

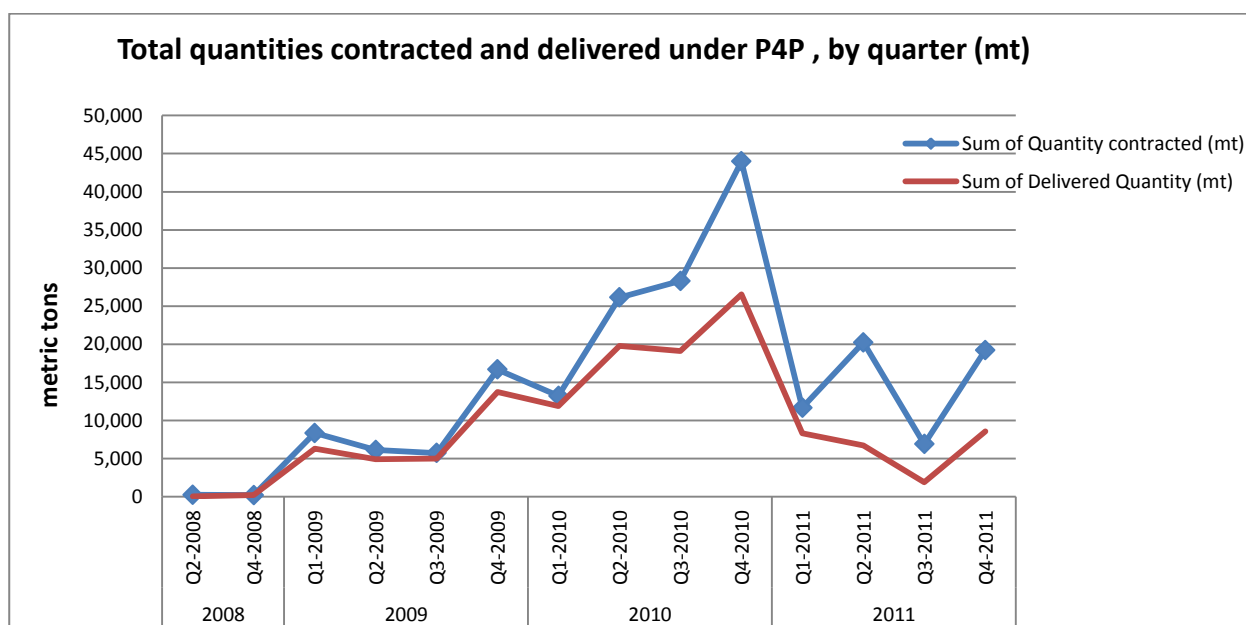
SUMMARY P4P PROCUREMENT REPORT: SEPT 2008 – DEC 2011

- Updated March 2012 -

HIGHLIGHTS – GLOBAL OVERVIEW

Since the launch of the P4P pilot in September 2008, through 31 December 2011, **207,000 metric tons (mt)** of commodities have been contracted from Farmers' Organizations (FOs), small and medium-scale traders, food processors, Commodity Exchanges and Warehouse Receipt Systems (WRS) in 20 P4P pilot countries. Of these, over **135,269mt (65%)** have been **delivered** to WFP (and hence paid for – around **US\$50 million** more directly in the pockets of smallholder farmers and small and medium traders). At the time of this analysis, **23,923mt (12%)** were still to be delivered, while **47,827mt** were confirmed **defaulted**. Defaults amount to 23% of total quantity contracted to date (which includes contracts still open with pending deliveries), but raises to 27% if one considers only closed/finalized contracts.

In general, this default level is not alarming and is expected for a pilot programme working with low capacity suppliers with limited or no experience in selling to formal markets, although there are important country level differences (pages 14-20).



Purchases under **P4P increased significantly between 2009 and 2010**, as more countries began implementation, and also due to the relatively good harvests in most of the P4P countries in 2010. In 2009, 14 pilot countries contracted almost 37,000mt (and delivered 30,000mt or 81%), while in 2010, 20 pilot countries contracted over 111,000mt (and delivered 77,358mt or 70%). The **share of P4P purchases** as a percentage of total local purchases by WFP in the pilot countries increased from 9% in 2009 to **14%**.

By contrast, **2011 has seen a significant drop in P4P purchases in almost all countries**: overall, only 58,000mt were contracted in 20 countries under P4P, and only 25,500mt were delivered by the end of December. The adverse weather conditions (drought in the Horn of Africa and floods in Central America, with the resulting high price fluctuation), as well as the massive intervention of the Food Reserve Agency in Zambia, are primary reasons for this downward trend, which affected not only P4P purchases but local and regional purchases in general. Standard (non P4P) local purchases in P4P pilot countries decreased from 627,583mt in 2010 to 488,300 mt in 2011, representing a decrease of 23%. However, these figures do not capture sales to other buyers beyond WFP from P4P participating FOs, which in some countries are the focus of the P4P approach (e.g; DRC).

While standard local purchases shrank, P4P purchases shrank even more, so the **share of P4P purchases** as a percentage of overall local purchases by WFP reduced from 14% in 2010 to **10%** in 2011. The increased defaults due to individual farmers selling to traders as a result of rapid price fluctuations triggered by these climatic shocks rather than through group marketing explains most of this drop, while defaults due to quality issues have decreased steadily, as most P4P vendors have quickly learnt how to meet WFP quality standards.

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

Introduction

This report aims to provide a snapshot analysis of P4P-specific data extracted from WFP's Procurement Database (covering the period Sept. 2008- 31 Dec. 2011), complemented by a global procurement analysis (P4P versus non-P4P) from WINGS2 database, covering 2010 and 2011.

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

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

GLOBAL PROCUREMENT ANALYSIS [pages 3-6]

1. P4P purchases as a percentage of total purchases in P4P countries (P4P/non-P4P) [2010 & 2011, WINGS]
2. Evolution of P4P purchases by year and quarter [Sept 2008 - Dec 2011, Procurement tracking system]

ANALYSIS OF P4P CONTRACTS BREAKDOWN [pages 7-13]

Cumulative P4P contracts (Sept 2008 – 31 Dec 2011)

1. by P4P activity or procurement modality
2. by vendor typology
3. by commodity

ANALYSIS OF DEFAULTS & REASONS [pages 14-20]

Deliveries and defaults (Sept 2008 – 31 Dec 2011)

1. by country
2. by P4P activity or procurement modality
3. by vendor typology

Main reasons stated for defaults & frequency of reasons (Sept 2008 – 31 Dec 2011)

ANALYSIS OF COSTS WITH RESPECT TO IMPORT PARITY PRICE [pages 21-22]

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

GLOBAL PROCUREMENT ANALYSIS

1. P4P purchases as a percentage of total purchases in P4P countries in 2010 & 2011 [WINGS2 data]

P4P Countries	2010 contracts				2011 contracts			
	Non-P4P purchases in-country	P4P local purchases	Tot purchases in-country (P4P+non-P4P)	% P4P	Non-P4P purchases in-country	P4P local purchases	Tot purchases in-country (P4P+non-P4P)	% P4P
Afghanistan	13,220	4,385	17,605	25%	22,634	1,184	23,818	5%
Burkina Faso	18,307	2,682	20,989	13%	6,749	107	6,856	2%
DRC	14,872	85	14,957	1%	4,923	55	4,978	1%
El Salvador	4,855	2,454	7,310	34%	3,204	643	3,847	17%
Ethiopia	235,402	16,674	252,076	7%	82,773	2,520	85,293	3%
Ghana	11,677	1,024	12,701	8%	6,710		6,710	0%
Guatemala	10,036	7,907	17,942	44%	8,073	2,047	10,120	20%
Honduras	14,281	7,326	21,606	34%	22,285	7,783	30,068	26%
Kenya	63,978	11,886	75,864	16%	53,974	3,986	57,961	7%
Liberia		800	800	100%		150	150	100%
Malawi	28,894	11,745	40,639	29%	96,033	12,597	108,630	12%
Mali	12,242	3,876	16,118	24%	14,002	5,196	19,197	27%
Mozambique	17,915	2,727	20,642	13%	28,944	3,464	32,408	11%
Nicaragua	3,636	1,872	5,508	34%	2,007	93	2,100	4%
Rwanda	6,956	4,168	11,124	37%	6,076	3,026	9,102	33%
Sierra Leone	325	440	765	58%	65	148	213	69%
Sudan	12,925	58	12,983	0.4%		946	946	100%
Tanzania	29,804	4,119	33,923	12%	60,560	4,433	64,992	7%
Uganda	123,572	3,324	126,896	3%	38,329	2,361	40,690	6%
Zambia	4,686	17,095	21,781	78%	30,960	745	31,705	2%
Grand Total	627,583	104,645	732,229	14%	488,300	51,485	539,785	10%

Note: source is WINGS2 for 2010 and 2011; data for P4P in 2009 are not complete in WINGS 2, as the P4P flag was only introduced in late 2009

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

During the first year of P4P implementation (2009), **9 percent** of the total food purchased was procured through P4P modalities in 14 countries which had started P4P procurement activities. This increased to **14%** on average of total food purchases in 20 P4P countries in 2010, but dropped again to **10%** of total food purchased in the same 20 countries in 2011.

Both standard local procurement and P4P procurement in P4P pilot countries significantly shrank from 2010 to 2011 due to climatic shocks and resulting high price volatility, and to government intervention in grain markets in some countries such as Kenya and Zambia.

2. Cumulative P4P contracted and delivered amounts by origin and destination countries (Sept 2008-Dec 2011)

Origin Country	Destination Country	Quantity contracted (mt)	Delivered Quantity (mt)
Afghanistan	Afghanistan	5,619	4,800
Burkina Faso	Burkina Faso	4,288	3,472
DRC	DRC	227	5
El Salvador	El Salvador	3,087	3,086
Ethiopia	Ethiopia	23,414	11,843
Ghana	Ghana	1,024	1,024
Guatemala	Guatemala	16,363	9,153
Honduras	Honduras	18,220	12,590
Kenya	Kenya	20,106	6,576
Liberia	Liberia	1,057	649
Malawi	Malawi	20,372	15,994
	Mozambique	3,775	3,759
	Zambia	379	0
Mali	Cote d'Ivoire	2,168	2,168
	Mali	7,961	6,072
	Niger	1,000	1,000
Mozambique	Mozambique	13,328	7,425
Nicaragua	Nicaragua	2,317	1,912
Rwanda	Rwanda	6,540	3,142
S. Sudan	S. Sudan	1,474	382
Sierra Leone	Sierra Leone	1,201	441
Tanzania	Tanzania	14,388	6,939
Uganda	Uganda	15,960	10,283
Zambia	Zambia	14,760	14,565
	Zimbabwe	1,411	1,411
	DRC	6,579	6,579
Grand Total		207,019	135,269

Commodities purchased through P4P modalities are mostly used for WFP operations within the same country, such as school feeding, food-for-work, nutrition programmes or refugee rations. In some cases, commodities purchased through P4P modalities have been exported for WFP operations in a neighbouring country. This is the case of purchases through the Zambia and Malawi Commodity Exchanges, which are increasingly being used for regional purchases, and of purchases from a high capacity farmers' federation in Mali (Faso Jigi), which has been contracted for the Niger emergency in 2010 and for the Cote d'Ivoire emergency in 2011.

