



Experiences of P4P capacity building efforts and procurement from farmers' organisations

Kenya, Tanzania, Burkina Faso, Mali, El Salvador, and Nicaragua
With contributions from Guatemala, Honduras and Rwanda



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Members of farmers' organisation in El Salvador cleaning their maize. Copyright: WFP/Laura Melo.

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Acronyms

FO	Farmer organisation
FSP	Financial Service Provider
IIRR	International Institute for Rural Reconstruction
LRP	Local and Regional Procurement
NGO	Non-governmental Organisation
P4P	Purchase for Progress
KIT	Royal Tropical Institute, Amsterdam
WFP	World Food Programme



Maize field in Western Kenya. Photo: Roger Bymolt.

Introduction

This document presents Purchase for Progress (P4P) experiences in 6 countries (Burkina Faso, Mali, Kenya, Tanzania, El Salvador, Nicaragua) with respect to capacity building of farmers' organisations (FOs), supporting them to supply to the World Food Programme (WFP), other institutional buyers and commercial traders in order to raise their income from agricultural markets. Three other countries (Guatemala, Honduras and Rwanda) contributed to the discussions at the regional writeshop level.

What is the rationale for P4P?

The WFP has been procuring locally since at least 1985. Over the past decade (2001 – 2010) WFP has spent an average of almost \$600 million annually buying food in developing countries, a practice known as Local and Regional Procurement (LRP). In 2010, the latest year for which data are available, purchases in developing countries exceeded US\$ 975 million.

Over time and given the significant levels of LRP purchases, WFP has become increasingly interested in structuring its procurement specifically to generate development impacts – especially for smallholder farmers who often produce the majority of a country's marketed surplus. To the extent that WFP can direct its procurement to smallholder farmers (many of whom live in poverty), and to the extent that buying from smallholders affects household income, its local procurement can serve the dual purpose of providing food assistance while also reducing poverty.

WFP began implementing its five-year P4P-pilot initiative in September, 2008 to learn whether and how it could enhance the development impacts of food purchases in developing countries. Covering 21¹ pilot countries, P4P uniquely brings together the opportunity to combine partners' capacity building efforts that address constraints smallholders face along the entire agricultural value chain, with procurement from smallholder farmers. In this way, P4P is able to use market realities to develop the ability of farmers' organisations to meet the demands of formal markets including and beyond WFP.

An average of one tenth of LRP resources across the pilot countries will be earmarked for purchases through P4P, approximately seven per cent of the organisations total spending on food procurement in developing countries over five years.

WFP will incorporate agricultural market development best practices identified during the pilot into its procurement procedures to the extent possible without unduly compromising its core objectives of providing safe food in a reliable and cost-efficient manner.

¹ The 21 P4P pilot countries are Afghanistan, Burkina Faso, Democratic Republic of Congo, El Salvador, Ethiopia, Ghana, Guatemala, Honduras, Kenya, Laos, Liberia, Malawi, Mali, Mozambique, Nicaragua, Rwanda, Sierra Leone, Sudan, Tanzania, Uganda and Zambia.

Together, the two complementary strategies - capacity building and procurement - are expected to increase production, aggregation and marketing of quality produce for the purposes of supplying WFP, selling to other buyers and for household consumption. This is expected to lead to the fulfilment of one of the higher level P4P objectives - to raise smallholder farmers income from agricultural markets.

The five-year pilot programme creates space for WFP to experiment with procurement mechanisms that have the potential to enhance development impacts whilst being careful not to unduly compromise WFPs core objectives of providing food in a timely and cost-effective manner.

Purpose of this paper

Between May and September 2011 the Royal Tropical Institute (KIT)² facilitated a series of discussions amongst P4P stakeholders in six of the twenty-one countries participating in the P4P pilot. The countries (Burkina Faso, El Salvador, Kenya, Mali, Nicaragua and Tanzania), were selected to provide a sample of regional and country variety. Three other countries (Rwanda, Guatemala and Honduras) were invited later in the process to contribute additional observations and explore commonalities in the experience.

This paper written by KIT, with the input of the P4P Coordination Unit³, aims to:

- 1 Highlight key points of commonality and difference illustrated through the experiences of stakeholders during the writeshop process (see below)
- 2 Draw out key lessons

Some final observations and suggestions for the way forward come from KIT. They are formulated with the intention to contribute as an outsider to the successful completion and sustainability of P4P. These additional suggestions are not necessarily shared by all stakeholders.

This exercise is not in any way intended to be interpreted as an ‘evaluation’ on the performance of P4P. Simply, it is the result of a participatory process through which P4P stakeholder groups contribute to the formalization of learning taking place in the P4P pilot. This is particularly critical at this juncture, mid-way in the implementation of the five year pilot, when WFP needs to take stock in order to inform the last two years of the pilot programme and consider the potential and implications for replication and scaling up.

Inevitably, the richness of the findings has been diluted in the attempt to summarise and reflect the commonalities across the 3 regions studied and the reader is strongly encouraged to read the in-depth country case studies and the full regional reports for more detail.⁴

Methodology

The writeshop process reflected in this paper consists of three levels: ‘national’, ‘regional’ and ‘global’. Each level of enquiry contributed to the next. By carefully building the enquiry from the ground up, it has been possible to draw key points of observation on commonalities and divergences across nine selected pilot countries (see details below) in three of the four regions over which the pilot is spread using the writeshop process as a tool. Contributors to the information included farmers’ organisations leaders and farmers, NGO partners, government officials, traders, financial institutions as well as WFP P4P country staff and headquarters representatives.

² KIT = Koninklijk Instituut voor de Tropen. KIT is based in Amsterdam, the Netherlands (www.kit.nl).

³ P4P Coordination Unit refers to the WFP headquarters based unit with responsibility for the global coordination of the P4P pilot

⁴ <http://www.wfp.org/content/p4p-country-papers>.

Box 1 The writeshop approach

Originally pioneered by the International Institute for Rural Reconstruction (IIRR) at its headquarters in the Philippines, the writeshop is an intensive, participatory workshop that aims to produce practical, written output.

The workshop is tailor-made and can be used to produce different outputs, such as a set of extension brochures, a bound book, a set of leaflets, or a training manual and is specifically designed to assist key people, who may not usually write, to get the information out of their head onto paper. A key strength of the writeshop is its ability to bring together diverse views from different stakeholders.

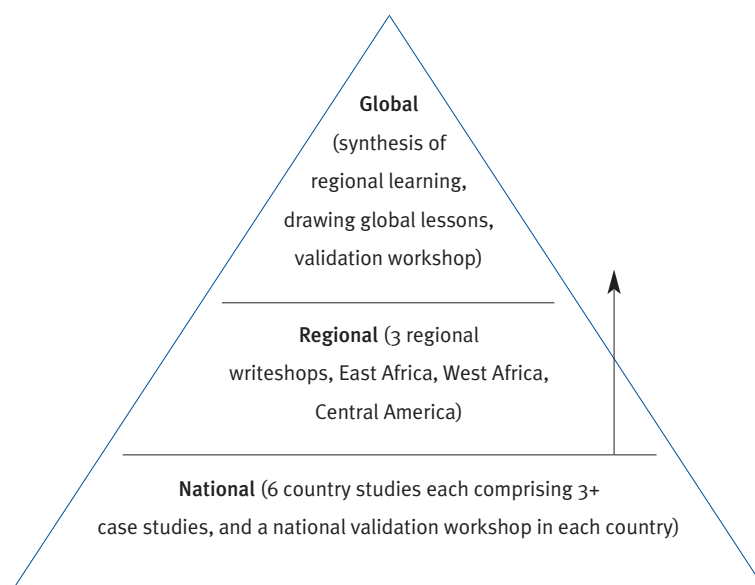
National level - Country case studies

Beginning at national level with a series of participatory visualizations of their perceptions of changes brought about by P4P, FO leaders and smallholder farmers, NGO partners, government, traders, financial institution representatives and WFP P4P staff shared their experiences and views on the outcomes of P4P procurement and capacity building efforts so far. The use of participatory value chain exercises were critical to understand the changes and challenges perceived by FOs since their engagement with P4P.

