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Leveraging institutional food procurement for linking small farmers to markets

Findings from WFP's Purchase for Progress initiative and Brazil's food procurement programmes

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1

Leveraging institutional food procurement for linking small farmers to markets

Findings from WFP's Purchase for Progress initiative and Brazil's food procurement programmes

by

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Foreword

This paper marks the beginning of the Agricultural Development Economics Technical Study series of the Food and Agriculture Organization of the United Nations (FAO).

Targeting policy-makers and influencers of national strategies, laws and policies in the Agricultural Development Economics domain, the series will provide quantitative and qualitative critical analyses on global trends and challenges in food security and nutrition; food security and resilience; sustainable markets, agribusinesses and rural transformations; and climate-smart agriculture. The analyses, led by the Agricultural Development Economics Division of FAO, is often developed in collaboration with FAO's partners in development.

This first issue of the series presents a study carried out by the Agricultural Development Economics and the Nutrition and Food Systems Divisions of FAO, in collaboration with the World Food Programme (WFP). The issue analyses case findings from WFP's Purchase for Progress initiative and Brazil's food procurement programmes.

The United Nations Conference on Sustainable Development (Rio 20) identified Sustainable Public Procurement as a driver to accelerate the shift towards sustainable consumption and production. The World Summit on Sustainable Development defines the concept as "a process whereby organizations meet their needs for goods, services, works and utilities in a way that achieves value for money on a whole life basis in terms of generating benefits, not only to the organization, but also to society and the economy, while minimizing damage to the environment".

In its 2014 Briefing Note, the United Nations Special Rapporteur on the Right to Food builds on the concept of Sustainable Public Procurement, advocating food procurement programmes that leverage governments' demand for food in order to strengthen the capacity of small-scale food producers within local food systems.

This goal was also identified as a policy recommendation by the Second International Conference on Nutrition (ICN2) for improving nutrition and transforming food systems and other global platforms such as the Committee on World Food Security (CFS) and the Global Panel on Agriculture and Food Systems for Nutrition.

The importance of the approach has also been recognized by the Comprehensive Africa Agriculture Development Programme (CAADP), which promotes school feeding based on nationally and regionally procured food. As a result, in 2003, the New Partnership for Africa's Development (NEPAD) launched its pilot Home-Grown School Feeding and Health Programme linked to local food procurement.

Notable programmes designed to make the linkage between the public sector's demand for food and small rural farmers and enterprises are Brazil's ongoing National School Feeding Programme (PNAE), its public Food Purchase Programme (PAA), and the Purchase for Progress (P4P) pilot initiative of the United Nations World Food Programme (WFP).

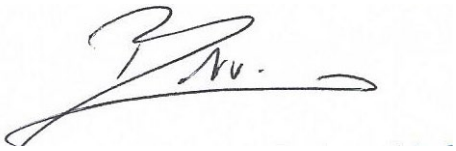
While there are many ongoing national and municipal public food procurement initiatives in industrialized and developing countries, few have been well documented, leaving a gap for those countries wishing to learn from "real-world" experiences. As part of the FAO Agricultural Development Economics Technical Study series, this cross-case analytical paper appraising PAA, PNAE and WFP's P4P, contributes to the learning gap.

In addition to identifying policy and institutional reforms needed to align institutional demand and local food production, the paper also demonstrates the potential of the approach as a conduit for the transformation of food systems that are inclusive of small farmers and rural food enterprises.

Under the technical leadership of the Agricultural Development Economics Division of FAO similar papers will continue to be published as part of this new series in order to contribute to bridge analytical gaps in information for better policy making on agricultural and food systems development.

Rob Vos

Director, Agricultural Development Economics Division, FAO



Preface

Each year, institutional buyers – including schools, food reserves, hospitals and food aid organizations – procure vast amounts of food worth billions of dollars. These buyers potentially offer close-to-home demand for small food producers and processors. Governments are increasingly interested in leveraging this formal and local demand to facilitate the transition of farmers and rural food enterprises to engage with more demanding agrifood markets.

Notable programmes designed to create a preferential link between institutional demand for food and broader development objectives are Brazil's National School Feeding Programme (PNAE), its public Food Purchase Programme (PAA), and the United Nations World Food Programme's (WFP) Purchase for Progress (P4P) pilot initiative (2008–2014). Country case appraisals of these three programmes have identified a number of constraints that hamper the implementation of institutional food procurement programmes (IFPPs) and their role in rural transformation. Building on these case appraisals, this paper is able to juxtapose and learn from two kinds of procurement systems that are structurally different but developed with similar objectives.

Targeting government agencies and international organizations tasked with advising on and designing IFPPs, readers are provided with insights on the challenges faced on both the demand and supply sides of IFPP value chains. The paper discusses the policy and legislative frameworks that need to be in place to make IFPPs work, the reforms required and the transformative changes that institutions need to adapt in order to procure food from small farmers and rural food enterprises. Guidance on developing capacity building strategies suitable for suppliers targeting formal institutions is also provided.

After discussing the need to build monitoring and evaluation systems that encircle IFPPs, the publication culminates in guiding the reader through a framework that captures the most critical elements of a food procurement programme. Ultimately the goal of the publication is to contribute to building programmes capable of tackling the mismatch in the modus operandi of formal state institutions doing business with small farmers and rural food enterprises so that IFPPs contribute to the transformation of local food systems that are both sustainable and inclusive of the poor.

Acknowledgements

The authors would like to acknowledge the other authors of the country case studies covering the experiences of WFP's P4P initiative in Ethiopia, Ghana, Kenya, Rwanda, the United Republic of Tanzania, El Salvador and Guatemala. Together, their case studies constituted background papers for this publication. Particular thanks go to Eva Gálvez-Nogales (FAO Agricultural and Development Economics Division [ESA]), author of the Ethiopia case study; Jorge M. Fonseca (FAO Nutrition and Food Systems Division [ESN]), author of the Ethiopia, Guatemala and El Salvador case studies; Peter Anaadumba (FAO consultant), author of the Ghana and United Republic of Tanzania case studies; Stephanie Gallat (FAO Regional Office for Africa), author of the Ghana case study; Nomathemba Mhlanga (FAO Regional Office for Africa), author of the Kenya and United Republic of Tanzania case studies; Anastacia Kivuva Kiio (Ministry of Agriculture, Livestock and Fisheries), author of the Kenya case study; Clare Mbizule (WFP), author of the Rwanda case study; Revellian Ngaiza (FAO consultant), author of the United Republic of Tanzania case study; Victor Prada (FAO consultant), author of the Guatemala and El Salvador case studies; and Natalie Vergara (FAO consultant), author of the Guatemala and El Salvador case studies.

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This publication was developed by the Agricultural Development Economics Division and the Nutrition and Food Systems Division of FAO in collaboration with the World Food Programme.

Acronyms

ANVISA	National Health Surveillance Agency (Brazil)
ATER	Technical Assistance and Rural Extension (Brazil)
BOLPROS	Commodity Exchange of El Salvador
BRL	Brazilian real (pl. reais)
CA	Advance Purchase [*Compra Antecipada*]
CAADP	Comprehensive Africa Agriculture Development Programme
CAE	School Feeding Council (Brazil)
CAFTA-DF	Dominican Republic-Central America Free Trade Agreement
CD	Direct Purchase [*Compra Direta*]
CDS	Purchase with Simultaneous Donation [*Compra com Doação Simultânea*]
CIP	Crop Intensification Program (Rwanda)
CONAB	National Supply Company (Brazil)
CONSAD	Consortium for Food Security and Local Development (Brazil)
CONSEA	National Council on Food and Nutrition Security (Brazil)
CPR	Farm Product Bond [*Cedula de produto rural*]
CRAS	Social Assistance Reference Centers (Brazil)
CU	Cooperative Union
DAP	PRONAF Eligibility Declaration [*Declaração de Aptidão ao Pronaf*]
DAP	Delivery at Place (Incoterms)
EDPRS	Economic Development and Poverty Reduction Strategy (Rwanda)
ESALQ	Luiz de Queiroz School of Agriculture [*Escola Superior de Agricultura Luiz de Queiroz*]
EU	European Union
EXW	Ex Works (Inconterms)
FC	Federal Constitution
FCA	Federal Cooperative Agency (Ethiopia)
FE	Support for Stock Formation [*Apoio à Formação de Estoque*]
FNDE	National Fund for the Development of Education (Brazil)
FO	Farmer Organizations
FPF	Forward Purchase Facility
FSP	Financial service provider
IFAD	International Fund for Agricultural Development
IFPP	Institutional Food Procurement Programme
Incoterms	International commercial terms
INDECA	National Institute of Agriculture Marketing (Guatemala)
ING	Guardians of Nature Institute
IPC	International Policy Centre for Inclusive Growth
IPCL	Incentive for Milk Production and Consumption [*Incentivo à Produção e ao Consumo de Leite*]
ITC	International Trade Centre

KWFT	Kenya Women Microfinance Bank
M&E	Monitoring and evaluation
MAPA	Ministry of Agriculture, Livestock and Food Supply (Brazil)
MAFSC	Ministry of Agriculture, Food Security and Cooperatives (United Republic of Tanzania)
MDA	Ministry of Agrarian Development (Brazil)
MDS	Ministry of Social Development and Fight against Hunger (Brazil)
MFI	Microfinance institution
MiDA	Millennium Development Authority (Ghana)
MINAGRI	Ministry of Agriculture and Animal Resources (Rwanda)
NAP	National Agricultural Policy (Rwanda)
NGO	Non-governmental Organization
NPA	Non-profit association
NSGR	National Strategic Grain Reserve (Rwanda)
OECD	Organisation for Economic Co-operation and Development
OLL	Organic Land Law
PAA	Food Purchase Programme (Brazil)
PAA Africa	Purchase from Africans for Africa
PAAMG	Food Purchase Programme Management Group (Brazil)
PC	Primary cooperative (Ethiopia)
P4P	Purchase for Progress initiative
PHSCS	National Post-Harvest Staple Crop Strategy (Rwanda)
PNAE	National School Feeding Programme (Brazil)
PNATER	National Policy on Technical Assistance and Rural Extension for Family Farming and Agrarian Reform (Brazil)
PPRA	Public Procurement Regulatory Authority (United Republic of Tanzania)
PRONAF	National Programme for Strengthening Family Farming Agriculture (Brazil)
PRONATER	National Programme for Technical Assistance and Rural Extension for Family Farming and Agrarian Reform (Brazil)
PSTA II	Strategic Plan for the Transformation of Agriculture (Rwanda)
RCA	Rwanda Cooperative Agency
SACCOS	Savings and Credit Cooperative Societies (United Republic of Tanzania)
SESAN	Secretariat for Food and Nutrition Security (of MDS)
SME	Small and medium enterprise
TBS	Tanzania Bureau of Standards
TC	Transport cost
TFDA	Tanzania Food and Drugs Authority
UnB	Federal University of Brasilia
USAID	United States Agency for International Development
WFP	World Food Programme
WRS	Warehouse receipt systems
WTO	World Trade Organization

Executive summary

Institutional procurement programmes are based on the premise that governments, using their authority and financial capacity to award public tenders, can go beyond the immediate scope of simply responding to the state's procurement needs by simultaneously also addressing its social, environmental and economic concerns (McCrudden, 2004; Thai, 2009; Sumberg and Sabates-Wheeler, 2011).

Institutional food procurement programmes (IFPPs) refer to initiatives that are designed intentionally to link an institution's demand for food to broader development objectives. IFPPs are increasingly viewed as programmatic approaches that contribute to the transformation of local food systems that are inclusive of small farmers and enterprises. Programmes to date, and for the most part, have focused on linking local production to national school feeding initiatives, strategic food reserves and broader food security programmes. Notable IFPPs in this regard are Brazil's ongoing National School Feeding Programme (PNAE) and the public Food Purchase Programme (PAA), together with the Purchase for Progress (P4P) pilot initiative (2008–2014) of the United Nations World Food Programme (WFP).

The objective of this publication is to provide insights on the policy and institutional reforms required for developing and implementing IFPPs, based on a cross-analysis of lessons from eight country case studies covering WFP's P4P and Brazil's PAA and PNAE.

At the level of the enabling environment, evidence shows that for the successful integration of small rural actors into institutional food procurement value chains, systems require: first, national-level policies that place small rural vulnerable actors as central to agricultural modernization; second, a clear alignment between policy and legislation to institute rhetoric and institutional reform on procurement; and third, a cross-sectoral platform that establishes clear institutional roles and mandates, facilitating collaboration between interrelated programmes and institutions.

However, the absence of a perfect enabling environment – which rarely exists – does not preclude countries from embarking on IFPPs. Rather, in an effort to facilitate programme implementation, IFPPs can act as motivating catalysts for the revision of policy and legal frameworks, with the overall impact that the integration of small and vulnerable actors into ongoing agricultural transformation processes is accelerated.

Aligning the mismatch in institutional food procurement chains

At the applied level of the value chain, findings show the need to place equal emphasis on both the capacities of small actors to supply a large formal buyer and on the capacities and procurement procedures of a large buyer to do business with small actors. While measures may be put in place to align farmers' capacity to respond to demand, if the buying institution does not also place sufficient emphasis on reforming procedures to facilitate the practical day-to-day instruments, such as contracts, orders, payment and logistics, it is unlikely that an IFPP will be sustainable. Central to this alignment is the need for reviews of institutional policies and processes, to uncover the procedural bottlenecks likely to prevent access to targeted small suppliers. Based on the review, ***ex ante*** tools and contractual models can be developed. Flexibility also needs to be embedded into procedures to allow for the adaptation of tools in line with the learning curve of an IFPP.

To help small actors respond to institutional demand, capacity building strategies have to be able to tap into ongoing initiatives if they are to be sustainable. At the same time, they also need to remain sufficiently tailored to respond to the needs of IFPPs, and with a

focus on targeting to ensure that the beneficiaries helped are the same as those supplying the targeted institution.

Strengthening the institutional capacity of farmer organizations (FOs) with a view to building up the collective bargaining power of smallholders for enhanced market access is an inherent objective in all the IFPPs appraised. Findings reiterate the existing literature on agricultural value chains, showing constraints with FOs adopting tools that improve the role of small farmers in markets, despite training. An analysis initially indicates factors endogenous to FOs, mainly associated with leadership and internal governance problems. However, more in-depth appraisals show that in many cases the root causes of constraints are exogenous, and relate to weak and unclear national policy and legislative frameworks governing farmers' organizational structures (World Bank, 2008; González, Johnson and Lundy, 2006; Bijman *et al.*, 2012; Swensson, 2016).

In addition to FOs, small farmers and rural enterprises are linked to the broader market in a number of ways that include, for instance, contract farming[1] with large companies and food processors through small or large traders at the farm-gate, rural artisanal food processors[2] and spot markets in rural towns. Consequently, the role of these actors in linking farmers to institutional procurement also needs to be considered.

Although the evidence from the case studies is rich and informative, for the most part it is qualitative and sometimes anecdotal. This has been unavoidable because of a lack of strong monitoring and evaluation (M&E) systems containing quantitative evidence based on empirical data sets, baseline information and control groups. Nevertheless, what is important to highlight here is that linking smallholders to IFPPs undoubtedly yields results, but systems are still needed to monitor improvements accurately, based on reliable data to guide learning on what works and what does not.

Moving towards a framework for institutional food procurement programmes

In the absence of a framework for designing and implementing IFPPs, an adaption of the analytical framework used in the paper is proposed, based on three interrelated pillars (see Figure 1).

- *Pillar I* is reflected by the inner green circle in the figure which supports an appraisal of the enabling environment of development and agricultural policies, including public procurement policies, alignment between policies, legislation and their effectiveness in closing the gap between formal institutional systems and small informal market systems.
- *Pillar II*, represented in the Figure by the blue and purple circular arrows, addresses "barriers to inclusion", referring to day-to-day supply and demand-side constraints, often a result of a lack of alignment in the enabling environment pillar.
- *Pillar III* in the Figure shows four outer icons referring to four subpillars upon which to build an IFPP: (i) well-timed programmatic funding flows critical to ensure regular and reliable institutional demand; (ii) institutional procurement procedures and tools adapted to suppliers' capacities and programme goals; (iii) capacity building strategy to ensure that suppliers comply with institutional buyers' needs; and (iv) public-private partnerships and coordination mechanisms, intertwined with an M&E system.

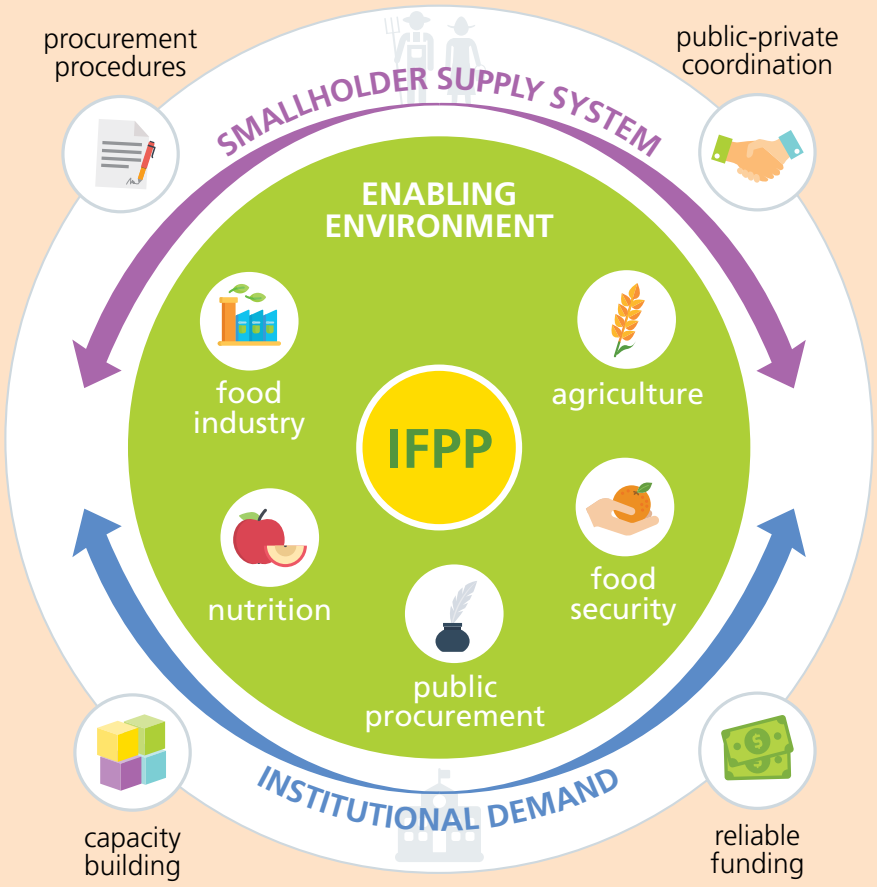
[1] Lessons can also be applied to food processors in addition to traders. However, since the commodities referred to in the IFPPs discussed here are primarily unprocessed grains, a discussion on small food processors has not been included.

[2] See FAO publication on linking small farmers to contract farming arrangements, available at: www.fao.org/3/a-i3526e.pdf

Thus, IFPPs are not only practical solutions to forge linkages between institutional demand and local production but, more important, given the combined purchasing power of public and private sector institutions, they should be conceived for their potential as conduits for the transformation of domestic food supply systems.

To achieve this transformation, two goals should be foremost in the conceptualization and design of IFPPs. First is the role of IFPPs in catalysing policy and legal environment reforms, which place small farmers and enterprises at the centre of agricultural modernization plans. Second is the need for programme design and implementation to be carried out in close consultation with partners in development and the private sector, to enable a rich cross-fertilization in tools and knowledge on food procurement norms. These goals are crucial if IFPPs are to be sustainable drivers of rural transformation.

FIGURE 1 Proposed framework for IFPPs



Source: Authors' own elaboration.

1 Introduction

Institutional food procurement programmes are based on the premise that governments, when using their authority and financial capacity to award public tenders, can go beyond the immediate scope of simply responding to the state's procurement needs, by also addressing social, environmental and economic needs that contribute to the overall public good of a state (McCrudden, 2004; Thai, 2009; Sumberg and Sabates-Wheeler, 2011). In South Africa, for example, under the country's Black Economic Empowerment (BEE) Programme, companies have scorecards that rank their contribution to the economic empowerment of black people in the country. The Government consequently takes a company's BEE scorecard[3] into consideration when awarding tenders (Thai, 2009).

This section places IFPPs in a global context and illustrates their potential role for structural transformation. It discusses how institutional procurement programmes are evolving and integrating social, economic and environmental goals to governments' procurement needs.

In this regard, until the 1990s the focus of public procurement in industrialized countries was on minimizing costs for the state. This vision has since expanded and evolved according to country contexts and national priorities, with more recent strategies responding to calls from the private sector and civil society for local food systems that embrace small and medium enterprises (SMEs) and more sustainable agricultural development (OECD, 2012).

The European Union (EU) and its member countries provide examples of a number of initiatives that have public food procurement embedded in sustainable and green development frameworks to address economic, environmental and social goals. Throughout the region, sustainable public procurement practices are supported by the revised Public Procurement Directive[4] described in Box 1.1. Under this directive, the EU emphasizes that procurement should meet wider environmental and social goals, implying stronger linkages between local food production and public procurement.

The European Commission[5] also identified "food and catering services" as one of the ten priority action areas for support under its voluntary criteria on green public procurement, which member countries and individual contractual authorities can adopt to reduce environmental impact.

[3] Available at: http://www.dti.gov.za/economic_empowerment/bee.jsp

[4] Directive 2014/24/EU.

[5] Communication from the Commission to the European Parliament – COM (2008) 400.

BOX 1.1 The new European Union Directive on Public Procurement

In 2014, the EU reviewed its previous directive on public procurement, recognizing the key role of public procurement in the Europe 2020 strategy for smart, sustainable and inclusive growth. The following is established in its preamble (Directive 2014/24/EU).

"Public procurement plays a key role in the Europe 2020 strategy, set out in the Commission Communication of 3 March 2010 entitled 'Europe 2020, a strategy for smart, sustainable and inclusive growth', as one of the market-based instruments to be used to achieve smart, sustainable and inclusive growth while ensuring the most efficient use of public funds. For that purpose, the public procurement rules adopted pursuant to Directive 2004/17/EC of the European Parliament and of the Council and Directive 2004/18/EC of the European Parliament and of the Council should be revised and modernized in order to increase the efficiency of public spending, facilitating in particular the participation of small and medium enterprises (SMEs) in public procurement, and to enable procurers to make better use of public procurement in support of common societal goals."

In the new directive, environmental, social and innovation procurement – as well as the inclusion of SMEs – is largely recognized and supported by the new rules. The directive recognizes that social aspects (in addition to environmental aspects, previously recognized in the 2004 directive) can now be taken into account alongside the best-price quality criteria for the selection of suppliers. It also provides further instruments (such as the use of social and eco certifications and/or labels and of whole-life costing) to facilitate procurement of contracts with social/environmental objectives.

At the state level, countries such as Finland and the United Kingdom, which spend approximately €350 million (1 percent) and US$3 billion (3 percent) respectively per annum on public food catering, have recently designed plans to use public food procurement as an instrument for contributing to a range of social, environmental and economic objectives, such as childhood obesity and SME institutional strengthening. Box 1.2 gives an overview of both these plans – Finland's "Local Food Programme" and the United Kingdom's "Plan for Public Procurement". The UK's plan, for example, aims to ensure that public food procurement expenditures "is spent on nutritious and sustainable food, delivered by Britain's thriving rural economy" (DEFRA, 2014). Similarly, Finland's plan aims to increase the share of locally produced food in public funded kitchens.

BOX 1.2 Finland's "Local Food Programme" and the United Kingdom's "Plan for Public Procurement"

Different initiatives have been developed in Europe over the last few years with the aim of using public procurement to reach broader social, economic and development goals. Finland and the United Kingdom provide two examples of these initiatives.

In Finland, one of the main strategic objectives of Finnish agricultural policy is to encourage an increase in the production of organic and local food (Korhonen and Muilu, 2015). In 2013, the Ministry of Agriculture and Forestry published the "Government programme on local food and development objectives for the local food sector to 2020". Its main objectives include: (i) increasing the share of local food in public kitchens through better procurement skills and quality criteria; (ii) improving the opportunities of small-scale food processing and sales through legislation and advice; and (iii) diversifying and increasing local food production to meet demand and raise the value added of local food production. As part of this strategy, municipalities and regions are encouraged to increase the share of local food in their procurement operations. A new legislation on public procurement is being developed and different measures to enhance procurement skills and develop procurement practices have been financed and implemented (Väänänen and Tossavainen, 2015).

In the United Kingdom, the Government launched in 2014 a "Plan for Public Procurement". The plan expressly recognizes that effective public procurement is capable of delivering a series of goals, including: (i) supporting farmers and food producers and rightly rewarding them for operating to high animal welfare and production standards; (ii) building training opportunities into contracts, to ensure a skilled food and farming sector for the future; (iii) tackling health issues by enabling people to eat well across the public sector, and contributing to wider societal well-being; and (iv) helping schoolchildren to value their food by knowing where it comes from, and teaching them how to cook healthy meals.

To ensure that public procurers access these benefits and opportunities, the plan intervenes in three key areas: procurement, supply and supply chain (DEFRA, 2014). Among its main innovations is the introduction of a balanced scorecard for all procurement. This scorecard is a comprehensive and straightforward set of criteria that enable social and environmental factors (including nutrition, sustainability and customer satisfaction) to be considered together with the traditional cost factor for awarding contracts. It gives suppliers the opportunity to be rewarded for excellence, continuous improvement and innovation. The plan is implemented in line with the Government's Procurement Pledge (2012) which, among other things, gives providers – including smaller providers – simpler, more streamlined procurement processes (DEFRA, 2014).

In parallel, an increasing number of countries across emerging and developing economies are implementing policies and strategies to link local food production to public procurement. However, they are motivated by different policy pressures that focus on improving food security and small farmers' livelihoods. Consequently, compared with industrialized countries and reflecting the different stages of structural transformation, Programmes in developing countries mainly focus on linking local production to national school feeding programmes, strategic food reserves and broader food security programmes.

Developing countries currently implementing notable IFPPs include Brazil, India, the Philippines, Kenya, Paraguay, Ecuador, Dominican Republic, El Salvador, Honduras, Nicaragua, Plurinational State of Bolivia, Cape Verde, Mozambique, Malawi, Burkina Faso, Ghana, Nigeria and Rwanda. The objectives, scope and approaches adopted vary from country to country.

Brazil is regularly referenced for its notable scale, progress and experience in using national food procurement as an instrument for addressing rural poverty and food security. To give an indication of the scale of food procurement in Brazil, it was estimated in 2013 that the public sector procured 1.37 percent of the country's total agricultural outputs produced and 1.49 percent of total food industry outputs, amounting respectively to US$3.76 billion[6] from agriculture and US$7.54 billion from the food industry (Schwengber *et al.*, 2015). An estimated US$625 million was procured locally through PAA and PNAE (Schwengber *et al.*, 2015).

While IFPPs are typically designed and implemented at either municipal or national level, between 2008 and 2015, the World Food Programme (WFP) piloted an IFPP on a global institutional scale covering 20 countries,[7] entitled Purchase for Progress (P4P). The programme was specifically designed as an instrument to drive inclusive local market development by linking smallholder production to WFP's emergency food procurement programmes.

These initiatives demonstrate widespread government interest in developing programmatic linkages between public institutional demand for food and social and development goals. Although there are many public food procurement initiatives under way at national and municipal levels, both in industrialized and developing countries, few have been well documented. This creates a learning gap for those countries wishing to learn from experience.

To help address the gap, the present publication draws on a cross-comparative analysis of eight country case studies covering the experiences of WFP's P4P initiative in Ethiopia, Ghana, Kenya, Rwanda, the United Republic of Tanzania, El Salvador and Guatemala, as well as Brazil's experiences in implementing PAA and PNAE. The analysis is able to juxtapose and learn from two kinds of procurement system that are structurally different but have similar objectives – Brazil's public national programme initiatives in the form of PAA and PNAE, and WFP's global mandate for the procurement of food aid for developing countries in emergencies or in need of food security. Overviews of PAA, PNAE and P4P are given in Chapter 2.

The outline of this publication, after this introductory chapter, corresponds with the analytical framework adopted. Chapter 2 looks at IFPPs in general while in Chapter 3, the role of policies, institutions and the legal framework necessary for developing IFPPs are discussed, including linkages to public procurement policies, development and agricultural policies and multisectoral coordination mechanisms. Chapters 4 and 5 cover the demand and supply-side aspects of the framework respectively, analysing the adaptation of institutional procurement models and tools, including contractual modalities, followed by an appraisal of capacity building strategies and the role of value chain actors such as FOs, trade and financial service providers (FSPs) and their relevancy in closing the gap between public institutions and small rural food suppliers. Chapter 6 assesses impact and sustainability, discussing the importance of M&E tools so that lessons are embedded into programmes as they evolve. Final comments and recommendations are given in Chapter 7.

6 Purchasing power parity (PPP) in United States dollars.

7 The countries involved in the pilot phase (2008–2013) were Afghanistan, Burkina Faso, Democratic Republic of Congo, El Salvador, Ethiopia, Ghana, Guatemala, Honduras, Kenya, Liberia, Malawi, Mali, Mozambique, Nicaragua, Rwanda, Sierra Leone, South Sudan, the United Republic of Tanzania, Uganda and Zambia.

2 Institutional Food Procurement Programmes

2.1 Overview of Food Purchase Programme (PAA) and National School Feeding Programme (PNAE) in Brazil

The Food Purchase Programme (PAA) and National School Feeding Programme (PNAE), together with WFP's Purchase for Progress (P4P) initiative, provide a wealth of experience and learning on the topic of institutional food procurement because of the scale and range of institutional and programmatic reforms and tools catalysed during their implementation. The present analysis draws on these valuable insights and aims to inform global learning on how to link small rural actors to public food procurement initiatives.

It is important to highlight that PAA and PNAE are national programmes embedded in Brazil's Zero Hunger strategy, based on government support and iterations over a number of years, while WFP's P4P initiative is a multidonor-funded programme designed and implemented in consultation with member country governments.

Food Purchase Programme (PAA)

PAA was established in 2003 as part of the "strengthening family agriculture" component of Brazil's Zero Hunger strategy. It is underpinned by nine goals and five interrelated subprogrammes, and has three objectives (see Box 2.1), which are to:

- support family farmers' and family rural entrepreneurs' production and access to market;
- distribute food for people with food and nutritional insecurity;
- build up strategic stocks.

