



Leveraging institutional food procurement for rural transformation

Institutional Food Procurement Programmes (IFPPs)

Each year, institutional buyers – including schools, food reserve agencies, hospitals and food aid organizations – procure vast amounts of food worth billions of dollars. These buyers potentially offer close-to-home markets for small farmers and enterprises. Governments are increasingly interested in leveraging public institutional demand to support the engagement between small rural food enterprises and buyers in higher value markets.

However, a number of constraints can hamper the implementation of institutional food procurement programmes (IFPPs) and their role in rural transformation.

The “mismatch” between state institutions and small rural enterprises

One of the main challenges facing IFPPs is the conflict between the *modus operandi* of informal rural enterprises and the rules of doing business with formal state institutions. Procurement systems designed for public institutions are regulated by procurement laws, with procedures developed to protect the state and institutions against waste and fraud. Such procedures tend to be complex and bureaucratic, and are typically designed to cater to enterprises that are formally registered in state systems.

Conversely, small farmers and other small rural enterprises are traditionally linked to markets through informal trading systems, and are accustomed to “cash in hand” on delivery at the farmgate. These markets have few requirements in terms of quality standards and quantities.



KEY MESSAGES

- ▶ Institutional Food Procurement Programmes (IFPPs) can foster inclusive business between small rural food enterprises and state institutions.
- ▶ However, a mismatch between the *modus operandi* of state institutions and the informal status of rural enterprises may hamper the implementation of these programmes.
- ▶ Effective IFPPs will require reforms to public procurement procedures including laws that create preferential access for targeted groups; and capacity building to address the mismatch between actors.
- ▶ Flexible contractual arrangements and speedier payment systems are key to the participation of informal small players in these programmes.

A framework for setting up effective IFPPs

Figure 1 provides a framework for setting up effective IFPPs. Four recommendations may serve to overcome the identified mismatch in institutional food markets:

1. Appraise public procurement policies and laws to identify policy reforms and contingency plans

Public procurement legislation typically governs the procurement of food from large food traders or agro-processors. New legislation that formally recognizes atypical suppliers, such as farmer organizations, may be required in order to operationalize procurement between state institutions and small rural food enterprises. For instance, in 2006 Brazil introduced a law which recognizes ‘Family Farmers’ as formal actors, thereby facilitating business between small rural

food enterprises, their organizations and state institutions and programmes. Setting targets for government food procurement spending to be awarded to small enterprises can also be key in the actual implementation of IFPPs. In 2012 Kenya reformed its law on Access to Government Procurement Opportunities stating that 30 percent of all government procurement spending must be awarded to micro- and small enterprises, including those owned by women, young people or people with disabilities.

2. Uncover procedural bottlenecks in institutions' ways of working

To strengthen an institutional buyer's capacity to do business with small enterprises, a review of institutional procedures needs to be conducted to uncover bottlenecks. Critical areas of reform typically relate to tendering, contracts and financial systems that may require institutions designing more flexible contractual arrangements. Measures nonetheless, still need to safeguard an institution's integrity on areas such as food safety, financial transparency and 'value for money'. Other reforms may include accelerating payments to farmers, and changes to transport procedures in order to allow contracting of smaller off-road trucks to access isolated farmers' organizations.

3. Carry out appraisals of IFPPs value chains to identify all actors involved in moving farm produce to institutional markets

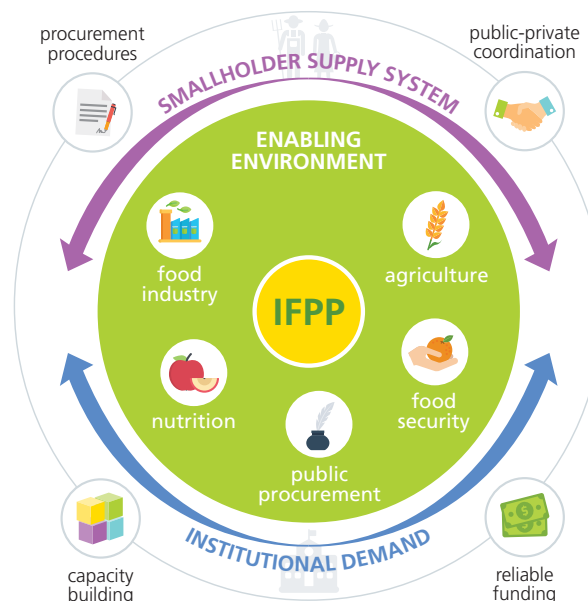
A common goal of IFPPs is to strengthen the capacity of farmer organisations to respond to the demands of institutions. To foster value chain coordination, other actors responsible for moving farm produce to institutional markets should also be included in programme planning and activities. For example, bringing together traders, agro-dealers, agro-processors and farmers in trainings can catalyse partnerships, while also ensuring that the value created from capacity-building with smallholders is not lost when produce moves to the next actor in the chain. A value chain-appraisal of IFPPs should help to identify all the actors to involve.

4. Partner with initiatives that strengthen smallholder-market linkages

IFPPs can tap into ongoing national and donor initiatives already engaged in strengthening small rural enterprises' linkages to markets. The World Food Programme's Purchase for Progress initiative has been careful to partner with a range of public and private sector actors to build the capacities of farmers to supply the procurement institution. Coordination is key to ensure that trainings for rural enterprises and farmers are tailored to the needs of buyers. Evidence shows that if small enterprises can respond to institutional demand,

they will also have the capacity to serve higher value markets beyond state institutions.

FIGURE 1.
A framework for Institutional Food Procurement Programmes



Source: FAO, forthcoming. *Leveraging Institutional Food Procurement for linking small farmers to markets: Findings from WFP's and Brazil's food procurement programmes*. FAO Agricultural Development Economics Technical Study 1. Rome.

Figure 1 presents a framework to support the development of programmes that link institutional demand to small rural enterprises.

Pillar 1 is reflected by the inner green circle supporting enabling environment assessments that gauge the effectiveness of policy and legislation to implement IFPPs (Recommendation 1).

Pillar 2 shows the blue and purple circular arrows that reflect institutional demand meeting small farmers supply supported by tools that address the day-to-day constraints of linking supply and demand (Recommendations 2, 3 and 4).

Pillar 3 is represented by the four outer icons referring to funding, institutional procedures, a capacity-building strategy and a coordination and monitoring mechanism reflecting the organizational management pillars of an IFPP.

As such, Pillars 1 and 2 inform and support programme design while Pillar 3 focusses on programme management, implementation and learning.