



Purchase for Progress (P4P)
Final Consolidated Procurement Report
(September 2008 — December 2013)



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World Food Programme

INTRODUCTION

As the world's largest humanitarian agency, WFP is a major buyer of staple food. In 2013, WFP bought US\$1.16 billion worth of food for cash globally. More than 80 percent of this was in developing countries. Through the Purchase for Progress (P4P) pilot, launched in September 2008, WFP sought to extend the economic benefits of its significant local procurement lower down the value chain to more directly benefit smallholder farmers and their communities. Over five years, WFP has explored new approaches to purchase food in a more smallholder-friendly way, while also investing in developing the capacities of smallholder farmers to access formal markets. Through these efforts, WFP's procurement demand has emerged as a powerful tool to help develop markets and rural communities, while simultaneously providing food assistance for the most vulnerable and food insecure.

This report reviews the procurement experience during the P4P pilot treatment period from September 2008 through December 2013. The information presented draws on data collected through WFP's corporate procurement systems (FPTS and WINGS)¹, as well as additional inputs from P4P pilot countries and other P4P publications. All 20 P4P pilot countries purchased through P4P pro-smallholder modalities. The detailed procurement data includes information on quantities contracted, delivered and defaulted by country; by P4P procurement modality; by vendor typology; and by commodity. It also provides an analysis of the reasons for default and on cost-savings in relation to Import Parity Price (IPP).

¹ More information on WFP's corporate procurement systems is provided in the annex of this report.
FPTS: Food Procurement Tracking System
WINGS: World Food Programme Information Network and Global System

GLOBAL OVERVIEW

During the P4P pilot treatment period from September 2008 to December 2013, WFP has issued contracts under smallholder friendly procurement modalities for 450,102 metric tons (mt) in 20 pilot countries. The value of these contracts exceeds US\$177 million. Commodities were contracted either directly with farmers' organizations (FOs) and small and medium-scale traders, with aggregators such as NGOs and food processors or through Commodity Exchanges and Warehouse Receipt Systems (WRS).

Of the total contracted amount, 366,658 mt (81%) was delivered to WFP. A total of US\$148 million was therefore put more directly in the pockets of smallholder farmers. Some 83,559 mt (19%) were confirmed defaulted, with the main reasons for default related to the suppliers' capacity. After peaking with 26% in 2011, defaults decreased to 9% of the contracted quantity in the last year of the pilot.

The largest quantities were bought in Ethiopia where WFP was able to mobilise sizeable volumes through Cooperative Unions. This was also the case in Mali. Cooperative unions usually have a higher capacity than primary cooperatives, which were the majority of Farmers' Organisations (FOs) supported under P4P, and can better hedge against default risk. In addition, Ethiopia and Mali experimented with Forward Delivery Contracts which allow FOs to better plan, reduce risk, and facilitate access to credit as the P4P-supported contract can be used as collateral. In Zambia and Malawi, procurement volumes were high as large quantities were purchased through commodity exchanges. Rwanda and Tanzania increased their procurement under smallholder friendly modalities through buying from national grain reserves which in turn increased their purchases from FOs.

Table 1: Overview of contract performance by country ²

Region	Origin Country	Quantity Contracted (MT)	Quantity Delivered (MT)	Quantity Defaulted (MT)	Contract Value (US\$)	Paid Value (US\$)
Asia	Afghanistan	9,502	9,501	1	5,747,314	5,745,533
Central America	El Salvador	5,759	5,758	1	2,700,567	2,700,285
	Guatemala	21,654	14,821	6,833	10,243,627	7,102,927
	Honduras	32,454	28,927	3,527	21,067,833	19,516,967
	Nicaragua	2,799	2,386	412	1,095,361	941,170
West Africa	Burkina Faso	5,313	4,583	730	1,892,474	1,650,699
	Ghana	3,762	3,762		1,653,781	1,653,781
	Liberia	2,974	1,833	1,141	1,533,584	954,759
	Mali	30,062	28,630	1,546	15,955,583	15,360,442
	Sierra Leone	2,024	1,102	922	1,260,077	714,972
Southern Africa	DRC	510	340	170	176,103	145,168
	Malawi	59,811	53,269	6,542	20,994,782	18,875,200
	Mozambique	18,732	11,013	7,720	6,399,785	3,596,173
	Tanzania	32,499	26,182	6,317	12,044,077	9,931,090
	Zambia	39,969	38,409	1,561	12,130,577	11,365,562
Eastern & Central Africa	Ethiopia	97,844	79,305	18,539	31,058,489	25,050,989
	Kenya	22,902	10,596	12,308	6,619,288	3,353,752
	Rwanda	29,624	27,001	2,623	13,139,151	12,287,520
	South Sudan	3,009	1,383	1,626	1,238,816	583,313
	Uganda	28,900	17,859	11,040	10,280,575	6,490,800
Grand Total		450,102	366,658	83,559	177,231,841	148,021,105

² For some contracts, deliveries in Mali exceeded contracted quantities. Thus, the sum of the total delivered and defaulted quantity exceeds the total contracted quantity.

Purchases made under P4P modalities during the five-year pilot account for 14% of WFP's overall local purchases across the 20 pilot countries. In 2009, 8% of local purchases were made under modified P4P pilot modalities. The P4P share rose considerably to 14% in 2010 but declined again to 8% in 2011, mainly due to severe droughts affecting some of the pilot countries. In the last two years of the pilot period, WFP was again able to increase purchases under P4P modalities, extending the P4P share of total local purchases in the 20 pilot countries to 17% in 2012 and 22% in 2013.

FOs supported under P4P have also sold collectively to other buyers. As the overarching objective of P4P was to connect smallholder farmers to quality markets, this is a positive outcome of the pilot. According to available data in 16 countries, commodities sold to markets beyond WFP total over 156,000 mt, at a value of at least US\$60 million.

Post-pilot mainstreaming of smallholder-friendly market development

P4P has evolved WFP's procurement policies to become more smallholder-friendly. This effort is embedded in WFP's Strategic Plan and has been embraced at all levels, with a stated commitment to increase WFP's pro-smallholder procurement to 10% of cash purchases or about US\$100 to US\$120 million per year. In order to achieve this ambitious goal, WFP has begun to procure commodities under P4P modalities through its "forward purchasing facility" (FPF) which procures commodities for the organisation's global inventory. WFP has also started weaving smallholder-friendly market development activities more systematically into its programmes, extending to selected non-pilot countries. Currently, an independent evaluation of the P4P pilot is underway which, together with the knowledge and lessons learned from the pilot, will inform future engagement with small farmers.

Supporting quality markets beyond WFP

In addition to changing WFP's own procurement processes, P4P has influenced government food procurement systems and private sector buyers which have increasingly recognised the potential of pro-smallholder procurement.

A number of governments have sought to adapt the P4P concept to their broader policy commitment to smallholder farmers and incorporated components of P4P into national strategies. The most sweeping embrace of P4P has been by the Government of Rwanda which scaled the P4P approach nationally. Some governments, including Rwanda, Tanzania and Burkina Faso have started procuring a share of their strategic grain reserves more directly from smallholders. Home Grown School Feeding programmes implemented jointly by WFP and host governments are also increasingly providing assured markets for smallholder farmers. At least 10 of the 20 P4P pilot countries have linked smallholders to school feeding, including through the Purchase from Africans for Africa (PAA) initiative in Ethiopia, Malawi and Mozambique which builds on P4P³.

Furthermore, P4P has increasingly sought to link smallholder farmers to private sector buyers of quality crops and will continue to advocate for private sector investment in smallholder agricultural development through demonstrating the profitability of working with smallholders. In collaboration with other market stakeholders, WFP has undertaken a study on potential quality markets, including public and private buyers, across the 20 pilot countries which will become publically available in 2014.

WFP has also started to explore ways to combine the organisation's demand for staple foods with commercial and government demand, building on the foundations laid by P4P. Together with partners, WFP seeks to create a broad "Procurement Platform" that allows capacity building needs and market bottlenecks to be overcome at scale.

³ PAA is also implemented in Niger and Senegal which were not P4P pilot countries. For more information please visit: <http://paa-africa.org/>

TABLE OF CONTENT

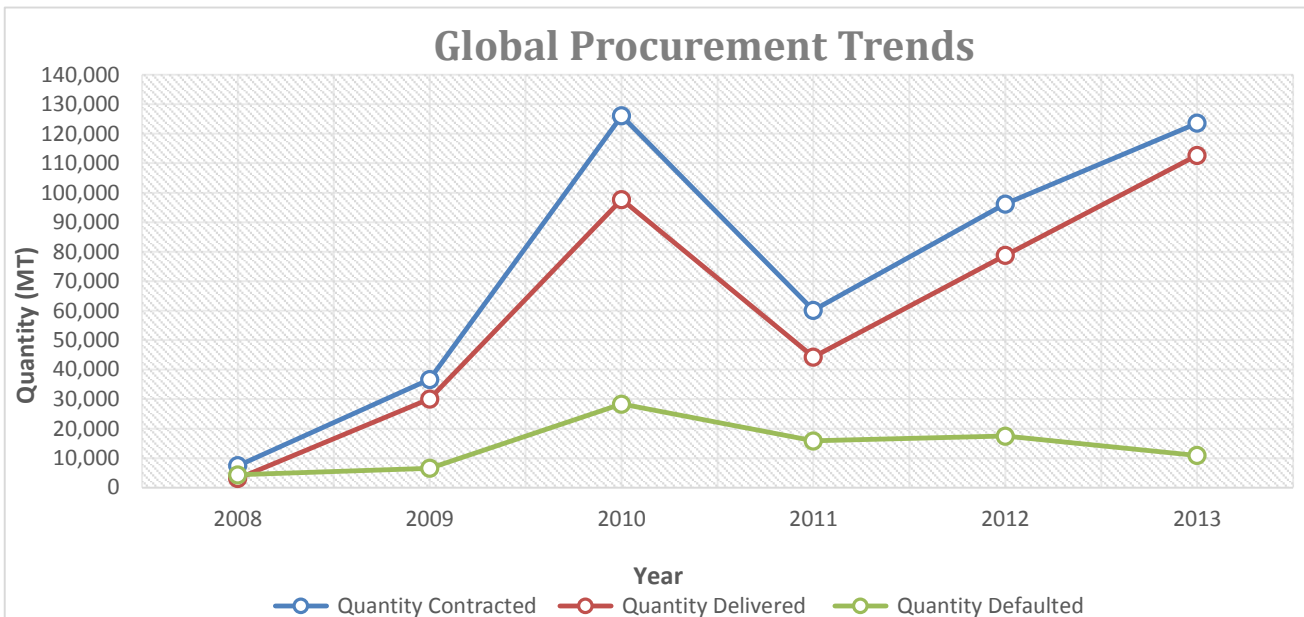
1. GLOBAL PROCUREMENT ANALYSIS	7
1.1. TRENDS IN P4P CONTRACTED, DELIVERED AND DEFAULTED QUANTITIES BY YEAR	7
1.2. QUANTITIES PROCURED THROUGH P4P MODALITIES BY ORIGIN AND DESTINATION	8
1.3. TYPE OF COMMODITIES PROCURED THROUGH P4P MODALITIES.....	9
1.4. PROCUREMENT THROUGH P4P MODALITIES IN RELATION TO THE TOTAL QUANTITY PURCHASED LOCALLY	10
2. ANALYSIS OF PURCHASES THROUGH P4P MODALITIES.....	12
2.1. CUMULATIVE P4P PURCHASES BY P4P MODALITY.....	13
2.2. CUMULATIVE P4P PURCHASES BY SUPPLIER TYPOLOGY.....	17
2.3. CUMULATIVE P4P PURCHASES BY COMMODITY	21
3. ANALYSIS OF DEFAULTS	22
3.1. DEFAULTS ON CONTRACTS ISSUED DURING THE PILOT PERIOD	22
3.2. TRENDS IN DEFAULTED QUANTITIES BY YEAR.....	24
3.3. PERCENTAGE OF DEFAULTS BY P4P MODALITY.....	25
3.4. PERCENTAGE OF DEFAULTS BY TYPE OF SUPPLIER.....	26
3.5. FREQUENCY OF DEFAULT REASONS	27
3.6. HIGH-LEVEL DEFAULT REASONS BY COUNTRY	30
3.7. STRATEGIES FOLLOWED TO MINIMIZE DEFAULTS.....	31
4. LOCAL PURCHASE COSTS WITH RESPECT TO IMPORT PARITY PRICE (IPP).....	32
4.1. COMPARISON OF LOCAL PRICES WITH IMPORT PARITY PRICES.....	32
5. ANNEX	35

LIST OF TABLES

TABLE 1: OVERVIEW OF CONTRACT PERFORMANCE BY COUNTRY	2
TABLE 2: TOTAL P4P CONTRACTED AND DELIVERED QUANTITIES BY ORIGIN AND DESTINATION COUNTRY	8
TABLE 3: COMMODITIES PURCHASED UNDER P4P AS A % OF QUANTITY PURCHASED LOCALLY (INCLUDING NON-P4P LOCAL AND REGIONAL PURCHASES - LRP)	10
TABLE 4: QUANTITIES PURCHASED (DELIVERED) BY REGION, COUNTRY AND P4P MODALITY	13
TABLE 5: QUANTITIES PURCHASED BY REGION, COUNTRY AND SUPPLIER TYPOLOGY	17
TABLE 6: DEFAULTED QUANTITIES BY COUNTRY AND REGION	22
TABLE 7: MAIN DEFAULT REASONS IN TERMS OF QUANTITY DEFAULTED	27
TABLE 8: MAIN DEFAULT REASONS IN TERMS OF FREQUENCY OF CITATION	29
TABLE 9: COSTS OF COMMODITIES PURCHASED WITH RESPECT TO IMPORT PARITY PRICE, BY REGION, COUNTRY AND COMMODITY	32

1. GLOBAL PROCUREMENT ANALYSIS

1.1. Trends in P4P contracted, delivered and defaulted quantities by year



Despite challenges WFP has successfully increased its contracted quantity using P4P modalities during the five-year pilot period. Purchases through P4P modalities increased significantly between 2009 and 2010, as more countries began implementation, and also due to the relatively good harvests in most of the pilot countries in 2010. In 2009, 14 pilot countries contracted 37,000 mt of which 82% was delivered. In 2010, six new pilot countries began to purchase using smallholder-friendly modalities, more than tripling the total contracted quantity to 126,000 mt, of which 78% was delivered.