Rural actors who comply with all the requirements established by law to be classified as family farmers or family rural entrepreneurs can obtain a PRONAF Eligibility Declaration (DAP) and benefit from the programme (see Box 3.5 for a description of DAP). DAP certifies eligibility, ensuring access to insurance, loans and national capacity building and extension programmes tailored to family farmers' needs.

Holders of a DAP can access PAA individually or through formal or informal groups under any of the five subprogrammes, which are operationalized by a number of state actors, depending on the objectives of the subprogramme. They include the National Supply Company (CONAB), local state governments and municipalities (see Box 2.2 for a description of CONAB). The range of subprogrammes and implementing actors enables PAA to operate in various contexts in pursuit of its different goals.

Food procurement under PAA can take place directly by public or publicly supported hospitals, schools, prisons, military bases and university restaurants, using procurement procedures and contracts customized for small farmers and entrepreneurs. Procurement through each of the five subprogrammes imposes an annual financial procurement limit for each family farmer and organization participating in PAA, which is monitored and controlled by the DAP mechanism.

In addition to family farmers and entrepreneurs selling produce to PAA, people receiving food aid are considered primary beneficiaries. Figure 2.1 provides an overview of PAA's suppliers, procurement agents and beneficiaries.

BOX 2.1 Food Purchase Programme (PAA) goals and subprogrammes

Goals

(i) Support family farming production by promoting its economic and social inclusion with sustainable surplus growth and the processing and industrialization of food products.

(ii) Support the consumption and valorization of family farming products.

(iii) Promote access to food, in the quantity, quality and regularity necessary for people with food and nutritional insecurity.

(iv) Supply institutional food markets.

(v) Build up strategic stocks with family farming products.

(vi) Allow family FOs to stock their products.

(vii) Strengthen local and regional networks for food commercialization.

(viii) Promote and enhance biodiversity, organic and agro-ecological food production and encourage healthy eating habits at local and regional level.

(ix) Stimulate the development of cooperatives and associations.

Note: the last two goals were added by a new regulation in 2012.

Subprogrammes

Purchase with Simultaneous Donation (CDS) [*Compra com Doação Simultânea*] is the PAA main modality in terms of expenditure and number of beneficiaries. It encompasses the purchase of a great variety of food products and its simultaneous donation to beneficiary entities (such as day-care centres, shelter homes, food banks, subsidized restaurants and community kitchens, public and philanthropic hospitals) with the main aim of meeting local demands of nutritional supplementation for people with food and nutrition insecurity. CDS is implemented by CONAB, states and municipalities.

Direct Purchase (CD) [*Compra Direta*] encompasses the purchase of a set of pre-established products when prices are low, or when there is high demand from populations in food insecurity situations. CD aims to regulate the price of relevant family farming products, fulfil the demands of its food access programmes and create strategic stocks. It is implemented exclusively by CONAB.

Incentive for Milk Production and Consumption (IPCL) [*Incentivo à Produção e ao Consumo de Leite*] encompasses the purchase of cow or goat milk from smallholder producers with the main aims of contributing to the fight against hunger and malnutrition though the distribution of free milk for people in a situation of social vulnerability and/or food and nutritional insecurity; and enhancing local and smallholder production of milk, guaranteeing a fixed and market compatible price. IPCL is implemented exclusively by the states of the northeast regions and Minas Gerais.

Support for Stock Formation (FE) [*Apoio à Formação de Estoques*] offers financial resources for smallholder producer formal groups to acquire and stock products from the current harvest and sell them subsequently under more favourable conditions. FE is implemented exclusively by CONAB.

Institutional Purchase [*Compra Institucional*] encompasses the acquisition of food to meet regular food demand from the direct and indirect public administration at federal, state and municipality level (including hospitals, prisons, military bases, university restaurants, etc.). It is implemented directly by these institutions with their own resources.

BOX 2.2 National Supply Company (CONAB)

CONAB is a public company under the administrative arm of the Ministry of Agriculture, Livestock and Food Supply (MAPA) in Brazil. Its mandate is to manage agricultural and food supply policies to meet the basic needs of Brazilian society in ways that preserve and encourage market mechanisms (see MAPA Web site). It has traditionally played a central role in building and maintaining food stocks in the country and is, through its decentralized offices in almost every state of Brazil, the main implementing agency of PAA.

National School Feeding Programme (PNAE)

PNAE's objective is to meet students' nutritional needs during their time in the classroom. PNAE is Brazil's oldest public food procurement programme and one of the largest school feeding programmes in the world (Chmielewska and Souza, 2011).

Motivated by PAA's experience and under the aegis of the multisectoral Zero Hunger programme, PNAE's conceptual and programmatic objectives were reviewed in 2009 to include a link between local food systems and school feeding, as well as to promote student growth, development, learning and academic achievement, and healthy nutritional habits.

Included in the revision of PNAE was the directive for schools to use at least 30 percent of food procurement budgets to purchase food directly from small farmers and rural entrepreneurs.[8]

As a result of this revision, while retaining its overall objective of meeting students' nutritional needs during the school day, PNAE now shares with PAA the common objective of using public sector demand for food to support small farmers and rural entrepreneurs to access formal markets – reinforcing the linkage between agriculture development policy and food security goals (Campos and Bianchini, 2014; IPC and WFP, 2013). During the revision process, the programme simplified its procurement model to suit small suppliers, substituting the traditional public sector bidding process, as described in detail in Chapter 4.

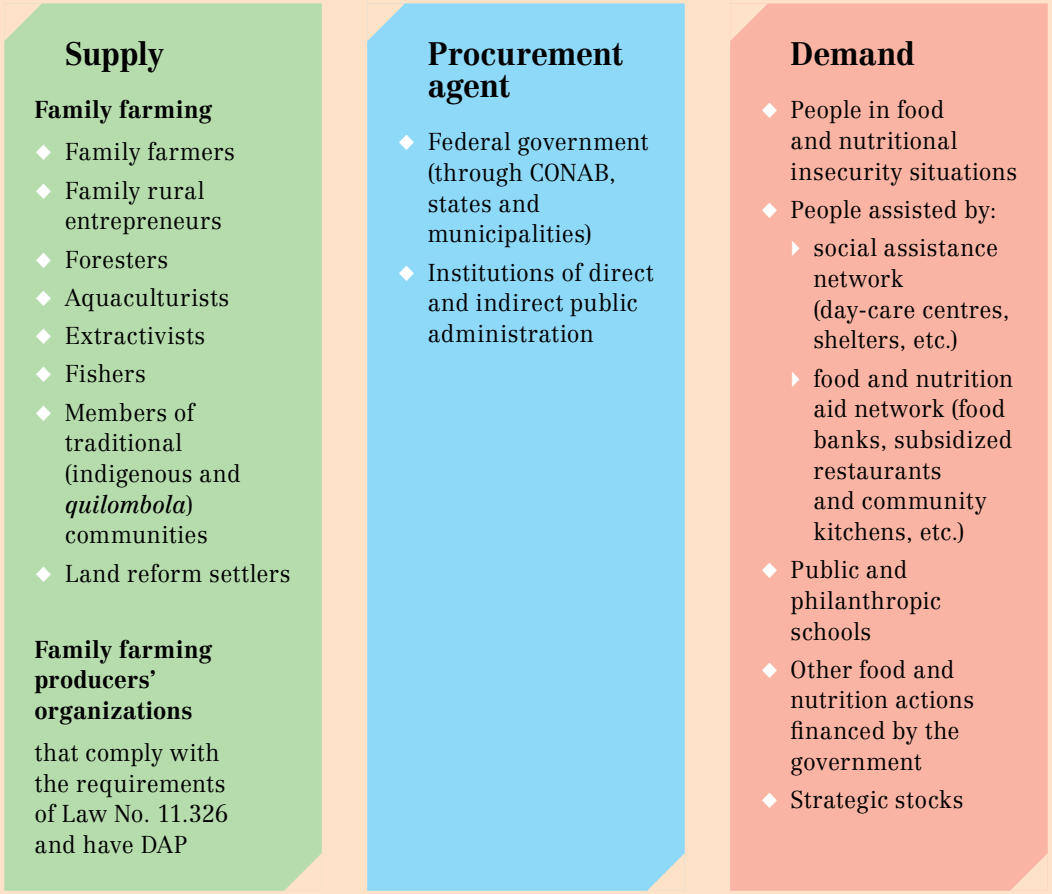
Like PAA, PNAE has two different categories of beneficiaries. The first is represented by students of the public education system and the second targets the same category as PAA, i.e. family farmers and their formal organizations holding a DAP.

[8] Law 11.947/2009.

PNAE is put into effect by the federal government, with procurement carried out by the education department of states, municipalities and federal schools. Figure 2.2 gives an overview of PNAE's suppliers, procurement agents and beneficiaries.

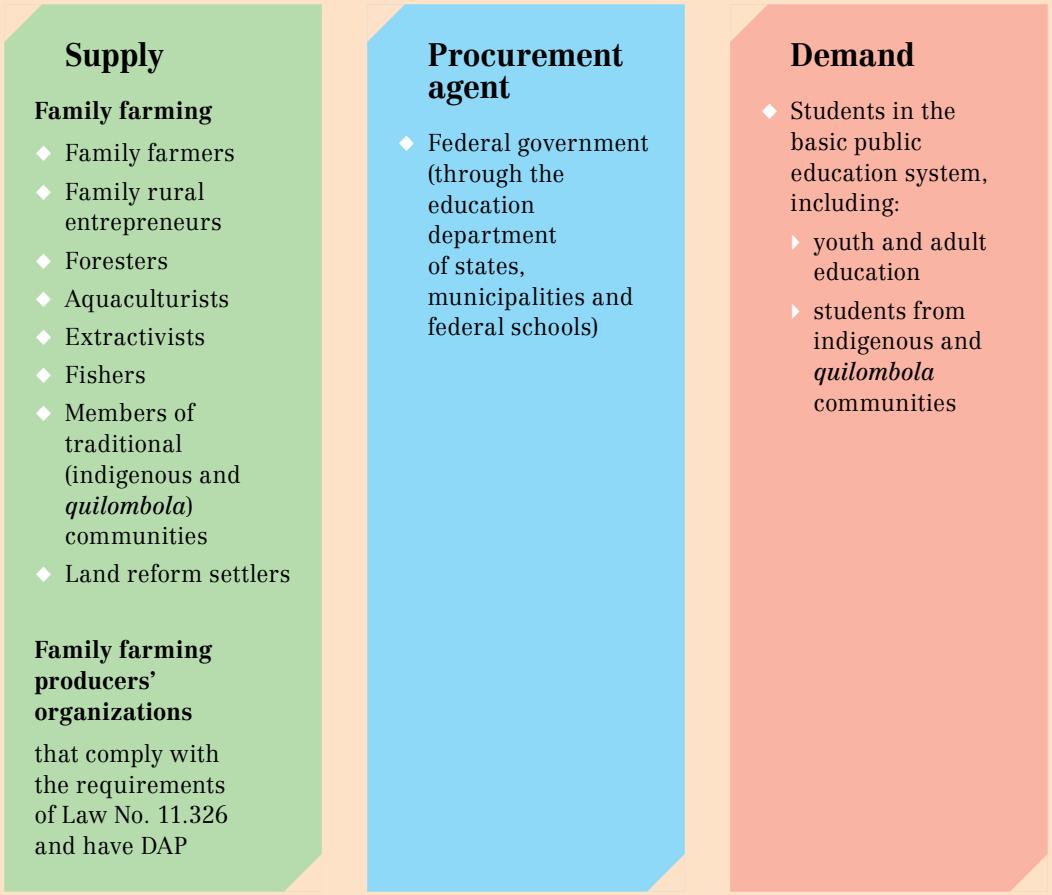
In addition to a cross-comparative analysis of the IFPP models adopted by PAA and PNAE, this review also draws on WFP's P4P initiative, which is described below.

FIGURE 2.1 Food Purchase Programme (PAA) supply, procurement agent and demand scheme



Source: Swensson, 2015.

FIGURE 2.2 National School Feeding Programme (PNAE) supply, procurement agent and demand scheme



Source: Swensson, 2015.

2.2 Overview of WFP's Purchase for Progress (P4P) initiative[9]

The P4P initiative was launched in 2008 across 20 pilot countries[10] for a period of five years, with the support of various donors. Since the end of the pilot, WFP has continued to mainstream the approach into its country offices.

Although the bulk of WFP's emergency food needs are procured on the international market, WFP also has a long history of procuring food on local markets in developing countries, using competitive tendering processes for large traders. Building on this experience, the objective of P4P is to leverage WFP's experience to "... learn from innovative food procurement activities that have the potential to stimulate agricultural and market development and maximize benefits for low-income smallholder farmers" (WFP, 2011b). Through P4P, WFP aims to provide small farmers with greater incentives to invest in production, based on reliable demand, fair market

[9] Adapted from the WFP Web site and author's personal communications with WFP staff involved in delivery of the P4P initiative (available at: www1.wfp.org/purchase-for-progress).

[10] The countries involved in the pilot phase (2008–2013) were Burkina Faso, Democratic Republic of Congo, Ethiopia, Ghana, Kenya, Liberia, Malawi, Mali, Mozambique, Rwanda, Sierra Leone, South Sudan, the United Republic of Tanzania, Uganda, Zambia, Afghanistan, El Salvador, Guatemala, Honduras and Nicaragua.

prices and smallholder friendly procurement mechanisms. An integral part of the P4P initiative is capacity building support to enable small farmers to satisfy WFP's rigorous requirements, including food safety standards. In doing so, the Programme's ultimate objective is to support farmers' transition to a level of capacity that enables them to respond to high-quality markets beyond WFP, including national food reserves and the formal private sector. Box 2.3, adapted from the WFP Web site, describes the logic behind P4P.

BOX 2.3 World Food Programme's Purchase for Progress (P4P) initiative

P4P logic assumes that participants in the initiative will achieve:

- enhanced aggregation capacity, increasing farmers' negotiation and bargaining power;
- stronger commercialization and marketing skills, leading to increased competition among buyers and the transfer of a greater portion of margins to farmers;
- higher farm productivity and a reduction in post-harvest losses, increasing the quantity and quality of commodities sold with lower unit costs;
- a transition to modern marketing systems and commercial markets that offer higher returns than traditional farmgate trading.

Source: adapted from WFP, 2012.

The P4P strategy is developed around three pillars:

(i) *demand* – by testing innovative ways of buying food and promoting marketing opportunities for smallholders;

(ii) *supply* – by investing in capacity building at central level with the support of different partners;

(iii) *learning and sharing* – by gathering lessons on effective approaches to link smallholder farmers to markets in a sustainable way and sharing them widely with stakeholders.

Box 2.4 describes in more detail the activities under each of these pillars.

BOX 2.4 Pillars of the Purchase for Progress (P4P) initiative

The *demand* pillar tests new procurement approaches, including:

- adapting procurement procedures, such as direct and forward contracts or smallholder friendly (soft) tenders;
- encouraging FOs to engage with trading systems such as warehouse receipt systems (WRS) and commodity exchanges;
- buying from small and medium traders, agrodealers or Non-governmental Organizations (NGOs) that work with smallholder farmers;
- developing local food processing capacities that source raw materials from smallholder farmers.

▸▸

Under the ***supply*** pillar, WFP provides training to ensure that farmers can aggregate sufficient volumes according to required food standards, including:

- institutional capacity of FOs or cooperatives to act as market intermediaries between smallholders and large formal buyers, such as WFP;
- capacities in food safety, storage, collective marketing and access to finance, among others.

Under the ***learning and sharing*** pillar, WFP learns lessons and identifies good practices on smallholder procurement to:

- inform institutional policies and programme practices;
- share with national governments, public and private actors in the agricultural sector.

Source: adapted from WFP Web site.

2.3 Objectives, methodological framework and terminology

The objective of this publication is to provide insights on the policy, institutional reforms and processes needed to develop and implement IFPPs, based on a cross-analysis of lessons from eight country case studies covering Brazil's PAA and PNAE, and WFP's P4P.

To learn from the Brazilian experience, a case study was commissioned to appraise the enabling environment history for PAA and PNAE. Using primary and secondary sources, the study gathered evidence over a ten-year period on policy, regulatory and institutional reforms introduced to address constraints for public food procurement from family farmers and rural enterprises.[11]

To learn from P4P, in 2013 country scoping missions took place in collaboration with WFP to seven of P4P's 20 pilot countries – Rwanda, Kenya, the United Republic of Tanzania, Ethiopia, Ghana, El Salvador and Guatemala. The missions gathered evidence for the case studies on the experiences of WFP's P4P initiative in linking small farmers to markets.

All three initiatives have evolved over time into programmes designed to use institutional food procurement as a tool for rural development, including supporting smallholders with the transition into formal agricultural food value chains. The Brazilian cases provide insights on programmes developed on a national scale with a high level of coordination across sectors and institutions, while the WFP initiative provides the analysis with a lens on a global institutional approach to food procurement.

All the countries referred to in the analysis are based on the respective country case studies and references are implicit hereafter.

IFPPS are designed intentionally to link the state's demand for food to broader development objectives. An institution refers here to a private or public organization that delivers a service to the public, such as schools, hospitals, prisons and public service organizations linked to and serving ministries.

Farmer organizations (FOs) refer to all institutional forms of voluntary organization of farmers including agricultural cooperatives, associations, savings and informal groups engaged in IFPPs. See Box 2.5 for terms related to FOs.

[11] Available at: www.fao.org/3/a-bc569e.pdf

The terms smallholders, small farmers, small rural actors and family farmers are used interchangeably, referring to small suppliers involved in IFPPs. See Box 2.6 for terms relating to smallholder farmers.

BOX 2.5 Cooperative, farmer organization or producer organization?

A common definition of an FO (or producer organization) is that of a rural business, owned and controlled by producers and engaged in collective marketing activities (Penrose-Buckley, 2007 in Bijman *et al.*, 2012). The *World Development Report 2008* on agriculture development also defines these organizations as "membership-based organizations or federations of organizations with elected leaders accountable to their constituents. They take on various legal forms, such as cooperatives, associations, and societies" (World Bank, 2008).

Ultimately, most of the terminology applied depends greatly on the national law governing group associations, local cultural context, history of FOs or cooperatives in a country, and the commodities and market structures in question (Bijman *et al.*, 2012).

In Brazil, for instance, the term "farmer groups" is a common term used in national programmes and legislation, and relates to the economic and organizational aspects of a group. To become a "formal group", producers must adopt (and be registered as) one of the available legal forms provided by the national legislation. The most common ones in the great majority of countries are cooperatives and (non-profit) associations. Brazilian legislation also accepts other legal forms.

BOX 2.6 Terms relating to smallholder farmers

Although smallholder agriculture is practised by two-thirds of the global farming population, the term "smallholder" differs considerably across countries, making consensus on a formal definition that enables the disaggregation of smallholders difficult to achieve (Barrett, 2010 in FAO, 2013a). Brazil is one of the few countries in the world that has a legal definition for family farmers. Box 3.4 describes in more detail the Brazilian definition, the beneficiaries and how the law is applied. Under Brazilian legislation, family farming includes not only family farmers but also family rural entrepreneurs and other vulnerable rural actors.

3 Laying the foundations for IFPPs: the role of policies, institutions and legal frameworks

One of the salient lessons emerging from the analysis has been the critical role that policy, institutional and legal frameworks play in the foundation of sustainable and inclusive public food procurement, pointing to the need for appraisals of national frameworks to assess their enabling or "disabling" role in the implementation of IFPPs.

The evidence below shows that an appropriate enabling environment for IFPPs requires:

(i) the introduction or adaptation of policies and strategies, including public procurement policy at national level, which includes poverty reduction and food security related goals;

(ii) aligned legislation to activate policy rhetoric and institutional reforms; and

(iii) a cross-sectoral platform, which establishes clear institutional roles and mandates and facilitates collaboration between interrelated programmes and institutions.

This chapter gives examples of good "enabling environment" practice from both the Brazilian and WFP contexts, describing the challenges faced by IFPPs when the elements listed above were not in place.

3.1 Placing smallholder commercialization at the centre of agricultural structural transformation

The case studies show that IFPPs ideally need the presence of policies and strategies that place small farmers and enterprises at the centre of agricultural transformation (World Bank, 2008). The Comprehensive Africa Agriculture Development Programme (CAADP),[12] for example, provides African governments with the strategic guidance and support to do this. As a result, many countries in the region are implementing programmes that contribute to economic growth through agricultural led development to eliminate hunger, reduce poverty and food and nutrition insecurity, and enable the expansion of exports.

Rwanda, under the Vision 2020 strategy, has placed the integration of small farmers into markets as central to the pillar on the modernization of agriculture. The strategy is reinforced by specific policies such as the National and Gender Equity laws, and the National Decentralization Policy (2001), where the integration of smallholders into markets is also core. Box 3.1 refers to a number of other important laws and institutional reforms such as those on cooperatives and land tenure policies. The culmination of these laws has provided an enabling environment backdrop that has facilitated WFP efforts, and those of the country's National Strategic Grain Reserve (NSGR), to procure grain from small farmers in the country.

[12] Available at: www.nepad.org/cop/comprehensive-africa-agriculture-development-programme-caadp

BOX 3.1 Rwanda's enabling environment

Important enabling environment reforms in Rwanda include the law governing cooperatives, which also contributes to the Vision 2020 strategy, with the establishment of the Rwanda Cooperative Agency (RCA), mandated to regulate the formation and operation of cooperatives. RCA in turn supports the professionalization of producers' organizations and their ability to supply the National Strategic Grain Reserve (NSGR).

In addition, the National Land Policy (2004) and National Gender Policy (2004), backed by the Organic Land Law (OLL) of 2005, which determines the use and management of land in Rwanda, have established a land tenure system that guarantees tenure security for all Rwandans. The enactment of OLL is an important legal achievement in a country with a land population density of 321 people/km2 and with 95 percent of farms averaging between 0.5 and 0.75 ha.

Source: Kelly and Mbizule, 2014.

Similarly, the Guatemalan case study also discusses the central role that "inclusive" agricultural policy frameworks play in providing an enabling environment against which programmes that forge linkages between small producers and buyers, including institutional buyers such as WFP are operationalized.

The "Policy Strategic Direction 2012–2014" plays a central role in this regard, setting out the public sector's priorities centred on smallholder commercialization within food staple chains. Public sector programmes empowered to deliver under these priorities include: (i) the Zero Hunger Pact [*Pacto Hambre Cero*], which aims at transition from subsistence to surplus production and increasing smallholder incomes; (ii) the Triangle of Dignity [*Triángulo de la Dignidad*], which focuses on increasing the production of staples by improving access to credit and technical assistance; and (iii) My Safe Harvest [*Mi Cosecha Segura*], which provides subsidized fertilizers to smallholder producers in order to reduce production costs.

Brazil has also developed a number of policy and legal frameworks over the years, which have enabled the integration of small actors into the country's rural agricultural transformation process and subsequent linkages to national food procurement programmes. Central to the transformation process was the country's 2006 Law on Food and Nutrition Security, which was introduced to create a National System of Food and Nutrition Security and recognition in the Constitution of the "right to food" as a social right, together with the Family Farm Law.

Although formulated and labelled in different ways, the inclusive nature of agricultural structural transformation is articulated in all policy frameworks of the country case studies. However, despite the number of policies and programme initiatives addressing the inclusiveness of smallholders in agriculture, the findings show that their effectiveness, and that of programmes such as IFPPs, is often hindered by a lack of coordination between public institutions and national programmes.

The Guatemalan P4P case, for example, discusses the disparity between programmes that improve smallholders' access to domestic trade in agriculture on one hand and international trade agreements on the other. The case provides the example of the Dominican Republic-Central America Free Trade Agreement (CAFTA-DF), which envisages an increase in the amount of cheaper grain imports from the United States of America over the next 15 years, potentially hindering programmes that support small farmers (Fonseca, Vergara and Prada, 2014; Garoz and Guaster, 2013).

Similar challenges regarding coordination between different policies and institutions were also identified in the case studies carried out in Ghana and the United Republic of Tanzania. In Ghana, for example, the functions and mandates of various ministries and public institutions overlapped. Those relating to the development of FOs and the regulation of food standards were highlighted, with the risk that some critical functions could fall through institutional gaps.

In the United Republic of Tanzania, there were comparable difficulties with conflicting mandates related to food safety as well as with the regulation and advocacy of cooperatives. The case study highlights that "the Ministry of Agriculture, Food Security and Cooperatives (MAFSC) seems to have a conflicting mandate as it is meant to both advocate for, as well as regulate, cooperatives in the country". The case also discusses the overlapping mandates of the Tanzania Bureau of Standards (TBS) and the Food Safety Directorate of the Tanzania Food and Drugs Authority (TFDA) on the monitoring and certification of processed and prepacked foods. "Related to structured marketing of staple crops, TFDA monitors warehouses and supermarkets, a function also performed by TBS and the Tanzania Warehouse Licensing Authority."

The difficulties these countries face with cross-institutional collaboration and coordination across programmes ultimately impact on the successful implementation of any programme. However, for IFPPs such as PNAE or P4P, the challenges will be even more pronounced because of their multifaceted nature and the need for multisectoral coordination, as discussed briefly in the introduction.

Although the goals of IFPPs vary from country to country and programme to programme, the experiences appraised here show that, for the most part, they merge a number of social and developmental concerns. From the IFPPs assessed, goals include improving food security, nutrition of schoolchildren, increasing productivity and farmers' incomes, linking smallholders to local formal markets, reducing post-harvest food losses and promoting environmentally sustainable production.

The policy enabling environment for IFPPs therefore also needs to be multifaceted, which again calls for a coordinated and collaborative multisectoral approach. Section 3.2 describes how countries such as Rwanda and Brazil have dealt successfully with cross-institutional and programme challenges and how these good practices have contributed to successful programme implementation.

3.2 Multisectoral coordination: A cornerstone of successful IFPPs

Our analysis shows that the level of success for IFPPs achieving their objectives is highly dependent on clear institutional roles and institutions' capacity to coordinate with one another, from ministerial down to local level where food is procured and delivered. In addition, a crucial component of any cross-institutional platform is the underpinning policy and regulatory framework containing specific provisions for flexible public food procurement processes.

Rwanda and Brazil have good institutional platforms created alongside policy and legislative reforms, to enable successful implementation of public food procurement from local producers. Developing these mechanisms, however, is complex, and involves time and long-term commitment from all ministries involved.

The example of Rwanda shows how the interrelated policies and institutional strategies developed over a decade to support modernization of the agriculture sector and embedded with good cross-institutional collaboration have contributed to the success of an IFPP such as P4P.

Box 3.2 gives an overview of the main agricultural policies and institutions from ministerial down to district and cell level that contribute to Rwanda's efforts to link smallholders to NSGR, to WFP demand and to markets in general.

BOX 3.2 Rwanda's main agriculture policies and institutions supporting IFPPs

Transforming agriculture from subsistence-based to a modern agro-industrial sector is articulated in the country's national development strategy, Rwanda Vision 2020, and the Economic Development and Poverty Reduction Strategy (EDPRS) 2007–2012. This vision is reiterated, not only in the National Agricultural Policy (NAP) (2004), but throughout all the country's major policy documents.

The Strategic Plan for the Transformation of Agriculture (PSTA II) 2009–2012 – which sets out how the national agricultural plan will contribute to the country's vision for modernization – is structured around four primary programmes that count on the support of different institutions.

These primary programmes include the Crop Intensification Program (CIP) implemented by the Ministry of Agriculture and Animal Resources (MINAGRI) within the strategy of intensifying the development of sustainable production; as well as the National Post-Harvest Staple Crop Strategy (PHSCS) for the promotion of commodity chains and agribusiness.

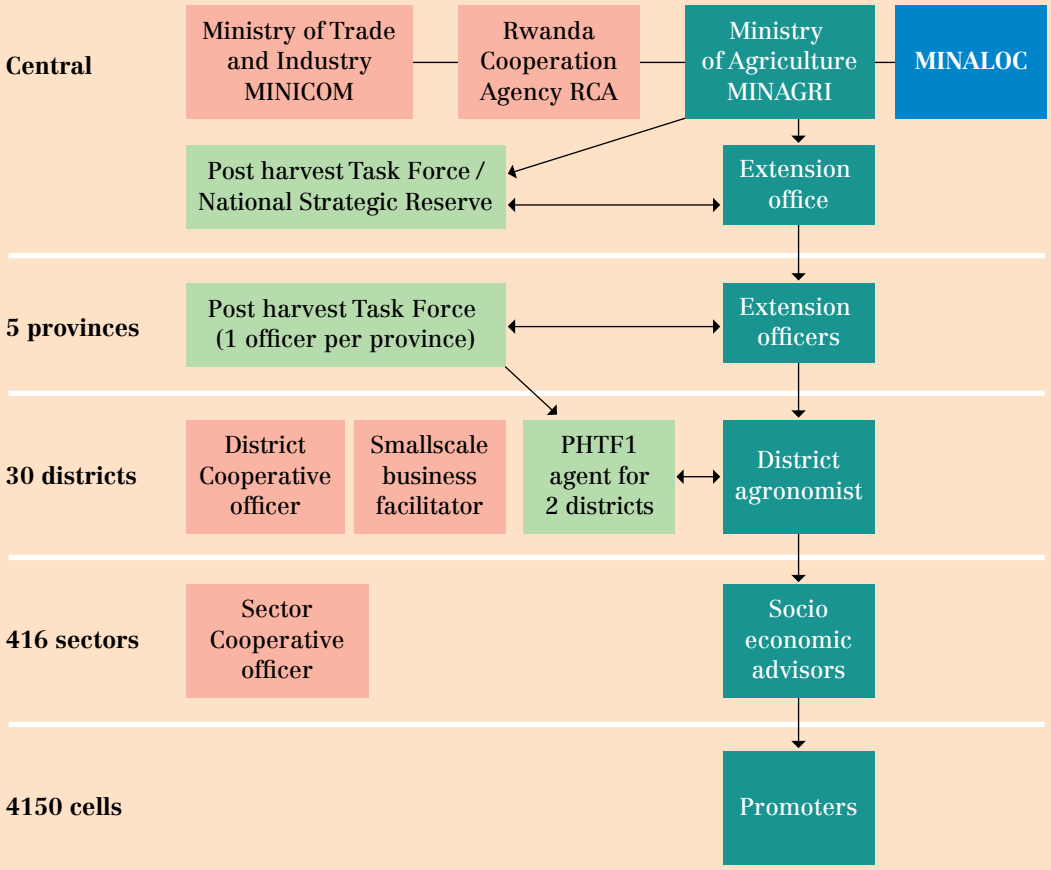
PHSCS outlines how the Government and its partners, including the private sector, should work together to strengthen the harvesting, post-harvest handling, trade, storage and marketing of staple crops in the country.

