

# **Policy on local food procurement**



**Second informal consultation**

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**World Food Programme  
Rome, Italy**

## Executive summary

WFP's demand for food and food system services can be a direct and indirect driving force towards the achievement of zero hunger, contributing to inclusive agricultural growth, sustainable social and economic transformation and broad-based food security. Over the years, WFP has steadily increased the share of food procurement that it carries out locally; half of WFP food commodities are now purchased locally. By injecting cash into local economies, local procurement, including pro-smallholder procurement, can significantly strengthen smallholders' livelihoods and the sustainability of food systems, particularly when it is associated with activities that support value chain actors where required.

This policy enables WFP to boost its local and pro-smallholder procurement by complementing the cost-efficiency considerations that guide its procurement decisions with additional principles and parameters, including programme objectives and analysis of local value chains. This will allow WFP to increasingly integrate procurement and elements of its programmes, including nutrition, resilience and smallholder income and livelihoods activities and the promotion of gender equality. Implementation of the policy entails the development of additional tools that support WFP's food procurement, along with essential investments in innovative approaches to maximize the contribution that WFP can make to implementation of the 2030 Agenda for Sustainable Development through increased local procurement.

Aligned with the WFP Strategic Plan (2017–2021) and various corporate initiatives developed in accordance with global commitments to ending hunger, the policy will guide and facilitate the improvement of local procurement by:

- clarifying the contexts, definitions, concepts and frameworks related to local procurement;
- defining the value proposition of WFP's local food procurement (including pro-smallholder procurement) and strengthening of local value chains;
- providing guidance on the principles and parameters that inform the selection of the best food procurement approach and its adaptation to specific contexts in order to achieve intended outcomes; and
- establishing a framework that enables actions and investments in the medium and long term to foster sustainable results.

The value proposition that underlies the policy implies that WFP will be able to leverage three comparative advantages:

- its purchasing power and opportunity to influence food market developments, particularly at the local level;
- its food marketing expertise, which makes it a partner of choice for both public and private entities interested in developing better integrated and more efficient markets with stronger and fairer links to smallholders; and
- its facilitation capacity, which enables it to mobilize external partners in support of common objectives and to promote greater integration between its own market-oriented programmes and other initiatives (nutrition-sensitive programmes, CBTs, safety nets, etc.).

The next steps for the coming three years will be detailed in an implementation plan to be developed following the policy's approval.

### **Draft decision**

The Board approves the local food procurement policy set out in document WFP/EB.2/2019/XX/X and encourages WFP to leverage local food procurement and related partnerships as tools that contribute to the achievement of Sustainable Development Goal 2 and other Sustainable Development Goals.

## **Introduction**

### **Global context**

1. Governments all over the world have been leveraging their purchasing power to advance progress towards social, economic and environmental goals. Since early 2000 there has been growing interest in countries and international institutions in using public procurement to promote the integration of smallholder farmers into markets and to strengthen smallholders' livelihoods. The 2015 policy recommendations of the Committee on World Food Security include actions that foster links between smallholders and public food procurement, including by purchasing the food used in food assistance from smallholder farmers, adapting procurement procedures to facilitate farmers' participation in public food markets and promoting more research into public food procurement initiatives.
2. This policy is aligned with the global commitments of the Sustainable Development Goals (SDGs), particularly SDG 2 (end hunger, achieve food security and improved nutrition and promote sustainable agriculture), which includes two targets to which accelerated local food procurement and pro-smallholder farmer procurement will contribute:
  - Target 2.3: By 2030, double the agricultural productivity and incomes of small-scale food producers, in particular women, indigenous peoples, family farmers, pastoralists and fishers, including through secure and equal access to land, other productive resources and inputs, knowledge, financial services, markets and opportunities for value addition and non-farm employment.
  - Target 2.4: By 2030, ensure sustainable food production systems and implement resilient agricultural practices that increase productivity and production, that help maintain ecosystems, that strengthen capacity for adaptation to climate change, extreme weather, drought, flooding and other disasters and that progressively improve land and soil quality.
3. United Nations General Assembly resolution 72/239 proclaiming 2019–2028 as the United Nations Decade of Family Farming, acknowledges family farmers, the majority of whom are smallholders, as key leaders in the pursuit of the SDGs, specifically in “ensuring global food security, eradicating poverty, ending hunger, conserving biodiversity, achieving environmental sustainability, and helping to address migration.”
4. Implementation of this policy is fully aligned with these global initiatives and will directly contribute to the achievement of SDG 2, the implementation of the policy recommendations of the Committee on World Food Security, attainment of the goals of the Decade of Family Farming and the development of an enabling environment for inclusive and resilient food systems.

## WFP strategic context

5. The WFP food procurement policy dates from 1996 and states that “the main objective for WFP food procurement is to ensure that appropriate food commodities are available to beneficiaries in a timely and cost-effective manner. Consistent with this, WFP purchases should also be “fair and transparent.” The policy prescribes that “other things being equal and considering donor funding criteria, preference is to be given to suppliers from developing countries.”<sup>1</sup> The 2006 paper “Food Procurement in Developing Countries” takes stock of the regulatory basis for and trends in WFP food procurement, including from developing countries, and concludes that “WFP’s local and triangular food procurement can and often does have a positive impact on markets, food processing industries and, in a few countries, local agricultural production.”<sup>2</sup>
6. Several other WFP strategies are relevant and contribute to the updating of WFP’s local food procurement policy:
  - SDG targets 2.3 and 2.4 are clearly reflected in the WFP Strategic Plan (2017–2021), particularly in Strategic Results 3<sup>3</sup> and 4,<sup>4</sup> and related indicators in the Revised Corporate Results Framework (2017–2021).<sup>5</sup> The strategic plan states that WFP can use its significant purchasing power and experience to increase smallholder farmers’ access to markets, both directly and through the mainstreaming of learning and best practices throughout the organization. In addition, operating at the intersection of commercial food markets and the public interest that food assistance represents, WFP’s demand for food and food system services can be a direct and indirect force in enhancing the performance of food systems and contributing to inclusive agricultural growth, sustainable social and economic transformation and broad-based food security.
  - A 2017 paper on pro-smallholder food assistance presents an analysis of the background to WFP’s strategy for supporting smallholders, who are chronically food-insecure and vulnerable to shocks.<sup>6</sup> These smallholders are strongly represented in WFP’s food assistance programmes such as:
    - food assistance for assets programmes, which follow the three-pronged approach to link the use of food or CBTs for food-insecure households to targeted community development activities that enhance the resilience of smallholders’ livelihoods;<sup>7</sup>
    - purchase for progress (P4P) and smallholder agricultural market support programmes, which seek to connect smallholder farmers to stable markets, leveraging the demand for food from WFP and other institutional buyers;

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<sup>1</sup> WFP. 1996. Executive Director’s Circular ED96/009: Food Procurement Policy. <https://docs.wfp.org/api/documents/WFP-0000010397/download/>.

