

Pro-Smallholder Procurement

P4P Experiences in Systemic Change

Most smallholder farmers earn very little from their labour. When farmers work together through farmers' organizations (FOs), it provides them with an entryway into more formal markets, enabling them to earn margins for value addition and aggregation ordinarily captured by middlemen. Increasingly, quality buyers like WFP, are working to find the best ways of engaging in food procurement from smallholder FOs.

P4P and Procurement

Since 2008, WFP has been innovating procurement practices to better meet smallholder farmers' needs. Purchase for Progress (P4P) revolutionized WFP's procurement procedures to be more inclusive of smallholder farmers. Adaptations in WFP's business procedures were made to match smallholders' limited capacities, including purchasing smaller quantities, waiving performance bonds and competition, and leniency towards defaults and delays in delivery. While many allowances were made to enable smallholder farmers to participate in sales, WFP was unable to compromise on two counts: purchase price and crop quality and safety.

P4P has supported smallholder farmers to participate in sales to not only WFP but also outside buyers. The reputation of WFP as a reliable partner has boosted the confidence of farmers and all other stakeholders involved in the procurement process.

Highlights

- Farmers' organizations were the primary entry point for P4P procurement in order to incentivize smallholder farmers' to combine forces. When farmers work together in cooperatives or farmers' organizations, their combined efforts are not only able to deliver on the required quality and quantity, but they are also able to leverage their collective efforts to bargain for better prices.
- The different procurement modalities implemented under P4P have been key for enabling pro-smallholder procurements at WFP. WFP's engagement in pro-smallholder procurement has encouraged other buyers to do the same—in some cases seeking WFP's technical assistance to strengthen their own pro-smallholder purchasing procedures.



Achievements

- Through WFP's pro-smallholder procurement, P4P has seen smallholder farmers work collectively to produce and supply high-quality crops to big, formal buyers and gaining prices that make them confident to invest in their production.
- Between 2008-2014, **WFP procured over 480,000 metric tons of commodities** under P4P's smallholder-friendly procurement modalities.
- Procuring through smallholder-friendly modalities, enabled WFP to **realize savings of US\$42 million**.
- By developing smallholder farmers' and aggregators' capacities, defaults on contracts were reduced from **22 percent in 2010 to 5 percent in 2014**.
- National governments are implementing or developing public procurement initiatives based on P4P, with support from WFP in the design and implementation process.

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Stable demand and assured markets

- Demand must be stable and predictable. When farmers have a patient and assured buyer, they are confident to invest not just in the inputs they need to boost production, but also in strengthening the capacities needed to aggregate efficiently, such as crop processing and post-harvest handling systems.

Payment

- Farmers face immediate cash needs after harvest in order to support their families. Expediting payments as much as possible or supporting farmers' organizations with access to credit for paying their individual members upon delivery, are critical elements to be considered in designing pro-smallholder procurement models.

Participatory engagement

- Participating farmers should be engaged in discussions regarding contracts to ensure that their needs are being met and their unique knowledge of context-specific conditions is being taken into account. Consistently engaging and following up with aggregators can help foster trust, build understanding and support to address any potential challenges.

WFP internal processes

- WFP internal procedures have substantially shifted to accommodate a new way of working through pro-smallholder procurement. New procurement modalities, enhanced logistics support and more forgiving procedures have enabled smallholder farmers to participate in WFP procurement and to gain confidence and concrete ability as businesspeople.
- Pro-smallholder procurement can be time and labour-intensive due to internal systems created for larger procurements. WFP continues to innovate to strengthen and streamline these procedures. Enhancing collaboration between different units proved especially critical to address these issues.

Diverse crops for WFP

- WFP food procurement has traditionally focused on staple crops. Under the P4P pilot, efforts were made to diversify to other commodities, such as pulses and milk. These efforts have increased the participation of women farmers, as they are traditionally responsible for these commodities, and enabled WFP to enhance the nutrition component of its food assistance programmes.

Further reading

- Article: [Smallholder-friendly food procurement – P4P's experience](#)
- Article: [Empowering smallholders with innovative purchasing models](#)
- Article: [Sustainable Markets for Smallholder Farmers](#)
- Report: [Purchase for Progress Procurement Snapshot September 2008 – December 2014](#)
- Report: [Final Consolidated Procurement Report \(September 2008 – December 2013\)](#)



"I'm never going back to poverty", says David Tibo, a farmer in southern Ethiopia who turned his biggest ever profit within a year of participating in P4P. David says that taking his produce to the market used to mean getting cheated by local middlemen. But in 2009 when the farming cooperative he belongs to participated in P4P, they gained tools and the know-how to grow more crops and get better prices through bargaining. Now he's selling his corn for fair market prices to WFP.

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Reducing defaults

Smallholder suppliers may face challenges in delivering fully on formal contracts to large-scale, quality buyers. Defaults can occur due to a variety of factors, including limited supplier production and marketing capacity, price fluctuations, unpredictable or extreme weather and side-selling.

Across the P4P pilot countries, the default rate has steadily decreased over time. This downward trend in defaults is due to both improvements in FO capacity and in WFP's ability to carry out pro-smallholder procurement in ways conducive to the needs of both farmers and the organization. Over time, a variety of efforts were undertaken to mitigate defaults.

- To prevent unnecessary defaults, realistic contracts should be awarded based upon supplier capacity while taking into account commodity seasonality and availability.
- Disparity between contract price and market price has proven to be a leading cause of defaults. Therefore, accurate and flexible price determination, building FO capacity to understand prices and improving the availability of market information is key to preventing defaults due to disparities in price.
- To ensure FOs are able to produce and aggregate the contracted amount, significant investments need to be made in developing capacities, such as access to finance, post-harvest handling and transportation.
- Low crop quality has constituted a major cause of defaults. Investments in enhancing farmers' quality control, post-harvest handling skills and resources have helped reduce defaults due to quality concerns.
- Continuous, stable and predictable demand can reduce the risk of default. Repeated engagement with WFP through P4P procurement has shown to reduce defaults.

Case study: Rice Procurement in Liberia

One of P4P's greatest achievements in Liberia has been the building of trust among smallholders, enabling them to work collectively and take ownership of their businesses. Today, farmers' organizations function as businesses, with more timely deliveries and fewer defaults.

P4P, in collaboration with FAO, and the Ministry of Agriculture, supported smallholders to work together to rehabilitate lowland production areas. "Working in the swamps, which even had leeches in them, wasn't easy," recalls Danlette Dillon, the deputy chairlady of the Welekemei Rural Women's structure in Sanoyea. Despite difficulties, the group came together to prepare the swamp area for rice planting. The group then joined P4P and was able to deliver the full contracted amount of 35 metric tons (mt) (35,000 kg) in the 2013 procurement season.



Achievements

- **Defaults on contracts decreased** from 59 percent in 2008 to only 5 percent in 2014. The lowest default and the highest delivery rates were recorded in 2014, when 115,000 mt were delivered out of the contracted 120,000 mt.
- The overall P4P default rate for the period 2008-2014 remains below **16 percent**.
- Defaults due to quality concerns have decreased substantially over time. In 2014 only 0.5 percent of all contracted quantities were defaulted due to quality concerns.
- **Increased access to financial services** has been a key driver in reducing defaults, by helping farmers organizations fund aggregation.
- P4P contracts have built farmers' organizations' capacity to engage in formal contracts.