PHSCS is also reinforced by the Ministry of Trade's Small and Medium Enterprises Policy (2010) which seeks to promote a culture of entrepreneurship, facilitate SME access to business services and finance, simplify fiscal and regulatory frameworks governing SMEs and put in place an appropriate framework for SME development and growth.

The establishment of the Rwanda Cooperative Agency (RCA) under the direction of the Ministry of Commerce has also further reinforced PSTA II through its support for the professionalization of producers' organizations and the promotion of linkages to the formal private sector.

FIGURE 3.1 Government actors and institutions supporting IFPPs in Rwanda

Government actors supporting agricultural production and postharvest handling



Source: Kelly and Mbizule, 2014.

The strength of the policies, programmes and institutions, described in Box 3.2, is embedded in the coordination process that underpins their design and continues into the implementation of activities on the ground. This ensures that programmes do not operate in isolation or overlap. The effective coordination process has contributed to a strong enabling environment (Ease of doing business index, World Bank, 2015). The approach has paved the way not only for a sustainable programme, but also for the transfer of learning and tools between P4P and the Government's own public food procurement programme that links smallholders to NSGR.

In addition, the interrelationship between policies, vision strategies, and institutions, combined with clearly defined mandates, good reporting structures and reiterative learning and adaptation have, at least for WFP and the programme linking farmers to NSGR, led to the implementation of coherent programmes.

As a result, these programmes have been able to capitalize on a range of policies and ongoing programmes, including the bumper crops that resulted from the success of CIP; fewer post-harvest losses from PHSCS; and strong network and governance systems for producer organizations provided by RCA.

This allowed the P4P initiative in the country to concentrate on other important challenges such as the capacity of smallholders to bulk grain and to comply with the high-quality grain standards required by WFP.

Local public food procurement in Rwanda is still in the early stages of development and additional institutional and policy reforms will be required as the programme grows. Many of the core policies, institutional support, services and strategies are nonetheless already in place for initiatives to move forward successfully.

The programmes in Brazil offer similar findings, with evidence that the country's strong cross-ministerial collaboration has translated into institutional and policy coordination, creating fertile ground for the success of PAA and PNAE.

Initially, agricultural policies in Brazil were developed to support medium and large export-oriented producers. From the 1990s, improved democratic processes empowered civil society groups to catalyse or reform policies that have since improved the role of small-scale farming in the overarching agricultural policy agenda and framework (Chmielewska and Souza, 2011).

In 2003, in an effort to coordinate the multitude of programmes focused on food security in the country, the Government launched the Zero Hunger national programme. The aim of the initiative is to eradicate hunger and ensure the human right to food for all Brazilians. Its creation was a milestone in the recognition of food and nutrition security as a leading and cross-cutting priority on the political agenda (Chmielewska and Souza, 2011).

A key characteristic of the Zero Hunger strategy is its role in coordinating the implementation of policies, plans and resources across different sectors, from ministerial level down to federal, state and municipal levels (Aranha, 2010).

Zero Hunger combines more than 20 previous and new initiatives articulated in four pillars:

I Access to food

II Strengthening family farming

III Income generation

IV Social mobilization and social accountability

(Aranha, 2010; Chmielewska and Souza, 2011).

Figure 3.2 gives an overview of the four pillars of the Zero Hunger strategy and the programmes supported under the initiative.

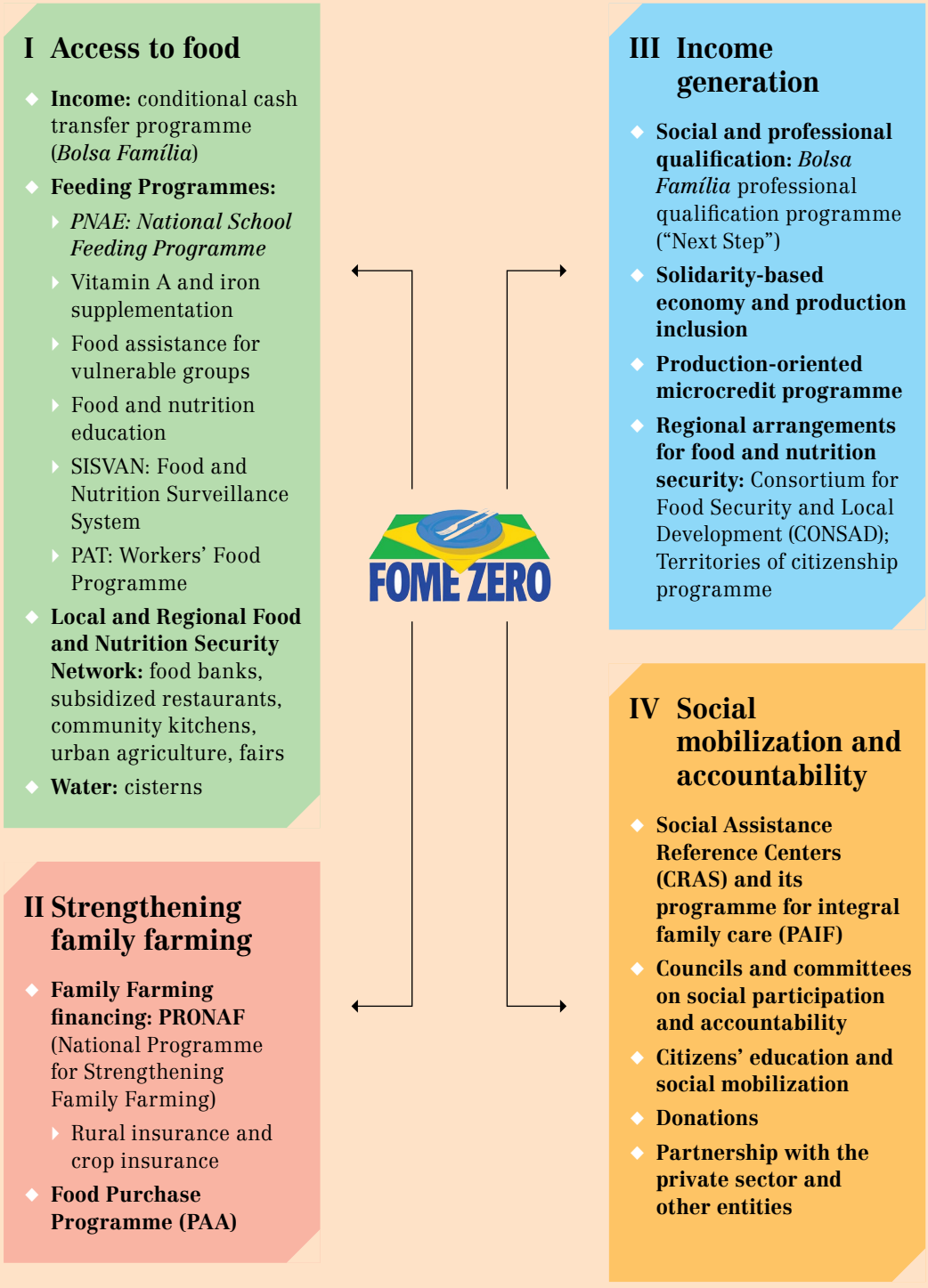
The multisectoral framework of Zero Hunger provides a coherent basis against which the PAA and PNAE programmes have been implemented. Figure 3.2 shows that PAA falls under Pillar II of the strategy on strengthening family farming and can therefore be easily coordinated with, and receive support from, the other programmes in the pillar, addressing issues such as access to finance, insurance and, more recently, technical assistance. Box 3.3 gives a description of the programmes and the lead ministries and institutions supporting the pillar. Figure 3.2 also shows that PNAE, which falls under pillar I on access to food, can capitalize on close coordination with cash transfer programmes and food, nutrition and water security networks.

At an institutional level, the Ministry of Agrarian Development (MDA) and the Ministry of Social Development and Fight against Hunger (MDS) have been instrumental in the creation and implementation of the Zero Hunger strategy.

Created in 1999, under its mandate to promote sustainable family farming and to coordinate related programmes, MDA was the initial coordination mechanism for the Zero Hunger platform, and its inception provided Brazil with a specific ministry focused on

agricultural rural transformation. MDA is also responsible for both the National Policy on Technical Assistance and Rural Extension for Family Farming and Agrarian Reform (PNATER) and its related programme (PRONATER) (see Box 3.3).

FIGURE 3.2 Zero Hunger strategy



Source: adapted from Aranha, 2010.

Conceived alongside Zero Hunger in 2004, and in its role as lead ministry and overall implementer of the Zero Hunger Strategy, MDS is mandated to coordinate policies and programmes linked to social inclusion, food and nutrition security, social assistance and cash transfers. Together with MDA, MDS is also responsible for the funding and management of PAA.

The PAA and PNAE objectives mean that both the demand (procurement) and supply (farmers and entrepreneurs) sides of the chain need to function well for the success of the programmes. Facilitating the linkages between programmes to address secondary but key functions, such as the capacity building of smallholders, means that PAA and PNAE can retain the focus on their programmatic objectives. They do not have to divert their resources to manage activities that are crucial for the success of the programmes, but do not fall under their immediate mandates of linking small farmers and rural entrepreneurs to food security and national school feeding programmes.

BOX 3.3 Programmes, lead ministries and institutions supporting Zero Hunger pillar on strengthening family farming

The strengthening family farming pillar integrates a set of programmes and policies addressing different bottlenecks in small-scale farming, such as access to markets and finance. Specific policy and related programmes on technical assistance focusing on family farming have also been recently developed.

These are PAA, the National Programme for Strengthening Family Farming (PRONAF) and the National Policy on Technical Assistance and Rural Extension for Family Farming and Agrarian Reform (PNATER) and its related programme (PRONATER).

Developed in 1996, PRONAF is the first national programme aiming to support family farming production in Brazil through financial support. PRONAF provides financial support to family farming producers through loans with low interest rates to cover yearly costs or long-term investment (Chmielewska and Souza, 2011).

PNATER and PRONATER were instituted in 2010 after a seven-year development process to offer permanent and cost-free technical assistance and rural extension (ATER) services nationwide, focusing on family farming needs and sustainable agriculture development. They aim to "contribute to the increasing of income and life quality of rural families through the improvement of production systems and of the mechanism to access resources, services and incomes in a sustainable way" (MDA Web site). In 2013, a specific programme on improving the management and marketing skills of family farming formal organizations intending to supply markets, including IFPPs, was created under PNATER – *Ater Mais Gestão*.

Although PRONAF and PRONATER are not directly linked with the Brazilian IFPPs, they form a crucial part of the broader policy context that supports family farming production, which has contributed to the success of public food procurement.

These policies and programmes were also supported by important institutional reforms. Key institutions directly linked to the Zero Hunger strategy and these specific programmes are the Ministry of Agrarian Development (MDA) and Ministry of Social Development and Fight against Hunger (MDS).

Another overlooked but crucial aspect, in addition to institutional and programme coordination, is that of the regulatory and legal reforms needed to accompany policy reforms and institutional initiatives. If the appropriate legislation is lacking, then policy reforms remain at the rhetorical level, merely providing guidance with little scope for translating content into practical actions and results.

Section 3.3 leans heavily on the Brazilian cases, which have demonstrated the evolution of diverse legal instruments and reforms that are fundamental in the successful functioning of PAA and PNAE in Brazil.

3.3 Role of regulatory reforms in supporting the evolution of IFPPs

Another cornerstone at the enabling environment level is the introduction and adaptation of institutional and legal instruments that target constraints hindering the participation of small actors in agricultural and rural transformation and, in turn, in IFPPs.

While section 3.2 describes the importance of legislative reforms linked to public procurement policies, this section addresses the broader legislation that accompanies agricultural and development policy frameworks.

The following analysis focuses on the Brazilian case, which describes the enactment of a number of legal reforms that have supported the translation of policy rhetoric on the commercialization of small farmers into action.

Most significant in this respect is the Family Farming Law,[13] introduced in 2006 by the Government of Brazil, which provided an important legal benchmark leading to the development of a common definition for family farmers and rural entrepreneurs in the country. The law, described in detail in Box 3.4, is also globally significant since Brazil is one of the few countries in the world to provide such a unified legal definition for the family farmer.

The introduction of this law has led to the institutionalization of family farming, and the recognition of the family farmer as a formal actor within public policies and programmes.

[13] Law No. 11.326/2006.

BOX 3.4 Brazilian legislation defining family farming

Law No. 11.326/2006 (amended by Law No. 12.512/2011) establishes four criteria with which rural actors must simultaneously comply in order to be classified as a family farmer or rural entrepreneur and, therefore, to have access to all national policies and programmes targeting these types of producers. These criteria are that:

(i) the rural property does not exceed four ***módulos fiscais*** (see below);

(ii) labour used in the rural activities is predominantly family based;

(iii) a minimum percentage of the family income is generated by the activities of the rural property or enterprise; and

(iv) the establishment is directly managed by the family.

Because of the widely different types of farms within the Brazilian regions, the Brazilian definition uses ***módulos fiscais*** as a land measure unit, hereafter referred to as "land unit". Each land unit can represent between 5 and 100 ha of land, depending on the production conditions of each region in the country. The rationale is that the better the production conditions of the municipality (including the dynamic of the markets, infrastructure available and access to technologies, as well as natural conditions such as soil and water), the smaller is the amount of land required for farming activities to be profitable (Federal Senate Web site). This system gives more flexibility to the concept of family farming and makes it more adjustable to the great diversity present in such a large country as Brazil.

The law includes the following rural actors as its beneficiaries when they comply with requirements (ii), (iii) and (iv).

- Foresters
- Aquaculturists
- Extractivists
- Fishers
- Indigenous people
- Remaining members of traditional communities, including *quilombolas* communities (ethnic and racial groups with their own historical past, characterized by specific territorial relations and with the assumption of black ancestry, related to the resistance of historical oppression)

PAA and PNAE legislation also include land reform settlers among these beneficiaries, so long as they comply with all the above criteria.

Source: adapted from Swensson, 2015.

This formal recognition has facilitated the coordination and integration of the different policies that deal with family farming. Of significant relevance is the support that the law gives to rural programmes on targeting of beneficiaries, as it more clearly defines who can and cannot benefit from programme support.

This primarily results from the introduction of a set of criteria into national legislation, described in Box 2.6, which help the state more specifically define a family farmer (e.g. area of cultivation, labour, household management and income). The categorization of family farmers enables their insertion in national agricultural censuses and statistics, enabling

state programmes to align public assistance programmes more accurately to the needs of stakeholders (FAO, 2013b).

The legal and unified concept of a family farmer not only facilitates the development of initiatives targeting smallholders, such as the IFPPs, but also the interaction of these actors with broader intersectoral policies and programmes on food security, nutrition and rural development. More important, a common definition of a family farmer that runs across all programmes leads to more effective coordination (FAO, 2013b).

The Brazilian case is a valuable and unique example of a functioning national legal instrument that defines a family farmer, contributing to the definition of the term "smallholder" in the country.

The law on family farming in Brazil has also expanded the use of a number of tools for family farmers, facilitating their interaction with programmes such as PAA and PNAE. The PRONAF Eligibility Declaration (DAP), for example, facilitates access to the programme and is awarded once producers meet the criteria for qualifying as a family farmer (see Box 3.5 on DAP).

BOX 3.5 PRONAF Eligibility Declaration (DAP)

DAP is a document which certifies that a producer or entrepreneur complies with all the criteria established by law to be classified as a family farmer or rural entrepreneur. It is issued by authorized institutions, such as the official entities of technical aid and rural extension or agriculture federations and confederations. It is issued for a family unit (individual DAP) or for a formal organization (DAP-legal person). FOs can only qualify for a DAP if over 70 percent of their members are legally defined as family farmers.

DAP has become an essential document for participating in all Brazilian programmes related to family farming, including IFPPs.

DAP is free and is valid for up to six years.

Source: Swensson, 2015.

DAP was originally conceived to provide small actors with access specifically to PRONAF, but has since been extended to all programmes that deal with family farming, such as PNATER, PAA and PNAE and any related capacity building programmes, financial grants or loan.

3.4 Conclusions

The main lesson from this chapter is that the foundation stones for successful IFPPs do not entirely lie in the design or implementation of IFPPs themselves, but rather in the "inclusive" characteristics of the policy and legal enabling environment developed for the broader rural and agricultural sectors. Although most developing countries, including all the country cases reviewed here, are increasingly placing small farmers as central pivots in the transition to modern agricultural systems, legal reforms, such as those witnessed in Brazil, do not always accompany policy and thus delay progress and results.

The Brazil case shows that the enactment of one specific law, such as the Family Farm Law, can spearhead the introduction of a number of institutional processes and tools,

such as the DAP instrument, which not only facilitates small actors' linkages to IFPPs, but reinforces their overall position as commercial actors in the wider agricultural sector.

Furthermore, the IFPP initiatives reviewed and advocated here encompass a multifaceted range of objectives relating to the modernization of agriculture, rural development, market food systems and nutrition. If multisectoral mechanisms are already embedded in national development processes, as in the case of Brazil and Rwanda, reducing duplication of roles, ensuring programmatic gaps are not missed, capitalizing on synergies and improving overall programme efficacy, then progress can be accelerated.

However, the absence of the perfect enabling environment – which rarely exists – does not preclude countries from embarking on IFPPs. Rather, in an effort to facilitate their implementation, IFPPs can act as motivating catalysts for the revision of policy and legal frameworks. More important, however, is the result that these catalytic processes can have on accelerating the integration of small and vulnerable actors into ongoing agricultural transformation processes.

4 Inclusive procurement models for public institutions

In industrialized countries, institutional capacities and processes and market coordination between suppliers and buyers of goods and public infrastructure and logistics are often well developed and based on functioning market systems. Given the level of development, developed economies can therefore focus resources on achieving the goals of an IFPP, such as promoting food procurement from sources using environmentally sustainable production or organic practices, as in the case from Finland described in Box 1.2. Although adaptations to policies, legal frameworks, procurement procedures and capacity building programmes will be necessary, industrialized countries do not need to invest in resources to build the basic market system for value chains.

In developing countries, however, both the demand and supply sides of the chain have a range of policy, capacity, institutional and infrastructure gaps that make the design, management and monitoring of IFPPs a challenge across all stages of the value chain.

On the demand side, which is responsible for orders, tenders, contracts, procurement, storage, transport, logistics and payment systems, and for catering in the case of schools, public institutions are generally weak and have scarce resources. They are therefore slow to adapt or introduce new arrangements and structures. This challenge is compounded by supply-side constraints caused by low and fragmented production, lack of access to extension services and finance, and a weak marketing capacity, making it difficult to respond to the needs of a public buyer.

IFPPs in developing countries therefore need to be designed, financed and managed to upgrade both upstream and downstream activities in a public food procurement supply chain, in addition to carrying out reforms to institutional procurement processes and policies that may be required to put such a programme in place.

While Chapter 5 shares lessons to support the design and implementation of downstream procurement processes, this chapter discusses the adaptation of upstream institutional procurement policies, processes and legislation needed to align with small actors' capacities and characteristics. The chapter briefly explores policy adaptations that may need to be considered at institutional level, based on learning from WFP. This is followed by a discussion on the challenges and potential solutions related to aligning policy and legislation. Finally, there is an overview of institutional procedures and tools that can bridge the gap between institutional demand and small suppliers in the agricultural sector.

4.1 Adapting institutional policies and procedures: Learning from WFP

Unlike a public institution, the procedures and policies of WFP, as the United Nations agency responsible for food aid, are not directly legislated for by national governments. The agency does, nonetheless, have to comply with its own organizational procurement policy and abide by the national laws and regulations governing the countries within which it operates.

WFP purchases on average 2 million tonnes of food annually throughout the world. Consequently, it offers unique insights into food procurement processes at a global level and, in particular, the institutional policy and procedural requirements needed to align with smallholder procurement.

WFP's procurement policy states that: "The main objective of WFP's food procurement is to ensure that appropriate food commodities are available to beneficiaries in a timely and cost-efficient manner. Consistent with this, WFP purchases must also be fair and transparent."[14] WFP's financial rule states that "when conditions are equal, preference will be given to purchasing from developing countries."[15] In short, WFP's policy, similar to national public food procurement policies, is to procure food in a manner that is cost efficient, timely and appropriate to beneficiary needs, encouraging procurement from developing countries to the extent possible.

In 2006, WFP commissioned a Policy Issues report for consideration by its Executive Board on Food Procurement in Developing Countries. The report recommended that WFP consider market development in its procurement and programming activities and the potential for local and regional procurement as part of its broader strategy.

Strategic Objective Five, in the WFP Strategic Plan 2008–2013, aimed to "strengthen the capacities of countries to reduce hunger, including through hand-over strategies and local purchase", and provided the context for the P4P pilot initiative in 2008. The goal of P4P was to use 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. The primary tool to achieve this was WFP's procurement activities, which were to prioritize local purchases when there was no conflict with other operations or goals of the Organization.

Retaining this focus and providing the impetus for P4P, Goal 2 of Strategic Objective Three of the Strategic Plan 2014–2017 is to "leverage purchasing power to connect smallholder farmers to markets, reduce post-harvest losses, support economic empowerment of women and men and transform food assistance into a productive investment in local communities".[16]

The P4P pilot, 2008–2013, provided WFP with the opportunity to adapt its procurement policies and procedures to the needs of small farmers and traders (Chapter 2 gives an overview of P4P).

During the course of P4P's implementation, WFP adopted a number of changes in various functions of the Organization at headquarters and in the field, including its procurement, logistics and finance operations. New modalities of procurement, soft tenders, direct contracts and forward contracts were also tested. These models were introduced on the premise that FOs in pilot countries, receiving support with collective marketing and improving quality in line with WFP requirements, would be able to supply to the Organization.

The already decentralized structure of WFP facilitated the P4P process as country offices were delegated with the authority to procure food up to US$500.00, if funding was available. Purchases above this amount had to be approved by WFP headquarters. Offices were also authorized to set up temporary procurement systems to enable the implementation of P4P, some of which have since been mainstreamed into the Organization.

The decentralized authorization also includes the preparation of country procurement plans for P4P, facilitating third party payment mechanisms, and allowing advance payments

14 Food Procurement Policy, Executive Director Circular ED96/009, 11 April 1996.

15 WFP Financial Rule 112.14(f) – For the Purchase of Foodstuffs and Related Packaging, *WFP Finance Manual*, Appendix A.1.4.13.

16 Strategic Evaluation P4P, 2014.

to be issued in special circumstances. In addition, in 2013, WFP outlined for the first time in its Food Procurement Manual "special provisions for small vendors". As a result, from 2009 to 2013, smallholder procurement, through the P4P initiative, increased from 8 to 11 percent of regular local regional procurement by WFP.

Before moving on to discuss the challenges faced by institutions procuring from smallholders under traditional national policy and legislative frameworks and possible reforms, some background is given on the rationale and objectives of public procurement policy.

4.2 Adapting public procurement policies, processes and legislation – Learning from national frameworks

Public procurement systems are an essential function of all governments around the world and involve purchases of goods, services and assets that the state requires to carry out its functions. Procurement processes are designed to enable governments to manage public funds efficiently as well as the needs of the diverse stakeholder groups that benefit from public procurement (Thai, 2009; Quinot and Arrowsmith, 2013).

Because of its economic and political relevance, public procurement is also stipulated for at the international level. Under the aegis of the World Trade Organization (WTO), there is a plurilateral Agreement on Government Procurement that governs the procurement of goods and services by the public authorities based on the principles of openness, transparency and non-discrimination (WTO Web site).

At national level, public procurement is regulated according to the national public procurement policies and legislation of a state, with procurement contracts and procedures designed to protect and regulate against fraud, waste, corruption or local protectionism; ensure transparency, competition and equal treatment in the selection process; and achieve best value for money (Thai, 2009; Quinot and Arrowsmith, 2013).

In the United Republic of Tanzania, for example, public procurement of goods and services is carried out by the Public Procurement Regulatory Authority (PPRA), which is regulated by the Public Procurement Act[17] of 2011. PPRA is charged with regulatory functions and overview powers on all public procurement activities carried out by all public bodies in mainland Tanzania. The objectives of PPRA are to:

- ensure the application of fair, competitive, transparent, non-discriminatory and cost-efficient procurement standards and practices;
- set standards for public procurement systems;
- monitor compliance of procuring entities; and
- build procurement capacity in the country (Public Procurement Act).[18]

Another example of national public procurement regulation is Brazil's 1988 Federal Constitution and federal law, which states that all work, services, purchases, sales and leases contracted by the public administration, at all levels, must follow a tender process to comply with the administrative principles of legality, impartiality, morality, publicity and efficiency.[19]

Interrelated with the policy design of public procurement systems is the organizational structure of the national procurement system and its level of decentralization.

17 Public Procurement Act No. 7 of 2011.

18 Art. 8, Public Procurement Act No. 7 of 2011.

19 Art. 37, para. XXI of the Federal Constitution and Law No. 8666/93.

Countries with centralized structures have central purchasing bodies or contracting authorities that procure all supplies and services, including food, required for multiple institutions. The characteristics of a centralized or decentralized system depend on a myriad of factors related to the political, fiscal and administrative arrangements of a national government and its local authorities, making it difficult to compare systems across countries.[20]

Centralized and decentralized systems both have potential advantages and disadvantages for public food procurement. Decentralized procurement systems may not benefit from the economies of scale of large food purchases made by central procurement. Weak administrative or technical capacity at local levels may mean that services are delivered less efficiently in some areas of the country. Local levels may not have adequate financial resources, making equitable distribution or provision of services more difficult. The coordination of national policies may be made more complex in a decentralized system and may allow functions to be captured by local elites.[21]

On the other hand, it is argued that decentralization means more flexibility for customizing procurement systems to suit the needs of local small farmers and farm enterprises. Local authorities can also act as a more efficient information interface between the needs of end users such as local schools and small-scale suppliers. Awarding contracts closer to the end user means that delays can be avoided and food will be fresher and therefore higher in nutritional value when consumed. Local dietary preferences are also more likely to be satisfied, as is the potential to promote local-to-local linkages benefiting local farmers and enterprises, with spillover effects on the local community (Thai, 2009; Belik and Chaim, 2009; Villa Real and Schneider, 2011; SIGMA, 2000; OECD, 2012).

Ultimately, however, the literature maintains that centralization and decentralization are not "either/or" conditions and that an appropriate balance of systems is essential for the efficient functioning of government procurement. Even within a decentralized system there are different procurement strategies that can be adopted. Decentralized procurement can take place at the level of the institution, district government and municipality. It can also include some elements of centralization forming mixed models, which combine some of the advantages of a more centralized approach. For instance, when food is not available locally, it needs to be fortified in bulk, or local institutions do not have the capacity to procure food cost effectively, a combined approach will be needed (SIGMA, 2000; Belik and Chaim, 2009; Swensson and Klug, 2016).

Box 4.1 gives a brief overview of the evolution of Brazil's PNAE, which has developed from a predominantly centralized to a more decentralized system. In combination with other reforms, such as the waiving of the bidding system for PAA and PNAE, this evolution has led to more opportunities for small actors entering the formal food sector.

The discussion above highlights the important role of public procurement policies and procedures in linking small actors to the opportunities of the public sector's demand for food. Traditionally designed for large formal enterprises, national procurement frameworks have embedded barriers to entry for small fragmented actors wishing to access these markets. The design of IFPPs to be implemented either at local or national level therefore needs to be able to benefit from a review of public procurement policies and a clear understanding of the procedural practices of public institutions from central to local level.

Because of the onus on the public sector to ensure public oversight for transparent, fair, competitive and cost-efficient processes when procuring goods and services, procedures tend to be strictly regulated, resulting in complex and bureaucratic systems (Thai, 2009).

[20] www1.worldbank.org/publicsector/decentralization/what.htm

[21] www1.worldbank.org/publicsector/decentralization/what.htm

The next section provides insights into how complex-bidding processes designed for traditional procurement can be reformed for IFPPs, based on the experiences of Brazil.

BOX 4.1 Evolution of the PNAE procurement system

From 1953 (the year in which a nationwide school feeding programme was created) to 1993, the administration and procurement of food for school meals in Brazil were centralized. The Ministry of Education bought food and other school materials through a national bidding process. These materials were stored in central warehouses and then distributed to all schools at state and municipality level (Otsuki and Arce, 2007; Saraiva *et al.*, 2013).

This centralized model faced several challenges, such as high transportation and storage costs; food that was mainly industrialized and non-perishable, of low quality or unsuited to local students' habits and tastes; and delays and discontinuity in distribution in certain regions (CEDEC, 1996; Saraiva *et al.*, 2013). In a large country such as Brazil, this centralized system also hindered the possibility of local purchases and that of procurement from smallholder producers (FAO, 2013b).

In 1994, Law No. 8.913 established the decentralization of PNAE, as a first step towards a new and smallholder friendly procurement system. This new law established that PNAE resources be transferred monthly to states, federal districts and municipalities, which became responsible for management of the resources, as well as for the elaboration of school menus, and the procurement and distribution of food. It also stated (Art. 3) that natural products, as well as local production and the farming traditions of the region, be prioritized in elaborating menus and in the procurement of food. These criteria, however, were based on reducing costs and were not (yet) directly related to a strategy of family farming support (IPC and WFP, 2013).

Nevertheless, the procurement procedure was still linked to Law No. 8.666/1993 and, therefore, to the bidding process. As a result, even with a law that encouraged local procurement, the requirements of the bidding process represented an obstacle for family farmers and rural entrepreneurs to access this market.

A definitive step towards a link between PNAE and family farming was made only in 2009, when the legal framework was adapted through Law No. 11.947/2009 which, following the PAA model, waived the bidding procedure and created a new procurement procedure for buying food directly from family farming producers for school feeding.

Source: adapted from Swensson, 2015.

4.3 Aligning legislation with policy and reforming complex bidding processes

Public procurement legislation typically imposes a competitive tendering (or bidding) process, requiring bidders to comply with numerous complex procedures in order to enter into a contract with the public sector. Findings from the case appraisals show that in order to use public procurement as an instrument for integrating small farmers, enterprises, traders and food processors into formal food value chains, procurement procedures need to be adapted to their capacities to compete in such tenders.

Building on the need to align legislation with policy reforms and multisectoral coordination platforms, outlined in Chapter 3, the findings below show that, after establishing a preferential policy linkage between public food procurement and the social, environmental or economic objectives of a programme, adaptations in the legal frameworks pertaining to public procurement need to be undertaken, together with institutional modifications to existing procurement processes.

