**Report from the**

**Lessons Learned Workshop on P4P Forward Delivery Contracts**

1 to 3 February 2012,
Rome, Italy

## Executive Summary

The P4P pilot initiative launched in September 2008 provides the space for WFP to test new ways of buying food that promote access for and build the capacities of smallholder farmers to increase their incomes from participation in formal and structured markets for staple food commodities. Using forward delivery contracts (FDC) is one such approach.

A forward delivery contract is defined as an agreement between WFP (the buyer) and a registered P4P vendor (the seller, typically a farmers' organisation), for the seller to deliver a specified commodity quantity and quality to the buyer at an agreed time in the future. As of the end of 2011, six P4P pilot countries had experimented with this type of contract, Burkina Faso, Ethiopia, Kenya, Mali, Mozambique and South Sudan. A workshop was convened in February 2012 to compile the six country experiences; more specifically to facilitate cross-country knowledge, pinpoint lessons learned and best practices and identify critical challenges, constraints or bottlenecks.

The experience with forward delivery contracts is quite varied amongst the six countries, both in terms of the number of seasons and performance of the vendors. The market conditions of the last two years have had a significant effect on the FDC pilot. Price volatility and tight supply driven by increasing world demand and local and regional climatic conditions, have featured across the countries.

The country experience suggests that the contracts are largely used to facilitate commodity aggregation, and manage price risk at farmer organisation level (pre-harvest) rather than to facilitate crop cultivation (pre-planting). As at 31 December 2011, the six countries had contracted a total of 14,695 tons of mixed commodities using the FDC; of this 5,651 tons (38.5 %) were successfully delivered; 6,400 tons (43.6%) pending delivery and 1,898 tons (12.9%) were confirmed defaulted.

Farmers and their organisations welcome the FDC; as it provides both a guaranteed market, and a guaranteed price with the provision that commits WFP to a price renegotiation process when market prices move up. For the farmers' organisations, it also facilitates the aggregation process; on an individual household level there is anecdotal evidence of increased incomes; and at the level of WFP the FDC provides ample time to conclude associated administrative and logistics arrangements.

However, using the FDC is labour intensive, the administration of the contract is heavy in terms of staff time and process, and extensive follow-up with vendors is necessary. In addition, the WFP systems don't have the required flexibility to facilitate the contract nuances. Despite the flexibility built into the FDC model which seeks to facilitate and assist smallholders enter the formal market; WFP needs to establish limits on the degree of this flexibility to address the continuing issue of contract default.

The meeting arrived at a number of overarching recommendations:

- Continue the use of the FDC but try to make the process less cumbersome, and resolve the contracting issues highlighted below.
- Update the FDC guidance to country offices incorporating the outcomes of the workshop.
- Document the country experience of using the FDC, with special attention to challenges, opportunities and impact.

A number of action points were identified for the various functional areas. However a number of issues remain unresolved.

| **Action Points** | **Outstanding issues for clarification.** |
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| **For Country Offices**<br>• Document the FDC experience and processes.<br>**For P4P unit**<br>• Provide programme guidance on using the FDC.<br>• Talk to Sean O'Brien to investigate the possibility of connecting P4P to the forward purchase facility.<br>• Mary Ellen to meet with Pina Terilli, Rebecca Ssamba to determine the best solution for setting the price in the PR and PO / reserving funding.<br>**For ERD**<br>• Sensitize the donors to the need for greater flexibility in TODs with regards to P4P and forward contracts.<br>• Investigate ways to incorporate TOD flexibility into the system ;<br>• Prefer an LRP earmarking over a P4P earmarking<br>• Engage donors on more flexible bag-marking for P4P purchases<br>**For ODPFF**<br>1. Provide clearer guidance on managing the FDC specifically: when the final price is above Import Parity; the delivery duration; the time | The **rationale driving the use of FDC** is a little ambiguous. The original intention behind the use of the FDC was to facilitate access to finance, however in reality the modality is mainly used to address issues of price volatility. The appropriateness of using the FDC to address price volatility is still an open question.<br><br>Should the purchase contracts include a **ceiling price** or should the price formula remain open ended?<br><br>Should the contracts be agreed on the **basis of a commitment on the $ amount** to be purchased, but not the quantity, with the right to reduce the quantity to fit the funding if necessary?<br><br>Should the contract be based on a fixed pre-determined price and include **a walk away clause** for the vendor- the contract would become an option to sell an agreed quantity of specified quality at an agreed price on an agreed delivery |

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| of price adjustment;<br>2. Revise the FDC templates to make them user friendly.<br>3. Revise the FDC guidance based on the discussions and conclusions of this workshop. | date.<br><br>***These issues to be clarified as part of the process to update the FDC guidance.*** |

## 1. Introduction

WFP's commitment to channel a portion of its demand for food commodities to smallholder farmers provides the foundation on which P4P pilot countries build their programmes. The organisation's pledge to purchase combined with the efforts of partners contributes to building the capacities of farmers to access more formal markets with higher quality produce. As part of the P4P pilot, WFP is testing different procurement modalities specifically to deal with the difficulties that smallholder farmers face in accessing markets and in selling to institutional buyers such as WFP. The forward delivery contract (FDC) is one such approach, and is largely intended to support farmers and their organisations to manage risks and access financing.

