

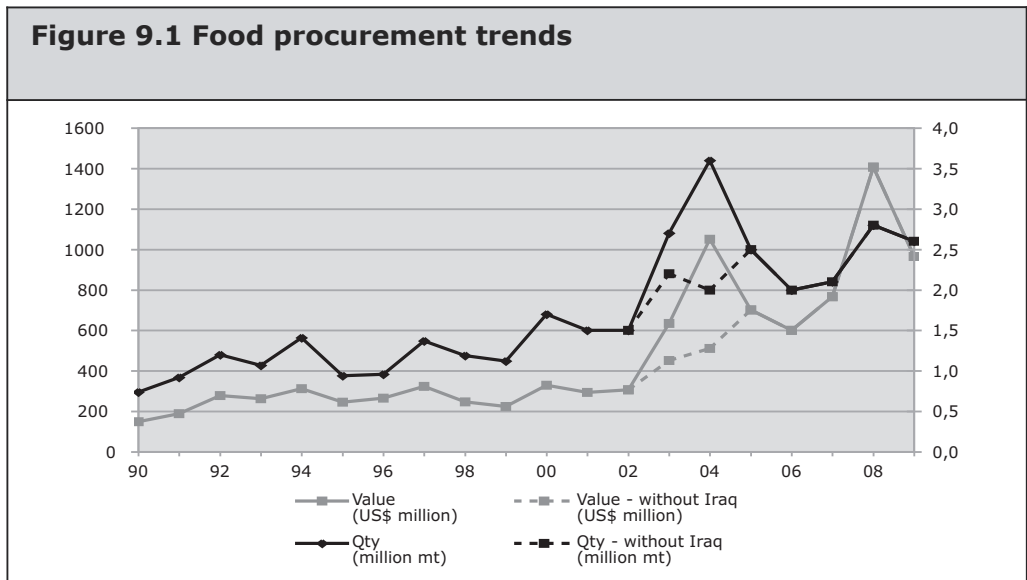
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Connecting farmers to markets: insights from the Purchase for Progress initiative

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1. Introduction

Increasing cash contributions have made it possible for WFP to become a stable and substantial purchaser of surplus food internationally, particularly in developing countries. Since 1990, WFP has tripled the quantity and value of food bought globally for its operations (Figure 9.1).



Source: WFP Procurement Division, Annual Report 2009.

In 2007, a record 80 percent of the food purchased by WFP – a total of 2.1 million mt, valued at more than US\$760 million – was bought in 69 developing countries from Afghanistan to Zambia. The largest supplier was Uganda, where 210,000 mt for US\$54.7 million was procured, providing food to some 3.4 million people for one year. Significant amounts of food were also purchased in Ethiopia, Kenya, Malawi, Mozambique, Sudan and Zambia.

In 2009, the tonnage purchased in developing countries remained high, at 2.1 million mt for almost US\$772 million. However, more was bought from middle-income developing countries, with 51 percent in tonnage and 46 percent in value, than lower-income countries, with 31 percent in tonnage and 34 percent in value, particularly relative to 2007. This was owing to the tight food security situation in a number of the lower-income developing countries where WFP traditionally buys, coupled with lingering high prices. Nonetheless, WFP remains a significant market player in lower-income countries.

According to Tschirley (2007), WFP has shown generally good performance in its local and regional procurement (LRP) operations in Africa. From 2001 to 2005, WFP's procurement of maize in Kenya, Uganda and Zambia made savings of US\$67.7 million compared with United States food aid – enough to purchase an additional 437,719 mt of maize. Faster delivery to operations is another recognized advantage of LRP. Local procurement may also produce less obvious benefits such as higher farm-gate prices, strengthened formal markets, and increased investment by traders and processors (Sserunkuuma, 2005).

2. Seizing the opportunity

When both WFP and donors started to put increasing emphasis on optimizing the developmental impact of WFP's local and regional food procurement, new questions emerged. Should WFP buy abroad when surpluses of local cereals and pulses in the country of its operations could offer not only financial savings, more appropriate commodities and a faster delivery, but also an opportunity for preventing poor farmers from becoming food aid beneficiaries? How could WFP use a portion of its purchasing power to buy lower down the value chain to the benefit of poor farmers?

