,314	396,880	6%
GHANA	20,420	1,024	21,444	5%
GUATEMALA	32,338	15,391	47,729	32%
HONDURAS	44,953	11,757	56,709	21%
KENYA	125,255	20,106	145,361	14%
LIBERIA	1,121	1,057	2,178	49%
MALAWI	140,598	23,055	163,653	14%
MALI	33,793	10,129	43,922	23%
MOZAMBIQUE	62,992	13,010	76,003	17%
NICARAGUA	6,647	2,317	8,964	26%
RWANDA	23,586	6,058	29,644	20%
SIERRA LEONE	1,090	1,196	2,286	52%
SOUTH SUDAN***	0	528	528	100%
TANZANIA	82,467	13,728	96,195	14%
UGANDA	233,142	14,672	247,813	6%
ZAMBIA	39,028	22,750	61,779	37%
Grand Total	1,330,762	191,553	1,522,315	13%

Source: data extracted from WINGSII (Non-P4P MT) and PASTFOOD (P4P MT) 15 October 2011 and cleared by ODPF

*Due to internal Corporate System migration P4P purchases from 2008 are not included in this extract and as a result this percentage is a bit skewed

**WFP is intentionally the "buyer of last resort" in DRC, and has successfully linked participating FOs to private sector traders.

***All quantities contracted in South Sudan are purchased using P4P modalities.

The initial target of the P4P pilot programme was to purchase at least 10% of total food procurement in each pilot country through P4P modalities in the first year of implementation. This percentage is expected to increase gradually as targeted Farmers' Organizations (FOs) and small and medium-scale traders build their capacity, with the support of WFP and partners, to respond to the WFP market (and other quality buyers) with adequate quantity and quality.

During the first year of P4P implementation (2009), **9 percent** of the total food purchased was procured through P4P modalities in 14 countries which had started P4P procurement activities. As of the end of September 2011, this increased to **13%** on average of total food purchases in 20 P4P countries.

The share of P4P purchases varies widely between countries, depending on:

- **when the P4P pilot began:** In Ghana where P4P started only during the second half of 2010, the purchases represent 5% of total purchases as of September 2011.
- **whether the pilot country is a major source of commodities for WFP operations independent of P4P:** Ethiopia, Kenya and Uganda, where WFP is traditionally a large buyer for its in-country and regional operations (over 290,000mt purchased in Ethiopia; 132,000mt purchased in Uganda and almost 100,000mt purchased in Kenya in 2010), the share of P4P purchases is "only" 5% in Ethiopia, 7% in Kenya, and 4% in Uganda respectively. Comparatively, this share is as high as 85% in Liberia and 74% in Sierra Leone, two post-conflict countries where WFP had never purchased locally before the start of P4P. In South Sudan, all local purchases are made using P4P modalities making it 100% P4P.
- **whether as a result of P4P, WFP is channelling most of its local purchases through emerging trading platforms,** such as Commodity Exchanges in Malawi and Zambia.

- **whether the P4P pilot country is a post-conflict country** with particularly challenging operating environments: In DRC, where P4P aims to connect smallholder FOs to traders, and WFP intervenes only as a buyer of last resort, P4P purchases account for only 0.33% of total local purchases by WFP in 2010. This in itself is not a “bad” outcome given the particular P4P strategy in this pilot country.

Other factors to take into consideration are:

- The increasing demand for cereals in East Africa (particularly in Ethiopia, Kenya and Somalia) as a result of the drought in the Horn of Africa has continued to strain the East and Southern Africa market in general and specifically for P4P purchases in Ethiopia, Kenya, Malawi, Tanzania and Zambia.
- Price volatility across the board, government intervention on markets especially in East & Southern Africa, rising fuel and food prices are other contributing factors that may impact negatively on increasing the scale of P4P purchases.
- As of June 2011, Ethiopia Country Office suspended P4P purchases until the next harvest season (November) as prices are expected to stabilise after the harvest; Kenya expects defaults of beans contracts due to scarcity of the commodity and high prices; Malawi Country Office has experienced 90% default of direct contracts issued in the 2011 season; while Zambia is experiencing side-selling by contracted FOs as a result of better price offers from other buyers.
- Unpredictable weather patterns have had a serious impact in P4P countries where smallholder farmers heavily rely on rain-fed agriculture. Wet conditions after harvest in Guatemala, Honduras, Kenya, Liberia and Nicaragua have also affected the time required to dry and deliver grain during the last quarter.
- ‘Special’ import permissions/regulations (duty free) are examples of government intervention on markets in certain countries that have impacted P4P purchases. Recently, the governments of Ethiopia and Tanzania have imposed export bans on cereals, which affect potential regional procurement. In September the Government of Kenya approved duty free imports of maize and recently intervened on the grain market with a blanket price (Kshs 3,000) for maize to be purchased by the National Cereals and Produce Board (NCPB).