In 2011, severe droughts in the Horn of Africa and the Sahel caused a significant decline in global WFP local and regional purchases in the 20 pilot countries. P4P purchases fell as a direct result, with WFP able to contract only 60,000 mt through P4P modalities, of which 74% was delivered.

In 2012 and 2013, WFP again progressively increased its contracts with small suppliers and through structured trading platforms supported by P4P. This can largely be attributed to a combination of favourable weather that resulted in bumper harvests in a number of countries including Ethiopia, Tanzania, Kenya, Malawi, Uganda and Zambia, as well as to the increasing capacities of FOs due to the sustained capacity building efforts of partners.

In 2012, P4P pilot countries contracted over 96,000 mt under P4P modalities, of which 82% was delivered. This was largely due to significant quantities purchased through Forward Delivery Contracts (FDCs) in Ethiopia and an increase in purchases through the Agricultural Commodity Exchange for Africa (ACE) in Malawi.

In 2013, WFP contracted 114,000 mt, the largest quantity contracted under P4P modalities over the 5-year pilot period. Some 91% of commodities were delivered, including significant quantities purchased from the National Food Reserve Agency in Tanzania and through FDCs in Ethiopia.

1.2. Quantities procured through P4P modalities by origin and destination

Table 2: Total P4P contracted and delivered quantities by origin and destination country

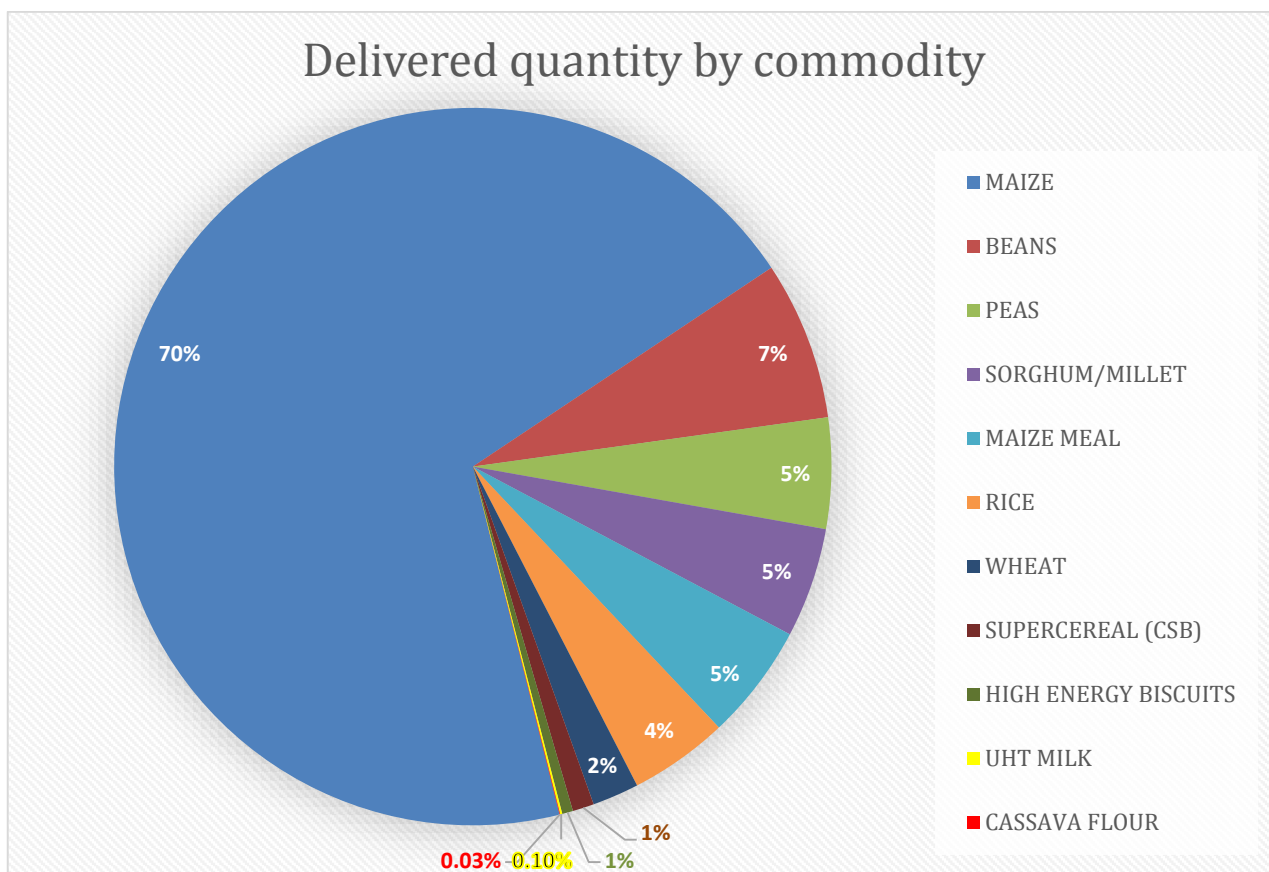
Region	Origin Country	Destination Country	Quantity Contracted (MT)	Quantity Delivered (MT)
Asia Regional Bureau	Afghanistan	Afghanistan	9,502	9,501
			9,502	9,501
Central America Regional Bureau	El Salvador	El Salvador	5,759	5,758
	Guatemala	Guatemala	21,654	14,821
	Honduras	Honduras	32,454	28,927
	Nicaragua	Nicaragua	2,799	2,386
			62,666	51,892
West Africa Regional Bureau	Burkina Faso	Burkina Faso	5,313	4,583
	Ghana	Ghana	3,762	3,762
	Liberia	Liberia	2,974	1,833
	Mali	Cote d'Ivoire	2,168	2,168
		Mali	26,894	25,462
		Niger	1,000	1,000
	Sierra Leone	Sierra Leone	2,024	1,102
			44,134	39,909
Southern Africa Regional Bureau	DRC*	DRC	510	340
	Malawi	Malawi	55,657	49,156
		Mozambique	3,775	3,759
		Zambia	379	354
	Mozambique	Mozambique	18,732	11,013
	Tanzania	Tanzania	32,499	26,182
	Zambia	DRC	6,579	6,579
		Zambia	18,558	17,000
		Zimbabwe	14,832	14,830
			151,521	129,212
Eastern & Central Africa Regional Bureau	Ethiopia	Ethiopia	97,844	79,305
	Kenya	Kenya	22,902	10,596
	Rwanda	DRC	819	819
		Rwanda	28,805	26,182
	South Sudan	South Sudan	3,009	1,383
	Uganda	Uganda	28,900	17,859
			182,279	136,144
Grand Total			450,102	366,658

* P4P's objective in DRC is to connect smallholder farmers to small traders, with WFP acting only as buyer of last resort.

Commodities purchased through P4P modalities are primarily used for WFP operations within the same country, including school meals, food-for-assets, nutrition programmes, assistance to refugees or general food assistance for vulnerable populations.

In some cases, commodities purchased through P4P modalities have been exported to support WFP operations in neighbouring countries. Commodity Exchanges in Zambia and Malawi have been increasingly used for regional purchases. In Mali, a higher capacity farmers' organisation, Faso Jigi, was contracted to supply the Niger emergency operation in 2010 and the Cote d'Ivoire emergency operation in 2011. In addition, several countries have been able to link their purchases to WFP's innovative Forward Purchasing Facility (FPF), a revolving funding mechanism used to buy stock in advance for WFP global needs.

1.3. Type of commodities procured through P4P modalities



CSB: Corn-Soya Blend

During the five-year P4P pilot period, WFP purchased 366,658 mt of commodities through P4P modalities out of a total 450,102 mt contracted. Maize grain constituted 70% of the total quantity bought from FOs, small and medium-scale traders, food processors, commodity exchanges and warehouse receipt systems (WRS). Maize is followed by pulses (peas and beans) that constitute 12% of total purchases across the 20 P4P pilot countries. Other commodities purchased under P4P include sorghum and millet, rice, wheat as well as processed commodities including fortified maize meal, high energy biscuits, ultra-high temperature (UHT) milk and cassava flour.

1.4. Procurement through P4P modalities in relation to the total quantity purchased locally

Table 3: Commodities purchased under P4P as a % of quantity purchased locally (including non-P4P local and regional purchases - LRP)

DELIVERED QUANTITY (MT)	2009			2010			2011			2012			2013			2009 to 2013
P4P Countries	LRP	P4P	P4P % of Total	LRP	P4P	P4P % of Total	LRP	P4P	P4P % of Total	LRP	P4P	P4P % of Total	LRP	P4P	P4P % of Total	P4P % of Total
Afghanistan	1		0%	13,220	4,383	25%	22,634	1,184	5%	51	933	95%	5,000	3,000	38%	19%
Burkina Faso	15,559	732	4%	18,305	1,996	10%	6,697	743	10%	10,895	662	6%	13,551	450	3%	7%
DRC	6,404		0%	14,860	5	0.03%	4,851	55	1%	13,251	33	0.3%	5,718	247	4%	1%
El Salvador	4,489	555	11%	4,855	2,454	34%	3,204	77	2%	1,598	1,818	53%	343	854	71%	28%
Ethiopia	77,127		0%	232,714	16,074	6%	82,773	2,220	3%	76,374	26,625	26%	110,368	34,386	24%	12%
Ghana	4,950		0%	11,224	1,024	8%	6,710		0%	6,327	1,162	16%	3,875	1,576	29%	10%
Guatemala	9,528	2,317	20%	10,033	5,298	35%	8,071	1,970	20%	4,352	3,655	46%	2,366	1,582	40%	30%
Honduras	10,695	2,414	18%	14,280	5,331	27%	22,243	8,240	27%	17,709	4,940	22%	8,928	8,003	47%	28%
Kenya	27,024	639	2%	57,578	4,199	7%	52,931	3,316	6%	36,205	1,072	3%	25,973	1,371	5%	5%
Liberia	171	192	53%		477	100%		40	100%	2,545	284	10%		840	100%	40%
Malawi	19,237	41	0.2%	28,887	11,621	29%	89,730	9,278	9%	17,814	14,051	44%	42,262	18,278	30%	21%
Mali	1,199	500	29%	10,845	4,911	31%	14,001	5,452	28%	11,345	6,255	36%	25,493	11,413	31%	31%
Mozambique	11,769	3,604	23%	17,896	2,292	11%	28,937	1,632	5%	9,886	2,297	19%	7,699	1,127	13%	13%
Nicaragua	4,452	200	4%	3,604	1,629	31%	2,007	93	4%	1,905	394	17%	2,837	20	1%	14%
Rwanda	9,724		0%	6,956	3,312	32%	6,025	2,495	29%	14,581	9,681	40%	8,936	11,513	56%	37%
Sierra Leone	110	162	59%	80	197	71%	65	108	62%		568	100%	569	68	11%	57%
South Sudan			0%		44	100%		371	100%		785	100%		182	100%	100%
Tanzania	15,476	2,080	12%	29,947	3,364	10%	60,560	4,551	7%	74,604	1,738	2%	36,836	14,449	28%	11%
Uganda	112,722	6,311	5%	113,472	3,223	3%	38,248	1,772	4%	31,743	1,331	4%	19,107	2,351	11%	5%
Zambia	4,448	10,354	70%	4,686	25,891	85%	30,669	720	2%	65,453	489	1%	75,664	954	1%	18%
Grand Total	335,084	30,101	8%	593,444	97,725	14%	480,355	44,316	8%	396,640	78,773	17%	395,525	112,663	22%	14%

Note: Data has been consolidated from WINGS for non-P4P purchases. Source for P4P data is FPTs.

Over five years, 14% of the quantity procured locally across the 20 pilot countries was purchased through smallholder-friendly P4P modalities. The initial target of the P4P pilot programme was to purchase at least 10% of local and regional food procurement per year in each pilot country through P4P modalities. This percentage was anticipated to increase gradually as targeted farmers' organizations (FOs) and small and medium-scale traders built their capacities to respond to the WFP market (and other quality buyers) with adequate quantity and quality.

From 2009 to 2010, purchases under P4P successfully increased – largely due to the increased number of P4P pilot countries starting implementation, including “large” countries such as Ethiopia, as well as the initiation of P4P purchases through the Agricultural Commodity Exchange for Africa (ACE) in Malawi and a good harvest in the majority of pilot countries.