The P4P procurement modalities are not intended as long-term solutions. Rather, they are designed to address specific constraints to market entry for a fixed period of time. It is expected therefore that the FDC will be used for a limited time with the selected vendors, during which time their capacities for engaging in typical commercial contracting approaches or markets will be built.

| Row Labels | Sum of contract | Sum of default |
|---|---|---|
| **Burkina Faso** | **1226.35** | **50** |
| 2010 | 383.25 | 0 |
| 2011 | 843.1 | 50 |
| **Ethiopia** | **1100** | |
| 2011 | 1100 | |
| **Kenya** | **4390.85** | **654.78** |
| 2011 | 4390.85 | 654.78 |
| **Mali** | **5012.1** | **399.2** |
| 2010 | 2713.1 | 399.2 |
| 2011 | 2299 | |
| **Mozambique** | **2070** | **645** |
| 2010 | 1470 | 285 |
| 2011 | 600 | 360 |
| **Sudan** | **896** | **150** |
| 2011 | 896 | 150 |
| **Grand Total** | **14695.3** | **1898.98** |

Guidance on executing the FDC was issued to country offices in December 2009. Since then six P4P countries have used the contract modality, Burkina Faso, Mali and Mozambique over two seasons, Kenya, Ethiopia and South Sudan during one season.

A lessons learned workshop was convened in February 2012, to capture the country experiences, identify lessons learned and best practices, and determine challenges or issues requiring resolution or further review. The workshop brought together P4P Country Coordinators and Procurement staff from the six countries, the Regional Procurement Officer from Panama, staff from the Food Procurement Division, the P4P Coordination Unit, Logistics, ERD and RMBP at Headquarters, and externals for one half-day (annex 1).

## 2. Country Presentations

The country presentations touched on the rationale for FDCs, advantages, disadvantages of the modality, pricing formulas, contract performance and suggestions for improvement.

Burkina Faso: There is only one purchasing season in Burkina Faso, November to February, which presents special challenges for resource mobilisation. The FDC has been used for two seasons, pre-harvest contracts. The FDC brings advantages for the farmers, partners and WFP. Particularly for the farmers it opens up access to finance, facilitates aggregation, provides stimulus to increase production and helps build trust and transparency in the FO. However there are challenges: it is labour intensive, the price re-negotiation process is cumbersome for the WINGS processes, securing long-term resources is difficult and the price discovery issues are difficult to navigate. Despite these challenges, the FDC is a good tool to support farmers' organisations, therefore the country office would like to continue using it.

Ethiopia: Ethiopia has signed their first FDC for 1,100 tons for delivery in February 2012. These are pre-harvest contracts. The FDC is important because: it provides guaranteed market and floor price, it enable unions to pay better price for premium quality since the target market is already known and it facilitates access to credit. There are challenges however, the FDC is a new concept, the WINGS processes are difficult, vendors may be reluctant to move to competitive processes and price forecasting is a challenge. The country office based their purchase orders (PO) on forecasted prices, a forecasted medium range price using annual prices and factored for seasonal adjustments.

Kenya: Kenya country office is engaged in a first round of FDCs. The FDC has been used largely to deal with the issue of price volatility, WFP moves up with the market. Commodity prices surged in 2010/2011 in Kenya; as a result the final prices on the FDCs were above import parity prices. The process of PO price adjustment in WINGS is labor intensive and time consuming. WFP Kenya lost funds of up to US$223,000 due donor restrictions on P4P ear marked PRs after project closure. However there are a lot of positives, contracts were well managed due to price flexibility and ability to adjust PO and contract prices, farmers had ample time to process their produce; farmers were able to access loans and pay their members on delivery to meet their immediate needs for cash and WFP learnt about the aggregation process and the challenges faced by FOs and traders. The FDC is considered to be an appropriate tool for new P4P vendors as it gives them opportunity to learn lessons on marketing i.e. pricing, quality, financing and group dynamics.

Mali: Mali country office has used the FDC for two seasons, pre-harvest. The tool was used to secure WFP procurement from FOs and as a method to identify FO's needs by providing a secure market (no competition, an attractive price and an extended aggregation time). The price discovery technique was based on three elements: (i) P4P Guidance note 1, WFP should not pay more through P4P procurement relative to the traditional competitive processes; (ii) Historical review of prices offered through competitive tendering, and prices paid to farmers by the traders at the same period and (iii) Strategy: reward the group commercialisation and quality efforts by paying the difference to the producers. The worst case scenario in the case of the price forecasting was used to create the PO. The FDC have provided an incentive to farmers to increase production, have contributed to strengthening the management of FOs and facilitated access to credit. However the processes are heavy and time consuming.

Mozambique: The country office has had one round of FDCs. The FDC is used to provide: a ready market and assured buyer; leverage on the part of the FOs to use the FDC as a source of financing from a credit institutions; a hedge against market volatility in a marketing environment where small holders are merely price takers; and to support capacity development of the farmer organization in group marketing. There have been delays on the deliveries for numerous reasons, late release of credit, quality issues and logistics issues. Nevertheless, despite the challenges, total defaults are low and quality issues have been resolved. The FDC does allow FOs to plan ahead and to access finance. However the process needs to be radically shortened and consolidated, it is time consuming and bureaucratic for the low tonnages involved.