Since the mid-1990s, WFP had engaged in small purchases from rural producer organizations in many countries, including Burkina Faso, Uganda, the United Republic of Tanzania and Zambia, and had developed value-added processing food projects that strived to bring benefits directly to smallholders. However, there was no overarching framework to support these initiatives systematically, and little documentation regarding the positive or negative impacts.

The Purchase for Progress (P4P) initiative builds on analysis and discussions

of the concept and feasibility of home-grown school feeding, which involved the Bill and Melinda Gates Foundation and WFP, and on the learning derived from WFP's agricultural and marketing support project in Uganda and other examples of purchasing from small vendors. Procurement seminars held in Addis Ababa and Rome in 2007 were instrumental in feeding lessons into this process.

At the United Nations General Assembly in September 2008, a five-year pilot P4P project was launched, with a focus on assisting smallholder/low-income farmers by offering them opportunities for obtaining access to agricultural markets and becoming competitive players in the market place.

Through P4P, WFP is committed to using a portion – averaging 10 percent – of its commodity purchasing power to engage low-income farmers in a sustainable programme of tendering and selling their crops to WFP. Grants from the Bill and Melinda Gates Foundation, the Howard G. Buffett Foundation, and the Belgian, Canadian, Luxembourg and United States governments are allowing WFP to expand local procurement and add new purchasing models that aim to benefit local farming economies in 21 pilot countries.

Box 9.1 P4P pilot projects

P4P initiatives are being piloted in 21 countries over the five years from 2009 to 2013:

- Africa: Burkina Faso, Democratic Republic of the Congo (DRC), Ethiopia, Ghana, Kenya, Liberia, Malawi, Mali, Mozambique, Rwanda, Sierra Leone, Sudan, Uganda, United Republic of Tanzania and Zambia.
- Latin America: El Salvador, Guatemala, Honduras and Nicaragua.
- Asia: Afghanistan and Lao People's Democratic Republic (PDR).

2.1 Policy framework

P4P fits into WFP's existing policy framework, which envisages using food procurement to promote agricultural and market development. The programme carries forward the Executive Board's recommendations that WFP strengthen its ability to exploit linkages between its own procurement practices and increased access to markets for small-scale farmers' groups, and that it mainstream best practices within WFP.

In accordance with its Strategic Plan for 2008–2013, WFP is committed to seizing new opportunities for designing food assistance programmes that

generate substantial demand for surplus food staples grown by small-scale farmers, thereby reducing risks and improving incentives for investment in productivity-enhancing and income-increasing technologies and practices.

WFP's Food Procurement in Developing Countries policy, approved by the Executive Board, states that WFP must find the balance between cost-efficient, timely and appropriate procurement and its programmatic goal of strengthening developing country markets (WFP, 2006c). When procuring from developing country food markets, WFP's procedures aim to avoid negative effects on those markets, including price rises that would harm the food security of the poor. With P4P, WFP brings to the fore the objective of promoting developing country food markets in parallel with the food security of food aid recipient countries.

In its review of the Food Procurement in Developing Countries Policy, the Executive Board recommended that WFP work closely with national governments, non-governmental organizations (NGOs), the Food and Agriculture Organization of the United Nations (FAO), the International Fund for Agricultural Development (IFAD) and others, to assess the capacity of local, subregional and regional markets to participate in WFP procurement, and to support partners' efforts to develop this capacity. The Executive Board also recommended that WFP ensure its country offices and/or regional bureaux have the necessary staff to enable them to procure food based on adequate knowledge and analysis of local, subregional and regional markets.