<sup>2</sup> WFP/EB.1/2006/5-C.

<sup>3</sup> Smallholders have improved food security and nutrition through improved productivity and incomes.

<sup>4</sup> Food systems are sustainable.

<sup>5</sup> WFP/EB.2/2018/5-B/Rev.1.

<sup>6</sup> WFP. 2017. *Pro-Smallholder Food Assistance: A Background Paper for WFP’s Strategy for Boosting Smallholder Resilience and Market Access Worldwide*. <https://docs.wfp.org/api/documents/WFP-0000023124/download/>.

<sup>7</sup> The three-pronged approach, or 3PA, is an innovative programmatic approach comprising processes at three levels: integrated context analysis at the national level identifies the most appropriate programmatic strategies for a specific geographical area; seasonal livelihood programming is a consultative process for designing multi-year and multi-sectoral interventions; and community-based participatory planning is a tool for the development of multi-sectoral operational plans tailored to local priorities.

- home-grown school feeding initiatives, which connect WFP-supported school feeding programmes to local food production from smallholders;
  - the rural resilience initiative, which facilitates access to crop insurance, savings, credit and other risk management techniques for vulnerable rural households;
  - the post-harvest losses initiative, which promotes evidence-based, affordable technologies and practices for post-harvest management that significantly reduce post-harvest losses; and
  - the farm to market alliance, which is a global partnership of private and public sector organizations seeking to connect smallholder farmers to markets by increasing the farmers' access to improved seeds, new technologies and credit, including through long-term contracts backed by the facilitation of essential value chain services.
- A significant number of country strategic plans (CSPs) approved between 2017 and 2019 include strategic outcomes, outputs and activities that support smallholder farmers' livelihoods and resilience, including through connections to markets, as a way of building sustainable food systems and creating a world free of hunger. The demand from WFP's procurement is often directed to the markets to which these farmers are connected.
  - WFP's nutrition policy<sup>8</sup> renewed the organization's focus on nutritional quality, requiring that WFP reshape its programmes to become more nutrition-sensitive and to increase the demand for and consumption of diverse and nutritious food by households. Working with partners to strengthen nutrition-sensitive food systems will help to ensure that more nutritious foods are available in markets and will support the promotion of healthy diets.
  - WFP's gender policy<sup>9</sup> seeks to enable WFP to integrate gender equality and women's empowerment into all of its work and activities, including by ensuring that the different food security and nutrition needs of women, men, girls and boys are met. In many settings, women smallholder farmers are even more marginalized than men because of limited access to land, credit, inputs and extension services.
  - WFP's environmental policy<sup>10</sup> aims to support WFP and its partners in minimizing the carbon footprint of operations. Increased local procurement with considerably shorter supply chains will contribute to this goal.

## Definitions

7. The following definitions apply to WFP procurement:

- *International procurement* refers to food bought from outside the WFP geographical region in which it is to be used and includes food bought in one WFP region for use in another. It is administered *mainly* by the Food Procurement service at headquarters, but regional bureaux can also be requested to undertake international procurement.
- *Local and regional procurement* refer to the purchase of food in a country, for use in the same or in another country in the same geographical region. It can be administered by regional *bureaux* and country offices.

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<sup>8</sup> Nutrition Policy (WFP/EB.1/2017/4-C) <https://docs.wfp.org/api/documents/a9d60cbcaa9a40aba847958837eb162c/download/>.

<sup>9</sup> Gender Policy (2015–2020) (WFP/EB.A/2015/5-A) <https://docs.wfp.org/api/documents/WFP-0000024448/download/>.

<sup>10</sup> Environmental Policy (WFP/EB.1/2017/4-B/Rev.1) <https://docs.wfp.org/api/documents/WFP-0000037327/download/>.

- *Locally grown commodities* are a subset of the above categories (local and regional) commodities that comprise agricultural commodities bought in the country where they were grown.
- *Pro-smallholder farmer procurement* refers to a deliberate strategy or approach followed by a public or private sector buyer procuring from smallholder farmers with the objective of improving the farmers' access to formal markets.<sup>11</sup> It can be carried out at all levels – international, regional and local.
- *Smallholder farmers*. There is no unambiguous, globally accepted definition of a smallholder farmer. Country-specific definitions often use criteria such as scale, measured in terms of farm size, to classify farmers. For example, “smallholders” are often farmers who farm less than 2 hectares of land. However, farming is usually characterized by many factors, and other parameters can be used, including volume of production and the source, volume or value of the labour, capital and inputs used. If a host country has an accepted definition of smallholder farmers under which it collects and reports agricultural and related data WFP will use that definition when appropriate.<sup>12</sup>
- *Import parity price* is the total cost of sourcing food from another country and bringing it to the recipient country where it is to be used. It refers to the cost of procuring food commodities locally, regionally or internationally, taking into consideration not only the commodity price but also all the associated costs such as shipping and logistics.
- *Procurement authority*. As outlined in WFP's procurement manual, the authority to engage in procurement activities, authorize procurement actions and incur contractual obligations for the procurement of food commodities is vested in the Executive Director and delegated to staff at various levels to facilitate WFP operations.<sup>13</sup>

### **WFP's experience in local food procurement**

8. WFP procurement follows United Nations conventions, directives and policies including the United Nations Convention on the Rights of the Child, the United Nations Supplier Code of Conduct and the Framework for Advancing Environmental and Social Sustainability in the United Nations System. The United Nations common procurement principles<sup>14</sup> focus on promotion of the United Nations; fairness, integrity and transparency; best value for money; and economy and effectiveness. The procedure on sustainable procurement of the United Nations Children's Fund (UNICEF)<sup>15</sup> encompasses an economic, an environmental and a social pillar (the last of which refers to the promotion of local markets) and acknowledges that trade-offs among the pillars will be necessary.

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<sup>11</sup> WFP, Food Procurement Manual. <https://foodprocurement.manuals.wfp.org/en/>.