In the case of Kenya, the Government's commitment to linking smallholders to public food procurement was evident from the provision in its policy on Home-Grown School Feeding (HGSF) launched in 2009. However, up until 2012 public legislation had not been modified in line with policy, meaning that schools struggled to procure from small farmers without the appropriate legislation. For example, smallholders:

- did not have the appropriate legal documentation, such as registration and health certificates, as stipulated in public procurement food guidelines;
- were not accustomed to accepting cheques as payment, also stipulated in the public food procurement guidelines;
- were not familiar with or do not understand tendering and contractual procurement procedures.

Under current legislation, the Access to Government Procurement Opportunities law states that 30 percent of all government procurement spending has to be awarded to micro and small enterprises, including those owned by women, young people or persons with a disability.

The Ghana case reported that the country's prison service has the potential to be supplied by smallholder farmers. Nevertheless, the complex bidding process legislated for by the Public Procurement Act[22] makes it too difficult for small farmers to supply public entities or programmes. Box 4.2 describes aspects of the procurement procedures imposed by the International Procurement Agency (IPA), which act as barriers for linking smallholder supply to demand for food by the prison service.

BOX 4.2 Ghana's prison service procurement procedure

In Ghana, the Public Procurement Act covers the procurement of all types of goods, works and services, financed in whole or in part from public funds, including food.

Following this regulation, the prison service set up regional procurement boards and food tender committees for the procurement of food to meet institutional demand.

The tendering process takes place quarterly and the committee also meets quarterly to revise prices and review supplier performance. Suppliers must register for a particular region and be prequalified to participate. If suppliers do not perform adequately or do not meet quality specifications, they are delisted. Suppliers must deliver to the prison gate and thus need their own transport. They must also prefinance their supplies and may get paid as late as six months after delivery.

The complex tendering process imposed by the Public Procurement Act, the need to prefinance supplies and provide transportation, as well as the frequently delayed payment, make it very difficult for small farmers to become suppliers to the prison service.

[22] Public Procurement Act No. 663 of 2003.

The case appraisal from El Salvador also highlighted the country's potential for linking smallholder supply to potential demand across several public programmes for maize. One example is the Ministry of Education's health and food programme, which buys food from smallholders through the Commodity Exchange of El Salvador (BOLPROS) [*Bolsa de Productos y Servicios de El Salvador*]. Other ministries such as the Ministry of Justice and Public Security issue calls for tenders for food, which are awarded to large private food companies for a number of years.

Similar to the other cases, smallholders have struggled to access this demand due to the country's complex procurement system and, in particular, the bidding process established under public procurement law. The case from El Salvador refers to 50 diverse requirements that suppliers must comply with in order to guarantee their legal, financial, technical and economic capacity to enter into a contract with the public sector, in addition to providing a performance bond (see Box 4.3). A record of past supply records also needs to be provided, limiting possibilities for new providers since existing suppliers take precedence over new contracts.

BOX 4.3 Performance and bid bonds

A bond is an obligation, expressed in writing, to pay a fixed and liquidated sum in the case of the occurrence or non-occurrence of a specified condition or event. There are different types of bonds.

A performance bond, referenced in the main text, is issued by a third party (usually a bank or an insurance company) and guarantees payment of a sum of money should the contractor fail in the full performance of the contract awarded through the bid process.

In food public procurement, bid bonds are also common, since they protect the buyer should a party not accept the contract after participating and winning a tender. A bid bond guarantees payment of the difference between the price of the contract in question and the price of a substitute contract, i.e. the next best offer in the bid.

Another example is the Brazilian Farm Product Bond (CPR), a particular type of bond created in Brazil specifically for the agricultural sector.

Source: Swensson, 2015.

The formalities of the complex bidding procedures for smallholders were also highlighted as an obstacle for the programmatic and policy goals on linking smallholder farmers to institutional markets in Brazil (see Swensson, 2015; Müller, 2007; Takagi, Sanches and Silva, 2014). According to the traditional bidding procedure in the country, like El Salvador, producers have to prove their legal, technical, economic and financial status as well as their compliance with tax and labour obligations to participate in the procedure. This process included the presentation of numerous documents specified by law,[23] involving complex preparation processes, making access to these markets unlikely for small actors already struggling to compete in informal spot markets (Triches and Schneider, 2012).

Similar to most countries, the bidding process in Brazil was originally designed for formal enterprises. As the country increased its efforts to integrate small farmers and rural entrepreneurs into formal agricultural value chains, the absence of a specific legal reference to

[23] Law No. 8666/93, arts 27 to 33.

individual producers in public food procurement policy led to discussions on whether producers could effectively participate in public bidding processes (Triches and Schneider, 2012).

To facilitate the linkage between institutional markets and family farming producers, the Government, under the aegis of PAA, recognized that it had become necessary to adapt the legal framework. This was done by introducing two measures. The first was to ***waive the complex bidding process*** for family farmers, rural entrepreneurs and their organizations. The second was to ***extend the selection criteria*** for suppliers beyond prices to ensure that public procurement is used as an instrument to contribute to broader public goals.

Under the first measure, the bidding process was waived under the Federal Constitution's provision that exceptions could be created when traditional procurement procedures were in conflict with the public interest.[24] Consequently, the laws that created PAA in 2003 and that introduced new directives and guidelines for PNAE in 2009,[25] waived the bidding process for smallholders on the basis of the following conditions.

- Food had to be procured directly from family farmers, rural entrepreneurs and/or their formal organizations.
- Prices should be competitive with local and regional market prices.
- Products should comply with the requirements of quality control established by existing legislation.
- There should be an annual procurement limit per family farm.[26]

Under the second measure, ***selection criteria were extended beyond selection of the lowest price***, which is traditionally the baseline factor applied for public sector selection of suppliers.[27] Nonetheless, to protect public interests, the public procurement of food must still comply with the principles of administrative law, i.e. the principles of legality, impersonality, morality, publicity and efficiency.[28] Although prices cannot be higher than market prices, when selecting suppliers, buyers are obliged to apply the following criteria to ensure that public procurement is used for the following aims.

- Foster the social inclusion of the most vulnerable and marginalized populations, giving them priority in the selection process. These groups include land reform settlers, members of traditional communities (indigenous people and *quilombolas*)[29] and, for PAA, include beneficiaries of social programmes (such as *Bolsa família* and *Brasil sem miséria*) and women.[30]
- Support agro-ecological and organic production. Suppliers of agro-ecological and organic production take precedence over conventional produce, with up to a 30 percent differential in the price margin allowed.
- Strengthen the development of collective actions. While individuals can access the procurement system, FOs, cooperatives or associations, including informal ones, take priority in the selection process over individual access (see Swensson, 2015).

24 Art. No. 37, Federal Constitution.

25 Law No. 11.947/ 2009.

26 An annual (or semester-length) procurement limit imposed on each family unit and organization must be respected. These limits establish the maximum financial amount that each DAP can sell to different modalities of IFPPs. Different limits are established for PNAE and each of the PAA subprogrammes.

27 Law No. 8666/93, Arts 45 and 46

28 Art. No. 37, Federal Constitution.

29 According to Brazilian legislation (Decree No. 4.887/2003), the remaining members of *quilombolas* communities are ethnic and racial groups with their own historical past, characterized by specific territorial relations and with the assumption of black ancestry, related to the resistance of historical oppression.

30 PAAMG Resolutions Nos 59/2013 and 44/2011; Decree No. 7775/2012.

- Prioritize location of the supply, which is recognized as a priority selection criterion and prevails over all other criteria, specifically in the case of PNAE.[31] [32]

This analysis shows that there is no single solution for removing barriers and that the need for *ex ante* reforms may not always be evident, since nuanced barriers may only come to the fore during implementation. Ultimately, the experiences from Brazil show that a series of interrelated consecutive reforms implemented under the auspices of an approach that allows for ongoing reiterative learning and adaptation contributes to more robust programming.

The case appraisals also provide the analysis with valuable institutional insights on the possible adaptations that a large organization or company may have to face when aiming to expand its line of procurement to small farmers and enterprises. The following section describes experiences from WFP and Brazil together with the challenges and possible tools that may be adapted to align a large formal enterprise's demand with smallholder supply. These experiences highlight the importance of institutional "will" and policy reform in the process of using IFPPs as drivers of rural transformation of food systems. Findings show that while policy reform is key, bottlenecks will continue if traditional procurement procedures, as stipulated by public procurement policy and legislation, are left unchanged. The cases of Brazil, Kenya, El Salvador and WFP all reveal that in addition to reforms, alignments in legislation, strategic frameworks and institutional strengthening are all fundamental cogs in the wheel if institutional will is to be translated into changes in people's livelihoods on the ground. The following section discusses tools and approaches that can support the translation of these reforms into institutional change inclusive of small actors.

4.4 Operational tools for aligning large institutional buyers with small suppliers

In the review of initiatives that link institutional food procurement demand to the development of local food systems, a key lesson emerging is the need to place equal strategic emphasis on both the capacities of small actors to supply a large formal buyer and on the institutional procurement procedures and capacities of a large buyer to do business with small actors.

Under the aegis of IFPPs, institutions need to be creative in the types of tools they develop to align procurement needs with the capacity of small suppliers, while maintaining the integrity of institutional objectives and funds. Table 4.1 gives an overview of the types of instruments introduced by WFP to adapt its standard procurement procedures to the needs of small suppliers.

[31] Law No. 12 512/2011.

[32] FNDE Resolution No. 26/2013, Art. 26, para 2.

TABLE 4.1 Comparison between WFP regular (national/regional) procedure and P4P procurement procedure

Parameter	Regular local/regional WFP procurement	WFP procurement through P4P
Suppliers	Prequalified suppliers (mostly larger traders) with legal standing, financial capacity, delivery capacity and good performance record	Prequalified FOs and small and medium traders
Contracting mechanisms	Competitive tenders	Direct contracts
		Soft tenders
		Competitive tenders
		Forward contracts
		Warehouse receipt system
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' capacity
Performance bond	5–10 percent	None
Quality	WFP standards	WFP standards
Bagging	Bagged in 50 kg bags and marked with WFP logo	Flexible to accommodate suppliers' capacity (WFP may subsidize marked bags and/or waive marking)
Delivery terms	Delivery duty unpaid (DDU) to specified WFP warehouse on specified date	Flexible (WFP may collect the commodity, modify delivery to the nearest warehouse, allow extended delivery times, etc.)
Payment	30–60 days	≤ 14 days

Source: WFP, 2012.

The cases show a mismatch between upstream formal actors and downstream small dispersed actors, leading to a number of constraints in the business model, including rigid contracting mechanisms, irregularity of demand, long payment times, large volumes, inadequate transport and logistics, bureaucratic procedures, performance bonds,[33] and food safety standards. Tools, discussed in the subsections below, were developed to overcome these constraints, resulting in aligning divergence in IFPP value chains as well as a number of procurement innovations.

[33] See Box 4.3 for a description of performance bonds.

Food safety and quality control

Public institutions that procure food for state beneficiaries or employees need to be confident that food safety and quality assurance procedures have been appropriately adhered to in accordance with national laws. However, buyers in developing countries struggle to identify small suppliers that have the capacity to comply with food safety standards because of: (i) a general lack of knowledge and capacity of food chain actors on minimum standards and good safety and hygiene practices; (ii) weak public sector capacity to monitor and enforce legally defined minimum standards; (iii) a lack of clearly articulated or over-complex standards; and (iv) an absence of suitable infrastructure, such as warehouses and cold chains.

Food safety and quality control standards are a priority for WFP and the Brazilian IFPPs. Although WFP does not specifically stipulate adherence to national food safety laws, it still requires all its suppliers to guarantee that commodities are free from pests and foreign objects, and that they comply with food safety standards appropriate for the commodity, such as a minimum moisture content for grains, to avoid the onset of aflatoxins (WFP, 2012).

Both PAA and PNAE have to comply with national food safety standards set by the Ministry of Agriculture, Livestock and Food Supply (MAPA), the National Health Surveillance Agency (ANVISA) and the Ministry of Health. As PNAE targets children, quality controls also need to respond to locally adapted menus, suitable for children's tastes and nutrition requirements (Triches and Schneider, 2012). Brazil has been adopting different initiatives at regulatory and institutional level to adapt procedures for food safety requirements to the characteristics of smallholder farmers and rural enterprises, demonstrating the role of institutional and regulatory reforms in supporting the evolution of IFPPs, as discussed earlier in this section. These initiatives include the 2013 ANVISA resolution on production inclusion with health safety. This aimed, among other things, to reduce the bureaucracy in sanitary regularization of family farming enterprises, recognizing the specificity of smallholder actors and the 2015/2020 Agricultural Protection Plan, which introduced simplification of the process (now carried out only at state level, instead of state and federal level) for obtaining the sanitary certification required for an IFPP.

As described in more detail in Chapter 5, IFPPs also focused much of their attention on capacity building to address small actors' difficulties in complying with food safety and quality standards. While the IFPPs in Brazil were able to take advantage of ongoing national capacity building programmes such as PRONATER, WFP outsourced training to support potential suppliers on good production and post-harvest practices. Investments were also made in storage facilities (WFP, 2015b).

As food safety is one of WFP's areas of expertise, the Organization was able provide direct training for government personnel, FOs, private companies and traders. Box 4.4 describes the adaptation of WFP food safety controls to the circumstances of small suppliers in Kenya.

BOX 4.4 Adapting WFP's quality control procedures to the capacities of small actors

To facilitate the quality control process for P4P in Kenya, WFP staff from Nairobi in charge of quality control trained logistics staff in WFP field offices close to FOs, in quality control testing and assurance.

Quality control testing for large traders takes place at WFP warehouses. For smallholders, however, testing is by random sampling of 10 percent of available stock at FOs' storage facilities and is carried out by a private company such as Intertek. The company is contracted to ensure that the consignment meets WFP's quality requirements. After a global inspection of the grain is carried out, based on a visual and sample analysis, a certificate is awarded to indicate that the quality is uniform and conforms to the quality specified in the contract. During uplifting, an additional inspection takes place to ensure that the shipment is the same as that already certified. As part of the collaboration with WFP, Intertek, which also certifies warehouses for the Eastern Africa Grain Council (EAGC), provides training to the FOs on the inspection process they carry out to evaluate the grade of the consignment – this training helps to avoid unnecessary future rejections of shipments.

If the stocks pass the control testing, WFP marked bags will be supplied, after which fumigation, by companies such as Rentokil, will take place at the FO warehouse. Fumigation lasts about seven days and takes place while stocks are waiting to be uplifted. The greatest challenge for a company such as Rentokil when working with FOs is the size of the storage facilities. They are often too small and their location, which should be isolated, poses problems for cross-infestation since crops are often aggregated in close proximity. Packaging materials are also often not suitable as the material used needs to allow for penetration of the fumigation chemicals. A lack of knowledge about stacking and arranging the commodities properly has resulted in repeated fumigations, with the company agreeing only to fumigate when commodities have been stacked correctly, to avoid unnecessary costs. This service includes training for FOs in the fumigation of warehouses by the fumigation companies.

As FOs become stronger in their capacity to market collectively to large-scale buyers, P4P plans to phase out the provision of fumigation and quality control services.

Source: Kelly, Mhlanga and Kiio, 2014.

In Guatemala, WFP piloted a quality control kit, known as the Blue Box,[34] to enable farmer groups to prescreen quality control tests on site. Described in Box 4.5, the tool enables quick feedback for farmers and WFP, while awaiting the results of the mandatory food quality check by an independent superintendent company, enabling contract negotiations to proceed. The innovation was quickly adapted by WFP for use in Africa. It is also used during on-site training for farmers.

[34] www.wfp.org/purchase-progress/blog/quality-checks-closer-farmer

BOX 4.5 Blue Box

The Blue Box in Guatemala was originally designed to carry out basic quality testing of maize produced by local farmers. It includes a calibrated scale, a moisture meter, sieves, grain sampling equipment, an aflatoxin test kit and power supplies. The Blue Box enables, at source, prescreening of food before samples are sent to an independent superintendent company for certification.

The concept of the Guatemalan Blue Box has been expanded and its content adjusted to the needs of users in Africa. The Blue Box is no longer blue, but is now made from aluminium to make it both lighter and more robust.

Source: adapted from www.wfp.org/purchase-progress/blog/quality-checks-closer-farmer

Reliable and regular demand

Central to the premise of IFPPs is the provision of reliable and regular demand that allows farmers to invest in the long-term production and marketing of food. Proof of ongoing business with public institutions reduces investment risk, making smallholders more "bankable" for banks, input suppliers and value chain partners (Miller and Jones, 2010).

Reliable and regular public demand is dependent however on reliable and regular funding sources, which is a constraint for most public institutions in developing countries. In Ghana, potential efforts to link smallholders to public institutions beyond P4P, such as the national prison service, were hindered from the outset because of the lack of reliable funds available to pay suppliers on time, with payment delays potentially reaching six months.

The findings show that unreliable funding flows are compounded by bureaucratic practices and a lack of coordination among institutions. In its initial phase, the PAA case revealed an absence of tools to support transparent annual resource planning, especially with regard to resource allocation, and for transferring resources from the federal government to implementing agencies at the state and municipality level. The instrument used to govern payment systems in PAA, entitled the Covenant (*Convênio*), was highly bureaucratic and needed to be regularly renewed, creating delays in the transfer of resources (GGPAA, 2010).

The problem of access to reliable funding is not only limited to the public sector in developing countries. The experiences of WFP highlight constraints for United Nations and non-profit organizations dependent on external funding. The P4P cases show that WFP reliance on donations linked to emergency crisis constrains the Organization from forecasting food purchases, preventing long-term engagement with small actors.

The Kenya case showed that WFP's plan to procure 10 percent from smallholders, reached in 2010 and 2011, had to be reduced to 6 percent in 2012 because of a lack of funding. Consequently, WFP has struggled to align its procurement with harvests and the availability of farmers' marketable food surpluses as a result of difficulties in forecasting funding.

Similarly, in El Salvador, maize procured by WFP is primarily for emergency needs, resulting in erratic orders that act as a disincentive for smallholders (FAO, 2016).

At the corporate level, WFP has tried to overcome this constraint by means of a Forward Purchase Facility (FPF), first piloted in 2008, which uses collateral from its central programme against forecasted contributions. Once collateral is confirmed, projects repay the advance. FPF enables WFP country offices to reduce lead time based on a donor's expression of interest to contribute to food procurement at country level. FPF currently allows the use of up to US$350 million to advance the procurement of food (WFP, 2014). FPF was not created specifically for P4P, but is a potentially useful instrument to resolve in part the constraints hampering WFP from offering reliable and regular demand to smallholders.

In Brazil, PAA introduced a new instrument called the Adherence Agreement [*Termo de Adesão*] to address the issue. The aim of the agreement is to reduce bureaucracy and improve coordination between the federal government and implementing agencies. It allows direct payment of suppliers by the government, without passing through implementing agencies, thus reducing programme disruption and delays in the transfer of resources, and ultimately improving the provision of reliable demand to family farmers.

Intertwined with problems related to the flow of reliable funds is the issue of payments, as discussed in the next section.

Payment procedures

It is widely understood that smallholder producers and small enterprises do not have easy access to money, savings or credit. Key to their decision-making when selling surplus produce, as with any enterprise, is the time required to wait for payment, either in kind or cash. Because of smallholders' lack of access to cash, preference will often be given to the buyer that offers the shortest payment time, hence the prevalence of the smallholder/small trader model in developing countries.

If longer payment periods are agreed upon by smallholders, and if the payment is delayed, trust in the buyer will be lost, not only for the immediate farmer or enterprise affected but also more widely among other potential suppliers through word of mouth. Ultimately, the longer the payment time lag the more poor small farmers will be excluded from participation in an IFPP initiative.

Brazil's IFPPs and WFP's P4P provide a number of insights into the difficulties that large public institutions face in setting up payment systems that are suitable for the needs of small farmers and small enterprises.

Constraints in shortening payment periods are generally a common challenge across national contexts. Consequently, payment procedures may need to take into consideration the financial systems that suppliers belong to and the length of time these systems take once a payment has been released by a buyer. For example, before designing a payment system, an IFPP may need to appraise the time it takes for a payment to be transferred to a farmer's bank account or a cheque to be cleared or, if farmers belong to an FO, how long the transaction takes from buyer to FO to farmer.

Controlling the speed of payments, once a payment transaction has taken place, is typically outside the mandate of an institution, and may constitute the main element in the delay. Consequently, the financial services infrastructure within which an IFPP operates is a crucial enabling factor that needs to be considered. For instance, the success of WFP in Kenya in shortening its payment period is, in part, thanks to the country's modern banking system, where a bank transfer can be lodged by a person or entity before 14.00 and the payment will be made into a recipient's bank account the following day by 17.00. Thus, once a payment has been approved in the WFP Standard Operating Procedures system, it will reach an FO bank account within 24 hours. This type of accelerated banking service is more advanced than in some industrialized banking systems.

Recognizing the importance of short payment periods for its suppliers, PAA in Brazil ensures that payments to producers take no longer than ten days. Nevertheless, despite this requirement, the administrative mechanisms within the public sector, at the time of the case, were not in place to respond to the time frame.

Reviews of PAA between 2003 and 2010 by the Government, in collaboration with FAO, identified payment delays as the most common problem across the programme and one of the ten top constraints in its implementation. The assessments concluded that payment delays were responsible for producers pulling out of the programme, causing loss of credibility and compromising PAA's goal to improve the incomes of family farmers (FAO, 2010; GGPAA, 2010).

There were similar findings for PNAE (Malina, 2012; Sá, 2012). Although PNAE has no fixed term for payments, dates and conditions must be indicated in the public call. Payments are generally made monthly, and within 15 days or 15–30 days after delivery. According to a study conducted by the NUTRE Project[35] in São Paulo state, 33.4 percent of the 42 public calls analysed paid within one month, followed by 23.6 percent with payments made within 15 days of delivery (Malina, 2012).

Nevertheless, delays in payment to suppliers were identified as a common occurrence. Two main justifications provided by the implementing agencies in São Paulo state were incorrect issuance of electronic tax invoices by family farm producers and delays in transfer of resources from the National Fund for the Development of Education (FNDE) (Malina, 2012).

Findings also showed that payment delays were a source of conflict within FOs, placing leaders in a difficult position with members for not receiving money within the agreed terms. The conflicts generated weakened FOs and subsequently hindered the supply of produce already contracted, creating further financial difficulties for producers, FOs and IFPPs (Grisa *et al.*, 2011; Sá, 2012). This also actually meant that the payment delays were contravening the Government's goal of using IFPPs to strengthen collective action.

Designing payment mechanisms that respond to the needs of farmers and that are also compliant with WFP's global financial system has been a challenge for the P4P initiative. Standard WFP procurement contracts with large traders usually have a 30–60 day payment period. Understanding that such prolonged periods are not feasible for smallholders, modifications were made to fast track payments with the goal of reducing the periods to 14 days (WFP, 2011a).

As for IFPPs in Brazil, honouring this short payment period has been a challenge for WFP, and has negatively impacted on the participation of farmers in P4P (WFP, 2013a). Evidence of this was reiterated throughout all the seven case studies carried out by FAO. In Ethiopia, for example, payments to Cooperative Unions (CUs) are processed via bank transfer upon clearance of the shipment. Banks are not electronically interconnected, and so delays of up to 30 days are common. In addition to the 30 days, further delays can occur between CUs and their member cooperatives and subsequently between cooperatives and producers. These delays are compounded by the fact that many small farmers in Ethiopia do not have bank accounts.

Given the importance of short payment periods, IFPPs in Brazil and WFP have taken measures to overcome the problem. Moreover, in order to reduce the bureaucracy surrounding payment procedures for IFPPs, in 2011 Brazil reviewed the partnership agreements (covenant – *convênio*) in place between the state and PAA's implementing agencies. The new instrument means that direct payments can be made to suppliers by MDS or MDA without having to

[35] The NUTRE Project is a strategy of the Family Farming Secretariat to support the implementation in large municipalities of PNAE's 30 percent procurement of food directly from family farmers (MDA Web site available at: www.mda.gov.br/sitemda/secretaria/saf-ali/projeto-nutre-brasil).

go through implementing agencies. The new Adherence Agreement [*Termo de Adesão*] does not need to be renewed periodically, is much less bureaucratic and allows direct payment to suppliers, decreasing risks of disruption of the programme and delays in the transfer of resources.

In an additional attempt to improve payment delays, a specialized bank card or PAA card was introduced in 2013 by MDS. The card enables smallholders to receive payments owed by PAA directly from the federal government, thereby speeding up the payment process. The national Secretariat for Food Security and Nutrition of MDS states that the PAA card, together with the reviewed partnership agreement discussed above, represents an innovative operational model for PAA, with the aim of simplifying payment procedures, accelerating payment to producers and introducing more transparency in the entire process (Campos, 2014).

Based on its experiential learning under the P4P initiative, WFP has recognized the need to process payments more quickly (WFP, 2011a; 2013a). Different systems have been put in place according to the needs of the P4P pilot countries, such as partial advance payments, tested in Malawi, Rwanda and the United Republic of Tanzania, and advance payment to FOs tested in Kenya, Liberia and Rwanda. WFP is also supporting the use of mobile technology to transfer funds from FOs to their members. In order to support the upscaling of payment tools that work within and between P4P countries, the Organization plans to implement an appraisal of payment systems in conjunction with terms and conditions of procurement contracts, to support the design of solutions to accelerate payments (WFP, 2013a).

If addressed, shortening and honouring agreed payment periods, can be turned into success factor for IFPPs. Key informants for the El Salvador case reported that the main reason for the low level of defaults, compared with other P4P pilot countries, is the fast payment procedure that WFP has been able to put into practice. WFP Kenya has been able to reduce its payment approvals from 30 to 14 days for P4P suppliers, who are given priority by the country office's payment division. This includes double checks on FO banking information, which when incorrect or incomplete has led to payment delays in the past.

Given these findings, and once the enabling policy and institutional environment that fosters transactions between small actors and an IFPP is in place, a rapid and reliable payment system can be considered the next most critical success factor. In addition to adapting internal financial systems to small actors' needs, the efficacy of national financial services infrastructure within which an IFPP operates needs to be reviewed. In the absence of a functioning infrastructure, which can put the integrity of an IFPP at risk, constraints need to be understood, and risk mitigation strategies put in place to counteract the impact of payment delays on the success of an IFPP.

Ultimately, investments need to ensure that a strategic part of any programme linking small actors to public demand for food takes into account payment systems that are carefully thought through, so that they respond to suppliers' financial status and payment needs.

In addition to payment delays, transport and logistics were also identified in the case appraisals as a barrier for small actors' entry to institutional food markets, and an area that should be given high priority when designing an IFPP. The following section describes the findings and tools identified in response to challenges related to transport and logistics.

Transport and logistics

Transport costs and constraints are widely documented as one of the most significant challenges for smallholders trying to link to markets in developing countries. Smallholders' fragmentation and location in isolated rural areas mean that transport costs are higher than those of larger farmers or farmers living close to urban areas with good feeder roads. A study

carried out in the Minas Gerais state in Brazil showed that 72 percent of 78 small rural actors interviewed had no kind of private transport of their own (Santos *et al.*, 2012). Similarly, a World Bank study (2009) found that most maize farmers in the United Republic of Tanzania did not own transportation, meaning that it had to be rented in most cases, and made up almost 91 percent of the total cost of output marketing. Box 4.6 describes the main findings from this study, the breakdown of transport costs and overall cost implications for smallholders.

BOX 4.6 Transport costs and implications for smallholders in the United Republic of Tanzania

Transport costs (TCs) in the United Republic of Tanzania exceed those of other East African Community partners. From farmgate to primary markets, TCs average US$6.4/tonne, from primary to secondary markets US$27/tonne, and from secondary to wholesale markets US$41.5/tonne. TCs account for 60, 78.7 and 91 percent of the costs of the first, second and third stages of marketing, respectively.

TCs account for most of the commercialization costs in the supply chain because most maize farmers do not own their own vehicles but rent them (70 percent of small-scale farmers, 100 percent of medium-scale farmers and 67 percent of large-scale farmers).

TCs for farmers are increased by the informal fees that farmers pay to avoid delays, overload charges and other problems. On average, farmers pay ten informal fees per year in the full maize supply chain process, more than farmers in Kenya (eight) and Uganda (four). An average of seven bribes are paid by Tanzanian farmers at roadblocks and three at weighbridges (World Bank, 2009). Nationwide, local taxes on maize commercialization account for about 4.3 percent of TCs. However, this percentage varies because each locality has its own tax rate.

Source: adapted from World Bank, 2009; Barreiro-Hurle, 2012.

All cases analysed, in both WFP and the IFPPs, identified transport as one of the main barriers to participation in institutional food procurement. The P4P case in Ghana noted that, despite the potential for smallholders to supply the national prison service, transportation costs and arrangements were major barriers, along with complex tendering processes and payment delays, that needed to be overcome before this potential linkage could become a reality.

In Brazil, although PNAE located contracted producers as close as possible to schools partly to simplify logistical constraints, findings show that transportation still remains one of the main barriers to accessing the programme. Contract prices include transportation, packing and related costs for delivering food to schools. Notwithstanding this support, farmers continue to struggle even within short distances, especially when they are required to deliver to a number of schools as is common practice (Baccarin *et al.*, 2012).

PAA Brazil tried to address the transport problem by mainly allowing producers to deliver produce bought by municipalities directly to designated distribution centres and collection points. The centres are located as close as possible to the production zone, rather than to the individual beneficiary institution, which could be a homeless shelter, food bank or community kitchen. PAA subsequently arranges for the individual delivery. However, it does not factor in transport costs in the price offered to farmers, unlike PNAE, as described in Box 4.7.

BOX 4.7 PNAE price calculation and new regulation

PNAE suppliers in general incur higher transport and logistic costs than PAA suppliers. These costs include not only expenses for transporting food directly to several different schools (whereas PAA transports, in general, to a single collection point), but also expenses with special packing (Malina, 2012).

Prior to 2013, however, the transport and packing costs incurred in this arrangement were not covered by PNAE and farmers usually received the same benchmark price as PAA suppliers. This is mainly because the previous regulation (FNDE Resolution No. 38/2009) was vague and established that PNAE prices should be defined by taking PAA reference prices into consideration. This led to many implementing agencies simply to adopt the same benchmark price as PAA suppliers without, however, considering the higher costs incurred by PNAE suppliers (Souza, 2012).

Receiving the same benchmark price as PAA, despite PNAE's higher delivery costs, became a factor that discouraged farmer participation in PNAE (Santos *et al.*, 2012; Silva, 2011). As a result, the new FNDE resolution regulating PNAE[36] modified this rule to ensure that transportation, packing and all other costs related to delivering the produce to schools were factored into the price offered to farmers (Souza, 2012). No further reference is made to PAA prices.