The result of this dialogue was a country paper, authored by WFP, KIT and local consultants, validated by all the stakeholders during a national workshop at which the findings were presented. The country papers present the views of stakeholders about the type of changes that have occurred since P4P and understanding ‘how’ P4P has contributed to these changes (attribution question).

In each country, three to four case studies were conducted by means of focus group sessions with farmers’ organisations leaders and farmers’ organisations members, and interviews with WFP P4P staff, and with P4P implementing partners.

Figure 1: Learning trajectory pyramid



The choice was made to include for each country between three and four FOs, which so far engaged in a minimum of three contracts with WFP. While the perspectives presented here represent only a subset of FO experiences in these 6 pilot countries, they are considered a good starting point to better understand the impact of the P4P dual strategy of capacity building and procurement.

The findings from these country case studies were validated by stakeholders in a one day national workshop in each country with all key stakeholders. Country papers developed for each country contain a summary of the ‘story of change’ experienced by each of the profiled FOs and some emerging lessons. The methodology used in this phase is described fully in the country papers which can be downloaded from WFP P4P website⁵.

Regional level - Writeshops

The 6 country papers produced at the national level were used as an input for three regional writeshops in East Africa, West Africa (Mali and Burkina Faso) and Central America. Each writeshop took place over 5 days during August and September 2011 (Box 1). The first ‘East-African’ writeshop took place in Nairobi (Kenya), with an additional participant from Rwanda. It was followed by a second writeshop in San Salvador (El Salvador), with additional participants from Honduras and Guatemala. The last writeshop took place in Bamako (Mali), with participants from Mali and Burkina Faso only.

Global level - Synthesis and drawing lessons

The global level is the highest level of this learning trajectory, and brings together the national and regional levels. At this level KIT and P4P Coordination Unit staff analysed and consolidated the outcomes of the national and regional levels (see Box 2 for regional questions). These conclusions feed into and help answer the higher level questions posed by P4P Coordination Unit (see Box 3).

Research questions

Initially, the P4P Coordination Unit formulated two set of questions, one set of leading questions at global level and another set of leading questions at regional level. The assumption was that answers to regional questions would feed into the answering of the questions formulated at global level. This global paper aims to respond to the research questions formulated at both the regional and overarching P4P programme level.

The regional questions that are answered are a synthesis of the responses that came out of the three regional writeshops. The regional research questions, initially defined by WFP headquarters, primarily revolved around the ability of farmers’ organisations to reliably supply to WFP. During the first regional writeshop in Nairobi, participants comprising various P4P stakeholders elaborated further on these initial questions.

Questions were added around changes in farmer livelihoods, sustainability, and innovation. The elaborated list of regional questions was used to guide discussions during all three regional writeshops.

A framework was proposed by KIT and accepted by the Nairobi writeshop participants. The framework attempts to provide structure to the writing and resulting publication, and organises the research questions in a logical order. The framework shows how P4P strategies (capacity building and procurement) are expected to produce certain outputs (increased quality and quantity produced and bulked), for the purpose of higher level goals/objectives (improving farmer livelihoods, supplying WFPs procurement pipeline (Figure 2).

The regional research questions were then located within the logic of the framework. The framework also highlighted the fact that there is the potential for both tension and complementarities between the two P4P goals (improving livelihoods and reliably supplying WFP’s procurement pipeline). Responding to this, a further question was then added on how these goals should be balanced.

⁵ <http://www.wfp.org/content/p4p-country-papers>.

Figure 2: P4P framework (logical hierarchy of results in a cause-effect relationship)

P4P Strategies	In order to...	For the goal/objective of...	
<p>FO Capacity Building</p> <ul style="list-style-type: none"> • Equipment • Training • Relationships • Experience <p>Procurement</p> <ul style="list-style-type: none"> • A (relatively) assured market • 'Friendly' procurement modalities (forward, direct, soft tendering) 	<p>Produce and bulk quantity, quality for</p> <ul style="list-style-type: none"> • Household Consumption • Sell to other buyers • Fulfill P4P contracts 	<p>Sustainably improving farmer livelihoods</p> <p>Supplying WFPs Procurement pipeline reliably/cost-effectively</p>	<p>How should the development (livelihood) objectives be balanced with WFP Procurement</p>
<p>What have been the experiences of P4P capacity building efforts?</p> <p>What have been the experiences of regular P4P procurement, and use of procurement modalities?</p>	<p>How has FO capacity to sell to WFP and formal markets changed since P4P? (attribution to P4P?)</p> <p>What is the most appropriate procurement modality and tonnage for FOs of different capacities?</p> <p>How can we minimise default risk?</p> <p>To what extent are the capacities built through P4P relevant to preparing FOs to sell to other buyers?</p>	<p>Which FOs should WFP work with in order to achieve:</p> <ul style="list-style-type: none"> • The largest changes in smallholder livelihoods? • Reliable/cost effective procurement? 	<p>How can P4P achievements so far be made sustainable?</p>

The leading regional research questions put in this framework are summarized in Box 2.

Box 2 Regional level questions

P4P strategies

- What have been the experiences of P4P capacity building efforts?
- What have been the experiences of P4P procurement, and use of procurement modalities?

Changes

- How has FO capacity to sell to WFP and formal markets changed since P4P? (attribution to P4P?)
- What is the most appropriate procurement modality and tonnage for FOs of different capacities?
- How can we minimise default risk?
- To what extent are the capacities built through P4P relevant to preparing FOs to sell to other buyers?

Goals/Objectives

- Which FOs should WFP work with in order to achieve the largest changes in smallholder livelihoods?
- Which FOs should WFP work with in order to achieve reliable/cost effective procurement?

Challenges

- How can the development (livelihood) objectives be balanced with WFP procurement objectives? (reliability, efficiency, cost effectiveness)
- What other innovations have been triggered by P4P?
- How can P4P achievements so far be made sustainable?

The answers to the regional questions, inform and help to answer some higher level questions posed by the P4P Coordination Unit and which are also important for partners (Box 3). The information obtained as a result of the writeshop process reported here, can inform the direction of the P4P pilot in the years still ahead.

Box 3 Global questions

- Are FOs a reliable source of food for an institution such as WFP and if so, which FOs should participate? (minimum set of selection criteria for FOs)
- Under what conditions should FOs participate in programmes such as P4P (context/enabling environment)
- What elements are needed to build FOs capacity to engage in markets? What are the key investments required, at which level and for how long? What are the key indicators of progression in capacity of the FO?
- Who needs to be involved in building FO capacity to access markets? What is the role of partners/government/traders?

Limitations of the methodology

As is the case with most methodologies, the writeshop process has its limitations. First, this process gives the qualitative perspectives of a diverse, but still limited number of P4P stakeholders. Moreover, there was not always a consensus on certain issues and personal views at times conflicted with each other. The exchange of different viewpoints however can be seen as a learning moment in itself. The results of the writeshop process should be complemented by other learning events undertaken by P4P to understand the full extent of progress in the P4P initiative.

Who is this paper written for?

Internally, WFP aims to use P4P to learn if and how it can enhance the development impacts of its local procurement and thus contribute to improving the livelihoods of the smallholder farmers who supply a large part of the commodities WFP buys and distributes.

Externally, WFP intends to share lessons learnt and best practices with governments and other development stakeholders to further enhance market development efforts of the broader development community and to create buy-in from the broader development community for the P4P approach.

