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Agenda Item 10

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Administrative and Managerial Matters

For information

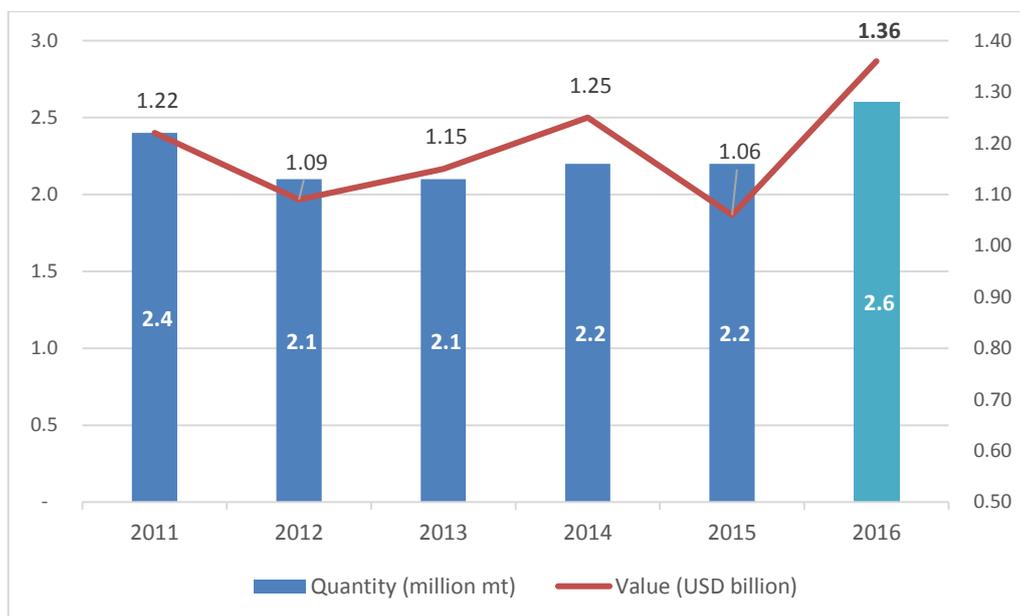
Executive Board documents are available on WFP's website (<http://executiveboard.wfp.org>).

Update on Food Procurement

Facts and Figures

1. WFP purchased 2.6 million mt of food in 2016 valued at USD 1.36 billion. The largest purchases were bulk foods such as cereals and pulses. The food was procured in 93 countries; 72 percent valued at USD 980 million came from developing countries. The 692 suppliers included 177 smallholder farmers' organizations.

Figure 1: WFP procurement figures, 2011–2016 (million mt; USD billion)



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2. Total food procurement in 2016 was 28 percent greater in value in 2016 than in 2015. WFP had not spent as much on food procurement since 2008, when prices were particularly high, and had not purchased such large volumes since 2010. The increased value of food is largely accounted for by increased emergency needs during the year.¹
3. Achievements during the year include: i) an increase from 38 percent to 55 percent of procurement for Level 3 emergencies; ii) innovative contracting, for example with differential contracts; iii) greater use of long-term food supply agreements; iv) increased procurement of lipid-based nutrient supplements and SuperCereal plus; and v) employment of four experts to improve market intelligence and sourcing strategies.
4. A vendor management team was established in 2016 in the Supply Chain Governance Unit to strengthen vendor management and support the systematic review, analysis and adjustment of processes and procedures to address audit recommendations. Vendor management, food safety and quality assurance systems, guidelines and training will remain compliance focus areas for the Supply Chain Division.