Source: adapted from Swensson, 2015.

To address the bottlenecks associated with the costs of transport for smallholders, WFP has adapted its transport requirements, on a country case-by-case basis, introducing flexibility and various modifications to its administrative and contractual procedures. It may, for smallholders, collect the commodity, modify the delivery location to the smallholders' nearest warehouse or extend delivery times (WFP, 2012). The flexibility of the approaches incorporated into WFP's procurement system is shown in Table 4.1, which compares regular WFP procurement methods with those adopted for P4P.

As a global player in the purchase and transport of food, WFP adopts internationally recognized trade terms (Incoterms)[37] in its commercial contracts, which stipulate the allocation of transport costs and responsibilities for both buyers and sellers. WFP commonly uses the Delivery at Place (DAP) method, meaning that the commercial contract places responsibility on the seller for the delivery of produce to the buyer's warehouse, with all costs and risks involved in delivery borne by the seller. These costs and risks are reflected in the final purchase price. For obvious reasons, this contractual aspect would in most circumstances be unsuitable and discouraging for small actors wishing to access the WFP market.

Ex Works (EXW) is another Incoterm used by WFP in its contracts. Sellers fulfil their contractual obligations when the goods are available for buyers at the seller's premises – farm, factory or warehouse. It relieves the seller from both the obligation to arrange transportation and its associated risks. Consequently, transportation costs are not included in the final procurement price. Under P4P, WFP in some countries introduced the more smallholder

36 FNDE Resolution No. 26/2013 (Art. 29).

37 The international commercial terms (Incoterms) are a series of internationally recognized and standardized trade terms that allocate the costs and responsibilities of a buyer and a seller for the delivery of goods under sales contracts. When the parties have agreed on an Incoterm rule to govern a transaction, it is incorporated into the commercial agreement by way of a reference. Incoterms is a registered trademark of the International Chamber of Commerce. *Source:* www.incotermsexplained.com

friendly EXW delivery method to relieve participating FOs from the obligation to arrange transportation or bear any risks during transportation.

In Rwanda, WFP absorbs transport costs for smallholders in the final purchase price, whereas in Ethiopia it collects contracted produce from CU warehouses, but transportation is paid by the CUs. In the United Republic of Tanzania, WFP uses both the EXW and the DAP methods. At the time of the study cited, 30 percent was delivered EXW and 70 percent was DAP, which involved the marketing arm of the FO or Savings and Credit Cooperative Societies (SACCOS) contracting private transporters to deliver produce to WFP at a designated warehouse. The DAP method was also referenced as the most common in the El Salvador and Guatemala cases.

Despite the adaptations introduced into the delivery mechanisms of all IFPPs, they still only address one aspect of the transport bottleneck between the assigned collection centre or warehouse, and the institution's delivery point. Small farmers and FOs continue to face difficulties and incur costs for transporting produce from the farmgate to FO warehouses or collection points. In the United Republic of Tanzania, for example, farmers may face distances of between 5 and 10 km from the farmgate to SACCOS' warehouses. In order to participate in markets, they rent small trucks or a tractor, if available and affordable. Box 4.6 described the difficulties farmers face with transport costs, which not only include actual rental costs, but also local taxes and bribery. These are major disincentives for farmers to sell beyond the farmgate.

The farmgate to first buyer transport barrier was also cited in Rwanda, where smallholders trained to supply WFP can, as a result, easily comply with the requirements of NSGR. NSGR therefore offers an additional long-term outlet, with prices similar to those offered by WFP, and a strong government support programme, for farmers who have already invested in upgrading their skills under the P4P initiative. However, many smallholders will be excluded from this market opportunity because NSGR typically only arranges transport of grain from its own collection centres to its main grain reserves. Table 4.2 shows the differences in procurement arrangements between the Government's programme to supply NGSR and WFP's P4P initiative.

TABLE 4.2 Comparison of contractual arrangements for supplying P4P and the National Strategic Grain Reserve in Rwanda

Item	P4P	NSGR
Transportation	Provided from cooperative warehouse to WFP warehouse	Not provided
Quality requirements	Humidity <13.5 percent	Humidity <15.5 percent (or higher with a drying fee)
Inputs	Not provided	Subsidized fertilizers and inputs
Price	10 percent higher market price	10 percent higher market price
Procurement limit	50 percent surplus	40 percent surplus
Payment	14 days	Five to ten days

Source: adapted from Kelly and Mbizule, 2014.

The Guatemalan P4P case discusses the added constraints related to road thefts. To try to address this problem and minimize the onus on farmers transporting produce, WFP Guatemala collaborates with the National Institute of Agriculture Marketing (INDECA) [*Instituto Nacional de Comercialización Agrícola*], using three of their collection centres for smallholder deliveries. Contracts between WFP and FOs agree on the closest warehouse for farmers, which can be located up to 100 km away from the farmgate. Costs are borne by farmers. Here again, farmers who could not arrange affordable transport for this part of the chain would have been excluded from the WFP market.

The analysis shows that challenges related to transport need to be unpacked into logistical and cost feasibility analysis – for both seller and buyer. For sellers, an appraisal will need to validate if targeted small actors can feasibly deliver the produce to the buyer, or to an agreed pick-up point using their own transport, public transport or privately rented means. They may or may not have the capacity or contacts to coordinate the required arrangements, and may require the support of FOs, the buyer or a supporting intermediary, with incurred costs factored into the selling price. Capacity building approaches for small actors that would reinforce access to services in general, including transport, are discussed in more detail in Chapter 5.

Alternatively, it may be more feasible for buyers, in terms of both costs and organizational arrangements, to plan the transport directly from smallholders or from an agreed and viable designated point close to farms, similar to the EXW approach used by P4P. This will not, however, be a viable option for many national buyers, particularly if the IFPP has a tight budget.

The case in the United Republic of Tanzania noted that the cost difference for WFP using EXW is US$74/tonne more than when DAP is applied.[38] This cost difference would be substantial for many buyers. Box 4.8 discusses the various modifications that WFP was required to make to its transport contracts in Kenya in order to comply with the EXW term in the contract. These types of modifications were a challenge for a specialized global procurement agency such as WFP, and would be even more so for a smaller public national actor.

[38] As reported by the International Trade Centre (ITC) in a contract where WFP is responsible for collecting the product in the FO, the actual US$/tonne for maize in 2012 would be US$449/tonne against US$375/tonne, as estimated by a WFP procurement officer in the United Republic of Tanzania.

BOX 4.8 Transport arrangements in Kenya under P4P

With the DAP method, under WFP's regular programme, transport arrangements from WFP warehouses to beneficiary destinations in Kenya are made by long-term contracts with commercial transport companies, generally for primary 200 tonnage trucks.

When WFP began procuring from FOs using the EXW delivery method, new types of contracts with transport companies had to be designed since primary trucks are not economically viable for transporting the small quantities supplied through P4P and are also too big for interior roads, particularly in the rainy season.

To facilitate transport from smallholders, WFP had to design short-term one-off contracts with transport companies for a duration of between four to six months. With the EXW method, secondary road 15–25 tonnage all-weather trucks can now be contracted to transport goods on interior roads from FO bulking centres to WFP warehouses.

However, the cost of the secondary transport is higher than the standard primary used by WFP. Under EXW, shipments from FOs need to be a minimum of 10 tonnes and a maximum of around 28 tonnes. The rate is calculated based on the distance between tarmac and all-weather roads. It increases once the truck is off tarmac and is calculated per kilometre. During the rainy season, it could take a truck a week to travel 20 km from a collection point to a tarmac road. These costs have been covered by the P4P initiative.

Source: adapted from Kelly, Mhlanga and Kiio, 2014.

While it may be logistically feasible for buyers to make these arrangements, the added costs to the overall procurement process need to be factored into the feasibility assessment to ensure the business model's sustainability in the long term when post-project or programmatic support subsidies have been withdrawn.

As with all smallholder value chain projects that aim to improve the commercialization of small actors, transport constraints and costs need to be at the forefront of assessments when designing IFPPs. Comparative appraisals of different transport options can help programmes identify the most suitable models for the logistical, infrastructural and transport costs involved. Key to this process are arrangements that can develop into models that are not dependent on long-term programme subsidies and costs, but that remain equally viable for both the buyer and small suppliers. Therefore, given its critical role in the implementation of IFPPs, transport needs to be critically analysed during programmes design to ensure it is a contributory factor to programmatic sustainability.

4.5 Procurement procedures and contracts – Flexible tools for procuring from small actors

Producing and selling agricultural commodities on a contractual basis, both formally and informally, are common in the agricultural sector around the world (FAO, 2013c). Contracts in agriculture generally have three primary functions, which serve to align the needs and wishes of both buyer and seller. First, contracts specify the quantity, quality and price agreed upon by both parties. Second, contracts are used to provide incentives or establish penalties if the agreed terms are not honoured. Third, contracts allocate risk should either party not honour the

contract, whether within or outside their control, such as the inclusion of a non-reimbursable down payment to mitigate farmers' risk in the case of lost yield caused by bad weather (Huet *et al.* in FAO, 2013c) or a performance bond (Box 4.3), which covers the buyer in the event the supplier does not perform.

Contracts that potentially link small actors to public institutions are, as discussed in section 5.1, governed by public procurement policies and legislation. The procurement tools designed to operationalize the purchase of goods and services, including food, typically include a tender or bidding process that helps the buyer select the best supplier available. The tender process is followed by a procurement contract, which is a formal agreement that mirrors the criteria stipulated in the tender, outlining the terms and conditions under which the buyer agrees to purchase goods or services from a seller. Box 4.9 describes a tender process and a procurement contract in more detail.[39]

Similar to most government agencies, standard WFP food procurement and institutions in Brazil responsible for procuring food will, under their respective institutional and national procurement policies, use a tendering process as described above to identify suitable food suppliers.

To participate in WFP's standard food procurement process, suppliers must be prequalified and registered on the WFP Registered Supplier Roster. A standard prequalification process is described in Box 4.10. After prequalified traders receive an invitation to tender, they must present a tender proposal that complies with the criteria outlined in the tender. In the case of WFP, criteria may include a performance bond (Box 4.3), quantities to be delivered, compliance with food quality standards, packaging (such as WFP marked bags), weight and location using the DAP method (WFP, 2012).

In Brazil, there are four main types of procedures for public procurement (described in Box 4.11). The choice of procedure to use depends mainly on the estimated amount involved. As in most countries in the world, the open competitive tender (or bidding) is the standard and most common public procurement procedure (Quinot and Arrowsmith, 2013; Law 8.666/93; UNCITRAL, 2011).

To be able to participate in the tender process, producers must prove their legal, technical, economic and financial status as well as their compliance with tax and labour obligations. Similar to WFP suppliers, farmers or their representatives must also elaborate a tender proposal, compete for and win the tender, based mainly on a "best price" selection process. These criteria are in addition to having the production and logistical capacity to deliver large quantities of produce on a regular basis to the locations specified by the purchasing institution, solutions for which are discussed in Chapter 5.

[39] www.slideshare.net/TenderProcess/tender-process-27047746

BOX 4.9 What is a tender process and a procurement contract?

A tender or bidding process will precede a procurement contract and is a process for generating competing offers from different bidders interested in winning a contract.

The tendering process is carried out in several stages that vary according to the procedure or procurement method adopted. A tender process may include, for example, the following stages.

- Request for prequalification
- Prequalification
- Invitation to tender
- Tender evaluation
- Selection of best tender and award

The tender process, after the buyer's planning and preparation stages, may begin with an invitation to tender from known suppliers, or may use the press or other specialized means, to make the tender public and open to all interested suppliers. This phase may or may not be preceded by prequalification.

The tender will depend on a number of variables related to the institution's requirements, but may stipulate the quantity, quality standards, delivery terms, packaging and guarantees, among other specifications. On receiving the proposals (also referred to as bids) in response to the tenders, the buyer compares proposals, selects the best offer, which is generally guided by the lowest price and the terms stipulated in the tender, and draw up a contract with the selected supplier.

A procurement contract is an agreement in which a buyer agrees to purchase goods or services from a seller. Contracts can be verbal, but most formal companies and government agencies have written agreements that specify each party's obligation in relation to the transaction, which mostly mirrors the specifications stipulated in the tender.

BOX 4.10 What is prequalification?

Prequalification is a preliminary stage that can be adopted in the tendering process. It aims to select potential tenderers that can meet the specific criteria for a contract and are therefore deemed capable of performing satisfactorily. The criteria may cover minimum standards of experience, financial ability, managerial ability, reputation and work history for the commodities procured by the institution. Prequalification has a number of benefits for both buyer and supplier. For the buyer, the main objective is to eliminate or significantly lessen the problems associated with the low prices submitted by suppliers of doubtful capability, thereby reducing the amount of work and time involved in evaluating tenders from unqualified contractors or suppliers. Thus it can assess interest in supplying the institution among qualified firms, seek feedback on the institution's procurement procedures and, if necessary, make adjustments to the procurement process.

The prequalification process enables suppliers that may be insufficiently qualified on their own to avoid the expense of tendering or to enter into a joint venture or association, which may have a better chance of success.

Source: adapted from business dictionary.com and the European Bank for Reconstruction and Development (EBRD) procurement procedures, available at: www.ebrd.com/downloads/procurement/project/PQ_Guidance_Notes_FINAL.pdf

As described earlier in the chapter, the entire procurement and contracting process will be governed by stringent institutional and national public procurement policies and legislation and, as such, will be too arduous a process for most small farmers and rural enterprises. This is the case even for those belonging to associations or cooperatives, which is evidenced by the experiences from WFP and Brazil described below. The intention here is to highlight areas where WFP and the IFPPs in Brazil have modified their standard procurement processes to align with the capacities of potential small farmers and farmer enterprises, or FOs representing these actors.

Procurement procedures and contract designs used by PAA and PNAE were able to build upon and adapt modalities previously developed by the National Supply Company (CONAB), responsible for the public procurement of food for food insecure groups. However, procurement models used by WFP were not developed *ex ante* in programme design but rather were incrementally developed over time, based on trial and testing (author's inference). The IFPPs made significant investments in piloting a number of different flexible contracts and procurement mechanisms to suit the needs of small farmers. The type and success of these contracting mechanisms differ from country to country, depending on the commodity, capacity of FOs and local market structures. They include standard competitive tendering, soft tenders (or pro-smallholder competitive tendering), direct contracts (non-competitive tendering) and forward contracts.

Tables 4.3 and 4.4 provide overviews of the contracting modalities used by WFP and IFPPs, respectively, in Brazil.

BOX 4.11 Standard procurement procedures for institutional buyers in Brazil

There are four main procurement procedures or methods that institutional buyers can use for the procurement of goods in Brazil, as established by the Federal Constitution (FC), Art. 37, para. XXI and Law 8.666 of 1993. The choice of procedure to use depends on the estimated amount involved and, in some cases, the product to be procured.

- Open competitive tender: the most complex procedure, obligatory for procurement of more than BRL650 000. Any interested supplier can participate (no need to be preselected or registered).
- Price survey: can be used only for procurement up to BRL650 000. Similar to WFP procedure, invitation is sent only to registered suppliers.
- Invited tendering: the simplest of those three procedures that can be used only for procurement up to BRL80 000. Invitations are sent to a minimum of three selected suppliers, but can be extended to any other interested supplier that declares its interest at least 24 hours before presentation of the tender.

Simpler methods cannot be used within higher thresholds. Inversely, more complex methods can be used within lower thresholds. The open competitive tender method can always be used, regardless of the amounts involved.

In 2002, a new and faster procedure was created, the reverse auction [pregão] (Law No. 10.520). The use of this procedure is not linked to a financial threshold but can be used only for the acquisition of common goods and services (defined as those whose performance and quality can be objectively defined in the bid call document according to market standards). Since 2005, the auction can be performed electronically.

Source: author's elaboration, based on data from FC, Law 8.666/93 and World Bank, 2010.

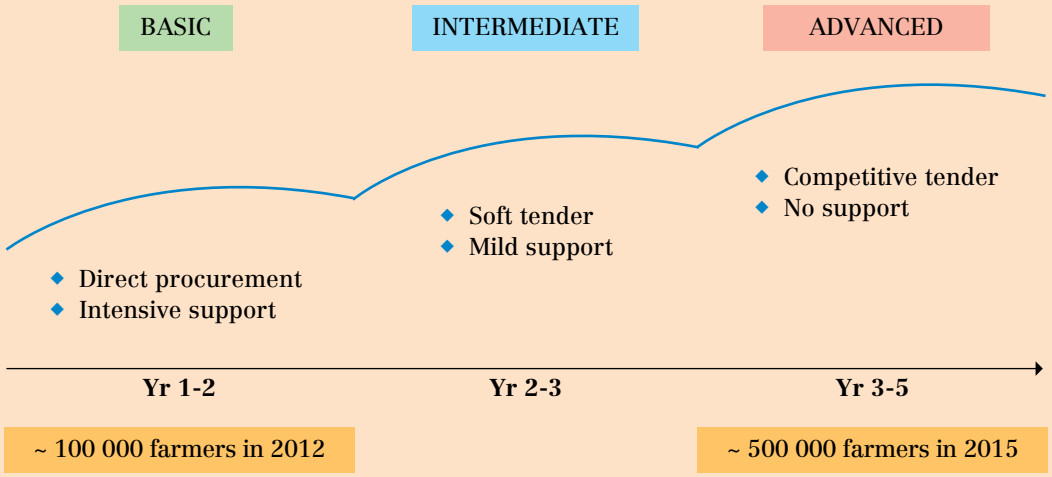
TABLE 4.3 WFP contracting mechanisms mechanisms mechanisms mechanisms mechanisms mechanisms

Direct contracts	Soft tenders	Forward contracts	Competitive tender
Non-competitive procurement procedure. Contracts are directly negotiated between WFP and a target FO or trader at harvest time	**Competitive procurement procedure.** Target FOs or traders must compete for and win the tender, but most of the conditions and requirements are adapted to suit the characteristics and capacities of small suppliers and their organizations	**Non-competitive procurement procedure.** Contract is signed with target FOs at planting time for the delivery of a specified quantity and quality of product in the future for a price agreed on signature of the contract	**WFP regular competitive procurement procedure.**

Source: Adapted from WFP, 2015a.

In the case of WFP, the Organization has integrated the use of these contracting mechanisms into its capacity building approach for P4P, as a means of supporting smallholders' graduation to a competitive tendering process. Ethiopia provides a good example of how this process has worked for WFP. Direct purchasing is used to procure from low- and medium-capacity CUs and softer tendering is used for most CUs and small and medium traders. The idea is that once small actors have proved their ability to supply WFP with minimal support, they can be "weaned" on to WFP's prequalified suppliers' list (Box 4.10) and allowed to tender alongside large traders as part of the Organization's standard competitive tendering process. Figure 4.1 gives a visual interpretation of this graduation path.

FIGURE 4.1 Cooperative Unions' graduation path



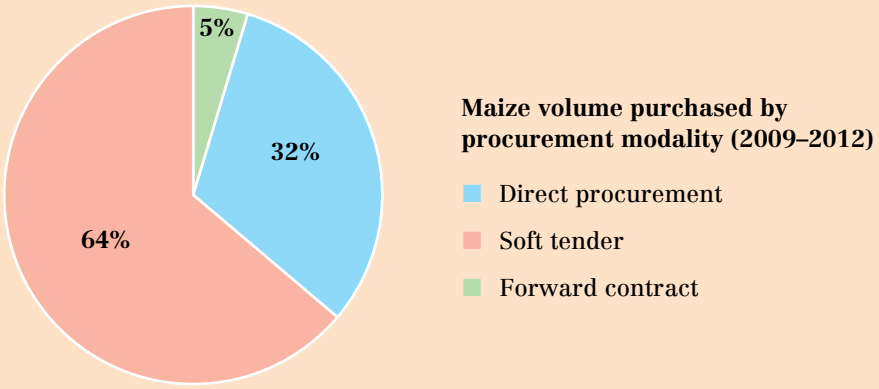
Source: Gálvez-Nogales and Fonseca, 2014.

In the majority of countries, the most common procurement procedure used by WFP's P4P is soft tendering, which clusters FOs and traders with similar capacities together to tender for a contract, but with most of the rigorous tendering requirements waived. At the time of the research, in some countries such as Ghana, FOs only used the more support-intensive direct contracting approach since the other contracting mechanisms proved too demanding for the capacity level of the targeted FOs.

Figure 4.2 illustrates cumulative data from the United Republic of Tanzania between 2009 and 2012, showing the soft tendering approach to be the most common. Over 64 percent of WFP procurement of maize was carried out with this method. Direct contracts accounted for 32 percent and the use of forward contracts accounted for around 5 percent of P4P maize procurement in the country.

In Rwanda, the P4P initiative works with 28 FOs interested in the possibility of supplying WFP and offers them, depending on their capacity, various contracting approaches. At the time of the research, one cooperative had graduated from the P4P initiative and was included in the WFP prequalified list for standard competitive tendering.

FIGURE 4.2 Maize procurement modality in the United Republic of Tanzania



Source: Mhlanga, Anaadumba and Ngaiza, 2014.

Adaptation of the standard competitive tendering processes is also a key feature of Brazil's IFPPs and is comparable with the contracting approaches adopted by WFP. While WFP adapts its contracting approach to the country, commodity and supplier context, the approach used by the PAA in Brazil is dependent on the subprogramme and the implementing institution, and applies to all suppliers, based on programmatic objectives. Table 4.4 gives an overview of PAA and PNAE Brazil's subprogrammes, responsible implementing institutions and the contracting mechanisms adopted to procure from small actors.

TABLE 4.4 PAA and PNAE implementing institution and contracting mechanisms

PAA subprogrammes	Implementation	Contracting mechanisms
Purchase with Simultaneous Donation (CDS)	National Supply Company (CONAB)	Participation proposal + CPR (Farm Product Bond)
	States and municipalities	Public call (soft tender)
Direct Purchase (CD)	CONAB	Direct contract
Incentive for Milk Production and Consumption (IPCL)	States from the northeast regions and the state of Minas Gerais	Public call (soft tender) is recommended to register producer
Support for Stock Formation (FE)	CONAB	Participation proposal + CPR – stock (Stock Farm Product Bond)
Institutional Purchase	Institutions of the direct and indirect public administration at federal, state and municipality level	Public call (soft tender)
PNAE	Education departments of municipalities, states and federal district Federal schools	Public call (soft tender)

Source: adapted from Swensson, 2015.

Direct contracting mechanism

Direct contracting is used by WFP and Brazil's PAA to procure from small entities and their organizations. In both cases, direct contracts involve the buyer entering directly into a non-competitive procurement process. With this procedure, WFP (or CONAB in the Brazilian case) negotiates directly with the FO or small actor to procure an agreed quantity of produce compliant with the buyer's standards. The main advantage of direct contracting is that the usual rigorous tendering process associated with public procurement is avoided. While the contracting is similar in the IFPPs appraised here, the rationale and procurement processes vary.

WFP uses direct contracting to engage with FOs, offering them the possibility of supplying WFP, while building up their capacity to meet this challenge. Direct contracting is WFP's most commonly used modality when procuring from FOs that have little experience selling in groups or selling to formal buyers. However, Guatemala is an outlier in this regard, reporting that it only uses direct contracts on occasions when small quantities need to be purchased or when a supplier has defaulted and orders need to be quickly made up.

Applying a direct contract approach means that WFP selects and directly negotiates with an FO or small trader to procure an agreed quantity of produce, so long as it is compliant with WFP's standards at the time of harvest. The price offered is pegged to the prevailing wholesale market price for the higher-quality grade of the crop being procured. Because of WFP's need to attract high-quality supplies, it will offer a price at the higher end of the average market price. Box 4.12 describes WFP's experience in applying a direct contracting mechanism.

BOX 4.12 Direct contracting in Kenya

In Kenya, under the direct contract mechanism, prices offered are based on an appraisal at the time of the contract of the national wholesale market price, the National Cereals and Produce Board's floor price and the price offered by FOs. The latter price varies according to FO's understanding of the market and is often linked to local market prices in their location, rather than to average urban or national markets. Under this mechanism, P4P ran into difficulties because of the time it took FOs to aggregate the agreed amount. In some cases, the process took over two months. This sometimes meant that farmers who had delivered consignments at the beginning of the aggregation process returned to stores to recoup supplies before all the contracted amount had been aggregated, resulting in defaults by FOs. WFP now requires that, before entering into a direct contract, FOs have at least 50 percent of the agreed amount already aggregated. Regular checks are carried out by WFP staff to monitor the aggregation process.

Source: adapted from Kelly, Mhlanga and Kiio, 2014.

WFP direct contracting can also include procurement through warehouse receipt systems (WRS), which is discussed in more detail in section 5.5 on finance.

To support FO compliance with WFP's food quality standards, the P4P initiative precedes direct contracts with intensive training programmes that build capacity to aggregate and market compliant food commodities to WFP and potentially to other large formal buyers in general.

The WFP approach to direct contracting is an important process for many FOs with weak skills that would be otherwise excluded from any type of real formal market. Box 4.13 describes how the combination of capacity building support and direct contracting in El Salvador resulted, at the time of the research, in more than half the suppliers transitioning to more competitive tendering contracts.

BOX 4.13 Transition of contracts in El Salvador

In El Salvador, contract modalities were used according to sustainable sequential logic. P4P suppliers started with direct contracting and, after receiving capacity building support (on storing, quality control, cost analysis, planning and accountability), at the beginning of 2013 more than half the FOs were able to participate in P4P soft tendering. As assessed by this study, direct contracting was a necessary step for developing and improving producers' capacities in order to enable them to participate in competitive soft tendering.

Source: Fonseca, Vergara and Prada, 2014.

In Brazil, direct contracting is used in the CD subprogramme implemented by CONAB. Its aims are to regulate the price of pre-established food products, respond to the subprogramme's demand for food and supply national strategic stocks. CONAB initiates direct contracting when

the market price of pre-established food products[40] falls below a reference price in a certain region or when there is high demand from food-insecure areas. Accredited purchase stores are opened and contracting opportunities advertised to interested suppliers. These stores can be official CONAB or local storage units, warehouses or even an "itinerant" store (MDS and MDA, 2010). The itinerant mechanism allows the agency to procure from isolated areas where surplus food is available.

Based on a positive review of the produce and documentation,[41] including DAP (see Box 3.5), a contract will be entered into, based on the reference price established and published by PAAMG.[42]

The section below discusses the merits and challenges of other contracting arrangements designed to suit the needs of small actors.

Soft tendering or pro-smallholder competitive tendering

The main procurement instrument used by WFP's P4P, PAA and PNAE is the pro-smallholder competitive tendering process, also known as soft tendering. This is an adaptation of standard competitive tendering procedures to suit the characteristics and capacities of small suppliers and their organizations.

Like a standard competitive tendering process, soft tendering generally involves an open call to potentially interested suppliers, a participation proposal from the supplier and the issuing of a formal contract.

IFPPs in Brazil use a specialized public call adapted for family farmers and rural entrepreneurs. Calls are designed according to two overarching criteria. The first criterion is to ensure that the tender is customized to the characteristics of small rural actors, and the second is that, like standard competitive tendering, calls adhere to the principles of wide publicity and transparency in the actions of the public administrative services.

The call is published by the implementing agency and contains the main procurement information, including (i) the purpose of the call; (ii) a description of the produce to be purchased; (iii) eligible suppliers; (iv) place and terms of delivery; and (v) terms of payment (MDS and MDA, 2010).

WFP, depending on the country context and P4P approach applied, limits its call to the small traders and FOs it supports under the P4P initiative, which could be considered a kind of prequalified list for small actors.

FOs and traders (in the case of P4P) or individual producers, informal groups and FOs (in the case of PAA and PNAE in Brazil) that comply with the requirements and are interested in applying to the call for tenders reply with their tender proposals.

Proposal documents include (i) the identification details of producers and/or FOs to participate in the tender; (ii) type and quality of products offered, with respect to the call; (iii) quantity; and (iv) terms of delivery. The PAA and PNAE programmes require suppliers to provide a copy of DAP (MDS and MDA, 2010).

On receiving the tenders, the implementing agency will review and compare each proposal against a set of criteria, which for WFP is set by the P4P initiative and for PAA Brazil by PAAMG.

40 Only a predetermined number of products established by PAAMG can be purchased. Among these are rice, cashew nuts, Brazil nuts, manioc flour, beans, maize, sorghum, wheat, dry whole milk and wheat flour.

41 Documentation specified by CONAB communication No. 009/2013.

42 The price is set according to a review of CONAB data and market prices for the respective period. Payment is made through CONAB, either to individuals or to organizations that in turn pay individual members. Art. 10, Decree No. 7.775/2012.

When a suitable FO, producer (or trader in some cases for WFP) has been selected from the process, a formal contract is signed by both parties to formalize the terms of the transaction.

Unlike direct contracting, soft tendering is a competitive process through which small suppliers bid against each other for a contract with an IFPP. Like standard competitive tenders, the best offer is selected and a contract is awarded. Thus, soft tendering retains the transparent and cost-efficient characteristics of a regular competitive tendering process.

Pro-smallholder competitive tendering means that the onerous conditions applied to large suppliers for compliance are waived. In the case of WFP, there is no waiving of conditions related to quality standards and import parity price (IPP).[43] In the case of the Brazilian programmes, parity is set based on local or national regional market prices (see Brazilian case study for a discussion of PAA and PNAE price-setting methodology).

Other smallholder friendly adaptations used by WFP entail accepting less volume than the quantity stipulated in the tender without the usual penalty of 5–10 percent of the contract value (WFP and Royal Tropical Institute, 2011); waiving performance bond requirements (see Box 4.3); the provision of bags with the required WFP logos; and collection of produce from a designated warehouse (see section on transport, all case studies and WFP, 2010).

BOX 4.14 Description of call for tenders under soft tendering process in Guatemala

In Guatemala, WFP uses the soft tender procedure for part of its national demand, purchasing food from FOs participating in P4P. Through this process, WFP allows FOs an established amount of time to bulk products and subsequently deliver to WFP. The time available varies according to whether the procurement is for an emergency process or for WFP regular deliveries.

The minimum time to complete the tender is ten days, giving all FOs the chance to be informed. Once the offers are received, they are evaluated by a committee that compares national minimum prices according to the 21 street markets and the Supply Terminal [*Terminal de abastecimentos*], or the Chicago price index (United States of America) market. Once the price analysis has been completed, the proposal is sent to WFP headquarters in Rome, where the tender terms are accepted or modified. The response from headquarters may take from one day to one week; once received, it is forwarded to the FOs. The price at the end is established through a buyer-seller meeting, where PMA qualified personnel break down production costs according to their parameters, including transport costs, interest and current market prices. The tender is associated with a contract that stipulates only price, quantity and quality.