Cross-regional synthesis

Introduction to P4P strategies

When working with farmers' organisations, P4P applies a dual strategy: capacity building by partners and procurement by WFP. FOs receive various types of training, access to equipment, support for relationship building with other market actors, and real life marketing experience. Gained capacities enable farmers and their FOs to produce, aggregate and market greater quantities of quality products. Partners involved in capacity building include government and NGOs. Assurance of a market with WFP (the demand side) is intended to motivate smallholder farmers to make investments to improve their agricultural productivity. The assumption is that by applying both strategies simultaneously, there can be a larger and faster impact.

For P4P, WFP uses procurement modalities not normally employed in their regular procurement practice and which are intended to be 'friendly' to FOs. These alternative procurement modalities address various constraints that smallholder farmers face selling to WFP and fall into three general categories:

Box 4 P4P procurement modalities

Three procurement modalities are available for use in P4P:

- 1 Soft tendering** is a type of adapted competitive tender that is less strict than the usual competitive tender process applied to large traders. Soft tenders, for example, waive performance bonds (sureties), generally waive bag markings and involve smaller tender sizes. FOs bid against each other for a P4P tender. Those with the most competitive prices win the tender and a contract is then drawn up. Soft tendering retains all the transparency and cost-efficiency characteristics of the regular competitive tendering process.
- 2 Direct contracting** entails a non-competitive procurement process, wherein WFP negotiates directly with a single supplier to determine a purchase price and other contract terms. On occasion, WFP used direct contracts before P4P, such as when it needed to procure at short notice.
- 3 Forward contracting** is another non-competitive procurement modality, which WFP is testing for the first time through P4P. This procurement option is intended to reduce farmers risk and create greater certainty for farmers in their planning. From WFP's perspective, forward contracting is exactly like direct contracting except for including a minimum price guarantee and the stipulation to adapt prices against market prices during the time of delivery. If market prices increase by the time of delivery, WFP will pay the re-negotiated price.

The P4P procurement modalities are not intended to be long-term procurement options. Instead, they are designed to address various constraints for a fixed period of time while suppliers develop the capacity to engage with WFP and other markets.

Countries may choose different initial procurement modalities depending on their individual circumstances (for example, the existing capacity of FOs in their country). However, a progression is expected from non competitive to competitive procurement modalities, because competitive modalities are deemed more difficult.



Farmers' organisations in El Salvador cleaning and bagging maize. Copyright: WFP/Laura Melo.

Answering regional research questions

What have been the experiences of P4P capacity building efforts?

Capacity building efforts are relatively similar in the three regions (eg training, access to equipment, support for relationship building and marketing experience) and aim to provide the support needed by FOs and smallholder farmers to develop the ability to engage in group marketing with WFP and other buyers. For example, post-harvest training supports FOs and their members to produce according to WFP's strict quality standards and to reduce post-harvest losses. Training in administration and financial management supports FO leaders in better management of their organization, which makes it easier to access services such as credit. Generally participants agree that capacity-building is needed for FOs not only to mature and professionalize as organisations and become more reliable suppliers for WFP, but also to prepare FOs to do collective marketing and sell to other buyers.

Types of capacities being built

During the writeshop process (at the national level) a number of 'capacities' on which P4P focuses were identified, and are briefly described below:

Quality	Farmers can provide safe food at standards WFP and other market actors expect
Production	Farmers can minimise post harvest food losses and increase production in order to market without compromising his/her own food security
Aggregation	Farmers are able to collectively bulk sufficient quantities of staple commodities to benefit from economies of scale, and reduce their transaction costs
Negotiation	Farmers learn how to understand and negotiate with market actors
Building relationships	Farmers' organisations have the capacity to govern themselves and are accountable to their members. They are able to build and maintain mutually beneficiary relationships with other chain actors
Capital and assets	Farmers and their organisations have the financial and physical assets to operate effectively as a business, including access to credit
Expanding business	Farmers are able to strategically plan their production to achieve the best return

Training

Training covers the entire farming cycle, from pre- to post-harvest as well as commercialisation and marketing. Part of the capacity-building is directed towards strengthening of FOs, such as administration, governance and building financial and management capacities.

Apart from areas in which WFP has a comparative advantage⁶, partners in the field take the lead in training FOs (eg NGOs, public extension services, UN agencies, and the private sector including banks). Organising training through FOs provides a leverage point, making it easier and less costly for partners to reach out to farmers. Importantly, farmers are motivated to engage in and apply their training because there is an instant incentive in the form of a contract for their produce from WFP, a buyer that pays a fair premium for higher quality produce and that can purchase increases in supply. However, there appears to be a lack of training guidelines on the sequence and priorities for training. It is not always clear how decisions on the order of training and/or what training to do with whom and when, are made. In Central America, frequent assessment of training and training outcomes is done to guide planning for further training. However, the time demand on smallholder farmers is a concern.

⁶ WFP provides training in commodity handling and storage, warehouse operation, quality standards, quality control and WFP procurement procedures.

Experiences shared by stakeholders in this learning trajectory suggest that quality is the ‘easiest’ capacity to build (with adequate equipment and training). Most FOs reported that, after the first experiences where they had difficulties in meeting WFP quality standards, they have now learned how to meet these standards and the quality standards don’t constitute a major problem for them now. It can thus be reasoned that quality should be the first capacity to be built because it is fundamental to supplying WFP and is relatively easy to achieve even with low capacity FOs. More difficult to build are the capacities for effective aggregation and collective marketing and commercialization, and the building of effective (and sustained, beyond P4P) relations within the organization and with other chain actors. More time is required to build up these capacities through further training and experience.

KIT suggestions for ways forward:

Design and structure capacity building efforts around capacity needs assessment and the most pressing capacity gaps of FOs

Develop, share and apply clearer guidelines for sequencing and prioritising trainings

Equipment

Equipment is important for helping FOs to aggregate produce that meets WFP’s high quality standards. P4P can provide any combination of equipment to FOs based on identified needs. Typically this includes weighing scales, moisture meters, bag stitching machines, cleaning and drying equipment, and sometimes even agricultural inputs on credit. In some cases, the equipment is loaned to FOs (or given for use), while in other cases (as was seen in Central America) the equipment becomes the direct property of the FOs through cost sharing agreements. Where equipment has been loaned to the FO, it became clear that FOs were unaware of a specific policy or strategy in place to enable them to eventually own the equipment and the conditions under which this might happen.

It is important that FOs have both the equipment and also the facilities necessary to maintain quality. Many FOs are investing in improved storage facilities supported by P4P and partners. P4P is also willing to make further contributions towards the improvement of FO owned storage capacity.

KIT suggestions for ways forward:

Develop, share and apply clearer guidelines for how equipment ownership should be transferred to FOs. Some countries have made an attempt to write their own guidelines, but there appears to be no single agreed policy on equipment.

Relationship building

Strengthening relationships between chain actors is another aspect of capacity building in P4P. Key is building stronger links between farmers and the FO, and between the FO and service providers. It is emerging that P4P has been a catalyst for stronger member binding capacity of farmers to the FO for the purpose of collective marketing. In fact, most of the FOs involved in the writeshop process (and indeed most of the FOs targeted by P4P in these countries) have started group marketing of staple crops as a result of P4P. Group binding results in social cohesion, which makes it easier for partners and potential service providers to work with farmers.

In all regions FOs and farmers stressed the need for increased and strengthened linkages with financial partners. A particular problem arises because WFP does not pay farmers at the farm gate as most other buyers do. Farmers have financial commitments and need immediate access to cash while they wait for payment from WFP. FOs and farmers would clearly like more help linking to financial institutions, and financial institutions would also benefit from greater linkages with P4P so they can better mitigate the risks of lending to FOs, enabling them to offer loans at reasonable rates.

In all cases, linkages with financial service providers (FSPs) are being seen as increasingly important, as such more efforts are now being made by P4P and partners to link FSPs with FOs and their members. These efforts have so far yielded limited results although there are encouraging signs, with increasing interest from FSPs. By contributing capital for a revolving fund, P4P in El Salvador, Nicaragua and Honduras has allowed FOs to extend input credit to their members. In Kenya, a FSP (Equity Bank) has recently become more active in engaging with P4P partners, FOs and members to increase farmers access to credit.