However, in 2011, P4P purchases showed a significant drop. Drought in the Horn of Africa and the Sahel triggered a scarcity of cereals in the region amid price volatility, making local purchases difficult as well as not advisable to avoid inflating local prices where supplies were scarce. Defaults on existing contracts increased as individual farmers decided to sell individually at higher prices instead of selling through their organizations. Contracted amounts dropped from 20,000 mt in Ethiopia and almost 13,000 mt in Kenya in 2010, to just 4,000 mt and 6,000 mt respectively in 2011. In Burkina Faso, contracted commodities reduced from 2,000 mt to 800 mt.

In addition, government intervention on grain markets, in particular sizable purchases by the Zambian Food Reserve Agency (FRA) prior to the 2011 elections, constrained all private sector purchases in Zambia in 2011. While 26,000 mt of commodities were contracted and delivered in Zambia in 2010, mainly through the Zambian Agricultural Commodity Exchange – ZAMACE, purchases declined considerably to 750 mt in 2011.

In 2012, in addition to more favourable agricultural conditions compared to 2011, considerable changes in contract modalities and contracting strategy contributed to an increase in purchases through P4P modalities. Some 36% of the total 2012 quantity was contracted by Ethiopia. This included Forward Delivery Contracts for 26,700 mt, of which 70% was successfully delivered. Malawi contracted the second largest amount, procuring 16,000 mt, largely through the Agricultural Commodity Exchange for Africa (ACE), increasing its purchases through this commodity platform by 60%.

However, in Kenya and Tanzania, the significant 2011 default rates impacted the allocation of resources for purchases through P4P modalities, which resulted in a decrease of contracted volumes. WFP Tanzania's procurement strategy in 2012 mainly focused on purchases from the National Food Reserve Agency (NFRA). However, this ultimately provided an opportunity for P4P to work more closely with the Government and resulted in the signing of a Memorandum of Understanding. This commits WFP to buy food from the NFRA while the Government increases its purchases from smallholder farmers' organisations (FOs). Seventeen P4P-participating FOs signed contracts with the NFRA in 2013 and successfully delivered 70% of the contracted quantity.

In 2013, WFP signed contracts for over 123,000 mt through P4P modalities, a notable increase from 96,000 mt in 2012. Of this, 91% was delivered. About one third of the quantity was contracted by Ethiopia which signed forward delivery contracts for 37,500 mt with 27 Cooperative Unions, of which over 88% was delivered. Malawi contracted the second largest quantity, with more than 20,000 mt purchased through ACE. In addition to contracts signed directly with FOs, Tanzania procured 13,300 mt from the NFRA to support a more smallholder-friendly national procurement system.

2. ANALYSIS OF PURCHASES THROUGH P4P MODALITIES

P4P did not aim to replace WFP’s standard procurement from large scale traders, but rather committed to utilize a portion of the demand in the pilot countries (typically 10% per country) to test the most efficient ways of procuring from smallholder farmers, thereby giving WFP a greater range of options when choosing an approach most suitable to a particular procurement environment.

P4P has been building the capacities of smallholder farmers and their FOs to profitably engage in agricultural markets by simultaneously offering FOs: **(i)** WFP procurement contracts *adapted* to the smallholder farmers’ capacities and needs and **(ii)** partner-led capacity building support, including both training and infrastructure and equipment support on a cost-sharing basis.

For P4P, WFP modified both the procurement processes and the type of contractual arrangements to meet the lower capacities of smallholder farmers and their organizations, many of whom had never collectively sold into a formal quality market. The tailored WFP procurement modalities that have been tested under P4P fall into four categories:

P4P Innovative Procurement/Contract modalities			
1. Soft competitive tenders FOs/suppliers compete among each other but tenders are adjusted to suit suppliers’ capacities	2. Direct contracts Competition is waived & quantities/prices directly negotiated with the suppliers. Prevailing local market prices, Import Parity Prices and price of last tenders taken as reference	3. Forward delivery contracts Contract negotiated at planting season or in advance of harvest to provide assured market to supplier, help plan production/marketing and facilitate access to credit. Prices can be renegotiated closer to delivery based on a formula agreed upon at time of contract signing	4. Processing This includes working with the private sector and other stakeholders to encourage the development of local food processing capacity and, where possible, link it with smallholder farmers to supply the staple commodities required as raw materials

WFP holds FOs to the same standards as regular food suppliers with respect to WFP’s core procurement criteria of providing safe and cost-effective food. WFP’s suppliers under P4P must meet the same exacting quality standards as those required of larger traders. WFP also restricts the prices it pays for locally procured food to below import parity regardless of type of supplier, unless a donor has specifically requested procurement from smallholder farmers as the primary objective, agreeing to WFP paying a price above import parity.

Contracts are usually signed prior to the expected delivery to allow vendors to bulk and grade the commodities according to WFP standards. The commodities are purchased and paid for by WFP only once the commodities are uplifted, after the clearance from the independent superintendent company contracted by WFP to certify the quality of the commodity, and all documents are received by WFP to process payment.

2.1. Cumulative P4P purchases by P4P modality

Table 4: Quantities purchased (delivered) by region, country and P4P modality

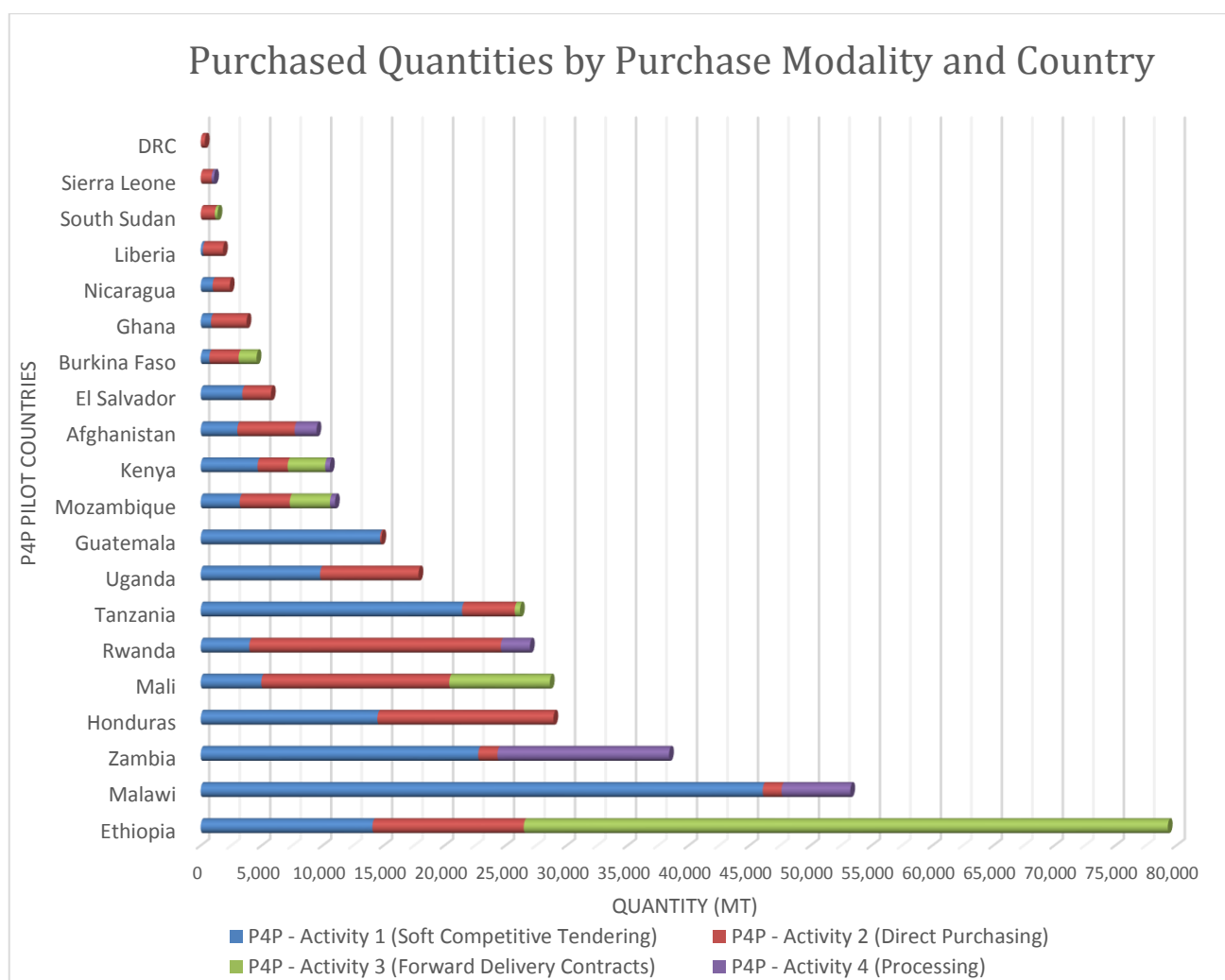
Region	Origin Country	Soft Competitive Tendering	Direct Purchasing	Forward Delivery Contracts	Processing	Grand Total
Asia Regional Bureau	Afghanistan	3,000	4,702		1,799	9,501
		3,000	4,702		1,799	9,501
Central America Regional Bureau	El Salvador	3,409	2,349			5,758
	Guatemala	14,701	119			14,821
	Honduras	14,490	14,437			28,927
	Nicaragua	974	1,412			2,386
		33,575	18,317			51,892
West Africa Regional Bureau	Burkina Faso	705	2,405	1,473		4,583
	Ghana	849	2,913			3,762
	Liberia	183	1,650			1,833
	Mali	4,968	15,416	8,246		28,630
	Sierra Leone		889		213	1,102
		6,705	23,272	9,719	213	39,909
Southern Africa Regional Bureau	DRC		340			340
	Malawi	46,083	1,542		5,644	53,269
	Mozambique	3,193	4,109	3,298	412	11,013
	Tanzania	21,430	4,323	430		26,182
	Zambia	22,753	1,578		14,077	38,409
		93,459	11,892	3,728	20,133	129,212
Eastern & Central Africa Regional Bureau	Ethiopia	14,084	12,408	52,813		79,305
	Kenya	4,662	2,469	3,072	393	10,596
	Rwanda	3,981	20,624		2,396	27,001
	South Sudan		1,158	225		1,383
	Uganda	9,790	8,068			17,859
		32,518	44,727	56,110	2,789	136,144
Total Purchased (Delivered)		169,257	102,910	69,557	24,934	366,658
Total Contracted		212,386	124,729	88,034	24,953	450,102
% Purchased		80%	83%	79%	100%	81%

Of the total purchased through P4P modalities during the five-year pilot period, WFP purchased some 40% in Eastern and Central Africa, followed by Southern Africa (34%), Central America (14%), West Africa (10%) and Asia where P4P is only implemented only in Afghanistan (2%).

In Eastern and Central Africa, Ethiopia has purchased the highest volume (54%), mainly through Forward Delivery Contracts, followed by Rwanda (16%) and Uganda (16%). Malawi and Zambia have purchased the highest volumes in Southern Africa (39% and 26% respectively), including substantial quantities of processed food.

In Central America, all commodities were purchased directly from FOs, either through direct contracts or soft competitive tenders. Honduras substantially increased volumes purchased (52%), most of this for the National School Feeding Programme on behalf of the Government, and ranks first in the region, followed by Guatemala (35%).

In West Africa, Mali, despite the outbreak of civil strife in 2012, procured the largest volume under P4P modalities (68%), including a significant quantity through forward delivery contracts. In Liberia and Sierra Leone, the availability of only one purchasing season in the year for rice, a challenging post-conflict environment and low-capacity farmers' organisations have constrained local purchases. However, pro-smallholder procurement represents a significant percentage of overall WFP procurement in these two countries.

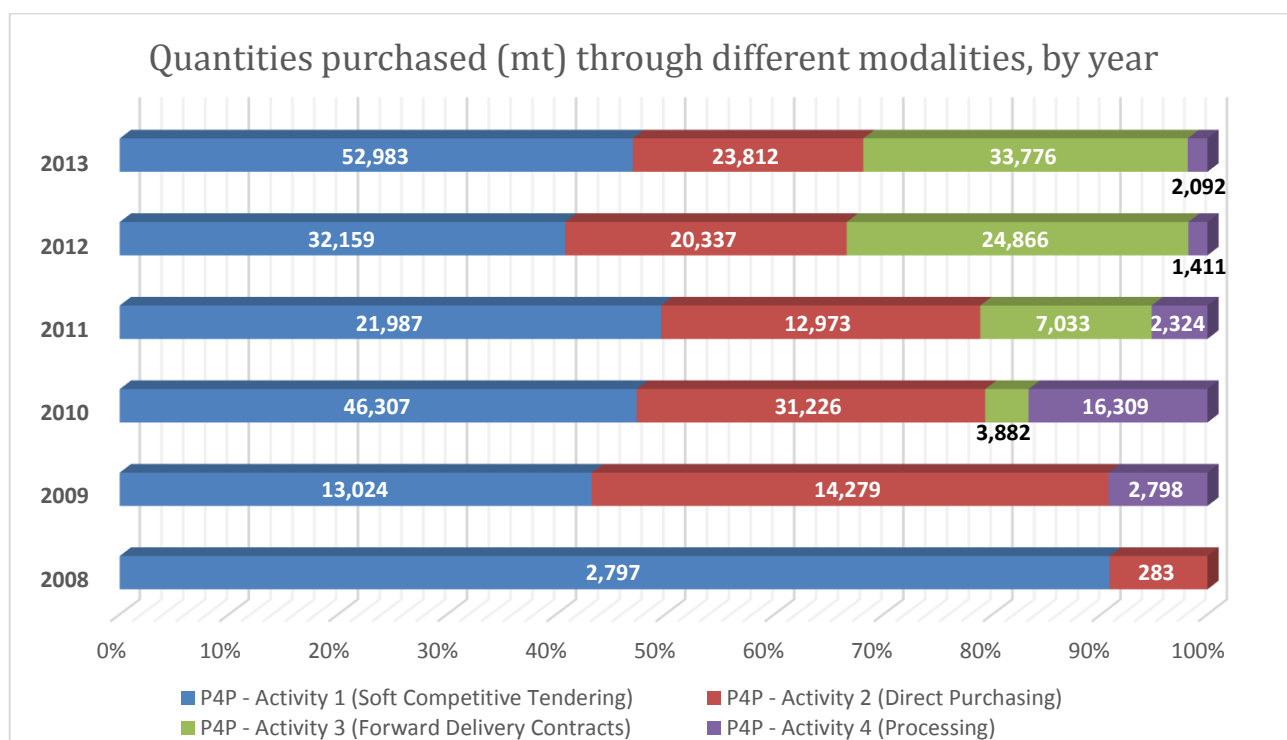


Of the total quantity procured through the P4P modified procurement modalities, 46% was purchased through **soft competitive tenders**. Most countries used the soft tendering modality, except DRC, South Sudan and Sierra Leone (all post-conflict countries) where FO capacity remained too low for competitive processes. Afghanistan for the first time launched a tender in 2013, purchasing 3,000 mt of wheat from an FO. The majority of commodities procured through this competitive modality were purchased from FOs and through Commodity Exchanges.