<sup>12</sup> For more information consult, Food and Agriculture Organization of the United Nations. *A data portrait of smallholder farmers*. [http://www.fao.org/fileadmin/templates/esa/smallholders/Concept\\_Smallholder\\_Dataportrait\\_web.pdf](http://www.fao.org/fileadmin/templates/esa/smallholders/Concept_Smallholder_Dataportrait_web.pdf); and WFP. 2017. *Pro-Smallholder Food Assistance: A Background Paper for WFP's Strategy for Boosting Smallholder Resilience and Market Access Worldwide*. <https://docs.wfp.org/api/documents/WFP-0000023124/download/>.

<sup>13</sup> Executive Director's Circular no. OED 2018/006. *Delegation of Authority for Procurement and Contracting in Supply Chain Functions*. <https://docs.wfp.org/api/documents/WFP-0000104514/download/>.

<sup>14</sup> United Nations. 2013. *Financial Regulations and Rules of the United Nations*. Secretary-General's Bulletin ST/SGB/2013/4. <https://www.wider.unu.edu/sites/default/files/Procurement/PDF/UN-financial-regulations-and-rules-2013.pdf>.

<sup>15</sup> UNICEF. 2018. *UNICEF Procedure on Sustainable Procurement*. [https://www.unicef.org/supply/files/UNICEF\\_Procedure\\_on\\_Sustainable\\_Procurement.pdf](https://www.unicef.org/supply/files/UNICEF_Procedure_on_Sustainable_Procurement.pdf).

9. WFP food procurement is undertaken by headquarters, regional bureaux and country offices. The WFP food procurement manual provides procedures to be followed by all purchasing offices. According to the manual, the main objective of food procurement is to ensure that appropriate food commodities are available to beneficiaries in a timely and cost-effective manner and that procurement is always fair and transparent. Preference is given to procuring from developing countries if doing so provides the best value and is in the interests of WFP according to comparisons of local prices with import parity prices.
10. In 2018, 50 percent (1.8 million mt) of the 3.6 million mt of WFP's total food purchases were purchased through local procurement processes, including 33 percent (1.2 million mt) characterized as "locally grown commodities". Seventy-nine percent of WFP food procurement was undertaken in developing countries.<sup>16</sup>

<b>TABLE 1: MAIN LOCALLY GROWN COMMODITIES PROCURED IN 2018</b>	
<b>Commodity</b>	<b>Quantity (mt)</b>
Maize	428 258
Sorghum and millet	405 181
Rice	191 550
Beans	169 134
Lentils	16 250
Peas	11 350
Chickpeas	2 996
Tubers (fresh)	360
Barley	346
Spices	114
<b>Total</b>	<b>1 226 418</b>

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<sup>16</sup> As defined by the Organisation for Economic Co-operation and Development.

<b>TABLE 2: TOP 15 COUNTRIES FOR LOCALLY GROWN COMMODITIES IN 2018</b>	
<b>Origin country</b>	<b>Quantity (mt)</b>
Uganda	188 663
United Republic of Tanzania	171 100
Ethiopia	158 903
Sudan	120 170
Nigeria	92 950
India	81 610
Pakistan	65 451
Myanmar	45 877
Bangladesh	39 112
Malawi	27 646
Niger	27 361
Cameroon	27 282
Burkina Faso	20 350
Rwanda	18 503
Chad	17 568
Other	123 872
<b>Total</b>	<b>1 226 418</b>

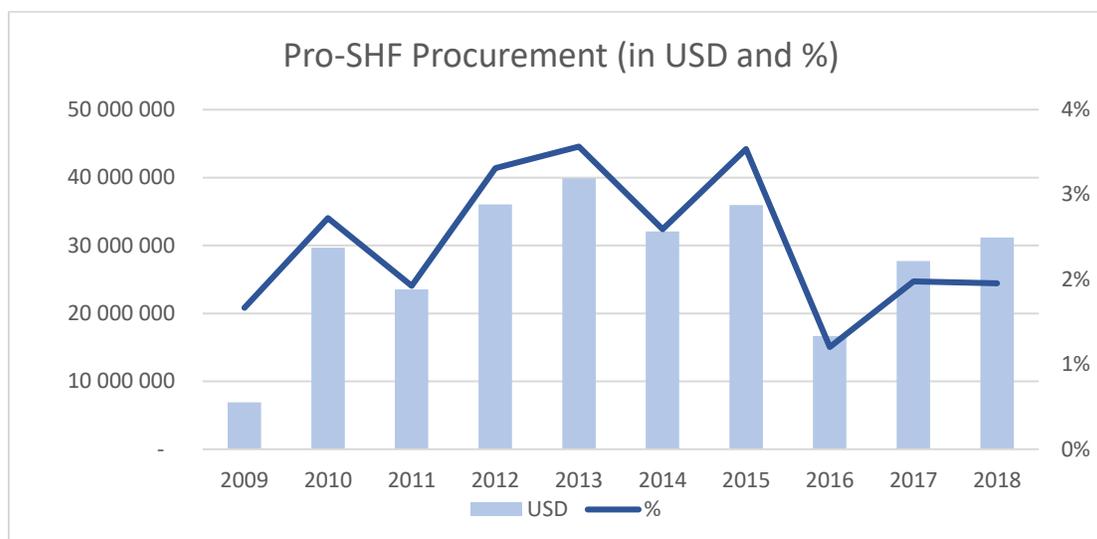
11. Regarding local procurement from smallholder farmers, WFP has built a repository of knowledge and lessons learned from years of experience of procuring in developing countries, including through the P4P programme. During the P4P pilot phase (2008–2013), WFP purchased USD 148 million worth of food directly from smallholder farmers, mainly through farmer organizations. WFP's direct purchases from smallholders peaked at USD 39 million (around 3.5 percent of total food procured) towards the end of the pilot, decreasing to USD 16 million in 2016<sup>17</sup> and picking up to reach USD 31 million in 2018.<sup>18</sup>

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<sup>17</sup> Among other reasons, the decline resulted from large-scale food procurement on international and regional markets to respond to major crises.

<sup>18</sup> The recent increase is partly a result of the gradual introduction of indirect contract modalities, coupled with reduced underreporting of purchases from smallholders through improved internal registration processes. See WFP. 2019. Update on food procurement" (WFP/EB.A/2019/10-D) <https://docs.wfp.org/api/documents/WFP-0000104720/download/>.