TABLE 1: TOP 15 COUNTRIES FROM WHICH WFP PROCURED FOOD IN 2016		
	Quantity (mt)	Value (USD)
Turkey	405 668	222 614 464
Romania	173 100	31 417 101
India	142 982	62 752 672
Uganda	126 230	47 747 228
Ukraine	119 949	46 396 142
Mexico	117 194	39 759 265
Italy	115 401	76 332 517
Zambia	92 368	29 796 199
Russian Federation	84 398	59 901 788
Ethiopia	76 418	26 640 546
Pakistan	72 527	34 640 262
Belgium	67 924	58 129 236
Sudan	67 800	18 975 982
South Africa	67 194	32 530 839
Afghanistan	66 176	25 086 818
Total	1 795 329	812 721 059
%	68	60
Total 2016 procurement	2 634 536	1 361 150 604

5. Turkey was the largest national supplier, accounting for 16 percent of the volume and spend in 2016, mainly for the emergency operations in Iraq and the Syrian Arab Republic. Food procurement from Turkey included 140,000 mt of wheat flour, 88,600 mt of bulgur wheat and 57,000 mt of vegetable oil.

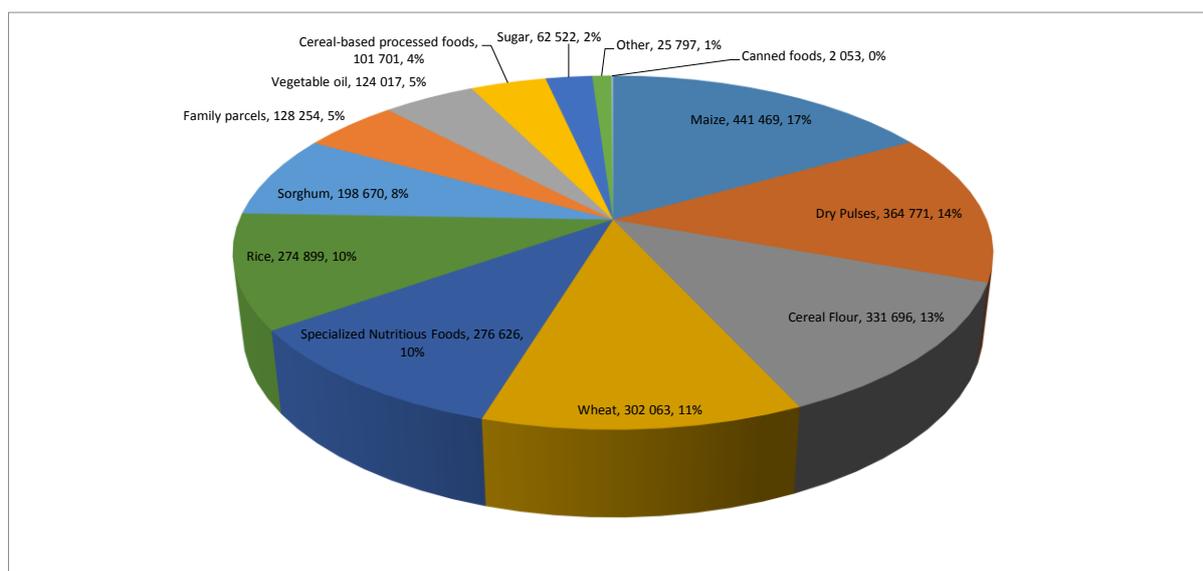
¹ The average cost of food procured by WFP increased from USD 480/mt in 2015 to USD 520/mt in 2016. While overall food prices were lower in 2016, and WFP benefited from this long-term downwards trend, there was a move towards procuring higher-value products because of the nature of acute emergencies, the use of more specialized nutritional foods, and the shift to SuperCereal Plus for children under 2.

6. The largest purchases of cereals were wheat from Romania and Ukraine for Ethiopia and Yemen, rice from India for the Syrian Arab Republic, maize and sorghum from Uganda for distribution in the region, maize from Mexico for southern Africa, and maize from Zambia for the region.
7. The Global Commodity Management Facility (GCMF) supported the purchase of 1.4 million mt of food, of which 53 percent was delivered through the East Africa corridor for Ethiopia, South Sudan and Yemen. Other major destinations were the southern Africa corridor, which received 24 percent of the total for the El Niño response, and the West Africa corridor, which received 12 percent.
8. Purchases for Level 3 emergencies accounted for 51 percent of the tonnage and 53 percent of the value of procurement in 2016. The main recipient was the Syrian Arab Republic, which received 500,000 mt. Other major recipients were: i) southern Africa – 346,000 mt for the El Niño response in Lesotho, Madagascar, Malawi, Mozambique, Swaziland, Zambia and Zimbabwe; ii) Yemen – 167,000 mt; iii) Iraq – 131,000 mt; iv) South Sudan – 133,000 mt; and v) Nigeria – 48,000 mt.

