

5.17: LOCAL AND PUBLIC PROCUREMENT SCHEMES SPECIFICALLY TARGETING SMALLHOLDER FARMERS AND SMALL AND MICRO/SMALL/MEDIUM-SIZED ENTERPRISES TO PURCHASE FOOD WITH SPECIFIC CHARACTERISTICS (I.E. LOCALLY PRODUCED, PRODUCED BY WOMEN'S OR YOUTH COOPERATIVES, ORGANIC, SEASONAL)

Institutional Demand Driven Transformation – Leveraging local procurement for systemic value chain change

Procurement funds (from public and private actors) incentivize value chain transformation by providing a secure or facilitate market to smallholder farmers and small and micro/small/medium-sized (MSMEs) in the value chain. However, many such models fail due to challenges in the value chain (sourcing from farmers NOT already linked to markets, sourcing crops normally grown in small quantities and at local sale prices for a production line that depends on high consistent volumes, etc) and need to be complemented by in-the-value-chain interventions to address challenges that small actors face in engaging equitably with larger actors in local food systems. Consumers benefit by increased availability of safe and nutritious foods.

Shifting local value chains is an accelerating process, difficult at first due to needed skills, process and capital upgrading. However, spill-over effects and lower barriers lead to greater levels of investment for equitable, healthy and sustainable supply chains.

What problem is the solution trying to address?

Local food value chains are at the center of sustainable food systems, but they are often not fair, transparent, or sustainable. Profits and margins are not efficiently distributed, and the farmers (often with the least power in the chain) do not receive a fair share of the value produced.

Similarly, micro, small and medium-sized enterprises (MSMEs, which make up the majority of firms in the world and are responsible for a large portion of its employment) suffer high transaction costs, tight margins, and barriers to greater investment and scale. In the absence of assured markets, potential MSME entrants do not find returns attractive enough to enter the value chain. This situation prevents small farmers and value chain participants from improving their economic conditions and livelihoods, and ultimately hampers the development of sustainable food systems.

Finally, due to reduced functionality of supply chains and limited supply, consumers face higher prices and greater safety risks for nutritious food for healthy diets.

What, in brief, is the solution?

To systematize and scale institutional demand (public and private) and local procurement strategies (complemented by in-the-value-chain-interventions) to incentivize the transformation to more equitable, sustainable local supply chains.

Large buyers of food at the local level – both public and private – can leverage their purchasing power to strengthen local value chains (reduce risk, set standards, develop skills, and smooth transaction costs) and promote fair and transparent relationships among the different players.

Actors may deploy specific purchasing principles, criteria and tools to safeguard the interest of the weakest players along the value chain and strengthen their agency and bargaining power. These strategies maximize the multiplier effects of the funds injected in local economies by strengthening the resilience and capacities of smallholders and small and medium agricultural enterprises (SMEs) along the value chain.

What was/were the source(s) from which this solution emerged?

This solution emerged from the World Food Programme's experience with local and regional procurement. A corporate Policy approved in 2019 with the objective to leverage WFP's purchasing power – roughly US\$ 800 million per year – supports the development of fair and equitable value chains and increase the supply of nutritious institutional food in various contexts.

Why is addressing that problem important for achieving the goal of your working group?

Stable, institutional demand from governments and diverse organizations offer an opportunity to utilize funds for multiple resilience-building objectives. A guaranteed/facilitated market for smallholders and MSMEs is a game-changer that can trigger positive behaviour and business model changes to drastically transform the way the whole value chain works – while building resilience capacities (resources, knowledge, skills, network) to better withstand shocks in the future.

Demand-led development approaches (supplemented by supply-side value chain work) complemented by an enabling environment combines for a multi-level integrated approach to achieve equitable and sustainable food systems.

How can this solution address the problem?

Farmers and MSMEs in the value chain do not adequately benefit from local supply chains - they do not receive a fair profit share while simultaneously are forced to take a disproportionate share of the risk. Root causes for why value is not efficiently distributed include power dynamics, infrastructure issues, access to resources and information, and policies that are often not pro-farmer or pro-MSME.

The **input**: As a first step, a value chain assessment is needed to analyse the contextual and operational conditions of the value chain (including *who* forms the chain) and informs subsequent procurement strategies and complementary in-the-value-chain interventions. For many actors, a feasibility study and business case will also be necessary. The results of these analysis recommend two sets of actions:

1. Procurement Strategies, the large buyer deploys pro-SHF and pro-MSME contract modalities targeted to promote benefits to smallholder farmers and MSMEs (e.g. direct purchases from small farmers organizations or indirect contracts with local traders with sourcing requirements, and specific conditionalities such as minimum price, payment conditions or targeted groups)

2. Value Chain Interventions, a set of programmatic interventions to tackle the root causes of inefficiencies and support the long-term sustainability of the transformation (enabled by stable market access). Those interventions should be targeted at supporting the production of smallholder farmers, strengthening the capacity of other key value chain actors (farmers' organizations, traders, etc.) and improving the broader enabling environment of the targeted value chain.