**Figure 1: Pro-smallholder farmer procurement, 2009–2018**



12. One key lesson from P4P is that commodities such as maize, sorghum and pulses can be purchased from smallholders at prices that are within and often lower than import parity prices. An internal analysis of the top five countries for WFP’s pro-smallholder farmer purchases in 2017 – the Democratic Republic of the Congo, the Niger, Burundi, Zambia and Myanmar – showed that local pro-smallholder farmer procurement costs an average of 13 percent less than import parity prices; during the pilot phase, almost all P4P contracts were below import parity prices.<sup>19</sup> Overall during the pilot local procurement through pro-smallholder modalities enabled WFP to realize savings of more than USD 42 million compared with the costs of purchasing and importing the same commodities, revealing that purchases from smallholder farmers can be in accordance with WFP’s principle of cost-efficient procurement and can even (with a few exceptions) result in cost savings compared to importation.<sup>20</sup>
13. Another important lesson from the P4P pilot was that long-standing relationships between farmers and traders are very important, and with traders adding value by providing liquidity to local markets and transport and storage, aggregating crops and ensuring improved food quality. In some cases, such as in Mozambique, P4P purchases from small and medium local traders strengthened their ability to operate in markets dominated by larger traders and stimulated competition and lower prices in the long term. In others, such as in Zambia, the Democratic Republic of the Congo and to some extent Kenya, working with small and medium traders allowed even small farmer groups with limited access to WFP and formal markets to increase their capacity to aggregate better quality produce in commercial volumes.<sup>21</sup> At the same time, even where smallholder farmers are the main suppliers, they do not always benefit

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<sup>19</sup> During the P4P pilot, beans in Central America were sometimes purchased at prices above import parity. In El Salvador and Honduras, the governments had explicitly asked WFP to procure beans locally for the national school feeding programme, regardless of whether the price exceeded import parity, using government funds. More recently, purchases at more than import parity prices have been made in the Democratic Republic of the Congo, Kenya and Lesotho.

<sup>20</sup> WFP. 2014. *P4P Final Consolidated Procurement Report (September 2008–December 2013)*. <https://documents.wfp.org/stellent/groups/public/documents/reports/wfp270609.pdf>.

<sup>21</sup> Management Systems International. 2014. *Experience Buying from Small and Medium Traders, P4P Global Learning Series*.

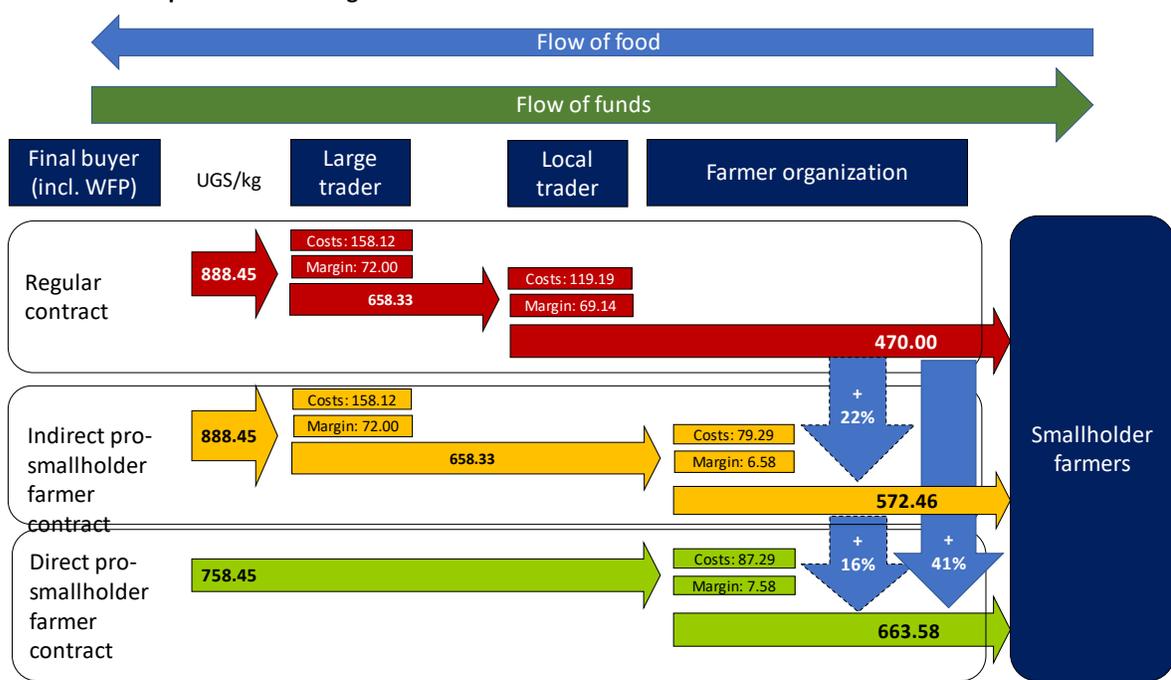
from the full value of their contributions, highlighting the importance of pro-smallholder procurement modalities.

14. In 2017 WFP introduced changes to its internal procurement processes with the aim of increasing indirect purchases from smallholder farmers by using indirect contracts, which enable WFP to buy from traders while ensuring that fair prices are paid to farmers and guaranteeing transparency and control with respect to the transactions between traders and farmers or farmer organizations. Such indirect contract modalities<sup>22</sup> have high potential to boost pro-smallholder farmer procurement while allowing WFP to continue buying at scale, with traders ensuring a high degree of food quality. These contract modalities were successfully tested in four countries – Honduras, Malawi, the United Republic of Tanzania and Zambia – during the 2017/2018 season, with more than 15,000 mt of cereals and pulses purchased.

### Case story from Uganda

WFP buys more food in Uganda than in any other developing country. The food serves operations in not only Uganda but also other countries in East Africa. In 2018, WFP bought more than 188,000 mt of food in Uganda (mainly maize, but also beans and sorghum), injecting about USD 50 million into the local economy. Although 80–90 percent of the purchased food was produced by smallholder farmers, WFP purchased only 1,000 mt directly from farmers through farmer organizations. The bulk of the food was procured from large traders through open tendering in which shortlisted suppliers were invited to participate. In June 2019, a WFP mission analysed the maize value chain, providing insights into how the cash injected by WFP was distributed among actors in the chain and how farmers were benefiting from it. The maize value chain in Uganda is “loose”, with several flows of goods moving in parallel and little integration among players. The main problems that farmers face in moving up the chain are access to credit and transport.

Value chains for local procurement in Uganda – flow of food and funds



<sup>22</sup> Particularly indirect conditional contracts and indirect mandate contracts, see annex II.

The few large companies that dominate the trading business have scattered direct contacts with farmers, so smaller local traders play an important role in aggregating production – up to 90 percent of the maize produced in Uganda passes through local traders before reaching large traders.