Delivered quantities amounts will increase as contracts signed in late 2011 will be delivered in 2012.

TRENDS IN CONTRACTED & DELIVERED AMOUNTS, 2008-2011 [Procurement Tracking System]

3. P4P contracted and delivered amounts (Sept 2008 – Dec 2011) by year, metric tons

Origin Country	2008		2009		2010		2011	
	Quantity contracted (mt)	Quantity delivered (mt)	Quantity contracted (mt)	Quantity delivered (mt)	Quantity contracted (mt)	Quantity delivered (mt)	Quantity contracted (mt)	Quantity delivered (mt)
Afghanistan					4,385	4,383	1,234	417
Burkina Faso			1,448	732	1,996	1,996	843	743
DRC					172	5	55	0
El Salvador			556	555	2,454	2,454	77	77
Ethiopia					19,374	10,723	4,040	1,120
Ghana					1,024	1,024		
Guatemala			2,744	2,201	8,729	5,334	4,891	1,618
Honduras			2,414	2,414	7,994	5,331	7,813	4,845
Kenya			1,313	639	12,914	4,197	5,879	1,740
Liberia			257	192	800	456		
Malawi			541	41	12,673	11,765	11,312	7,946
Mali	100	100	500	500	5,310	4,911	5,219	3,729
Mozambique	250	60	5,126	3,604	4,863	2,157	3,089	1,604
Nicaragua	50	50	200	200	1,872	1,629	195	33
Rwanda					4,168	2,939	2,372	203
S. Sudan					58	44	1,416	338
Sierra Leone			500	162	465	172	236	108
Tanzania			2,707	2,080	5,420	2,961	6,261	1,898
Uganda	48	48	8,231	6,311	5,321	3,223	2,361	700
Zambia			10,354	10,354	11,651	11,651	745	550
Grand Total	448	258	36,890	29,985	111,642	77,358	58,039	27,668

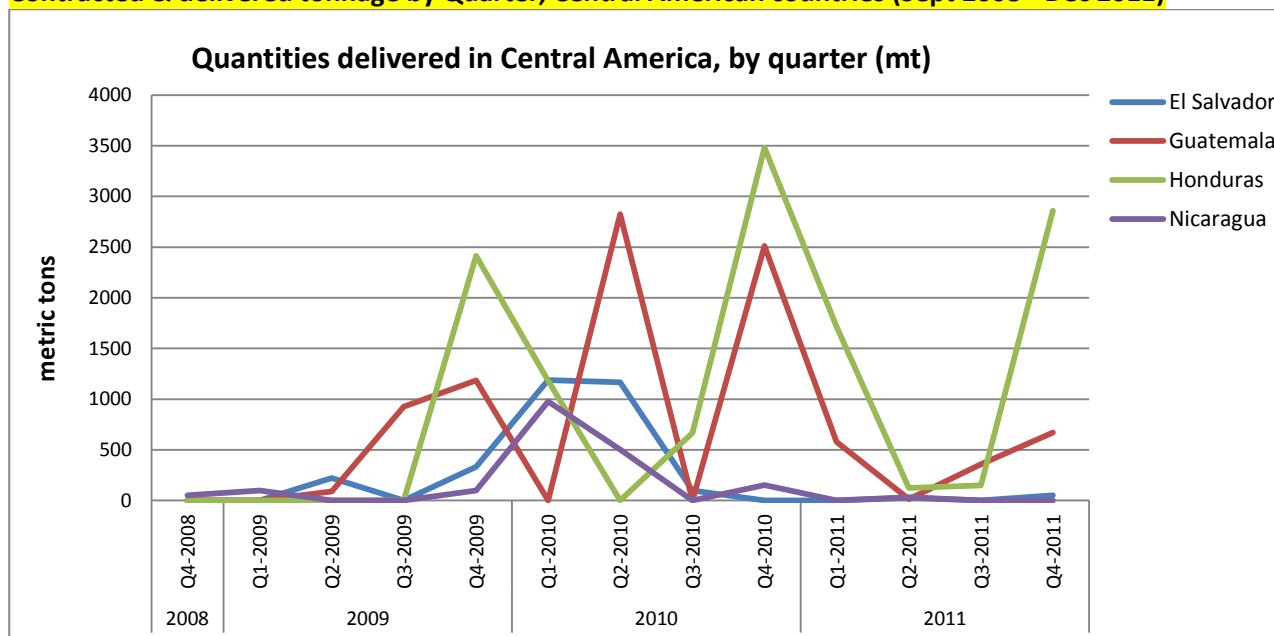
Source: data extracted from the Procurement Tracking System Database on 12 March 2012 and cleared by ODPF

NOTE: 2 main sources of discrepancies between WINGS and Food Procurement Tracking System:

1. **The dates linked to a particular contract are not the same:** in WINGS the date is the Purchase Order (PO) creation date (and this may happen several days after receiving authorization from HQ to proceed with local purchase), while in the Procurement Tracking System, the date is the "Approval date" (i.e., when the Country Office (CO) gets authorization to proceed with the local purchase), and more precisely, the date in which the CO ticks the "approved" box in the system (this may happen a few days after receiving authorization; whether it happens before or after the creation of the PO in WINGS depends on how thorough is the CO in updating the Procurement Tracking System). While this divergence on dates should not affect the cumulated amounts over a long period of time, it does affect purchases towards the end of the year.
2. WINGS shows the **outstanding contracts** at the time the data are extracted, while the Procurement Tracking System shows the **first contracted amount**, even if the quantity has since then been revised downwards. Therefore, if a contract with a vendor X has been reduced from 100 to 80 because the vendor is unable to provide the full amount, only 80 will appear as the final outstanding contract with the vendor in WINGS, whereas the Procurement tracking system will show the initial contracted amount of 100, and will show 20mt as default. The WINGS database "loses" the information on defaults, while the Procurement tracking systems shows the original contract, and tracks the actual deliveries and defaults.

- Since the launch of the P4P pilot initiative in September 2008 through 31 December 2011, **207,019 metric tons** (mt) of commodities (mainly maize and maize meal, pulses and rice, but also in smaller amounts wheat, high energy biscuits, high energy supplements, wheat and cassava flour) have been **contracted** from Farmers’ Organizations (FOs), small and medium-scale traders, food manufacturers, Commodity Exchanges and Warehouse Receipt Systems (WRS) in 20 P4P pilot countries. Of the 207,765mt contracted, as of 31 Dec 2011, **135,269mt have been delivered** to WFP (and hence paid for).
- While **the increase from 2009 to 2010** was largely due to the increased number of P4P pilot countries starting implementation (from 14 to 20), especially “large” countries such as Ethiopia which started implementation only in 2010, to the initiation of P4P purchases through the Malawi Agriculture Commodity Exchange (ACE) in 2010, and to a generally “good” harvest year, the **significant drop in P4P purchases in 2011** was mainly due to:
 - The **drought in the Horn of Africa**, which triggered scarcities of cereals in the region amid price volatility, making local purchases difficult (and not recommended so as not to drive up local prices where supplies were scarce), and triggering defaults on existing contracts as individual farmers decided to side-sell at higher prices instead of selling through their Organizations. Contracted amounts dropped from 19,374mt in Ethiopia and almost 13,000mt in Kenya in 2010, to just 4,000mt and 5,879mt respectively in 2011. And on smaller quantities contracted, an important share was defaulted due to price volatility (see defaults reasons analysis page 14)
 - **Government intervention on grain markets**, particularly the massive purchases from the Zambian Food Reserve Agency (FRA) at above market prices prior to the elections. This literally halted P4P purchases in Zambia in 2011 (Zambia had contracted and delivered 11,651mt of commodities in 2010, mainly through the Commodity Exchange, but managed to contract only 745mt in 2011), since FRA was holding all stocks, and only limited trade continued through the Commodity Exchange.

Contracted & delivered tonnage by Quarter, Central American countries (Sept 2008 - Dec 2011)



Quantities purchased in Honduras and Guatemala are significantly higher than quantities purchased in El Salvador and Nicaragua, because:

- WFP’s demand base is larger in Honduras and Guatemala, while it is quite limited in the other two countries.
- In Honduras, WFP purchases locally from P4P supported FOs with Government funds for the National School Feeding Programme, which is a substantial portion of the “WFP demand base”.

In addition, through the Government's Trust Fund, WFP is allowed to purchase even when local prices may exceed Import Parity Price (IPP), which explains why Honduras P4P purchases have remained high in 2011, in spite of the price hike, while WFP purchases have substantially dropped in the other 3 countries, where WFP is not authorized to procure locally if local prices are above IPP.

- P4P Purchases in 2011 were in general much lower than in 2010 (except for Honduras) also because of the floods which badly impacted both the availability of maize, and its quality due to excessive rains.

ANALYSIS OF P4P CONTRACT BREAKDOWN

Note: Tables 4 to 6 report the contracted amount, not the actual delivered amount from P4P vendors: contracts are signed usually a couple of months prior to the expected delivery to allow vendors to bulk and grade the commodities according to WFP standards. The commodities are purchased by WFP (and paid for) only when WFP uplifts the commodities, after the clearance from the independent superintendent company charged with certifying the quality of the commodity, and all documents are received by WFP to process payment.