South Sudan: The FDC was introduced (December 2011) to respond to country specific challenges: limited surplus (necessity to stimulate the production – pre-planting); IPP variance across P4P operational areas (need to offer standardized prices); No access to (limited) credit. A fixed price was established in the contract with no provision for renegotiation, however the contract includes an option for WFP but not an obligation to match a higher price (first right of refusal). The delivery date is scheduled for the end of February 2012.

A number of recurring questions emerged from the ensuing discussions

| **Programme and context questions.** | **Procurement and process questions** |
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| Is the administration effort and cost too high to be sustainable?<br><br>What are the selection criteria for FDC (e.g. supply-side support, available market price index)?<br><br>Should an FDC be a commitment on the part of the FO to deliver at a given price … or should the FO have the option to sell elsewhere, with WFP having the first right of refusal?<br><br>Should an FDC commit to a quantity <u>and</u> a floor price, or just a total USD amount (with | There are challenges around MIS data and tools and expertise, availability of historical data<br><br>Forecasting – is this important or just an internal WFP issue, since final price is paid based on market price? The consensus was that this an important issue, WFP should not enter into a contract if the forecast price is above the import parity price.<br><br>What is the best approach to set floor prices (average prices, forecasting model?)<br><br>What is the best approach when prices |

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| the ability to reduce the quantity if prices rise)?<br><br>Should delivery windows be tight or flexible?<br><br>What is the definition of a default? Default on original contract, default on amendment, delivery of lower quantity …<br><br>When should FDCs be signed: pre-planting, pre-harvest, or either depending on the circumstances | significantly rise?<br>- follow the price up?<br>- ceiling price in contract?<br>- encourage/allow FOs to sell elsewhere?<br><br>Policy when prices at the time of delivery are above IPF? WFP respects the contract, but the question is what terms should the contract include.<br><br>What should be included in the premium, e.g. profit margin, losses?<br><br>How to handle final price if delivery is early or late?<br><br>Is the 10% (price increase) rule useful?<br><br>Is there a possibility of revolving funds?<br><br>What is the best price for the PO: minimum v average v maximum price?<br><br>What is the best way to adjust prices within PRs/POs – need for common instructions |

**3. Functional area issues.**

A cross-section of units and functional areas participated in the workshop, which facilitated detailed technical discussions.

**3.1 Programme (P4P Coordination Unit)**

The entire **business process for the P4P** procurement needs to be reviewed and shortened; there are too many check points. Any changes made as a result of the P4P commissioned business process review need to be clearly explained. Templates and checklists should be made available. As part of this, the process for the forward delivery contract should be reviewed.

Standard definitions and terminology are required. What is the definition of a default?

Clarity on the progression strategy and on the role of partners is required.

| Recommendations | Action points |
|---|---|
| • Include P4P guidance in the Programme guidance manual. | For P4P unit<br>• Provide programme guidance on using the FDC. |

**3.2 Funding and Resources** *ERD were represented by Patrick Mullen*

**Donor perceptions** of P4P are positive, but this does not necessarily translate into flexibility in their funding.

**Tight terminal obligation dates** – The FDC process is long and involves changing the commitment (the purchase order, PO) right before delivery. Contributions with short terminal obligation dates (TOD) are unsuitable. However, many country offices don't have the luxury of a large portfolio of cash contributions to choose from. Sometimes the contributions used are specifically earmarked for P4P with more flexibility on the TOD. In other instances, the P4P funds are part of a larger contribution with a rigid TOD. It was mentioned that donors are generally agreeable if requested in advance to extend TOD. The **P4P Advance Facility (Guidance note 9)** can be used to increase funding flexibility, but so far only Nicaragua has used it. One of the issues is that FDC contracts are already time consuming to administer without the additional complexity of advance financing. It was also noted that, the P4P advance facility is a revolving fund to address challenges on funding and not a potential source of top-up funding for FDC (Guidance Note 9).

**Earmarking P4P and LRP** - P4P teams asked that contributions be directed to Local Regional Purchases more than P4P – so that there is more flexibility in the use of the funding. Specifically, where there are performance and price issues, i.e. P4P contract defaults or annulments.

**Bag-marking** – One of the main values added by P4P is getting the farmers to aggregate their crops. The obligation to use specific donor marked bags as opposed to more generically marked bags sometimes presents an additional difficulty to the aggregation process.