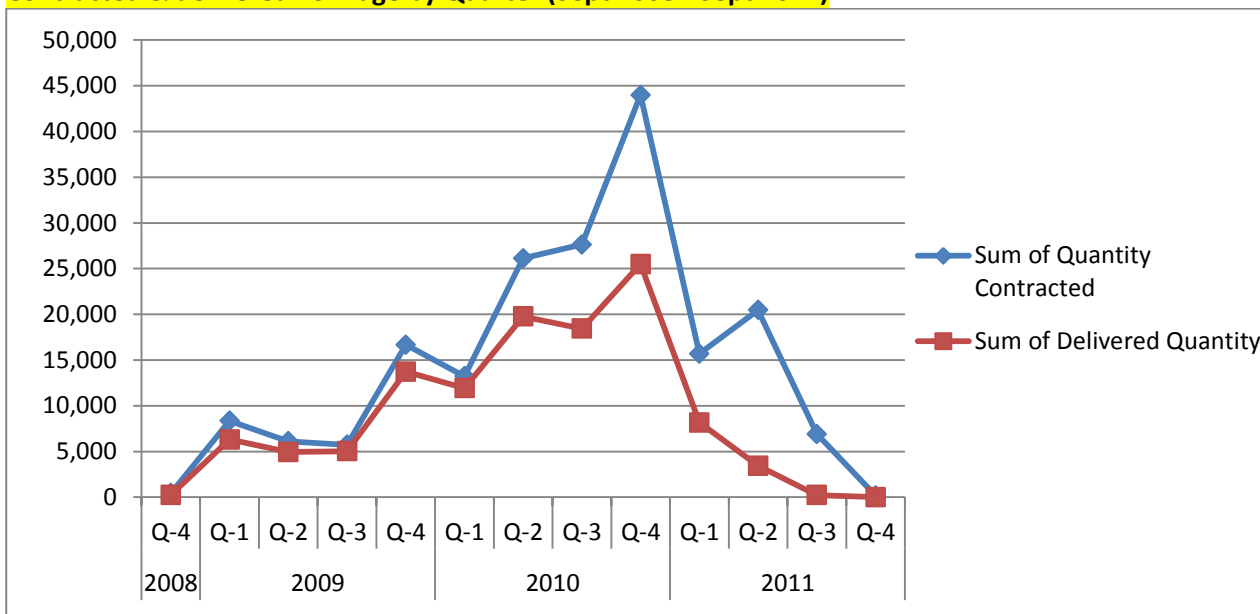
2. P4P contracted amounts (Sept 2008 - Sept 2011) by year, metric tons

Origin Country	2008		2009		2010		2011		Total Quantity contracted	Total Quantity Delivered
	Quantity contracted	Quantity Delivered	Quantity contracted	Quantity Delivered	Quantity contracted	Quantity Delivered	Quantity contracted	Quantity Delivered		
Afghanistan					4,385	4,383	684	417	5,069	4,800
Burkina Faso			1,448	732	1,996	1,996	686	686	4,131	3,415
DRC					172	5	55	0	227	5
El Salvador			556	555	2,454	2,454	25	25	3,035	3,034
Ethiopia					19,374	10,723	2,940	1,120	22,314	11,843
Ghana					1,024	1,024			1,024	1,024
Guatemala			2,744	2,201	8,729	5,334	3,918	592	15,391	8,127
Honduras			2,414	2,414	7,326	4,663	2,017	1,714	11,757	8,791
Kenya			1,313	639	12,914	4,197	5,879	246	20,106	5,082
Liberia			257	192	800	445			1,057	637
Malawi			541	41	12,673	11,765	9,841	3,710	23,055	15,516
Mali	100	100	500	500	5,310	4,911	4,219	729	10,129	6,240
Mozambique	250	60	5,126	3,604	4,863	1,107	2,771	0	13,010	4,771
Nicaragua	50	50	200	200	1,872	1,629	195	33	2,317	1,912
Rwanda					4,168	2,939	1,890	203	6,058	3,142
Sierra Leone			500	162	465	172	231	5	1,196	338
South Sudan					58	44	470	183	528	227
Tanzania			2,707	2,080	5,420	2,961	5,601	1,627	13,728	6,668
Uganda	48	48	8,231	6,311	5,321	3,223	1,072	0	14,672	9,583
Zambia			10,354	10,354	11,651	11,651	745	546	22,750	22,551
Grand Total	448	258	36,890	29,985	110,974	75,628	43,241	11,836	191,553	117,708

Source: data extracted from the Procurement Database on 15 October 2011 and cleared by ODPF
Note: deliveries for end 2010 and 2011 still ongoing as of 30 September 2011

- Since the launch of the P4P pilot initiative in September 2008 through 30 September 2011, **191,553 metric tons (mt)** of commodities (mainly maize, pulses and rice but also high energy biscuits, high energy supplements, wheat and cassava flour) have been contracted from Farmers' Organizations (FOs), small and medium-scale traders, food manufacturers, Commodity Exchanges and Warehouse Receipt Systems (WRS) in **20 P4P pilot countries**.

Contracted & delivered Tonnage by Quarter (Sept 2008 - Sept 2011)



NB: Data for Q-4 2011 will be reported on in January 2012

- Contracts are signed usually a couple of months prior to the expected delivery to allow vendors to bulk and grade the commodities according to WFP standards. The commodities are purchased by WFP (and paid for) only when WFP uplifts the commodities, after the clearance from the independent superintendent company charged with certifying the quality of the commodity. Under P4P, extensions on the delivery terms may be granted in an effort to build the capacities of those vendors who are less familiar with formal contracting procedures.
- Of the 191,553mt contracted, as of 30th Sept 2011, **117,708mt have been delivered to WFP** (and hence paid for) [see page 11].
- Commodities purchased through P4P modalities are mostly used for WFP operations within the same country, such as school feeding, food-for-work, nutrition programmes or refugee rations. In some cases, commodities purchased through P4P modalities have been exported **for WFP operations in a neighbouring country**, for example: in 2011 3,775mt of commodities were purchased through the Malawi Commodity Exchange for WFP operations in Mozambique. Malawi is also currently undertaking a procurement of 400mt of pulses for Zambia. P4P in Zambia has procured over 40mt of pulses for the Home Grown School Feeding Programme, a joint Government and WFP run programme.
- There was a substantial increase in the amount contracted from 2009 (36,890mt) to 2010 (110,974mt) for the following reasons: a) most countries were just starting P4P implementation in 2009 (many were still designing their P4P strategy); b) the start in 2010 of new P4P countries such as Ethiopia where WFP traditionally purchases large amounts; and c) the rapid scale up of P4P purchases in Malawi with the start of purchases through the Malawi Commodity Exchange all contributed to this increase. As of the third quarter of 2011, there has been a reduction in tonnage contracted (43,241mt) for the various reasons explained earlier in this report.
- All countries except Mozambique, Sierra Leone and Uganda substantially increased the tonnage contracted under P4P from 2009 to 2010, especially Malawi (with the start of P4P purchases through the Agricultural Commodity Exchange for Africa), Mali, Kenya and the Central American pilot countries. On the other hand, Ethiopia and Kenya have experienced a significant decrease in contracted amounts in 2011 due to prevailing drought in the Horn of Africa.