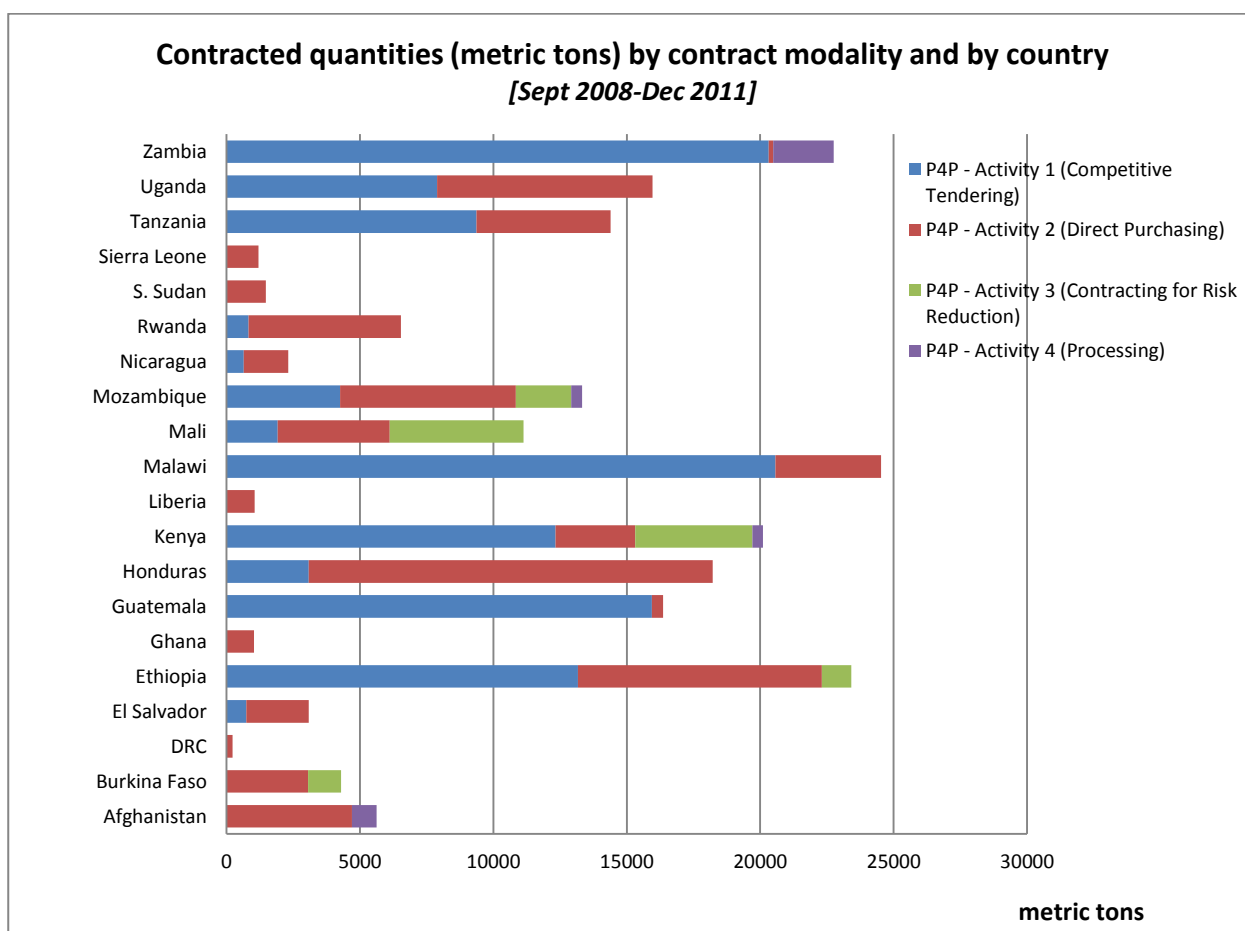
4. Cumulative P4P Contracts by P4P activity (Sept 2008 – 31 Dec 2011)

Region	Country	Act 1- Competitive Tendering	Act 2- Direct contracts	Act 3- Forward contracts	Act 4 - Processing	Grand Total	% by country
Asia	Afghanistan		4,702		917	5,619	2.7%
Asia Total			4,702		917	5,619	2.7%
Central America	El Salvador	737	2,350			3,087	1.5%
	Guatemala	15,945	418			16,363	7.9%
	Honduras	3,076	15,145			18,220	8.8%
	Nicaragua	650	1,666			2,317	1.1%
Central America Total		20,408	19,579			39,987	19.3%
East & Southern Africa	DRC		227			227	0.1%
	Ethiopia	13,174	9,140	1,100		23,414	11.3%
	Kenya	12,331	2,991	4,391	393	20,106	9.7%
	Malawi	20,571	3,954			24,526	11.8%
	Mozambique	4,255	6,591	2,070	412	13,328	6.4%
	Rwanda	825	5,715			6,540	3.2%
	S. Sudan		1,474			1,474	0.7%
	Tanzania	9,369	5,019			14,388	7.0%
	Uganda	7,892	8,069			15,960	7.7%
	Zambia	20,319	166		2,265	22,750	11.0%
East & Southern Africa Total		88,736	43,347	7,561	3,070	142,715	68.9%
West Africa	Burkina Faso		3,061	1,226		4,288	2.1%
	Ghana		1,024			1,024	0.5%
	Liberia		1,057			1,057	0.5%
	Mali	1,923	4,194	5,012		11,129	5.4%
	Sierra Leone		1,201			1,201	0.6%
West Africa Total		1,923	10,538	6,238		18,699	9.0%
Grand Total		111,068	78,166	13,799	3,987	207,019	100.0%
% by P4P activity		53.7%	37.8%	6.7%	1.9%		100.0%

Source: data extracted from the Procurement Tracking System Database on 12 March 2012 and cleared by ODPF

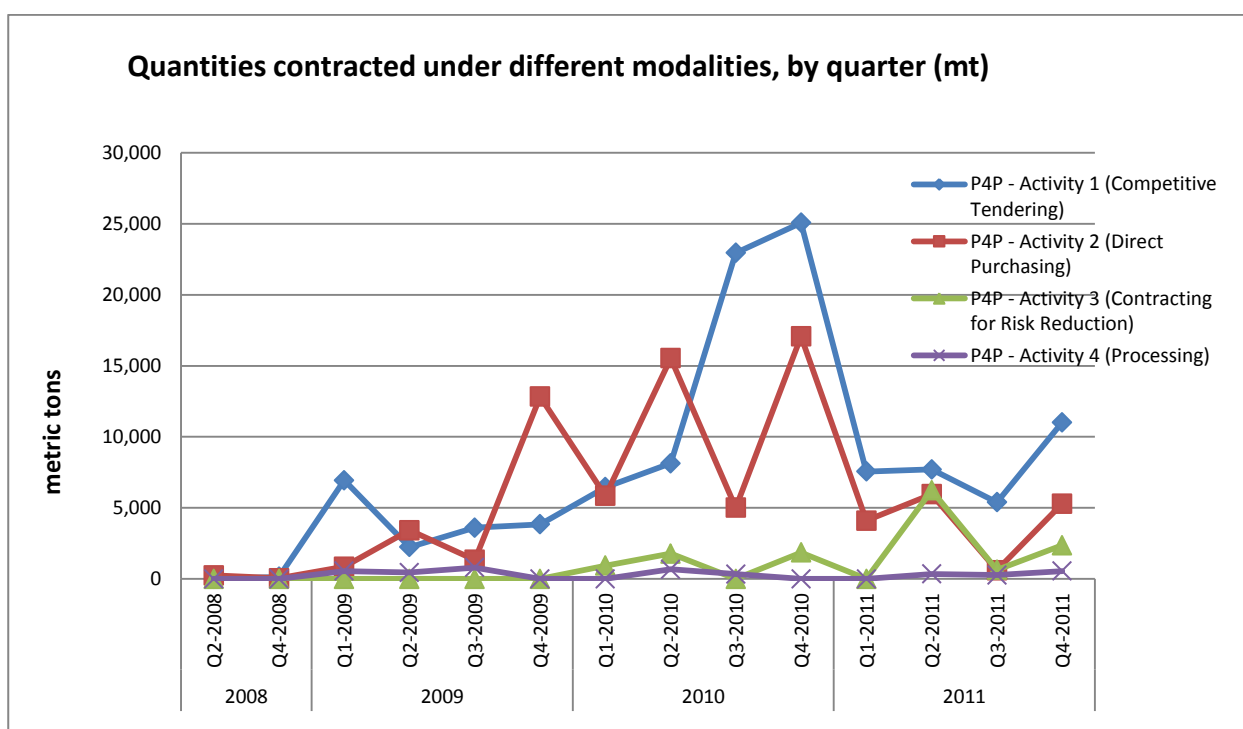
Breakdown by region and country

- Sixty nine percent was contracted in Eastern and Southern Africa, followed by the Central America region (19%), West Africa (9%) and Asia (Afghanistan, 3%).
- In East and Southern Africa, **Ethiopia, Malawi, and Zambia** are the top three countries in terms of tonnages contracted, followed **Kenya**.
 - **Malawi** comes first with 24,526mt (of which 20,523mt or 84% through the Agricultural Commodity Exchange for Africa), which accounts for 12% of total P4P contracts;
 - **Ethiopia** comes second (23,414mt or 11% of total contracts);
 - **Zambia** comes third (22,750mt or 11% of total contracts). Zambia ranked first in terms of tonnages in 2009 and 2010 (due to substantial purchases through the Commodity Exchange), but Zambia has been surpassed by Malawi in 2011 as Malawi started significant purchases through the Malawi Commodity Exchange, while Zambia reduced purchases substantially due to the FRA intervention in the maize market.
 - **Kenya** comes fourth (20,106mt or 10% of total contracts, although over 60% was defaulted).
 - As in the case of Zambia, P4P purchases in **Uganda** significantly decreased in 2011.
- In Central America, **Honduras** has substantially increased tonnages purchased in the course of 2011 (most of it for the National School Feeding Programme), and ranks first in the region with 18,220mt contracted (9% of all P4P contracts), followed by **Guatemala** with 16,363mt or 8% of total contracts. Nicaragua and El Salvador each account for just above 1 percent of total contracts.
- In West Africa, **Mali** continues to be the first country in terms of tonnages contracted (and delivered), with 11,129mt contracted - 5% of total, followed by **Burkina Faso** (4,288mt or 2% of total P4P contracts). The other countries in West Africa have purchased very small amounts. Having only one purchasing season in the year, and the challenging post-conflict environment in Liberia and Sierra Leone have greatly constrained local purchase activities.



Breakdown by P4P activity

- Fifty four percent (111,068mt) was contracted through **competitive processes** (mainly “soft” tendering). Most countries have, to a different extent, used the tendering modality, although seven countries (Afghanistan, Burkina Faso, DRC, Ghana, Liberia, S. Sudan and Sierra Leone) have not started using this modality.
- Thirty eight percent (78,166mt) was contracted through **direct contracts**, mainly from FOs, but in some instances from Agents/agro-dealers (Kenya, Mozambique and Sierra Leone) and NGOs (DRC, Zambia). All 20 P4P countries have (to various extents) employed the direct contracting modality, mostly with FOs.
- Seven percent (13,799mt) was contracted through **forward contracts** in Burkina Faso, Kenya, Mali and Mozambique. The use of this modality has increased in 2011, with Ethiopia, South Sudan and Tanzania currently also using this modality.
- Two percent (3,987mt) were purchases of **processed foods** (supporting pro-smallholder processing options) including high energy supplements (Zambia), high energy biscuits (Afghanistan), maize meal and corn soya blend in Kenya, Mozambique and Zambia².



