



P4P Purchase for Progress • A Primer

A P4P Coordination Unit Publication

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Acronyms

ACTESA	Alliance for Commodity Trade in East and Southern Africa
AERC	African Economic Research Consortium
AFSI	L'Aquila Food Security Initiative
AGRA	Alliance for a Green Revolution in Africa
BMGF	Bill & Melinda Gates Foundation
CAADP	Comprehensive Africa Agriculture Development Programme
CFA	Comprehensive Framework for Action
COMESA	Common Market for Eastern and Southern Africa
DCA	Development Credit Authority
DDU	delivery duty unpaid
ECOWAS	Economic Community of West African States
FAO	Food and Agriculture Organization of the United Nations
FO	Farmers' organization
FSP	Financial Service Provider
GAFSP	Global Agriculture and Food Security Program
HGBF	Howard G. Buffett Foundation
HLTF	High-Level Task Force on the Global Food Security Crisis
IDS	Institute of Development Studies
IFAD	International Fund for Agricultural Development
IFPRI	International Food Policy Research Institute
LRP	local and regional procurement
M&E	monitoring and evaluation
NEPAD	New Partnership for Africa's Development
NGO	non-governmental organization
P4P	Purchase for Progress
SACCO	savings and credit cooperative society
UN	United Nations
USAID	United States Agency for International Development
USDA	United States Department of Agriculture
WFP	World Food Programme
WRS	warehouse receipt system

Foreword

In southeastern Rwanda, Amina Munyana and her husband feed a family of nine by growing rice, maize and beans on two hectares of land and by keeping a cow. Thanks to hard work and support from their farmers' organization "Indakemwa", they have been able to triple their production over the past four years, and have started looking for markets. "Before P4P, we would grow our crops but we were never sure if there would be any market. P4P brought the market to us," says Amina. The biggest improvement has been in post-harvest handling; Amina has received training in a new drying technique. "Before we would lose 500 kg during and after harvest, now this has reduced to about 100 kg!"

The five-year Purchase for Progress (P4P) pilot initiative launched by the World Food Programme in September 2008 is a partnership of many actors and stakeholders spanning the sectors of smallholder development, market development and food assistance brought together around the WFP food demand platform. Three years into implementation, the diversity of strategies and approaches across the 21 pilot countries is building a robust body of knowledge.

This document describes the various features and the evolution of the P4P pilot during the first three years of implementation. The first chapter provides the internal and external background and context for P4P. The second chapter reviews P4P in detail including discussions of its theoretical foundations, main components and underlying assumptions. The third chapter describes selected topics in the design of P4P including establishing targets, partnerships and capacity-building activities, the roles of government and WFP, and gender strategies. Subsequent chapters examine risks, challenges and emerging lessons.

We hope that this primer provides a clear idea of how P4P is contributing to improving the lives of people like Amina in diverse contexts and environments on three continents.

A handwritten signature in black ink that reads "Josette Sheeran". The signature is written in a cursive, flowing style.

Josette Sheeran
Executive Director
World Food Programme

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Executive Summary

Following decades of neglect, governments and development partners have recently begun to make substantial political and financial commitments to advance agriculture-led growth. The food price crisis of 2008 brought into focus the challenges of assuring the food security, nutrition and health of a growing global population. A notable aspect of the global response has been to lend support to smallholder farmers in developing countries with a view to renewing investment in production, increasing productivity and promoting smallholder participation in domestic, regional and international markets.

Over the decade 2001–2010, WFP spent about US\$600 million annually buying food commodities in developing countries. In 2010, WFP bought food worth almost US\$1 billion in low and middle-income countries. The WFP Strategic Plan (2008–2013) outlines WFP's commitment to use its purchasing power to support the sustainable development of food and nutrition systems and transform assistance into a productive investment in local communities.

Launched in September 2008, building upon extensive experience in local and regional procurement, the Purchase for Progress (P4P) pilot translates commitment into action. Combining WFP's purchasing power with the technical expertise of partners, Purchase for Progress (P4P) builds the capacities of smallholder low-income farmers to increase their returns by increasing their productivity and marketing of staple food commodities, cereals, pulses (peas and beans) and oilseeds. Smallholder farmers face a number of significant barriers to access formal markets, as confirmed by a wealth of studies and evaluations of smallholder agriculture and value chains. By developing the capacity to sell to an institutional buyer such as WFP, smallholder farmers through organizations can acquire the knowledge, skills and confidence needed for engaging with formal markets. P4P seeks to eliminate: (i) the barriers presented by formal markets, and (ii) the barriers presented by WFP's own procurement procedures and processes.

The demand platform and associated support provided by WFP is one component of the tapestry of interventions smallholder farmers require to empower them to increase their incomes from agricultural markets. The success of P4P relies on the engagement, expertise, collaboration and input of a wide range of actors. Over 220 partners are involved in the pilot countries where P4P implementation has started. Apart from buying staple commodities (cereals and pulses) from smallholder farmers, WFP and partners also contribute directly to a large programme of capacity-building activities for smallholder farmers and their organizations. WFP and partners train farmers, farmers organizations (FOs), traders, and warehouse operators in food crop handling and storage, warehouse operation, quality standards, quality control and WFP procurement procedures. Over 120,000 farmers, warehouse operators and small and medium traders have received support and training.

In the 21 P4P pilot countries of Africa, Asia and Central America, WFP employs pro-smallholder procurement processes to help smallholder farmers and their organizations access the WFP market. Participating WFP country programmes earmark at least one tenth of their local and regional purchase (LRP) resources for P4P's smallholder-friendly procurement modalities. As of 31 December 2011, WFP has concluded P4P purchase contracts for over 207,000 tons of food valued at US\$75 million. Purchases through P4P modalities will amount to approximately 15 percent of WFP's total spending on local food procurement in the pilot countries over the five years.

WFP expects 500,000 smallholder farmers to increase their incomes through participation in the five-year P4P pilot. WFP and partners have selected more than 1,050 farmers' organizations (FOs) with a membership totaling 1.1 million farmers to participate in P4P. Overall women account for 23 percent of the membership of these organizations (47% excluding Ethiopia); the target for the pilot is for women to account for 50 percent of beneficiaries. The primary obstacles to women's economic and social improvement are structural, and are mostly rooted in the replication of unequal gender relations in the household and community. The development of the P4P gender strategy represents an important step towards addressing some these challenges through the P4P pilot.

P4P emphasizes learning. Learning requires an honest and transparent examination both of what works and of what does not. WFP has created a rich array of tools and methods to support learning. They include comprehensive monitoring and evaluation, peer review and validation processes and the creation of opportunities to consolidate lessons learned.

WFP will share lessons learned and identified best practices with other agricultural and market development stakeholders. These lessons will form the basis for arguing for policy environments that are conducive to market access for smallholders. The goal of P4P is to identify "pro-smallholder models" in structured trade and public procurement that can be adopted and brought to scale by national governments. In addition, WFP will incorporate the best practices identified during the P4P pilot phase into its programme design and procurement activities to the greatest extent possible without compromising WFP's core objectives of providing safe food in a reliable, timely and cost-efficient manner.

Various P4P learning forums, which include case studies and national and global annual review meetings, are beginning to document the potential of the P4P approach. Specifically, it is signaling that both elements of the P4P strategy – capacity building and access to a reliable buyer – are equally important and complementary and combining them is necessary to achieve the livelihood objectives of the P4P programme. Several governments, appreciating the value of the P4P concept, have begun the process to replicate it nationally. The experience from the pilot countries shows that, smallholder farmers and their organizations, when provided with the appropriate support and incentives, can supply high-quality staple food commodities to WFP. Anecdotal evidence suggests that there is a market for quality beyond WFP and farmers' organizations in some countries have already established relationships with local processors and large buyers. Importantly the knowledge and experience that is focused on staple commodities that smallholders gain through the P4P pilot can also be applied to enhance the productivity and marketing of higher value cash crops that offer better returns.

Ensuring affordable, adequate, universal and constant access to nutritious food is one of the most pressing challenges of the twenty-first century. Population estimates indicate that the global population will exceed 9 billion by 2050, increasing the demand for food by over 50 percent in the next four decades. Leveraging the potential of the smallholder sector in developing countries and addressing market failures are prerequisites for structural transformation and broad-based growth, which are necessary for the rapid reduction of hunger and food insecurity. The P4P pilot is at the forefront of efforts to identify innovative partnership and procurement platforms that stimulate rural growth and address the root causes of hunger, and there are good grounds for hope that it may contribute to these global imperatives.

1 Background and Context

1.1 Evolution of WFP's Local and Regional Food Procurement Activities

Development and food aid agencies have long recognized the potential for food aid to contribute to development objectives. As early as 1974, the World Food Conference adopted Resolution XVIII “An Improved Policy for Food Aid” urging countries to “provide, as appropriate, to food aid programmes additional cash resources for commodity purchases from developing countries to the maximum extent possible”. This resolution formally recognized the potential for food procurement to contribute to agriculture and market development. As a frontline actor and innovator in the fight against hunger, WFP was able to support these international efforts.

Between 1981 and 1983, WFP purchased over 250,000 tons of maize in Zimbabwe² for distribution in 15 countries in sub-Saharan Africa. The “Zimbabwe Maize Train” was the first large-scale operation in regional food procurement. The following two decades saw modest increases in the quantities of food that WFP purchased from developing countries. In the early 2000s, several donor countries phased out in-kind donations in favor of cash contributions, which provided WFP with greater flexibility to procure food (see Figure 1). WFP sharply increased local and regional procurement (LRP) and today purchases almost 80 percent of its food in low and middle-income countries.

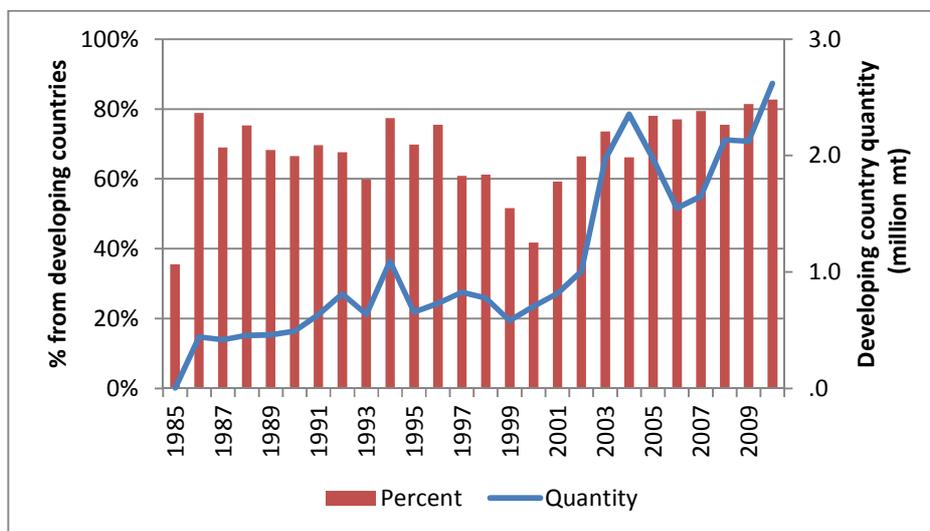
With WFP purchasing increasing quantities of food locally, several WFP country offices – among them Burkina Faso, Guatemala, Uganda, the United Republic of Tanzania and Zambia – diversified their supplier bases beyond established traders and national food reserves to include emerging traders and farmers’ organizations (FOs).