In general, the prices established in the P4P contracts are within the market parameters and do not exceed the reference international prices for maize and beans.

Source: Fonseca, Vergara and Prada, 2014.

[43] The import parity price (IPP) represents the imported price for the commodity at the border, which includes international transport costs and tariffs.

The Brazilian cases reduced the documents necessary for presentation before payment, as well as adapting tendering advertisements and logistical and transport systems. PAA reduced the volumes procured and also gave the possibility, in some cases, of substituting products when the ones established could not be delivered, for example delivering one type of fruit instead of a fruit stipulated in a contract.

Adaptations of procedures that respond to the realities of smallholder production mean that first, small producers have a greater chance of complying with public agency requirements and second, they have increased contractual security (Malina, 2012). Once public agencies have defined essential criteria where allowances cannot be made, such as food quality standards, IFPPs can introduce more flexibility into procurement procedures and contracts, improving the inclusiveness of the programme.

Forward contracts[44]

In addition to direct contracts and soft tendering, WFP and PAA Brazil tested the use of forward contracts for improved procurement from small actors.

A forward contract is a non-competitive contracting mechanism signed with a supplier at planting time to deliver a specified quantity and quality of a product in the future at an agreed price that is often calculated according to customized pricing formula (WFP, 2010). Forward contracts reduce farmers' risk and give them the confidence to invest in and plan agricultural production, because of the contract guarantee of a future sale of produce. Farmers can also use a forward contract as collateral to access credit from local banks (WFP, 2012). Forward contracts involve the application of a formula that estimates a future price for the produce, taking into account marginal fluctuations in seasonal prices, including costs of production incurred and a reasonable profit margin.

WFP piloted the modality for the first time in 2012/2013 in selected countries, including Kenya, Rwanda and Ethiopia. In Latin America, forward contracts have not been implemented, mainly because of high price fluctuations (WFP and Royal Tropical Institute, 2011).

Between 2003 and 2005, PAA piloted a forward contract model – Advance Purchase (CA) [*Compra Antecipada*],[45] – managed by CONAB, which targeted the "poorest of the poor" family farmers who typically struggle to comply with credit requirements for banks. The model anticipated payments during the planting season, based on a CPR commitment by producers to deliver the products after harvest or liquidate the bond financially (USP/FEALQ, 2006).

Although receiving positive feedback from stakeholders, an evaluation of the CA model found that the default rate reached over 70 percent, because producers did not deliver the contracted crop or the produce was rejected for not meeting the quality parameters (Peraci and Bittencourt, 2010; USP/FEALQ, 2006). The reasons for constraints in implementing the modality were identified as lack of coordination during the planning process, delays in payments, lack of access to training and extension services, malfunctioning of rural insurance and a general lack of information about producers and implementing agents (see also section 5.5 on access to finance).

Similarly, the results of forward contracts for WFP were mixed and dependent on different factors linked to market structure and country context. In Ethiopia, the use of forward contracts was reported by WFP as key to the success of deliveries of 30 000 tonnes of maize

[44] Processing options are another modality provided. 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, 2012).

[45] During its two years of implementation, the federal government disbursed around BRL92.3 million to 47 215 families under the CA model.

purchased through P4P in 2015 (WFP, 2016). In Kenya, on the other hand, WFP concluded that the model was not suitable, because of the highly imperfect maize market structure in the country, caused by growing domestic and regional demand for maize, erratic supply through dependence on rainfed agriculture, recurring droughts and frequent government intervention (Box 4.15).

BOX 4.15 Testing of forward contracts in Kenya

In Kenya, WFP used direct contracting, soft tendering and forward contracting to procure from smallholders. As part of the strategy to address high incidences of default under the direct contract systems, in the third quarter of 2011, 43 forward contracts were tested. Under the new modality, a 50 percent down payment on the contract price was made, based on a visual inspection by WFP that certified 50 percent of the contracted quantity had been aggregated, with the final payment made 14 days after delivery of the remaining 50 percent of the agreed quantity. The testing of the forward contracts coincided with a serious drought in the country, which caused a price spike on local markets and speculation by maize suppliers. Despite several extensions to contracts, there were still a high number of defaults by small traders and FOs that preferred to take advantage of the prevailing high market prices. The highest default levels were recorded for eastern Kenya, which has more marginalized agricultural areas, high dependence on rainfed agriculture, fewer surpluses and a tradition of dependence on food aid. Based on the high number of defaults, WFP reverted back to direct contracts with FOs and small traders.

After the testing of forward contracts, WFP Kenya concluded that the model was not suitable for the imperfect maize market structure in the country, caused by growing domestic and regional demand for maize, erratic supply through dependence on rainfed agriculture, recurring droughts and frequent government intervention.

Source: adapted from Kelly, Mhlanga and Kiio, 2014.

Many of the issues with forward contracts related to high upward or downward market fluctuations, resulting in losses or gains that cause contracted farmers either to default or decline to sell to an IFPP in the future. In Guatemala, the case reports that "FOs would have no will" to enter into a contract that defines a market price potentially lower than that at delivery time.

Forward contracts require a certain level of legal and fiscal regularity. This constraint, for example, hindered WFP from entering into forward contracts with FOs in El Salvador. FOs' lack of long-term liquidity also caused problems for future contracts since they were unable to bridge the gap between delivery and payment for smallholder members.

More research may be warranted on the role of forward contracts in IFPPs, given the potential they have for resolving some of the issues related to small actor procurement (advance financing, market prices, reliable demand, production planning, etc.).

Seller-initiated contracts

In addition to the mechanisms above, PAA provides innovative examples of mechanisms where, contrary to the standard tendering process that puts the onus on the buyer to initiate a call for tenders, the seller proposes a contract to sell food.

For example, under CDS, family farmers, rural entrepreneurs and formal and informal groups can propose electronically to sell produce to PAA at any time, or to stock and sell at a later date. Under the FE subprogramme, only formal groups can send proposals. Since there is no tendering process, the electronic proposal must contain detailed information stipulated by PAA and CONAB. Box 4.16 describes the information to be inserted in the proposals.

Under the CDS subprogramme, proposals need to be elaborated in consultation with the intended beneficiary institution, approved to receive public food supplies, such as day-care centres, shelters, public hospitals and schools. In doing this, the proposal links the food consumption needs of beneficiaries to the production and supply capacities of suppliers. To promote social participation and accountability, all proposals are submitted to CONSEA for approval (MDS and MDA, 2010).

Once the proposals have been approved, a CPR bond is issued, which enables advance finance to support production. The CPR also formalizes the contractual relationship between CONAB and suppliers.

BOX 4.16 Information to be inserted in the selling proposal

In the FE modality, the participation proposal must include: (i) identification and DAP of the family farming organization and the individual producers that will supply the product; (ii) description of the type and quality of the products to be acquired to form the stocks; (iii) their expiry date; (iv) quantity; (v) price expected; (vi) place where products will be stocked; (vii) duration of stock formation; (viii) disbursement schedule; (ix) ways of future commercialization of the products stocked; and (x) register in the organs of sanitary and quality control.

In the case of CDS implemented by CONAB, the proposal must indicate on the supply side: (i) the identification and DAP of suppliers; (ii) type and quality of products they would like to sell; (iii) quantity; and (iv) price they would like to receive. On the beneficiary entity's side, the proposal should indicate, among others: (i) identification of the beneficiary entity; (ii) number and age of persons assisted; (iii) schedule of delivery of the products; and (iv) specific information regarding the beneficiary entity and its food consumers, including the objectives of the project and mechanisms for the distribution of food among food consumers (CONAB, 2013).

Source: Swensson, 2015.

4.6 Conclusions

Core to the rationale for the IFPPs appraised is the potential to transform public sector demand for food into a catalyst for the transformation of smallholder staple food chains. Unlike cash or high-value crops, staple crop markets are imperfect with many small informal sellers and buyers, and no lead traders, exporters or processors to organize downstream services and finance, or upstream supply to the market (FAO, 2015). Consequently, IFPPs are considered a practical response to the challenge of transforming fragmented informal trade in staple crops into organized formal chains with better chances of higher returns and food safety, fewer food losses and more opportunities for poor farmers and processors (Mitchell, 2011).

The conceptualization of IFPPs refers predominantly to the support required to upgrade potential suppliers' capacity to match the needs of formal institutions, which is discussed in detail in Chapter 5. However, the analysis in this chapter demonstrates the level of policy, institutional and programmatic detail that IFPPs need to address on the demand side of the value chain.

Although preferential policies, programmes and capacity building measures may be put in place to align the food procurement needs of an institution with farmers' ability to grow and sell food, if the buying institution does not place sufficient emphasis on the practical day-to-day tools, contracts, orders, payment, logistics, etc., that enable the alignment of both parties, it is unlikely that an IFPP will be sustainable. Central to this alignment is a review of procurement policies, legislation and procedures, both at national and institutional level, to uncover procedural bottlenecks preventing access to intended IFPP suppliers. Based on the review, ***ex ante*** tools and contractual models can be developed. Nevertheless, flexibility needs to be embedded into procedures to allow for the adaptation of tools in line with an IFPP learning curve.

The ease in implementation and success of each of the modalities described above varied from country to country, depending on the food commodity, enabling environment and the institutional capacity of the FOs to upgrade and transition to a more competitive process. The various modalities show the range of options available to institutions. In addition, experiences from PAA show that the impetus for proposing contracts does not only have to be the domain of institutions but, with the right systems in place, sellers can also take the initiative in proposing contracts.

The cases show that, despite institutional will, flexible procurement and contracting modalities, and support to suppliers, the transition process from trading in informal spot markets to doing business with a formal institution is slow (for example, see Figure 4.2 for the United Republic of Tanzania).

However, regardless of the challenges, the cases also show that with the right policy and legal frameworks in place, together with the right procurement tools, smallholders are able to supply large formal buyers. What is not clear are the investment costs involved, a point which is discussed further in Chapter 6.

5 Supply

5.1 Strengthening the capacity of smallholders to supply institutional markets

Before linking small farmers to public institutions, it is important to understand how the intended suppliers are already engaging with markets. Traditionally, smallholder farmers in developing countries supply markets through traders on a one-to-one basis at the farmgate or local market. The transaction is typically cash-in-hand on delivery with few quality standards required and is generally based on surplus produce available (FAO, 2007). Any other market outlet (retailer, agroprocessor, commercial farmer, etc.) will require specific on-farm production or harvesting practice to improve the quality of produce.

Like formal private buyers in domestic markets, an institutional buyer will make demands that local informal markets do not. As public bodies, institutions will require strict compliance with food safety and quality assurances. When WFP procures from small farmers through FOs it specifies that it requires "… produce that is free from pests and foreign objects …" and, depending on the commodity, may specify criteria such as size, colour, variety and moisture content. Commodities often need to be bagged using specified packaging (WFP Web site).[46] Box 5.1 gives a brief overview of the types of farm and off-farm activities that farmers and farm enterprises need to engage in to comply with the standards required by WFP.

BOX 5.1 Farmer skills needed to comply with WFP standards in Kenya

To comply with the grain standards specified by WFP, Kenyan farmers need to carry out a number of pre- and post-production practices that ensure proper land preparation with crop waste removed and, ideally, that crop rotation is practised. The right amount of inputs needs to be applied with regular inspections for insects and fungi. Harvesting at the correct moisture levels and stage of maturity, particularly for maize, is also important. If moisture is a post-harvest problem, then drying, either solar or machine, will be needed to reduce aflatoxins. Good storage and transport skills are key to avoiding losses during transit and from pests. Grading and sorting are also required to reduce the amount of damaged produce, which should not be more than 5 percent of the total amount supplied.

Source: Kelly, Mhlanga and Kiio, 2014.

46 www.wfp.org/purchase-progress

To help small suppliers respond to these demands, WFP has embedded capacity building support[47] into its P4P initiative, while the farmers supplying IFPPs in Brazil can avail themselves of a range of public extension services under the National Policy on Technical Assistance and Rural Extension for Family Farming and Agrarian Reform (PNATER), which "contribute to increasing the incomes and quality of life for rural families through improved production systems and access to resources and services in a sustainable way" (MDA Web site). The role of capacity building in general, for the IFPPs assessed here, is based on the rationale that improved capacity to comply with public institutional standards will create opportunities for smallholders beyond the target institution.

Apart from the *Ater Mais Gestão* programme, launched in 2013 to strengthen the management and marketing skills of family farming formal organizations intending to supply markets, including IFPPs (MDA Web site), extension programmes are not directly linked with the Brazilian IFPPs. They all nonetheless form an integral part of the national policy and programmatic context that supports family farming production. Having access to these existing programmes means that, unlike WFP, PAA and PNAE can focus resources on refining the demand side of the programmes. Box 3.3 gives more details on the type of support available to family farmers and rural enterprises in Brazil.

Appraisals of WFP's P4P and the Brazilian IFPPs show two kinds of programmatic approach to capacity building. The first is an embedded and direct provision approach targeting potential small suppliers, combined with linkages to related ongoing government and partner programmes, when identified, as in the case of WFP. The second approach involves the provision of support solely through ongoing existing national state capacity building programmes as in the case of IFPPs in Brazil.

In both approaches, the main areas of capacity building support targeted FOs as the principal entry point for building the capacity of suppliers. Some activities, primarily those of WFP, engaged with traders as intermediaries with smallholders. Financial service providers (FSPs) were also an important target group for the IFPPs, given their role in providing credit and investment tools for farmers and rural enterprise.

This chapter describes the lessons learned from IFPP engagement with these three main stakeholder groups, but first discusses cross-programmatic lessons on capacity building approaches in general, related to partnering with local and non-state actors, targeting and tailoring training.

5.2 Core elements for capacity building strategies in IFPPs

Despite the two different capacity building entry points described above, a cross-analysis reveals, for both approaches, the importance of (i) partnerships with local state and non-state actors; (ii) targeting beneficiaries; and (iii) tailoring training to institutional needs.

In the case of WFP, capacity building is provided directly where the Organization has core competencies, such as food safety and quality control, logistics and procurement. Otherwise, technical areas outside the remit of the Organization, resources permitting, are outsourced to public or private sector partners. Box 5.2 discusses the experiences of WFP in Kenya and gives examples of the types of partners contracted to provide capacity building under the P4P initiative.

[47] Across all the 20 P4P pilot countries, over 10 percent (about US$11 million) of the initiative's total budget was invested in contracts with NGOs and the public and private sectors to help smallholders comply with WFP standards (WFP, 2015b).

BOX 5.2 Partnerships and services contracted by P4P Kenya to support smallholders' access to P4P

In Kenya, P4P participants are not direct recipients of support in agricultural production in the form of agricultural inputs or extension services. However, they are selected on the condition of access to this type of technical support under partner projects. WFP partnered with a number of public and private sector service provider in the areas of *post-harvest handling practices* and *quality control*.

In order to improve smallholders' capacities in post-harvest handling, reduce losses and improve grain standards to a level acceptable to WFP requirements, WFP partnered with a number of public and private sector service providers such as Rentokil, Intertek, Société Générale de Surveillance (SGS), the Ministry of Agriculture, Livestock and Fisheries and the Eastern Africa Grain Council (EAGC).

Rentokil and SGS are fumigation companies contracted by WFP to combat problems of grain infestation. During the mission, the companies noted the lack of knowledge on the part of FOs on proper stacking arrangements for the commodities, resulting in the need for repeated fumigation. Consequently, the companies only agree to fumigate when commodities have been stacked correctly, to avoid unnecessary costs. When carrying out their fumigation and certification activities, the companies have also been contracted to provide training to the farmer groups on on-spot grading, the use of appropriate packaging material and storage and stacking practices.

Training on the inspection process carried out by these companies to evaluate the grade of the consignment helps avoid unnecessary future rejections of shipments.

For *storage and warehouse management*, WFP partnered with EAGC, which provides technical assistance, training and policy advice on storage practices, management and coordination of storage providers across the country. EAGC also promotes the use of commodity exchanges and WRS, viewing these mechanisms as key in contributing to price stabilization of the sector. EAGC is a membership organization open to grain producers, agrodealers and marketers, as well as other organizations such as Equity Bank and WFP.

Source: Kelly, Mhlanga and Kiio, 2014.

In addition to contracting NGOs and private sector actors to deliver training, WFP built up partnerships with Ministries of Agriculture and Trade to facilitate linkages to ongoing national programmes and mainstream learning from the programme. In countries where this was done from P4P's inception, synergies appeared to have worked better. In Rwanda, WFP built up a good working relationship with the Government and was able to build on the successes of a number of ongoing national programmes such as its national crop intensification programme. An overview of linkages between national agricultural support and P4P in Rwanda is described in Box 5.3.

BOX 5.3 Linkages between WFP and ongoing national agricultural support programmes in Rwanda

In Rwanda, WFP has been able to capitalize on national agricultural programmes such as the Crop intensification Program (CIP), the Land Consolidation Program and the National Post-Harvest Staple Crop Strategy (PHSCS) developed with the support of USAID training cooperatives in post-harvest handling.

The country's land consolidation programme has been significant since it encourages farmers to consolidate land, without affecting or changing land rights, to grow priority food crops including maize, rice, bananas, Irish potatoes, sweet potatoes, cassava, sorghum and beans. Land consolidation is voluntary, but farmers must participate in the programme in order to avail themselves of subsidized inputs such as seeds and fertilizers on credit under CIP.

Source: Kelly and Mbizule, 2014.

In Guatemala, P4P was able to capitalize on regional and global agreements with the Inter-American Institute for Cooperation on Agriculture (IICA), which supported the programme with technical assistance and training.

In Ethiopia, WFP took advantage of improved production stemming from the results of the Purchase from Africans for Africa (PAA Africa) programme in which, in collaboration with the Ministry of Agriculture, FAO was tasked with training 1 000 haricot bean farmers on improved production practices and provision of inputs. However, the case infers that a specific agreement between WFP and the Government of Ethiopia, tailoring public extension systems to P4P's needs, might have yielded better results.

A lack of tailoring capacity building to the needs of IFPPs was also highlighted in PAA, resulting in "family farmers struggling to organize themselves, plan production and meet the quality standards imposed by the PAA – which could be facilitated if the technical assistance was coordinated with ATER" (Grisa *et al.*, 2011; FAO, 2010; GGPAA, 2010).

The Guardians of Nature Institute (ING) [*Instituto Guardiões da Natureza*], an NGO helping smallholders to access institutional markets in the Prudentópolis region of Paraná state in Brazil, reported that lack of coordination with the public programmes of technical assistance and rural extension was a bottleneck for PAA. To address gaps in delivery, the NGO supplemented training needs and intervened to improve coordination between technical assistance programmes and cooperatives supplying PAA (ING interview; Swensson, 2015).

Issues related to a lack of tailoring placed emphasis on the need to improve small actors' ability to manage and market production. The *Ater Mais Gestão* programme in Brazil, referred to above, was developed specifically to address these capacities. Across all the WFP cases, while many good results were documented through the training provided, managerial and marketing skills were reiterated as the main areas of weakness. The Ethiopia case raised the issue that capacity building at the Farmers' CU level does not always guarantee trickle-down to the grassroots membership. An evaluation of Brazil's PAA also found that the "losses and defaults experienced could have been avoided with the availability of technical assistance in storage and market integration" (PAAMG balance evaluation in GGPAA, 2010).

The PAA analysis apportioned problems with tailoring training to a lack of coordination between IFPPs and the national extension programmes. Studies referenced in the Brazil case report that the farmers supplying IFPPs are not always the same as those targeted by PRONATER.

Programme targeting is in general a challenge for all agricultural development programmes. Capacity levels, access to services, finance and experience in marketing surplus food commodities are not homogenous across all farmers and farmer groups (FAO, 2013a). The variables for targeting will depend on the time span of the IFPP, resources available, commodity specifications and IFPP objectives.

Targeting criteria outlined for participation in the P4P initiative were smallholders with membership of formally recognized marketing groups; some access to land, credit and services; experience in selling surplus produce; and linkages to related capacity building programmes (WFP, 2015b; WFP website, authors' discussions with WFP staff).

In Kenya, WFP criteria for selecting FOs included, among other variables, participation in government or partner agricultural production programmes. Ghana also used existing FOs as entry points for bridging smallholder supply and institutional demand.

The groups selected in Ghana had been formed and formally registered under the Millennium Development Authority (MiDA) Challenge Account project and had received loans and training from extension services, which WFP intended to build upon. However, some of the MiDA groups had formed solely to gain access to the loans offered by the programme and not for the purpose of group marketing. WFP therefore inherited a number of groups that had been artificially formed. Despite training, results from capacity building and eventual linkages to WFP were constrained because of the low starting-point for some of the groups, raising issues on programme targeting. According to the case, "the capacity of some of the FOs selected by P4P is very low ... it is doubtful if these groups can meet P4P supply requirements, even if training is intensified".

Conversely, the selection criteria in El Salvador was more rigorously defined. For example, the geographic location of the FOs was assessed to ensure feasibility of logistics to WFP warehouses. Participating farmers had to have access to land plots between 0.7 and 3.5 ha to ensure that farms were large enough to produce a surplus, while at the same time targeting poor small farmers. Access to suitable storage was a factor for participation in P4P and membership of organizations with formal governance structures, with the possibility of including more farmers.

The selection process was facilitated through a partnership with the Ministry of Agriculture, which initially vetted organizations and subsequently proposed 28 potential FOs for participation in the P4P initiative. Thirteen were eventually registered to supply WFP. Overall, the capacity building approach, including the targeting strategy and partnership with the Government, yielded positive results as described in Box 5.4.

BOX 5.4 P4P in El Salvador

One of the most relevant achievements of P4P assessed by the case study in El Salvador was the high quality of grain reached by FOs through the capacity building provided by P4P. According to the research team, this is a particularly significant achievement given the fact that most smallholders consistently fail to provide quality products for the most demanding and competitive markets. In El Salvador, P4P capacity building training has included technology transfer in aspects of harvest, post-harvest and business management, which were key to achieving this result. The programme has also facilitated equipment to determine safety and quality levels of grain.

Another important aspect reached through the programme and mentioned by the case study regards the better and more professional use of pesticides and fertilizers through the training received on pest sampling and soil analysis. The adoption of improved soil conservation practices for crops on slopes has also helped to improve yields.

Source: Fonseca, Vergara and Prada, 2014.

All the cases cited an overestimation of farmers' capacity to satisfy WFP's requirements, indicating a need for a systematic training needs assessment as part of a targeting strategy – to understand the time span, resources and type of capacity building required to upgrade beneficiaries' skills within the IFPP parameters for delivering results.

In addition to problems with partner coordination, targeting and tailoring training, capacity building initiatives also struggled with outreach (GGPAA, 2010). In Brazil, for the 2012/2013 cropping season, PRONATER targeted 480 000 family farmers, representing only 11 percent of Brazil's 4.1 million family farming population (MDA Web site). At the time of the Brazil case study (2014), the *Ater Mais Gestão* programme also had limited coverage, targeting 447 cooperatives in total, with the intention of more than doubling that number to 1 000 by 2016. In some states, such as *Mato Grosso do Sul*, only one cooperative received training, and no coverage was reported in the North Region of the country.

Despite the constraints reported, the cases overall reported positive results from the training provided under P4P, some of which are discussed in Chapter 6. The analysis above demonstrates that in order to build on these positive results, more attention needs to be given to the development of capacity developing strategies that can tap into ongoing relevant initiatives, but at the same time are also tailored sufficiently to respond to the needs of IFPPs.

The rest of this chapter discusses IFPP value chain entry points and target beneficiaries which, for all three of the IFPPs, were primarily FOs. Lessons from engagement with actors beyond farmers and FOs, such as traders, warehouse operators and local FSPs is also explored, but mainly under the aegis of WFP experiences.

5.3 Farmer organizations – Linking smallholders to IFPPs

FOs play an important role in rural economies, contributing through value addition of agricultural produce, providing employment and attracting resources and investments that build local human and social capital and infrastructure. They are also an important mechanism to rebalance skewed bargaining power relations between farmers and upstream and downstream players in the value chain (Bijman *et al.*, 2012) (see Box 2.5 on terms related to FOs).

FOs offer an attractive mechanism for formal buyers wishing to procure commodities from a large number of small and fragmented farmers, providing one consolidated interface between the buyer and the farmers contracted to supply produce (Cafaggi *et al.*, 2012; Shiferaw and Muricho, 2011). FO management can also arrange for the distribution of inputs and credit, organize training, negotiate prices and disperse payments. FOs are fundamental in disseminating information and building social capital at the local level (FAO, 2013a; Fernandez-Stark, Bamber and Gereffi, 2012) (see also Cafaggi *et al.*, 2012; Markelova *et al.*, 2009; Shiferaw and Muricho 2011; Swensson, 2012).

Strengthening the institutional capacity of FOs with a view to building the collective bargaining power of smallholders for enhanced market access is inherent in the objectives of WFP's P4P, PAA and PNAE.

PAA and PNAE use FOs as the preferred market intermediaries with small suppliers and in this regard also promote the collective capacity and bargaining power of small rural actors as stipulated in national policy. Although individuals can access both PAA and PNAE, FOs take priority in the selection process over individual access.

FOs have been core to the goals and implementation of WFP's P4P initiative. Depending on country context, WFP has adopted its model to the governance structures of FOs and the preferred organizational model. In Ethiopia, instead of supporting and procuring from primary farmer market cooperatives, WFP uses second-tier CUs, which consist of 40 primary cooperatives on average. At the time of the case study, P4P was working on capacity building programmes with 16 CUs aggregating produce from approximately 100 000 maize farmers. Box 5.5 gives an overview of cooperatives in Ethiopia and their engagement with WFP, while Box 5.6 describes how WFP adapted its procurement model in the United Republic of Tanzania.

BOX 5.5 The cooperative model and its role in P4P in Ethiopia

The national cooperative law envisages three layers of cooperatives, from bottom to top: primary cooperatives (PCs), Cooperative Unions (CUs) and national federations. PCs are organized in a voluntary manner, with a minimum membership of ten members. PCs can get together to form CUs (minimum membership of two PCs). A third layer, envisaged, but not yet in place, is the national federation, grouping CUs by sector, e.g. savings and credit federation, mining cooperative federation and agricultural output and input marketing federation.

The Federal Cooperative Agency (FCA) reports a total of 40 000 cooperatives in Ethiopia, dedicated mostly to agriculture, mining and finance (SACCOs). A quarter of them are agricultural cooperatives:

- 3 000 agricultural cooperatives focus on a single commodity (e.g. coffee, dairy and livestock) or irrigation;
- 7 000 are multipurpose cooperatives that concentrate primarily on agriculture (MoA and ATA, 2012).

Agrocooperatives are extremely important in Ethiopia:

- 17 percent of all Ethiopian farmers are members of a cooperative;
- cooperatives contribute to 10 percent of the agricultural output of the country; and
- cooperatives market about 15 percent of all maize produced.

The grassroots membership of these CUs are smallholder farmers (less than 2 ha of rainfed land), with limited access to improved seeds/fertilizers, high post-harvest losses resulting from inadequate storage facilities, limited access to credit and high transaction costs.

In theory, agrocooperatives fulfil three purposes: (i) input distribution and marketing; (ii) output marketing; and (iii) provision of extension services. In practice, they play an important role in input distribution, but their performance in output marketing is limited, owing to lack of adequate storage facilities, insufficient management skills and mistrust among members and on the board.

The Agricultural Transformation Agency (ATA) is trying to facilitate the transformation of CUs into proper businesses that can effectively market the output of their constituency, and P4P is seen as instrumental to catalyse this transition.

There are some 74 CUs in Ethiopia that embrace more than 1 300 PCs and close to 890 000 member farm households; they have a total capital of more than US$37 million (FCA, personal communication). These unions are engaged in multipurpose activities, including fertilizer distribution and (at least theoretically) marketing of members' marketable grain. Yet only a few are active participants in grain marketing.

At the time of writing, P4P supported 16 CUs and planned to purchase from 50 CUs by the end of 2014.

Source: Gálvez-Nogales and Fonseca, 2014.

BOX 5.6 The history of cooperatives in the United Republic of Tanzania and P4P procurement

Cooperatives in the United Republic of Tanzania have existed since the late 1920s, albeit with a chequered history. Before 1966, they experienced rapid growth spurred on by support from both the colonial and nationalist governments and were largely autonomous. However, in 1966, a Presidential inquiry after complaints of mismanagement and corruption led to the dissolution of several cooperative associations. The movement suffered a further blow in 1976 when all primary cooperatives were abolished by the Government. Government interference in functions formerly performed by cooperatives continued and resulted in undesirable outcomes for cooperative members. Despite attempts to revive cooperatives in the 1980s, the negative image persisted.

In recent years, Savings and Credit Cooperative Societies (SACCOS) have flourished, supported by legislature such as the Cooperative Development Policy of 2002 and the Cooperative Societies Act of 2003. SACCOS are financial organizations owned and operated by their members, who collectively mobilize savings and provide credit services. The cooperative policy establishes the framework for providing restructuring services to cooperatives and how they can operate on an independent and economical basis. Since most cooperatives in the country are remnants of donor or government programmes, their sustainability beyond a project is usually questionable.

▸▸

Nevertheless, SACCOS cannot carry out functions such as marketing of produce, leading development agencies such as WFP to seek ways of creating structures within them with this functionality. Moreover, to avoid the negative image associated with marketing cooperatives, the new structures are called companies or simply FOs. In 2012, there were approximately 10 000 registered cooperatives, more than 50 percent of which were SACCOS. Approximately 2 500 of the registered SACCOS operate within the agricultural sector. To enable them to perform crop marketing activities, a subset of SACCOS has formed substructures known as agricultural marketing companies. It is not clear how many of these companies are involved in the marketing of cereals or other staple crops. Furthermore, there is another form of cooperative society, similar to traditional agricultural cooperatives, known as the Agricultural Marketing Cooperative Society (AMCOS). A group of SACCOS or AMCOS can form a CU and ultimately a federation. For example, there is an apex body for tobacco growers. WFP works mainly with SACCOS in its P4P initiative.

Source: Mhlanga and Ngaiza, 2014.

Overall, WFP provided training to over 830 FOs during the P4P pilot. As a result, 474 FOs signed contracts with WFP across 20 countries for 280 341 tonnes of food. Of these, 394 managed to deliver 172 124 tonnes (61 percent) of the contracted amount (WFP, n.d.). Because of its five-year period of implementation and access to resources, P4P was able to engage in long-term learning with FOs. Many benefits accrued as a result and various institutional changes were witnessed, leading to benefits for FOs and their members.