Under the pilot, 28% was purchased using **direct contracts**. All 20 P4P pilot countries have to various extents used the direct contracting modality, mostly with FOs (73%). Rwanda, Mali and Honduras have contracted the largest volumes under this modality. Some 14% of the total quantity directly purchased was bought from MINAGRI, the strategic grain reserve in Rwanda to support its purchases from smallholder farmers. Direct contracts were also concluded with warehouse receipt systems in Tanzania and Uganda, with 6% of the total quantity directly purchased through these marketing platforms.

WFP purchased 19% of commodities through **forward delivery contracts** (FDCs). This modality has been used on a growing scale in Ethiopia, Mali and Mozambique. Burkina Faso, Kenya, South Sudan and Tanzania have also experimented with FDCs, although on a smaller scale. The majority of these contracts were concluded with FOs (97%) while Kenya and Mali also procured small volumes from small traders or agents.

A total of 7% of commodities purchased by WFP under P4P modalities were **processed commodities** supporting pro-smallholder processing options. Processed commodities purchased by WFP include high energy biscuits, Supercereal (fortified corn-soya blend), cassava flour, fortified maize meal and UHT milk. Some 77% of processed food was purchased through soft competitive tenders while direct contracts were used for the remaining 23%. The majority of processed food (75%) was purchased through Commodity Exchanges in Malawi and Zambia. However, P4P's support to processing facilities is not always linked to WFP's procurement, as in Afghanistan where wheat flour fortification is supported under P4P but marketed to buyers beyond WFP.



At the commencement of P4P in the fourth quarter of 2008 and first half of 2009, pilot countries primarily used pro-smallholder competitive modalities (soft tendering) in preference to other modalities, which were "new" in the WFP business process (in particular forward delivery contracts). 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.

During the second half of 2009 and first half of 2010, the use of soft competitive tenders was overtaken by the direct contracting modality, as more countries started implementation and started purchasing from low capacity FOs, for which the competitive modalities were not deemed appropriate.

The use of soft competitive tenders continued to increase over time (particularly during 2010), which was consistent with the expectation that P4P vendors should "transition" to competitive modalities as they build their capacities to respond to the WFP market. However, this increase in weight of "competitive modalities" was more a reflection of an increase in purchases through Commodity Exchanges in Zambia and in Malawi (which are competitive by definition), rather than necessarily a reflection of an increase in the capacity of most of the P4P FOs.

Contrary to the increase in competitive tendering, direct contracting declined over the past two years of the pilot. After more than doubling in 2010, direct contracting decreased by about 60% in 2011 and further declined in 2012 and 2013. Competitive tendering remained the main contracting modality throughout 2012 and 2013, followed by forward delivery contracts.

WFP first employed forward delivery contracts (FDCs) in 2010. The use of FDCs doubled in 2011, as more countries experimented with this new modality. Since 2012, particularly Ethiopia has scaled up its procurement through forward delivery contracts. The WFP office contracted 68% of total commodities contracted during the pilot period through this modality, recording deliveries of 81%.

2.2. Cumulative P4P purchases by supplier typology

Table 5: Quantities purchased by region, country and supplier typology

Region	Origin Country	Agents/ Traders	Commodity Exchange	Farmers' Organizations /Cooperatives	Government Entities	NGOs	Processors	Warehouse Receipt System	Grand Total
Asia	Afghanistan			7,702			1,799		9,501
				7,702			1,799		9,501
Central America	El Salvador			5,758					5,758
	Guatemala			14,821					14,821
	Honduras			28,927					28,927
	Nicaragua			2,386					2,386
				51,892					51,892
West Africa	Burkina Faso			4,583					4,583
	Ghana			3,762					3,762
	Liberia			1,833					1,833
	Mali	1,500		22,755			4,375		28,630
	Sierra Leone	75		854			172		1,102
		1,575		33,787			4,547		39,909
Southern Africa	DRC			280		60			340
	Malawi	276	51,372	1,620					53,269
	Mozambique	5,620		4,981			412		11,013
	Tanzania			10,452	13,300			2,430	26,182
	Zambia	2,992	33,302	999		764	351		38,409
		8,888	84,675	18,332	13,300	824	763	2,430	129,212
Eastern & Central Africa	Ethiopia	3,430	5,051	70,825					79,305
	Kenya	2,217		8,340			40		10,596
	Rwanda			7,242	17,363		2,396		27,001
	South Sudan			1,383					1,383
	Uganda			12,983				4,876	17,859
		5,647	5,051	100,772	17,363		2,436	4,876	136,144
Total Purchased		16,110	89,725	212,484	30,663	824	9,546	7,306	366,658
Total Contracted		25,044	94,475	279,141	30,663	991	9,580	10,208	450,102
% Delivered		64%	95%	76%	100%	83%	99.6%	72%	81%

Across the 20 pilot countries, WFP purchased 58% of commodities from FOs which differ in size and capacity. Contracting modalities used included soft tenders, direct and forward delivery contracts. For the Central American countries as well as Burkina Faso, Ghana, Liberia and South Sudan, FOs are the only entry point. Some 76% of total tonnage contracted with FOs was delivered.

Under the pilot, 24% of commodities was purchased through Commodity Exchanges in Ethiopia, Malawi and Zambia. Purchases through the Ethiopia and Zambia Commodity Exchanges ceased in 2011 due to the drought in the Horn of Africa and expanding maize purchases by the Zambian National Food Reserve Agency at above market price which crowded out private sector trade. In Malawi, however, purchases through the Agricultural Commodity Exchange for Africa (ACE) have increased. The objective of WFP's purchases through ACE is to encourage other market actors to participate as well as to support WRS and Commodity Exchanges as a viable marketing platform and catalyse partners' efforts to support smallholder farmers on the supply side. In Malawi, the majority of purchases through ACE was not directly from FOs but from intermediaries who purchase from smallholder farmers. However, participation by both FOs and small traders on ACE increased during the last year of the pilot. Some 95% of commodities contracted through Commodity Exchanges were delivered.

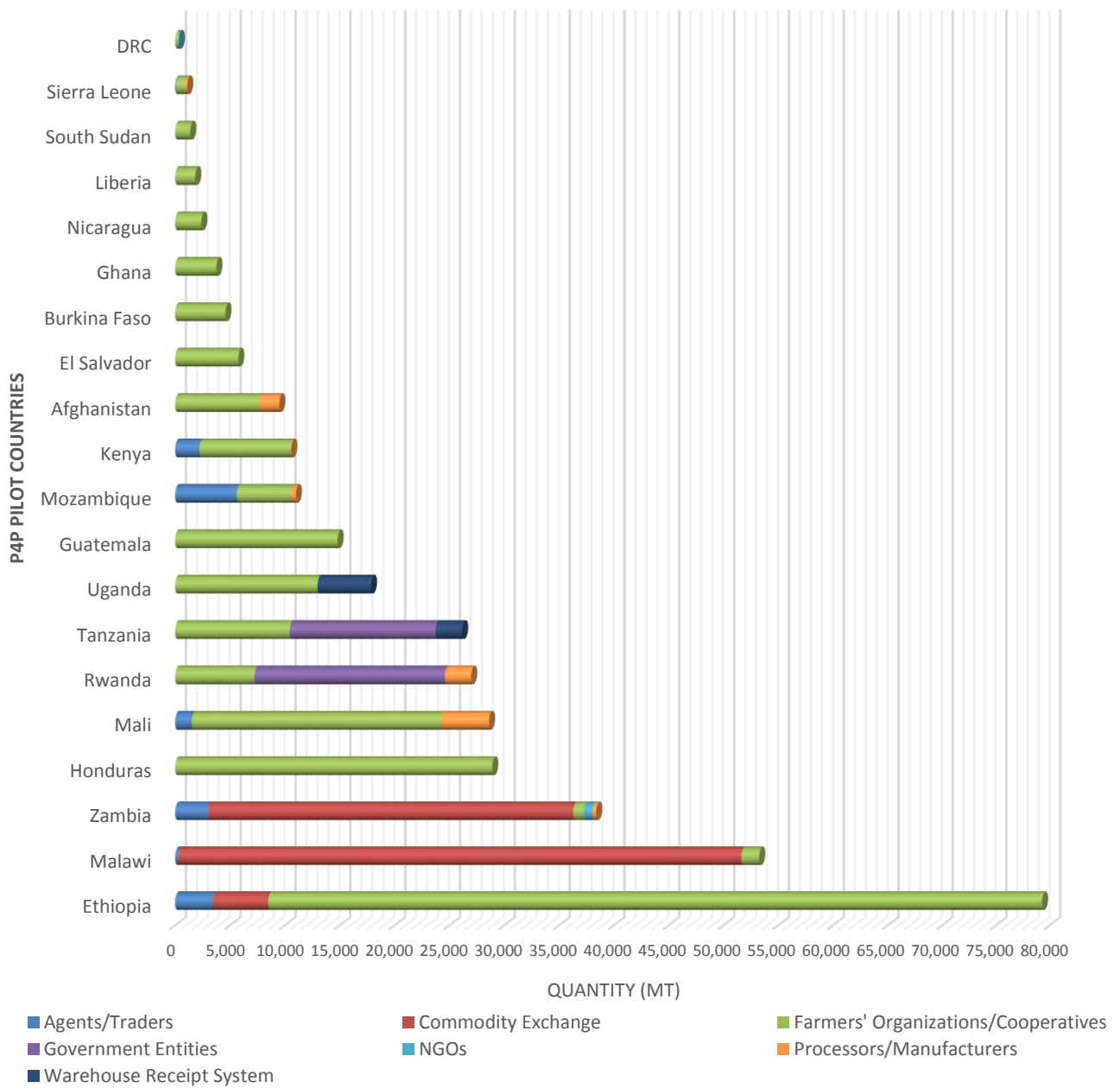
Over the pilot duration, P4P also established successful links between smallholder farmers and national procurement platforms. WFP purchased 8% of all commodities procured through P4P modalities from national food reserves in Tanzania and Rwanda which have in turn increased their procurement from smallholder FOs. The total contracted quantity was delivered.

Small-scale traders including agro-dealers represent another entry point in several P4P countries. Some 4% of commodities were bought from small & medium traders and agents such as agro-dealers in Ethiopia, Kenya, Malawi, Mali, Mozambique, Sierra Leone and Zambia. Some 64% of commodities contracted with small & medium traders and agents were delivered, the lowest percentage of any vendor typology.