ANALYSIS OF P4P CONTRACT BREAKDOWN

3. Cumulative P4P Contracts by P4P activity (Sept 2008 – 30 Sept 2011)

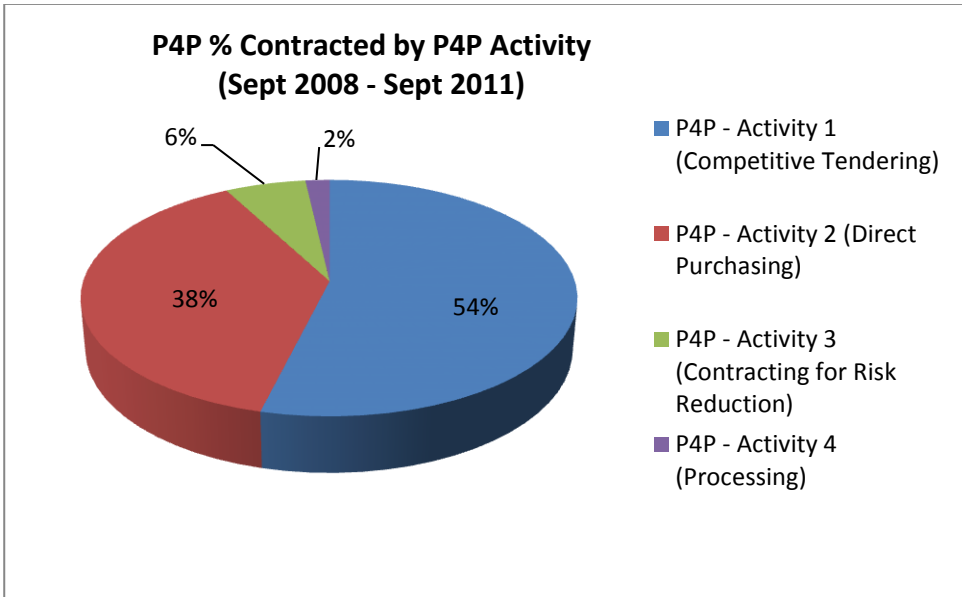
Region	Origin Country	P4P - Activity 1 (Competitive Tendering)	P4P - Activity 2 (Direct Purchasing)	P4P - Activity 3 (Contracting for Risk Reduction)	P4P - Activity 4 (Processing)	Grand Total	% by Country
Asia	Afghanistan		4,702		367	5,069	3%
Asia Total			4,702		367	5,069	3%
Central America	El Salvador	685	2,350			3,035	2%
	Guatemala	14,972	418			15,391	8%
	Honduras		11,757			11,757	6%
	Nicaragua	650	1,666			2,317	1%
Central America Total		16,308	16,191			32,499	17%
East & Southern Africa	DRC		227			227	0%
	Ethiopia	13,174	9,140			22,314	12%
	Kenya	12,331	2,991	4,391	393	20,106	10%
	Malawi	19,100	3,954			23,055	12%
	Mozambique	3,937	6,591	2,070	412	13,010	7%
	Rwanda	825	5,233			6,058	3%
	South Sudan		528			528	0%
	Tanzania	8,709	5,019			13,728	7%
	Uganda	6,603	8,069			14,672	8%
	Zambia	20,319	166		2,265	22,750	12%
East & Southern Africa Total		84,999	41,919	6,461	3,070	136,449	71%
West Africa	Burkina Faso		3,061	1,069		4,131	2%
	Ghana		1,024			1,024	1%
	Liberia		1,057			1,057	1%
	Mali	1,923	4,194	4,012		10,129	5%
	Sierra Leone		1,196			1,196	1%
West Africa Total		1,923	10,533	5,081		17,537	9%
Grand Total		103,230	73,345	11,542	3,437	191,553	100%
% by P4P Activity		54%	38%	6%	2%	100%	

Source: data extracted from the Procurement Database on 15 October 2011 and cleared by ODPF