Although 394 FOs successfully honoured at least one contract with WFP during the P4P pilot (WFP and Oxford Policy Management, 2014), this figure is only 45 percent of the total 830 FOs receiving reiterative training during the period. Even fewer organizations completely graduated the P4P process to compete independently on open markets with large traders.

Under PAA,[48] procurement through FOs has always taken precedence, based on the policy objective referred to above, either through informal or formal FOs. Under the PNAE policy framework, instead, procurement could only take place through either informal or formal family farmer organizations.[49] However, in 2011, recognizing the challenges faced by FOs with collective action, a new regulation[50] was introduced to extend procurement to individual family farmer producers and entrepreneurs.[51]

Findings indicate that, despite training and notwithstanding the issues already outlined related to capacity building, there are a number of additional factors constraining FOs from acting as entry points for IFPPs and, more generally, as champions of farmers' needs in the agricultural sector.

These factors are both endogenous, covering governance, trust leadership and overall institutional capacity, and exogenous, relating to country context, history and national policy and legal frameworks governing FOs. The constraints listed are regularly discussed at length in the literature. (Among many others, see Dunn, 1988; Collion and Rondot, 2001; World Bank, 2008; Cook, Chaddad and Iliopoulos, 2004.) The implications of these constraining factors relevant to the development of IFPPs are discussed below.

48 Law No. 12.512/2011; Decree No. 7775/ 2012.

49 FNDE Resolution No. 38/2009.

50 Decree No. 7775/2012.

51 PNAE is now only obliged to procure through formal FOs in cases where contracts exceed BRL100 000.

Governance, leadership and trust – endogenous factors constraining access to institutional demand

In many cultures, group storage, collective marketing and sharing of assets are foreign concepts. Farmers, accustomed to trading individually, require time before they can understand the benefits of sharing services and resources successfully. Members of groups also have diverse interests which, if not managed properly, can quickly turn into conflict (see, among many others, Hellin, Lundy and Meijer, 2009; Shiferaw and Muricho, 2011).

In the Brazilian context, producers' mistrust of collective association and, in particular, their resistance to self-organization though formal FOs have been appraised in various studies (Souza, 2012; Triches and Schneider, 2012). In the PNAE case, producers' mistrust and their resistance to forming FOs were among the difficulties pointed out by both producers and implementing agencies (Souza, 2012; Triches and Schneider, 2012).

Similar difficulties were perceived by WFP, particularly in Ethiopia, Guatemala and Ghana. In Ethiopia, one of the main constraints experienced was "that members still do not seem to trust cooperatives …". Training programmes were advocated that, in addition to business management, governance, leadership and technical topics, incorporate sessions challenging embedded cultural and social assumptions relevant to FOs.

A lack of trust was also raised in the Ghana case. For example, the community warehouses constructed under P4P were at the time of the case "… for the most part lying empty due to farmers' suspicions of communal storage". Moreover, in an attempt to retain and attract members to FOs, farmers were allowed to sell produce individually, ultimately undermining the rationale for aggregation and group marketing.

Related to trust is the issue of leadership. Findings show that governance and leadership capacity are fundamental pillars for FOs wishing to engage commercially with the public or private formal sector. The case from Ethiopia highlights issues with the Government that assigns, and frequently changes, cooperative leaders. Because of the Government's role, leaders lack authority, affecting members' confidence. A high leadership turnover also means that investment in training is quickly lost, a constraint noted by WFP. Problems with leadership were noted for two separate FOs in El Salvador, constraining the organizations' capacity to supply WFP as well as their ongoing relationship.

Findings initially indicate that the reasons for the slow uptake on institutional strengthening are endogenous to the FO and mainly associated with leadership and internal governance problems. However, as discussed below, in many cases the root causes of constraints are exogenous and often relate to the weak and unclear national policy and legislative framework governing farmers' organizational structures (World Bank, 2008; González, Johnson and Lundy, 2006; Bijman *et al.*, 2012; Swensson, 2016).

History, the political economy and policy and legal frameworks governing FOs – exogenous factors constraining access to institutional demand

The cultural context and history of the political economy and its influence are exogenous to FOs. In many parts of the world, agricultural marketing cooperatives are often associated with state-controlled marketing boards, common during the 1960s and 1970s. Despite having been dismantled during the structural adjustment of the 1980s and 1990s, the stigma of these boards still remains in some countries (Bijman *et al.*, 2012; Swensson and Klug, 2017).

In the United Republic of Tanzania, for example, despite a long-standing market economy, FOs are still associated with the country's history of state-run marketing boards and political interference. Farmers' lack of trust in FOs has contributed to the absence of functioning

marketing cooperatives in many communities across the country. In areas where FOs do not exist, WFP has customized its approach to engage with smallholders through the local Savings and Credit Cooperative Societies (SACCOS).

SACCOS are member-based microfinance organizations (MFIs) established to mobilize savings and provide loans to their members. Some SACCOs have created marketing arms to enable members to aggregate commodities for buyers such as WFP. However, the goals and functions of SACCOs were not designed with the intention of collective marketing which, as discussed below, can lead to problems for institutions and their members in the long term. Box 5.6 describes the history of cooperatives in the United Republic of Tanzania and the reasons for farmers' reluctance to join agricultural cooperatives.

Related to the mandate of an FO is the policy and legislative framework designed to support and regulate FO structure, functions and how member needs are served (González, Johnson and Lundy, 2006; Bijman *et al.*, 2012; Swensson, 2016). Farmers wishing to establish a formal organizational structure can choose from the organizational models proposed under the national regulatory framework governing voluntary associations. These models include the cooperative model and non-profit associations or societies. Farmers' choice of model is usually driven by its costs and benefits, regarding registration, structure and functions.

Inadequate or overt regulation may also drive producers to choose an alternative structure not compatible with a group's goals or objectives, hindering performance and success in the long term (González, Johnson and Lundy, 2006; Swensson, 2016).

Findings show, for instance, that the system governing the cooperative model in Brazil is complex and costly constraining FOs capacity to supply IFPPs. Regulation of FOs date back to 1971 with statutes that do not entirely address the current day needs of smallholder farming groups (Triches and Schneider, 2012). For instance, cooperatives in Brazil are obliged to have three different social bodies (General Assembly, Board of Directors and Audit Committee), several mandatory books, minutes that are publicly registered and a complex accountability system, making compliance difficult for groups representing small farmers.

Conversely, the legal and organizational structure governing a non-profit association (NPA) is less costly and has fewer formalities. To avoid the costly bureaucratic tasks associated with cooperatives, smallholder groups, including those wishing to access IFPPs, often opt for the less cumbersome legal structure of an NPA. In the state of Minas Gerais, for example, of the 234 formal groups eligible to supply IFPPs, only 31 were cooperatives and 203 were NPAs (Santos *et al.*, 2012). In three municipalities of the Sergipe region, NPAs alone supplied PAA, with no cooperatives registered (Chmielewska and Souza, 2010).

Even though the NPA model is used by groups across many countries to leapfrog bureaucratic hurdles, it is not compatible with the long-term functions or vision of market access through collective action (Cafaggi *et al.*, 2012; FAO, 2007; Swensson, 2012), including IFPPs. The conceptual basis and law[52] underpinning the governance of NPAs are not intended for commercial purposes. NPAs cannot inherently pursue profits or share eventual gains among their members. An NPA's liability regime can prevent groups from signing contracts with buyers or requests for commercial finance (FAO, 2007). Since the model prevents the accumulation of working capital, groups become dependent on members' donations to pay overheads or extraordinary costs, thereby compromising long-term sustainability and their role as market intermediaries for IFPPs and beyond (ING interview).

[52] NPAs are regulated in Brazil by the Federal Constitution (Art. 5, XVII–XXI, Art.174, para. 2) and by the Civil Code (Arts 53 to 61).

Nonetheless, in the absence of a functional legal framework governing FOs, farmers identify the structure that best serves their needs, even if the intended goal of the model is not wholly aligned with the members' goals and vision for the group. Consequently, IFPPs will in turn identify the most common model adopted by farmers to ensure that programme targeting, outreach and supply and demand goals are met.

Furthermore, as part of IFPP enabling environment, policy and legal frameworks governing FOs may need to be reviewed and reforms implemented so that FO governance systems suit the needs of small actors supplying IFPPs.

5.4 Small traders as actors in linking small farmers to IFPPs

Apart from FOs, small farmers and rural enterprises are linked to the broader market in a number of ways, including contract farming[53] with large companies and food processors through small or large traders at the farmgate, to rural artisanal food processors[54] and at spot markets in rural towns. The costs and benefits of these and other different models in linking farmers to marketing and, more important, inZ reducing poverty as a result of the linkage, depend on the local rural context, economy and commodity (FAO, 2015).

Although traders are often depicted negatively in agricultural value chains and charged with exploiting smallholders' vulnerability, they play an essential role in linking farmers to markets in the absence of any functioning market. The role of traders, smallholders and rural artisanal agro-enterprises is also difficult to disaggregate, since poor rural actors, depending on their access to livelihood assets and the local context, straddle different income-generating activities. Again, depending on commodity and local cultural context, traders are often women in many countries in Africa, particularly for food crops. The role of trader therefore plays an important part in gender equity (USAID/EAT, 2012).[55]

Where there are few opportunities for collective marketing and aggregation and where transport and marketing infrastructure and information systems are weak, small traders are often the only, and therefore the most important link between smallholders and the market. Traders provide smallholders with access to markets, credit and advice; arrange transport; add value through aggregation; and transfer market information up and down the chain (FAO, 2007).

Small traders, similar to farmers, have little working capital and often rely mainly on their own funds or on advances from wholesalers. They have poor transport infrastructure and take on the risks associated with trading perishable food. Traders, particularly female traders, are small and fragmented and require support with organization and improving access to services such as finance and capacity building (COPLA, 2009; USAID/EAT, 2012).

If traders are not included in local capacity building efforts with smallholders and FOs, any value addition that has been created in the chain as a result of training, such as grading, storage and food safety, risks being thwarted by unskilled traders as the commodity moves down the chain.

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53 The lessons above can also be applied to food processors as well as traders. However, as the commodities referred to in the IFPPs discussed here are primarily unprocessed grains, a discussion on small food processors has not been included.

54 See FAO, 2013c.

55 https://agrilinks.org/sites/default/files/resource/files/EAT_PolicyBrief_WomenCrossBorderAgTrade_Oct2012_FINAL.pdf

Recognizing the role of traders in agricultural value chains, P4P Kenya registered a total of 35 small-scale traders and agrodealers as suppliers. These actors were selected from the existing WFP supplier database, and in consultation with other development partners, such as the Agricultural Market Development Trust (AGMARK) and USAID's Market Linkages Initiative. Training for traders covered topics on WFP's procurement processes, grain standards, post-harvest handling and grain aggregation. To improve the standards of basic warehouse equipment, a matching investment facility was also set up for agrodealers involved in bulking grain.

Of the 35 registered traders, 21 were awarded contracts, but only 13 of these delivered all or part of the volume contracted as of December 2012. Traders were recorded as paying between 30 to 80 percent less than supplies contracted through FOs. To close the price differential between FOs and traders, WFP intended to continue to include traders in the approach, with more emphasis on marketing capacity, linkages between traders and FOs and mechanisms to improve price transmission.

In Rwanda, in line with policy, the functions of the private sector, including traders, are integrated into agricultural support activities and its IFPP, which link smallholders to NSGR. The Ministry of Agriculture uses the traders' large network of agrodealers to distribute subsidized fertilizers, technical advisory services and post-harvest equipment. However, integration of small traders into the IFPP receives less attention.

At the time of the case study, WFP's P4P in Ethiopia procured around 20 percent of its food from smallholders through 20 prequalified small- and medium-size traders.

In both Guatemala and El Salvador, WFP did not procure from small traders. It indicated, however, that any follow-up to the P4P pilot initiative would consider the role of traders in linking smallholders to WFP because of their important role in value chains. Box 5.7 gives an overview of the role of traders in maize and bean value chains in Guatemala.

BOX 5.7 Role of traders in maize and bean value chains in Guatemala

In Guatemala, it was assessed that intermediaries play a key role in the commercialization of staples. According to the research team, they fulfil an important economic function particularly regarding logistics and risk assumption. They are most often responsible for transporting products from remote rural areas to buying centres and for bearing the risks of collection, transport and cash handling during these operations. As affirmed by the study, because of price variability, delays in payments, costs of transport, maintenance of vehicles and the risks associated with theft of goods on the roads, the work of intermediaries is of key importance in linking smallholder producers and buyers. In some areas, it was estimated that intermediaries receive a gross margin of 9 percent, which has been considered not excessive considering the functions and risks they undertake.

Source: adapted from Fonseca, Vergara and Prada, 2014.

All the P4P case studies indicated the need to include traders in IFPP efforts to link smallholders to markets, and the following recommendations were made.

- Sensitize local actors to the role that small traders play in value chains.
- Develop mechanisms that improve transparency in pricing and price transmission from traders and other large actors back to smallholders.
- Adapt capacity building activities developed for FOs to the needs of traders in areas such as access to finance, market information, contract management, produce handling and storage, and food safety and hygiene.
- Support the organization of small- and medium-size traders in the value chain.
- Carry out gender appraisals to find out how to build on the role of female traders in agricultural value chains.

The WFP cases highlighted that there is a potential role for small and medium traders in linking smallholders to IFPPs. However, the approach was only tested in seven of the 20 P4P pilot countries, with few analytical findings emerging, particularly on price transmission back to farmers (WFP, 2015b).

5.5 Can IFPPs play a role in increasing small actors' access to finance?

Limited access to credit, interest rates and other adapted financial services prevent smallholder farmers from investing in the necessary equipment and inputs to improve productivity, land expansion or value addition (Fernandez-Stark, Bamber and Gereffi, 2012; Miller and Jones, 2010; FAO, 2007; World Bank, 2008).

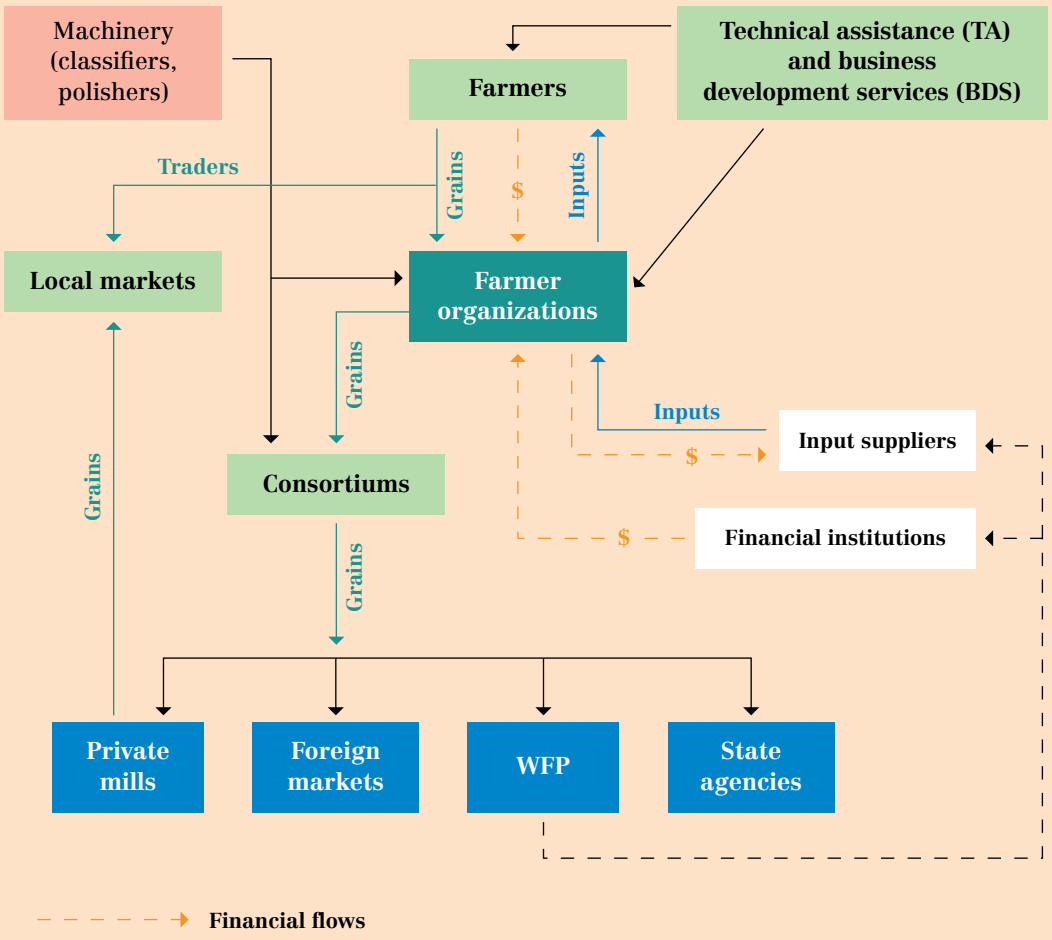
These bottlenecks inevitably constrain linkages to institutional food markets but are also coupled with the conflict in the modus operandi of small rural actors doing business with formal state institutions. Lack of access to tailored financial products, including bank accounts, hampers business between small actors and institutional buyers. Large formal buyers, particularly public procurement agents, need to ensure that all procedures, such as automated payments and taxable invoicing, are adhered to, that they are transparent and can, for example, stand up to a financial audit. Matching the characteristics of small farmers and rural enterprises with formal public institutions is difficult, particularly in relation to financial management.

Despite these challenges, IFPPs potentially provide significant opportunities for linking small rural actors to FSPs. The rest of this chapter describes the lessons learned from piloting financial products and services suitable for small actors supplying public institutions and large formal buyers.

Similar to the divergent entry points on capacity building described earlier, while WFP developed a hybrid strategy for addressing access to finance, programmes in Brazil have been able to rely on PRONAF. This programme tailors financial products and services to the needs of family farmers, including access to annual low-interest rate loans, long-term investment loans and insurance, customized to individual needs or collective activities (Chmielewska and Souza, 2011). Box 3.3 gives a description of PRONAF.

Figure 5.1 provides a visual overview of the potential role WFP envisages playing in leveraging access to finance for smallholders. The dashed line from WFP to suppliers and financial institutions indicates grants or loans in the input packages for farmers, which are channelled through FOs or input suppliers, depending on the country. Loans are repaid by farmers at harvest, shown by the dashed line from farmers to FOs (WFP and GLA, 2014).

FIGURE 5.1 Framework of operation – P4P pilots



Source: WFP and GLA, 2014.

Based on this concept, brokering partnerships between FOs and banks was an important component of WFP's role in improving access to finance for smallholder suppliers. In Kenya, for example, WFP brokered linkages with the Kenya Women Microfinance Bank (KWFT), which tailors its savings and loan products specifically for low-income women. WFP also built up a close relationship with the Equity Bank, which is specialized in developing financial products for the rural poor and small enterprises. The partnership resulted in the piloting of a product tailored to the needs of IFPPs called "loans for aggregation", which facilitates smallholder linkages to large buyers. The bank planned to disseminate beyond WFP farmer groups after testing under the P4P initiative.

Similar types of partnerships and support were provided across all P4P pilot countries. In El Salvador, for example, an agreement was reached with the ProCredit Bank for the establishment of a 13 percent preferential interest rate per year for small farmers supplying WFP. In Rwanda, WFP worked with the Banque Populaire du Rwanda, Kenya Commercial Bank and other local MFIs, providing training in financial literacy, and organizing financial fairs and direct negotiation with MFIs and banks.

These types of partnerships were instrumental in the formalization of farmer groups, with the opening of bank accounts as an important first step.

In Brazil, although access to finance has mainly been addressed through PRONAF, as discussed in Chapter 4, PAA piloted the Advance Purchase (CA) modality. This is based principally on advancing payments to enable farmers to buy inputs for the planting season in return for the delivery of agricultural commodities in the harvest season or, if preferred, financial liquidation of the loan. The product was designed particularly to target the poorest farmers, with little or no collateral, who were unable to comply with FSP requirements for financial products on their own.

WFP also piloted forward contract modules and other products such as WRS across a number of countries, including Malawi, the United Republic of Tanzania, Rwanda and Uganda, and the revolving fund mechanism in Kenya, El Salvador and Guatemala. The objectives of these tools, their implementation and modalities are described in Boxes 5.8 and 5.9.

BOX 5.8 Revolving funds and forward contracts

Revolving funds were piloted by WFP in Kenya, El Salvador and Guatemala to advance small short-term loans to smallholders for production and marketing activities in order to supply the Organization. The loans, managed by FOs, were also intended to provide farmer groups with a credit history for potential financiers and experience in preparing loan applications and managing credit.

Forward contracts were used as instruments to facilitate access to finance for smallholders supplying IFPPs, in particular WFP and PAA. These experiences and lessons learned are discussed in detail in Chapter 4 on procurement models.

Implementation of the tools faced constraints mainly because of the weak financial management capacity of the targeted FOs. In the case of revolving funds, the use and need of FOs as managers were also questioned, given the already complex task assigned to them to aggregate smallholder supplies for WFP and the presence of specialized rural FSPs capable of managing the funds in the target areas. In El Salvador, for example, it was noted that the FOs working with WFP and managing a revolving fund had access to 56 credit cooperatives, 38 credit unions and 12 specialized financial NGOs (WFP and GLA, 2014).

Source: author's elaboration, based on data from WFP and GLA, 2014.

BOX 5.9 WFP experiences with warehouse receipt mechanisms

Warehouse receipt systems (WRS), also commonly known as warrantage, involve farmers receiving a receipt from a certified warehouse, which can be used as collateral to access a loan from third party financial institutions against the security of goods in an independently managed warehouse. WRS are suitable for non-perishable food, and enable farmers to store grain and sell at a later period in the year for a higher price, or when cash is needed. The approach requires appropriate storage infrastructure accessible to smallholders, a receipt information management system, an appropriate national financial regulatory framework, and financial institutions willing to engage in WRS. Participating FOs also need capacity building to be able to advise members on the advantages and disadvantages of WRS (Miller and Jones, 2010).

In Rwanda, WRS are still a relatively new tool but have become more popular as a mechanism to improve prices for farmers. With the support of local partners, WFP piloted WRS with a cooperative based in the Nyagatare district of Rwanda. Farmers supplying WFP aggregated produce in a common warehouse, part financed by the P4P initiative, and stored surplus produce not destined for WFP when market prices were low, such as close to harvest periods. WRS allowed farmers the flexibility of selling some produce after harvest for immediate cash needs, such as repaying loans or school fees, or waiting until late in the season when prices increased. The actors involved in the system were the cooperative advising members on the use of the warehouse and coordinating with the warehouse management, an independent private warehouse operator, an automated receipt system and a local bank to manage payments to farmers and the warehouse.

In addition to Rwanda, WFP piloted WRS as a tool across a number of countries, including the United Republic of Tanzania, Malawi and Uganda, with mixed results. According to the P4P evaluation, there were "issues associated with the poor management and regulation of warehouse networks … and P4P piloting of linking smallholder farmers to WRS could be assessed as partially effective …". Problems were mostly associated with the institutional capacity of FOs, FSPs and warehouse managers, as well as a lack of suitable policy and legislative frameworks (WFP, 2015b).

Source: adapted from Kelly and Mbizule, 2014.

The success and failures of these products were mixed for both WFP and the IFPPs in Brazil. However, many of the constraints noted in IFPPs' efforts to close the finance gap were not directly attributable to a failure in the design or appropriateness of innovative tools. Instead, they relate to issues previously discussed, such as capacity building targeting appropriate FOs, the need for aligned policies and legislation, coordination between stakeholders and IFPPs, and ensuring reliable market demand from and beyond IFPPs.

FSPs reported that a lack of confidence for investing in smallholders supplying IFPPs was influenced by uncertainty about reliable orders from institutions, market access beyond IFPPs and FOs' ongoing struggle to comply with aggregation and loan contracts.

Many of the problems related to WRS, revolving funds and forward contracts were also related to the capacity of FOs to act as effective managers for these complex products, again raising questions on the targeting of FOs. Although technical assistance and training were provided on these tools, one-off training is often not enough, and even if the starting

capacity point of an FO is appropriate, mentoring over months or years may still be required to reach an adequate level of sustainability (see section 5.1 on capacity building).

WRS require specific policy and regulatory financial frameworks so that the receipts issued to farmers are recognized as legal documents by banks and courts. A well-functioning WRS will also apply officially recognized commodity grades, again requiring regulations, which are often not present in developing countries (Miller and Jones, 2010). See also sections 4.1 and 5.3 on the importance of aligned policy and legal frameworks for IFPPs and FOs, respectively.

Lessons from PAA on its CA mechanism showed that a lack of coordination among regions, the federal government and extension services resulted in problems such as forward contracts issued to farmers for commodities they had no experience in cultivating, and delays in payments to farmers for inputs, meaning that planting seasons were missed, reducing the volumes and quality contracted by IFPPs. Lack of coordination also meant that farmers, despite having access to agricultural insurance, did not activate the products in time because of misinformation, as discussed in section 4.4 (USP and FEALQ, 2006; Müller, 2007; Peraci and Bittencourt, 2010).

The technical capacity in rural finance of the institution providing an overview of activities related to access to finance also emerged as an important lesson from the cross-case appraisal. Provision of technical assistance in rural finance is complex, requiring specific expertise and knowledge on financial institutions' roles in markets, and on products and services ranging from agricultural index insurance to value chain finance. In the case of PAA, CONAB, Brazil's institution responsible for monitoring strategic food stocks, was mandated to implement CA, despite having no other related programmes or institutional expertise on the subject. The limited capacity of CONAB in executing financial products and services has thus been inferred as a contributory factor in constraining the tool's successful implementation (Müller, 2007; Peraci and Bittencourt, 2010).

Given its mandate as a food aid agency, WFP also has limited experience on the subject of rural finance. Acknowledging the central role of access to finance for linking farmers to institutional markets, WFP convened a working group with FAO and IFAD, capitalizing on the Rome-based agencies' expertise on rural finance and investment (WFP, 2014). Although the working group was able to provide a technical overview of the subject, its outreach was limited to programme level, with little scope for technical assistance at the pilot country level (WFP and Oxford Policy Management, 2014).

To conclude, despite the challenges, the lessons noted here demonstrate that closing the access to finance gap needs to be a core component of any project or programme linking small farmers or farm enterprises to public buyers and others. IFPP experiences prove that addressing the gap by brokering linkages with FSPs and capacity building, combined with the market pull of a large formal buyer, can increase the number of FOs applying and receiving credit from formal FSPs (WFP and Oxford Policy Management, 2014).

5.6 Conclusions

Although institutional buyers offer farmers nearby familiar markets aligned with local market prices, suppliers nonetheless need to comply with standards that are not required by the local spot market. A core role for IFPPs, particularly those assessed here, is the creation of capacity building mechanisms that gradually introduce small actors to these standards, support them with compliance and, if necessary, adapt procurement procedures to suit small suppliers.

In addition to the importance of partnerships with state, non-state and private sector actors, the cross-case analysis reveals the need for capacity building approaches to "unpack" the processes related to partnerships, particularly around coordination, targeting and tailoring training. It shows that the assumption that partnerships are in place does not necessarily mean that they are being coordinated to match IFPP requirements or that appropriate groups are targeted.

Although WFP embedded a strong capacity building approach in its IFPP, the approach was reinforced by tapping into ongoing parallel programmes, or outsourcing direct capacity building whenever partner programmes lacked outreach or the quality or targeting was not adequate.

The analysis shows that even where substantial in-country extension services exist, an IFPP stills need to invest in coordinating capacity building so that efforts external to the programme can be met with a rigorous targeting strategy that measures the "starting-points" of potential beneficiaries through needs assessments. In this way, embedded or external capacity building can be tailored to match skills gaps with the needs of institutions.

In all countries, FOs was the preferred model for linking supply to demand, enabling smallholders to address collectively high transaction costs and low bargaining power when faced with demands from buyers for large volumes and good quality. FO models are not homogenous and the laws governing their structure, operations and set up varies greatly between countries. IFPPs wishing to use FOs as marketing intermediaries must therefore customize their approach according to the local context and policy environment. The United Republic of Tanzania and Ethiopia give examples of how WFP customized its approach to suit the local situation of FOs across countries.

Ultimately, the full potential of FOs in this role was hampered, as a result of factors outside the remit of an IFPP, relating to national policy and legal frameworks governing FOs. Consequently, if one of the intentions of IFPPs is to act as a conduit to level the playing field in agricultural value chains, the cases show that, as part of the programmatic process before IFPP engagement with FOs, the laws governing collective voluntary organizations need to be reviewed and reforms implemented so that governance systems suit the needs of small actors wishing to engage in collective action to access markets, including IFPPs (CLARITY, 2006; Bijman *et al.*, 2012; Swensson, 2016).

As well as working through FOs, WFP also procures through small traders in a small number of countries, highlighting the important role that traders play in the agricultural value chain in developing countries. The cases showed that the role of small- and medium-size traders is often not given due credit and recognition. Typically operating in the informal economy incurring diseconomies of scale, they were often overlooked as a potential part of the solution in improving value chain coordination. They also tended to receive little attention from policy-makers, despite implications for gender and the overall role they play in the absence of other functioning models.

Much of the work of IFPPs involved strengthening small suppliers' access to finance. Contracts with a large public buyer, such as a National Food Reserve or a Ministry of Education, or WFP, increase small farmers' bankability. Even without formal contracts, evidence of a regular long-term relationship with a buyer is extremely valuable for small farmers' creditworthiness. FSPs active in smallholder agricultural finance also see linkages to large institutional buyers as an opportunity to extend outreach, open new financial markets in rural areas, and test new pro-poor financial products.

The lessons here demonstrate that strategies need to look beyond credit, to include innovative and tailored financial products suitable for IFPPs, combined with capacity building that focuses on performance. In this way, the confidence that banks and FSPs place in farmer

groups will not be short-lived, expiring at the close of projects, but will extend to the provision of financial services and products for a range of market opportunities.

Lastly, the appraisals show that, when accompanied by or linked to appropriate capacity building support, IFPPs can be important instruments that gradually introduce small farmers to the stringent requirements of formal markets. IFPPs not only provide access to public sector markets but, more important, they accompany small actors along a learning path that supports the transition from engaging with informal ad hoc markets to operations more in line with the formal private sector.

6 Looking for results: Impact and sustainability of IFPPs

Over the past decade, donors, countries and development agencies have placed more emphasis on the impact of investments in agriculture and rural development on poverty reduction and food security (FAO, 2010). Since then, organizations such as FAO, the World Bank and IFAD have embedded result-based management frameworks into their strategic frameworks to enhance the effectiveness of operations.