**The Forward Purchase Facility (FPF)** is a $150 million revolving fund used to make forward purchases, so that WFP can avoid pipeline ruptures and ensure timely distributions particularly in emergency situations. It is hoped that P4P vendors could be linked to the facility. Working with the FPF taskforce, the P4P team would like to see a target established to purchase 10 percent directly from smallholder farmers for the FPF.

| Recommendations | Action Points |
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| • Continue discussions between FPF and P4P to find ways to use the Forward Purchase Facility as a source of stable demand for P4P during periods where there is no demand from the Country Office<br>• Encourage donors to be as flexible as possible with cash contributions.<br>• Countries should monitor TODs and discuss potential issues with DROs early (don't leave until the last minute) | For ERD<br>• Sensitize the donors to the need for greater flexibility in TODs with regards to P4P and forward contracts – between 1 year to 2 years;<br>• Investigate ways to incorporate TOD flexibility into the system ;<br>• Prefer an LRP earmarking over a P4P earmarking<br>• Engage donors on more flexible bag-marking for P4P purchases<br>For P4P Coordination Unit<br>• Work with Sean O'Brien to investigate the possibility to use FPF to buy food through P4P. |

**3.3 Wings Issues** RMBP *were represented by Giuseppina Terilli and Rebecca Ssamba; ODPI represented by Maria Perrotti.*

The adjustment of the FDC contract price at the time of delivery which is an intrinsic element of the FDC generates the most work and is the most burdensome aspect in terms of systems and process. Usually, commodity prices based on estimates are used for (i) the initial purchase requisition (PR) which is taken from the import parity form; and (ii) the purchase order (PO) which is based on the first contract with the vendor. The actual commodity price derived from the renegotiation process with the vendor triggers the adjustments to the PR and PO.

The price re-negotiation clause in the FDC creates two new features in the food procurement process – (i) a funds management element to provide for the final price in the PO, and (ii) an additional PO and PR adjustment process.

(i) **Funds management**

The final adjustment to the PR and PO triggered by the agreement on the price at time of delivery between the vendor and WFP normally entails adjustments upwards in the price and adjustments downwards in the contract quantity. The preferred situation is to adjust the price upwards and keep the quantity unchanged. This however requires a degree of funds management which either involves, (a) setting aside funds from the same contribution to cover the price adjustment, or (b) identifying additional resources to cover the price adjustment (perhaps establishing a specific P4P fund this purpose), or (c) using future price estimates in the PR and PO which are based on approximate prices at the time of delivery. A number of possibilities were discussed.

- Since FDCs relate to a purchase at a point in the future, the IPF/PR/PO should be based on forecast prices. However, this is not currently feasible as neither local nor international price forecast data is available.
- Using the highest price in the PR which would in effect create a reserve fund was considered the best option. It is possible in WINGS to have a lower price in the PO, e.g. based on the floor price in the contract. The price in the PO would then be adjusted when the final price is known and the remaining balance in the PR released for other purchases. There is a risk that people may not "clean up" the PR and release the funding, so more investigation is required (see actions below).
- Cap the price in the contract, i.e. put limits on price negotiation process and set fund aside. This could work in different ways: the vendor is obliged to sell at the cap price; or if the price goes above the agreed cap there a number of possibilities – (i) the vendor could exercise a right to sell elsewhere but WFP would have the first right of refusal at the higher price (if funds are available); or (ii) WFP has the right to walk away -this latter model could create problems when using the contract as collateral for financing. Basing

this upper price limit on the international parity price was not considered appropriate as this is internal to WFP.

- Establish a P4P special fund which country offices could access to address the price increases, in the absence of other available resources at country office level. The questions of risk and funds management were not resolved.
- Base the contract on overall monetary value, rather than quantity or unit price.

**(ii) PR and PO adjustment processes**

There are currently three import parity form “IPF” processes. The first one is at the PR stage, the second when authorisation to proceed with the FDC is requested and the third at the date of delivery when the final contract price is agreed. The workshop participants questioned the value of the second and third price comparisons for FDCs – an FDC is based on future prices so the actual prices at the time of the PO (the first contract) are not relevant, and the final price on delivery is a contractual obligation which cannot be changed, so the third IPF adds no value. It was noted that an automated IPF tool is being piloted.

**WINGS and the food procurement tracking database** - There is double work involved in using both WINGS and the food procurement tracking database (formally pass-food); only five fields are automatically populated. This problem is made worse by the slow performance of system.

| Recommendations | Action Points |
| --- | --- |
| • Reduce the number of “IPFs” required for FDCs<br>• At the final date of delivery, if the price is higher than the IPF then a note should be made rather than doing an IPF comparison<br>• Raise FDC PRs using the highest possible price<br>• Investigate options to improve the performance of the food procurement tracking system. | For P4P Unit<br>• Mary Ellen to meet with Pina Terilli, Rebecca Ssamba to determine the best solution for setting the price in the PR and PO / reserving funding<br>• P4P and procurement to discuss waiving of IPF at the time of delivery and to discuss a mechanism to create the IPF/PR at highest possible price in the beginning of FDC process. |

**3.4 Procurement** *ODPF was represented by Jack Keulemans, Laila Ahadi, Brigitte Labbe and Roberta Fontana*

- **Import Parity Form**: Similar to the discussion under the section on WINGS issues, is there a need for the third IPF?
- **Contract adjustments**: Similar to the earlier discussions, clarity is required on where it is appropriate to reduce the contract quantities when prices are re-negotiated upwards, or should a funds reservation measure be put in place.