Food Types

9. Cereals – maize, wheat, rice and sorghum – accounted for 46 percent of the tonnage and 29 percent in value terms. Maize accounted for 17 percent of the total, which was 184,000 mt more than in 2015, mainly for the El Niño emergency in southern Africa. The volume of wheat procured fell by 90,000 mt from the 2015 level: it still accounted for 11 percent of the total tonnage, but only 4 percent of the total value because prices were at an historical low.
10. In value terms, specialized nutritious foods accounted for 20 percent of the total spend, but only 10 percent of the tonnage. Lipid-based nutrient supplements and SuperCereal are the most common supplementary nutritious food products procured by WFP. On the basis of nutrition guidance regarding children under 2, purchases of SuperCereal Plus rose from 40,000 mt in 2015 to 100,000 mt in 2016 and the spend rose by USD 100 million to USD 270 million.
11. Purchases of dry pulses increased by 113,000 mt from the 2015 level. The main recipients were the Syrian Arab Republic and the eastern and southern Africa corridor countries. The largest purchases were beans, split peas and chickpeas. In view of the seasonality of pulses, food supply agreements will continue to be used as appropriate.

Figure 2: Main foods procured in 2016 (mt)



Local and Regional Procurement, Including Smallholder Farmers

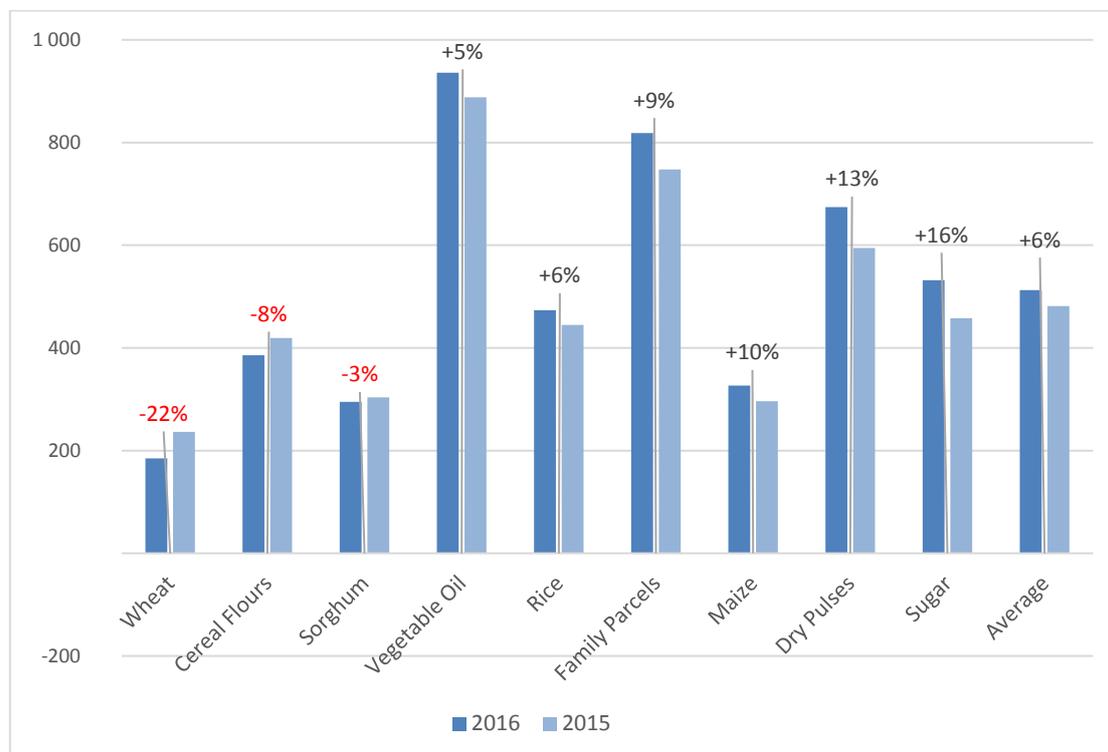
12. Local and regional purchases accounted for 44 percent of the 2016 total. The main purchases were: i) maize – 317,000 mt; ii) wheat flour – 211,000 mt; iii) beans – 120,000 mt; iv) sorghum – 119,000 mt; and v) rice – 106,000 mt.
13. Purchases from smallholder farmers amounted to USD 16.7 million. This is lower than the average in recent years, reflecting the drought in southern Africa where many sourcing countries are located.
14. The Food Procurement Unit is working in collaboration with other stakeholders to increase smallholder farmers' participation in procurement to 10 percent of total food purchases, particularly by introducing innovative contract modalities and a system for tracking purchases that will facilitate the mainstreaming of this approach.