Breakdown by P4P activity

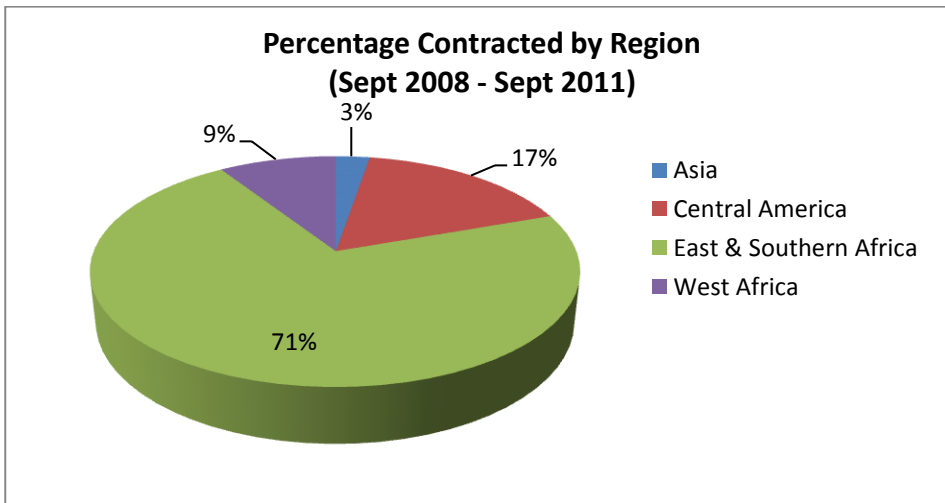
- Fifty four percent (103,230mt) was contracted through **competitive processes**.
- Thirty eight percent (73,345mt) was contracted through **direct contracts**, mainly from FOs, but in some instances from Agents/agro-dealers (Kenya, Mozambique and Sierra Leone) and NGOs (DRC, Zambia). In Uganda and Tanzania, direct contracts have been negotiated with warehouse receipt systems (WRS). All 20 P4P countries have (to various extents) employed the direct contracting modality, mostly with FOs.
- Six percent (11,542mt) was contracted through **forward contracts** in Burkina Faso, Kenya, Mali and Mozambique. South Sudan and Tanzania are currently exploring the use of forward contracts.
- Two percent (3,437mt) were purchases of **processed foods** (supporting pro-smallholder processing options) including high energy supplements (Zambia), **high energy biscuits** (Afghanistan), maize meal and corn soya blend in Kenya, Mozambique and Zambia².

² When the purchase of processed commodities occur through Commodity Exchanges (rather than directly through manufacturers/processors), the purchase is classified as "P4P/Activity 1- Competitive processes" and hence does not appear in this classification. But there is a lot of Maize Meal purchased through the ZAMACE in Zambia and ACE in Malawi, which appears under "activity 1" rather than under "activity 4".



Breakdown by region and country

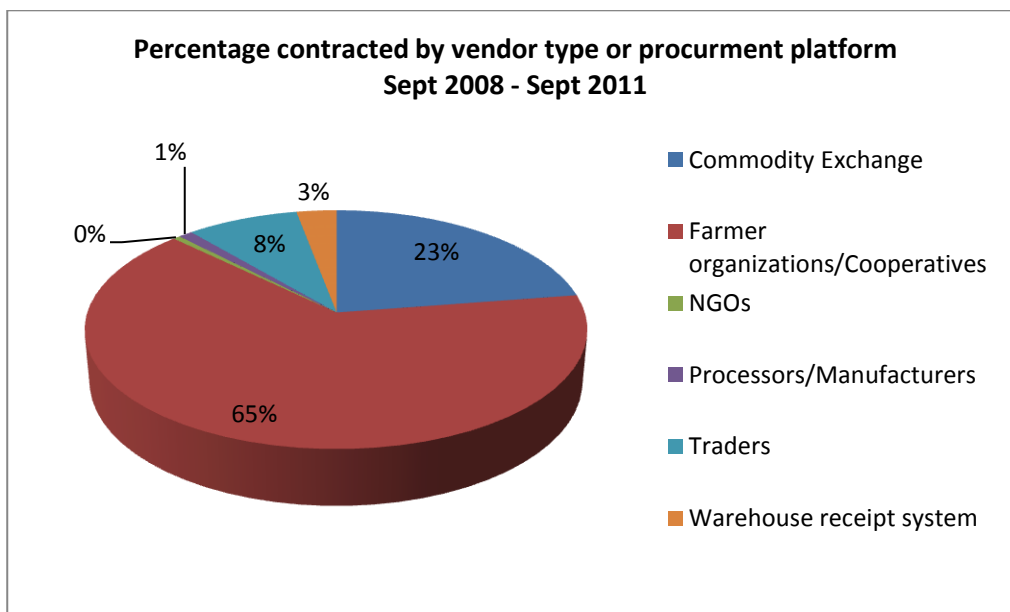
- Seventy one percent was contracted in Eastern and Southern Africa, followed by the Central America region (17%), West Africa (9%) and Asia (Afghanistan, 3%).
- In East and Southern Africa, **Ethiopia, Malawi, and Zambia** are the top three countries in terms of tonnages contracted. **Malawi** comes first with 23,055mt (of which 19,152mt through the Agricultural Commodity Exchange for Africa), make 12% of total P4P contracts; followed by Zambia (22,750mt or 12% of total contracts); **Ethiopia** (22,314mt or 12% of total contracts), **Kenya** (20,106mt or 10% of total contracts) and **Uganda** (14,672mt or 8% of total contracts).
- **Mozambique and Tanzania** each account for 7% respectively.
- In Central America, **Guatemala** stands first with 15,391mt or 8% of total contracts, followed by Honduras (11,757mt or 6% of total contracts). Nicaragua and El Salvador account for 1 and 2 percent respectively.
- In West Africa, the highest tonnage has been procured in **Mali** (10,129mt, 5% of total).
- **Afghanistan, DRC and Ghana** started procuring under P4P only in September and October 2010, but Afghanistan has already purchased 5,069mt (3% of total).