KIT suggestions for ways forward:

Intensify efforts to link FOs and farmers to financial institutions, as access to capital is seen as very important (eg to make investments, pay farmers a percentage on delivery, etc).

Better identify how to encourage FSPs to lend to FOs and smallholders and overcome perceived risks of lending. For example i) learn how P4P contracts can be used as a kind of soft collateral ii) learn how an FOs (successful) procurement record with P4P can be used to encourage an FSP to lend.

Experience

Capacity is also built through gaining experience and routine in aggregation of produce and collective marketing for P4P. This is an important and sometimes overlooked point – P4P motivates FOs and farmers by giving them the opportunity to put into practice the theory learned during trainings, to make use of equipment provided, and strengthen new relationships through frequent engagement with partners and other service providers.

Generally, smallholder farmers have little experience of group marketing of staple commodities. This means that trust has not yet been built between FOs and their members for the purposes of group marketing. Successful first experiences (such as receiving a ‘good’ price, prompt payment etc) are basic ways of building trust quickly and convincing members to sell more through the FO. Moreover, with experience, FOs are showing greater confidence in negotiating for better deals with input providers and other buyers.

KIT suggestions for ways forward:

For FOs to learn from experience, WFP need to discuss with FOs how they perceive a contract default/ fulfilment and agree on appropriate responses for the next contract.

Country offices should clearly document all the factors that led to a contract default/fulfilment for later analysis. This means recording much more than ‘default because farmers were side selling’.

FOs need to clearly communicate with members the benefits of group marketing in P4P (assured market, access to services, etc), and ensure that these trickle down to the wider member base, not just leaders and favoured members.

What have been the experiences of frequent procurement, and use of procurement modalities?

Guaranteeing procurement from FOs for a determined period of time is the second pillar of the P4P strategy. When doing its regular procurement with traders, WFP usually uses competitive tendering. However, in P4P competitive tendering in the usual form is less suited to FOs because it requires a level of capacity that they are yet to attain. An important feature of the P4P procurement strategy is that it uses alternative, or modified procurement modalities that are intended to be more ‘friendly’ to FOs as they build their capacity. These are soft tendering, direct contracts and forward contracts.

Procurement progression strategy

In general, the choice of procurement modalities should reflect the specific constraints that a given FO faces in producing, marketing and selling to WFP. At the start of P4P it was assumed that competitive modalities (soft tendering) would be more challenging for FOs, than non-competitive modalities (forward contracting, direct contracting). Thus, it was assumed that a progression strategy would be applied in which P4P country offices would transition FOs from non-competitive to competitive modalities over the course of the P4P pilot.

P4P country offices have used procurement modalities in different ways, with different rationales. For example, despite the expectation that soft tendering would be the end point of the capacity building process, it was not uncommon for P4P country offices to use soft tendering as a first experience with an FO. This was done for various reasons:

- P4P country office familiarity with soft tendering (it is similar to competitive tendering);
- as a means for selecting which FOs to work with;
- not receiving or understanding clear enough guidance on how and when to use non-competitive modalities;
- unwillingness to stray far from the tender approach because of the length of time involved in seeking and receiving approval from WFP headquarters to use an non-competitive modality). A number of Country Offices (CO) lost the opportunity to procure from FOs because contract negotiations took so long that farmers sold their commodities elsewhere in the meantime; and
- the challenge of setting a realistic floor price for forward contracts in the absence of CO experience and poor availability of long term data on prices.

At this point in the P4P pilot, P4P country offices have become more familiar with the idea of a progression strategy for FOs (i.e. linking procurement and capacity building). However, in many (or even most) cases the progression through procurement modalities is not consistently applied. The choice of procurement modality still seems driven more by the preferences of the P4P country office than by the logic of a progression strategy or by the capacity of FOs.

KIT suggestions for ways forward:

Country offices should more closely follow the P4P procurement progression strategy. For nascent/emerging FOs the experience shows that there is a logic to start with non-competitive modalities (forward and direct contracts), and then progress to competitive modalities (soft tendering). As FO capacity is built (or when dealing with high capacity FOs from the start), country offices should carefully match the procurement modality with their capacity.

Forward contracting: a promising procurement modality for emerging FOs

Over the course of this learning trajectory FO participants and country offices in East Africa and West Africa expressed a belief that forward contracting is a promising procurement modality for P4P to use with FOs of relatively low capacity. This cannot yet be corroborated by an analysis of quantitative data because the relevant data on forward contracts is still being gathered and analysed. However, emerging country experiences with forward contract in East Africa and West Africa are indeed promising. Moreover, there are good theoretical arguments for why forward contracts work for low capacity FOs, and FOs express a preference for forward contracts. The advantages and disadvantages perceived by P4P and FOs of each procurement modality are summarised in table 1 (see page 19).

Some P4P country offices only recently started to pilot forward contracts, while others are yet to experiment with forward contracting at all. Those who are reluctant to try forward contracting (notably Central America) rationalise this by arguing that their context is unique and too risky (eg climatic

risks, volatile price risks), or by arguing that there is not enough experience with forward contracting to justify its use. Of course, without actually piloting forward contracts in different country/regional contexts, necessary experience cannot be gained as to how well they perform under different conditions. Furthermore, without a willingness to try forward contracting, innovations and adaptations to mitigate risk from this contract type might not be tested and conceived of. (For example, P4P has not tested forward contracts that apply a ceiling price, or a combination of floor and spot prices to mitigate price risks for WFP).

Some country offices are warming to the idea of testing all the procurement modalities during the pilot so they can learn, although this still appears to be done in a rather ad hoc way.

KIT suggestions for ways forward:

Forward contracting can be used for nascent/emerging FOs in any country. Where there are perceived to be high risks to P4P risk mitigation mechanisms can be tested and used. For example: a) using a shorter contracting period b) putting a ceiling price in the contract c) Agreeing with FOs that contract prices will not be revised upwards after the contracted delivery date (to avoid rewarding slow aggregation) d) issuing a forward contract with a modest tonnage etc.

Test forward contracts in the P4P pilot because it is important to gain this experience.

Experiences with direct contract and soft tendering

The experiences with direct contracting and soft tendering are described alongside forward contracting in table 1 (page 18). This table is based on the perceptions and argumentation of a range of P4P stakeholders in the three regional writeshops. It is not derived from quantitative default analysis from P4P datasets.

KIT suggestions for ways forward:

Use *forward contracting* at the beginning of the P4P/FO relationship with nascent/emerging FOs (capacity being built). When procuring in markets where prices are moving upwards, forward contracts mitigate the risk that FOs will side sell to other buyers who pay the actual market price on pickup⁷.

Use *direct contracting* when: WFP needs stock fast and the FO already has substantial stock already aggregated (~50%).

Use *soft tendering* when: FOs have built substantial capacity; have experience of frequent P4P procurement; FOs and farmers have access to credit from financial institutions; FOs already have some stock aggregated: and prices are relatively stable.

⁷ This is because the price can be revised upwards once (on the contracted pickup date). This upwards price revision mechanism removes the temptation for FOs and members to side sell to other buyers, causing default. (To be clear, KIT doesn't argue that forward contracts should be used to enter new volatile markets).