Emergency Support

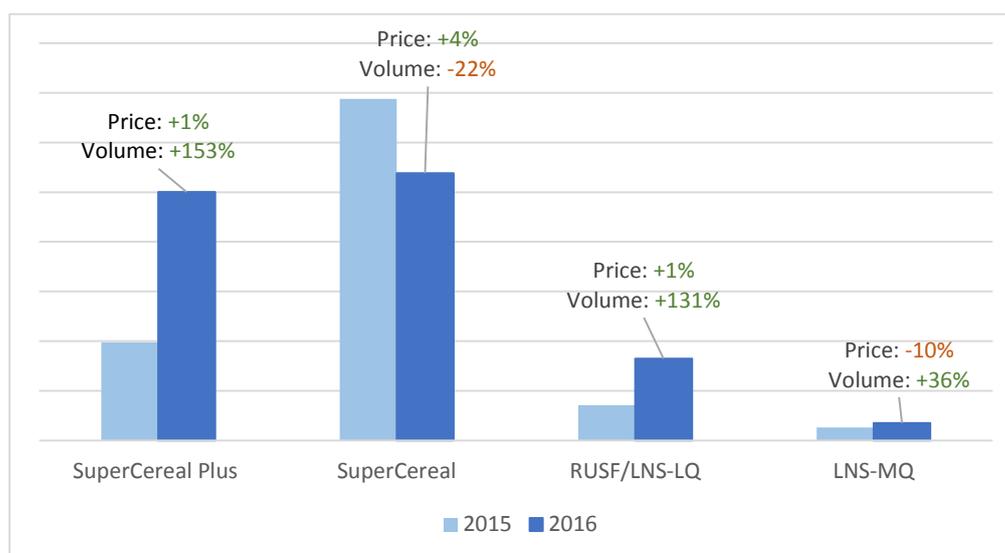
15. Of the food procured by WFP in 2016, 51 percent was for Level 3 emergency operations – 500,000 mt for the Syrian Arab Republic and 346,000 mt for the southern Africa El Niño response. Malawi alone bought 200,000 mt of food in 2016.
16. In 2016, 43 percent of the value of WFP's procurement for Level 3 emergencies – 23 percent of total procurement – was linked to the crisis in the Syrian Arab Republic, where WFP extended the use of contract modalities such as food supply agreements and differential contracts.
17. The Food Procurement Unit purchased 82,000 mt of wheat from international markets in 2016 for Yemen. For South Sudan, 76,000 mt of sorghum was purchased in regional markets in the Sudan and Uganda and from the international market in India. Food needs in Iraq rose to 131,000 mt in 2016 from 57,000 mt in 2015 because of increased conflict.
18. On the declaration of a Level 3 emergency in Nigeria in August, WFP rapidly scaled up its procurement to purchase 50,000 mt of rice, beans and sorghum from the local market. The country office contracted locally for 30,000 mt of food in the fourth quarter of 2016, compared with 9,000 mt in the third quarter and compared with no purchases at all in 2014. Procurement and logistics officers were deployed to reinforce the supply chain in Nigeria, to enable the scale-up from 3,000 mt to 20,000 mt per month. The use of food supply agreements leveraged by GCMF advance funds helped to overcome unpredictable funding and challenging distribution targets. The addition of sorghum and millet to the cereal basket and the expansion of the local supplier list helped to increase volumes and minimize the risk of default by suppliers.