Slow growth in the demand for staple food commodities is a bottleneck to rapid agricultural development in many low-income countries. Successful productivity increases by farmers in such countries may result in surplus production, which either drives domestic prices down below production costs or is simply left to rot in the field. If procured in such countries, food aid could serve as an important stimulus to agricultural development and poverty reduction, not only in aid-recipient countries but also in the countries where the food aid is procured - *Per Pinstrup-Andersen, 2001 World Food Prize Laureate, Cornell University*

In the context of increasing international interest in nutrition, WFP also began to explore local options for producing and purchasing processed foods. In the early 1990s, WFP embarked on a private-sector approach to increase the production of fortified blended foods in Bangladesh, Eritrea, Ethiopia, India, Kenya, Laos, Nepal, Nicaragua, Senegal, Uganda and Zambia. As the demand for fortified foods increased, WFP intensified and expanded on these earlier efforts.

² Relief and Development Institute. 1987. A Study of Triangular Transactions and Local Purchases in Food Aid. Occasional Papers (World Food Programme) No. 11. Rome.

FIGURE 1: WFP'S LOCAL AND REGIONAL FOOD PROCUREMENT, 1985–2010



As WFP purchased more food in developing countries, it sought to gain a better understanding of the potential positive and negative impacts of its LRP activities. It reviewed the literature and commissioned six case studies on its local procurement activities in Bolivia, Burkina Faso, Ethiopia, Nepal, South Africa and Uganda.³ The research concluded that local food procurement could have positive impacts on market development through improved business practices, increased investment in infrastructure for storage and quality enhancement, higher quality standards for food available in the market, greater local processing and milling capacity and regional trade more vibrant. However, researchers cautioned that poorly managed local procurement can cause undesirable outcomes such as contributing to food price increases and instability and creating dependence on WFP as a buyer.⁴

Based on its research, in 2006 WFP produced a policy paper “Food Procurement in Developing Countries”⁵ which endorses greater emphasis on market development in procurement and programming activities whenever it does not compromise food aid objectives. However, the paper concluded that any attempt to enhance the development impact of WFP’s local procurement would have to rely on partnerships with other agricultural development stakeholders to build the capacities of smallholder farmers to meet WFP demands. Its conclusions included:

- As a major buyer in food markets, WFP has a role in advocating national policies that promote the effective functioning of food markets.
- Where food needs are not urgent, WFP can do more to encourage small traders and farmers’ groups that can trade competitively in the formal sector.

³ Narma Consultancy 2005; Sserunkuuma & Associates Consult, 2005.

⁴ Lynch, 2006; Tschirley and del Castillo, 2007; Barrett, *et al.*, 2009; Maxwell, Lentz, and Barrett, 2007, Aker, 2008.

⁵ WFP/EB.1/2006/5-C. [www.wfp.org/content/food-procurement-developing-countries]

- WFP is not well placed to use procurement to support farmers and farmers' organizations entering the market place. There may be limited opportunities for supporting FOs to enter the marketplace as part of a broad partner-led strategy.
- WFP should continue to support the creation of processing capacity to produce fortified and blended foods in countries where processors have the potential to become market competitive.
- To promote local and regional purchases, WFP must increase its procurement capacity.

In endorsing the policy, the Executive Board stated, "WFP should continue to undertake food procurement in a manner that is cost-efficient, timely and appropriate to beneficiary needs." The Board calls on WFP to "continue to advance in its study of the developmental impact of food procurement" and to optimize the potential developmental benefits of procurement by:

- working closely with national governments, 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 and regional markets to participate in WFP procurement and to support partner efforts to develop this capacity;
- providing the Board with more information about the situation of local markets and, more generally, the trends and issues involved in local and regional purchases of food products;
- ensuring that WFP country offices and/or regional bureau, where appropriate to the overall needs of WFP, have the necessary staff to enable them to procure food on the basis of adequate knowledge and analysis of local and regional markets.

The policy paper drew on a mixture of informal and unstructured country experiences and pilots, but pointed to a real opportunity to take advantage of local procurement to support market development and learn from the experience in a more structured and formalized manner. This idea gained momentum with the arrival of a new Executive Director, Ms. Josette Sheeran, in April 2007.

In May 2007, WFP brought together key stakeholders including grain market experts, United Nations partners, economists and policy-makers from around the world to explore the best ways to utilize food procurement to benefit farmers in developing countries. The meeting, funded by the Belgian and Swedish governments, addressed how food procurement could contribute to developing markets, improving livelihoods and building the economies of poorer countries. Presentations on grain markets, structured trade, warehouse receipts systems and market development articulated a common belief in the positive development benefits of LRP.



The WFP Strategic Plan (2008–2013)⁶ formalized WFP’s commitment to enhancing the development impact of its procurement. The plan marks a historic shift for WFP from food aid to food assistance and puts a more nuanced and robust set of tools at its disposal to respond to critical hunger needs. Strategic Objective 5 focuses on “using WFP’s purchasing power to support the sustainable development of food and nutrition security systems and transform food and nutrition assistance into a productive investment in local communities”.

WFP’s initial discussions with the Bill and Melinda Gates Foundation (BMGF) on using its school-feeding demand to promote agricultural development in local communities and advance the New Partnership for Africa’s Development (NEPAD) vision for homegrown school feeding programmes quickly evolved into a broader concept. This envisaged using WFP’s broad demand to explore innovative ways to connect smallholder farmers to formal markets and to validate the potential economic benefits of local food procurement – a concept that quickly gained the support of the Howard G. Buffett Foundation (HGBF). In close collaboration with the two Foundations, WFP developed a proposal that eventually culminated in the five-year P4P pilot initiative focusing on how WFP can enhance the developmental impact of its local food procurement activities. It anticipated working in partnership with other entities whose efforts focus on increasing smallholder production and yields, generating significant surplus production for WFP to buy. BMGF had a particular interest in WFP’s role as an off-taker complementing their other grantees working on agricultural development in sub-Saharan Africa.

In September 2008, WFP formally launched the Purchase for Progress initiative on the margins of the United Nations General Assembly. The pilot includes 21 countries on three continents whose distinct physical, institutional, policy and political conditions demand a diversity of implementation models and innovative actions. A variety of donors has extended their support to P4P to enable its implementation in these 21 countries:

- The Bill and Melinda Gates Foundation (BMGF) funds 10 countries in sub-Saharan Africa: Burkina Faso, Ethiopia, Kenya, Malawi, Mali, Mozambique, Rwanda, Uganda, the United Republic of Tanzania and Zambia.
- The Howard G. Buffett Foundation (HGBF) funds similar efforts in Central America (in El Salvador, Guatemala, Honduras and Nicaragua) and provided initial funding to begin P4P programmes in three post-conflict countries in Africa (Liberia, Sierra Leone, and South Sudan).
- WFP worked with FAO, with the support of the Belgian Government, to design a programme in the Democratic Republic of the Congo to stimulate market development.

WFP Strategic Objective 5: *Strengthen the capacities of countries to reduce hunger, including through hand-over strategies and local purchase*

WFP will pursue this objective by purchasing food locally to support national agricultural sectors, with a special focus on smallholder farming. In many cases, WFP’s purchasing power applied in this way represents a real partnership opportunity for agencies such as FAO to stimulate a supply response from smallholder farmers. Partnerships are crucial to bringing an integrated package of procurement and capacity-building support to bear on helping producers and service providers develop the capacities they need to reach formal markets with high-quality food.

⁶ WFP/EB.A/2008/5-A/1/Rev.1

While FAO works with smallholder farmers to increase productivity, WFP focuses on linking the farmers to market opportunities, including small and medium-scale traders.

- Three additional countries were subsequently included in the pilot: Afghanistan and Ghana (with Canadian support) and the Lao People's Democratic Republic (with initial support from Luxembourg). Afghanistan was selected to take advantage of substantial rebuilding investments in agriculture and business development; Ghana to build upon progress in support of smallholder agriculture and to advance the knowledge and impact of the nationally-owned homegrown school-feeding programme; and the Lao People's Democratic Republic to build on WFP's experience supporting small-scale processing facilities linked to smallholder farmers.
- USAID and USDA have made significant contributions both for food procurement and capacity development activities, notably in countries where the US government implements its Feed the Future strategy.
- The European Commission and France have extended further support to P4P in Guatemala, Honduras; the DRC and South Sudan respectively.
- The Kingdom of Saudi Arabia is supporting the continuation of P4P in Liberia and Sierra Leone.
- Ireland has contributed to enhancing the participation of women in P4P in Liberia and Sierra Leone.

The diversity of experiences in these 21 countries will generate a wealth of evidence. This will enrich discussion about structured demand and its potential role in agricultural and market development, and inform the development of institutional and policy reform within and beyond WFP. Such a broad base of evidence should enhance the prospects for the successful adoption and mainstreaming of best practices, one of the key objectives of the P4P pilot initiative. The pilot phase will run through December 2013, with a comprehensive final evaluation planned in 2014.

1.2 International Context: A Renewed Focus on Agricultural Development

WFP's launch of P4P was timely given the renewed emphasis on agriculture within the international development community. Following decades of neglect and continued chronic hunger and malnutrition, governments and donors have recently begun to make substantial political and financial commitments to advancing agriculture-led growth. The food price hike of 2008 underscored the difficulties of assuring the food security, nutrition and health of a global population expected to exceed 9 billion by 2050. Supporting smallholder farmers in developing countries to increase productivity, and utilizing agriculture to improve nutrition and health, have emerged as two central themes on the international development agenda, prompting such global actions and responses as:

- the World Bank's *World Development Report 2008: Agriculture for Development*, which called for a renewed emphasis on agriculture as an engine of poverty reduction and economic growth;

- the FAO High-Level Conference on World Food Security;
- the UN High-Level Task Force on the Global Food Security Crisis (HLTF);
- the Comprehensive Framework for Action (CFA);
- the L’Aquila Food Security Initiative (AFSI);
- the Feed the Future programme of the United States Government;
- the World Bank-administered Global Agriculture and Food Security Program (GAFSP), an initiative launched in 2010 with the objective of reducing global hunger and poverty by promoting country-led agricultural development.
- Reinforcing these actions, global leaders at the United Nations General Assembly in September 2010,⁷ committed to accelerating progress to achieve Millennium Development Goal 1 – Eradicate extreme poverty and hunger – and invoked 23 actions which includes:
 - promoting a strong enabling environment at all levels for agricultural production, productivity and sustainability in developing countries; and
 - supporting small-scale producers, including women, to increase their production of a wide spectrum of traditional and other crops and livestock, and improving their access to markets, credits and inputs, with the aim of increasing income-earning opportunities for poor people and their ability to purchase food and improve their livelihoods.
- In February 2011, over 1,000 people came together at a conference in India organized by the International Food Policy Research Institute (IFPRI) to explore the broader potential of agriculture to contribute to improved nutrition and health. Delegates called for comprehensive approaches to food and nutrition security that integrate supply-side, demand-side and market measures and align the goals of the agriculture, health and nutrition sectors.



These global responses all promote renewed investment in smallholder production and productivity and in national and regional strategies to promote the participation of farmers, particularly smallholders, in domestic, regional and international markets.