Table 1: Comparative advantages and disadvantages of the different procurement modalities

	Forward contracting	Direct contract	Soft tendering
FO Advantages	<p>The floor price can be adjusted upwards to reflect market prices at the time of contracted pickup. (This price adjustment can happen only once).</p> <p>Allows FOs/farmers to better plan and invest (especially the longer the contract).</p> <p>Good modality for establishing trust, and especially for FOs to have a positive first experience.</p> <p>Possibility to use the contract to access credit from financial institutions (a form of guarantee).</p>	<p>Price setting process is simpler and more familiar to low capacity FOs.</p> <p>FO can negotiate a fixed price independent of competitors.</p> <p>Relatively faster process than soft tendering because a) there is no bid process b) stock should already be partially aggregated.</p>	<p>FOs need experience with tendering to build a long-term relationship with WFP. (In most contexts not usually necessary for group marketing to other buyers, but for government procurement, experience with tendering is relevant).</p>
FO Disadvantages	<p>No disadvantages mentioned for FOs by writeshop participants.</p>	<p>Market prices may increase between price-setting, aggregation and pick-up. Farmers perceive this as a 'loss' which may result in them taking a 'wait and see' approach and side-selling.</p>	<p>FO may lose the tender.</p> <p>Bid price is fixed. FOs and farmers bear the (perceived) risks of higher market prices at time of pick-up.</p> <p>Encourages farmers to adopt a 'wait and see' attitude to aggregation. If market price has increased near to the time of pickup, farmers may choose not to deliver to FO and side- sell.</p>
WFP Advantages	<p>Best modality for mitigating FO default risks (eg as a result of upwards price movements, lack of production planning, lack of farmer member trust).</p> <p>Gives incentive to producers to invest and scale production to P4P demand.</p> <p>Good modality for establishing trust, and especially for emerging/nascent FOs to have a positive first experience.</p>	<p>Simple and fast way to agree on procurement terms.</p> <p>If there is already pre-aggregated stock then default risk is reduced for WFP.</p>	<p>Bid price is final and is often the best for WFP.</p> <p>Process is seen as transparent by WFP rules in choosing which FOs to give contracts to.</p> <p>Best fits mainstream WFP procedures.</p> <p>Allows WFP to assess FO potential to supply to main WFP pipeline.</p>
WFP Disadvantages	<p>WFP bears the risks for volatile prices. If the price per tonne is adjusted upwards this means either a) P4P pays more for the contracted amount b) the quantity procured is revised downwards.</p> <p>It requires a change in WFPs administrative processes.</p> <p>May create a perverse incentive for FOs to delay the aggregation process if WFP revises prices upwards after the contracted pickup date.</p> <p>Is not a competitive process for choosing which FOs to procure from.</p>	<p>Many FOs lack capacity to pre-aggregate stock. If P4P requires FOs to already have a percentage (50%) of stock in place (as some COs have suggested to reduce aggregation time and default risk), this will preclude many nascent FOs from direct contracts. If FOs are not required to pre-aggregate, the risks of default will remain similar to those of soft tendering.</p> <p>Is not a competitive process for choosing which FOs to procure from.</p>	<p>Risk of defaults higher. Relatively long process (from bid to payment) means longer period that prices can fluctuate, longer period farmers have to wait for payment.</p> <p>Competitive processes can undermine the building of a strong WFP-FO relationship (potentially less frequent procurement if FO loses tender, higher risk of defaults).</p>

Importance of good first procurement experiences

Given that group marketing of staple commodities is a new concept for many of the FOs participating in P4P, writeshop participants stressed the importance of a first good procurement experience between WFP and FOs and farmers. P4P stakeholders broadly agreed that the first experience is a crucial platform for the development of the procurement partnership.

In Africa, FOs and farmers primarily understood a ‘good’ first experience with WFP to mean receiving a better price than that paid to them by traders (quality premium) and receiving full payment in a very prompt time (as they are used to being paid by traders at pickup). Good experiences at the beginning can help build trust, and get the buy-in of farmers to commit to group marketing, lowering the risks of default. This can help foster a longer term perspective by FOs and farmers, when previously mostly engaged in individual spot trading.

In all regions it was clear that the FOs have yet to become the preferred marketing channel for farmers. So far, farmers are contributing their crops in response to a WFP contract and selling the rest of their commodities individually to local traders following their usual practice. This means that farmers do not yet benefit (or only minimally so) from group marketing to other buyers.

KIT suggestions for ways forward:

Use forward contracts for the first contracts with nascent/emerging FOs because, all else being equal, default risks are perceived to be lower. A good first experience helps to build trust among farmers, FOs and P4P and the basis for a good relationship.

FO stocks and procurement

Some P4P country offices, particularly in East Africa, have said that they would prefer to do direct contracting only when the FO already has a percentage of produce already in their stores (50% was suggested). The reason given was that the more produce an FO has to aggregate, the longer the time it will take. The longer the aggregation time the greater the risk that market prices will change leading to default. If the market price increases after the contract signing then farmers *perceive* the difference in price as a loss. As a result some farmers (and even FOs) choose to side-sell to traders, increasing default levels. Unfortunately, suggestions were not forthcoming as to how farmers can be encouraged to aggregate with the FO before a buyer is found and a contract signed.

While not mentioned by writeshop participants, the same logic could be applied to soft tendering. If FOs already have some stock and thus need to aggregate less produce to fulfil a contract, then theoretically the risk of default would be lower. (When WFP deals with traders it is understood that this is in fact a condition for a contractual agreement).

What is the most appropriate procurement modality and tonnage for FOs of different capacities?

Most appropriate procurement modalities

The argumentation around the advantages and disadvantages of different procurement modalities is discussed above⁸. To summarize, a wide range of P4P stakeholders, including FOs and P4P country offices in West and East Africa, have come to believe that forward contracting is the most promising for FOs of relatively low capacity. In Central America, where forward contracting has not been tried, FOs of relatively low capacity prefer direct contracts. It has become increasingly clear to most P4P

⁸ See question ‘What have been the experiences of regular procurement, and use of procurement modalities?’

stakeholders that the original assumption - that soft tendering is the most challenging procurement modality – holds true. To be able to successfully fulfil soft tenders FOs require capacity building and more experience of group marketing, which is gained through frequent P4P contracts. Furthermore, P4P stakeholders across the three regions recognise that gaining access to finance is a challenge of FOs, and this is a barrier to reliably fulfilling contracts. This is especially true for soft tenders where the length of time from bid price to aggregation to pickup and payment is particularly long. Ideally then, soft tendering is appropriate for FOs of relatively high capacity, considerable experience in group marketing, and access to finance. Moreover, soft tenders seem to be better suited for stable or less volatile markets while forward contracting is good for FOs in volatile markets because prices can be revised upwards at the contracted pickup date⁹.

Contracted tonnages

For obvious reasons, smaller tonnages are easier for an FO to aggregate than larger volumes. Most P4P country offices did not factor tonnage volumes into a procurement progression strategy, which focused only on modalities. This is understandable; the tonnage that a FO can aggregate is based on many variables, such as FO capacity, number of farmer members and their capacity etc. A progression strategy that takes into account tonnage makes more sense as a relative concept. For example, if a FO successfully completes a forward contract for X tonnage, how large should the subsequent contracted tonnage be? This is obviously a matter of judgement between the P4P country office and the FO based on demand, availability of funds available for procurement and what is realistic for an FO to aggregate. Writeshop participants discussed in little detail how contracted tonnages were decided, although most indicated a process of negotiation. The general sense was that FOs like the idea of fulfilling large contracts¹⁰, and may be overly optimistic in expressing to P4P country offices what they think they can fulfil. This may be because they mostly think about the potential upside of greater income, and feel that there is relatively little consequence from a partial default.

During the national level case studies, it was observed that in some cases contracted tonnages increased by 300% or more between contracts of the same commodity. Such large increases in tonnage invariably increase the risk of default, because the capacity to aggregate this tonnage can be overestimated. Of course, small tonnages might easily be doubled from one successful contract to another, such as 60 tonnes to 120 tonnes of maize. However, it is much more challenging for an emerging FO to double larger tonnages, such as 200 tonnes to 400 tonnes of maize.

Linking procurement modality and tonnage

For the most part writeshop participants didn't explicitly make the link between contracted tonnages with the choice of procurement modality¹¹. However, it logically follows that if an FO successfully fulfils a forward contract of X tonnage, this does not necessarily imply the FO can fulfil the same or greater tonnage in a subsequent soft tender. If we accept that contracts using competitive procurement modalities are more difficult for FOs to fulfil than those using non-competitive modalities, then when an FO progresses to soft tendering, the P4P country office should be conservative with the tonnage.