When WFP uses regular contracts and open tendering to buy from large traders – which in turn buy from local traders – roughly 50 percent of the price that WFP pays reaches smallholder farmers. The remainder is absorbed by intermediary players in the value chain (red arrow).

This analysis shows that the use of indirect and direct pro-smallholder contract modalities could have addressed imbalances in the maize value chain and significantly increased the benefits for smallholders at the same cost to WFP (orange and green arrows).

15. In other situations, direct procurement from farmer organizations is the best option. For example, home-grown school feeding (HGSF) programmes are designed to provide schoolchildren with safe, diverse and nutritious food sourced locally from smallholders.<sup>23</sup> HGSF enables farmers to gain access to a predictable and stable local market and to maximize the benefits they can derive from such access. The local procurement modalities used in HGSF provide excellent examples of how shorter value chains – in which, for example, produce moves from farmers or farmer organizations directly to schools – with as few intermediaries as possible improve access to profitable and stable markets for farmers and access to diverse, local food at cost-effective prices for schools. WFP supports the establishment and scale-up of national HGSF programmes that contribute to economic development and strengthen and stimulate local food systems.

### **Value proposition**

16. WFP seeks to strengthen the efficiency and effectiveness of its local procurement with a view to ensuring reliable supplies of food for the operations it assists while contributing to the programme objectives of supporting smallholder farmers and strengthening food systems. Through increased local and pro-smallholder food procurement WFP can leverage three of its important comparative advantages:
  - *its purchasing power*, the scale of which provides an opportunity to influence developments in local food markets. As stated in the WFP Strategic Plan (2017–2021), “WFP’s demand-side programmes for supporting smallholders’ access to agricultural markets leverage its procurement footprint and expertise in agricultural markets – and those of other public and private buyers – to contribute to building resilient food systems, the production and processing of nutritionally diverse foods, pro-smallholder aggregation systems, improved post-harvest management and catalyzing sustainable commercial and institutional market development for smallholders.”<sup>24</sup>
  - *its food marketing expertise*, which makes it a partner of choice for both public and private entities interested in the development of better integrated, more efficient markets and stronger and fairer links from smallholders to markets.

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<sup>23</sup> FAO, WFP. 2018. *Home Grown School Feeding Resource Framework*, [https://docs.wfp.org/api/documents/WFP-0000074274/download/?\\_ga=2.141709426.1779017524.1566804150-1294151148.1541749204](https://docs.wfp.org/api/documents/WFP-0000074274/download/?_ga=2.141709426.1779017524.1566804150-1294151148.1541749204).

<sup>24</sup>WFP Strategic Plan (2017-2021) (WFP/EB.2/2016/4-A/1/Rev.2\*) <https://docs.wfp.org/api/documents/WFP-0000037196/download/>.

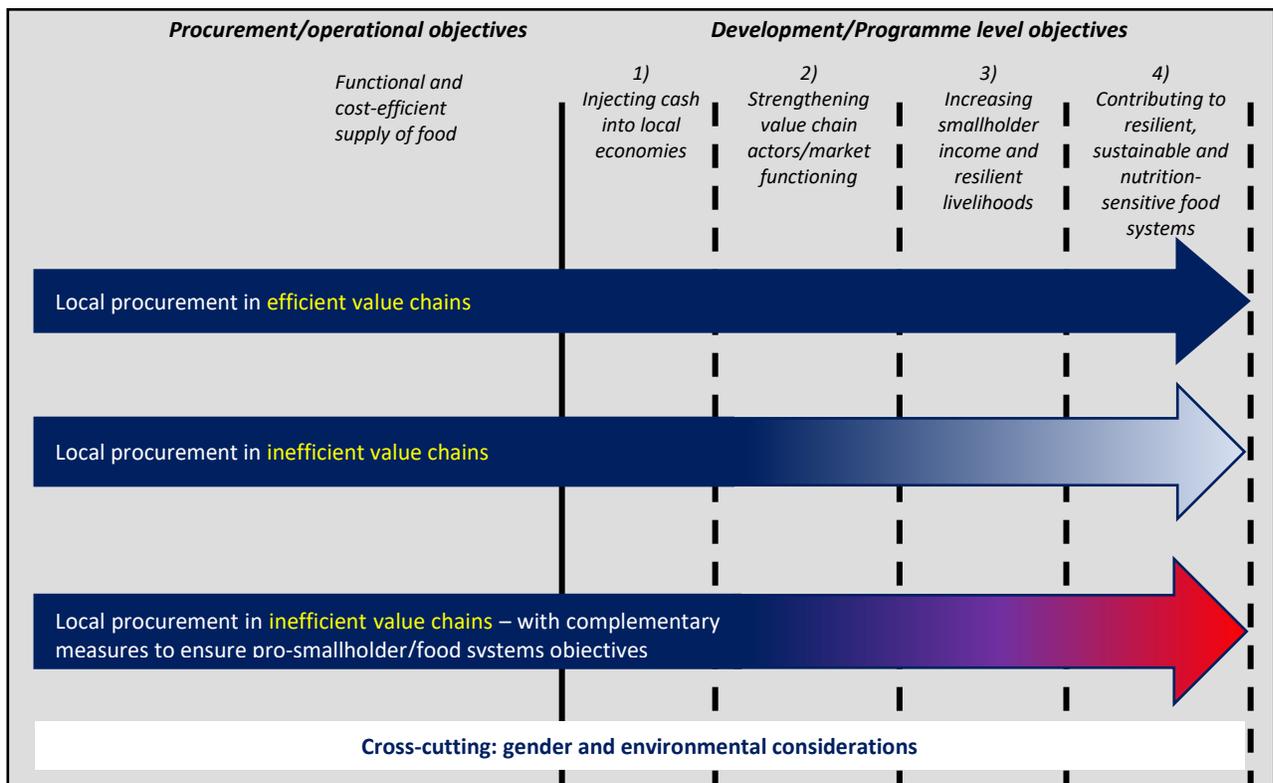
- *its facilitation power*, which allows the organization to mobilize external partners in support of common objectives and to promote greater internal integration between its own market-oriented programmes and its other initiatives, including smallholder agriculture market support, food assistance for assets, HGSF, nutrition-sensitive social protection, CBTs and safety nets, etc.
17. Local procurement directly supports the operational objectives of ensuring a reliable and cost-efficient supply of food for WFP operations. In addition, depending on the quality of the value chains involved, local procurement can also promote programme-level and development objectives including:
- injections of cash into local economies, which can help strengthen local markets, encourage smallholders to be more productive and generate positive multiplier effects in the local economy, leading to improved food security and livelihoods. In the long term this can also enhance the performance of macroeconomic indicators;
  - strengthened value chain actors through enhanced engagement with the private sector and *increased* turnover for and involvement of local traders, stimulating well-functioning local markets and potentially reducing prices and increasing the purchasing power of beneficiaries of CBTs;
  - stronger and more stable market relations among WFP, traders and smallholder farmers, improving farmers' access to credit and inputs, capacity to improve quality standards and engagement with other development partners, which leads to increases in farmers' production and productivity and the quality of their produce, augmenting their income-generating opportunities and livelihoods; and
  - improved performance of all market actors in nutritious food value chains, making nutritious food systems more resilient, sustainable and inclusive.
18. These programme objectives can also contribute to strengthening the participation of women and girls in farmer organizations and value chains. They can also promote job opportunities, especially for young people.
19. Local food procurement can also be an important element in mitigating the effect of crises on a country's overall economy through the purchase of food for an emergency response from areas of the country where there are surpluses. It can also be a means of reducing tensions and establishing cooperation among communities in conflict. Following an emergency, local purchases can provide vulnerable and crisis-affected smallholder farmers with access to markets, encouraging them to re-engage in production and recover their livelihoods through integrated livelihood and resilience activities such as food assistance for assets and HGSF.
20. In most of the settings where WFP operates, value chains are often neither efficient nor balanced, and smallholder farmers and their organizations are exposed to greater risks than other suppliers are or do not receive fair prices commensurate with the value they add.<sup>25</sup> Procurement aimed at achieving programme objectives, strengthening the livelihoods and resilience of smallholder farmers and enhancing food systems will therefore often require additional efforts to address bottlenecks in value chains. Such efforts will benefit vulnerable farmers the most.