⁷ “Keeping the promise: united to achieve the Millennium Development Goals” (A/65/L.1)

2 Purchase for Progress

The P4P initiative advances WFP’s strategic commitment to enhance the development impact of its procurement activities, and exemplifies its shift from food aid to food assistance. The five-year pilot programme creates space for WFP to experiment with procurement mechanisms that have the potential to enhance development impacts without compromising its core objective of providing food in a timely and cost-effective manner.

As a pilot, P4P emphasizes learning and rests on three pillars: (i) WFP’s demand platform; (ii) supply-side partnerships and capacity-building activities; and (iii) learning and sharing. Through P4P, WFP wants to leverage its substantial demand for staple commodities to enhance the capacity of smallholders to access formal markets, i.e. the WFP market, Government programmes and the food-processing sector.

WFP will share the lessons and best practices from the pilot with governments and other stakeholders to support market development efforts.

P4P Objectives

1. To identify and share best practices for WFP, NGOs, governments and agricultural market stakeholders to increase profitable smallholders’ engagement in markets.
2. To increase smallholders’ capacities so they may increase their income from agricultural markets.
3. To identify and implement best practices for increasing sales by low-income farmers to WFP with a particular focus on small-scale farmers.
4. To transform the WFP food purchase model to support sustainable production and address the root causes of hunger.

Ultimately, the goal of P4P is to identify models, which national governments can adopt and bring to scale. WFP will also institutionalize the best practices documented through P4P, with the result that WFP’s local food procurement activities will in future have a more potent impact on smallholder agricultural development.

2.1 The Conceptual Basis of Purchase for Progress

Significant barriers keep smallholder farmers from accessing formal markets; and WFP follows standard local procurement practices that severely limit smallholders’ ability to sell to WFP. The design of P4P attempts to address these two related issues.

Most smallholder farmers can find someone to buy their surpluses, but the transactions often net them little income. They suffer commercial disadvantages such as:

- small land holdings and low production volumes combined with long distances from markets and poor infrastructure, which increase transaction costs and reduce selling options and prices;
- limited access to credit/financial services and limited cash resources that often force them to sell at inopportune times such as immediately following harvests, narrow their marketing options, and restrict their access to inputs;

- limited access to suitable storage and post-harvest handling infrastructure, which increases post-harvest loss and spoilage;
- weak farmers' organizations that are poorly equipped to help farmers improve productivity, aggregate marketable volumes, improve quality, identify markets, negotiate sales, etc.;
- limited scope for value addition and few market and use options for the staple commodities they grow; and
- misguided policy decisions and weak governance hinder the formation of the basic conditions for the smallholder sector to thrive

To participate in WFP's standard food procurement process, suppliers must compete for and win a tender, offer a substantial performance bond, deliver relatively large quantities, meet WFP's quality standards, and deliver the commodities in marked bags of a consistent and accurate weight to a location specified by WFP. Most smallholder farmers, their organizations or small emerging traders do not have such capacities.

In the context of the P4P initiative, WFP has relaxed some of its more onerous procurement requirements. Four new procurement modalities to address the various marketing constraints of smallholder farmers are available; for example, in order to address the problem of limited access to credit, WFP signs forward purchase contracts with farmers' organizations, and these contracts are used by the organizations to access production and aggregation credit from financial institutions.

P4P supports FOs by building their capacity to the point where they can sustainably access markets without external support. The security of the WFP market during the training period gives the organizations the confidence and incentive to invest in building the necessary capacities to engage in formal markets.

Table 1 summarizes the differences and similarities between WFP's standard approach to local and regional procurement and the Purchase for Progress approach. The quality and price parameters remain unchanged.

TABLE 1: COMPARISON OF STANDARD LRP AND P4P FOOD PROCUREMENT REQUIREMENTS

	Standard LRP	P4P
Suppliers	Pre-qualified suppliers (mostly larger traders), that are legal registered, have financial capacity, delivery capacity, and a good performance record.	Pre-qualified smallholder FOs and small and medium traders
Contracting mechanisms	Competitive tenders	<ul style="list-style-type: none"> • Competitive tenders • Pro-smallholder competitive tenders (section 3.4.1) • Direct contracts • Forward contracts • Commodity exchanges⁸ • Purchasing through warehouse receipts systems • Developing links with food processors
Procurement requirements		
*Price	Determined by authorized contracting mechanisms but not to exceed import parity	Determined by authorized contracting mechanisms but not to exceed import parity
Quantities	Preference for relatively large quantities	Will consider much smaller quantities to accommodate suppliers' capacities
Performance bond	5–10%	None
*Quality	WFP standards (or relevant recipient country standards)	WFP standards (or relevant recipient country standards)
Bagging	Bagged in 50 kg bags and marked with WFP logo	Flexible: may subsidize bagging and/or waive marking as needed to accommodate capacity of supplier
Delivery terms	DDU to specified destination (usually WFP warehouse) on specified date	Flexible: WFP may collect the commodity, modify delivery locations, allow extended delivery times, etc.

**The green shaded rows indicate price and quality requirements for P4P, which are the same as for LRP.*

2.2 P4P Development Hypothesis

The P4P initiative tackles the problems identified in the previous section through a coordinated approach. WFP assures steady demand – implemented through pro-smallholder procurement modalities – while partners with the relevant expertise support farmers on the supply side, which includes capacity-building activities. By committing to provide an assured, substantial market for a higher-quality product over a specific period, WFP expects to catalyze and deepen the impact of the activities of technical partners' to build up farmers' production and marketing capacities. Farmers and their organizations have an incentive – and sufficient security – to invest in their capacity to produce and market sufficient quantities of products of acceptable quality so that they can sell to buyers such as WFP and increase their profits.

Figure 2 illustrates the development logic of P4P. Increased smallholder income requires increased agricultural productivity, improved capacity for aggregation and quality assurance, market development and an enabling environment that supports smallholder market access. The approach tackles issues along the entire agricultural value chain:

⁸ See page 20 for a detailed description of the P4P procurement modalities.

FIGURE 2: P4P DEVELOPMENT HYPOTHESIS



Progress on each element is necessary to ensure sustained and profitable market access for smallholder farmers. WFP will test the validity of this development hypothesis over the five years of the pilot.

P4P targets smallholder farmers capable of producing surpluses. The main thrust is to increase household income by (i) increasing agricultural productivity (by raising yields, reducing losses and/or reducing per unit production costs) and/or (ii) through higher prices (by increasing the quality and quantity of product being marketed and developing markets, increasing the capacity for value addition, improving market access, etc.). P4P offers incentives for investment in technologies and practices that increase productivity and incomes.



P4P assumes that smallholder farmers generally fare better when acting together to deliver a large quantity of improved quality to market.⁹ WFP has established commodity specifications and standards that vendors must meet for all purchases made through P4P modalities. Country-specific approaches all support aggregation and quality improvement in some form, be it by marketing through a farmers' organization – the most common P4P approach – or by selling to a trader or depositing with and/or selling¹⁰ to warehouse operator who processes and aggregates for onward sale.

Market development refers to the many factors that help markets operate with few obstacles – especially for smallholders. These include infrastructure (transportation, storage, commodity handling capacity, systems of price discovery and transmission, market information, and the level of competition in the market or cultural barriers restricting women's access to markets.

The **enabling environment** encompasses policy and institutional factors that affect markets. These include government price controls, import/export policies, purchasing or selling actions related to maintaining food reserves, legislation governing commodity exchanges or warehouse receipt systems, taxation policies for agricultural products and any other government actions that affect the operation of agricultural markets and – especially in the context of P4P – how markets work for smallholders.

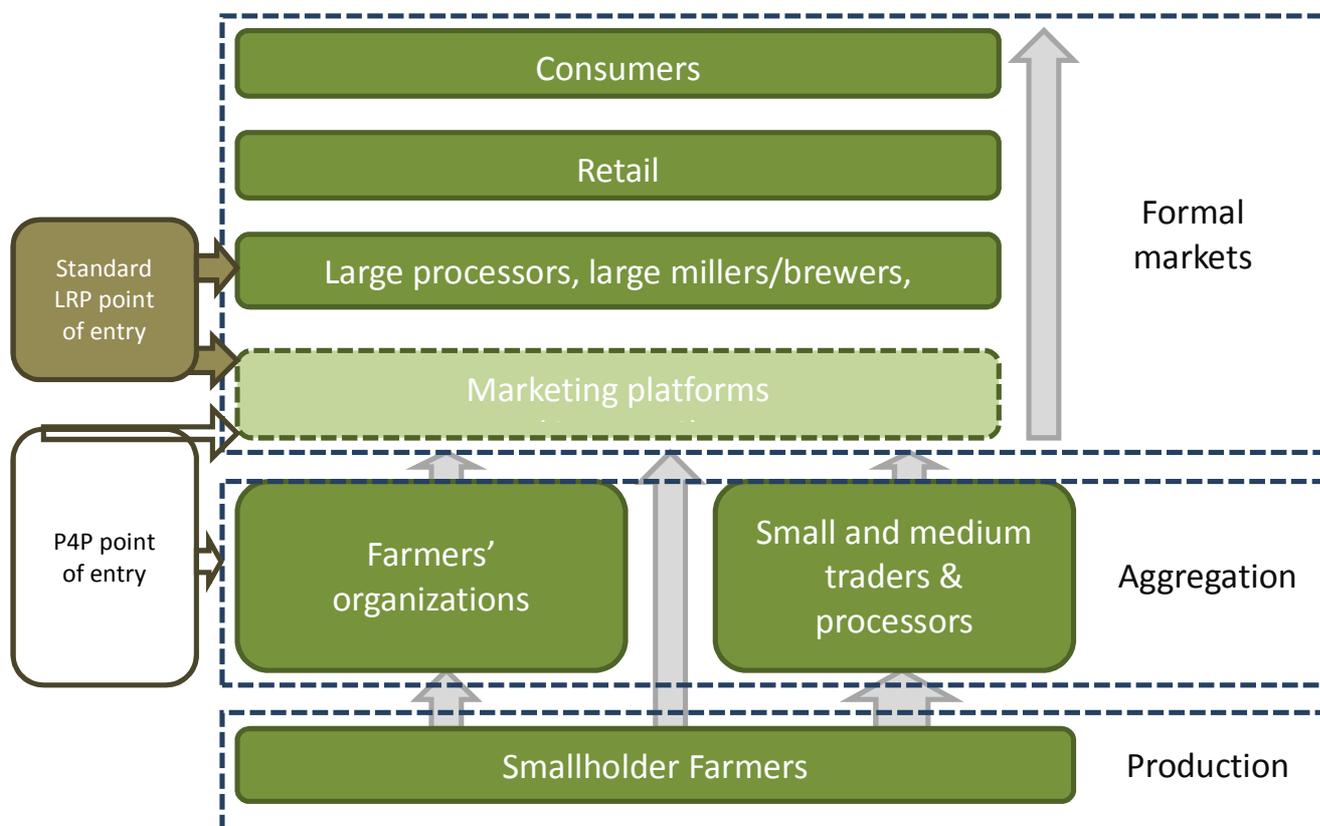
⁹ Collective action through organization and group marketing helps overcome the limited ability of individual households to realize economies of scale (Valentinov, V. 2007; *World Development Report 2008*).

¹⁰ This approach sometimes encompasses farmers selling individually through a warehouse receipt system.

