



September/October 2012

Talk of the Month: P4P Procurement Modalities for Basic Grains

Since 2008, the Purchase for Progress (P4P) initiative in Central America has worked with farmers' organizations (FOs) to connect them to formal markets. During this period, **WFP has contracted** more than **46,000 MT** of basic grains from smallholder farmers through different procurement modalities adapted to the level of development of each FO. By using different kinds of procurement processes P4P aims to benefit farmers in three ways: (i) by putting cash in their pockets, (ii) by providing an incentive to invest in sustainable productivity and market access, and (iii) by supporting market development by promoting competition and structured trade.

The goal is to **transform farmers' organizations** of relatively low-capacity into organizations that regularly participate in competitive tendering, by providing training, as well as investing in building the organizations' capacity to aggregate, negotiate and commercialize grain.

P4P allows WFP to pilot new procurement modalities – soft tenders, direct or forward purchases – with the goal of building capacities, allowing FOs to access formal markets, while considering the possibilities to change its internal procedures. WFP has adopted more flexible procurement modalities in order to help FOs increase sales and improve access to markets.

In **Central America**, most farmers' organizations started selling to WFP through direct contracting. These FOs have matured and they are currently competing through tenders. However, there are many differences in experiences between countries of this region (1).

This month's bulletin will focus on:

- 1 Analysis of different P4P procurement modalities in Central America
- 2 The FOs progression towards more sophisticated procurement modalities

(1) Qualitative study known as Writeshop conducted by Royal Tropical Institute of the Netherlands (KIT) in 2011



**Our
countries**

Page 3



**P4P
Voices**

Page 4



Different P4P Procurement Modalities in Central America

WFP designed the new P4P procurement modalities specifically to deal with the difficulties that smallholder farmers face in selling to WFP. P4P has piloted the following procurement modalities:

Soft tendering is seen as a pro-smallholder competitive tendering. This adapted type of competitive tender is less strict than the usual competitive tender process that applies to large traders. For example, soft tenders waive performance bonds, waive bag marking requirements and require smaller amounts of grain. FOs bid against each other and those with the most competitive prices win the tender and a contract is then drawn up. Soft tendering entails all the transparency and cost-effectiveness of the regular competitive tendering process.

Direct contracting is a non-competitive procurement process, wherein WFP negotiates directly with a single supplier to determine a purchase price and other contract terms. Direct contracting is meant to suit weaker organizations that are not used to calculating their costs and submitting bids, and which are therefore not able to compete with others.

In the case of Central America, the **forward contracting modality** has not been applied yet because of a lack of reliable funding and volatile grain prices. Nevertheless, a few countries, such as Guatemala, are considering its implementation. From WFP's perspective, forward contracting is identical to direct contracting except for the price and the length of the contract, which are defined in advance.

The FOs progression towards more sophisticated procurement modalities

P4P's objective is to progress farmers' organizations from noncompetitive modalities such as direct contracting or forward contracting to competitive modalities such as soft tendering to build their capacities to eventually participate in the formal market through fully competitive procurement.

The procurement modality used with each FO depends on its level of capacity. The procurement processes are part of the development strategy of FOs which embeds indicators such as *"the capacity to participate in WFP tenders"* and/or *"an increase in sales to buyers other than WFP"*. Consequently, FOs in this region have improved their skills and capacities and have tried different procurement modalities.

The most representative example of a progression strategy in the procurement processes is **El Salvador**. Initially, FOs sold their crops to WFP through direct contracts. With P4P support, farmers have built the capacity to aggregate and negotiate. Juanita Cabrera, a member of AGRISAL FO and a P4P beneficiary, explains that trainings on commercialization have helped her set prices to compete a tender process. The support provided by P4P to strengthen FOs prepares them to engage in formal markets. For example, recently, various P4P FOs including AGRISAL and IZALCALU, signed forward contracts with a private sector company, HARISA, for 900 MT and 349 MT respectively.

In **Honduras** all WFP purchases were made through direct contracts. This year soft tenders were introduced with great success with an increase of 400 percent in sales through this modality from 668 MT to 3,351 MT.