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<sup>25</sup> A detailed explanation of value chain analysis can be found in annex I.

21. Value chain analysis is therefore essential to identifying prevailing bottlenecks, detecting inefficiencies and imbalances that may prevent farmers and other actors from fully benefiting from local procurement, and to informing strategies that address existing constraints.
22. Figure 2 illustrates the various objectives of local procurement and how their achievement depends on the functioning of relevant value chains:
  - In efficient value chains (first arrow), cost efficiency and reliable supplies of food are achieved together with broader programme goals.
  - In inefficient value chains (second arrow), cost efficiency and reliable supplies of food can be achieved but do not lead to the attainment of development and programme objectives. In this context, complementary measures (third arrow) are required to achieve broader programme goals.

**Figure 2: Objectives of local procurement**



23. As a buyer, WFP determines the point at which it will connect to the value chain. At present, this is mainly at the level of wholesale traders. The promotion of additional, more programme-related outcomes calls for the shifting of WFP's procurement activities to further down the value chain at the level of intermediate traders or farmer organizations or for the use of indirect contracts that enable wholesale traders to procure from farmers under fair conditions (at prevailing market prices).

24. WFP has identified the following complementary measures for addressing value chain deficiencies:
- WFP can introduce certain pro-smallholder contract modalities to ensure that smallholder farmers benefit from WFP's stable demand. These modalities can include direct purchases from smallholders and their organizations or indirect purchases through contracts with traders that buy food from smallholders at fair prices. The choice of the most appropriate contract modality is context-specific and is guided by market and value chain analyses and development objectives.
  - WFP can link its procurement activities to its own programmatic activities (paragraph 6) or to activities implemented by partners with the aim of strengthening the capacity of relevant value chain actors to address structural weaknesses. The range of activities involved can include those aimed at increasing the quality and quantity of farmers' yields, strengthening farmers' organizational and marketing capacities and supporting the reduction of post-harvest losses and the improvement of infrastructure. This more comprehensive procurement approach requires reinforced internal collaboration (programme-procurement) and strengthened partnership with private sector actors, farmer organizations, the other Rome-based agencies, non-governmental organizations and governments.

#### **Cash-based transfers and local economies**

The WFP Strategic Plan (2017–2021) states that WFP's cash-based transfers (CBTs) "offer an opportunity not only to address food security and nutrition issues, but also to increase the inclusion of the target population in the local financial and market system."

Studies and impact analyses have found that in addition to helping direct beneficiaries CBTs generate indirect benefits for local economies. By boosting the local demand for food, CBTs can increase the market opportunities for smallholder farmers and local traders and can stimulate local agriculture and retail activities. CBTs can open up opportunities to foster market access by connecting smallholders to the markets where beneficiaries buy their food. This can be achieved through the use of conditional contract modalities that ensure that selected retailers buy a certain percentage of their stock from smallholders. Retail contracts and innovations such as blockchain are also used in monitoring and enforcing traceability in order to ensure the local origin of the food purchased.

#### **Proposed policy approach**

25. Building on WFP's extensive experience with local procurement, including from smallholders, this policy introduces principles, parameters, programme-related considerations and partnership elements that will allow WFP to follow a renewed approach to local procurement. Innovative elements include the use of additional principles and parameters in decision-making processes, the consideration of programme and partnership goals during the planning of food procurement and the integration of procurement with programme objectives. Overall, WFP's local procurement will continue to ensure that appropriate food commodities are available to beneficiaries in a timely and cost-efficient manner, while at same time achieving programme outcomes based on context-specific analysis. In addition, enhanced integration of procurement and programme/partnership planning will allow the achievement of broader programme objectives in accordance with the value proposition.

## Principles

26. The following guiding principles will complement WFP's existing procurement principles<sup>26</sup> for the selection of local procurement modalities:
- *Saving lives and changing lives.* WFP will procure the maximum amount of safe and nutritious food with the available resources (saving lives) while considering programme outcomes when selecting procurement modalities (changing lives).
  - *Do no harm.* WFP will carefully consider the multidimensional nature of the potential negative impacts of local procurement on markets and value chains – disruption, inflationary effects, etc. – and on protection, livelihoods and environmental issues that can affect vulnerable people and poor consumers.
  - *Sustainability.* WFP will promote sustainable practices along the value chain and pursue durable improvements to food systems that lead to systemic changes.
  - *Transparency and equity.* WFP will work to ensure that all market actors have equal access to information and receive a fair share of the end price that corresponds to the value that they have added.