2.3 WFP Procurement Perspective

Figure 3 illustrates the P4P concept from a procurement perspective. In the WFP standard LRP model, WFP largely buys from well-established traders and processors – and sometimes through marketing platforms such as government food reserves or marketing boards – that can provide substantial quantities of graded commodities in a timely and reliable manner. With the P4P pilot WFP is buying more directly from farmers – mostly through their organizations, but also from small and medium traders, agro-dealers, processors and trading platforms. P4P allows WFP to engage with actors further down the value chain in addition to its traditional suppliers.

FIGURE 3: TARGETED P4P MARKET ENTRY POINTS



2.4 Programme Principles and Assumptions

WFP's experience in LRP has informed the design of P4P. P4P builds the capacity of smallholder farmers to their increase yields and add value to their crops, to help them aggregate and market so that they capture some of the margins that accrue to the many intermediaries involved in marketing smallholder commodities.

2.4.1 Programme Principles

The P4P pilot is based on the following principles.

- P4P country strategies must contribute to the national agenda for agriculture and market development and smallholder farmers must be at the center of these efforts.
- The P4P initiative embraces FOs, small and medium traders, processors, agro-dealers, non-governmental organizations (NGOs) and marketing platforms such as warehouse receipts systems, cereal fairs, commodity exchanges and electronic trading platforms. This engagement must benefit smallholder farmers and should not compromise WFP's procurement principles of cost-efficiency and reliability.
- The success of P4P relies on the engagement of a wide range of actors, including national governments, United Nations partners and international and national NGOs, and private sector, national and regional trade entities.
- P4P procurement processes are an integral part of a comprehensive programme for capacity development meant to facilitate smallholder engagement with formal markets.
- Within an agreed timeframe, P4P suppliers will graduate from relaxed contracting processes with WFP and direct support to engaging with formal markets; for WFP, this involves competitive tendering.
- Participating smallholder farmers must have capacity-building support to increase productivity so that they can engage with the market on a sustainable and profitable basis.
- The WFP guidelines on cost-efficiency for local and regional food purchases apply to P4P.
- To protect the health of beneficiaries, all food purchased by WFP must conform to established specifications and standards. National and Codex Alimentarius directives dictate the standards and specifications used by WFP. An independent superintendent analyzes all commodities prior to final purchase by WFP.
- The WFP food basket in each pilot country determines the choice of commodities purchased through P4P. In Central America, the demand from food assistance programmes owned and managed by governments, particularly school meals drives the selection of commodities.



2.4.2 Programme Assumptions

- To efficiently buy the quantities it needs WFP will buy primarily through competitive processes (tenders, warehouse receipt systems, commodity exchanges).
- Smallholder farmers fare better delivering large quantities of higher quality produce to market, rather than the quantity and quality typical of individual producers.
- WFP demand will be predictable for the duration of the pilot programme, and P4P purchases shall account for an average of 10 percent of local purchases in the pilot countries.
- P4P activities will result in higher incomes from agricultural markets. Income increases will come from increased productivity, quality improvements and enhanced market access – not solely from better market prices.¹¹ P4P anticipates increases in farmers' incomes as a result of:
 - enhanced aggregation capacity that increases farmers' negotiation and bargaining power;
 - stronger commercialization and marketing skills, leading to increased competition among buyers and the consequent transfer of a greater portion of the margins to farmers;
 - higher farm productivity and a reduction in post-harvest losses, which will increase the quantity and raise the quality of commodities sold and lower unit costs; and
 - the transition to modern marketing systems and direct access to commercial markets, offering higher returns than traditional farm-gate trading.
- Farmers will receive financial returns for improving the quality of their produce; a market exists beyond WFP for quality produce, which will more than compensate for the additional work that high-quality standards entails.
- Sufficient smallholder farmer organizations are in place in areas where WFP buys food, and with the right support, these organizations can increase productivity; capacity-building partners are available, and assured demand from P4P will boost their work.
- Marketing in staple foods will become more efficient and will progress from dealing with low and unpredictable volumes, low quality and fluctuating margins to high volumes, high quality and predictable margins.
- In future, smallholder farmers and their organizations can apply the capacities developed through P4P to high value crops, such as vegetables, oilseeds or other cash crops.

As part of the learning process, which is intrinsic to the pilot, the relevance and validity of these assumptions are continuously tested.

¹¹ Country offices are strongly encouraged to focus on pulses, which are high-value commodity and are part of the WFP food basket.

3 Programme Design and Implementation

The previous chapter provided an overview of the basic concepts of P4P. This chapter provides more detail on the application of P4P in specific country contexts.

3.1 P4P Implementation Approach

Each of the 21 P4P pilot countries designed a programme to take advantage of opportunities and address constraints specific to that country. Table 2 provides a summary of the various approaches.

TABLE 2: P4P APPROACHES

Approach	Characteristics of the approach
Approach 1: FOs and capacity-building partnerships	<ul style="list-style-type: none"> • WFP buys from FOs of varying capacities (low, medium and high). • Procurement modality and quantity are selected to match FO capacity. • FOs are expected to progress towards competitive tendering and wider market engagement over time. • FOs receive support on production and marketing. • Investments are made in storage and warehousing equipment.
Approach 2: Support to emerging structured trading systems	<ul style="list-style-type: none"> • WFP supports establishing warehouse receipts systems (WRS) by: <ul style="list-style-type: none"> • providing direct support; and • purchasing through WRS. • Purchasing through cereal fairs or commodity exchanges creates a “pull-in/follow-in effect”. • WFP works with FOs to build capacities for structured trade.
Approach 3: Small and medium traders	<ul style="list-style-type: none"> • This approach seeks to promote competition in the market and alternative markets for farmers’ surpluses. • Purchases from emerging traders/agro-dealers through modified tendering. • Training provided to traders and agro-dealers on WFP procurement and contract requirements. • Includes investments in marketing equipment such as stitching machines and weighing scales.
Approach 4: Developing local food processing capacity	<ul style="list-style-type: none"> • FOs are connected to established processors of food. • Develop local processing capacity for biscuits, supplementary feeding products or fortified milled flour.

The four approaches to P4P are not mutually exclusive and programmes often combine approaches. A common element of the four approaches is procuring from smallholder farmers through various marketing channels. Using procurement modalities tailored for smallholder farmers, P4P shifts WFP’s usual market entry point for local and regional procurement from large traders to points closer to smallholder farmers (see Figure 3).

3.2 The P4P Target Group

P4P targets those regions and smallholders with the greatest potential to reach the programme objectives and to satisfy WFP's needs. In each pilot country, P4P targets surplus-producing regions and low-income smallholder farmers who are net sellers of cereals and pulses included in the WFP food basket. Pilot countries use a value-chain approach to select regions and farmers that involves:

- identifying surplus-producing areas and the likely volume of marketable surpluses;
- identifying market actors, their capacities and the relationships between them;
- assessing the potential of WFP's procurement to stimulate increased productivity and marketable surpluses;
- considering proximity to WFP activities and the costs and logistics of purchasing the food commodities and transporting them to the final distribution areas; and
- ascertaining the availability of partners offering capacity-building activities and other services relevant to P4P, i.e. support for production, marketing, credit, input providers, and telecommunications for market price dissemination.

Smallholder farmers have diverse livelihood strategies. The purpose of P4P is not to reduce livelihood options but rather to help maximize their productive potential in view of the importance of staple crops for household food and nutrition security.

The definition of smallholder farmers varies from country to country and is included in each country's implementation plan. In generic terms, smallholder farmers: i) operate one level above subsistence farming; ii) produce for their own consumption and market a portion of their output; and iii) have the potential to increase productivity and marketable surpluses. In many countries, smallholders are semi-subsistence farmers who cultivate less than two hectares. In most



instances, smallholder farmers are those cultivating five hectares, or less. Smallholders who cultivate less than one hectare generally do not produce surpluses of staple commodities and are not the intended P4P target group.

Smallholder farmers or small/medium traders who have the *opportunity* to sell to WFP through P4P are *participants* of the pilot whether they choose to sell to WFP or not; the criteria are that participants have the opportunity to sell to WFP and that P4P created the opportunity.

P4P *beneficiaries* are P4P *participants* who realize an increase in household income from crop marketing attributable to their participation in P4P. WFP expects five hundred thousand smallholder farmers to increase their incomes by participating in the P4P pilot over the five years. These targets are intended to achieve the critical mass necessary to ignite real systemic change; one purpose of the pilot is to identify models that national governments can replicate and bring to scale.

WFP must regularly buy significant quantities of food from P4P participants in order to provide the appropriate incentives to farmers and engage the partners. Guidance to WFP country offices recommends that they earmark at least 10 percent of their LRP portfolio for purchases from P4P participants, cash resources and pipeline situation permitting. WFP expects to buy a total of 500,000 tons of food commodities through P4P modalities during the five years of the pilot.

3.2.1 Empowerment of Women

Gender issues in the context of P4P are especially complex. The main obstacles to women's emancipation are structural and mostly rooted in the replication of unequal gender relations in the household and community. This inequality manifests itself in women's widespread lack of access to and control of productive resources, most notably land and agricultural services. These disadvantages make it difficult for women to graduate from subsistence farming to prominence in market-based agriculture.

The development of the P4P Gender Strategy¹² represents an important step in meeting these challenges. The strategy articulates P4P's gender mission and recognises four categories of women that are of relevance to P4P. It is important to note that these categories may overlap as women can have more than one productive role.

P4P Gender mission: To increase the well-being of women engaged in smallholder farming, unpaid work on family farms and/or wage labor, through promoting and facilitating opportunities for their access to agricultural markets, in an economically and socially sustainable way.

P4P Global Gender Strategy, ALINe¹ and WFP, August 2011

- 1. Producers or marketers of crops or food products currently procured by WFP** who are selling – or demonstrate potential to sell – through P4P mechanisms. Often these women live in households headed by women and/or are older women in polygamous marriages. They have the prerequisites for selling surplus produce through P4P modalities, but might be disadvantaged in relation to their male counterparts for a variety of reasons.
- 2. Unpaid family workers**, these women are linked to P4P through their husbands or male heads of households; they engage in P4P activities primarily by supporting their husband's crop production. In many cases, women in this category are not interested in farming as their main economic activity.
- 3. Producers/petty traders of crops or food products not currently procured through P4P.** These women have only a potential link to the P4P initiative. They produce enough surplus crops or food products and engage with the market to some extent, and/or they are part of collective organizations, which usually comprises women only. This category may overlap with the preceding one if the women also work on family farms.
- 4. Casual agricultural laborers**, who may be working as seasonal laborers on farms that sell produce through P4P, or as laborers in processing and packing activities.

The P4P pilot requires both direct and indirect targeted approaches to encompass those in the other three categories and extend P4P's reach beyond the few women smallholder farmers belonging to the first category. WFP staff and partners are supporting activities with the greatest

¹² The P4P Gender Strategy was developed with the support of the Agricultural Learning Impacts Network (ALINe) www.wfp.org/content/p4p-gender-strategy.

potential for enhancing women's access to markets and increasing the likelihood of their retaining control over the income realized from their activities.

3.3 Partnership

The success of P4P relies on the engagement, expertise, collaboration and input of a wide range of actors and partners. WFP's demand and support are only part of the interventions required to increase the income of smallholder farmers. Engagement with partners is necessary to provide the appropriate institutional and technical support to smallholders, FOs, small/medium traders, processors and others.