Markets

Figure 3: Weighted average prices for the most common WFP purchases in 2015 and 2016 (USD), with percentage change



19. WFP benefited from low cereal prices for most of 2016 by using its import parity comparison, competitive tendering system and roster of suppliers. Wheat prices fell significantly as a result of increased production in the Black Sea region and good growing conditions in the northern and southern hemispheres; the prices of sorghum and rice remained stable. WFP's main sources of maize were affected by El Niño, and subsequently more food was purchased in international markets, mainly Mexico, resulting in higher prices.
20. Vegetable oil prices rose substantially in the second half of the year: palm oil prices, for example, increased by 24 percent at the beginning of August. The palm oil market is affected by changes in the price of crude oil – if it rises, demand for biodiesel increases and its price goes up accordingly.
21. The price of pulses in international markets has risen steadily in the last two years largely because of poor harvests in India, which imported 6 million mt in 2016, and supply constraints. The next Indian harvests are expected to be better, but significant demand remains. The pulses market is a spot market, so there are no global reference prices as with wheat, and many varieties are traded. WFP has found a price index based on the largest traded varieties, though it only purchases some of them. When compared with the spot market, food supply agreements benefit from reduced prices through post-harvest contracting for one year and increase the certainty of supply in spite of fluctuations in demand.

Figure 4: Main specialized nutritious products in 2015/2016 – prices and volumes

RUSF = ready-to-use supplementary food; LNS = lipid-based nutrition supplement;
LQ = large quantity; MQ = medium quantity.

22. The prices of specialized nutritious foods remained steady, but the tonnages procured by WFP were 20 percent higher than in 2015; in value terms the increase was 55 percent. These increases were driven by greater demand from emergency responses and the shift to distributing SuperCereal Plus instead of the cheaper SuperCereal. The prices of ingredients such as milk, maize, peanuts, sugar and soya beans remained stable in 2016 and did not affect the cost of specialized nutritious foods.

Global Sourcing and Efficiency

23. Commodities such as maize, sorghum and rice are staple foods and widely produced in most recipient countries in Africa. Sourcing strategies were formulated and implemented in 2016 for each of these commodities with a view to increasing the level of local and regional procurement during the marketing season and enabling purchases from smallholder farmers.
24. In 2016, food supply agreements accounted for USD 390 million of total procurement – 30 percent of the value. These are virtual stocks held by suppliers that WFP can call forward as required; they are time-bound at fixed prices and require little financial commitment, and because stocks are immediately available, lead times are minimized. The purchase of large tonnages and the timing of purchases – for example when prices are low after harvest – can also help to increase cost efficiency.
25. In 2016, WFP introduced differential contracts to help diversify its procurement options, including by buying when market prices are favourable to have stocks ready in case of a surge in demand. A differential contract is tied to a commodity exchange price, and WFP establishes long-term agreements that fix the additional costs of complying with the other terms of the contract, such as packaging requirements and delivery locations. In line with common industry practice, WFP uses this modality for sugar and oil. Differential contracts were used to procure 40,000 mt of food in 2016, and the modality will be expanded in 2017.
26. The strategy for specialized nutritious foods is to maintain a balanced supply base, increase market competitiveness and enable rapid scaling up for emergency needs. The price of SuperCereal Plus, for example, has been maintained by tendering food supply agreements with a six-month time span rather than opting for spot contracts or monthly contracts. Lipid-based nutrient supplements are also procured through food supply agreements. Procurement in 2016 benefited from collaboration with the United Nations Children's Fund in the joint tender for ready-to-use supplementary foods and lipid-based nutrient supplements by leveraging economies of scale, reducing duplication and enhancing relationships with suppliers.