## Parameters

27. The following parameters will guide procurement authorities in selecting the best procurement approach and related contract modalities while taking the value proposition into consideration:
- *Context of the purchase* refers to all considerations – such as the need for a rapid response to humanitarian needs, existing regulatory frameworks, funding availability, pipeline analysis and other context-specific risks – that may influence the selection of procurement modalities and conditions, including the type of contract used. WFP will carefully consider the context when determining whether to purchase locally and what contract modalities to apply.
  - *Outcomes* refers to the intended goals, at the corporate level (Global Commodity Management Facility) or the country level, that WFP wants to achieve through its chosen procurement modality, such as improving smallholders' livelihoods and incomes, building resilient and inclusive food systems or nutrition-sensitive programming. In these situations, the benefits arising from the achievement of programme objectives will have to be assessed and described in order to inform the decision-making process of the procurement modality to be chosen.
  - *Value chain analysis.* This includes analysis of the value chains for selected commodities with a view to identifying opportunities and challenges and assessment of the inefficiencies that may prevent farmers from having profitable access to markets. WFP will systematically undertake value chain analysis (in particular when it procures large volumes) as a key step in providing information on entry points, assessing the reliability of supply and procurement modalities that best serve the intended outcomes and identifying potential capacity strengthening measures for the various actors involved (farmers, traders, etc.).

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<sup>26</sup> WFP's procurement principles are listed in its online food procurement manual. <https://foodprocurement.manuals.wfp.org/en/1introduction/>.

- *Import parity price (IPP):* Under the new policy approach, cost analysis regarding whether *importing* a particular commodity is more cost effective than procuring it in-country, remains essential. While IPP continues to be the key parameter for guiding procurement decisions, this policy proposes to introduce flexibility for the procurement authority to consider local purchase prices up to 20 percent above IPP. In such situations, strong justification will be required, detailing how certain programme objectives can be achieved through such purchases, taking into account the trade-off between acquiring the maximum amount of food for vulnerable populations and furthering programme objectives of strengthening livelihoods and food systems. In addition, such cases will have to describe whether there could be potential negative impacts on markets and value chains, in line with the “do no harm” principle, and potential risks such as inflationary effects. WFP is also in the process of reviewing its IPP calculation method, in which it will consider the feasibility of including carbon footprint considerations in consultation with experts.

### **Local procurement in Rwanda: Africa Improved Foods**

In 2015, WFP signed an agreement with Africa Improved Foods (AIF) – a joint venture of Royal DSM, the International Finance Corporation, the development banks of the Netherlands and the United Kingdom of Great Britain and Northern Ireland and the Government of Rwanda – for the construction of a food processing factory in Kigali to supply affordable, highly nutritious processed foods to the Rwandan market and regionally. Raw products are sourced from smallholder farmers with the aim of improving the lives of local farmers and strengthening local businesses, and the factory allows the production of nutritious food products that would otherwise have to be imported from abroad. Since the inception of AIF’s operations, local businesses in transport, agriculture and trade have been strengthened and knowledge has been transferred to actors in Rwanda’s economy, resulting in the creation of a growing well-trained, skilled labour workforce within or servicing AIF. At the same time, predictable demand for local commodities such as maize and soya has improved the value chains for products produced by smallholder farmers.

Following WFP’s agreement to purchase 25,000 mt of SuperCereal Plus per year from AIF, at prices set every six months in line with import parity prices, WFP has so far purchased 75,000 mt for child malnutrition treatment and prevention programmes in Kenya, Uganda, the United Republic of Tanzania, Rwanda and South Sudan. In addition, the Government of Rwanda purchases processed nutritious food from AIF for its national nutrition programmes.

Despite AIF’s efforts to diversify its revenue streams and reduce the cost of materials and operations, the price of SuperCereal Plus made with Rwandan (and Ugandan) raw materials has been consistently higher than its European counterparts, meaning that AIF’s SuperCereal Plus cannot yet be manufactured at less than import parity prices. Nonetheless, facing urgent pipeline constraints in supplying nutrition programmes in East Africa, and taking into account the broader objectives of the initiative with AIF, in 2019 WFP agreed to pay above import parity prices for AIF products.

### **Programme integration**

28. Local procurement strategies and modalities should be integrated into the design and implementation of every CSP, especially in countries for which WFP procures significant quantities of food. This will ensure alignment between procurement and programmes and will also foster the integration of the various WFP initiatives that contribute to improving smallholders’ livelihoods and strengthening food systems (for example smallholder agriculture

market support, post-harvest loss programmes, home-grown school feeding, food assistance for assets.). Through leveraging of the comparative advantages of these initiatives and the expertise and knowledge that they create, such programme integration allows WFP to strengthen its contribution to the attainment of zero hunger.

29. In particular, integration can be fostered in the following programme areas:

- *Nutrition.* Effective links can be established to a range of nutrition-sensitive interventions, especially related to local food fortification (including biofortification) activities aimed at increasing markets for local products while promoting dietary diversity. Opportunities for integration also arise from the use of procurement to increase demand for more diverse local food products and from work with local food processors to produce more nutritious products.
- *Resilience.* Complementary interventions that link efforts to empower smallholders in the creation of productive assets, such as roads to markets and irrigation systems, to efforts to boost demand for smallholders' produce makes smallholders' work more profitable and resistant to shocks, thus reinforcing their capacity to produce high-quality products in sufficient quantities.
- *Income and livelihoods.* The stable demand provided by WFP's purchases combined with innovative local procurement contracts provide opportunities for increasing the incomes of smallholders. These tools can be linked to complementary interventions implemented by WFP and partners that contribute to enhanced livelihoods and improve food systems.
- *Gender.* The use of a gender-transformative approach when planning complementary activities encourages the participation of women farmers and empowers them, including by addressing the root causes of inequality that limit women's potential. Examples of such gender-transformative activities include enhancing access to affordable credit.

## **Partnerships**

30. The scaling up of local procurement requires a high level of engagement with partners that can provide access to the information required for effective planning and contribute to the promotion and support of enabling conditions and holistic solutions. Strong partnerships with the following actors are therefore needed at both the global and local levels:

- *Governments.* Partnerships with national and local governments can be effective in ensuring that adequate support is provided to farmers. WFP can support governments in strengthening their capacity to procure from smallholders while WFP's procurement strategy can benefit from access to government information on suppliers and farmers.
- *Local stakeholders – farmers and traders.* Beyond the commercial relationship, farmers and traders rely on engagement with WFP to enhance their practices and improve their capacities. Local representatives and Apex organizations, such as those involved in retail, marketing and post-harvest management, should also be involved in the planning and implementation of local procurement initiatives.
- *National academic institutions, research centres and laboratories* are important sources of local knowledge and information and can complement WFP's expertise.
- *National and international civil society.* WFP can benefit from the knowledge, experience and tested approaches of civil society organizations, including those involved in the supply side, capacity strengthening or monitoring.