3.3.1 Role of Government

Governments are playing a pivotal role in the design and implementation of P4P programmes. In all the pilot countries, WFP has closely aligned the P4P programme with national development strategies, and the programme generally ties in with the country's goals and vision for its agricultural sector. Many governments are engaged and have assumed ownership of the P4P programme at national, regional and local levels. In the United Republic of Tanzania, for example, the Ministry of Agriculture seconded two post-harvest experts to the Rural Development Initiative (RUDI), the organization that WFP selected as the training partner for P4P. These experts provided support for training smallholder farmers through savings and credit cooperatives (SACCOs) participating in P4P.

In a number of countries, however, government support needs to be translated into policies that are conducive to market development and an enabling environment. For example, recent government-led market interventions in Kenya, Malawi and Zambia have been problematic for the P4P pilot.

Continuing robust engagement by governments is essential to the sustainability of the P4P programme. The replication and scaling-up of best practices and their adoption by national programmes will implant the benefits and successes of P4P well beyond the pilot phase. The Government of Rwanda, for instance, is making the P4P model central to its agricultural development strategy. The Government of El Salvador has modeled its new "Family Agriculture Plan" on the P4P concept. Under the plan, the government purchases grain from smallholder farmers for the national food reserves, for redistribution to vulnerable households through small shops. The scheme offers technical assistance, special credit lines and crop insurance to 70,000 rural families allowing them to produce surpluses for sale through the Government's market and through the higher-value markets of the agro-industry.

3.3.2 Partnerships for Capacity-Building

The WFP Executive Board recognized the importance of partnerships when it approved the policy on food procurement in developing countries and requested that WFP "work closely with national governments, FAO and IFAD and others to assess the capacity of local and regional markets to participate in WFP procurement and to support partner efforts to develop this capacity further¹³." The Board further acknowledged that a broad partner-based strategy was the best way

¹³ WFP/EB.1/2006/5-C

of building the competencies and competitiveness of smallholder/low-income farmers so that they might enter the marketplace.

Figure 4 illustrates the role of partnerships in the P4P pilot. The boxes around the circle refer to the infrastructure, equipment, services and expertise required to enable FOs and small/medium traders to access remunerative markets on a sustainable basis. The needs and opportunities in each pilot country determine the number and type of partnerships required to build these capacities.

FIGURE 4: P4P PARTNERSHIP FRAMEWORK



- **Agricultural production, post-harvest handling and quality:** Increasing agricultural productivity requires the engagement, expertise, collaboration and input of a wide range of actors working in the areas of crop production and agricultural productivity, access to finance and extension services. To this end, WFP relies on private and public partners with a comparative advantage in these areas to ensure the availability of inputs and improved farming technologies and practices. Increasing crop yields is critical to achieving the increase in household income expected from participation in the P4P programme, along with reduced post-harvest losses and improved quality and better on-farm storage.
- **Access to finance:** Limited access to financial services restricts the ability of many smallholder farmers and FOs to invest in productivity or marketing capacity. The need for cash at harvest time and restricted access to credit obliges many smallholders to sell immediately after harvest, when prices are low, rather than defer sales for the more lucrative markets that do not pay immediately. Microfinance institutions, banks, input suppliers, WFP and other partners are collaborating to make financial services available and affordable in remote areas. The solutions include using food-supply contracts and warehouse receipts as collateral for loans and training FOs in financial management and literacy. WFP convenes P4P stakeholders, puts participating vendors in contact with financial service providers

(FSPs) and works with both sides to identify common goals and remove obstacles to credit. The aim is to stimulate interest on the part of the agricultural financing sector in reaching smallholders.

- **Gender equality and women's empowerment:** No single project can address all the obstacles to women's empowerment, even with supportive partnerships. WFP's procurement can make only limited impact on women's income. In addition to market access, women need help to increase their productivity, improve the quality of their commodities and gain a voice in decision-making along the agricultural value chain, from production to marketing. They also need greater access to and control over the use of income realized from their agricultural labor. Achieving programme



goals in women's empowerment will require a presence of relevant partners with focus and commitment to supporting the implementation of the P4P Gender Strategy, www.wfp.org/content/p4p-gender-strategy.

- **Market access/development:** Inadequate infrastructure limits smallholders' access to profitable markets. Examples include limited access to warehouses or market collection points or poor transportation infrastructure. WFP is working with partners to establish or renovate and equip warehouses and market collection points and to improve transportation infrastructure. This support includes providing equipment to smallholder farmers for the weighing, bagging, quality testing and storage of commodities. WFP and partners also train FOs in post-harvest handling practices and commodity quality standards and practices.

Farmers and FOs often lack the knowledge and skills to locate promising markets, identify and attain market demands, manage the marketing process or negotiate prices. WFP and partners are training FOs in administration, governance, commercialization and marketing. In several countries, WFP has aligned P4P with projects that establish warehouse receipts systems and commodity exchanges. WFP and partners are expanding and enhancing market information systems, mobile payment models, mobile phone solutions, rural radio networks and other such vehicles.

- **Policy environment and advocacy:** Through P4P, WFP can use its experience in food markets to advocate for policies favorable to agricultural and market development. WFP will share its learning with partners and engage them in a coordinated advocacy campaign to promote an enabling environment for smallholder agricultural development. In Zambia, for example, WFP and its partners are encouraging the Government to enact legislation supportive of the commodity exchange.
- **Monitoring and evaluation:** The P4P pilot relies on a wide range of partnerships for the purposes of monitoring and evaluation, peer review and collaborative learning. See the section "Learning" for details.

Coordination mechanisms have been set up in pilot countries to bring partners together to steer P4P implementation. In some countries, these mechanisms build on existing forums such as those for food security, agriculture or rural development; in others, they take the form of specific P4P steering and technical committees.

In addition to partnerships tailored to specific country programmes, WFP has developed partnerships around global or regional initiatives. WFP has signed a Memorandum of Understanding with FAO and IFAD and the Alliance for a Green Revolution in Africa (AGRA) to facilitate and promote joint programmes to help African countries in their efforts to eradicate hunger and improve food security and incomes for farmers and rural households. In Burkina Faso, Kenya, Mali, Mozambique, the United Republic of Tanzania and Zambia, AGRA is funding partners to support the P4P pilot. WFP has also signed global agreements with the Millennium Challenge Corporation (MCC), the Millennium Villages Project (MVP), and the USAID Development Credit Authority (DCA).

3.4 Role of WFP

WFP's commitment to channel a portion of its demand for food commodities to smallholder farmers provides the foundation on which P4P pilot countries build their programmes. The organisation's pledge to buy (using innovative procurement modalities designed to address smallholder constraints), combined with the efforts of partners contributes to building smallholder farmers' capacities for market access. WFP's role is fourfold:

- Purchasing food;
- Convening and fostering capacity building partnerships;
- Capacity building in specific areas, commodity storage and handling, warehouse operations and food procurement; and
- Engaging in policy dialogue.

3.4.1 Engaging Farmers through Innovative Procurement Modalities

WFP's procurement from smallholder farmers and small/medium traders (the demand pillar) provides the inducement and motivation for action around the P4P development hypothesis. This includes, catalyzing the capacity-building activities of partners, providing smallholder farmers with an incentive to invest in productivity, guiding the learning process, encouraging policy dialogue and influencing the activities of other agricultural market development stakeholders.

WFP designed the new P4P procurement modalities specifically to deal with the difficulties that smallholder farmers face in selling to WFP. The P4P procurement modalities fall into four general categories:

- **Pro-smallholder competitive tendering** - Making greater use of competitive tendering practices that are better suited to the needs of FOs and small/medium traders. This may entail reducing tender sizes, waiving bag marking and performance bond requirements and purchasing ex-warehouse. It may also include competitive purchases made through a commodity exchange, often using a coordinated warehouse receipt system.

- **Direct contracting** - Purchasing directly from organizations that represent smallholder farmers (farmers' associations, NGOs). This may also include using direct contracting to buy through a warehouse receipt system that encourages smallholder participation.
- **Forward contracting** - Executing forward contracts with farmers' organizations to reduce farmers' risk and allow farmers greater planning certainty. The modality allows for the use of contracts that specify a minimum price that WFP will pay upon future delivery or, with the collaboration of a financial partner, mechanisms that allow farmers' organizations to use forward contracts with WFP as collateral to access credit.
- **Processing options** - This includes working with the private sector and other stakeholders to encourage the establishment of local food processing units and, where possible, linking these entities to smallholder suppliers as a source of raw materials.

WFP expects its use of these modalities to benefit farmers in three ways: (i) by putting cash in their pockets, (ii) by providing an incentive for them to invest in sustainable improvements in productivity and market access, and (iii) by supporting market development and an enabling environment through promoting competition and structured trade.

No two countries are likely to employ the same set of procurement modalities in the same way. Each P4P pilot country conducts a thorough process of assessment that identifies, among other things, the procurement modalities that best suit them, partnership and capacity-building opportunities, marketing environments and the needs of P4P participants. In general, the choice of modalities reflects the specific constraints that the selected participants face in producing, marketing and selling to WFP.



The P4P procurement modalities are not intended as long-term solutions. Rather, they are designed to address specific constraints for a fixed period while P4P participants develop the capacity to engage with markets without external support. Participants, partners and WFP map out a progression strategy, which includes an action plan with measurable indicators to signal when a P4P participant has reached a higher level of market engagement and requires less support. Although countries may choose different initial entry points depending on their individual circumstances, the expected progression through the procurement modalities is from direct contracting through forward contracting to competitive tendering. Country offices are advised to consider an “up or out” strategy whereby, within a pre-agreed timeframe, programmes reassess their commitment to supporting participants that fail to develop the capacity to engage in formal markets – which for WFP means competitive tenders.

3.4.2 Convening Capacity-Building Partnerships

The P4P development hypothesis relies fundamentally on building the capacities of smallholder farmers – often through associated organizations, businesses and institutions – to increase agricultural productivity and more profitably access markets. Many of the technical areas are

outside WFP's scope of work; therefore, to achieve the P4P objectives, WFP relies on attracting partners with the appropriate expertise.

Ample evidence exists that WFP is effectively convening and fostering partnerships to address key capacity constraints to smallholder productivity and market access. The partnerships have evolved in a number of ways in the different P4P pilot countries. In some cases, country programmes sought out partnerships during the P4P design phase – choosing to work in regions and with farmers' organizations already receiving the necessary capacity-building support. For example, WFP joined with FAO and IFAD to design the UN joint programme “Building Commodity Value Chains and Market Linkages for Farmers' Associations Mozambique”, the platform for P4P implementation. In other instances, country programmes have selected farmers' organizations with which to work and then sought the partners needed to address identified value chain gaps. In Zambia, WFP engaged DUNAVANT¹⁴ to manage the mechanized service provision (MSP) project.

Partnerships have also evolved organically as opportunities emerged for both WFP and potential partners. For example, in Kenya, the Academic Model Providing Access to Healthcare (AMPATH) actively sought a partnership with P4P to link the farmers' organizations (FOs) that it had created to WFP's market. Equity Bank has since followed AMPATH and WFP to offer crucial financial services to P4P-supported farmers' organizations.