2.2. The P4P concept

Making smallholder farming in Africa more productive, profitable and sustainable is fundamental to achieving Millennium Development Goal (MDG) 1 of halving extreme poverty and hunger by 2015. It is also central to the achievement of national economic growth targets and to the success of regional initiatives such as the Comprehensive African Agricultural Development Programme (CAADP) of the New Partnership for Africa's Development (NEPAD). CAADP's pillar 3 focuses on redressing hunger and food insecurity in Africa, and stresses that efforts to induce sustainable increases in smallholder incomes must combine supply-side interventions designed to raise farm productivity with measures that reduce market volatility and enhance farmers' access to sources of stable and sustainable demand for their farm products.

P4P allows WFP to help those who have little or no food, while also supporting local farmers who have little or no access to markets to sell their crops. Based on WFP's current procurement policy and practice, with a particular focus on low income and smallholder farmers, P4P aims to:

- identify and share *best practices* for WFP, NGOs, governments and agricultural market stakeholders to increase profitable engagement in markets;

- *expand farmers' capacities* to increase their incomes from agricultural markets;
- identify and implement best practices for *increasing low-income farmers' sales* to WFP;
- *transform WFP food purchase programmes*, to provide better support to sustainable production and address the root causes of hunger.

By integrating its purchasing power with partners' technical contributions for connecting small-scale/low-income farmers to markets, WFP envisions that within five years, or five complete agricultural cycles, participating low-income farmers have increased their annual farming incomes as a direct result of selling commodities to WFP.

3. The three pillars of P4P

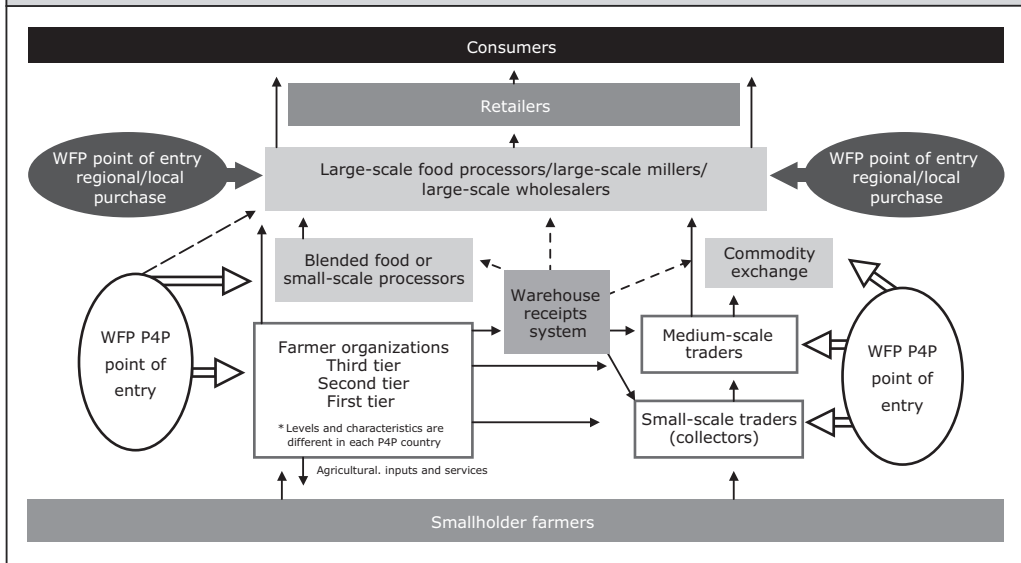
The P4P strategy rests on three pillars:

- 1) innovative procurement modalities;
- 2) strong supply-side partnerships;
- 3) learning and sharing.

3.1 Innovative procurement modalities

WFP brings to the table its expertise in procurement and logistics and its demand base. WFP's standard practice is procurement through competitive tendering and contracting, generally with large-scale buyers (Figure 9.2). However, P4P will experiment with practices that are more favourable to smallholder/low-income farmers including:

- *adjusted competitive tendering practices*, such as reducing tender sizes, waiving bag markings or performance bonds, and purchasing ex-warehouse;
- *direct purchasing* through farmers' organizations, to help stimulate producers' livelihoods – WFP will be directly engaged with farmers organizations, negotiating, signing contracts and paying for their produce;
- *forward contracting*, to reduce risk and provide farmers with greater market certainties and partnerships with micro-credit and insurance schemes;
- *processing options*, with smallholders producing maize meal or blending cassava themselves – WFP will work with the private sector and/or other stakeholders to encourage the establishment of processing units that ensure added value.