Nicaragua's case was the reverse. WFP started purchasing crops through soft tendering since it was the closest modality to WFP's regular procurement procedures and based on a precedent in 2009 when two farmers' organizations – Quilali Farmers' Union and Jalapa Active Farmers Organization – participated successfully in WFP's tender processes. That experience was however an exception and subsequently, WFP verified that P4P FOs, including those two FOs, were not prepared to participate in competitive processes on a regular basis. WFP decided to shift to direct contracts, which is still the prevailing procurement method with P4P FOs.

The **Guatemala** experience differed from Nicaragua's. WFP started with five direct contracts in order to encourage FOs to sell to WFP. Nevertheless, direct contracts did not enhance the sustainability of the P4P local procurement intervention. Consequently, soon after, WFP decided to introduce soft tendering as the most appropriate modality for purchasing basic grains in the country, even among low capacity FOs.

The diversity of experiences among the four countries demonstrates how access to formal markets can be achieved through different approaches, ensuring sustainable local procurement of basic grains.

GLOBAL P4P PROCUREMENT MODALITIES

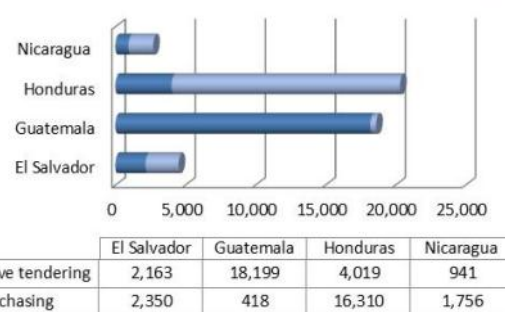
Soft tendering: Adapt competitive tendering practices to be better suited to the needs of FOs and small/medium traders.

Direct contracting: Purchasing directly from organizations that represent smallholder farmers. 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.

Processing options: Working with the private sector and other stakeholders to encourage the establishment of local food processing units and, where possible, link these entities to smallholder suppliers as a source of raw materials.

MT Contracted Vs Procurement Modalities



CA P4P COORDINATION MEETING

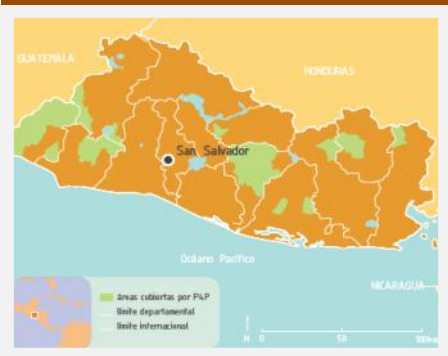
At the end of October, the P4P coordinators for Central America met in Panama to discuss the main learning themes that the region could contribute to the **P4P global learning agenda**. As a pilot project, one of P4P's goals is to generate significant knowledge on how to leverage local procurement to connect smallholder farmers to markets. **Seventeen learning themes** were identified.

The P4P experience in Central America is relevant for most of the seventeen learning themes, with a particular focus on: financial services for commercialization, the empowerment of women, linkages with the National School Feeding Programme, analysis of direct purchase modalities and partnership arrangements.

During the meeting the outline of each of the priority learning themes was also discussed. The content of the "P4P Story" outline was approved and consensus was reached regarding the roles and responsibilities of focal points in the process of documenting learning.

EL SALVADOR

FOs	19
FARMERS	8,206
% WOMEN	34
CONTRACTED (MT)	4,512
TOTAL VALUE (\$)	2.2 M
TRAININGS	1,202
PARTICIPANTS	12,531
PARTNERS	25

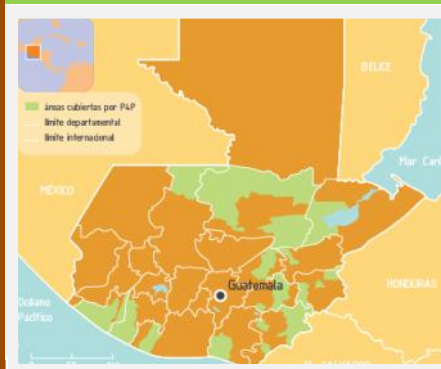


- Meeting with the new Minister of Agriculture, Mr. Pablo Alcides Ochoa, to share experience regarding P4P
- Announcement by Ministry of Education to purchase 153 MT of beans from 400 smallholder farmers
- Agreement with representatives from CONAMYPE (National Commission for Small and Medium Enterprises) to cooperate in the commercialization and access to markets phases
- Field mission with representatives from CORSAIN (National Investment Company) and the Ministry of Agriculture to evaluate private-public partnership opportunities with FOs