3.4.3 Contribution to Capacity-Building

Apart from buying from smallholder farmers, WFP also contributes directly to some aspects of the capacity-building agenda. In many countries, WFP trains farmers, farmers' organizations, traders, and warehouse operators in commodity handling and storage, warehouse operation, quality standards, quality control and WFP procurement procedures. The training directly enhances the ability of its recipients to achieve the quality standards required by WFP, reduce losses, maintain quality during storage, and participate in competitive market processes.

In many countries, WFP directly engages in building smallholder farmers' marketing capacities by improving or providing the infrastructure and equipment necessary to access markets. In Kenya, for example, WFP lends scales, moisture meters, generators, bag stitching machines and pallets to participating FOs, and contributes to rehabilitating/constructing warehouses. In DRC, Uganda and Ghana WFP invests heavily in building or rehabilitating marketing infrastructure. The P4P programmes of Ethiopia, Mozambique and the United Republic of Tanzania are rehabilitating or constructing warehouses on a cost-sharing basis. Facilities are handed over and managed by private sector warehouse operators or farmers' organisations to build community ownership and sustainability and all these investments contribute directly to the capacities of the P4P participants.

The P4P programmes in the Central American countries (El Salvador, Guatemala, Honduras and Nicaragua) play a much more direct role in increasing FOs' capacities by means of infrastructure enhancement. They have established revolving funds to facilitate investment by FO in warehouses, conditioning equipment and other infrastructure. Drawing on the revolving funds, farmers' organizations can also provide inputs to their members on credit. The Zambia programme, too, has set up a revolving fund to finance tractors, implements and shellers for

¹⁴ DUNAVANT is a private-sector company largely involved in cotton production; and works with a large number of smallholder farmers in a number of southern Africa countries.

smallholder farmers. In many of the pilot countries, WFP also contributes financial resources to partners to address supply-side gaps.

3.4.4 Policy Dialogue

As a buyer in developing food markets, WFP is well placed to advocate for national and regional policies that promote the effective operation of the market and ensure that trade supports food security. Through P4P, WFP is building on and enhancing its extensive experience in LRP with a view to informing national, regional and global dialogue concerning the development of agricultural markets. More specifically, P4P provides the space to assess the potential catalytic effect of structured demand to drive agricultural and market development. The rich diversity of models in the varied country contexts is generating knowledge and data across a spectrum of agriculture and market development issues, particularly:

- understanding the role and impact of price supports, food reserves and export and import on smallholder farmers and procurement activities;
- how public procurement can impact the harmonizing and enforcing of market grades and standards and trade facilitation across countries; and
- how public procurement can impact a transition to structured trade and the necessary conditions, the importance of appropriate regulatory and legal frameworks to support markets (contract and dispute resolution mechanisms and warehouse receipt systems); and the importance of appropriate frameworks to expand market support services (credit, insurance and market information).

WFP will share lessons learned, best practices and the knowledge gained regarding smallholder interaction with the market, with governments, partners, regional entities, and the private sector and food-security stakeholders.

To stimulate policy dialogue and promote the necessary change required, WFP has seconded a senior policy advisor to COMESA's Alliance for Commodity Trade in East and Southern Africa¹⁵, (ACTESA). This has facilitated coordination and enhanced the technical capacity of ACTESA in support of the CAADP agenda to increase market access for the smallholder-farming sector across the continent. WFP is considering similar support to the Economic Community of West African States, (ECOWAS) or other regional entities in West Africa.

3.5 Learning

P4P emphasizes learning and an honest and transparent examination both of what works and of what does not. Internally, WFP aims to use P4P to learn if and how it can enhance the developmental benefits of its local food procurement activities. Externally, WFP will share lessons and best practices with governments and other development stakeholders to further the market development efforts of the broader development community. This brief section outlines the P4P learning objectives and describes the tools and methods WFP has developed to support the learning agenda

¹⁵ ACTESA is a programme of the Common Market for Eastern and Southern Africa (COMESA)

3.5.1 Learning Objectives

The learning objectives of P4P are to be found in the answers to two broad-ranging questions, the first of which asks: **What procurement modalities/platforms and practices are most effective for building the capacities of smallholder farmers and farmers’ organizations and for creating an enabling environment conducive to the sustainable and profitable engagement of smallholders in markets?** Once the best practices for developing markets and building capacity to access markets have been identified, the next step is to determine how best to structure future P4P procurement activities to support the capacity-building, and then to share these lessons widely with other market development stakeholders. The second question asks how **WFP can optimize its local food procurement activities to achieve the dual objectives of maximizing benefits to smallholder farmers while providing safe food in a timely and efficient manner.** WFP may adopt variations on P4P modalities while continuing to buy primarily from larger traders (as it currently does using the standard LRP approach), or it may opt for a combination of approaches. The options are set out in Figure 5 below. Ultimately, the organization will institutionalize best agricultural and market development practices identified through P4P and transform its practices to extend the development impacts of its local procurement activities.

FIGURE 5: KEY QUESTIONS AND ASSESSMENT CRITERIA FOR P4P’S MONITORING AND EVALUATION SYSTEM.

		Assessment Criteria		
<p>OBJECTIVES 1 & 2</p> <p>What procurement modalities/platforms* best support capacity-building activities and create an enabling environment for procurement from smallholder farmers?</p>		<p>Group marketing capacity</p>	<p>Production / productivity response</p>	<p>Livelihood improvement</p>
<p><i>*Modalities include direct and forward contracts, soft tendering, warehouse receipt systems, commodity exchanges, food-processing opportunities.</i></p>				
<p>OBJECTIVES 3 & 4</p> <p>What is the best way for WFP to balance the risks and costs associated with pro-smallholder procurement in order to optimize and transform its local procurement practices?</p>		<p>Scale of procurement, timeliness, cost, efficiency and quality/safety of procured food</p>	<p>Market development impact</p>	<p>Impact on livelihoods of smallholder farmers</p>

3.5.2 Tools and Methods for Learning

WFP has established a broad set of tools and methods to support learning. These include a comprehensive monitoring and evaluation system that collects a substantial quantity of quantitative and qualitative data from farmers, farmers’ organizations and traders; peer review

and validation processes; and opportunities to consolidate learning at national, regional and global levels.

Numerous manuals, data collection instruments, and guidance papers describe the monitoring and evaluation system¹⁶. Peer review and validation mechanisms include a Technical Review Panel¹⁷ that meets annually but also engages on an as needed basis to provide advice and guidance, an Annual Review with partners, and other internal and external forums. Each of these review processes provide opportunities to share, examine and validate approaches, achievements, lessons and challenges.

The P4P Coordination Unit has also established a data analysis hub housed in the African Economic Research Consortium (AERC) - a consortium of over 40 African Universities – headquartered in Nairobi, Kenya to support data collection, analysis and learning for P4P. Through its engagement with AERC, WFP hopes to contribute to building an indigenous center of excellence in agricultural and market development that will become a leading third world voice in promoting peer validation, advocacy and dissemination of lessons and best practices in pro-smallholder agricultural and market development.



Those with hands-on experience implementing P4P are in the best position to fully understand how P4P is, or is not, working and why. P4P incorporates many opportunities for country office staff, stakeholders, partners, WFP headquarters staff and other experts to provide input on P4P's performance. Feedback from these sources is a crucial element in the learning component of P4P and it is critical that WFP capture and compile these data. The P4P unit regularly compiles quantitative feedback from country office quarterly reports,

country-level stakeholder meetings, headquarters-level steering committee meetings, an annual meeting of a technical review panel and an annual review workshop that brings together WFP and partner staff from around the globe.

The P4P Coordination Unit has also commissioned a series of country and regional workshops and writeshops¹⁸ to engage implementers, participants, partners and stakeholders in structured learning processes to begin to consolidate lessons and best practices. The writeshops signal the beginning of an intensive effort to extract the lessons of P4P from the heads of all those involved and document them for review and validation.

The key documents and learning from P4P are shared and available through the WFP external website: www.wfp.org/purchase-progress.

¹⁶ Full details available on the P4P website

¹⁷ The members of the P4P Technical Review Panel are drawn from the following organizations; ACTESA/COMESA, Association for Strengthening Agricultural Research in Eastern and Central Africa (ASARECA), Food and Agricultural Organization (FAO), Intermon Oxfam, International Fund for Agricultural Development (IFAD), International Food Policy Research Institute (IFPRI), Inter-American Institute for Cooperation on Agriculture (IICA), Michigan State University, Sasakawa Africa Association and the World Bank.

¹⁸ A writeshop is an intensive, participatory workshop that aims to produce practical, written output.

4 Risks

Local and regional procurement in general and P4P in particular, pose a number of risks for WFP, markets and farmers. Compared with standard local and regional procurement, P4P may increase some of the general risks associated with procurement and perhaps introduce new ones. This chapter reviews some of the main risks and describes measures and strategies that WFP has implemented to mitigate them.

4.1 Risks to Participating Farmers

The smallholder farmers targeted by P4P are largely dependent on rain-fed agriculture. Faced with frequent hardship, these farmers over time have developed their own risk management strategies that include crop diversification and the minimization of production costs (i.e. limiting investment in external inputs and in new/unproven technologies). The expected/anticipated benefits of selling to WFP may encourage farmers to take on additional risks, perhaps in the form of credit, to purchase inputs and make investments in new technologies, or they may decide to specialize in one crop. A subsequent reduction in yields or crop failure could then translate into financial losses and perhaps destitution.



WFP and partners must, in the first place, be aware of the risks and, where feasible, assess their level. Secondly, with reference to the risk assessment, they need to design appropriate mitigation and response strategies. This is particularly critical where farmers are accessing credit. Response and mitigation strategies might include: (i) crop and weather insurance schemes/funds, and (ii) special provisions in credit and partnership agreements allowing farmers to carry over credit obligations to successive seasons, perhaps combined with some form of minimum purchasing agreement on the part of WFP.

4.2 Risks Associated with Local and Regional Procurement

The risks associated with LRP also apply to P4P and include the following.

Procuring in local markets may increase commodity prices to the detriment of consumers. Increasing demand relative to supply will exert an upward pressure on prices. The extent to which WFP's local procurement has the potential to increase prices is a function of the size of the procurement and the relevant market¹⁹. The risk is low if the market is large enough to cater to WFP's procurement demand with little or no impact on prices (i.e., where the inverse price

¹⁹ The "relevant" market depends on the degree of market integration. Local markets that are highly integrated with national or international markets have a greater capacity to respond to increased procurement with minimal increases in prices than does a poorly integrated market.

elasticity of supply is low). This risk of affecting prices is common to LRP and P4P, but the latter may carry a higher risk because the purchases are in smaller remote local markets, which may be less integrated.

WFP has well established procurement practices, which also apply to P4P. WFP bases local and regional food procurement decisions on detailed market analysis to understand the characteristics of the markets in which it buys. By collecting and analyzing data relating to market prices and to forecasts for patterns of supply and demand WFP can determine where local procurement is liable to have an adverse effect on prices. Moreover, most purchases under P4P are small relative to local output, which lowers the risk.

Poorly timed and unpredictable procurement may increase price volatility. Poorly timed or unpredictable procurement can exacerbate normal price fluctuations, thereby increasing market risk for producers and food security risks for consumers. For example, procuring during the lean season when the local market is less able to respond increases the risk of higher prices, and may exacerbate the increases that occur anyhow during the lean season. The magnitude of risk depends on many of the same factors that determine general price increases, but in this case, also includes the seasonal aspect.