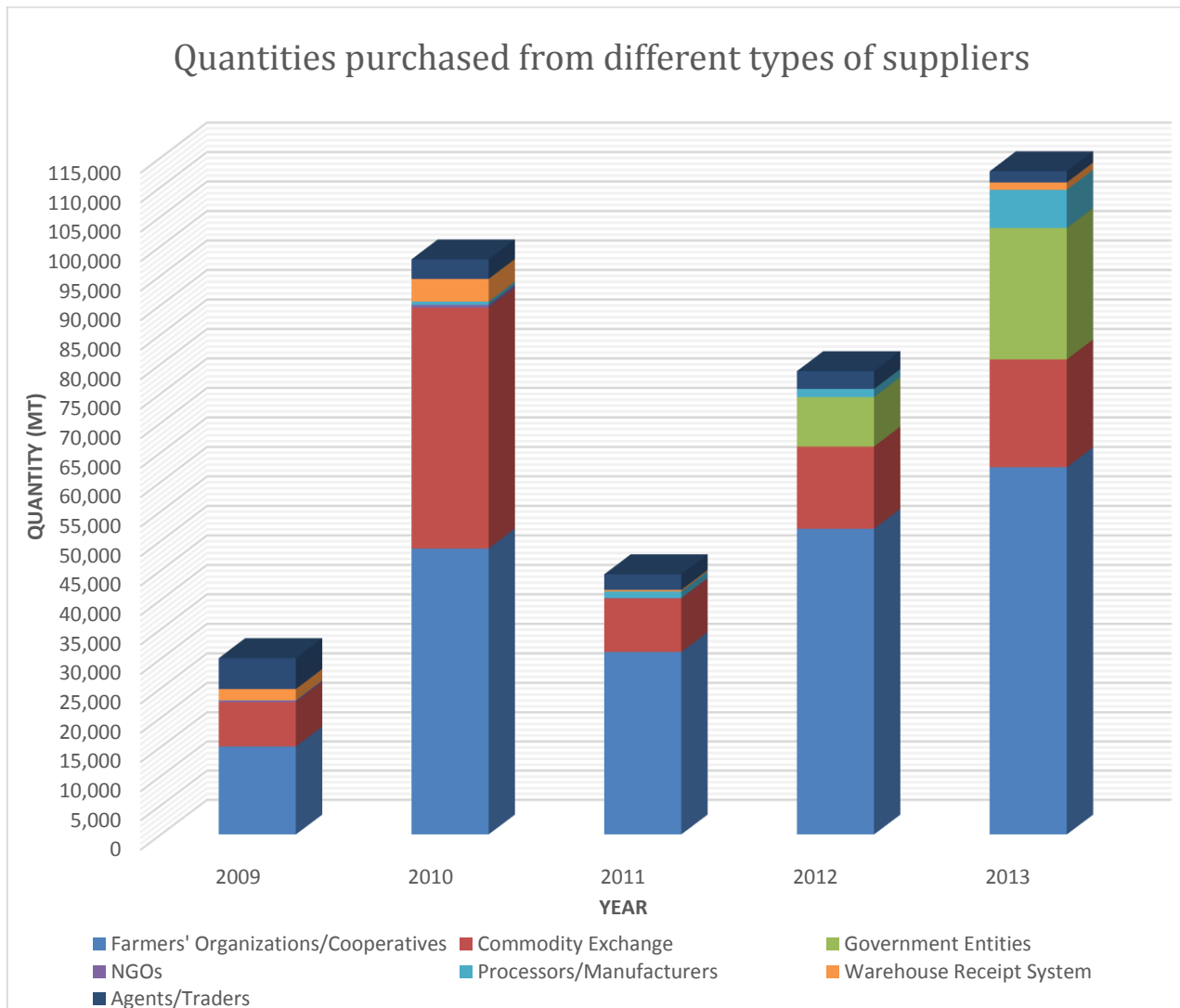
Only 2% was purchased through warehouse receipt systems (WRS) in Uganda and Tanzania. Ghana, Malawi and Zambia are also working towards establishing WRS, with Malawi and Zambia intending to link to Commodity Exchanges. Ethiopia has established a WRS which is operated by the Ethiopian Commodity Exchange (ECX) but P4P targeted cooperative unions have not yet started using this platform. Some 72% of commodities contracted through WRS were delivered.

A total of 3% was contracted from processors, including high energy biscuits in Afghanistan, Supercereal in Kenya, Sierra Leone and Mozambique and UHT milk in Zambia. Deliveries reached close to 100% of the contracted quantity. A very small quantity (0.2%) was purchased through NGOs who acted as aggregators for smallholder farmers in DRC and Zambia and delivered 83% of contracted commodities.

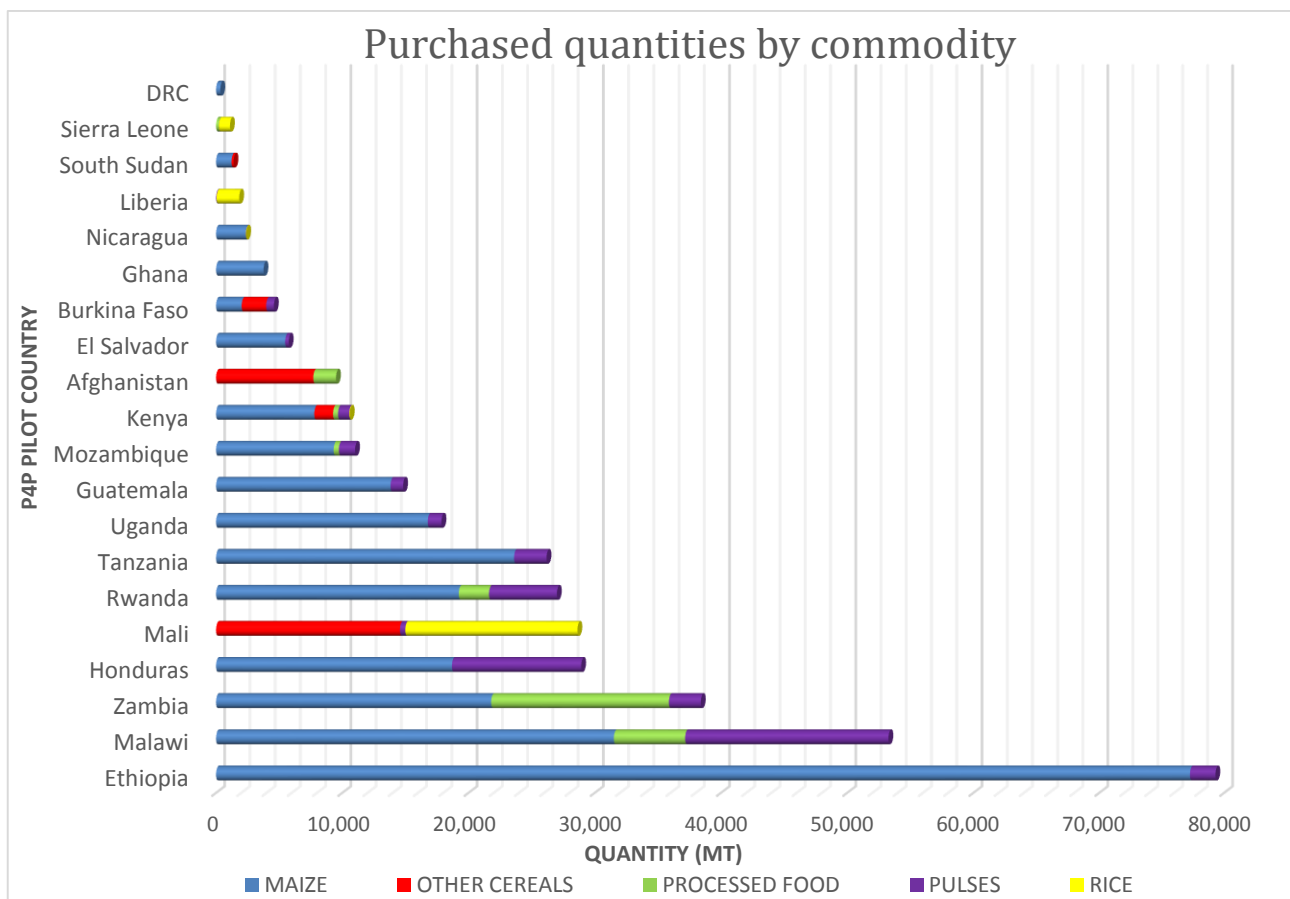
Purchased quantity by vendor type and country



Over the five years of the pilot, WFP has worked with a range of different types of suppliers. The chart below shows a breakdown of the different types of suppliers WFP purchased commodities from by year. The majority of commodities were purchased from FOs. While Commodity Exchanges also played an important role in the first three years of pilot implementation, their role declined in the last two years. The later years of the pilot saw an increase in WFP purchases from government entities (national grain reserves) as well as processors and manufacturers.



2.3. Cumulative P4P purchases by commodity



Commodities purchased under P4P modalities diversified since the start of the pilot, although maize remains the primary commodity purchased. Maize grain accounts for 70% of all purchases under P4P modalities. If one includes maize meal (19,143 mt; categorised under processed food), maize accounts for 75% of the total volume procured. Maize grain was purchased in most countries (except Afghanistan, Liberia, Mali and Sierra Leone). Other cereals (wheat, sorghum and millet) account for 7% of commodities purchased under P4P. Afghanistan buys wheat, while sorghum and millet were mainly bought in Burkina Faso, Kenya, Mali and South Sudan. Rice accounts for 4% of purchased commodities and was primarily bought in West Africa (small quantities were also bought in Kenya and Nicaragua).

Pulses account for 12% of total P4P purchases. P4P stepped up its efforts to procure pulses under the P4P gender strategy as these are often crops grown by women in many traditional settings. Most of the pulses have been procured in Eastern and Southern Africa, with purchases doubling in 2012 compared to the years before and remaining at a similar level in 2013. In the Central American region in particular, purchase of pulses has been constrained by high prices (above import parity).

Processed food, the majority of which is fortified, accounts for 7% of total commodities purchased. Seven WFP offices procured processed food commodities under P4P modalities. WFP bought cassava flour, maize meal and UHT-milk in Malawi, Sierra Leone and Zambia. Specialised nutrition products include Supercereal and High-Energy Biscuits and were bought in Afghanistan, Kenya, Malawi, Mozambique, Sierra Leone and Zambia. In Sierra Leone for example, WFP procured Sierra Mix, locally produced Supercereal with pigeon peas sourced from FOs. Afghanistan has increased the procurement of locally produced High-Energy Biscuits, buying a total of 1,799 mt during the pilot period.

3. ANALYSIS OF DEFAULTS

3.1. Defaults on contracts issued during the pilot period

Table 6: Defaulted quantities by country and region

Region	Countries	Quantity contracted (mt)	Quantity defaulted (mt)	% Quantity confirmed defaulted	% of contracts fully defaulted (of total contracts)
Asia	Afghanistan	9,502	1	0%	0%
		9,502	1	0%	0%
Central America	El Salvador	5,759	1	0%	0%
	Guatemala	21,654	6,833	32%	21%
	Honduras	32,454	3,527	11%	3%
	Nicaragua	2,799	412	15%	10%
		62,666	10,773	17%	10%
Eastern & Central Africa	Ethiopia	97,844	18,539	19%	10%
	Kenya	22,902	12,308	54%	22%
	Rwanda	29,624	2,623	9%	6%
	Uganda	28,900	11,040	38%	36%
	South Sudan	3,009	1,626	54%	11%
		182,279	46,136	25%	19%
Southern Africa	Malawi	59,811	6,542	11%	12%
	Mozambique	18,732	7,720	41%	18%
	Zambia	39,969	1,561	4%	14%
	DRC*	510	170	33%	10%
	Tanzania	32,499	6,317	19%	23%
		151,521	22,310	15%	16%
West Africa	Burkina Faso	5,313	730	14%	14%
	Ghana	3,762		0%	0%
	Liberia	2,974	1,141	38%	12%
	Mali	30,062	1,546	5%	4%
	Sierra Leone	2,024	922	46%	9%
		44,134	4,339	10%	7%
Grand Total		450,102	83,559	19%	13%

* P4P's stated objective in DRC is to connect smallholder farmers to small traders, with WFP acting only as buyer of last resort.

In absolute terms, Ethiopia, Kenya and Uganda had the highest volumes defaulted. These are all countries where WFP's overall local procurement tonnages are high, both under P4P and regular procurement modalities.

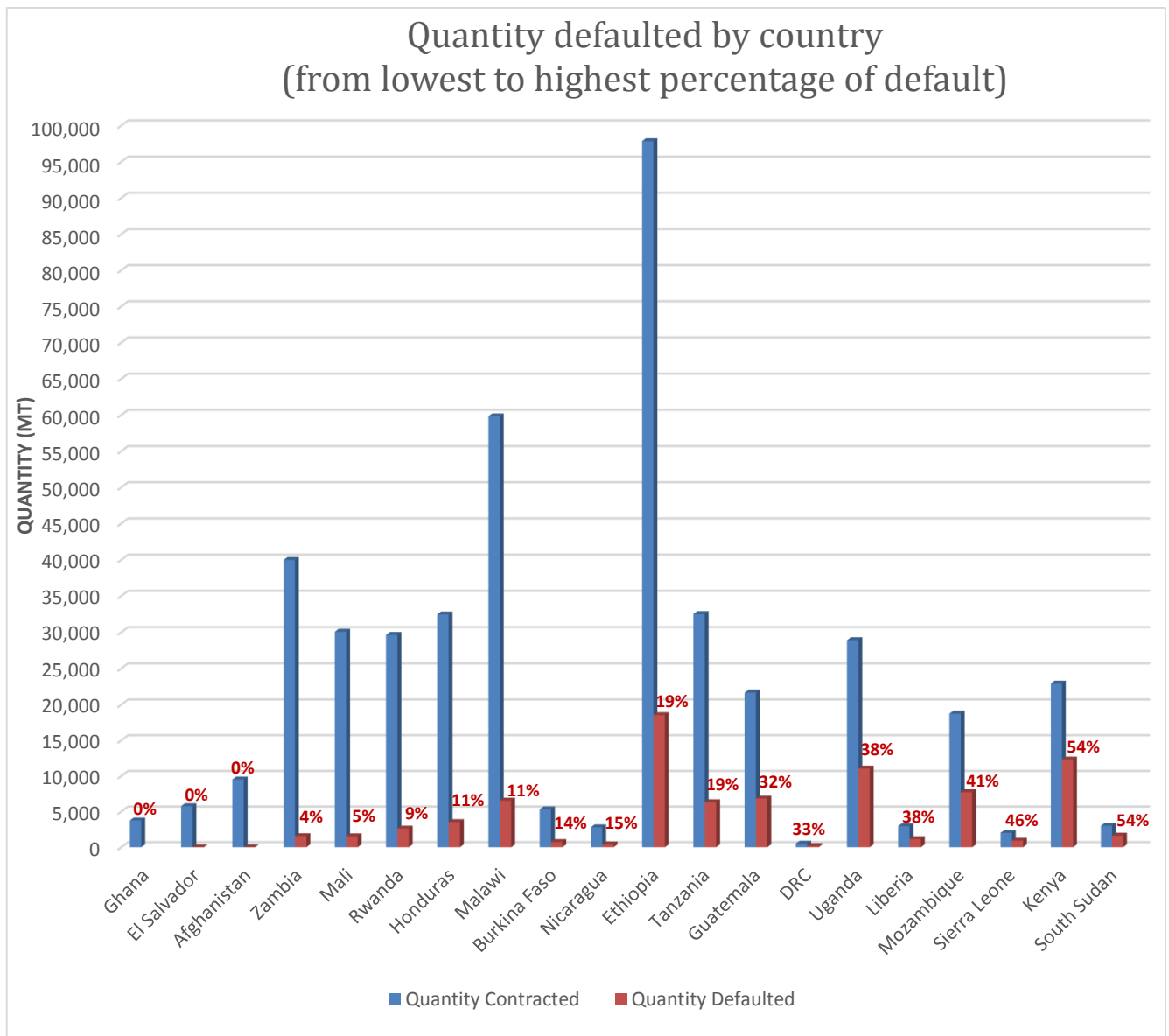
In relative terms, the highest defaults – over 40% – were experienced in South Sudan (54%), Kenya (54%), Sierra Leone (46%) and Mozambique (41%). The highest number of fully defaulted contracts in relation to the total number of contracts signed were recorded in Uganda, Tanzania and Kenya.