- **Final contract price relative to the Import Parity Price:** The FDC guidance is currently not clear on how to handle a situation where the final price agreed on a FDC is above the import parity price. Most participants were of the opinion that contract commitments should be honoured, WFP should not be able to walk away from the contract just because the local price rises above Import Parity. One way of dealing with this eventuality is to include an option in the contract to allow the vendor to sell elsewhere if the price rises above import parity or a price ceiling. This approach could also provide an option for WFP to have first right of refusal on the sale.
- **Market price estimates:** accommodate the different requirements of different COs, specifically on pricing methods (price formula and specified elements in the formulas, including premium and processing costs etc.). The average agreed price range varies from 3-5 years or 10 years, a lot of work, is there real value added in this approach. Seasonality needs to be factored into price estimates. There is also limited market information in some countries; ODPF should consider adjusting the level of market information in case of FDC it requests in such cases.
- Both Ethiopia and South Sudan have used different approaches to the price discovery issue than the other countries, a forecast price in the case of Ethiopia and a fixed price in the case of Sudan, the success of these approaches has yet to be determined as contract delivery is still pending.
- **Delivery timeframe:** The delivery period on the contract should be established so that the delivery is completed before the lean period. Where delivery periods are being extended, the contract price should be fixed to the original delivery date, this avoids vendors delaying to benefit from higher prices.
- **Price re-negotiation:** The date applicable to the price re-negotiation must be made clear in the contract, otherwise it becomes a moving target.
- **Defaults:** COs need to be guided on application of penalties in case of defaults and non-performance by FOs.
- **P4P learning** should consider both the external aspect and the internal (how to change internal systems to make them more pro-smallholder).
- **P4P target groups:** WFP should look first for farmers' organisations that are already mature - possibly but not necessarily due to support from partner organisations, who are able to supply additional demand (a market) for their produce. The best place to start this search is with our partners.

  Smallholders are risk minimisers, not profit maximisers, out of necessity. They lack the level of assets required to take trading risks without betting the family's very livelihood. They cannot survive a stretch of bad luck. Profit maximising small holders are dead. WFP needs to be very wary of working with small holders who don't recognize the value to themselves of a guaranteed fair price, and who would default on this to make a slight gain in one year. WFP should target serious organisations and avoid those who are merely speculators. We need to put more attention on shortening our payment times and less attention on promising to remunerate farmers if the price unexpectedly goes up

15 pc. Year on year predictability and stability is worth a great deal in and of itself, and it is highly valued by serious small holders, if not by profit maximisers.

- **Multi-year contracts:** One modality that has not been used so far is a contract with a long term commitment to buy (e.g. 3 years). The price for each year could be based on a published local price (e.g. NCPB in Kenya).

| Recommendations | Action Points |
|---|---|
| • Continue with implementation of FDC.<br>• Revise guidance based on the lessons learned,<br>• Further relax the procurement process and review the FDC procurement business process from IPF, PR …….. to payment<br>• Review of entire technical part related to WINGS, bringing the programming and procurement into a serious and constructive discussion and decision in this regard.<br>• Review of the IPF issue at the time of delivery and clear commitment by procurement Division.<br>• Revisit price re-negotiation clause and consider price ceilings.<br>• Clarify objectives and conditions of using the FDC. | For ODPFF<br>- Provide clearer guidance on managing the FDC specifically: how to manage the situation when the final price is above Import Parity; the delivery duration; the time of price adjustment; and whether contracts should be a commitment to buy a quantity at a unit price or just a commitment on the overall US$ amount.<br>- Revise the FDC templates<br>- Revise the FDC guidance based on the discussions and conclusions of this workshop. |

**3.5 Logistics** *ODL were represented by David Wakiaga*

The logistics issues raised (e.g. quality of road networks) were all general P4P issues and not specific to FDCs. It was stressed that bringing and coordinating the key functional units at country office level is critical to the success of P4P. P4P planning is important to logistics, especially to be able to see planned volumes by location, both for operational and budgetary reasons. Country offices are reminded of P4P guidance note 6 on logistics and P4P. WFP provision of transport and handling should only be considered as a short term solution. The implementation and roll out of LESS, the new integrated logistics information and supply chain management system, will create a more automated logistics process. For example manual waybills will no longer be required. The pilot includes two P4P countries: Liberia and Sierra Leone.

## 4 Summary of lessons learned and best practices

The workshop participants were divided into two working groups, a programme group and a procurement group and tasked with identifying the key lessons from the implementation of the FDC with respect to the two aspects, programme and procurement.

### 4.3 Forward delivery contracts as tool to achieve programme objectives

The FDC is generally accepted to be a useful tool for working with FO's despite the extra work involved. It is an attractive tool to farmers because of the price renegotiation clause and the assured market at a minimum price. It was felt that the FDC does contribute towards reaching the P4P objectives, there is anecdotal evidence to suggest this, but this needs to be supplemented with quantitative evidence. Plus it was not clear that the FDC is any more effective than other procurement modalities, i.e. direct contracting or tendering. When using the FDC the Programme colleagues presented the following points of guidance.