WFP mitigates this risk in much the same way it deals with the previous issue of general increases in commodity prices, namely, by applying market intelligence and limiting its P4P-driven procurement activities to small quotas only of what is available in local markets. WFP's preference is to purchase in the harvest season when supplies are high and prices low, however this is contingent on the availability of resources.

Local suppliers are not able to provide the quantity and quality demanded. Contract defaults – i.e., failure to deliver the agreed quantity of the required quality at the specified time – puts WFP's pipeline at risk and potentially threatens the health of food recipients. To the extent, that farmers' organizations and small and medium-sized traders are more likely than large traders to default, the risk is greater for P4P than for standard LRP. Further, WFP does not require P4P suppliers to post a performance bond, which heightens the risk of default. That said, recent experience in Kenya and Uganda suggests that even the large-scale suppliers WFP are not immune to defaulting when prices increase dramatically between the time WFP signs a contract and the specified delivery date.

WFP mitigates default risk by scaling its P4P procurement levels to reflect the capacities of suppliers and by building farmers' capacities to meet demand.

WFP procurement may create dependence. WFP's support to participating farmers – through procurement and capacity-building activities – risks creating dependence, which would leave P4P participants vulnerable once the pilot ends. The participants then stand to lose the fixed investments they have made to supply WFP and may suffer substantial economic loss.

Mindful of the need to avoid engendering dependency, pilot countries are including a progression strategy to transition participating farmers to markets other than WFP. Some – Kenya, Mozambique and Rwanda – have adopted an additional anti-dependency strategy that consists in restricting the amount of surplus that WFP can buy from FOs.

Reputational risks to WFP. If P4P country programmes create unrealistic expectations among supplying farmers, it may damage the reputation of WFP if the organization is unable to meet

these expectations. For example, in Zambia in 2010, poor communication with farmers about how prices are determined on the commodity exchange created unrealistic expectations among participating farmers. As farmers realized that they were unlikely to receive the prices they expected, many were disappointed and changed their minds about selling through the exchange. Burkina Faso, Mozambique and Uganda faced similar challenges with farmers expecting relatively high prices from WFP.

To mitigate this risk WFP country offices and partners are taking care to convey appropriate messages to P4P participants and monitor the economic impact on participants of selling to WFP. To manage price expectations, WFP makes it clear that it must be able to buy cost efficiently relative to “standard” LRP. Field staff (WFP and partners) present farmers with data on prices, to illustrate market reality and to demonstrate the “cost efficiency” message. This includes data on farm-gate prices, local market prices and trader prices. In cases where the benchmark of the LRP price fails to compensate P4P suppliers for the costs incurred in meeting WFP contract requirements, then WFP must revisit the rationale of the P4P approach in that environment.

4.3 Risks to P4P Implementation

Risks to implementation refer to factors that limit WFP’s ability to implement key elements of country P4P programmes or diminish the effectiveness of programme activities at producing expected results.

Risks presented by droughts, floods and other climatic shocks. Climatic shocks are becoming more frequent and severe. Cyclical droughts occur in most countries in Africa, floods and monsoon rains in Asia, and hurricanes in Latin America. Weather shocks affect production and reduce yields. Severe weather shocks can push millions into food insecurity, as in East Africa in 2011, eradicate marketable surpluses and drive up prices. Such situations have clear implications for P4P.

When yields fall or crops fail due to climatic shock WFP may be unable to purchase because the rapid price increases renders WFP’s contractual offer inadequate in comparison to rapidly rising market prices. Farmers may end up selling to other buyers who can pay more promptly than WFP. Such a scenario can have a number of implications for P4P:

- Possible breaks in food programme pipelines;
- WFP and partners are unable to realize the full benefit of P4P investments and capacity-building efforts;
- The P4P programme does not achieve expected outcomes and results.

Alternative sourcing through regional or international procurement channels minimizes the risks to the WFP food pipeline.

The risks to the objectives and aims of the P4P programme caused by drought, floods and climate shocks are more difficult to grapple with. When P4P participating farmers themselves experience poor harvests, WFP and partners should implement the risk mitigation strategies detailed in section 4.1 above. In addition, the parties should consider extending the project to

allow sufficient time to achieve results and for farmers to rebuild assets and recover from the climatic shock.

Participating farmers may not respond to the P4P market opportunity. Initial implementation experience has identified a number of reasons as to why farmers may not or cannot respond as expected to the market opportunities provided by P4P. These include:

- Farmers' organizations have limited working capital. The majority of smallholder farmers do not have the financial capacity to wait for their organizations to pay them for commodities they deliver to the organization's warehouse.
- Farmers may be unwilling to sell to WFP through a farmers' organization if they distrust the good faith of the organization's leadership.
- In some cases, farmers may find it too difficult or not cost-effective to achieve the quality required by WFP.
- Government interference in commodity markets (Zambia, Kenya) that increase prices or contribute to price volatility discourage farmers from selling to WFP or other formal buyers.

WFP and partners are mitigating the risk of partial participation by adjusting P4P implementation in response to the emerging knowledge.

- i. On an annual basis, each country brings together partners and P4P participants to review progress, successes and challenges and to determine the work-plan for the coming period. A number of countries (Uganda, Kenya, Burkina Faso, Mali, Guatemala, and Sierra Leone) adjusted the programme targets following a re-appraisal of the participating organizations.
- ii. WFP has made some progress towards addressing farmer's liquidity challenges. Country pilots are using a number of tools to address the cash-flow difficulties faced by farmers and their organizations, forward delivery contracts combined with third-party payment mechanisms, advance payments and invoice-discounting systems. However, all these efforts are underpinned by the principle of "do no harm".
- iii. Issues of trust are more challenging to overcome. In Kenya, Equity Bank and the Cereal Growers Association (CGA) developed a system that allowed the bank to disburse the payment from WFP to individual bank accounts rather than to the organization.

Resourcing constraints may limit WFP's ability to procure through P4P. In some pilot countries, WFP's demand for locally procured foods has declined to the extent that food assistance programmes may be unable to maintain the level of procurement earlier anticipated. Reasons for the reduction in food demands include successive bumper harvests and improved food security leading to a decrease in food beneficiary numbers and food programme needs (Zambia, Ghana) or poor donor responses to food programme needs.

To mitigate the risk, country offices can apply to the advance financing facility, which allows them to obtain cash advances against expected donor contributions. In addition, country offices continually gauge the probable scope of their demand and, where possible, adjust the P4P pilot accordingly. Adjustments can include scaling back the programme or disqualifying participants who have consistently failed to meet WFP contracts. Country offices anticipating a substantial reduction in their demand work closely with the partners and P4P participants to forge links with alternative buyers early in the process.

5 Achievements and Knowledge

At the time of writing, the P4P pilot had reached the halfway point. This is an important milestone, and is where WFP and partners need to take stock of progress, plan the final phase of the pilot and start considering the potential for replication and scaling up. This section summarizes the progress to date, looks at early lessons and establishes markers for the remainder of the pilot.

5.1 Achievements

From the start, WFP recognized that the success of P4P depended on the engagement, expertise, collaboration and input of a wide range of actors and partners. Progress on implementation has borne this out. As of 30 September 2011:

- Over 220 partners are participating in the pilot in the 20 countries where P4P implementation has started²⁰. The partners include national governments, FAO, IFAD, AGRA, a wide network of international and local NGOs, research institutions, financial service providers, private sector actors and regional entities.
- In collaboration with partners, over 1,056 farmers' organizations are participating in P4P, their membership exceeds 1.1 million farmers, (500,000 of these through large cooperative unions in Ethiopia). Women make up 23 percent of the membership (or 46 percent if Ethiopia is excluded).
- Over 120,000 farmers, warehouse operators and small and medium traders have received training in a range of areas, including crop production, post-harvest handling, commodity handling, management and quality assurance, group marketing, financial literacy, food marketing and doing business with WFP.
- WFP has signed purchase contracts for over 207,000 tons of food valued at US\$75 million. Some 300 farmers' organizations in 19 countries have supplied 65 percent of the total (135,000 tons); the remainder has been purchased from emerging traders or nascent marketing platforms such as commodity exchanges and warehouse receipt systems (of this total, approximately 62 percent had been delivered and paid for by December 2011).
- With the support of NGOs, universities and research institutions, WFP has rolled out a comprehensive monitoring and evaluation system in the pilot countries. Evidence is beginning to emerge that positive results from P4P are stimulating public and private investment. On the public sector front, a number of governments have implicitly acknowledged the potential of P4P to contribute to their national development goals by making substantial investments to replicate and expand the initiative. This includes duplicating the range of capacity-building activities and then buying from supported farmers' organizations to meet a portion of their requirements for national food reserves and institutional feeding, as in Rwanda.



²⁰ P4P implementation in Laos will commence in early 2012.

- Private sector players eager to extend their market reach to a once largely ignored sector are beginning to approach farmers' organizations benefitting from the P4P initiative. The private sector is beginning to appreciate that returns on investment can be more secure and risks considerably reduced when dealing with the P4P target group, which is receiving capacity development support that helps it respond reliably to market demands. P4P is leveraging private sector investments in food processing in Afghanistan and Ethiopia; warehousing in Liberia, Malawi, Rwanda, Uganda and Zambia; and finance in Kenya, Mozambique and the United Republic of Tanzania. P4P in Central America has helped improve smallholders' access to private inputs suppliers, and smallholders increasingly take the role of negotiating directly with the suppliers.

5.2 Preliminary Lessons

Lessons in a number of thematic areas are beginning to emerge through the various learning forums associated with P4P, which includes case studies and national and global level annual review meetings. In 2011, three important learning activities supplemented these forums, the strategic mid-term evaluation²¹ (MTE) of the P4P pilot, the annual convening of the P4P Technical Review Panel meeting, and a P4P writeshop exercise in six countries dedicated to exploring the lessons learned from building the capacities of farmers' organizations through P4P. The following sections give a flavor of the early learning emerging from implementation of the pilot.

5.2.1 The pilot nature of P4P

Based on the findings and conclusions, the mid-term evaluation offered recommendations encouraging WFP: to protect the pilot nature of the initiative through 2013 and review local project design when necessary; to prioritize market development objectives; and to adapt the monitoring and evaluation system to encourage research and development²². The third annual meeting of the P4P Technical Review Panel (TRP) deliberated on the findings and recommendations of the MTE and offered specific suggestions to guide implementation in the final phase of the pilot (2012-2013/14).

In the TRP's view, the latter phase of the pilot should focus on going "deeper rather than broader" to enhance learning, and protect the pilot nature of P4P in this regard. Broadly, the TRP's advice resonated with the MTE findings that P4P needs to de-emphasize the attainment of targets, which may distract from the learning that it is already generating. It is important that Country Offices clearly understand that P4P targets are not the definitive measure of success of the pilot. More important is that the factors underlying the attainment (or not) of the set targets have been identified and understood.

²¹ The Overseas Development Institute (ODI) conducted the mid-term evaluation between January and August 2011. The evaluation included field visits to seven countries, El Salvador, Guatemala, Kenya, Liberia, Mali, Uganda and Zambia.