4. Cumulative P4P contracts by Vendor typology (Sept 2008 - 30 Sept 2011)

Region	Origin Country	Commodity Exchange	Farmer organizations	NGOs	Processors	Traders	Warehouse receipt system	Grand Total
Asia	Afghanistan		4,702		367			5,069
Asia Total			4,702		367			5,069
Central America	El Salvador		3,035					3,035
	Guatemala		15,391					15,391
	Honduras		11,757					11,757
	Nicaragua		2,317					2,317
Central America Total			32,499				32,499	
East & Southern Africa	DRC			227				227
	Ethiopia	5,051	15,143			2,120		22,314
	Kenya		16,766		433	2,907		20,106
	Malawi	19,152	3,207		419	276		23,055
	Mozambique		5,037		412	7,561		13,010
	Rwanda		6,058					6,058
	South Sudan			528				528
	Tanzania			13,041			687	13,728
	Uganda			9,708			4,963	14,672
	Zambia	19,062	66	758	351	2,513		22,750
East & Southern Africa Total		43,265	69,556	985	1,615	15,377	5,650	136,449
West Africa	Burkina Faso		4,131					4,131
	Ghana		1,024					1,024
	Liberia		1,057					1,057
	Mali		9,729			400		10,129
	Sierra Leone		1,126		25	45		1,196
	West Africa Total			17,067		25	445	
Grand Total		43,265	123,823	985	2,007	15,822	5,650	191,553
% by vendor type		23%	65%	1%	1%	8%	3%	

Source: data extracted from the Procurement Database on 15 October 2011 and cleared by ODPF



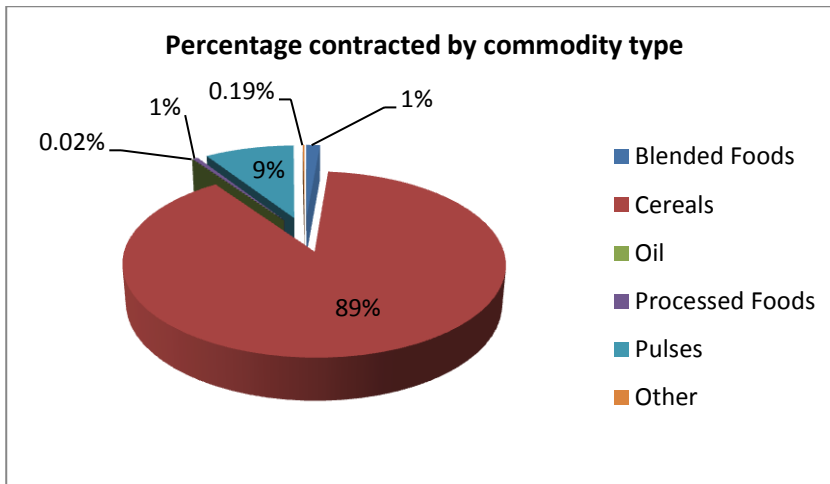
Breakdown by vendor type or procurement platform

- Sixty five percent (123,823mt) was contracted directly with **Farmers' Organizations** (FOs), whether through tendering, direct or forward contracts, across all pilot countries except Zambia.
- Twenty three percent (43,265mt) was contracted through **Commodity Exchanges** in Ethiopia (5,051mt), Malawi (19,152mt) and Zambia (19,062mt).
- Eight percent (15,822mt) was contracted through **small & medium traders** mainly in Mozambique (7,561t), Kenya (2,907mt), Zambia (2,513mt), and Ethiopia (2,120mt).
- Three percent (5,650mt) was contracted through different forms of **warehouse receipt systems** mainly in Uganda (almost 5,000mt) and Tanzania. Malawi and Zambia are also establishing warehouse receipt systems, while Burkina Faso, Ghana and Rwanda are discussing the possibility of establishing "warrantage systems".
- Just over one percent was procured through **NGOs** (DRC and Zambia) and directly from **processors** (purchase of High Energy Biscuits in Afghanistan, CSB in Kenya, Malawi and Mozambique, and cassava flour in Sierra Leone).

5. Cumulated P4P contracts by commodity (Sept 2008-30 Sept 2011)

Row Labels	Beans	Cassava Gari	CSB	High Energy Biscuits	High Energy Supplements	Maize	Maize Meal	Peas	Rice	Sorghum	UHT	Veg Oil	Wheat	Grand Total
Afghanistan				367									4,702	5,069
Burkina Faso	538					1,137				2,456				4,131
DRC						227								227
El Salvador	74					2,961								3,035
Ethiopia	2,341					19,973								22,314
Ghana						1,024								1,024
Guatemala	302					15,088								15,391
Honduras	3,199					8,557								11,757
Kenya	1,381		393			14,621		118	40	3,553				20,106
Liberia									1,057					1,057
Malawi	239		1,829			15,073	3,823	2,090						23,055
Mali	184								3,168	6,777				10,129
Mozambique			412			9,448		3,150						13,010
Nicaragua						2,297			20					2,317
Rwanda	709					5,349								6,058
Sierra Leone		20	25						1,111			40		1,196
South Sudan						470				58				528
Tanzania	1,973					11,755								13,728
Uganda	586					14,086								14,672
Zambia	303					658	12,450	8,988			351			22,750
Grand Total	11,830	20	2,659	367	658	134,517	12,811	5,358	5,396	12,844	351	40	4,702	191,553

Source: data extracted from the Procurement Database on 15 October 2011 and cleared by ODPF



Breakdown by commodity

- In comparison with 2009 and 2010, there has been significant diversification of commodities purchased under P4P in 2011. In 2009 fortified commodities represented less than 700mt (or 0% of total purchases) while in 2010 they represent more than 3,000mt (or 2% of total purchases). Pulses have seen a 3% increase in proportion in 2011.
- **Cereals** account for 89% (170,270mt) of the food contracted under P4P, purchased in Eastern & Southern Africa (119,915mt), Central America (28,923mt) and some in West Africa (16,731mt). During the last quarter West Africa has seen a considerable increase (87%) in contracting of cereals.
- Different types of **pulses** (beans, red beans, white beans, peas, cowpeas) account for 9% of total P4P contracts (17,188mt so far), most of which originate from East & Southern Africa (12,226mt).
- **Fortified commodities** including CSB, HESs and HEBs together represent less than 2% of total P4P contracts to date, and were procured in Afghanistan, Kenya, Malawi, Mozambique and Zambia. **CSB+** was procured in Sierra Leone.