South Sudan, Sierra Leone and Liberia, all post-conflict countries, have only managed to contract relatively small quantities due to low capacity of FOs, and were affected by significant defaults. P4P in these three countries operated in challenging environments, exacerbated by renewed conflict during the last year of the pilot in South Sudan.

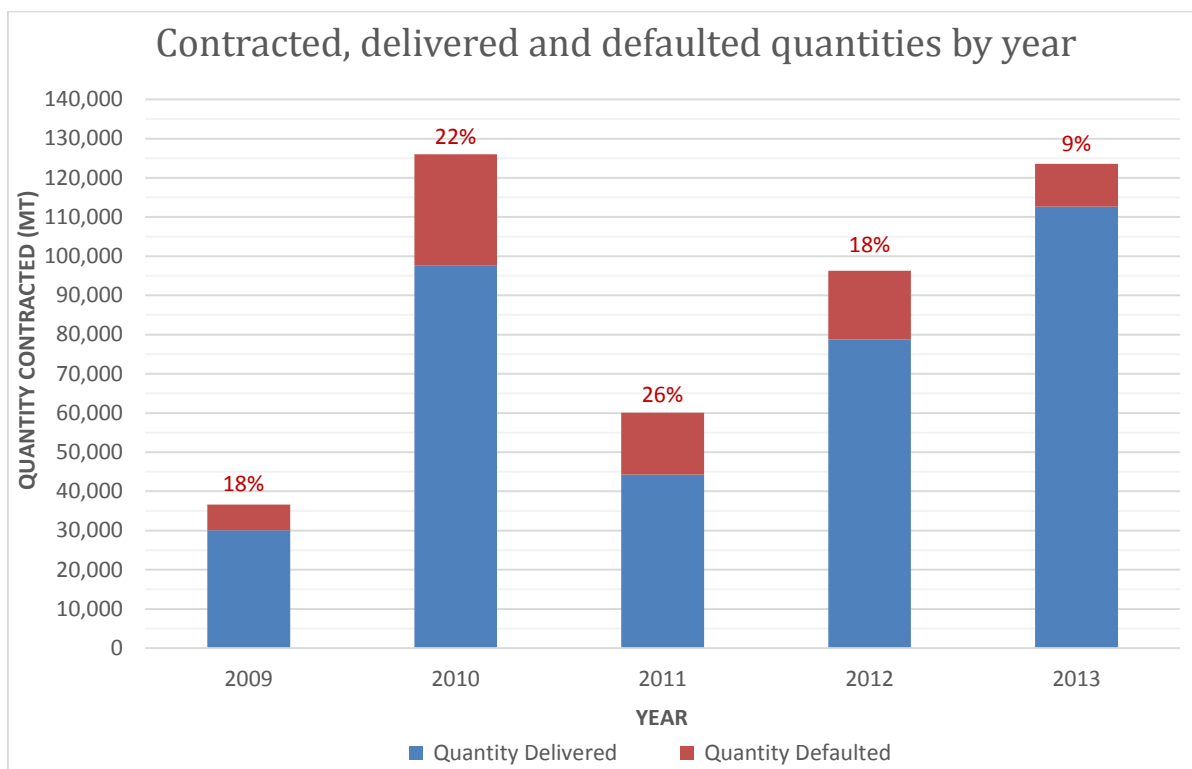
Kenya, Uganda and Mozambique had high default rates as well as a high number of fully defaulted contracts. Purchases under P4P in Kenya and Uganda were severely impacted

by the drought in the Horn of Africa in 2011 as well as problems with high aflatoxin levels. Poor food quality was also a problem in Mozambique. Other reasons for default in Mozambique were tropical storms and price fluctuations which led to side-selling.

In DRC, a key objective of P4P is to re-establish trader networks and link FOs to small traders while WFP acts only as buyer of last resort – buying primarily if there are surpluses unsold after the trading season. The high default rate reflects this, as FOs may have signed contracts with WFP for their surplus production but ultimately may have been able to sell these contracted quantities to small traders or other buyers.

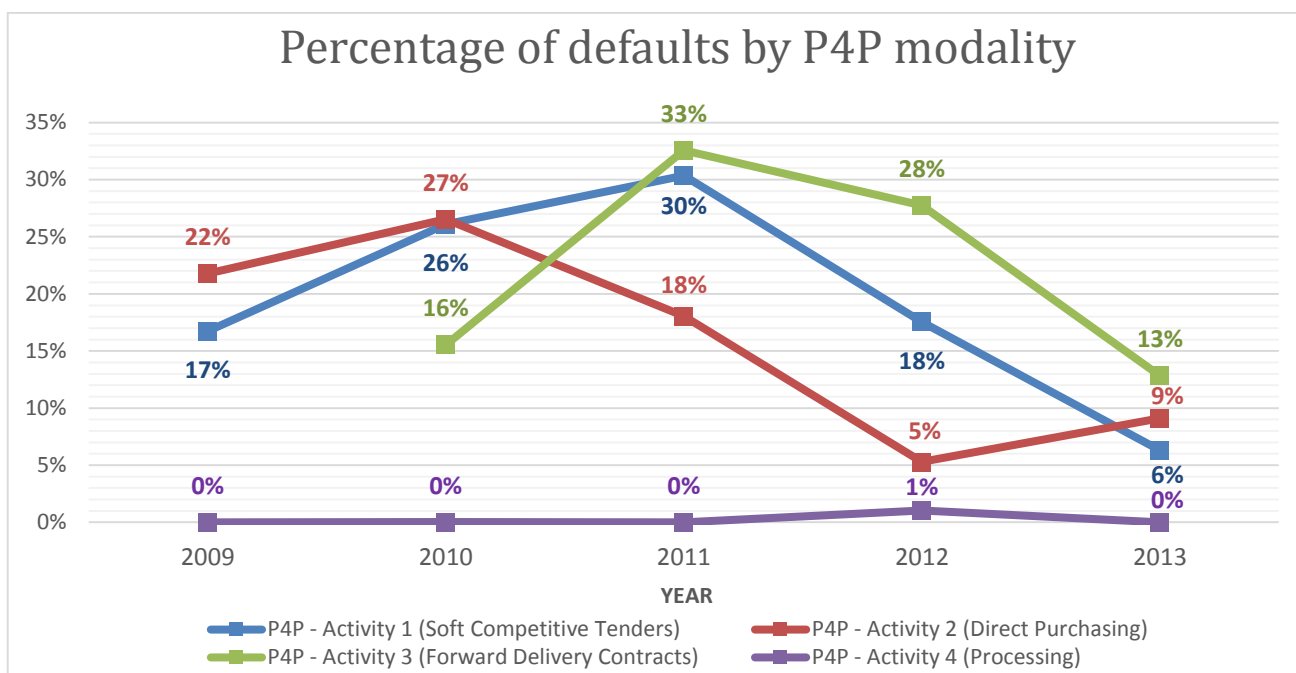


3.2. Trends in defaulted quantities by year



Generally, there has been a downward trend in the percentage of defaults over time. From 18% in 2009, the default rate inched slightly upwards in 2010. However, this has to take into account that additional countries started implementation in 2010 and the contracted volume more than tripled. In 2011, the drought crisis in the Horn of Africa and the Sahel led to a reduction in contracted quantities and also prompted an increase in contract defaults. In the last two years of the pilot, contracted quantities again progressively increased. The default rate, however, notably decreased to 18% in 2012 and further to 9% in 2013 which represents the lowest level of default achieved under the pilot.

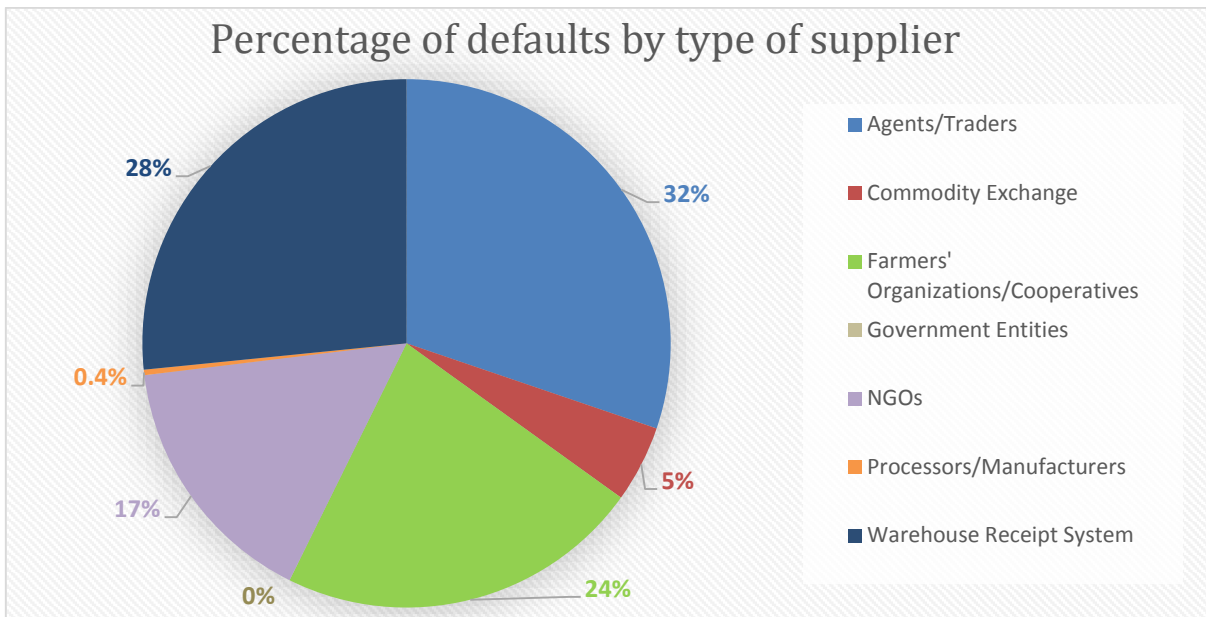
3.3. Percentage of defaults by P4P modality



Comparing quantities defaulted relative to contracted quantities under each P4P modality, a general downward trend in defaults can be seen for the three main contracting modalities while the processing modality experienced barely any defaults. The highest level of default was recorded on FDCs in its second year of use but the subsequent trend also shows a reduction over the last two years of pilot implementation. The largest decrease in defaults was noticed for soft competitive tenders which after reaching its highest level at 30% in 2011 decreased by almost half in 2012 to 18%, and further by two-thirds in 2013 to 6%.

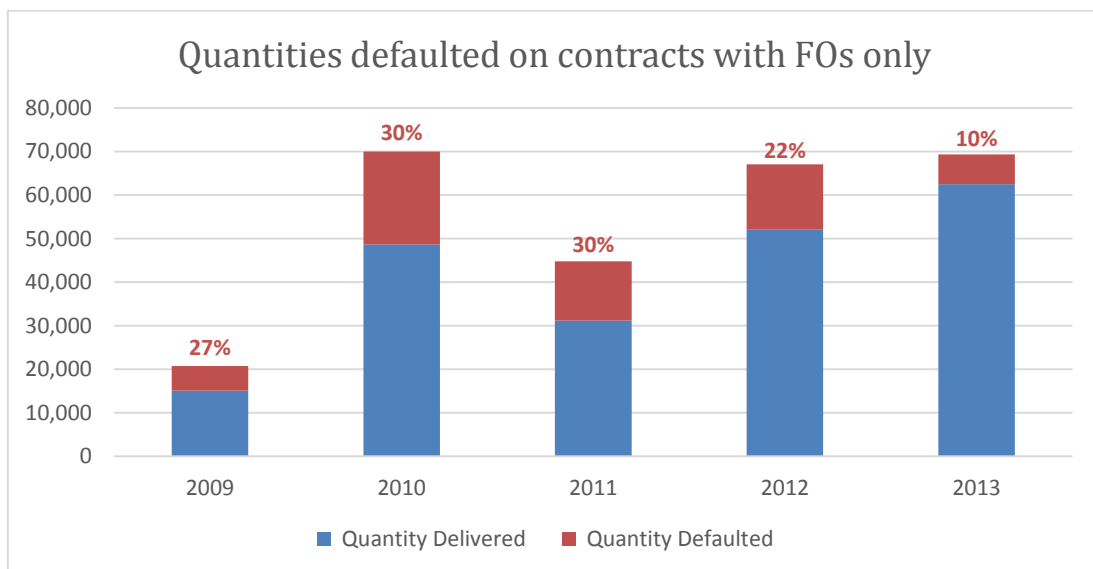
Analysing total volumes defaulted under each modality over the complete five-year pilot period, FDCs experienced the highest level of default at 21%, closely followed by soft competitive tenders at 20%. Direct purchases had a default rate of 17% and contracts issued with processors or for processed commodities a default rate of close to 0%.