Outcomes are achieved both at individual and system levels through interventions in the value chains to address the root causes of the identified inefficiencies.

At **individual level**, the value transmission to farmers and individuals working in harvest, production, processing and transportation improve. The volume and quality of the produce increase as well. This leads to an overall increase in the value of production and sales, which in turns leads to improved livelihoods, improved food quality and food security.

At **system level**, the interventions improve market performance of all value chain actors and enhance local markets functioning, food availability and quality. Associated with an increased private sector engagement, an overall improvement of the value chain efficiency is achieved.

With targeted interventions, issues of inclusiveness (leaving no-one behind), climate resilience and nutrition may also be addressed by incentivizing needed changes and working with actors to make the shift. Furthermore, farmers' agency and bargaining power are being strengthened throughout the process, a pivotal component for addressing both the root causes and building the exit strategy; that is, to guarantee long term sustainability of the results.

It has also been shown that farmers and MSMEs operate in several value chains with different buyers simultaneously. It is possible to harness the profits and skills learned from one value chain to other markets for greater livelihood opportunities. (Navas-Aleman, 2011).

Risks and challenges:

- Traceability and monitoring tools are necessary to provide the transparency required using pro-SHF and pro-MSME contract modalities. Putting in place these tools may be challenging in some contexts.
- The consequence of using the pro-SHF and pro-MSME contract modalities is that profits and margins will be redistributed. With that, resistance to change is expected from some of the players operating in the value chain.
- Strong partnerships are required to develop and implement the programmatic interventions. Once the value chain conditions are mapped, coalitions of multiple stakeholders must be built and kept operative in the long term.
- If planning and price determination of the local procurement is not adequately informed by market intelligence, there is a risk for local market distortion.
- Impact is not seen immediately. Entities need to plan for the medium and long-term.

Why does this solution align to the definition and criteria for a ‘game changing solution’ developed by the Summit?

This solution operates at the ecosystem level and improves food systems resilience by transforming prevailing conditions that are unfavourable to smallholder farmers and MSMEs, and ultimately impede the development of sustainable local food value chains.

It fulfils the three criteria for a game changing solution as follows:

- The potential impact is high as it can be adopted both by public and private sector buyers – WFP alone purchases roughly US\$ 800 million every year at local and regional level, mostly in low income countries.
- It is actionable because it improves the overall functioning of the value chains and potentially brings benefits to all value chain actors, from the final buyer to the traders to the farmers.
- Different from interventions that focus exclusively on the farmers, the integrated approach of this solution is intended to shift current conditions to a new state that is economically feasible to all value chain actors. The promotion of equitable agency power and trust among the actors underpin the exit strategy and hence the sustainability of the solution in the long run.

What is the current and/or likely political support for this idea?

Many donor countries show interest in the idea of using the organizational purchasing power to the benefit of local economies and local value chains. As an expression of this continued interest, the WFP’s corporate policy on Local and Regional Food Procurement (mentioned in item 2.3 above) was requested and approved in 2019 by the WFP’s Executive Board with strong support from all the state members. Since then, the Board has been closely following up on the policy implementation.

This solution is closely related to e-commerce, home-grown school feeding, gender empowerment strategies, and may also be included in a coalition of support.

Are there certain contexts for which this solution is particularly well suited, or, conversely, contexts for which it is not well-suited at all?

The highest impact for this solution be in low/medium income countries and in value chains that are long (large buyer does not have close connection with farmers) and loose (unstable and volatile connections among the players in the chain). Cereals, pulses and other staple foods in Africa and Latin America are typical chains of this kind. However, there are significant gains to be realized by considering this model for high-value horticulture and nutritious foods production.

This solution is not well-suited to conflict environments. Governance levels need to be strong enough to enforce contracts.

What do you think are the key actions required to address this solution?

The initial action is to fully understand the contextual and operational aspects of the considered value chain. For that, a value chain assessment is a recommended approach and can be performed either directly by the buyer or by a knowledgeable stakeholder such as a local academic institution.

If the buyer is a public entity, specific policies may be needed to regulate specific procurement conditions.

If the buyer is a private entity, long-term planning must be considered as impacts are not immediately seen.

In addition, programmatic interventions should be planned to address the identified value chain bottlenecks. At this point, a coalition of interested stakeholders becomes necessary depending upon the specific bottlenecks (infrastructure, food safety, training, etc) including the private sector players (including the buyers themselves), government institutions, academia and ideally with the participation of the local civil society.