ANALYSIS OF DEFAULTS & REASONS

6. Deliveries and defaults by country, vendor typology and P4P activity, (Sept 2008 - 30 Sept 2011)

Origin Country	Quantity contracted	Quantity Delivered	Balance to be delivered	Quantity Defaulted	% defaulted
Afghanistan	5,069	4,800	267	1	0.03%
Burkina Faso	4,131	3,415	0	716	17%
DRC	227	5	55	167	74%
El Salvador	3,035	3,034	0	1	0%
Ethiopia	22,314	11,843	5,351	5,120	23%
Ghana	1,024	1,024	0	0	0%
Guatemala	15,391	8,127	453	6,811	44%
Honduras	11,757	8,791	274	2,692	23%
Kenya	20,106	5,082	4,167	10,857	54%
Liberia	1,057	637	355	65	6%
Malawi	23,055	15,516	5,461	2,077	9%
Mali	10,129	6,240	3,503	387	4%
Mozambique	13,010	4,771	3,786	4,452	34%
Nicaragua	2,317	1,912	120	284	12%
Rwanda	6,058	3,142	991	1,925	32%
Sierra Leone	1,196	338	251	607	51%
South Sudan	528	227	0	300	57%
Tanzania	13,728	6,668	3,259	3,800	28%
Uganda	14,672	9,583	1,073	4,016	27%
Zambia	22,750	22,551	199	0	0%
Grand Total	191,553	117,708	29,565	44,280	23%

Type of Vendor or procurement platform	Quantity contracted	Quantity Delivered	Balance to be delivered	Quantity Defaulted	% defaulted
Commodity Exchange	43,265	32,473	10,400	392	1%
Farmer organizations/Cooperatives	123,823	70,286	16,412	37,125	30%
NGOs	985	763	55	167	17%
Processors/Manufacturers	2,007	1,545	461	1	0%
Traders	15,822	8,606	2,236	4,980	31%
Warehouse receipt system	5,650	4,036	0	1,614	29%
Grand Total	191,553	117,708	29,565	44,280	23%

P4P Modality	Quantity contracted	Quantity Delivered	Balance to be delivered	Quantity Defaulted	% defaults
P4P - Activity 1 (Competitive Tendering)	103,230	60,187	17,236	25,806	25%
P4P - Activity 2 (Direct Purchasing)	73,345	51,138	4,501	17,705	24%
P4P - Activity 3 (Contracting for Risk Reduction)	11,542	3,383	7,392	767	7%
P4P - Activity 4 (Processing)	3,437	2,999	436	1	0%
Grand Total	191,553	117,708	29,565	44,280	23%

Source: data extracted from the Procurement Database on 15 October 2011 and cleared by ODPF

- Of the 191,553mt of food contracted since September 2008, **117,708mt** (61%) was delivered, **44,280mt** (23%) was **confirmed defaulted**, and the remaining **29,565mt** (15%) is to be delivered.
- The recent drought in the Horn of Africa has greatly *reduced available surpluses* in **Kenya and Ethiopia**. This has led to rapid increase in the market price of *maize* after most contracts had been signed. As a result, many FOs were not able to bulk the required quantities as many farmers decided to side-sell to traders at higher prevailing market prices.
- In absolute terms, **Kenya, Guatemala, Uganda, Mozambique** and **Ethiopia** have had the highest volumes defaulted (over 10,000mt in Kenya, over 6,800mt in Guatemala, over 4,000mt in Mozambique and Uganda, and 3,600mt in Ethiopia). Except for Guatemala and Mozambique, these are all countries where WFP is traditionally a large buyer, and where overall local procurement tonnages (both P4P and non-P4P) are high. These countries have also been consistently the ones with the highest volumes defaulted due to highly volatile price and market dynamics. In relative terms with respect to the total volume contracted under P4P in each country, the highest percentage of defaults was in **DRC** (87%), followed by **Kenya** (68%), **Sierra Leone (62%)**, **South Sudan (57%)** **Mozambique** (48%), **Guatemala** (46%), and **Uganda** (30%).
- In **DRC**, the very high defaults reflect the fact that FOs have preferred to sell to traders rather than to WFP, which is a positive outcome in itself given the particular P4P goal in DRC (re-establishing trader networks and linking P4P FOs to traders, while WFP acts as buyer of last resort – only buying if there are surpluses unsold after the trading season).
- Lack of access to credit affected FO's capacity to aggregate, market, and deliver their produce to collection points.

In terms of vendor typology/procurement platform (sub-table 2):

- 31% of the contracted quantities with Traders were defaulted.
- 30% of the contracted quantities with FOs were defaulted.
- 29% of the contracted quantities with Warehouse Receipt Systems (Uganda and Tanzania) were defaulted.
- 17% of the contracted quantities with NGOs were defaulted. These refer mainly to the DRC P4P purchases, where the contract is signed with the NGOs representing the farmers' groups.
- Comparatively, purchases from Commodity Exchanges and Processors have had almost nil default rate.

In terms of P4P activities (procurement modalities –sub-table 3):

- Defaults are slightly higher with **soft/adjusted tenders** than with **direct contracts to date**.
- 7% of **forward contracts** have been defaulted, though this hides the fact that in many cases the forward contract tonnage initially signed may be revised downwards closer to the delivery period because the FO has not been able to bulk the required quantity.