Figure 9.2 Targeted P4P market entry points

3.2 Partnerships – linking to the technical experts

Governments in the pilot countries are very supportive of the P4P programme, with different ministries involved. The P4P approach is being aligned with national agricultural development priorities and strategies, such as CAADP and the Alliance for Commodity Trade in Eastern and Southern Africa (ACTESA). A Memorandum of Understanding between the Alliance for the Green Revolution in Africa (AGRA) and the Rome-based agencies – FAO, IFAD and WFP – also underpins the critical need to work together to scale up farmers’ access to farm inputs, so as to trigger supply response.

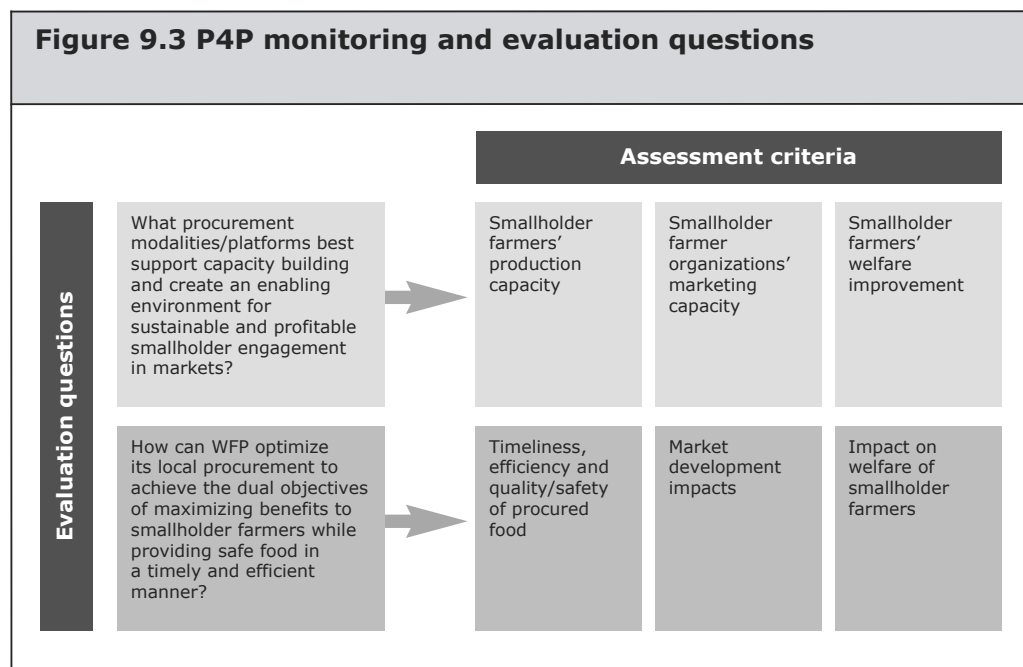
P4P relies on the engagement, expertise, collaboration and input of a wide range of actors, especially supply-side partners that benefit smallholder/low-income farmers. WFP is working with partners to ensure the availability of inputs and to establish and strengthen farmers’ organizations, improve farming technology and techniques, reduce post-harvest losses and improve on-farm storage.

In the area of market access, partners are assisting with quality control and commodity handling, storage, transport and infrastructure. Collaboration between microfinance institutions and WFP is exploring ways of using food supply contracts and warehouse receipts as collateral for loans, making financial services available in remote rural areas, and providing financial services and training to farmers’ associations.

WFP is tying its purchasing activities to a programme of training and capacity development designed to build and enhance the market readiness of small-scale/low-income farmers. This is another area where strong supply-side partnerships are important, and WFP is relying particularly on the experience and knowledge of government extension workers and NGOs.