The endorsement of the Sustainable Development Goals 2015 has also given renewed impetus to the quest for results and demonstrated impact. Within the context of rural development projects, impact can be defined as "changes – positive or negative, intended or unintended – in the lives of the rural people ... as well as sustainability-enhancing change in their environment" (IFAD, 2002).

Impact is clearly a broad concept when it refers to agriculture and rural development because development is a process and development objectives are often very general and not easily quantifiable. This is because of the unique and complex characteristics of the sector. Farming is context specific and is closely linked to rural livelihoods, with production output and marketing in the hands of a large number of different family units. It is influenced by a range of external factors including climate, and private investments. Thus it is problematic to separate the net effects of particular measures from the contextual environment (FAO, 2010; OECD, 2009).

Evaluating and measuring the impact of IFPPs, which fall under agriculture and rural development goals, are difficult tasks. As discussed in Chapter 3, the objectives of IFPPs are multifaceted, attempting to address a number of objectives simultaneously. This multifaceted aspect makes the evaluation of IFPPs' impact even more complicated and onerous.

Although IFPPs may have broadly similar objectives, they differ in the emphasis that is placed on these objectives. In Brazil, for example, PAA has nine specific goals (described in Box 2.1), including linking the public sector's demand for food reserves and food security initiatives to the development of access to markets for smallholders and rural enterprises. The programmatic emphasis is on access to markets for small rural actors. Similarly, WFP's objective is to "facilitate increased agricultural production and sustained market engagement and thus increase incomes and livelihoods for participating smallholder/low-income farmers" (see Box 2.3 on P4P goals and logic; WFP, 2012).

Based on the programme objectives and analysis of the IFPPs discussed in the previous chapters, important areas of impact and sustainability, which are discussed below, are primarily those with regard to participating farmers, FOs and farm enterprises, and the support provided to these actors during implementation.

The caveat to be highlighted here is that the discussion below is primarily founded on observations of field missions and an independent final evaluation in the case of P4P, and secondary data sources for the Brazilian cases. Findings emerging from M&E exercises for these programmes have been mostly qualitative or anecdotal because of the lack of quantitative and empirical data sets, baseline information and control groups (WFP and Oxford Policy Management, 2014; IPC and WFP, 2013). Box 6.1 gives a list of some of the qualitative

studies carried out to assess the impact of PAA. The following section indicates various trends identified and draws partial conclusions.

BOX 6.1 Impacts of PAA assessed through qualitative case studies

- Improvement in beneficiaries' nutrition and health, including not only food consumers but also family producers themselves (Delgado, Conceição and Oliveira, 2005; Vieira, 2008; Solução Consultoria and GTZ, 2010; Vieira, Faria and Rosa, 2010).
- Improvement in the quality of products (Soares, Barros and Magalhães, 2007; Sambuichi, Galindo and Oliveira, 2013).
- Transition towards higher added-value production, including processed products (Doretto and Michellon, 2007), and organic and agro-ecological production (Surita, 2004; Turpin, 2009).
- An increase in the level of technology used in production (Doretto and Michellon, 2007; Solução Consultoria and GTZ, 2010) and in the use of agricultural inputs (Chmielewska and Souza, 2010).
- Stimulus for local economy (ING interview; Chmielewska and Souza, 2010).

Source: Swensson, 2015.

6.1 Raising incomes through IFPPs – The ultimate goal?

Improving the welfare and livelihoods of small farming households through improvements from agricultural income and production is a primary and common objective running through programmes designed to link farmers to institutional buyers of food, such as WFP's P4P or Brazil's PAA. PNAE's primary objective is to improve access to nutritious food for schoolchildren, with a secondary objective of improving small farmers' income by linking the programme to local production, introduced as a result of a legislative reform in 2009 (see Chapter 2).

IFPPs share the same challenges in understanding and measuring the impact of agricultural income and production as all projects, or components of projects, that aim to improve farmers' income through enhanced market linkages. As indicated above, these challenges are mainly associated with attribution – how to attribute change in poor farmers' incomes and productivity to a project, when so many other external factors are at play. These factors include, among many others, climatic conditions and spillover effects from other interventions and projects, circumstances and skills of participating farmers (Winters, Maffioli and Salazar, 2011).

Overall qualitative evidence indicates positive impacts on production and income. Various studies[56] assessing the impact of the IFPPs in Brazil on a range of aspects, including impact on income and production, indicate positive trends for improvement in family farm income.

[56] These studies include, among many others, 24 case studies based on five regional projects that were carried out under an international cooperation agreement between MDS and FAO (Project UTF/BRA/064/BRA) to support the implementation and achievements of the Zero Hunger programme. The main results were published and analysed in PAAMG's Balance Evaluation of PAA Implementation, 2003–2010 and were used to analyse and identify the main challenges in implementation of the programme (FAO, 2015b; GGPAA, 2010).

However, these studies are primarily qualitative and therefore lack a strong evidence base to prove the impact (Grisa *et al.*, 2011; IPC and WFP, 2013).

Similarly, although P4P was designed to include comprehensive M&E to gauge the impact of the programme on income and productivity, among other areas, the system was scaled back because of the complexities of the programme. As a result, quantitative impact assessments have been carried out in only four countries – Ghana, the United Republic of Tanzania, Ethiopia and El Salvador. Survey tools measuring production and household income targeted only smallholder farmers with less than 2 ha of land. Of these countries, farmers participating in P4P with more land may well have increased their production but did not fall under WFP's M&E radar.

The P4P independent evaluation noted that the overall model of support to smallholders supplying WFP differed in sub-Saharan Africa. In Central America, the P4P teams employed more agriculturists who were able to provide technical overview and guidance to local service providers working with FOs. More pronounced on-farm and household results in Central America highlighted the significant role of technical assistance on the supply side to ensure trickle-down effects in IFPPs, particularly for those farming less than 2 ha.

In the design phase of P4P, a target increase of US$50 per household was set for smallholder farmers supplying WFP. Reports, country interviews and the overall perception shared by the P4P team and their partners indicate that smallholder incomes rose as a result of the opportunity to supply WFP. Between 2011 and 2013, reports in Ghana on P4P households show on average a 46 percent increase in real income, with similar observations made in Ethiopia (WFP and Oxford Policy Management, 2014).

The statistical data available for El Salvador, the United Republic of Tanzania and Ethiopia do indeed show increases in income. However, it is difficult to attribute these results to WFP and, when compared with counter factual data or comparable data for non-P4P participating groups, increases in income from agricultural production for the same period are also shown. Similarly, findings from appraisals of the Brazilian IFPPs imply increases in farm income, although there are contradictions in this regard and a lack of quantitative hard evidence to validate the claims. The literature is clear in affirming that more evaluation in different Brazilian contexts is needed before considering the impact of PAA as proven at national level (Grisa *et al.*, 2011; IPC and WFP, 2013).

Research carried out by the University of São Paulo (USP) and the Luiz de Queiroz School of Agriculture (ESALQ) under a Brazilian and FAO project supporting the implementation and achievements of the Zero Hunger programme,[57] assessed that the income among PAA participants in the Northeast Region of Brazil tended to be three times higher than among non-participants (USP/FEALQ, 2006; Sparovek *et al.*, 2007). The International Policy Centre for Inclusive Growth (IPC) and WFP note, however, that this is because not only do participants have an increase in income from sales to PAA but also because non-participants tend to be subsistence producers and consume most of their production (IPC and WFP, 2013).

Similar research using qualitative interviews carried out by the Federal University of Brasilia (UnB), under the FAO project mentioned above, also describe an increase in income for the South Region of Brazil. However, no evidence of increased income for the Northeast Region (Bahia, Pernambuco and Rio Grande do Norte) was found. Nevertheless, it is recognized that because of the qualitative method of research used, these data should be relativized and a more empirical follow-up is recommended to validate findings (Botelho Filho and Carvalho, 2006; Doretto and Michellon, 2007).

[57] Project UTF/BRA/064/BRA.

Apart from the more quantifiable impact of income and production yields, IFPPs also had other far-reaching and possibly more sustainable impacts on the overall livelihoods of small farmers, such as improvements in the capacity of farmers to target and serve markets beyond the immediate IFPPs. The following section describes the impact of IFPPs on farmer and FO capacity to access diversified market outlets, as well as other benefits.

6.2 Impacts beyond income

The goals of IFPPs reviewed here go beyond the objective of meeting public buyers' need for quality food, with broader development goals, including smallholder market access. Similar to the objectives of Brazil's IFPPs, which are in part governed by pillar II of the Zero Hunger programme on strengthening family farmers, the ultimate goal of the P4P initiative is to facilitate the engagement of smallholders in formal markets other than WFP, using WFP's demand for high-quality grain as a leverage for upgrading smallholder capacity.

Despite the lack of consistent methodology across programmes, there is an overall impression that the impact of IFPPs on the capacity of FOs has improved their ability to interact with markets outside the immediate programmes.

One case covering two municipalities of the Rio Grande do Sul state in Brazil noted that, as a result of participation in PAA, the planning and managerial capacities of FOs led to more strategic networking and engagement with new buyers (Vogt and Souza, 2009).

Through prioritization of access via formal organizations, the Brazilian IFPPs have led to the creation of new producer organizations formed, or reformed, with the aim of accessing the programmes and resources (Souza, 2012). As a result of participation in these FOs, farmers have been able to access IFPPs and, in turn, other formal buyers (Zimmermann, 2008; Grisa *et al.*, 2011; Santos *et al.*, 2012).

The spillover effects from IFPPs in Brazil have resulted in the creation of new markets for family farming products, contributing to the proliferation of local farmers' markets, which create a direct link between consumers and farmers (Sparovek *et al.*, 2007; Pandolfo, 2008; Vogt and Souza, 2009; Vannuchi and Reinach, 2012). In Rio Grande do Sul state in the south of Brazil, PAA farmers described an increase in demand for their produce in the local market, as a result of word-of-mouth publicity from PAA beneficiaries (Pandolfo, 2008).

P4P's final evaluation data from 16 countries showed that commodities sold to markets beyond WFP totalled more than 156 000 tonnes at a value of at least US$60 million (WFP and Oxford Policy Management, 2014). Table 6.1 taken from the Kenya case shows the contracted tonnes of grain sold each year by P4P participants to buyers beyond WFP. The case also highlights the importance of supporting farmers to target private sector markets beyond IFPPs. However, the availability and approval process for allocating public sector funding to programmes such as IFPPs can sometimes be erratic and slow. Because of their more reliable and regular demand, fostering diversified linkages with formal private sector markets should therefore be an important component of any IFPP.

TABLE 6.1 Volumes sold to buyers other than WFP in Kenya

Year	Contracted (tonnes)	Delivered (tonnes)	Quantities sold to markets other than WFP (tonnes)
2009	1 313	639	0
2010	12 914	4 199	3 736.87
2011	5 823	3 229	3 813
2012	1 409	902	3 448

Source: Kelly, Mhlanga and Kiio, 2014.

The case studies revealed that IFPPs cannot assume the presence of a sufficient number of private sector buyers willing to pay premiums for off-taking higher-quality surplus produce. The Tanzanian case found that, apart from WFP and the National Food Reserve Agency incentives for high quality, most large traders in the country buy early in the season when grains have a higher moisture content, to ensure sufficient volumes. This obliges them to own or have access to machinery for drying and cleaning the grain. Moreover, while food safety and hygiene standards exist across most countries, their lack of enforcement reduces the private sector's incentive to pay for higher-quality food commodities.

Similar findings on the diversification of markets were observed for the Brazilian IFPPs. The most evident case was the cross-fertilization between PAA and PNAE. Farmers upgrade their skills base by first participating in PAA, and then graduate to supply the more demanding PNAE market (Grisa *et al.* 2011; IPC and WFP, 2013; Santos *et al.*, 2012; Souza, 2012). This finding was validated by studies carried out over a three-year period by IPC and WFP showing that, after the introduction of the "30 percent minimum purchase from smallholder farmers" by PNAE legislation (see Box 4.1), municipalities already implementing PAA were between 10 and 13 percent more likely to have purchased from small farmers using PNAE resources (IPC and WFP, 2013).[58]

Appraisals[59] of the Brazilian IFPPs also show that the creation of reliable demand for diversified food commodities stimulated the diversification of production, which in turn created more commercial opportunities (Vogt and Souza, 2009, Sambuichi *et al.*, 2013).

A case in Paraná state in the south of Brazil also showed that, with the introduction of PAA, about a quarter of small producers interviewed cultivate new products, such as oilseeds, with one third having an increased cultivated area (Doretto and Michellon, 2007; Müller *et al.*, 2007; Agapto *et al.*, 2012).

[58] IPC and WFP data from the MDS Social Information Matrix at municipality level. According to their analysis, municipalities where PAA was implemented in 2009 were 12 percentage points more likely to have used PNAE resources to buy from smallholder farmers in 2010. The exercise was repeated using PNAE data for 2011 and 2012 and the research team still found this positive association, although the difference decreases from almost 13 to 10 percentage points.

[59] According to the publications, 29 studies on PAA were analysed, including various types of publications, such as papers, book chapters, monographs and Ph.D. theses, as well as case studies in a few municipalities with a regional or national range. The methodology adopted was mainly based on interviews. Of these studies, 72 percent pointed out diversification of production as an impact of PAA; 52 percent pointed out increased income, strength of FOs and an increase in food quality; while 48 percent pointed out increased volume of production.

Evidence provided is again for the most part qualitative, scant and sometimes anecdotal, based mainly on case studies and small surveys of between one to five municipalities (IPC and WFP, 2013). The lack of a common methodological assessment to be carried out across the country for both programmes makes it difficult to draw any real conclusions of the impact on farmers and local and national economies (Chmielewska and Souza, 2011; IPC and WFP, 2013).

6.3 Conclusions

Overall, the "anecdotal" sentiment of those involved in the implementation of P4P and IFPPs in Brazil garnered through participant interviews and testimonials collected during scoping missions and desk reviews indicates, for the most part, that improvements in productivity and farmers' income took place as a direct result of participation in IFPPs.

A 2012 WFP report quoted in the Kenya case study indicates that the general impression of those involved in the initiative was that "... the combination of the provision of these types of services, improvements in FO service delivery and linkages to other service providers such as financial brokers, and the opportunity of a reliable buyer such as WFP, have led to a rise in productivity yields by almost 3 percent more than non-participating P4P farmers" (WFP, 2012 in Kelly, Mhlanga and Kiio, 2014).

Ultimately, however, the main benefits that governments seek from IFPPs is their capacity to introduce small farmers gradually to near and familiar formal markets and eventually more stringent export markets. Public sector investment in upgrading small actors' capacities to supply large domestic public buyers also has potential spillover implications for the private sector, thereby contributing to the formalization of markets – a crucial component for transforming agriculture into a legitimate and competitive sector for poverty reduction and economic growth.

Potential access to markets beyond IFPPs is significant in terms of impact on producers' capacity to increase their income as a result of engaging in IFPPs with evidence, albeit qualitative, indicating that programme participants did use new-found capacities to diversify market outlets. As the excerpt from the Ethiopian case in Box 6.2 states, important but non-quantifiable contributions can have more far-reaching and sustainable contributions to development than short-lived increases in income.

BOX 6.2 Appraisal of the impact of P4P in Ethiopia

"More than in quantitative terms, the impact of P4P stands more on the grounds of: (i) demonstrating that it is viable to procure large volumes from smallholder producers; (ii) catalysing a business mentality change, by showing cooperative managers and members that they can earn more by improving quality standards and supply management and nurturing collective action; and (iii) linking cooperatives with financial institutions, creating trust among them and building a favourable credit record that would open the door for cooperatives to finance other future ventures."

Source: Gálvez-Nogales and Fonseca, 2014.

What is important to highlight here is not that linking smallholders to WFP yielded improvements in income and productivity, which it did, but that reliable and consistent M&E systems need to be put in place to monitor improvements and that reliable data are needed to guide learning on what works and what does not for IFPPs. Stakeholders and donors are nonetheless impatient to see concrete bottom line results for poverty reduction, which household income can demonstrate. However, development is evolutionary and the impact from agricultural programmes, including IFPPs, can be difficult to attribute.

7 Findings and recommendations: A framework for building an IFPP

This publication provides analysis and learning to inform the growing interest in linking institutional demand for food to local food production systems. The evidence base, derived from eight country cases and the juxtaposition of WFP's institution-wide programme with Brazil's nationwide programmes, has enabled a rich cross-comparative analysis. The analytical framework applied has revealed a number of possible policy responses to guide more efficacy in investments that use institutional procurement as an enabler in food systems development.

The findings analyse programmatic and institutional innovations developed to address the day-to-day constraints of matching large formal and often bureaucratically laden institutional demand to informal fragmented market systems. Many of the findings provide guidance that can be applied *ex ante* during the design and establishment of IFPPs; the analysis shows however that programme design and surrounding institutional processes need to be kept flexible enough to allow for evolution.

In the absence of a framework for designing IFPPs, an adaption of the analytical framework used here is proposed as a basis for the development and implementation of IFPPs. The adapted framework is organized around three interrelated pillars as shown in Figure 7.1.

Pillar I is reflected by the inner green circle in the figure which supports an ***appraisal of the enabling environment*** and, in particular, development economic agricultural and public procurement policies, addressing the alignment between policies and legislation, and their effectiveness in closing the gap between formal institutional systems and small informal market systems.

Pillar II is represented in the Figure by the blue and purple circular arrows reflecting the day-to-day constraints and opportunities that can occur when linking small farmers' supply to institutional demand.

Pillar III in the Figure shows four outer icons referring to ***four subpillars upon which to build an IFPP***. These include:

(i) well-timed programmatic funding flows critical to ensure that institutional demand is regular and reliable;

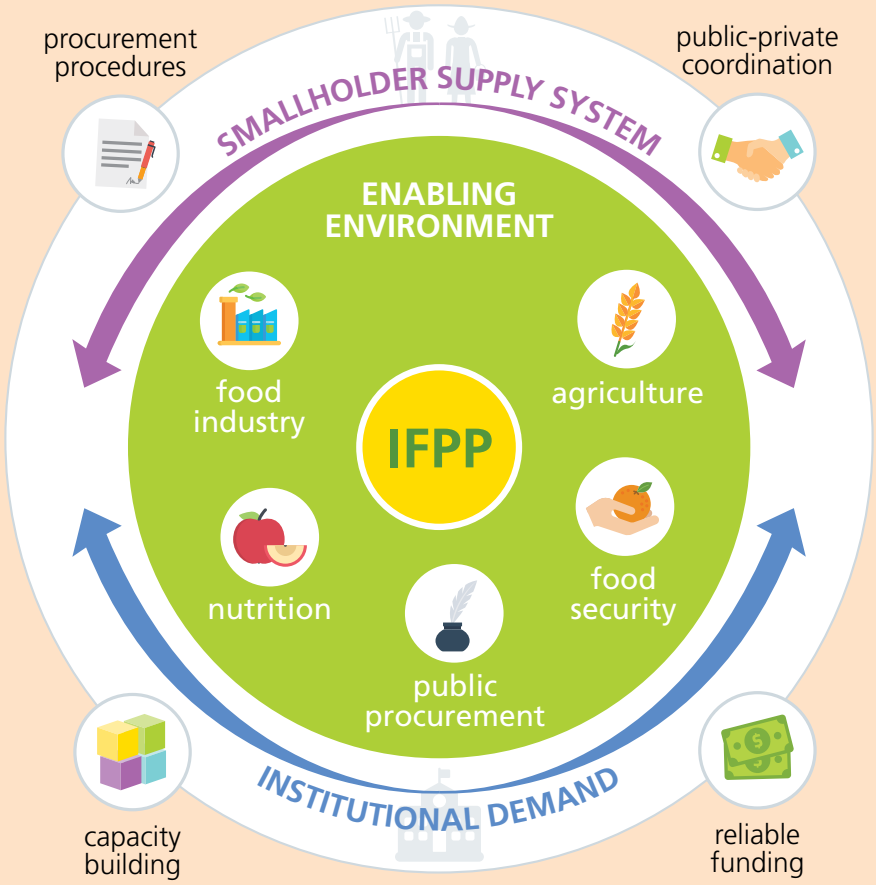
(ii) institutional procurement procedures and tools adapted to suppliers' capacities and programme goals;

(iii) capacity building strategy to help suppliers to comply with institutional buyers' needs; and

(iv) public-private partnerships and coordination mechanisms, intertwined with an M&E system.

The rest of this chapter discusses the rationale for the pillars cited, providing guidance on the types of activities required to achieve their objectives.

FIGURE 7.1 Proposed framework for IFPPs



Source: Authors' own elaboration.

7.1 Pillar I – An enabling environment for IFPPs

Pro-poor policies and aligned legislation, supported by a multisectoral coordination mechanism and improved programme design, accelerate IFPPs' ability to create a preferential linkage between small suppliers and public procurement

Pillar I of the framework refers to the presence of broader policies and aligned legislation that clearly articulate and activate the role of small rural actors in rural transformation, such as Brazil's legislation on family farmers or Africa's CAADP process. The analysis shows that such "inclusive" policies can accelerate an IFPP's ability to create a preferential linkage for small actors in public procurement policies.

The cases also show that a multisectoral mechanism improves the public sector's capacity to link IFPPs to ongoing relevant initiatives and vice versa, such as capacity building programmes for smallholders to improve production or the institutional capacity of FOs to aggregate commodities. For example, WFP was able to link its P4P initiative better

to ongoing partner and national programmes in countries with stronger multisectoral mechanisms, such as Rwanda or Ethiopia. In the absence of strong national coordination, internal investment would be needed within IFPPs to address this gap, discussed later under subpillar 4 of Pillar III.

Although the case countries did not always have legislation closely aligned with IFPP goals, or functioning multisectoral platforms, WFP was still successful in linking farmers to its institutional demand, but the implementation of efforts was clearly more cumbersome.

To reinforce the design of an IFPP, appraisals of broader agricultural and development policies and programmes, together with related legislation are therefore recommended. Core to this process are policies and programmes related to smallholder commercialization and FOs, particularly if the latter are envisaged as intermediary players in the programme. Additional important aspects of smallholder commercialization are the landscapes governing access to finance and investment, including financial infrastructure such as electronic banking and payment systems. Assessments of national food safety standards and the level of institutional enforcement are also required, as well as a review of services to post-farm infrastructure, marketing and logistics.

Careful examination of the all-important national procurement policy is central, including legislation and institutional processes to identify modifications required to align supply and demand. Section 4.3 emphasizes the role of centralized and decentralized systems and their implications for designing IFPPs, which need to be considered. Moreover, an evaluation of procurement funding and approval channels would highlight possible bottlenecks that might hinder a programme's ability to offer reliable and regular demand.

A comprehensive appraisal process enables a programme to do two things. First, it can identify reforms that a government may wish to consider to facilitate the implementation of an IFPP, such as overall rural transformation that is inclusive of small rural actors. Second, it can anticipate programme bottlenecks and enable ex ante design of innovative solutions.

7.2 Pillar II – Addressing barriers to inclusion

Emphasis needs to be paid to both the demand- and supply-side barriers to entry to an IFPP, which can be facilitated by focusing on innovative procurement reforms for demand and linkages to ongoing initiatives to support supply

Pillar II refers to the multifaceted nature of IFPPs in addressing a number of development goals simultaneously, making their design and implementation attractive for both governments and development agencies, albeit complex. Barriers created by constraints on the demand side include overt bureaucratic institutional processes and a lack of reliable funding, and on the supply side are caused by collective marketing difficulties or lack of access to storage and finance.

An important finding in the analysis is the need for adequate emphasis to be placed on both the demand and supply side of IFPP value chains. The cases clearly show that constraints are not just confined to small suppliers' capacities to respond to institutional demand, or to the bureaucratic processes and procedures of institutions, but to the mismatch between the two.

The extent of supply- and demand-side constraints, and a programme's ability to address them, will involve a range of legislative, policy, capacity, institutional and infrastructural issues. Designing solutions to address these constraints will therefore be heavily reliant on the existing enabling environment and an informed appraisal process, as discussed under Pillar I.

Central to addressing supply-side constraints is an internal programme coordination mechanism which, informed by the appraisals under Pillar I, will identify synergies and gaps with external programmes. Building on the analysis in Chapter 6 is the nuanced attention that a coordination mechanism needs to pay to targeting – ensuring that the groups supplying an institution are the same as those receiving capacity building support. Related to this is the need to customize ongoing training efforts to institutional demand.

Addressing demand-side barriers to inclusion will require an overhaul of institutional procedures and processes, the results of which can lead to a number of innovative small actor friendly procurement processes that can also be adopted by the private sector.

However, an important lesson from this analysis has been that the degree to which innovations can be put in place to activate a preferential linkage between procurement and preferred suppliers is highly dependent on procurement policy and legislative reforms, which also need to be translated into institutional policy and procedural reforms.

While Pillars I and II refer to the enabling environment and barriers to inclusion, Pillar III discusses the programmatic components of an IFPP.

7.3 Pillar III – Foundation blocks for an IFPP

Building an IFPP requires foundation blocks that focus on funding for reliable demand, small actor friendly procurement innovations, an embedded capacity building strategy and a coordination mechanism intertwined with M&E

Pillar III provides guidance on subpillars that are core to a functioning IFPP, covering funding; institutional procurement innovations; capacity building strategies for supply and coordination; and M&E. The contents of the subpillars of an IFPP will be guided by the context, goals, structure and starting-point of a programme. Those outlined are based on the IFPPs appraised here and are recommended for programmes aimed at linking small actors to institutional demand and local food systems.

Subpillar 1 on *funding* relates to the need to have a clear understanding of the amount and timing of programmatic funding available. Reliable funding sources are crucial for consistent, regular demand over a sustained period. Funding needs to be communicated to targeted suppliers, without creating false expectations which, depending on quantities, may have detrimental effects on local supply and demand and market elasticity. The findings show that central to availability of funding is coordination on institutional processes and approvals required for timely payments to suppliers. Under this subpillar, the design process needs to consider the long-term funding available for targeted outreach and the time needed for suppliers to transition to doing business independently through formal market outlets, including weaning out subsidies as programme objectives are achieved.

Although all programme activities require allocation of funding, this subpillar should prioritize assurances about funding for reliable demand, without which an IFPP would not be viable.

Subpillar 2 refers to *reforms and innovations* that the buying institution needs to comply with in order to procure from smallholders, many of which will be informed by the appraisals carried out under Pillars I and II. This will mainly mean changes to the tendering process, contract modalities, payments and transport arrangements. There are a number of innovative paths and ideas than could potentially be adapted by institutions, some of which have been tested by the programmes discussed in this paper. When training on new procurement

procedures, it is recommended that staff are sensitized to small actors' needs and traditional ways of doing business in the informal spot market.

Subpillar 3 refers to IFPP's *capacity building strategy* focusing on support to suppliers to comply with institutional buyers' needs. The appraisal in Pillar I, guided by the coordination mechanism referred to under subpillar 4 below, can provide linkages to ongoing initiatives that an IFPP can tap into, or gaps that need to be delivered by the programme or outsourced.

Institutions can compromise and make reforms on areas such as payment processes, contracts and transport but, as evidenced in the analysis, food safety standards need to remain the same for small and large suppliers. Consequently, much of the capacity building strategy will focus on ensuring high-quality food production and post-production. It needs to address access to finance, transport, storage and aggregation, as analysed in Chapter 6. Support for collective action among smallholders is also needed but the value of the role of existing players should not be underestimated or excluded. Support to the value chain should assess what is working in linking small actors to markets in general and build on these systems.

To reinforce programme sustainability and promote spillover benefits for the local economy, areas that cannot be linked to ongoing initiatives or addressed through direct provision of the institution, such as transport, warehouse management and training services should, where feasible, be outsourced to the private sector as discussed below.

Subpillar 4 relates to the need for IFPPs to have a sound *coordination mechanism* that links the programme to public and private sector partners, intertwined with an *M&E system*. As discussed in the analysis, programmes cannot assume that capacities will be built up by linking beneficiaries to related partner initiatives. Findings show that failure in the uptake of tools was not always a result of the suitability or design of the tools per se, but more a lack of coordination in their application. A coordination mechanism dedicated to ensuring that capacity building measures respond to the needs of institutions' demand can monitor that outreach is increasing or that the activation of tools, such as agricultural insurance or advance finance, coincides with the cropping seasons. Barriers to inclusion may not always be evident during programme formulation, requiring good coordination to address challenges as they inevitably arise. Coordination is also valuable for M&E systems to evaluate what does and does not work within the programme in order to report on impact and propose timely adjustments.

7.4 Final comments

The recommendations contained in the framework are based on consolidated learning from the IFPPs appraised. The cases show that, to a large extent, IFPPs learn and evolve based on ongoing adaptations to procedures and procurement innovations – circumventing "disabling" policy, legal and institutional environments in order to close the gap between traditional procurement and the realities of small poor rural farmers and entrepreneurs. This means that flexible approaches need to be embedded in the proposed pillars so that IFPPs can respond to the needs of demand- and supply-side clients, in addition to institutions' requirements and programme goals. Thus, programmes will be better equipped to extend outreach, be more inclusive of actors wishing to supply institutions and be sustainable once subsidies and support have been phased out.

To conclude, IFPPs are not only practical solutions to make linkages between institutional demand and local production but, more important, given the combined purchasing power of public and private sector institutions, should be conceived against their potential as conduits for the transformation of domestic food supply systems.

To achieve this, two goals should be at the forefront of the conceptualization and design of IFPPs. First is the role of IFPPs in catalysing policy and legal environment reforms, which place small farmers and small enterprises at the centre of agricultural modernization plans. Second is the need for programme design and implementation to be carried out in close consultation with partners in development and the private sector, to enable a rich cross-fertilization in tools and knowledge on food procurement norms. The nexus of these goals is crucial if IFPPs are to be sustainable drivers of rural transformation.

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Institutional food procurement programmes (IFPPs) refer to initiatives that are designed to link institutional demand for food to broader development objectives. In developing countries, IFPPs are increasingly viewed as approaches that facilitate the transformation of local food systems.

This publication shares lessons from the Purchase for Progress (P4P) pilot initiative of the United Nations World Food Programme (WFP), as well as Brazil's National School Feeding Programme (PNAE) and the public Food Purchase Programme (PAA), with insights on the policy and institutional reforms required for developing and implementing IFPPs. In analysing the needs and constraints of buying institutions and small suppliers, the publication also provides practical guidance on tools and capacity building priorities required to build strong IFPPs. The analysis culminates in a programmatic framework to help the public sector to shape and implement IFPPs.

This publication was developed by the Agricultural Development Economics Division and the Nutrition and Food Systems Division of FAO in collaboration with the World Food Programme.

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