Policy on local food procurement

SUPPORTING DOCUMENT

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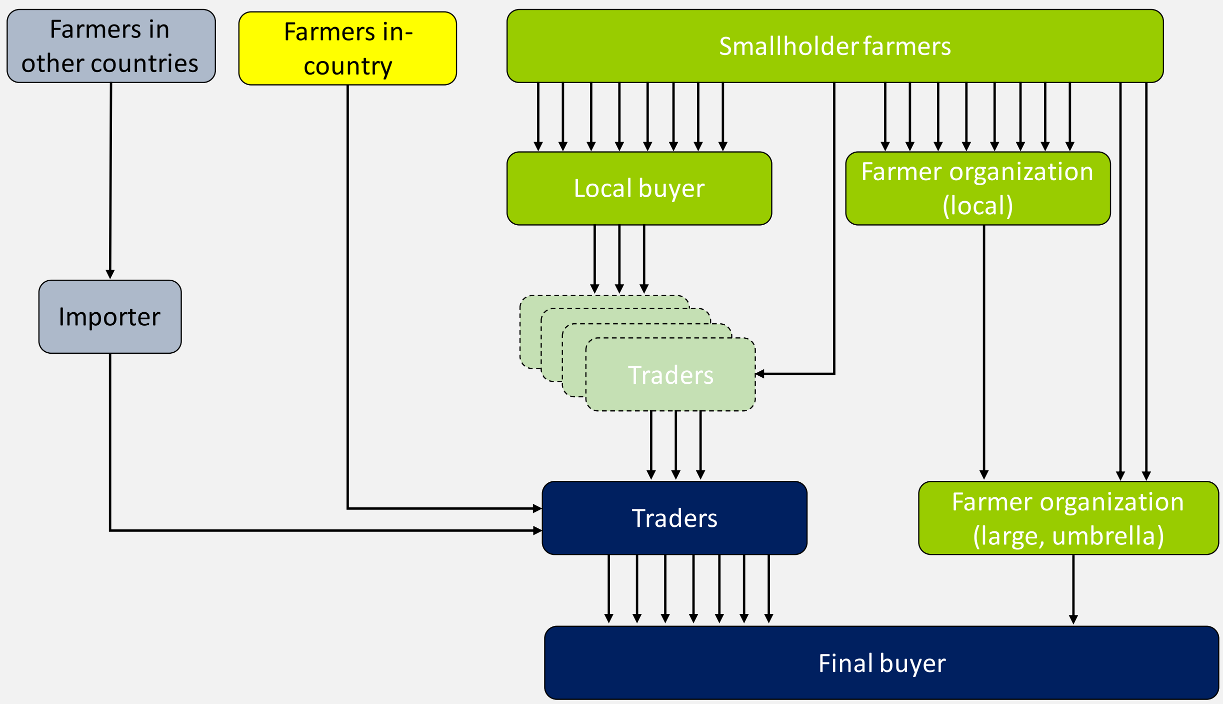
Value chain analysis: inefficiencies and imbalances

The figure below illustrates a generic value chain for different forms of local procurement. As a rule, moving through the value chain from original production to final buyer, each actor involved adds value to the final product, for example in the form of primary production, aggregation, food quality assurance, liquidity, transportation, storage or packaging. Accordingly, moving through the value chain aggregated tonnage, quality, and not least price, can be expected to increase.

Flow-charts for different options for local procurement



It is important to understand that inefficiencies and imbalances are different by nature and that each requires a different approach from WFP.

Efficient and inefficient value chains

In an efficient value chain, the various actors in the chain are well connected and informed, making operations efficient and ensuring that prices are not inflated by unnecessary costs of value chain actors. By contrast, an inefficient value chain forces various actors to incur unnecessary costs, leading to an unfair distribution of benefits such as a higher price passed on to the final buyer.

Among the most common reasons for value chain inefficiencies leading to unfair distributions of benefits is the lack communication and information exchange. As an example, when a final large-scale buyer does not inform the traders about its planned demand, the traders need to buy products and keep stocks in advance, waiting for the demand to come, and the amount that they buy may exceed the demand when it finally materializes. The risk level for such traders – both operational and financial – is quite high, and the cost is ultimately transferred to the final buyer as additional price. In an inefficient value chain, prices are unnecessarily high without any actor benefiting at the expense of another.

In an inefficient value chain, all players can be expected to benefit from improvements and a higher level of cooperation. To that end, WFP can accompany local procurement with interventions aimed at reducing identified inefficiencies, for example by fostering communication and coordination among the actors, by promoting transparent market environments and by supporting governments and other public buyers in improving their procurement practices, in particular with respect to updated market prices.

Balanced and imbalanced value chains

In a balanced value chain the various actors have equal access to relevant information and a comparable level of alternative customers and suppliers. In addition, in a balanced value chain different actors have similar choices concerning the timing of sales and purchases. In such value chains the distribution of profits is well balanced among the players, providing them with reasonable returns that reflect the investment that each of them has made or the value that each has added to the product. Where value chains are imbalanced, by contrast, the distribution of profits often does not reflect the value added by each actor. Typically, returns are higher for the actors that are closer to the final buyer. This means that farmers and smallholder farmer organizations are usually those receiving the lowest profits proportional to the value they add. In a balanced value chain, the connecting point for WFP is not that relevant: a contract with a farmer organization will hardly affect smallholder farmers more positively than a contract with a trader, because the funds injected into the economy will be fairly distributed through the value chain.

By contrast, in imbalanced value chains it is more challenging for WFP to positively influence the market and food systems; at the same time, however, they present the highest potential benefits for smallholder farmers where pro-smallholder-farmer procurement is practiced. In an imbalanced (but otherwise efficient) value chain, higher benefits for farmers will mean lower benefits for other value-chain actors – unless WFP decides to compensate traders to offset the imbalance. WFP should therefore expect these actors to resist participating in pro-smallholder-farmer procurement, and a corresponding degree of force and control may be required. For example, if WFP establishes that a certain share of its purchases is earmarked for pro-smallholder-farmer purchases, the traders will have to follow the rules (and document that the food they sell to WFP was bought at fair prices from smallholders) if they want to continue doing business with WFP.