Key Partners: Howard G. Buffett Foundation, DISAGRO & FERTICA, El Salvador Chamber of Commerce, FAO, Ministry of Agriculture and Livestock, the National Center for Agriculture and Forestry Technology (CENTA), PREMODER & PRODEMORO (IFAD-financed rural development programs), CARITAS undation, UNDP, World Vision.

GUATEMALA

FOs	67
FARMERS	7,727
% WOMEN	37
CONTRACTED (MT)	18,617
TOTAL VALUE (\$)	8.6 M
TRAININGS	1,088
PARTICIPANTS	46,454
PARTNERS	44



- Training session on post-harvest handling implemented by Universidad del Valle and ICTA
- Support and integration of the *Triangle of Dignity* credit program (Ministry of Agriculture)
- On-going coordination of joint program to empowerment rural women (UN Women, FAO, IFAD and WFP)
- Strengthening gender commissions in FOs through training and elaboration of work plans
- Workshop with Bayer, Banrural and DEINSA to promote black bean-production and marketing

Key Partners: Howard G. Buffett Foundation, Canadian International Development Agency (CIDA), BANRURAL, Catholic Relief Services (CRS), DISAGRO, FAO, Inter-American Institute for Agricultural Cooperation (IICA), International Maize & Wheat Improvement Center (CIMMYT), Ministry of Agriculture (MAGA), National Institute for Agricultural Commercialization (INDECA), Institute for Agricultural Science and Technology (ICTA).

HONDURAS

FOs	23
FARMERS	11,250
% WOMEN	25
CONTRACTED (MT)	20,329
TOTAL VALUE (\$)	13.4 M
TRAININGS	563
PARTICIPANTS	44,362
PARTNERS	21



- Meeting with representatives from the Secretary of Agriculture (SIMPAAH-FHIA-INFOAGRO) in order to establish a *farm gate price* pilot project
- Establishment of 137 field schools for crop development and organizational strengthening
- Meeting with FAO to select agribusiness technicians to support FOs in agribusiness and management areas
- Workshop with UN Women on field farmers 'schools held in El Paraíso
- Meeting with representatives of SWISS CONTACT-UDEL to support FO's maize production in the eastern region

Key Partners: EUFF, Howard G. Buffett Foundation, CHOOPACYL Credit & Savings Cooperative, CRS, FAO, Government of Honduras, IICA, IFAD/PROMECOM, INA, Ministry of Agriculture, National Agricultural Development Bank (BANADESA), DICTA, National Institute for Professional Formation, Prolancho Foundation, SAN Coalition Network, UN Women, FAO, SAN Red Coalición.

NICARAGUA

FOs	9
FARMERS	2,100
% WOMEN	31
CONTRACTED (MT)	2,743
TOTAL VALUE (\$)	1.06 M
TRAININGS	921
PARTICIPANTS	14,540
PARTNERS	13



- Meeting with the newly-formed Ministry of Families, Cooperatives and Communitarian Economies in order to explore opportunities for joint cooperation
- On-going field farmer's school sessions conducted by INTA (Nicaraguan Institute for Agricultural Technology) in Wiwilí municipality
- Meeting with representatives from BCIE (Central American Bank for Economic Integration) and Produzcamos Bank in order to explore possibilities for P4P FOs to accesses credits for grain storage
- Training session on gender leadership and entrepreneurship provided by Institute of "Las Segovias"
- Workshop on topics related the harvest and post-harvest period within the Red SICTA framework

Key Partners: Howard G. Buffett Foundation, FAO, Food Technology Laboratory (LABAL), IICA, International Regional Organization for Animal and Plant Health (OIRSA), Ministry of Agriculture, Nicaraguan Institute for Agricultural Technology (INTA), UCA.