- **Why use a FDC**: The FDC has the following benefits in order of priority:
    - **1st** to facilitate commodity aggregation at farmer organisation level;
    - **2nd** increase production by assisting with access to finance;
    - **3rd** provides a platform to coordinate and bring supply-side partners together, and agree on who does what when;
    - **4rd** gives farmers' organisations time to clean, sort and add value to their commodities;
    - **5th** encourages trust between the farmer organisation leadership and the members;
    - **6th** gives WFP time and flexibility when administrating the contract,

The FDC also accommodates farmers' expectations of being paid close to the time they deliver, instead of one month later which is usually the case with other contract types.

- **Who are the recommended target group for the FDC**: Low to medium capacity level farmers organisations, an assessment of FO capacity must be done.
- **What is the recommended progression strategy**: Farmers' organisations should be expected to move from FDC to direct contracts and then to soft-tendering. The time period for progression or graduation is context dependent. The general consensus was that FDC could be used over two seasons; thereafter the FO should be able to move to the next levels, direct contracting or competition.
- **What is the recommended type of FDC:** The group recommends pre-harvest contracts, when the crop is assured and to facilitate aggregation, this is the least risky approach for all parties. A pre-planting contract is possible, but it is high risk.
- **What are the indicators of progress:** Reducing default rates; quantities marketed, ability to aggregate; access to finance; and realising productivity increases.
- **Should there be penalties and how should they be enforced**: The role of penalties is dependent on the reasons for the defaults, if force majeure or intentional default. A preference for non-financial penalties was expressed, i.e. removal from the P4P vendor roster.

The difference in effectiveness of an FDC versus other procurement approaches is not very clear, particularly the distinction with direct contracts. It was recommended that an analysis of successful direct contracts is required.

The rationale driving the use of FDC is a little ambiguous. The original intention behind the use of the FDC was to facilitate access to finance, however in reality the modality is mainly used to address issues of price volatility. The appropriateness of using the FDC to address price volatility is still an open question.

### 4.4 Forward delivery contracts as a procurement tool

The procurement colleagues presented the following points in plenary.

- The PR should be raised using the highest price (a price close to what the final contract price will be) so as to have sufficient funds to deal with price increases.
- The time of price adjustment must be made clear in the contract. In the event of an extension to the delivery period, the price should remain fixed at the original delivery date.
- Penalties should be included, including the option to impose financial penalties for late delivery and exclusion from the P4P vendor roster for non-delivery.
- The timing on contracts should be limited to the purchasing campaign and should not be allowed to extend to the following harvest season.
- Contracts can be signed either pre-planting or pre-harvest; although contracts pre-harvest to enable aggregation are the most common and also the lowest risk to WFP.

A number of open questions remain:

- Whether the contracts should include a ceiling price or whether instead the price formula should be open ended
- Whether contracts should be allowed with a commitment on the $ amount to be purchased, but not the quantity, with the right to reduce the quantity to fit the funding if necessary
- Whether the contract should be based on a fixed pre-determined price and include a walk away clause for the vendor- the contract would become an option to sell and agreed quantity of specified quality at an agreed price on an agreed delivery date.
- ❖ *<u>These questions need to be addressed and resolved as part of the process to update the guidance on FDC</u>*.

## 5 External Perspectives

A number of external speakers were invited to provide a different perspective and introduce alternative models which could perhaps inform P4P and the efforts using the FDC.

### 5.3 Glencore Grain BV

Laurent Skil has worked in the grain trade since 1996, and has been working for Glencore since 2007 in Rotterdam. On cereals he is responsible for North Africa, West Africa, India and Pakistan, and on pulses he covers the global trade. The presentation gave a small insight into how Glencore operates. The purpose is to move commodities efficiently from surplus to deficit areas. The company purchase only in surplus countries. Trading decisions, buying and selling are based on an in-depth analysis on numerous country variables which is supported by a large backroom of market analysts, typically ratio analysts to traders, 10:1. Glencore deals with farmers on a cash and carry basis, other modes of purchase are too risky.

**5.4 IFAD (Steven Schonberger)**

Steven Schonberger is IFAD's Regional Economist for West and Central Africa with responsibility for supporting the quality of country program and project design, as well as developing and supporting overall and specific strategic initiatives to improve the effectiveness of IFAD's work in the Region, including development of lower transaction cost approaches to private-public partnerships. The presentation focused on public private partnerships for P4P, and encouraged direct engagement with IFAD supported producer organisations at field on the basis of purchase contracts rather that attempting a marriage at the higher headquarters level.

- Think "working with IFAD-funded projects" rather than "working with IFAD"
- Engage directly with programme managers to connect with producer groups they already support
- Memorandum of Understanding between WFP and government/project can indicate roles and principles, but…
- The purchase contract is the key document focused on WFP and the producer group and can sometimes involve the project.