At the beginning of P4P (early 2009), pilot countries used competitive modalities (soft tendering) rather than the other modalities, which were “new” in the WFP business process, and guidance had not yet been issued (particularly for forward delivery contracts- activity 3). Through the “writeshop” process, it became apparent that WFP offices were more comfortable with the more familiar and less time consuming competitive processes as opposed to the “new” procurement modalities.

This was quickly over-taken by the direct contracting modality in the second half of 2009 and first half of 2010, as more countries started implementation and started purchasing from low capacity FOs, for which the competitive modalities were not deemed appropriate.

The use of competitive modalities (soft tenders) has increased over time (particularly during 2010), which is consistent with the expectation that P4P vendors should “transition” to competitive modalities as they build their capacities to respond to the WFP market. Nevertheless, this increase in weight of “competitive

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

modalities” is more a reflection of an increase in purchases through Commodity Exchanges in Zambia, and more recently in Malawi (which are competitive by definition), rather than a reflection of an increase in capacities of most of the P4P FOs. Direct contracting has remained stable throughout and not reduced as competitive tenders increased.

In 2011, there has been an increase in the use of forward delivery contracting (contracting for risk reduction), as more countries are experimenting with this new modality.

5. Cumulative P4P contracts by Vendor typology (Sept 2008 – 31 Dec 2011)

Region	Country	Commodity Exchange	NGOs	Farmer organizations	Warehouse receipts system	Processors	Traders /Agents	Grand Total
Asia	Afghanistan			4,702		917		5,619
Asia Total				4,702		917		5,619
Central America	El Salvador			3,087				3,087
	Guatemala			16,363				16,363
	Honduras			18,220				18,220
	Nicaragua			2,317				2,317
Central America Total				39,987				39,987
East & Southern Africa	DRC		227					227
	Ethiopia	5,051		16,243			2,120	23,414
	Kenya			16,766		433	2,907	20,106
	Malawi	20,523		3,307		419	276	24,526
	Mozambique			5,037		412	7,879	13,328
	Rwanda			6,540				6,540
	S. Sudan			1,474				1,474
	Tanzania			13,701	687			14,388
	Uganda			10,997	4,963			15,960
	Zambia	19,062	758	66		351	2,513	22,750
East & Southern Africa Total		44,636	985	74,132	5,650	1,615	15,695	142,715
West Africa	Burkina Faso			4,288				4,288
	Ghana			1,024				1,024
	Liberia			1,057				1,057
	Mali			10,729			400	11,129
	Sierra Leone			1,131		25	45	1,201
West Africa Total				18,229		25	445	18,699
Grand Total		44,636	985	137,050	5,650	2,557	16,140	207,019
% by vendor type		21.6%	0.5%	66.2%	2.7%	1.2%	7.8%	100.0%

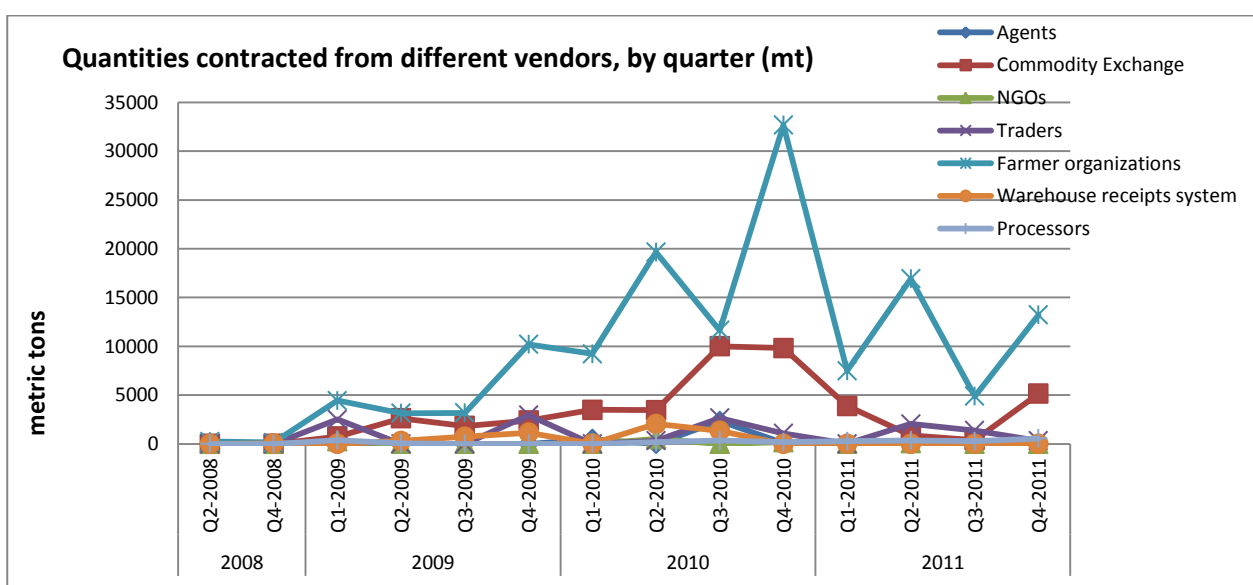
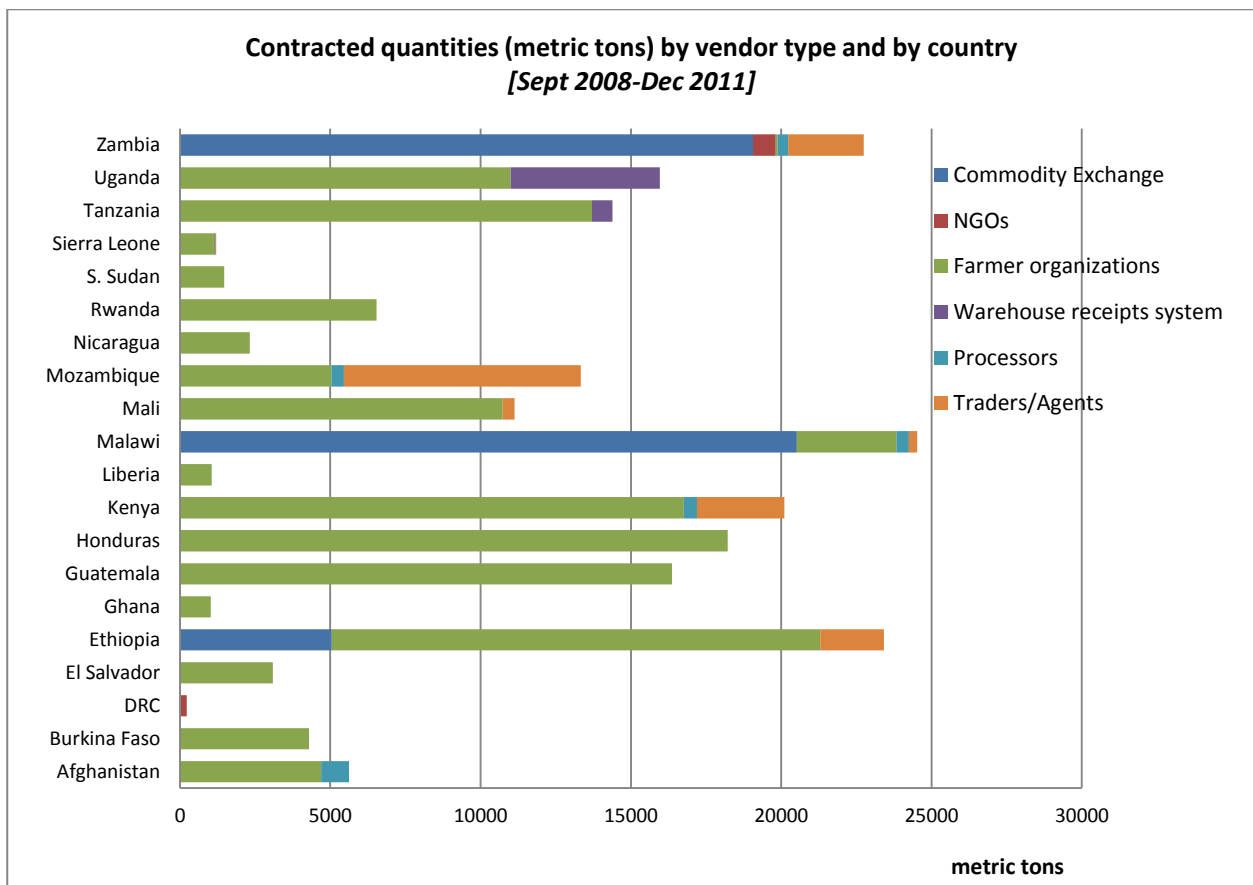
Source: data extracted from the Procurement Tracking System Database on 12 March 2012 and cleared by ODPF

Breakdown by vendor type or procurement platform

- Sixty six percent (137,050mt) was contracted directly with **Farmers’ Organizations** (FOs), whether through tendering, direct or forward contracts, across all pilot countries. For some countries (the 4 Central American countries, Burkina Faso, Ghana, Liberia, Sierra Leone, S. Sudan, Rwanda) FOs is the only entry point, while it is the main entry point for many countries.
- Twenty two percent (44,636mt) was contracted through **Commodity Exchanges** in Ethiopia (5,051mt), Malawi (20,523mt) and Zambia (19,062mt). Purchases through the Zambia and Ethiopia Commodity Exchanges ceased in 2011 (due to massive purchases from the National Food Reserve at above market price in the case of Zambia, which crowded out all other private traders), while

they have increased through the Malawi Commodity Exchange.

- Eight percent (16,140mt) was contracted through **small & medium traders** mainly in Mozambique (7,879), Kenya (2,907mt), Zambia (2,513mt), and Ethiopia (2,120mt). Traders represent a major entry point in the P4P country strategies of Ethiopia, Kenya, Mozambique and Zambia.
- Three percent (5,650mt) was contracted through different forms of **warehouse receipt systems** in Uganda (almost 5,000mt) and Tanzania. Malawi and Zambia are also working towards establishing warehouse receipt systems.
- Just over one percent was procured through **NGOs** (DRC and Zambia) and directly from **processors** (purchase of High Energy Biscuits in Afghanistan, CSB in Kenya, Malawi and Mozambique, and cassava flour in Sierra Leone).



FOs remain the main type of supplier under P4P: quantities contracted from FOs remain above quantities contracted from any other vendor type; quantities contracted from Commodity Exchanges have increased during 2010 as Malawi started procuring from ACE, but decreased significantly in 2011.