7. Frequency of default reasons stated (Sept 2008 - Sept 2011)

Default Reason Typology	Sum of Quantity Defaulted	Count of Reason Typology 2	% of total defaults
Bulking/aggregation	7,505	62	17%
Credit access/financial weakness of FO	2,084	12	5%
Partnership/coordination	338	10	1%
Poor leadership	200	1	0%
Pricing	19,339	115	44%
Processing Losses	411	17	1%
Quality	10,020	52	23%
Side selling	1,997	20	5%
Underweight bags	2	1	0%
WFP delays	1,735	7	4%
Wrong bidding price	650	2	1%
Grand Total	44,281	299	100%

Source: data extracted from the Procurement Database on 15 October 2011 and cleared by ODPF; default reasons standardized manually

When ranking the main default reasons in terms of overall tonnage defaulted (table 7):

- **price** related reasons represent 44% of total defaults (19,339mt);
- **quality** related reasons represent 23% of total defaults (10,020mt);
- **bulking/aggregation** capacity reasons represent another 17% of defaults (7,505mt);
- **credit access/financial weakness** of FOs and side selling explain 5% of defaults (2,084mt);
- **WFP delays** explain 4% or 1,735mt of defaults.

When ranking the main default reasons in terms of frequency of reason cited (table 7):

- **The most cited reason for defaults throughout is “Price increase during the contract lifetime”** (whether general or due to climatic shocks), cited more than 115 times, followed by **“insufficient capacity to bulk”** (cited 62 times), and **quality related reasons cited 52 times**.
- **Price fluctuation** during the contract lifetime (from contract signature to delivery) explains most side-selling, as the negotiated price is considered not attractive anymore by individual farmers, who may decide to sell elsewhere. **This explains the default of over 19,000mt across 12 countries.**
- **Quality issues**, if taken all together, have been cited 52 times as main reason for defaults of 10,020mt of commodities. The quality related reasons included:
 - over 2,700mt of Maize that did not meet WFP quality specifications in Guatemala, Kenya, Malawi, Mozambique, Nicaragua and Uganda
 - contract cancellations due to **aflatoxin** in Guatemala, Kenya, and Tanzania where cumulatively over 1,800mt of maize contracts had to be cancelled.
 - **weevil infestation** (Ethiopia and Malawi) and **moisture** above WFP standards (Kenya);
 - **side-selling to less stringent buyers as a result of field quality tests** accounts for over 1,700mt. This encouraged farmers to sell elsewhere if the likelihood of the commodity not meeting WFP quality standards is perceived as high (cited by Ethiopia, Guatemala, Kenya, Rwanda and Tanzania).
- **WFP delays** (in signing the contract, in delivering empty bags, in finalizing the quality checks and communicating the results, and in uplifting the commodities) was cited several times in 2010 explaining the default of 1,735mt of commodities but this has since ceased to be a major problem which may be evidence of increased cross-divisional cooperation within WFP across the P4P, Procurement, Logistics and Finance Units.
- **Credit/financial weakness of FOs** is a major problem (cited 12 times) because FOs which are not able to pay their members upon delivery (at least a percentage of the value of the commodity delivered) have difficulty “convincing” members to bring their produce to the Cooperative, and therefore are highly prone to defaults, especially in the context of rising or unstable prices.
- **Partnership & Coordination problems** –. Communication problems between the FO leadership signing the WFP contract and the members has been stated by a number of pilot countries (Malawi, Rwanda, Sierra Leone) as a problem: members may not even be aware that their FO has signed a contract with WFP, let alone be aware and understanding the contract specifications regarding quality and timing.

Contract extensions increase the likelihood of contract defaults in two ways:

- By increasing the contract timeframe, there is a higher chance that commodities already bulked might deteriorate in the stores; commodities held at farmsteads have also a higher chance of infestation if the bulking process is delayed.
- By increasing the contract timeframe, prices are more likely to fluctuate, with farmers retrieving their commodities from FO warehouses and selling to traders having immediate cash in their hands, if prices have increased with respect to the negotiated price at contract signature.

Some strategies being put in place to minimize defaults include:

- Due to market price volatility, a number of P4P countries have experimented with **forward contracts** (or establishing a minimum price guarantee in South Sudan). This procurement modality is expected to nurture confidence in FOs, reduce the amount and/or levels of defaults while providing leverage to the FO for access to credit and serve as a stimulus for

growth in production. Forward contracts are currently signed or being planned in Burkina Faso (441mt of beans and 1,205mt of maize), Ethiopia (1,100mt of maize), Kenya (2,968mt of maize; 723mt of beans; 700mt of sorghum), Mali (1,187 of cereals and 112mt of niebe/millet) and South Sudan (1,000mt of Maize).

- **Smaller and more frequent purchases:** many pilot countries have reduced the size of the contracts (as little as 25mt in Sierra Leone) after the lessons learned from their first purchasing season. The philosophy is “buying what you see” (i.e. already bulked commodity). This is valid especially for low capacity organizations.
- P4P is working closely with financial institutions in order to link them with FOs and improve **access to credit**.
- P4P Tanzania has started implementing the **advance payment facility** which is expected to reduce the risk of default. However, this facility will only be made available to FOs that have strong management capacity and a good track record of previous contracts.
- P4P Malawi and Sierra Leone are suspending FOs with 100% defaults due to side-selling.
- Some pilot countries (e.g. Malawi and Sierra Leone) have organized lessons learnt workshops to study FO performance.
- Trying to **concentrate most purchases at the beginning of the harvest season**, in order to reach the smallholder farmers who anyway need to sell, minimize elite capture and purchase when the commodity is readily available in the market and prices are low for WFP. For how sensible this strategy may seem, the practical difficulty in applying this strategy is two-fold for an organization such as WFP:
 - First of all, the commodity is likely to be wet (and therefore not to WFP standards) if purchased just at the beginning of the harvest;
 - Secondly, the possibility of buying “at the right” time depends on the availability of flexible, un-earmarked cash donations which leaves the Country Offices the flexibility to decide the optimum procurement period and strategy. A P4P Advance Financing Facility has been introduced in 2011 in order to give country offices the possibility of borrowing funds despite only low forecasted contributions or no collateral in order to try and address this issue. Only one country has used this facility to date (Nicaragua).