This month we interviewed German Martinez, advisor for Harisa, a flour producing company that has recently signed a forward purchases contract with two P4P FOs, AGRISAL and IZALCALU, for 900 MT and 349 MT, respectively. Mr. Martinez talks about this successful collaboration.

How was the relationship between HARISA and P4P FOs established?

The Ministry of Agriculture facilitated the process. Representatives from the Ministry suggested that we contact AGRISAL and IZALCALU. These farmers' organization had been recommended due to their involvement with P4P; they knew how to produce under the required quality specifications.

Why did you select AGRISAL and IZALCALU FOs to procure maize?

We try to work with smallholder farmers, in order to reduce the maize value chain within the agro industry and to maintain direct contact with farmers. The AGRISAL and IZALCALU experience with WFP/P4P gave us the guarantees for the purchase of maize and promote sustainability in the long run. Both are well-structured and trained FOs, guaranteeing a product of an ideal quality.

**German Martinez ,
Advisor for Harisa,
El Salvador**

How was the forward contract purchase with the FOs structured? Did it differ from other HARISA procurement process?

We have experience signing agreements with big-size farmers' organizations (FOs clusters). Every year a price is set with the clusters. However, in HARISA we wanted to promote contract farming modalities directly with smallholder farmers. That is why we started a forward contract process with AGRISAL and IZALCALU, setting a price that is higher or equal to the price found in the agreements, taking into account the factors of production, post-harvest, transport costs and profitability.

From the private sector point of view, how do you think that forward purchase modalities can benefit family agriculture?

The use of forward contracts helps farmers move from subsistence to commercial agriculture, ensuring sustainability through the sale of agricultural surplus. Forward contracts enable farmers to:

- ◆ Ensure post-harvest sales;
- ◆ Enables farmers to plan the area of land to plant, and to obtain better prices for the purchase of agricultural inputs in volumes (seeds, fertilizers), reducing production costs; and
- ◆ Enjoy higher productivity, so they will be able to store grains in warehouses and sell their product at more competitive prices in the future, thus increasing revenues.

Do you think forward contracts face any kind of risk?

No, on the contrary, I believe that for HARISA it is an advantage to deal with P4P FOs because sometimes locally procured maize is of better quality than imported maize. Dealing with local FOs makes the process more sustainable. Moreover, farmers also benefit from having HARISA as a client, because they are more likely to garner future sales and access financial institutions.

P4P CENTRAL AMERICA	BENEFICIARIES	
	FARMERS' ORGANIZATIONS	118
	PARTICIPATING PRODUCERS	29,283
	% WOMEN	32
	P4P PURCHASES	
	TOTAL CONTRACTED (MT)	46,201
	TOTAL VALUE (US\$)	25.26M
	% OF TOTAL PURCHASES	26
	TOTAL COST SAVINGS FOR WFP	3,050,687
	CAPACITY DEVELOPMENT	
PRODUCTION	1,336	
POST-HARVEST MANAGEMENT	917	
AGRIBUSINESS MANAGEMENT	615	
M&E	38	
CREDIT	258	
FO CAPACITY BUILDING	394	
WFP/P4P PROCUREMENT	66	
GENDER	118	
OTHER	32	
TOTAL	3,774	
TOTAL PARTICIPANTS	117,927	
PARTNERS		
GOVERNMENT INSTITUTIONS	39	
UN AGENCIES	7	
PRIVATE SECTOR	8	
NGO	30	
OTHER	19	
TOTAL	103	

Months Ahead:

- Annual Consultation Meeting, Rome (28 – 31 January 2013)
- Regional Workshop with IICA and SE CAC on family agriculture and connecting smallholder farmers to markets (first quarter 2013)

CONTACT US

REGIONAL BUREAU FOR CENTRAL AMERICA

P4P Regional Programme Advisor
Laura Melo, laura.melo@wfp.org

P4P COUNTRY COORDINATORS

EL SALVADOR
Hebert Lopez, hebert.lopez@wfp.org

GUATEMALA
Sheryl Schneider, sheryl.schneider@wfp.org

HONDURAS
Nacer Benalleg, nacer.benalleg@wfp.org

NICARAGUA
Francisco Alvarado, francisco.alvarado@wfp.org