6. Cumulative P4P contracts by commodity (Sept 2008-31 Dec 2011)

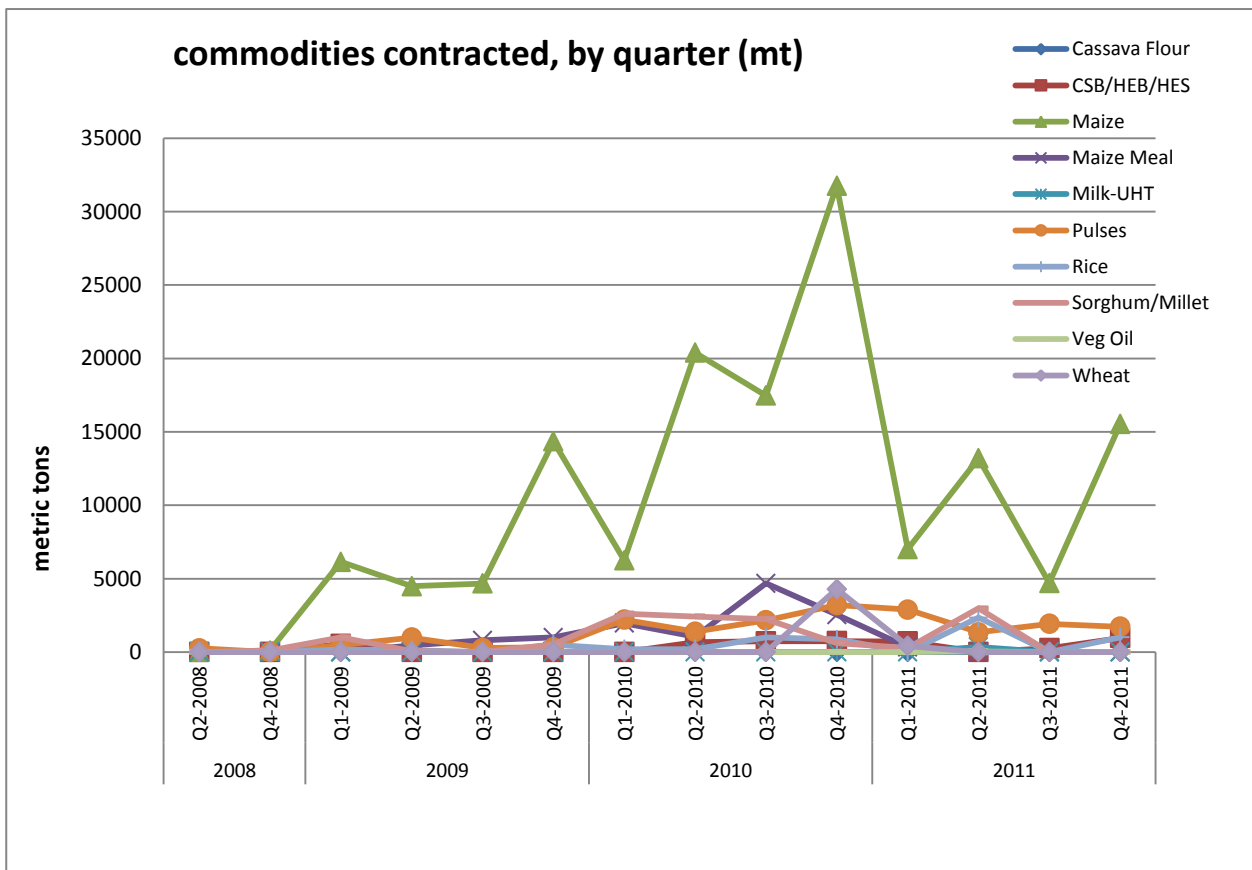
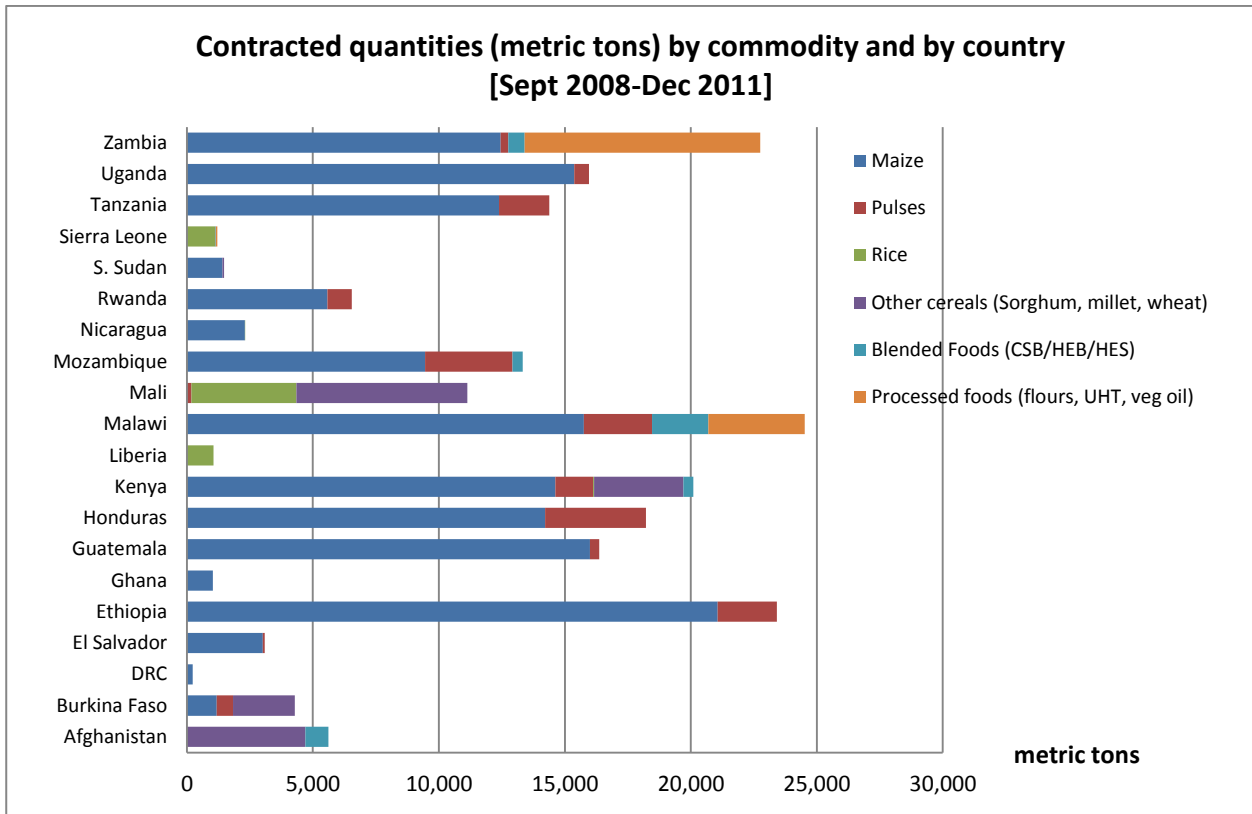
Country	Maize	Pulses	Rice	Other cereals (Sorghum, millet, wheat)	Blended Foods (CSB/HEB/HES)	Processed foods (flours, UHT, veg oil)	Grand Total
Afghanistan				4,702	917		5,619
Burkina Faso	1,187	645		2,456			4,288
DRC	227						227
El Salvador	3,013	74					3,087
Ethiopia	21,073	2,341					23,414
Ghana	1,024						1,024
Guatemala	15,993	371					16,363
Honduras	14,221	3,999					18,220
Kenya	14,621	1,499	40	3,553	393		20,106
Liberia			1,057				1,057
Malawi	15,753	2,708			2,242	3,823	24,526
Mali		184	4,168	6,777			11,129
Mozambique	9,448	3,468			412		13,328
Nicaragua	2,297		20				2,317
Rwanda	5,579	961					6,540
S. Sudan	1,416			58			1,474
Sierra Leone			1,116		25	60	1,201
Tanzania	12,385	2,003					14,388
Uganda	15,374	586					15,960
Zambia	12,450	303			658	9,339	22,750
Grand Total	146,062	19,142	6,401	17,545	4,647	13,222	207,019
% by commodity	71%	9%	3%	8%	2%	6%	100%

Source: data extracted from the Procurement Tracking System Database on 12 March 2012 and cleared by ODPF

Breakdown by commodity

- In comparison with 2009 and 2010, there has been **increasing diversification** of commodities purchased under P4P in 2011, although maize remains the main commodity purchased. In 2009 fortified commodities represented less than 700mt while in 2010 they represent more than 3,000mt (or 2% of total purchases). Pulses at 9% of total purchases have seen a 3% increase in proportion in 2011. New commodities purchased in 2011 under P4P (although in very small amounts) include cassava flour and veg. oil in Sierra Leone, and milk in Zambia.
- **Maize grain** still accounts for 71% of all P4P contracts (146,062mt), and if we include **Maize Meal** (12,811mt), maize accounts for 77% of all P4P contracts. Maize grain has been purchased in most countries, except Afghanistan, Liberia, Mali, and Sierra Leone.
- Afghanistan purchases **wheat**, while **sorghum** and **millet** are purchased mainly in Burkina Faso, Kenya, Mali and South Sudan.
- **Pulses** (beans, red beans, white beans, peas, cowpeas) account for 9% of total P4P contracts (19,142mt), and the relative share is slowly increasing. Most of the pulses are procured in East & Southern Africa, while purchases of pulses have been constrained by high prices (above Import Parity) in the Central American region.
- **Fortified commodities and blended foods** including Corn Soya Blend (CSB), High energy Supplements (HESs) and High Energy Biscuits (HEBs) together represent 2% of total P4P contracts to date (4,647mt), and were procured in Afghanistan, Kenya, Malawi, Mozambique and Zambia.

CSB+ was procured in Sierra Leone.