ANALYSIS OF LOCAL PURCHASE COSTS WITH RESPECT TO IMPORT PARITY

8. Costs with respect to Import Parity, by country & commodity [Sept 2008 - 30 Sept 2011]

Origin Country	Commodity Category	Quantity Contracted (MT)	Value Import Parity (IP) Contract US\$	Value of Loc/Reg Contract (LP) (US\$)	IP minus LP
Afghanistan	Cereals	4,702	2,010,900	1,880,417	130,483
	Processed Foods	367	532,861	524,660	8,201
Burkina Faso	Cereals	3,593	1,767,034	1,177,945	589,089
	Pulses	538	378,292	213,149	165,143
DRC	Cereals	227	107,635	41,836	65,799
El Salvador	Cereals	2,961	1,276,834	1,116,850	159,984
	Pulses	74	76,329	109,155	-32,826
Ethiopia	Cereals	19,973	9,491,423	5,251,507	4,239,916
	Pulses	2,341	2,234,391	1,245,210	989,181
Ghana	Cereals	1,024	429,056	363,520	65,536
Guatemala	Cereals	15,066	8,175,929	6,495,423	1,680,506
	Pulses	325	317,496	360,800	-43,303
Honduras	Cereals	8,557	3,896,719	3,241,413	655,307
	Pulses	3,199	3,697,028	5,128,751	-1,431,723
Kenya	Cereals	18,214	8,176,888	4,364,871	3,812,017
	Processed Foods	393	211,198	259,313	-48,115
	Pulses	1,499	1,578,689	801,015	777,673
Liberia	Cereals	1,057	753,722	676,190	77,532
Malawi	Cereals	18,897	8,173,394	4,983,822	3,189,572
	Processed Foods	1,829	1,283,389	830,716	452,674
	Pulses	2,329	1,414,202	1,110,737	303,464
Mali	Cereals	9,945	5,199,913	4,665,456	534,456
	Pulses	184	169,680	124,144	45,536
Mozambique	Cereals	9,448	4,155,405	2,749,286	1,406,119
	Processed Foods	412	263,501	206,660	56,841
	Pulses	3,150	1,982,466	1,449,686	532,779
Nicaragua	Cereals	2,317	958,935	887,601	71,334
Rwanda	Cereals	5,349	2,826,277	1,410,033	1,416,243
	Pulses	709	769,626	388,046	381,581
Sierra Leone	Cereals	1,111	643,044	629,343	13,701
	Oil	40	61,200	58,000	3,200
	Processed Foods	45	23,930	32,409	-8,479
South Sudan	Cereals	528	266,430	201,886	64,544
Tanzania	Cereals	11,755	4,361,097	3,491,972	869,125
	Pulses	1,973	1,495,214	1,358,951	136,263
Uganda	Cereals	14,086	7,428,199	4,295,689	3,132,509
	Pulses	586	648,692	316,230	332,462
Zambia	Cereals	21,438	9,557,966	5,922,773	3,635,193
	Processed Foods	1,009	1,056,314	806,460	249,854
	Pulses	303	273,056	219,890	53,166
Grand Total		191,554	98,124,352	69,391,815	28,732,537

Source: data extracted from the Procurement Database on 15 October 2011 and cleared by ODPF

The 191,553mt of food commodities contracted under P4P modalities in 20 countries have a total value of US\$ 69.3million (value of local contracts). Of these, 117,708mt of commodities have actually been delivered to WFP (44,280mt defaulted and 29,565mt still to be delivered), corresponding to an estimated **US\$ 45 million paid by WFP** (equivalent to 65% of contracted value) to P4P vendors. We can therefore estimate that US\$ 45 million have been put more directly in the pockets of smallholder farmers and small and medium traders as a result of P4P purchases.

Overall, by procuring locally through P4P modalities, and in comparison with the price value of importing the same commodities, WFP has realized a savings of approximately **US\$ 29 million** (savings with respect to import parity price, IPP)³.

Generally, almost all P4P contracts have been below import parity (i.e, at local prices below the import parity price), therefore respecting WFP's principle of "cost efficient procurement", and realizing cost savings with respect to importation, with a few exceptions:

- The purchase of pulses in El Salvador (302mt), Guatemala (325mt) and Honduras (3,199mt) resulted in additional costs to the organization of US\$ 32,826, US\$39,160 and US\$ 1,431,723 respectively (see explanation below);
- The purchase of processed foods in Kenya (393mt of **CSB**) in 2009 resulted in an additional cost of US\$ 48,000;
- The purchase of processed foods in Sierra Leone (45mt) resulted in additional cost to the organization of US\$ 8,479.

In the case of processed foods, the rationale is the support to the development of local processing capacities for fortified blended foods for nutritional purposes.

In the case of **beans** in Honduras, the reason is that beans are purchased by WFP on behalf of the Government for the national school feeding programme through a Trust Fund, where there is an obligation to purchase the beans locally regardless of market prices. In addition, Honduran beans are of a very particular type not found in neighbouring countries, and beneficiaries do not easily accept other types of beans.

³ It has to be noted though that these savings refer to savings realized by the mere fact of procuring locally instead of importing the same commodity. Savings to the organization are even bigger if referred to all local food procurement (both P4P and regular local procurement).