3.3 Learning and sharing

To maximize the development impacts of its local procurement, WFP is exploring ways of leveraging its presence in markets to promote market development, market access and increased incomes for smallholder farmers; and how, when and under what conditions to buy locally so as to maximize development impacts without unduly compromising food assistance objectives (WFP, 2009i).



A monitoring and evaluation (M&E) system has been developed to track the impacts of both standard LRP activities and P4P innovations. The M&E system will provide the basis for tracking and documenting changes in the agricultural production, market access, incomes and livelihoods of smallholder/low-income farmers, and for identifying best practices and lessons learned relevant to WFP and other actors.

A technical review panel supports the learning and sharing pillar of P4P by

providing high-level independent advice to WFP and the P4P pilot countries. Its members have been selected to ensure individual and institutional diversity, and have expertise in the areas of agricultural and market development and/or M&E.

4. Risk management and safeguards

WFP's policy is to procure food in a manner that is cost-efficient, timely, and appropriate to beneficiary needs. When procuring from developing country food markets, WFP also aims to avoid causing negative effects on those markets, including price rises that would have an impact on food security for the poor. These same principles apply to procurement actions using the P4P approach.

To ensure that the purchase fits the main objectives of cost efficiency and timely delivery, a cost comparison is made between the locally available option and what it would cost to bring commodity of the same quality from regional or international markets. This comparison is based on the costs of purchasing the commodity from the cheapest alternative source – including the associated costs, such as transport to the final destination – and is the equivalent of import parity. In many local markets, the import parity price is an essential indicator of whether commercial stocks in the country are reducing and demand is pushing supply, such as owing to an impending drought.

WFP's procurement and market support units undertake constant market analysis in collaboration with external partners, such as government ministries, other United Nations agencies, the Famine Early-Warning System (FEWS), NGOs and trader networks, and with its own food aid monitors, vulnerability analysis and mapping (VAM) staff and emergency assessment officers. Through P4P, this analysis is being strengthened at the local level to minimize micro-level market distortions and inflationary impacts of WFP market engagement.

WFP uses the specifications of the country in which the commodities are purchased, which must also take into account the quality standards of the recipient country. To ensure that all commodities purchased meet the standards, WFP employs independent surveyors/superintendents to inspect the commodities before taking possession. Inspection includes sampling and testing the commodities according to such parameters as moisture content, foreign matter, colour, and any abnormalities or inconsistencies.

5. Implementation status

By February 2010, P4P assessments had been completed in 20 of the 21 pilot countries, and 17 country implementation plans had been approved.¹ The assessment of Ghana was expected during the first quarter of 2010.

Between the start of the project and the end of 2009, more than 39,000 mt of food was contracted either directly from farmers' organizations or through other marketing platforms, including commodity exchanges or warehouse receipt systems (WRS). Defaults have been less than 10 percent, and are caused mainly by side-selling or the inability of a farmers' organization to aggregate, owing to lack of access to credit.

Table 9.1 P4P implementation status, February 2010

COUNTRIES		Tonnage	Farmers	Competitive processes					Direct purchase	Forward contracts	Processing
		Planned*	Planned*	Pro-smallholder tenders	Warehouse receipt system	Commodity exchange	Cereal fairs	Food reserves			
Africa	Burkina Faso	16 000	31 000	✓					✓	✓	
	DRC	150 (1 year)	4 000 (1 year)				✓				
	Ethiopia	126 500	67 000	✓	✓				✓	✓	
	Ghana	2 000 (1 year)	n/a	✓	✓						
	Kenya	60 000	56 000	✓	✓				✓	✓	✓
	Liberia	10 000	5 600						✓		✓
	Malawi	37 500	38 000	✓					✓		✓
	Mali	11 000	2 700				✓		✓	✓	
	Mozambique	22 000	22 750	✓					✓	✓	✓
	Rwanda	30 000	50 000								
	Sierra Leone	2 000 (2 years)	2 000 (2 years)	✓					✓		✓
	Sudan	1 500	4 100	✓					✓	✓	
Tanzania	55 775	13 000		✓				✓	✓		

Table 9.1 P4P implementation status, February 2010 (cont.)