ANALYSIS OF DEFAULTS & REASONS

Note: the defaults analysis is performed only on contracts already finalized (i.e, without pending deliveries)

7. Deliveries and defaults by country, vendor typology and P4P activity, (Sept 2008 – 31 Dec 2011)

Origin Country	Quantity contracted (mt)	Delivered Quantity (mt)	Quantity Defaulted (mt)	% confirmed defaulted
Afghanistan	4,802	4,800	1	0%
Burkina Faso	4,238	3,472	766	18%
DRC	172	5	167	97%
El Salvador	3,087	3,086	1	0%
Ethiopia	16,963	11,843	5,120	30%
Ghana	1,024	1,024		0%
Guatemala	15,978	9,153	6,825	43%
Honduras	15,282	12,590	2,692	18%
Kenya	17,741	6,453	11,288	64%
Liberia	257	192	65	25%
Malawi	21,984	19,752	2,232	10%
Mali	7,144	6,638	506	7%
Mozambique	13,028	7,290	5,738	44%
Nicaragua	2,197	1,912	284	13%
Rwanda	5,068	3,142	1,925	38%
S. Sudan	1,074	343	731	68%
Sierra Leone	1,136	441	695	61%
Tanzania	11,099	6,939	4,160	37%
Uganda	14,888	10,283	4,605	31%
Zambia	22,399	22,374	25	0%
Grand Total	179,561	131,733	47,827	27%

P4P Activities	Quantity contracted (mt)	Delivered Quantity (mt)	Quantity Defaulted (mt)	% confirmed defaulted
P4P - Activity 1 (Competitive Tendering)	98,660	70,917	27,743	28%
P4P - Activity 2 (Direct Purchasing)	69,915	51,665	18,250	26%
P4P - Activity 3 (Contracting for Risk Reduction)	8,167	6,334	1,833	22%
P4P - Activity 4 (Processing)	2,819	2,818	1	0%
Grand Total	179,561	131,733	47,827	27%

Nature of Business	Quantity contracted (mt)	Delivered Quantity (mt)	Quantity Defaulted (mt)	% confirmed defaulted
Commodity Exchange	37,044	36,605	438	1%
NGOs	930	763	167	18%
Farmer organizations	118,772	78,966	39,806	34%
Warehouse receipts system	5,650	4,036	1,614	29%
Processors	1,364	1,363	1	0%
Traders/Agents	15,800	10,000	5,801	37%
Grand Total	179,561	131,733	47,827	27%

Source: data extracted from the Procurement Tracking System Database on 12 March 2012 and cleared by ODPF

- Of the 207,019mt of food contracted since September 2008, **135,269mt** (65%) was delivered, **47,827mt** was **confirmed defaulted**, and the remaining **23,923mt** (12%) is to be delivered.

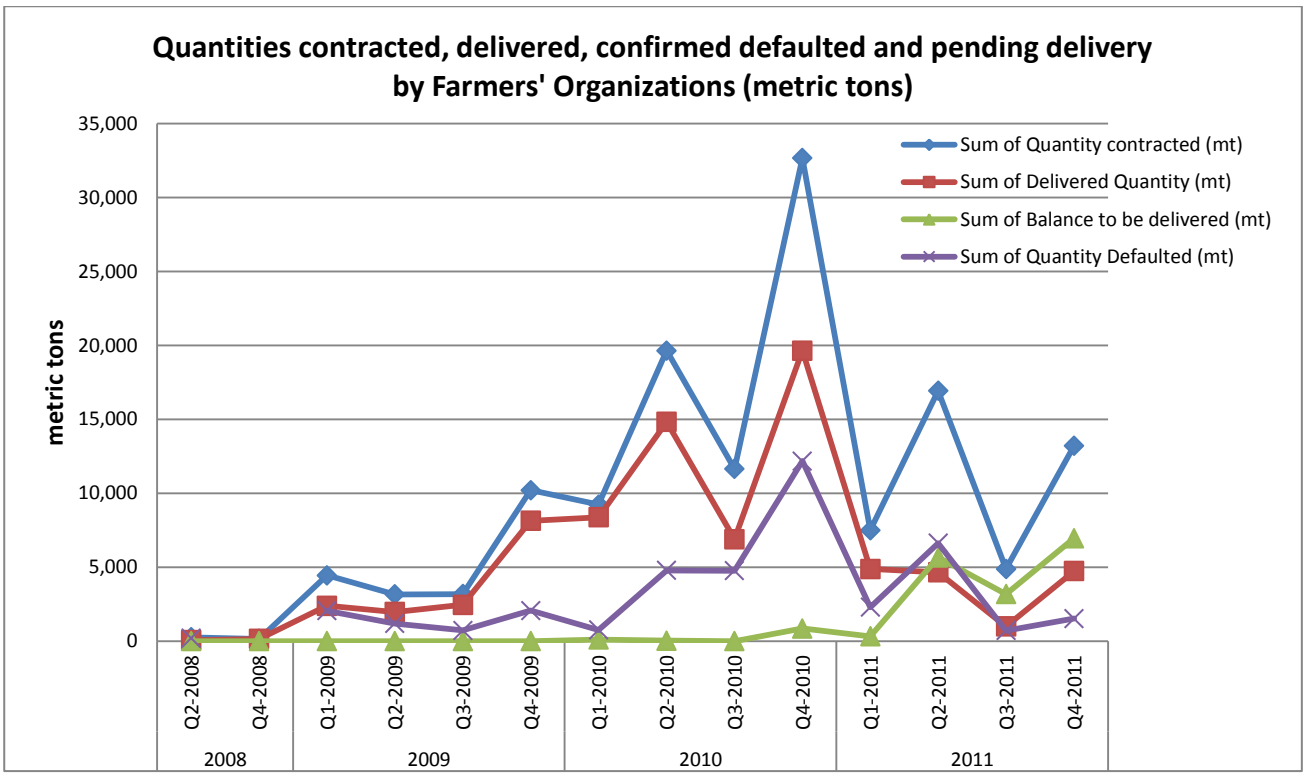
- The recent drought in the Horn of Africa has greatly reduced available surpluses in **Kenya and Ethiopia**. This led to rapid increase in the market price of maize after most contracts had been signed. As a result, many FOs were not able to bulk the required quantities as many farmers decided to sell to traders at higher prevailing market prices rather than through their organizations.
- In absolute terms, **Kenya, Guatemala, Mozambique, Ethiopia, Uganda and Tanzania** have had the highest volumes defaulted (over 11,000mt in Kenya, over 6,800mt in Guatemala, over 5,000mt in Mozambique and Ethiopia, and over 4,000mt in Uganda and Tanzania). Except for Guatemala and Mozambique, these are all countries where WFP is traditionally a large buyer, and where overall local procurement tonnages (both P4P and non-P4P) are high. These countries have also been consistently the ones with the highest volumes defaulted due to highly volatile price and market dynamics, particularly in 2011.
- In relative terms with respect to the total volume contracted under P4P in each country, the highest percentage of defaults was in **DRC** (97% - but here WFP is buyer of last resort), followed by **South Sudan** (68%), **Kenya** (64%), **Sierra Leone** (61%), **Mozambique** (44%) and **Guatemala** (43%).
 - **Kenya, Mozambique and Guatemala** have high default rates in both absolute and relative terms: they contract a lot, default a lot, and have consistently defaulted a lot throughout the 3 years of P4P implementation.
 - **South Sudan and Sierra Leone** have high default rates in relative terms; they have managed to contract very little due to challenging post-conflict environment, but the little they contracted was affected by significant defaults.
 - In **DRC**, the very high defaults reflect the fact that FOs have preferred to sell to traders rather than to WFP, which is a positive outcome in itself given the particular P4P goal in DRC (re-establishing trader networks and linking P4P FOs to traders, while WFP acts as buyer of last resort – only buying if there are surpluses unsold after the trading season).

In terms of P4P activities (procurement modalities –sub-table 2):

- Defaults are slightly higher with **soft/adjusted tenders** (28% of all soft tenders) than with **direct contracts to date** (26%).
- Twenty two percent of **forward delivery contracts** have been defaulted, which is interesting as some Country Offices introduced this particular modality to manage price fluctuations, and to enable better planning on both the supplier and the WFP side. Defaults of forward delivery contracts mean that, at the time of delivery and renegotiation of the price, market prices have increased above the estimated increase, and therefore the vendors had the option to sell elsewhere as WFP was not able/willing to increase the price above a certain ceiling, or farmers preferred to sell for immediate cash, or it was impossible to aggregate the contracted quantity due to poor yields.
- There were no defaults on purchases of **processed foods** (usually from processors- activity 4).

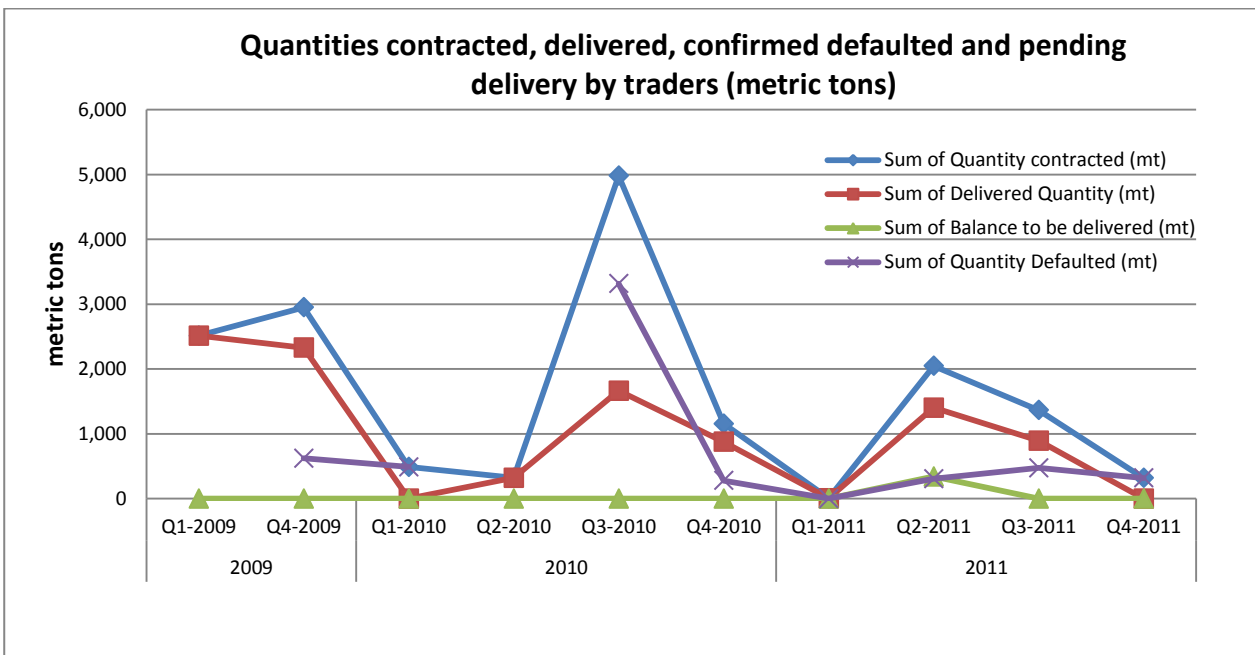
In terms of vendor typology/procurement platform (sub-table 3):

- 37% of contracted quantities with **traders/agents** have been defaulted, followed by 34% of the contracted quantities with **FOs**. This proves that it is not necessarily more risky to purchase from FOs than from individual traders/agents: what drives the risk is not so much the nature of the vendor (FO, trader ect...), but rather the capacity of the supplier to bulk the required quantities quickly and efficiently, and grade the commodity to WFP standards, something that is acquired through experience in marketing in “formal”/“high quality” markets.
- 29% of the contracted quantities with **Warehouse Receipt Systems (WRS)** (Uganda and Tanzania) were defaulted, followed by 18% of the contracted quantities with **NGOs**. These refer mainly to the DRC and South Sudan P4P purchases, where the contract is signed with the NGOs representing the farmers’ groups. Defaults when purchasing through WRS is of concern, since WRS should precisely guarantee quantity and quality.
- Comparatively, purchases from **Commodity Exchanges** and **Processors** have had almost nil default rate.