⁹ The key is for the 'contracted pick up date' not to change. If the actual pick up date is delayed from the originally agreed date, the price will remain the one prevailing in the market at the originally agreed pick up date.

¹⁰ See, for example, the future value chain exercise in the regional writeshops.

¹¹ One example where this was done was in a 'Working Progression Matrix' for Tanzania.

KIT suggestions for ways forward:

Be realistic when increasing contracted tonnage sizes in subsequent contracts. This is in order to manage for success and reduce the risk of defaults.

Procurement progression strategies should consider both modalities and tonnage (relatively). KIT suggests being conservative with tonnage size when progressing to a different procurement modality. Be careful not to automatically assume that a tonnage size successfully fulfilled in a previous forward contract is suitable for a first soft tender experience.

How has FO capacity to sell to WFP and formal markets changed since P4P? (attribution to P4P)

P4P stakeholders across all three regions are in no doubt that the capacity of FOs to sell to WFP and other buyers has positively changed since P4P.

Farmer production increased

It is widely believed by P4P stakeholders that P4P has contributed to increased production volumes through pre-harvest and post-harvest training and, in some cases, better access to inputs. In addition, the presence of P4P as a buyer was said to motivate farmers to invest in their farms because there is relative assurance of a market for increased production. This suggests that the P4P dual strategy of capacity building and procurement is relevant.

Increased FO capacity to aggregate

Many farmers¹² and FOs expressed how the prospect of a procurement relationship with P4P was a motivation for them to better organise for group marketing. This belief is supported by indicators such as growing FO membership numbers, and larger volumes aggregated. A closer relationship between FOs and farmer members is believed by a range of P4P stakeholders (including partners and country offices) to be key to FO ability to aggregate and market larger quantities in the future. A commitment by farmers to aggregate with FOs is one factor in reducing individual side-selling to traders and thus default levels. Other than for a P4P contract, farmers still rarely aggregate with their FOs to sell to other buyers.

Although there is emerging evidence of some FOs securing markets beyond WFP such as with millers and traders, the extent and regularity with which this is happening is yet to be clarified.

Quality has improved substantially

Training on post-harvest handling and the provision of quality control equipment has greatly helped farmers to increase the quality of produce. At the beginning of P4P, the majority of FOs paid little attention to quality. However, P4P country offices have remarked on rapid improvements in quality, and now there are few problems meeting the strict quality requirements of WFP P4P.

The experience so far confirms that even low capacity FOs have been able to meet WFP quality standards relatively quickly with adequate training, equipment and reward for quality.

FO management strengthened, improved ability to negotiate

Before P4P, many FOs had little experience in group marketing. Now, group marketing has given FOs an expanded function with more responsibilities (e.g. financial). The experience of group marketing, and the training provided in P4P, is perceived to be leading to strengthened leadership and management

¹² Farmers expressed this particularly at the national level case studies.

capacity. Some FOs have reported greater confidence when negotiating deals with P4P and other buyers, and when negotiating prices with input wholesalers.

In West Africa, participants reported that pressure by members to improve the FOs governance in general, and the internal financial management and accountability specifically, mounted once the FO obtained access to a market through P4P, and money started flowing to the FO.

New and stronger relationships built with partners and service providers

Partner investments can be better coordinated through a programme such as P4P. There was some general sense among participants that the building of FO capacity and the presence of WFP P4P as a buyer has begun to attract other value chain supporters, such as financial institutions. When farmers are well organised through their FO it makes it easier and cheaper for partners to reach them, and have a potentially bigger impact.

It is still early days to see how far these relationships will develop, but there are some encouraging signs. For example, financial institutions are particularly risk averse to dealing with emerging FOs. However stronger FO membership makes it easier for banks to deal with FOs and their members, and the presence of WFP P4P is seen as a positive factor by banks when assessing FO risk for loans.

FO capacity to sell to WFP after P4P

Despite many positive changes, most P4P country offices think that it is likely only a small number of FOs will be able to reliably supply the main WFP pipeline by the end of the five year pilot. The general consensus is that five years is a short time to build sufficient capacity of emerging FOs, even though many FOs have shown that they have made impressive strides already. Furthermore, it is doubtful that many FOs will be able to deliver sufficient minimum tonnages to WFP (although it hasn't been communicated to FOs what this target tonnage should be).

P4P country offices generally did not say what they thought should happen after P4P, but there was some sense that if high potential FOs are persevered with for a short time beyond the 5 year pilot then a greater number of FOs could become long term procurement partners for WFP.

To what extent are the capacities built through P4P relevant to preparing FOs to sell to other buyers?

In theory, FOs should now be better able to do group marketing with other buyers. In nearly all cases the capacity built in P4P is just as relevant for FOs while selling to other buyers as it is for selling to P4P. For example, training in production, aggregation, and FO management are all applicable. Unfortunately, few traders are willing to pay a premium for quality, although quality improvements are still relevant and important for reducing post-harvest losses. West African participants said that although traders are not usually willing to pay more for quality, quality provides a competitive advantage to the FO in comparison to other FOs who are not doing quality control, in the sense that traders and prospective buyers will prefer to go to the FO which is known for doing quality control and offering a good quality product. Preparing FOs to tender for contracts is arguably less relevant as most other private sector buyers don't use tender processes (although governments normally do, for example for school feeding programmes). However, there is no adverse effect as FOs that can successfully fulfil tenders can fulfil any contract type.

While the potential to sell to other buyers seems to be there, there is as yet little evidence of FOs doing group marketing with new buyers. There are however signals that traders are becoming more interested in buying from FOs (examples are found in West and East Africa and in Central America).

FOs believe this interest can be put down to various reasons:

- FOs are able to aggregate greater volumes;
- WFP is a buyer so the FO must be a ‘good’ supplier; and
- FOs have high quality produce.

These ‘rumours’ of new buyers being interested in sourcing from FOs are encouraging and can be considered as good signs. We have to see whether they actually materialize. P4P country offices have expressed that it is important for FOs to start diversifying by identifying other buyers that they can do group marketing with. The general belief is that a diversified portfolio of buyers will make the FO less dependent on P4P, and enhance its prospects for sustainability beyond P4P. FOs have said that they now understand that they should look for other buyers and the reasons for this. In the P4P writeshops most FOs understandably expressed that they want to be reliable procurement partners to P4P and honour their contracts. P4P is their biggest and most frequent buyer, and they do not want to risk this relationship.

KIT suggestions for ways forward:

In the second half of the P4P pilot, P4P could play a greater role in linking FOs to alternative buyers - such as through trade fairs.

How can default risk be minimized?

Although default in P4P is obviously undesirable – as it increases costs and can potentially threaten the WFP pipeline – the WFP pipeline has in fact not been too much affected by P4P defaults, given the small size of P4P purchases with respect to overall WFP local purchases.

Writeshop participants did express concerns about defaults, but there was an open acceptance that the WFP pipeline would invariably experience defaults in the early years of the P4P/FO relationship. Many different variables were identified that contribute to default and a range of responses were suggested at different points of the writeshop.

There was also a broad acknowledgement that default is often caused by external conditions like high price volatility and as such is ‘part of life’. Striving for zero-level default may therefore be unrealistic. Table 2 gives an overview of the variables, risks and ways to mitigate risks that were brought up in the different writeshops.

Which FOs should P4P work with (from the outset) in order to achieve the largest changes in smallholder livelihoods?