3.4. Percentage of defaults by type of supplier



Analysing defaults relative to the quantities contracted by each supplier or structured trading platform, the performance of agents/traders and WRS only shows small differences. The highest default rate was recorded on contracts with agents or traders, mainly as a result of limited supplier capacity. Contracts with WRS follow closely, with defaults mainly due to quality issues in Uganda and insufficient access to credit in Tanzania. The default rate on contracts issued with FOs stands a quarter of the contracted volume, with the reasons for default mainly related to supplier capacity. Commodities contracted with NGOs (mainly in DRC) experienced higher defaults than expected, amounting to 20%, and were also a result of limited supplier capacity. Commodity exchanges and processors and manufacturers delivered close to 100% of contracted commodities while government entities (grain reserves) were the only type of supplier which delivered fully.

As capacity development under P4P is mainly targeted towards FOs, defaults on contracts issued directly with them were expected to decrease over the pilot duration. This expectation held true, with defaults slightly increasing at the beginning of the pilot which was mainly due to increased contracted quantities and new countries joining but consecutively decreasing from 30% to 22% and finally to 10%.



3.5. Frequency of default reasons

In previous sections, defaults were analysed by country, by commodity, by vendor typology, and P4P purchase modality. This section explains the reasons for defaults classified into high level reasons, disaggregated into specific reasons. The table below gives details of reasons for default since the beginning of the P4P pilot in September 2008.

Table 7: Main default reasons in terms of quantity defaulted

High Level Reason	Specific Reason	Total (MT)	%age
Related to Local Environment	Volatility of Market Prices	5,887	7%
	Climatic Conditions	3,764	5%
	Poor Infrastructure (related to transportation of food, excluding storage infrastructure)	2,041	2%
	Non-availability of the required quantity	1,179	1%
	Other reasons*	1,133	1%
	Social and political disturbances	316	0.4%
		14,319	17%
Related to Supplier's Capacity	Side selling by the supplier during aggregation	20,484	25%
	No aggregation (due to lack of trust in the group, shortage of capital, farmers' high expectations, etc.)	12,481	15%
	No/late/insufficient access to credit	8,902	11%
	Miscalculation of the marketing costs	6,490	8%
	Other reasons*	2,671	3%
	Poor/insufficient storage	1,678	2%
	Processing losses	427	1%
	Difficulty in organizing transport by the supplier	212	0.3%
Partner not providing expected technical support to the supplier	9	0.01%	
		53,353	64%
Related to the Quality	Infestation/Impurities	6,657	8%
	Broken/Damaged Grains	2,960	4%
	High Rate of Aflatoxin	2,267	3%
	Other reasons*	437	1%
	High Moisture	239	0.3%
		12,560	15%
Related to WFP's Procurement/Logistics Process	Other reasons*	2,578	3%
	Delay in Supplying Bags	318	0.4%
	Late Contract Signature	275	0.3%
	Delay in Arranging Transport by WFP	104	0.1%
	Unavailability of Funds to cover price increases in FDCs	52	0.1%
		3,327	4%
Grand Total		83,559	100%

Source: Data extracted from the Procurement Tracking System Database for data in October 2014.

*Reasons which are not standard and don't happen regularly.

At 64%, **reasons related to the suppliers' capacity** accounted for the highest share of defaults since the beginning of the pilot which supports the recognised need for a continued focus on capacity development of the targeted FOs to enable them execute WFP contracts successfully. P4P in collaboration with supply-side partners has focused on enhancing FO capacity in areas such as production and productivity, post-harvest handling and FO institutional capacity building.

Side selling by the supplier (either an FO or individual members of an FO) during aggregation was the main specific reason for default related to the supplier's capacity, accounting for 25% of total defaults. P4P encourages suppliers to meet their contract obligations while recognising the importance of suppliers reaching out to other buyers. Further capacity development training on the importance of contract adherence might be beneficial, as strengthened business ethics are important to ensure continuous competitive engagement of target groups in the broader market. The main reasons for side selling were reportedly significant price increments occurring between contract signature and delivery. Forward Delivery Contracts which have to date been experimented with in seven countries might help mitigate the effect of high price fluctuations as they include a provision for price renegotiation.

The capacity of suppliers to aggregate the required quantity was another critical reason for default which can be the result of a variety of factors, including lack of trust between the FO and its members, shortage of capital and farmers' high price expectations. Lack of access to credit and miscalculation of marketing costs were other areas of capacity shortcomings identified during the course of the pilot. WFP has worked with partners to train suppliers on good governance as well as agribusiness and financial management and link them to financial service providers where possible. In Ethiopia, FDCs were used to increase access to credit for the participating cooperative unions using the contracts as collateral and P4P partners provided business and financial literacy training. Poor infrastructure including storage was another reason for default. WFP provides FOs with training in the management of storage facilities and also supports the construction of warehouses in some countries.

Defaults related to food quality, on the other hand, have reduced considerably since the beginning of the pilot. They were highest in 2010 and 2011, accounting respectively for 24% and 21% of total defaults but decreased to 5% and 6% respectively in 2012 and 2013. Cumulatively, they now account for only 15% of the total. FOs have not only been trained in meeting WFP's strict quality standards but also received support on storage methods and facilities to reduce post-harvest losses. A comprehensive new training manual for improving post-harvest handling and storage was developed in collaboration with the Natural Resources Institute (NRI) and distributed to WFP country offices as well as local partners and government counterparts.

Defaults related to the local environment which are beyond the scope of target groups as well as WFP, account for 17% of total default over the 5-year pilot period. The volatility of market prices was the main reason for defaults related to external conditions, followed by climatic conditions, such as the drought in the Horn of Africa and the Sahel in 2011. Poor infrastructure related to the transportation of food, excluding storage infrastructure, was another reason for default.

Some 4% of delays were due to **WFP's internal processes**, mainly related to delays in supplying bags, the signing of contracts and arranging transport.

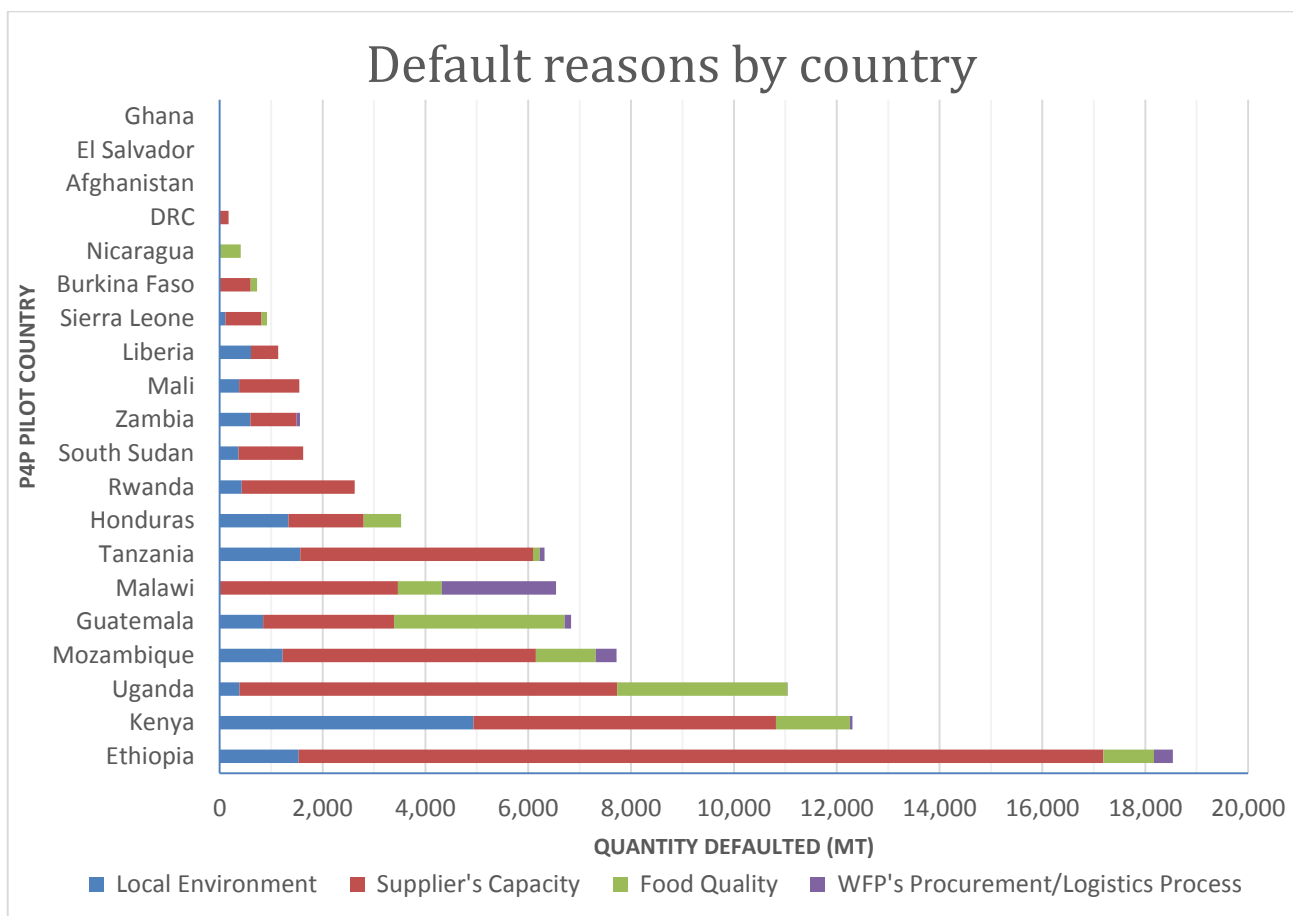
Table 8: Main default reasons in terms of frequency of citation

Specific Default Reason	Frequency of Citation
Side selling by the supplier during aggregation	173
No aggregation (due to lack of trust in the group, shortage of capital, farmers' high expectations, etc.)	74
Processing Losses	70
Volatility of market prices (food, fuel, etc.)	56
No/late/insufficient access to credit (affecting production and/or aggregation)	48
Other reasons related to the supplier's capacity*	48
Infestation/Impurities	44
Poor infrastructure (related to transportation of food, excluding storage infrastructure)	39
Climatic Conditions	38
Broken/Damaged Grains	30
Miscalculation of the Marketing Costs	29
Non-availability of the required quantity	28
Other reasons related to WFP's procurement/logistics process*	25
Other reasons related to the local environment*	24
Delay in Arranging Transport by WFP	13
Difficulty in organizing transport by the supplier	10
Poor/insufficient storage	9
High Rate of aflatoxin	9
Other reasons related to food quality*	8
High Moisture	5
Late Contract Signature	5
Delay in Supplying Bags	4
Social and Political disturbances	3
Partner not providing expected technical support to the supplier	1
Unavailability of Funds to cover price increases in Forward Delivery Contracts	1

Note: Number of defaults reasons can be higher compared to number of contracts fully or partially defaulted as one contract can have different quantities defaulted due to different reasons.

**Reasons which are not standard and don't happen regularly.*

3.6. High-level default reasons by country



Suppliers' capacity was reported to be the main high-level reason for default in the majority of P4P pilot countries. In Ethiopia, Rwanda and Burkina Faso, over 80% of defaults were a result of a lack of supplier's capacity.⁴ Side selling was the main specific reason under this category. It accounted for over 90% of defaults categorised as defaults due to the supplier's capacity in Honduras and South Sudan. In Ethiopia, on the other hand, which reported 84% of defaults due to the supplier's capacity, side selling accounted for only 9% under this category while lack of aggregation due to lack of trust in the group, shortage of capital and farmers' high expectations accounted for over 49% (within the 84% total).

Reasons related to food quality contributed for a large share of overall defaults in Nicaragua (98%), Guatemala (49%) and Uganda (30%). The main reasons in Nicaragua and Guatemala were broken or damaged grains. In Uganda, infestation and impurities, and more recently "discolouration" were the main challenge.

The local environment was a critical reason for overall defaults in Liberia (53%), Kenya (40%), Zambia (38%) and Honduras (38%). In Kenya and Honduras, climatic conditions played an important role. Volatility of market prices and poor infrastructure were additional critical reasons for default in Kenya. Poor infrastructure was also the main reason for default under this category in Liberia, while the main challenge in Zambia was the non-availability of the required quantity.

WFP's Procurement and Logistics Process was reported as a reason for default in Malawi (34%), Mozambique (5%) and Zambia (4%).

⁴ In DRC, the capacity of the supplier was also the main reason for default. However, as noted before P4P's objective in DRC is to connect smallholder farmers to small traders, with WFP acting only as buyer of last resort.