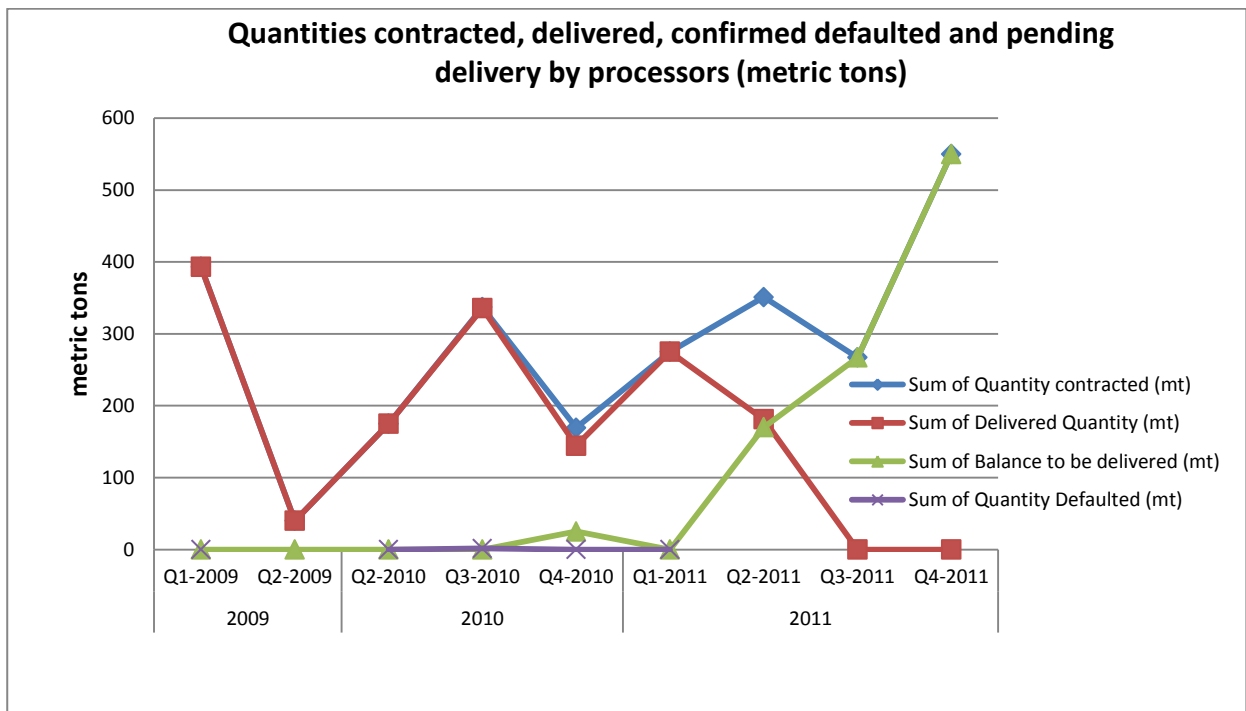


Quantities **contracted** steadily increased from 2009, reached a peak in late 2010, and have reduced drastically in 2011 as a result of the climatic events and related high prices and government interventions. Quantities **defaulted** have usually followed the same trend, with a peak in defaults (in absolute terms) at the end of 2010. In 2011, defaults have remained high in relative terms, as the few contracts have suffered significant defaults largely due to price increase and volatility.

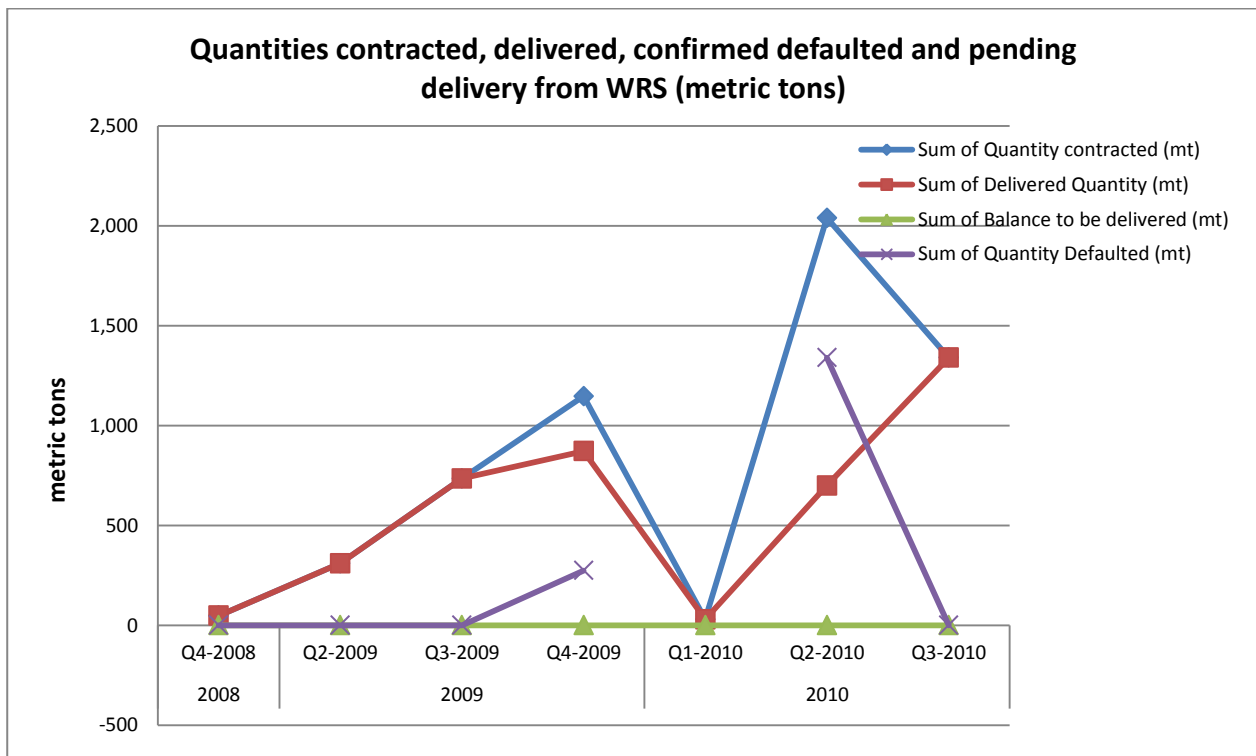
Many of the 2011 contracts were not finalized yet at the time of this analysis (especially the forward delivery contracts), therefore the “balance to be delivered” by FOs increases during the second half of 2011.



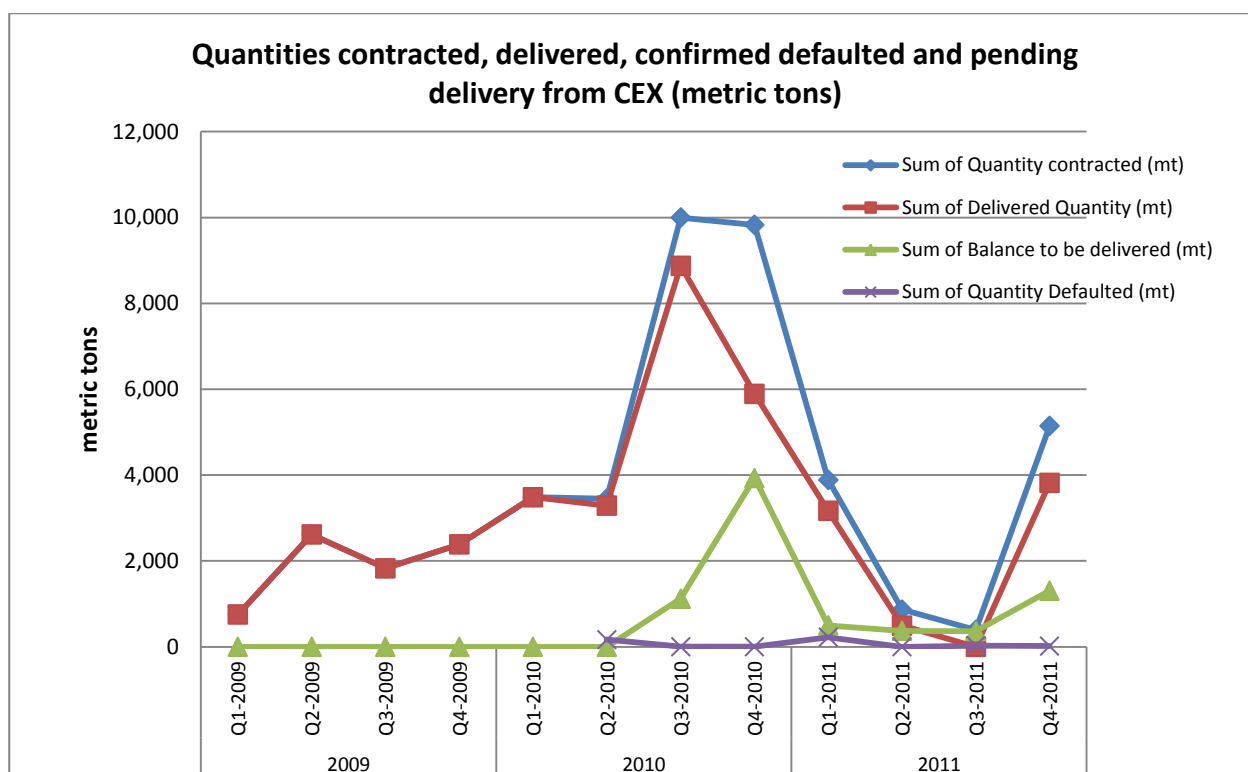
P4P has contracted from small and medium **traders** since 2009, and especially in 2010, but most have been defaulted in 2010. In 2011, traders appear to have performed relatively better.



Quantities contracted from processors have had virtually no defaults to date.



Purchases through WRS (in Uganda and Tanzania) have been usually quite reliable, though there were defaults in the last quarter of 2009 and second quarter of 2010. There were no purchases from WRS in 2011.



Purchases through Commodity Exchanges are usually quite reliable, with just a few defaults from the Malawi Commodity Exchange (ACE) in 2011.