P4P chose to work with FOs of varying membership size, capacity level and experience. Generally speaking, nascent (emerging) FOs were said to also have farmer members of lower capacities. P4P stakeholders were in broad agreement that the greatest changes in livelihoods can be achieved by working with FOs that have a relatively low starting point. This is because even the most fundamental training in pre and post-harvest methods and provision of basic equipment can greatly enhance production levels and quality. They also have the most to learn from experiences of group marketing. On the other hand, higher capacity FOs were thought to have a lesser impact on livelihood change because farmer members also had a relatively higher capacity to produce quantity and quality. High capacity FOs already do frequent group marketing with other buyers, which means that P4P procurement is of less importance than it is for lower capacity FOs with little experience of group marketing. Therefore, if achieving the largest changes in smallholder livelihoods is the primary goal, P4P should work with low capacity FOs from the outset.

Table 2: Default risk variables and possible ways to mitigate default risk

Variable	Default risk	Possible ways to mitigate risk
Price volatility after contract signing	Farmers (or even FOs) may choose to side-sell to traders if prices increase after contract signing. An increase in market price is perceived as a 'loss' by farmers.	Use forward contracts which have a price adjustment mechanism. Use direct contracts (and even soft tenders) when FOs already have produce in stock, shortening aggregation times.
Length of time between aggregation and payment	Farmers are accustomed to being paid cash at farm gate. Long waiting periods act as a disincentive for FO members to do group marketing if farmers have to wait a long time to receive payment and if they bear the risk of prices increasing. Poor communication between FO leaders and members. Members may not understand the importance fulfilling a contract together, and withdraw their produce if they think they can get a better deal by themselves after already committing to the FO. Increases risk of price volatility, possibly leading to side-selling.	Streamline administrative WFP processes for faster payment. Use forward contracts to allow better farmer planning. Use direct contracts (and soft tenders) when there is already some stock in place, which can shorten aggregation periods. Link farmers to sources of finance (eg financial institutes). Continue to develop promising innovations such as warehouse receipt system. Continue with FO capacity building and relationship building. Foster FO member buy-in to vision for longer term group marketing.
Size of contracted tonnage	Overly ambitious tonnage increases risk of default because sufficient quantity may not be able to be aggregated.	Tonnages contracted should be realistic, based on assessment of FO and farmer capacity and previous track record. Consider the link between procurement modality and tonnage size: Successfully fulfilling X tonnage with a forward contract does not necessarily mean an FO can fulfil X tonnage (or greater) in a soft tender. Forward contracts can enable better planning by FO. The longer the contract is issued in advance, the greater the ability to plan and invest.
WFP quality standards	If FO aggregated produce does not meet WFP quality standards, contracted tonnage may not be met.	FO and farmer capacity building: training, quality control, equipment to assess quality, storage. (Has been successful).
Climate shocks	May result in a bad harvest so produce may not be available for aggregation. Also this may drive up prices, exacerbating risk of farmers side-selling.	Difficult to say, as it depends on the nature of the climate shock. Affects all producers. Good environmental practices may reduce erosion etc, good storage facilities may mitigate losses of aggregated stock etc. Forward contracts can reduce risk of side-selling due to price increases.

In line with the above reasoning, forward contracts allowing emerging and relative weak FOs to supply to WFP have a relative greater impact on livelihoods than other procurement modalities.

Which FOs should P4P work with (from the outset) in order to achieve reliable/cost effective procurement?

To achieve reliable and cost effective procurement participants agree that FOs and farmers need to have sufficient capacity and experience in group marketing. Unsurprisingly, it follows that the higher the capacity of an FO is the more reliable and cost effective it will be as a procurement partner. FOs that start from a level of high capacity are likely to be more reliable and cost effective at the end of the five year pilot than FOs that start from a low level of capacity and experience. It is believed that the reliability of nascent and emerging FOs will continue to increase as a result of P4P's dual strategy of capacity building and frequent procurement. The commitment of WFP to more than a single purchase from these FOs is important to motivate the FOs to invest in capacity development. However a number of P4P country offices doubt whether the five year time horizon of P4P is long enough for nascent (emerging) FOs to achieve the levels of reliability and cost effectiveness that WFP expects from its long term procurement partners (traders, importers). Therefore, if reliability and cost effectiveness is the primary goal, WFP should work with high capacity FOs from the outset.

How can the P4P development (livelihood) objectives be balanced with WFP procurement objectives? (reliability, efficiency, cost effectiveness)

In answering the two questions immediately above, it is clear that there is the potential for tension between the dual P4P objectives (livelihood change and reliable/cost effective procurement). On the one hand P4P stakeholders generally believe that the greatest changes in farmer livelihood can be achieved by working with relatively low capacity FOs, whereas reliable and cost effective procurement can best be achieved by working with relatively high capacity FOs. Obviously it would be ideal if working with a particular category of FO could yield both significant changes in livelihood *and* reliable/cost-effective procurement. However, P4P stakeholders suggest that it is more likely that FOs will be more successful in achieving one of the P4P objectives than the other.

The question of which FO category P4P should work with thus depends on how P4P stakeholders wish to balance these two objectives. During the regional writeshops all P4P stakeholders were presented with three hypothetical stories. Each story described an FO category, and the extent to which it was able to achieve the two P4P goals. The outcome of the exercise showed that the great majority of P4P stakeholders across all three regions valued large changes in farmer livelihood with variable procurement reliability ahead of small changes in farmer livelihoods with high procurement reliability. The stakeholder group that was the exception was the P4P Coordination Unit, who sought a middle road with some livelihood change and relatively reliable procurement. According to the P4P Coordination Unit, in the long term reliability will be the issue for FOs to remain on the vendor list: 'WFP is in business and [P4P] is about learning how and if we can reliably buy from FOs while also improving their livelihoods. We can't go the livelihood route to our own detriment in the long term.'

The question of how P4P objectives are balanced is important to how success in P4P will be perceived at the end of the pilot. Any agreement about the kind of FOs P4P should initially focus on, should be followed by a reflection about the kind of FOs P4P should continue to work with. If livelihood change is given primacy, then WFP will need ongoing support from other donors beyond the five years pilot phase, if it intends to continue working with low/medium capacity FOs. This is because most P4P country offices believe that five years is too short to also achieve reliable and cost effective procurement from FOs that started from relatively low capacity.

A separate attention point in balancing objectives is gender. During all three regional writeshops it became clear that despite the original ambition of WFP to increase women's participation in P4P, gender has not

been high on the agenda for many country offices. Although most FOs that participated in the writeshops have a reasonable number of female farmers as members, it is unclear how much control women have over their produce. In agriculture generally, a lot of the women's work on farms is invisible and undervalued. In a number of FO cases women members were said to participate less in training, have more difficulty in accessing services (for example because inputs on credit are generally given to land-owners, which are mainly men) and fewer women take up leadership positions. There is an awareness of the importance of gender in P4P (eg to have women members and leaders), but gender issues could be taken much further (eg access and control).

KIT suggestions for ways forward:

P4P should take a clearer position on how it values the dual objectives of P4P (livelihood change & procurement reliability) in order to better determine the kind of FOs P4P should work with.

Five years is a relatively short timeframe for emerging FOs to become reliable procurement partners for WFP. P4P should begin thinking about options for extending P4P-type support for FOs that have demonstrated that they can achieve P4P objectives with a little more time.

Sensitize COs, FOs and FO members on the constraints that women face in benefiting from P4P and group marketing and why it is important to change this.

Empower women to take up leadership positions in FOs and have their voice heard.

Which FOs might WFP continue to work with after the five year P4P pilot?

A separate, but related question, is who WFP should consider working with beyond the five year P4P pilot. Writeshop participants said that they were 'in the dark' about what could happen after the five year pilot. FOs and farmers expressed that they were enthusiastic about an ongoing relationship with WFP, particularly with regards to procurement. Partners and P4P country offices also generally supported an ongoing relationship with FOs because they believe they are beginning to see changes in both livelihoods and in procurement reliability. Stakeholders expressed confidence in the P4P concept and belief that there is potential for larger changes by the end of the five year project.