COUNTRIES		Tonnage	Farmers	Competitive processes					Direct purchase	Forward contracts	Processing
				Planned*	Planned*	Pro-smallholder tenders	Warehouse receipt system	Commodity exchange			
Africa	Uganda	144 000	48 000	✓	✓				✓	✓	✓
	Zambia	36 000	60 000			✓					✓
Central America	El Salvador	8 000 (4 years)	8 000 (4 years)	✓					✓		
	Guatemala	14 000 (5 years)	15 000 (5 years)	✓					✓	✓	✓
	Honduras	24 000 (4 years)	11 300 (4 years)	✓					✓		
	Nicaragua	8 500 (4 years)	8 000 (4 years)	✓							
Asia	Afghanistan	176 000	n/a	✓					✓	✓	✓
	Lao PDR	7 600	8 500	✓					✓	✓	✓

In 2009, 40 farmers' organizations with more than 45,000 members sold food commodities to WFP. The number and type of farmers' organizations vary enormously across countries, ranging from four to five in Liberia, Mozambique and Zambia, to 202 in Kenya, and from grassroots associations to apex organizations, including farmers' unions and federations in Mali and Mozambique.

Purchasing from smallholder farmers has been carried out in line with WFP's principles of quality and cost efficiency. Local purchases under the P4P programme have allowed WFP to save US\$2.6 million compared with importing the same commodities from abroad.

Through P4P, WFP has purchased food for the first time in post-conflict countries such as Liberia and Sierra Leone, where the aim of the food purchases is to contribute to re-energizing markets. In Sierra Leone, WFP rice specifications have been defined in collaboration with the Ministry of Agriculture, FAO and WFP.

WFP purchases from the Zambia Agricultural Commodity Exchange (ZAMACE) and from WRS in Uganda aim to support the development of these innovative marketing platforms, which present new opportunities for smallholder farmers. WFP will engage with emerging WRS in Kenya, Malawi and the United Republic of Tanzania.

Box 9.2 Warehouse receipt systems

In Uganda, WFP is supporting a WRS that enables smallholder farmers to deposit their commodities in a certified warehouse in return for receipts that can be exchanged for cash at a local financial institution. Commodities need to meet certain standards of quality and grade to be accepted. The average value of a receipt is equivalent to 60 to 70 percent of the market value of the deposited commodity. The difference is paid to the farmers once the commodity is sold. Through the WRS, farmers have access to cash at harvest time, without having to sell their produce immediately. The system offers a network of certified warehouses that guarantee farmers adequate storage conditions, sometimes better than those provided by farmers' organizations. WFP is helping farmers to meet the standards required by the WRS, and is buying from it.

To date, WFP and its partners have trained more than 17,300 farmers and warehouse operators. Training topics include contracting with WFP, agricultural production, quality specifications, post-harvest handling, group marketing, commercialization and managing agricultural finance.

As part of the comprehensive M&E system, baseline surveys have been completed in ten pilot countries and were starting or about to start in another seven countries in early 2010. Detailed surveys at the household, farmers' organization and trader levels are being coupled with longitudinal case studies of participating farmers, farmers' organizations and traders.

P4P has established operational and strategic partnerships with a wide range of entities including governments, international and regional organizations, NGOs, microfinance institutions, research entities and the private sector. These partners provide complementary technical expertise in agricultural production and post-harvest handling, facilitate access to agricultural inputs and credit, build capacity and strengthen farmers' organizations. More than 40 supply-side partners are working with targeted farmers' organizations to support P4P at the field level. In almost every country, national coordination fora or steering committees have been established, some led by government counterparts.

P4P is providing a platform for collaboration among the Rome-based agencies. For example, in Mozambique, strong collaboration has emerged through the Delivering as One Joint Programme on Building Commodity Value Chains and Market Linkages for Farmers' Associations. P4P country coordinators are engaging with FAO and IFAD to ensure that relevant technical assistance informs the development of P4P in each country.