**5.5 FAO (Siobhan Kelly, Calvin Miller, Carlos A. da Silva )**

Siobhan Kelly is an Agribusiness Economist and has worked for the **Rural Infrastructure and Agro-industries Division** of FAO, Rome for the past nine years. Her specialization is design and application of inclusive agribusiness and value chain development approaches and capacity building programmes. The presentation focused on a business model approach which FAO has been piloting in 15 countries. The lessons harvested from the pilot are ready for general sharing and distribution. The key points:

- Focus first on key value chain problems.
- There is a gap in tools and approaches for addressing fragmentation of staple demand > not only in supply!
- Consistency of demand is often missing
- Local facilitators need to address issues of buyers just as with needs of producers
- Greater impact on smallholder farmers outreach when working with larger buyers (cash crops)
- Need a communications strategy for informing farmers organisations and the private sector on market potential

Calvin Miller heads the **Agribusiness and Finance Group,** AGS Division within the Department of Agriculture and Consumer Protection Department of working with policy and sector development in rural finance with governments, development agencies and field projects. He works in finance includes risk management, value chain finance and guarantee funds for agriculture and agribusiness. He is the author of the recent book on Agricultural Value Chain Finance: Tools and Lessons and recent publication on Agricultural Investment Funds for Developing Countries and other publications. The presentation focused on value chain financing and the various options that are available.

- Finance and marketing are the two killers for farmers organisations - farmers have to be ready and able otherwise it won't go well
- Factoring concept: A factoring company advances about 85% of your commodities worth; they then collect the produce. A factoring can be very useful, maybe also for P4P?
- Forward contracting: very useful, how can we build in security and flexibility for seller and buyer. Example from Brazil where trading companies/warehouses act as intermediary between buyer and seller
- Risks along the value chain: from input supply to producing, storing, processing and marketing
- knowledge risk is one major risk that can be addressed through value chain financing

Dr. Carlos A. da Silva is a Senior Agribusiness Economist at the **Rural Infrastructure and Agro-industries Division** of FAO, Rome. He has been involved in the formulation and implementation of several agribusiness development projects at FAO, covering countries in Asia, Africa and Latin America. He has also conceptualized and developed FAO's web based "Contract Farming Resource Centre". Dr. Da Silva has published extensively on agro-industrial project preparation and evaluation, agro-industrial development, agribusiness decision support systems and agricultural marketing. He is the lead editor and a co-author of the books "Agro-industries for Development", published by CAB International in 2009 and "Innovative Policies and Institutions to Support Agro-Industries Development", to be soon published by FAO. The presentation focused on contract farming and the elements that could inform P4P.

- To maximise the impact of contract farming the basic tenet (must be a win-win and not imposed by own party; synergies must be created, mutual trust and dependency)
- The importance of the enabling environment (a must, institutional and political setting)
- Minimise contractual hold-ups (collective action and bargaining for FOs; on the company side: work with groups, not with individuals; invest in communication; strict treatment of defaulters; flexible contract clauses and will to renegotiate if markets move drastically in both ways)
- Need to ensure gender equality
- Need to promote environmental concerns

- Risks to be considered appropriately (production, marketing) in design of contracts
- Choice of enterprise: grains contracts are more difficult than cash crops, processed foods, export -> but it is possible!
- http://www.fao.org/ag/ags/contract-farming/en/

**Take-aways from the discussions**

- Partial default clauses might be a potential addendum to P4P contracts to help introduce contractual obligations to FOs while helping them to minimize risks in case prices go up heavily
- A price parameter or reference point is necessary for FOs to start aggregation, they should not have to speculate, too risky.
- The goal should be to increase trust and understanding of mutual needs. Often traders exist in the absence of an efficient FOs, if they are efficient, we see that traders/collectors are not so prevalent