KIT suggestions for ways forward:

If WFP wishes to continue to engage with FOs beyond the five year pilot period strategic decisions need to be made about which FOs they will work with, based on available resources and objectives. Options include:

- 1) Working with those FOs that have demonstrated high reliability and cost effectiveness comparable with traders;
- 2) Working with those FOs who have undergone substantial changes since the start of P4P, and who have the potential to demonstrate reliability and cost effectiveness in the near future with a little more support;
- 3) Continuing to work with those FOs in which big changes in livelihoods are being realised, but who realistically won't be as reliable or as cost effective as traders in the near future.

How can P4P achievements so far be made sustainable?

The prospects for P4P achievements to be made sustainable after the P4P pilot can be enhanced if i) capacity building is still (financially) supported by partners as needed, and ii) if group marketing (to any buyer) continues at a sufficient level similar to that during the P4P pilot.

First, FOs need to be able to sustain and strengthen relationships formed during P4P. This includes relationships with other buyers, financial institutions, and NGOs, some of whom were originally attracted to the FO by the presence of WFP. If WFP pulls out, partners need to remain involved at

some level to ensure gains in FO and farmer capacity are sustained. For example government extension services, or other NGOs could step in to fill this void. The training of trainers model (applied in some P4P countries) – and ensuring the training and knowledge does indeed trickle down from the FO leadership to the base – is another way to ensure knowledge continues to circulate among the FO and members. However, the question of who should pay for these services remains unclear.

Second, most FOs desire an ongoing procurement relationship with WFP because the WFP is their largest market. However, if WFP chooses not to continue the procurement relationship then sustainability may be threatened if FOs have not already established relationships with other buyers during the P4P pilot. WFP should have an exit strategy for FOs they no longer wish to procure from. This might include assisting or encouraging FOs to establish relationships with other buyers with whom they can continue to do group marketing. Another way is to give early notice of any WFP intention to phase out procurement from the FO. Early notice is one way of giving FOs the best chance to take action and modify business practices if necessary.

P4P is a unique initiative in that it combines the strategy of capacity building (mostly by Partners) with procurement/marketing by WFP. P4P is demonstrating ‘proof of concept’ for this dual approach. WFP/P4P appears to recognise the need to capture, document and disseminate the experiences of P4P so that other actors can adopt and adapt such an approach in the future, should it prove successful.

Answering global research questions

The regional synthesis (above) has contributed to the answering of the global research questions (below).

Are FOs a reliable source of food for an institution such as WFP? Which FOs should participate? (minimum set of selection criteria for FOs)

P4P stakeholders broadly support the dual strategy of P4P (capacity building + procurement) and believe that it can lead to FO reliability. Experience so far has shown that FO members have been able to scale up their production, and improve the quality of their produce to WFP standards – key factors for reliably supply to an institution such as WFP.

Despite this, a number of country offices believe that FOs are not likely to be as reliable procurement partners as traders after the five year pilot. It is generally thought that five years is too short a timeframe to sufficiently professionalize many FOs for large scale aggregation and marketing. This is particularly the case for those FOs that started from a relatively low capacity (the majority of the P4P FOs involved in the writeshop process). However it should be noted that low capacity FOs are widely perceived to be making big strides towards reliability and are thought to be experiencing the largest livelihood changes.

Traders still have many advantages over FOs – they have established processes, experience of fulfilling tenders, have more working capital, are able to raise finance, and have capacity to partially aggregate food before a contract is signed with WFP. This last point is particularly important for reliability. When bidding for a large tender, a trader is required to have a substantial amount of produce already aggregated to reduce default risk. However, pre-aggregation is beyond the capacity of most FOs. This means that a FO typically has to aggregate a greater tonnage post-tender than a trader would need to for a contract of the same size. This means that all the factors that contribute to default (time to aggregate, price volatility, farmer side selling etc) are brought more into play for the FO.

If WFP wishes to only work with those FOs who are likely to become reliable procurement partners in the future, they should consider relatively high capacity FOs with the following characteristics:

- Well established with functional organization structure and sound financial management
- Formalized entity
- Good, responsive and accepted leadership
- Strong member binding capacity (social cohesion) and solid experience in collective operations (for example collective aggregation, storage, marketing)
- Relatively high numbers of efficient, trained farmers, some of whom are larger than smallholders

It should be noted that working with high capacity FOs from the outset is not expected to achieve the largest changes in livelihoods – one of the main objectives of P4P¹³.

In many P4P pilot countries it is not so much a matter of choosing between different categories of FOs (eg low, mid, high capacity), but more of dealing with the FO that are out there. For example, in regions like East Africa nascent and emerging FOs are almost the only options to work with. In Central America, on the other hand, already well-established FOs are prominent, (although not necessarily with previous group marketing experience).

Under what conditions should they participate (context/enabling environment) and who needs to be involved (partners, government, traders)?

Besides the nature of FOs themselves, certain contextual factors can have a significant influence on achieving P4P objectives. These contextual factors are often distinct between countries, and even within countries.

The following contextual features are conditional or enabling:

- A relatively stable political and socio-economic context that facilitates production and trade
- The presence of farmers' organisations which preferably have experience with group marketing, or are motivated to do so
- A relatively established existing market for the commodities that WFP wish to buy
- The presence of suitable partners with field presence to be able to provide the required capacity building to FOs
- Ideally, the presence of a supportive and responsive government
- The presence of financial institutions that are interested in responding to the financial needs of farmers (and other stakeholders like input suppliers)
- Suitable and relatively reliable environmental conditions
- Market prices that are not prone to *extreme* volatility

What do you need to do to build their capacity to engage in markets? (What are the key investments required, at which level and for how long? What are the key indicators of progression in capacity of the FO)

Experience so far suggests that the P4P dual strategy of capacity building (training, equipment, relationship building experience) combined with procurement (frequent procurement using 'friendly' modalities) is raising the capacity of FOs and farmers to engage P4P and other buyers and is leading to livelihood change.

¹³ See regional level question: Which FOs should P4P work with (from the outset) in order to achieve the largest changes in smallholder livelihoods?

However, up to now this has still been a little unstructured. Generally speaking there has been a lack of a clear progression strategy for FOs. Even the theorised procurement progression strategy from non-competitive (forward contracts/direct contracts) to competitive (soft tenders) modalities has not been followed by many P4P country offices, or has been applied in an ad hoc way for a variety of reasons.

To become reliable procurement partners, FOs need to be able to perform three social functions: *binding* amongst members, *bonding* with affiliates and *linking* to external actors like buyers, financial institutes and others:

- Have the capacity to link between members in order to enforce compliance (sufficient social cohesion) and manage necessary collective activities efficiently (bulking, storage but also pre-financing arrangements for members)
- Have the capacity to federate with peer organisations in order to secure critical volumes (aggregation on federative level). This is particularly the case in East Africa where primary FOs partnering with P4P have a limited number of members thus limited aggregation capacity in terms of tonnages.
- Be able to link to other stakeholder like banks, extension services, business development providers and build durable relations.

Technically oriented training (farm management, post harvest treatment, storage, quality control) should be provided parallel to building up the social capacities of FOs as these go hand-in-hand. The development of FOs social capacities can be a particularly lengthy process. For most FOs, particularly low capacity emerging FOs, the time period of five years is regarded too short to reach the professional capacities required to become a reliable and cost-effective partner to WFP.

KIT suggestions for ways forward:

P4P should think about progression in a more holistic way. Instead of only thinking about progression in terms of procurement modalities, it should take in other indicators of progress and consider how to sequence these. This might include milestones for indicators such as procurement modalities, tonnage sizes, training sequencing, number of other buyers that a FO should sell to, FO financial goals, equipment purchase requirements etc. This would help ensure that country offices understand that there are, for example, links between procurement modalities and tonnages, or that management training becomes more important as contracted tonnages increase, or that links to financial institutions become very important for soft tendering etc.



Smallholder farmer in Kenya interviewed for P4P's learning agenda. Copyright: WFP P4P.