²² Summary Report of the Strategic Mid-term Evaluation of WFP's Purchase for Progress Initiative (2008 -2013), WFP/EB.2/2011/6-B

5.2.2 Capacity-building for participating smallholder farmers and their organizations

P4P programmes are carrying out capacity-building activities at various levels that address a range of issues in all the pilot countries. The diversity of implementation challenges and the successes to date provide a number of preliminary conclusions:

- Partners are critical to addressing gaps along the value chain, and WFP can play a catalyzing role in capacity development.
- Tailor the procurement modalities to the capacity level of the farmers' organization, as procurement is an integral part of the development strategy. Monitoring progress on indicators such as "*the capacity to participate in WFP tenders*" and/or "*an increase in sales to buyers other than WFP*" will assist in determining how and when to advance FOs beyond the stage of direct P4P support.
- Strong coordination amongst the partners at the county office level is necessary, for example, a steering committee to bring all actors around the same table to harness the catalytic effect of P4P at country level.
- Although targeting criteria and land access thresholds are country-specific, the common minimum criteria for farmers' organizations should include: a) that they have legal status; b) that they generate surpluses (or have the potential to do so); c) that they receive supply-side support; and (d) that they focus on women's empowerment.
- The largely untapped potential of the private sector to support the professionalization of farmers' organizations needs to be unlocked.



The 2011 writeshop exercise explored the area of capacity building for farmers and their organizations in-depth in a number of countries. The event brought together diverse views from different stakeholders, including farmers' organization leaders and farmers, P4P partners, government officials, traders and financial institutions and WFP staff, from six countries in three regions: Burkina Faso, El Salvador, Guatemala, Kenya, Mali and the United Republic of Tanzania, (East Africa, Central America and West Africa). The conclusions confirm the P4P

two-part strategy encompassing: capacity building activities and procurement²³. The two elements are equally important; each is complementary of the other, and, combined they offer a very real chance of achieving the P4P livelihood objectives. Participating P4P stakeholders (farmers, partners, WFP) universally agreed that P4P has contributed positively to changes in livelihoods, including increased incomes, improved food security and enhanced social capital. The writeshops produced substantial anecdotal evidence to support this belief, but quantitative data is required to validate perceived changes. The P4P monitoring and evaluation system will draw upon both quantitative and qualitative findings.

²³ Country case studies

5.2.3 Food quality, safety and processing

The experience from the pilot countries confirms that smallholder farmers and their organizations can supply high-quality commodities when provided with the appropriate package of capacity development. Specifically:

- Once farmers understand that quality equals money, even poorly performing FOs can and will meet WFP quality standards if they receive adequate training and equipment and are rewarded for quality;
- Experience from Zambia suggests that small-scale mechanization and low-cost processing equipment such as maize-shellors hold promise, but work best if provided through a private sector business model, such as on a cost-sharing basis;
- WFP with its market can push the agenda on grades and standards, but more advocacy is needed for the standardization (and enforcement) of quality standards at national and regional levels.



5.2.4 Financing solutions for staple crops

Access to affordable financing and crop/weather insurance remains one of the key constraints faced by smallholder farmers and their organizations, both for crop production and crop marketing. Major financial service providers are providing credit in some countries. Other countries are exploring other tools and mechanisms (such as revolving funds, purchase-order financing, loan guarantee funds, forward purchase contracts and third party payment mechanisms). The diverse country experiences highlight a number of initial conclusions, including:

- Revolving funds set up using P4P resources for the purchase of tractors and shellors managed by individual farmers (Zambia) are proving a viable option alongside more formal financial services.
- Guarantee funds increase the willingness of financial institutions to lend to farmers and farmers' organizations. Guarantee funds alone, however, are not sufficient and strengthening the financial literacy of farmers and their organizations is important.
- Good practices suggest that WFP can facilitate the link between FOs and lenders by informing the latter about the P4P demand platform. However, lenders and farmers must build their own credit relationships. WFP can sign off-take agreements with P4P participants, which the participants can use as collateral. There should also be a partner providing technical assistance to boost the financial literacy and credit management skills of the same participants.

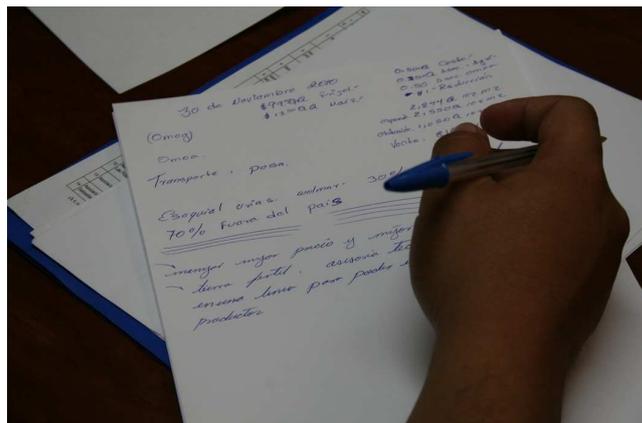
5.2.5 Accessing markets beyond WFP

The P4P initiative is not primarily about building the capacities of smallholder low-income farmers to sell to WFP. More importantly, it is about building their capacities to engage on a sustainable basis with formal markets beyond WFP. This implies being able to sell to national social protection and institutional programmes as well as to the private sector, which includes food processors, major retailers and traders. A question raised in many of the countries is whether a market for quality exists beyond WFP, and if so, can smallholder farmers and their organizations access this market. Answers are beginning to emerge from the diversity of experience across the countries.

- Anecdotal evidence suggests that there is indeed a market for quality beyond WFP. Farmers'

organizations in some countries are already establishing commercial ties with local processors. Farmers' organizations that received P4P-driven training and sold to WFP have succeeded also in selling to other buyers.

- Linking farmers to the private sector (processors, millers, CSB producers, supermarkets, and agro-dealers) becomes possible once farmers' organizations produce higher quality output and acquire a capacity to aggregate.
- Commodity exchanges and warehouse receipt systems constitute viable post-WFP markets in their own right, and WFP should support these platforms where available.



The mid-term evaluation (MTE) recommended that WFP prioritize the market development objectives of P4P. WFP Management has confirmed its commitment in this sense²⁴ and also reiterated its commitment to developing the capacities of 500,000 smallholder farmers' participating in P4P to increase their incomes by the end of the pilot.

WFP and partners will continually review and validate lessons during the course of the pilot and disseminate them through a number of channels, including papers, technical meetings and updates. The third P4P global annual review meeting scheduled for December 2011 will bring together a large number of P4P stakeholders to review progress and prioritize areas of focus for the second half of the pilot.

²⁴ Management Response to the Recommendations of the Summary Report of the Strategic Mid-term Evaluation of WFP's Purchase for Progress Initiative (2008–2013), WFP/EB.2/2011/6-B/Add.1/Rev.1

6 Beyond the Pilot

Donors, partners and commentators who are following the evolution and implementation of the P4P pilot frequently want to know what happens after the pilot phase. This section sketches out a preliminary answer to this question.

P4P is at the center of innovation and experimentation to use public food procurement to strengthen markets as a means of transformation and income generation. The learning and sharing framework is designed to capture, validate and disseminate the relevant knowledge and learning. A final assessment of country programmes at the end of the pilot during the first half of 2014 will focus on two questions: (i) what are the successful models or approaches and (ii) in what context are they appropriate? In addition to considering performance and impact, the final assessment will collect data on successes and failures, challenges and enablers, costs and trade-offs. The impact assessment will generate outputs for WFP and for a large external audience that includes national governments, development partners and agriculture sector stakeholders.

6.1 Informing an External Audience

The P4P pilot is a partnership of many actors and stakeholders, spanning the sectors of smallholder development, market development and food assistance brought together around the WFP demand platform. WFP anticipates that similar platforms for public- and private-sector demand will develop from the lessons learned and best practices validated by the P4P pilot. Specifically, it is expected that tools to engage national governments in policy and institutional frameworks (e.g. home-grown school feeding) and best practices for engaging other partners in agricultural and market support programmes will be clearly identified, developed and promoted.

Farmers must access markets other than WFP if they are to consolidate the gains made through their participation in the P4P pilot. Fostering links with public- and private-sector buyers during the life of the pilot will expand the range of marketing opportunities available to farmers. In many countries, governments are expected to integrate “P4P-like” activities into national programmes, particularly home-grown school feeding programmes and other institutional or social protection programmes, similar to well established efforts in Brazil. In El Salvador and Honduras, a large portion of the food purchased through P4P is destined for the nationally owned school feeding programmes. In Ghana, Malawi, Mali, Kenya and Rwanda, WFP expects that farmers participating in P4P will become suppliers to the government owned school feeding programmes. In Ethiopia, food processors are eager to work with cooperatives selling to WFP, when the cooperatives can assure them of commodity quality and quantity. In Uganda and Rwanda, there are initial signs that the private sector is following WFP in sourcing from farmers participating in the P4P pilot.

6.2 Informing WFP

In 2012, WFP will begin work on its new strategic plan for the period 2014 to 2019. Defining the role of WFP in markets will be a major piece of this work. The experience and learning from the P4P pilot will help define and shape the dialogue, especially as regards WFP’s ability to use its

food procurement footprint to support agriculture and market development activities. A key output from the pilot phase will be the identification of the most promising pro-smallholder programme, procurement practices and business processes; and mainstreaming them into WFP's work.

The learning will also inform other important areas of WFP work. These include adapting to climate change, supporting school feeding programmes and improving nutrition interventions. Emerging best practices and lessons from the P4P pilot on stimulating smallholder adoption of appropriate farming techniques and risk mitigation strategies will contribute to WFP's work on climate change. Linking school feeding programmes to locally produced food, including to local capacity to mill and fortify commodities, benefits children, small farmers and local economies. School feeding programmes will incorporate successful approaches and best practices in pro-smallholder procurement identified through the P4P pilot where appropriate. The work on food processing under P4P will contribute significantly to the body of the knowledge required to link nutritional policy effectively to agriculture and local procurement. This work includes providing support to develop local processing capacity, connecting farmers to processors, as well as improving the food safety and quality aspects of commodity management and procurement.

6.3 Conclusion

Ensuring affordable, adequate, universal and constant access to nutritious food is one of the most pressing challenges of the twenty-first century. Three years after the global spike in food and energy prices, food prices remain higher than ever. Leveraging the potential of the smallholder sector in developing countries and addressing market failures are prerequisites for structural transformation and broad-based growth, which are necessary for the rapid reduction of hunger and food insecurity.

As recently as June 2011, the G20 Agriculture Ministers reiterated the importance of the smallholder farmer and called for increased investment in developing countries in agricultural productivity, food security and in the generation of income in rural areas. The Ministers specifically highlighted partnerships and procurement. *"We also encourage them to enhance public-private partnerships in this field, in particular to improve market and value-chain operators' cooperation and procurement from smallholders."*²⁵

The P4P pilot is at the forefront of efforts to identify innovative partnership and procurement platforms that stimulate rural growth and address the root causes of hunger, and there are good grounds for hope that it may be successful.

"The ground-breaking work of our two honorees working with the World Food Program on Purchase for Progress, using the purchasing power of WFP to help small farmers, is going to set a standard for public-private partnerships for the years to come." Vice President of the USA Joe Biden, keynote remarks at 10th Annual George McGovern Leadership Award Ceremony and global hunger conference at the U.S. Department of State, October 2011 when Howard G. Buffett and Bill Gates were recognised for their leadership on global hunger efforts and their support to P4P.

²⁵ Ministerial Declaration, Action Plan on Food Price Volatility and Agriculture, Meeting of G20 Agriculture Ministers Paris, June 2011(paragraph 19)

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