3.7. Strategies followed to minimize defaults

To address market price volatility, a number of P4P pilot countries experimented with forward delivery contracts where prices are re-negotiated at harvest time. This procurement modality has shown to enhance confidence of FOs and reduce the amount of defaults, while providing leverage to the FO to access timely credit and serve as a stimulus for growth in production.

Making smaller and more frequent purchases was another strategy employed to mitigate the high level of default due to the supplier's capacity. Many pilot countries have reduced the size of the contracts (as little as 10 mt for rice in Sierra Leone) after the lessons learned from previous purchasing seasons. One philosophy is "buying what you see", i.e., commodities that were already aggregated.

Institutional capacity development of smallholder FOs continues to be critical to mitigate defaults. In order to successfully sell as a group, the capacity of the executive to provide services to their members and demonstrate transparency in leadership needs to be strengthened to enhance confidence of members. A number of P4P partners provided training in institutional management to strengthen FO structures.

Why aggregation from FOs is time-consuming and implications for the risk of defaults

In most cases, bulking occurs after the contract is signed. P4P FOs, who in many cases have little or no experience in collective marketing and little or no working capital to purchase commodities from their members, need to have a contract signed in order to "convince" members to market their commodities through the Cooperative. This often 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.

Many countries tried to find a balance between the often contrasting development and procurement objectives of P4P. While recognizing that most FOs targeted under P4P are indeed of low capacity and therefore not able to aggregate independently of the WFP contract, they started imposing some minimum requirements to help reduce aggregation periods and contain risk of defaults. Some countries, such as Burkina Faso, Kenya and Ethiopia, introduced a requirement that 50% of commodities needed to be bulked prior to signing a contract.

In addition, majority of pilot countries purchased at the beginning of the harvest season in order to reach the smallholder farmers who need to sell. Further advantages are that the commodity is readily available and prices are low. However, the practical difficulties in applying this strategy include:

- The commodity is likely to be wet (and therefore may not meet WFP quality standards);
- Creating a marketing opportunity at the time of harvest may reduce profit margins for FOs;
- It is less efficient for WFP to buy smaller quantities on a more frequent basis.
- The possibility of buying "at the right" time depends on the availability of flexible, un-earmarked cash donations. P4P introduced a revolving Advance Financing Facility with advances up to US\$500,000 per country in 2011 to provide country offices the possibility of borrowing funds even with only "low probability" forecasted contributions or no collateral. Post-pilot, the Forward Purchasing Facility for purchases under P4P, will give WFP country offices more flexibility to procure at the right time.

4. LOCAL PURCHASE COSTS WITH RESPECT TO IMPORT PARITY PRICE (IPP)

4.1. Comparison of local prices with import parity prices

Table 9: Costs of commodities purchased with respect to import parity price, by region, country and commodity

Region	Origin Country	Commodity Name	Quantity Delivered (MT)	Total Value Paid (US\$)	Total Cost to Destination (US\$)	Total Cost if Imported – IPP (US\$)	Cost Difference (US\$)
Asia	Afghanistan	High-Energy Biscuits	1,799	2,641,116	2,641,116	2,351,413	289,704
		Wheat	7,702	3,104,417	3,104,417	3,173,400	-68,983
Central America	El Salvador	Beans	285	388,045	388,045	315,489	72,556
		Maize	5,473	2,312,240	2,317,219	2,685,761	-368,542
	Guatemala	Beans	999	1,030,459	1,030,459	1,118,735	-88,276
		Maize	13,822	6,072,468	6,072,468	7,297,082	-1,224,614
	Honduras	Beans	10,240	11,729,494	11,729,494	12,348,113	-618,620
		Maize	18,687	7,787,474	7,787,474	9,607,105	-1,819,631
	Nicaragua	Beans	20	10,760	10,760	16,496	-5,736
		Maize	2,346	912,990	915,510	991,298	-75,788
	Rice	20	17,420	17,420	14,680	2,740	
Eastern & Central Africa	Ethiopia	Beans	2,041	1,119,290	1,159,447	1,934,091	-774,644
		Maize	77,264	23,931,700	25,513,307	37,169,201	-11,655,894
	Kenya	Beans	777	447,055	511,845	774,975	-263,130
		Maize	7,785	2,184,727	2,502,765	3,706,610	-1,203,845
		Peas	118	59,165	61,715	90,392	-28,677
		Rice	40	34,270	34,270	19,605	14,665
		Sorghum/Millet	1,484	369,223	423,390	664,912	-241,522
		Supercereal	393	259,313	284,894	211,198	73,695
	Rwanda	Beans	5,379	3,070,033	3,177,148	4,248,635	-1,071,487
		Maize	19,226	7,720,710	7,985,796	9,365,246	-1,379,450
		Maize Meal	2,396	1,496,777	1,601,197	1,611,226	-10,030
	South Sudan	Maize	1,223	507,855	647,808	835,857	-188,048
		Sorghum/Millet	160	75,458	85,813	117,550	-31,737
	Uganda	Beans	1,088	680,730	697,335	1,282,643	-585,308
Maize		16,771	5,810,070	6,142,534	7,171,007	-1,028,473	

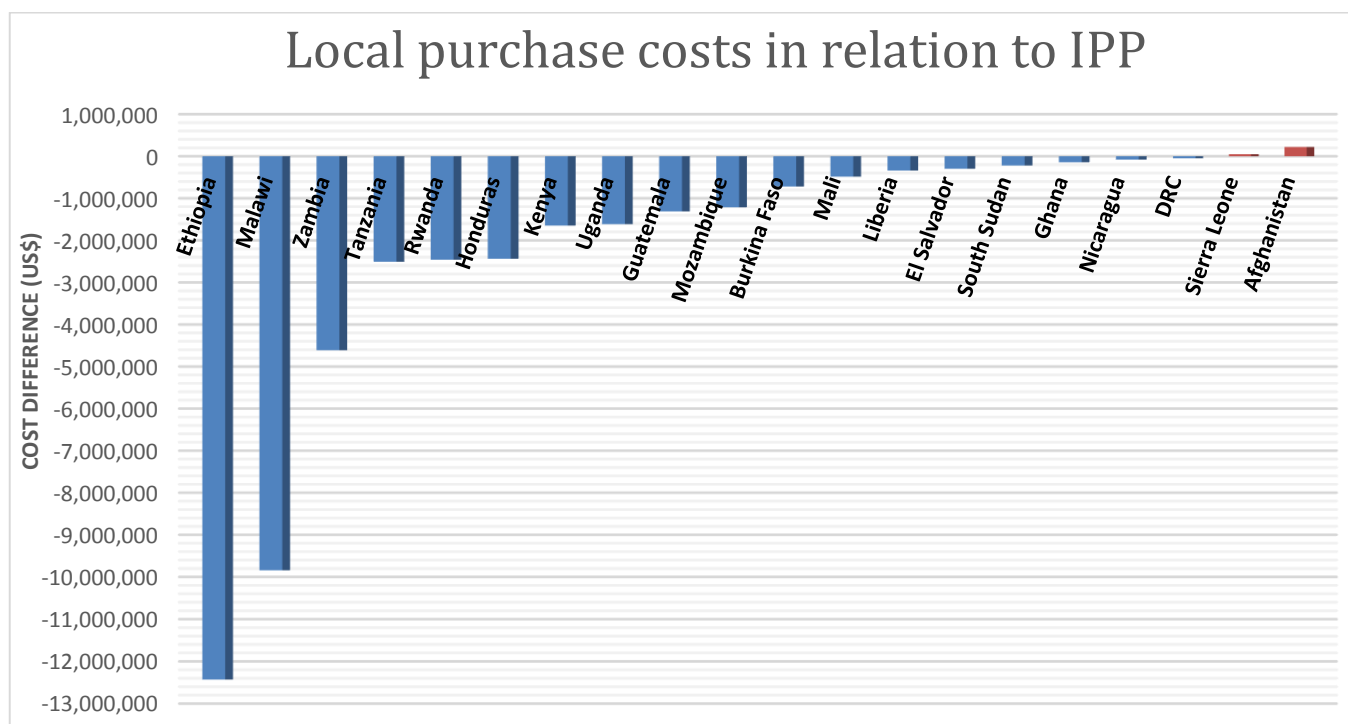
Region	Origin Country	Commodity Name	Quantity Delivered (MT)	Total Value Paid (US\$)	Total Cost to Destination (US\$)	Total Cost if Imported – IPP (US\$)	Cost Difference (US\$)
Southern Africa	DRC	Maize	340	145,168	145,168	192,229	-47,062
	Malawi	Beans	239	120,447	120,447	152,064	-31,617
		Maize	31,516	8,417,623	8,725,473	13,943,753	-5,218,280
		Maize Meal	3,679	1,256,400	1,269,666	1,941,981	-672,314
		Peas	15,869	8,072,349	8,121,348	11,616,827	-3,495,479
		Supercereal	1,965	1,008,382	1,010,057	1,436,889	-426,832
	Mozambique	Maize	9,316	2,719,253	3,094,743	4,187,173	-1,092,429
		Peas	1,285	670,260	729,129	795,673	-66,544
		Supercereal	412	206,660	209,276	263,501	-54,225
	Tanzania	Beans	2,573	1,738,265	1,755,865	2,131,556	-375,691
		Maize	23,609	8,192,825	9,466,661	11,598,649	-2,131,988
	Zambia	Beans	1,667	954,335	958,905	1,244,647	-285,742
		Maize	21,795	5,497,543	6,203,666	7,496,196	-1,292,530
		Maize Meal	13,068	3,690,656	4,618,556	7,288,137	-2,669,581
		Peas	870	416,568	420,851	535,415	-114,564
		Supercereal	658	315,060	315,060	400,646	-85,586
	UHT Milk	351	491,400	491,400	655,668	-164,268	
West Africa	Burkina Faso	Beans	614	321,449	322,631	452,340	-129,708
		Maize	2,028	710,603	743,407	1,041,972	-298,566
		Sorghum/Millet	1,941	618,647	618,647	909,196	-290,549
	Ghana	Maize	3,762	1,653,781	1,681,486	1,825,494	-144,009
	Liberia	Peas	42	35,891	36,862	41,972	-5,109
		Rice	1,790	918,868	934,702	1,269,067	-334,365
	Mali	Beans	308	254,067	267,204	280,387	-13,182
		Peas	115	93,130	93,130	110,003	-16,873
		Rice	13,638	8,983,675	9,791,900	9,046,155	745,745
		Sorghum/Millet	14,569	6,029,570	6,278,951	7,478,945	-1,199,994
	Sierra Leone	Cassava Flour	95	41,253	47,514	54,995	-7,482
		Peas	10	5,581	5,891	7,500	-1,609
		Rice	879	555,505	584,454	542,377	42,077
Supercereal		117	112,632	116,294	100,005	16,289	
Grand Total			366,658	148,021,105	156,022,991	198,164,132	-42,141,141

During the P4P pilot period from September 2008 to December 2013, WFP purchased 366,658 mt of commodities through smallholder-friendly modalities. This corresponds to over US\$148 million put more directly in the pockets of smallholder farmers.

Overall, by procuring locally through P4P modalities, and in comparison with the cost of importing the same commodities, WFP has realized savings of over US\$42 million with respect to import parity price.

Almost all P4P contracts have been below import parity (i.e, local prices are 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 were sometimes purchased above IPP. In El Salvador and Honduras, the Government had explicitly asked WFP to procure the beans locally for the national school feeding programme, regardless of the price exceeding import parity, using government funds.
- Small quantities of rice and Supercereal (CSB+) were procured in Kenya at above IPP at the very beginning of P4P (in 2009), but not since then. Small quantities of rice were also procured at above IPP in Nicaragua. In 2012, a quarter of the total quantity of rice procured in Mali was purchased above IPP – in one case there was a donor restriction to procure locally, while in the other case rice was needed to guarantee a quick emergency response to an increase in internal displacement following the outbreak of armed conflict.
- In Sierra Leone, Supercereal (CSB+), and rice were purchased at above IPP as well as small quantities of sorghum in South Sudan. Markets in these post-conflict countries are only partially integrated and high seasonal price fluctuations are common. In addition, transport prices can be often very high due to poor infrastructure. However, although purchases in these post-conflict countries have sometimes been at above calculated IPP, they represent very small quantities. In Afghanistan, High-Energy biscuits which are a specialised nutrition commodity have been purchased above IPP.



5. ANNEX

There are two main sources of discrepancies between WINGS corporate database and the Food Procurement Tracking System:

- 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 a local purchase), while in the Food 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 efficient the CO is in updating the Food Procurement Tracking System). While this divergence on dates should not affect the cumulative amounts over a long period of time, it does affect purchases towards the end of the year.
- WINGS shows the outstanding contracts at the time the data are extracted, while the Food 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 mt to 80 mt because the vendor is unable to provide the full amount, only 80 mt 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 mt, and will show 20 mt as default. The WINGS database "loses" the information on defaults, while the Food Procurement Tracking System shows the original contract, and tracks the actual deliveries and defaults.



Contact information

Email us: wfp.p4p@wfp.org

Visit the P4P website: wfp.org/purchase-progress

P4P on Twitter: [@WFP_P4P](https://twitter.com/WFP_P4P)

20 P4P pilot countries

Asia: Afghanistan

Africa: Burkina Faso, Democratic Republic of the Congo, Ethiopia, Ghana, Kenya, Liberia, Malawi, Mali, Mozambique, Rwanda, Sierra Leone, South Sudan, Tanzania, Uganda, Zambia

Latin America: El Salvador, Guatemala, Honduras, Nicaragua