27. WFP's procurement team employed four specialists in mid-2016 to cover the main food groups, whose expertise will benefit future sourcing strategies. The team reported productivity gains of USD 47.3 million in 2016 – 3.5 percent of the total spend. Innovative contracting, market intelligence, coordination of the supply chain, and local and regional purchasing have led to productivity gains of USD 130 million since 2013 and improved the reliability, safety and timeliness of deliveries and the quality and safety of food supplied.

Food Safety and Quality Management

28. In Nigeria, WFP evaluated the regulatory framework to enable engagement with new suppliers, identifying major food safety and quality risks, redefining the scope of work for quality control and leveraging existing regulatory requirements to procure foods locally and deliver quantities on time to the beneficiaries. To meet urgent needs in Haiti after hurricane Matthew and in Jordan as part of the Syrian emergency response, WFP developed food safety and quality protocols governing local procurement of foods with short lead times.
29. WFP signed regional long-term agreements for inspection services covering Asia and West Africa with a view to attracting the best available suppliers, and started performance reviews of long-term agreements to identify areas for improvement.
30. Given its large procurement footprint in Turkey, WFP recruited a food technologist based in Mersin and assessed the quality of food production from 12 potential new suppliers, only one of which met the required standards; the remainder will provide plans for improvement before they can be considered for WFP's roster.
31. In Ghana, Honduras and Lebanon, WFP and private-sector partners assessed the potential for local production of processed foods, agreed to reduce the shelf-life of high-energy biscuits from 24 months to 12 months to ensure quality, and considered ways of increasing the shelf-life of vegetable oil to 24 months, especially in high temperatures and over long periods in supply chains, so that emergency reserves could be established.

Procurement Capacity and Staff Development

32. The Food Procurement Service handled 52 percent of WFP's purchases by volume in 2016 with a view to maximizing economies of scale; the regional bureaux accounted for 26 percent of food purchases, and country offices for 22 percent. Purchases of food commodities from Headquarters increased by 26 percent since 2015 and by 46 percent since 2013. This increase was driven by the nature of emergencies such as those in the Syrian Arab Republic and Yemen where the bulk of the food is procured in international markets because of the limited options for regional or local procurement.
33. Food procurement at Headquarters is carried out by specialist teams for cereals, pulses, oils and sugar, and specialized nutritious foods; they use best market practices and innovative contract modalities to maximize productivity and efficiency. Following the creation of the Supply Chain Division, a new Sourcing Service combines the former shipping and food procurement services with a view to enhancing process flow and synergies. Procurement staff participated in training in emergency preparedness and response, cash-based transfers and the Logistics Execution Support System.
34. The team in Afghanistan increased procurement of fortified wheat flour from smallholder farmers supported through Purchase for Progress to 70,000 mt per year. Hands-on training for local staff in procurement, quality control and contracting helped to increase sourcing from Uganda to 126,000 mt in 2016, compared with 59,000 mt in 2015.
35. The Cairo Regional Bureau provided support to Yemen through commodity vouchers, currently worth USD 6 million per month, and a similar initiative was undertaken in Malawi with remote capacity support provided by Headquarters and the regional bureau. Commodity vouchers allow large traders to plan their purchases and distribution networks in a more predictable manner in fragile market situations.

36. Significant effort from the Food Procurement Unit and the Food Safety and Quality Assurance Unit supported the establishment of the first commercial SuperCereal Plus factory in Africa (Rwanda), which was a two-year endeavour to establish, with deliveries starting in late 2016.