6. Emerging insights

A number of challenges emerged during the first year of implementation, as highlighted during the first global annual review meeting in December 2009:

Funding for food purchases: Although donors have made funds available for P4P technical capacity, challenges remain in securing timely cash contributions for commodity purchases. The need for timely and flexible cash contributions to WFP regular programmes is a precondition for the smooth implementation of any local procurement, including P4P purchases.

Credit: Limited access to credit for financing crop aggregation and purchases from members is hindering the ability of farmers' organizations to market their products and, together with the lack of storage facilities and cleaning equipment, is the cause of most side-selling. El Salvador, Ethiopia, Guatemala, Liberia, Mali, Mozambique, the United Republic of Tanzania and Zambia have identified credit as a major constraint.

Food quality, infrastructure and post-harvest handling equipment: Lack of storage facilities and post-harvest handling equipment is the other major challenge facing farmers' organizations in many P4P countries, leading to high post-harvest losses and encouraging side-selling. Supporting the construction or rehabilitation of storage facilities and providing post-harvest handling equipment are other areas where partners can make important contributions to the P4P project.

Capacity of farmers' organizations: Weak business management skills and lack of experience of handling and marketing their produce is a major limitation for farmers' organizations. Strengthening of the organizations, including their internal management, business planning and record keeping, is another area requiring more partner support.

Messaging and understanding of P4P: One year on, misunderstandings regarding the ultimate goal of P4P persist among some partners. These give rise to concerns that P4P's focus on smallholder farmers might lead WFP to compromise on quality and/or pay above market prices.

Partnerships: It is taking far longer than expected to translate various agreements, such as the Memorandum of Understanding between AGRA and

the Rome-based agencies, into actions in the participating African countries; renewed efforts in 2010 focus on collaboration in Mozambique, Uganda, the United Republic of Tanzania and other countries. Many potential and existing P4P partners that support farmers' organizations face resourcing challenges, and P4P has limited financial capacity to support their activities.

Gender: P4P pilot countries have struggled to translate WFP's gender targets into actions for the advancement of women farmers within targeted farmers' organizations. There is need to strengthen these efforts and to find partners working specifically to enhance women farmers' position within farmers' organizations, to ensure that women reap more of the economic benefits.

Box 9.3 Gender gaps in the agricultural value chain

Critical gender gaps across the agricultural value chain (WFP, 2009h) include:

- women's lower use of agricultural extension and training services;
- their lower access to credit services;
- their low levels of representation and participation in farmers' organizations, as both members and leaders;
- the lower number of female than male traders in agricultural commodities.

6.1 The road ahead: P4P as a catalyst

Launched during the global food and fuel crises and the worldwide financial and economic downturn, the P4P programme offers an opportunity to ensure that food assistance is part of a long-term solution to the hunger challenge. P4P will contribute to the much broader tapestry of efforts and investments in agricultural and market development. WFP can play a central role in exploring how its major presence as a purchaser of food in local markets can promote the development of small-scale agriculture and simulate the use of nascent marketing platforms.

Strategic priorities for 2010 and beyond are:

- adapting and adjusting WFP's procurement processes and procedures to allow experimentation in how WFP does business to the benefit of smallholders, including through engagement in emerging marketing platforms;

- developing the capacity of WFP staff, partners and farmers' organizations in core areas such as post-harvest loss reduction;
- coordinating with the full range of supply-side initiatives and stakeholders, to ensure that WFP's demand is supplemented by appropriate interventions that increase productivity and prevent price increases;
- studying what models work and what do not, and sharing the lessons learned widely, to inform the next steps;
- planning for exit by ensuring that strong linkages are established with institutional buyers, including those for hospitals, schools, prisons and the army, and the private sector, so that smallholders have the ability and the choice to sell to quality buyers other than WFP.

¹ Afghanistan, El Salvador, Honduras, Guatemala, Nicaragua, Burkina Faso, Ethiopia, Kenya, Liberia, Mali, Malawi, Mozambique, Sierra Leone, Sudan, Uganda, United Republic of Tanzania and Zambia.