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## 6 Annexes

Annex 1: List of Participants

Annex 2: Workshop Agenda

**Annex 1**

**P4P** Purchase for Progress - Lessons Learned on Forward Delivery Contracts Workshop

# List of Participants

| Number | Organisation | Name | Title |
|---|---|---|---|
| Burkina Faso | | | |
| 1 | WFP Country Office | Veronique Sainte-Luce | P4P Country Coordinator |
| 2 | WFP Country Office | Isabelle Zangre | Procurement Assistant |
| Ethiopia | | | |
| 3 | WFP Country Office | Enrico Pausilli | P4P Country Coordinator |
| 4 | WFP Country Office | Intisar Birkia | Procurement Officer |
| 5 | WFP Country Office | Mesfin Tesfaye | Procurement Assistant |
| Kenya | | | |
| 6 | WFP Country Office | Martin Kabaluapa | P4P Country Coordinator |
| 7 | WFP Country Office | Sophie Owori | Procurement Assistant |
| 8 | WFP Regional Bureau | Jeff Marzilli | Regional Procurement & P4P Adviser |
| Mali | | | |
| 9 | WFP Country Office | Isabelle Mballa | P4P Country Coordinator |
| 10 | WFP Country Office | Romain Bouveau | Procurement Officer |
| Mozambique | | | |
| 11 | WFP Country Office | Ivelina Nunes | Procurement Officer |
| 12 | WFP Country Office | Aquino Nhamposa | Finance Officer |
| Panama | | | |
| 13 | WFP Regional Bureau | Francesco Giusso | Regional Procurement Officer |
| South Sudan | | | |
| 14 | WFP Country Office | Marc Sauveur | P4P Country Coordinator |
| Italy | | | |
| 15 | WFP Headquarters | Jack Keulemans | Chief, Food Procurement Service |
| 16 | WFP Headquarters | Laila Ahadi | Procurement Officer |
| 17 | WFP Headquarters | Brigitte Labbe | Procurement Officer |
| 18 | WFP Headquarters | Janina Keith-Kirk | Snr. Procurement Assistant |
| 19 | WFP Headquarters | Roberta Fontana | Procurement Assistant |
| 20 | WFP Headquarters | Marina Rosaria Palazzo | Procurement Assistant |
| 21 | WFP Headquarters | Maliki Amadou Mahamane | Market Specialist |
| 22 | WFP Headquarters | Ariona Aubrey | Legal Officer |
| 23 | WFP Headquarters | Patrick Mullen | Data Analyst |
| 24 | WFP Headquarters | David Wakiaga | Logistics Officer |
| 25 | WFP Headquarters | Rebecca Ssamba | Programme Officer |
| 26 | WFP Headquarters | Pina Terilli | Programme Assistant |
| 27 | WFP Headquarters | Sara Adam | Chief, Accounts Payable Department |
| 28 | WFP Headquarters | Ken Davies | Coordinator P4P |
| 29 | WFP Headquarters | Mary-Ellen McGroarty | Snr Programme Adviser P4P (workshop facilitator) |
| 30 | WFP Headquarters | Jorge Fanlo | Snr Programme Adviser P4P |
| 31 | WFP Headquarters | Tobias Bauer | Communications Officer P4P |
| 32 | WFP Headquarters | Bhai Thapa | Finance Officer P4P |
| 33 | WFP Headquarters | Sarah Longford | Snr Programme Adviser P4P |
| 34 | WFP Headquarters | Gary Brannan | Business Process Expert |

**Annex 2 Workshop Agenda**

## Lessons learned workshop on P4P Forward Delivery Contracts.

*1 – 3 February 2012, Hotel Villa EUR, Parco dei Pini, Piazzale M. Champagnat 2, 00144 Rome, Italy*

**Purpose:** Capture and share implementation experiences from the six P4P countries which have piloted the forward delivery contract, with the objective of identifying lessons learned, best practices and next steps for the modality under P4P.
During the workshop guest speakers will provide some information on the similar work of FAO, IFAD and the private sector.

**Expected Outcomes:** Lessons Learned and best practices identified and validated
Set of recommendations going forward
Issues to be addressed by senior management identified.

## Workshop Agenda

| |
|---|
| Day One: 1st February (Wednesday)<br><br>Theme: Country Experiences and Issues Emerging |

**Morning session**

8.30 Opening Session
Welcome from the Director of Procurement and the P4P Coordinator
Introductions

9.00 1. **Burkina Faso** - Country Presentation and Q+A Session

10.00 Coffee Break

10.30 **2. Kenya** - Country Presentation and Q+A Session

11.30 **3. Mali** - Country Presentation and Q+A Session

12.30 Summary of main issues emerging

13.00 Lunch

**Afternoon Session**

14.00 **4. Mozambique**- Country Presentation and Q+A Session

15.00 **5. Ethiopia** - Country Presentation and Q+A Session

15.45 Coffee Break

16.15 **6. South Sudan** - Country Presentation and Q+A Session

17.00 Summary of main issues emerging

17.30 Closure of session

Day Two: 2nd February (Thursday)

Theme: Tackling the issues, answering the questions

**Morning session**

8.30 Opening Session
Recap of key issues and questions from the six country presentations.

9.00 1. **Context and rationale for forward delivery contracts**
P4P Coordination Unit to take the lead on capturing and addressing issues.

10.00 Coffee Break

10.30 **2. Funding and resourcing questions**
ERD representative to take the lead on addressing issues.

11.00 **3. Wings programming issues**
RMBP representative to take the lead on addressing issues with assistance from Procurement colleagues

12.30 Summary of unresolved questions and recommendations

13.00 Lunch

**Afternoon Session**

14.00 **4. Procurement, price and market issues**
The Procurement Division to take the lead on capturing and addressing issues.

15.45 Coffee Break

16.15 **5. Logistics issues**
ODLT Representative to take the lead on addressing issues.

17.00 Summary of unresolved questions and recommendations

17.30 Closure of session

Day Three: 3rd February (Friday)

Theme: Alternative perspectives and next steps

**Morning session**

8.30 Opening Session
Introduction to the agenda for final day

9.00 Panel discussion - Alternative models and perspectives and the lessons for P4P
**i. FAO – contract farming and rural finance**
**ii. IFAD**
**iii. Private Sector**

10.30 Coffee Break

11.00 Question and Answer session with the panellists

12.00 **The wider work of FAO and potential links with P4P**

13.00 Lunch

**Afternoon Session**

14.00 Review and validation of key lessons learned and best practices
Group work on three themes:

- When and why to use forward deliver contracts
- Contracting and pricing issues
- Delivery, performance and progression issues

One hour group work and 45 minutes report back to plenary

15.45 Coffee Break + Group photo

16.15 Close-out and next steps
- Issues and recommendations for senior management consultation and decision
- Next steps

17.00 Closure of the workshop