- *Rome-based agencies.* Collaboration with the other Rome-based agencies is key to maximizing efforts by drawing on the comparative advantages and distinctive strengths of each agency. A model for such collaboration was successfully implemented during the P4P pilot phase, with WFP's experience in local procurement and support to smallholders being complemented by technical assistance on production provided by the Food and Agriculture Organization of the United Nations (FAO) and interventions to enhance access to credit for farmers supported by the International Fund for Agricultural Development. The promotion and review of such collaboration are essential to ensuring programme integration and the scale-up of local procurement.
- *Other United Nations agencies.* Joining forces with other United Nations agencies, particularly UNICEF, the World Health Organization, the United Nations Development Programme and the United Nations Entity for Gender Equality and the Empowerment of Women, can increase the effects of combined purchasing power, strengthening value chain actors involved in biofortification, fostering innovations and promoting gender equality and women's empowerment.
- *Private sector.*<sup>27</sup> Private sector actors, both local and international, are valuable partners that complement WFP's expertise. Food processing, technology and innovation companies have a critical role in supporting smallholders, providing knowledge, expertise, tools such as traceability and financial support.
- *Donors.* Engagement with donor and development partners is crucial to the meaningful scale-up of local procurement and to programme integration. When WFP procures locally a degree of flexibility by donors in terms of both food origin and price will be required and can be justified by cost-effectiveness considerations. The development programmes of in-country donors offer opportunities for complementarity with WFP's procurement strategies.

## Risks

31. WFP will carefully consider the risks associated with the local procurement strategies and modalities it selects and will identify mitigation measures, as follows:
- Procuring large volumes of food in a country may have inflationary effects that negatively affect households, particularly the poorest ones. WFP will therefore analyse procurement and market dynamics such as the time of procurement and prevailing price fluctuations in order to anticipate any potential negative effects on prices.
  - Seasonality, changes in the number and nature of key value chain actors and global market trends affect prices and local markets unpredictably and continuously. Procurement strategies and plans require regular review and should be adaptable to changing conditions.
  - When food is purchased from smallholders there are inherent risks that the smallholders might not be able to timely provide goods of the quality and quantity contracted for. WFP's procurement strategies will have to include backup plans for such situations.

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<sup>27</sup> It is expected that in engaging with private sector partners WFP will follow the recently developed private sector partnerships and fundraising strategy, which is to be presented for approval by the Board at its 2019 second regular session.

- Procurement from smallholders also entails risks associated with local agricultural practices such as unsustainable farming techniques, land degradation and the effects of pesticides or fertilizers. WFP and its partners should therefore aim to promote programme interventions, such as food assistance for assets, that foster sustainable and “climate-smart” agricultural practices, soil conservation and water harvesting.

### **Monitoring and evaluation**

32. This policy will be monitored in several ways:

- Quantitative monitoring – enabled by the introduction of traceability systems and enhanced staff capacity leading to reductions in the underreporting of local purchases – will continuously capture data on local procurement and the share of pro-smallholder farmer procurement in terms of the quantity and value of purchases from smallholder farmers, aggregators and traders.
- Value chain analysis will make it possible to determine the gains for farmers when inefficient or imbalanced value chains are improved through the use of pro-smallholder farmer contract modalities and through WFP programme interventions. These gains are WFP’s contribution to enhancing the incomes and productivity of farmers (SDG Target 2.3), which will be tracked through monitoring and evaluation. While WFP will not measure the income increases of smallholder farmers, as these are dependent on many factors that are beyond WFP’s control, it can monitor increases in the volume and value of sales by smallholder farmers, contributing to increased income-generating opportunities that are the result of WFP’s local procurement.

33. A detailed monitoring and evaluation framework will be laid out in the implementation plan. An evaluation of the implementation of the policy and its results is foreseen for 2024, five years after the expected adoption of the policy.

### **Investment areas**

34. Implementation of the policy will require WFP to strengthen its own capacities, systems, processes and procedures and secure upfront resources for the necessary investments. It will also require that staff at all levels develop the capacities necessary to understand and apply the policy in their respective work environments through integrated programming and partnerships.

35. The following thematic areas will require upfront investments:

- *Analysis and capacity.* A comprehensive analysis of existing value chains provides the foundation for procurement strategies aimed at increasing local and pro-smallholder farmer procurement, with a focus on empowering rural women. This requires investments at the corporate level to:
  - develop a methodology and tools for value chain analysis and provide additional support, including monitoring and evaluation tools and indicators for data collection at the country office, regional bureau and headquarters levels; and
  - strengthen the capacities of country offices, regional bureaux and headquarters units to analyse value chains and market trends in order to inform procurement decisions, particularly in situations of market distortion.

36. Strengthened safeguards will also have to be put in place to enable the quick and thorough review of proposals for procurement at above import parity prices. This will require a revision of the business process model, which will need investments in the development of capacities and tools for ensuring that different functional divisions engage at the right time in the procurement process. Guidance and tools that facilitate the justification of procurement at above import parity prices will be made available to country offices and regional bureaux. A re-tooled supply chain import parity system is being rolled out.

### ***Traceability***

37. At the corporate level, WFP will have to invest in a traceability system for the efficient, reliable and transparent tracking of food and the prices that traders pay to smallholder farmer organizations and groups, as a precondition for the scale-up of indirect contract modalities (conditional or mandate). To enable country offices to manage and monitor their procurement contracts efficiently, these investments will require cooperation with private sector companies; the headquarters-led development of systems, including technological innovations; and investments in hardware, software and the training of actors who will be using the traceability system. Alternative traceability models (paper-based) will have to be developed until digital tools are in place.

### **Next steps**

38. Following its approval, the policy will be implemented in two phases:
- The first phase will be defined in a detailed implementation plan, which will be prepared as soon as the policy is approved. The plan will cover a period of two to three years and will include activities and a related budget for the design and testing of procedures and guidance for scaling up the new indirect contract modalities, the development and testing of a digital traceability system, strengthening of the capacities of WFP staff and partners in adopting the new procedures and systems, and enhanced engagement with local partners.
  - The second phase will entail the dissemination and consolidation of the procedures, tools and systems tested in the first phase, enabling more efficient and effective local procurement throughout WFP.

## **Acronyms used in the document**

AIF	Africa Improved Foods
CTBs	cash-based transfers
FAO	Food and Agriculture Organization of the United Nations
FSA	Food Supply Agreements
GCMF	Global Commodity Management Facility
HGSF	home-grown school feeding
IPF	import parity form
IPP	import parity price
P4P	purchase for progress
SDG	Sustainable Development Goal
UNICEF	United Nations Children’s Fund