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

Default Reason Typology	Quantity Defaulted (mt)	% Defaulted for each reason	# of times Reason was cited
Bulking/aggregation	7,574	17%	68
Credit access/financial weakness of FO	2,572	6%	18
Partnership/coordination	338	1%	10
Poor leadership	200	0.44%	1
Pricing	19,802	44%	120
Processing Losses	411	1%	17
Quality	10,019	22%	52
Side selling	2,155	5%	24
Underweight bags	2	0.00%	1
WFP delays	1,735	4%	7
Wrong bidding price	650	1%	2
Grand Total	45,459**	100%	320

Source: data extracted from the Procurement Tracking System Database on 12 March 2012 and cleared by ODPF; default reasons standardized manually. ** Note: reasons for defaults not available for all defaults

When ranking the main default reasons in terms of overall tonnage defaulted (table 8):

- **price** related reasons (i.e, price increases from contract signature to delivery time) represent 44% of total defaults (19,802mt);
- **quality** related reasons (i.e, quality not to WFP standards) represent 22% of total defaults (10,019mt);
- **bulking/aggregation** capacity reasons (i.e, the vendor not able to bulk the required quantity) represent another 17% of defaults (7,574mt);
- **credit access/financial weakness** of FOs and side selling explain 6% and 5% of defaults respectively;
- **WFP delays** explain 4% or 1,735mt of defaults.

When ranking the main default reasons in terms of frequency of reason cited (table 8):

- **The most cited reason for defaults throughout is “Price increase during the contract lifetime”** (whether general or due to climatic shocks), cited 120 times and representing the main cause of almost 20,000mt of defaults, followed by **“insufficient capacity to bulk”** (cited 68 times, cause of over 7,500mt of defaults), and **quality related reasons** (cited 52 times but the cause of over 10,000mt of defaults).
- **Price fluctuation** during the contract lifetime (from contract signature to delivery) largely explains side-selling (or the decision not to pursue group marketing), as the negotiated price may not be considered attractive by individual farmers at the time of delivery. **This likely explains the default of over 19,000mt across 12 countries.**
- **WFP delays** (in signing the contract, in delivering empty bags, in finalizing the quality checks and communicating the results, and in uplifting the commodities) was cited several times in 2010 explaining the default of 1,735mt of commodities but this has since ceased to be a major problem which may be evidence of increased cross-divisional cooperation within WFP across the P4P, Procurement, Logistics and Finance Units.
- **Credit/financial weakness of FOs** is a major problem (cited 18 times) because FOs which are not able to pay their members upon delivery (at least a percentage of the value of the commodity delivered) have difficulty “convincing” members to bring their produce to the Cooperative, and therefore are exposed to defaults, especially in the context of rising or unstable prices.
- **Partnership & Coordination problems–. Communication problems** between the FO leadership signing the WFP contract and the members. This has ceased to be a major problem but continues to prevail with newly established FOs or FOs with no experience contracting with WFP. Currently it is cited as a problem mainly in South Sudan where P4P is fairly new to farmers/FOs, and in Malawi where issues of trust between members continue to challenge collective marketing.

Some strategies being followed to minimize defaults include:

- Due to market price volatility, a number of P4P countries are experimenting with **forward delivery contracts**. This procurement modality is expected to nurture confidence in FOs, reduce the amount and/or levels of defaults while providing leverage to the FO for access to credit and serve as a stimulus for growth in production.
- **Smaller and more frequent purchases:** many pilot countries have reduced the size of the contracts (as little as 25mt in Sierra Leone) after the lessons learned from their first purchasing season. The philosophy is **“buying what you see”** (i.e, already bulked commodity).
- **A requirement that 50% of commodities need to be already bulked prior to signing contract** (Burkina Faso and Kenya) in an effort to reduce bulking time and hence reduce likelihood of defaults due to price fluctuation during the contract lifetime.
- **Concentrating purchases at the beginning of the harvest season**, in order to reach the smallholder farmers who need to sell, to possibly minimize elite capture and purchase when the commodity is readily available and prices are low. The practical difficulty in applying this strategy is two-fold:
 - First, the commodity is likely to be wet (and therefore not meet WFP standards);
 - Secondly, the possibility of buying “at the right” time depends on the availability of flexible, un-earmarked cash donations. A **P4P Advance Financing Facility** was introduced in 2011 to provide country offices the possibility of borrowing funds even with only “low probability” forecasted contributions or no collateral. Only one country has used this facility to date (Nicaragua).

Why aggregation from FOs takes so long and implications for the risk of defaults

In most cases, **bulking occurs after the contract is signed** as P4P FOs, who in many cases have little or no experience in collective marketing prior to P4P and little or no working capital to purchase commodities from their members, need to have the contract signed in order to “convince” members to bring their commodities to the Cooperative. This results in **long aggregation periods** following contract signature, further delaying the already lengthy WFP procurement process, resulting in higher risk of defaults as the likelihood of price fluctuation increases as the overall procurement process takes longer.

Many countries like Burkina Faso, Kenya and others tried to **find a balance** between the often contrasting development and procurement objectives of P4P: while recognizing that most P4P FOs targeted are indeed of low capacity and therefore are not able to aggregate independently of the WFP contract, they started imposing at least some requirements to help reduce aggregation periods and contain risk of defaults, for example that FOs need to have already aggregated at least 50% of the contracted amount before signing a contract with them.

Under P4P, **extensions on the delivery terms** may be granted in an effort to build the capacities of those vendors who are less familiar with formal contracting procedures. However, by extending the overall procurement process, the risk of defaults due to price fluctuation during the contract lifetime may increase in two ways:

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

ANALYSIS OF LOCAL PURCHASE COSTS WITH RESPECT TO IMPORT PARITY
9. Costs with respect to Import Parity, by country & commodity [Sept 2008 – 31 Dec 2011]

Origin Country	Commodity	Quantity contracted (mt)	Value of contract at International Price, US\$ [A]	Value of contract at Local Price, US\$ [B]	Cost Saving when buying locally compared to importing [A-B]
Afghanistan	High Energy Biscuits	917	1,374,911	1,335,435	39,476
	Wheat	4,702	2,010,900	1,880,417	130,483
Burkina Faso	Beans	645	500,279	286,562	213,717
	Maize	1,187	590,598	419,524	171,074
	Sorghum	2,456	1,206,836	779,625	427,211
DRC	Maize	227	107,635	41,836	65,799
El Salvador	Beans	74	76,329	109,155	-32,826
	Maize	3,013	1,305,902	1,148,383	157,518
Ethiopia	Beans	2,341	2,234,391	1,245,210	989,181
	Maize	21,073	9,491,423	5,662,806	3,828,617
Ghana	Maize	1,024	429,056	363,520	65,536
Guatemala	Beans	371	374,556	406,273	-31,718
	Maize	15,993	8,798,818	6,981,016	1,817,802
Honduras	Beans	3,999	4,661,428	5,990,782	-1,329,354
	Maize	14,221	7,183,602	5,632,758	1,550,843
Kenya	Beans	1,381	1,488,297	741,851	746,446
	CSB	393	211,198	259,313	-48,115
	Maize	14,621	6,598,958	3,490,836	3,108,122
	Peas	118	90,392	59,165	31,227
	Rice	40	19,605	34,270	-14,665
	Sorghum	3,553	1,558,325	839,766	718,559
Liberia	Rice	1,057	753,722	676,190	77,532
Malawi	Beans	239	152,064	120,447	31,617
	CSB	2,242	1,283,389	1,133,939	149,451
	Maize	15,753	6,148,896	3,875,810	2,273,086
	Maize Meal	3,823	2,024,498	1,302,230	722,268
	Peas	2,469	1,262,138	1,254,897	7,241
Mali	Beans	184	169,680	124,144	45,536
	Rice	4,168	2,727,392	2,474,935	252,457
	Sorghum	6,777	3,173,521	2,720,520	453,000
Mozambique	CSB	412	263,501	206,660	56,841
	Maize	9,448	4,155,405	2,749,286	1,406,119
	Peas	3,468	2,184,936	1,636,750	548,187
Nicaragua	Maize	2,297	944,255	870,181	74,074
	Rice	20	14,680	17,420	-2,740
Rwanda	Beans	961	1,049,598	522,974	526,625
	Maize	5,579	2,967,267	1,497,889	1,469,378
S. Sudan	Maize	1,416	841,738	538,096	303,642
	Sorghum	58	28,340	28,750	-410
Sierra Leone	Cassava Gari	20	3,455	8,409	-4,954
	CSB	25	20,475	24,000	-3,525
	Rice	1,116	646,334	632,538	13,796

Tanzania	Veg. Oil	40	61,200	58,000	3,200
	Beans	2,003	1,495,214	1,377,985	117,229
	Maize	12,385	4,687,160	3,704,664	982,497
Uganda	Beans	586	648,692	316,230	332,462
	Maize	15,374	8,193,809	4,706,655	3,487,154
Zambia	Beans	303	273,056	219,890	53,166
	High Energy Supplements	658	400,646	315,060	85,586
	Maize	12,450	4,904,964	3,538,787	1,366,176
	Maize Meal	8,988	4,653,002	2,383,985	2,269,017
	Milk-UHT	351	655,668	491,400	164,268
Grand Total		207,019	107,102,132	77,237,221	29,864,910

Source: data extracted from the Procurement Tracking System Database on 12 March 2012 and cleared by ODPF

The 207,765mt of food commodities contracted under P4P modalities in 20 countries have a total value of US\$ 77.2 million (value of local contracts). Of these, **135,269mt (65%) was delivered** (47,827mt defaulted and 26,091mt still to be delivered), corresponding to an estimated **US\$ 50 million paid by WFP** (equivalent to 65% of contracted value) to P4P vendors. In sum, US\$ 50 million have been put more directly in the pockets of smallholder farmers and small and medium traders as a result of P4P purchases.

Overall, by procuring locally through P4P modalities, and in comparison with the price value of importing the same commodities, WFP has realized a savings of approximately **US\$ 30 million** (savings with respect to import parity price, IPP)³.

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

- **Beans in Central America**, usually purchased above IPP. This is especially the case in **Honduras**, where WFP has purchased (with funds from the Government of Honduras) 4,000mt of beans above IPP, paying **US\$ 1,3 million of Government of Honduras funds in excess** of what it would have cost importing the beans. This is being allowed in Honduras because the Government of Honduras has explicitly asked WFP to procure locally the beans for its National School Feeding Programme, regardless of the price, using national funds.
- Small quantities of **rice and CSB** were procured in Kenya at above IPP at the very beginning of P4P (in 2009), but not since then. Also, a one off purchase of 20mt of rice in Nicaragua was procured at above IPP
- **CSB and Gari (cassava)** in Sierra Leone were purchased at above IPP in 2011, as well as small quantities of sorghum in South Sudan. Purchases in these post-conflict countries have sometimes been at above calculated IPP, but have represented very small quantities.

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