



Food and Agriculture  
Organization of the  
United Nations



# **STRENGTHENING SECTOR POLICIES FOR BETTER FOOD SECURITY AND NUTRITION RESULTS**

## **Public food procurement**



This policy guidance note represents the continuation of a series of eight policy guidance notes that were jointly produced by the Food and Agriculture Organization of the United Nations (FAO) and the Directorate for International Cooperation and Development

(DEVCO) of the European Commission, to boost food security and nutrition, sustainable agriculture and resilience. This, and subsequent notes in the series are the sole creation and responsibility of FAO and cannot be considered as a product of any other organization. This policy guidance note was written by Ana Miranda and Israel Klug, with contributions from Maya Takagi, Jamie Morrison, Diana Carter and Esther Wiegers. The authors are thankful for the comments provided by Cristina Scarpocchi, Ervin Prifti, Florence Tartanac, Lorena Braz, Luana Swensson and Siobhan Kelly, and for the technical exchanges with Andrew Howe and Ryan Nehring.

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# STRENGTHENING SECTOR POLICIES FOR BETTER FOOD SECURITY AND NUTRITION RESULTS

This policy guidance note is part of a series that the Food and Agriculture Organization of the United Nations (FAO) and partners are producing to support policy makers address the food security and nutrition situation in their country. Each note provides guidance on how to sharpen the focus of sector policies in order to achieve sustainable food security and nutrition outcomes.

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# Introduction

Public procurement has been commonly used as a tool to pursue social, economic and environmental outcomes. Governments in all parts of the world use their market power to drive different policy goals. In a similar vein, public food procurement can also be an instrument to foster agricultural development by directing government food demand to domestic suppliers, particularly smallholder farmers. Most rural households in the developing

world are smallholders who rely on agriculture for their livelihoods. Poverty, food insecurity and malnutrition still concentrate in this group. Strengthening smallholder livelihoods is thus key to poverty reduction and agricultural development.

Increases in production, productivity and diversification, as well as non-farm activities, social protection and nutrition-specific interventions, play an important role in improving rural households' wellbeing. However, expanding smallholder market access is also crucial to poverty alleviation and food security as agriculture still represents the most important source of income



## Key messages

- The significant size of government food purchases can be used to drive goals related to improvements to smallholder livelihoods, food security and nutrition.
- Public food procurement can provide an accessible market channel to smallholder farmers by reducing risks and uncertainties involved in market participation.
- The income derived from participation in public food procurement markets can complement other livelihood strategies, enabling farmers to raise household food production and consumption.
- Synergies between public food procurement, food security and nutrition can be further promoted when government purchases from smallholders target commodities that address the nutritional requirements of vulnerable populations.
- Public food procurement initiatives directed at smallholders must create specific food procurement processes that give

- farmers preferential access to public food markets and reduce the bureaucracy and costs involved in their participation.
- Women should be specifically targeted by public food procurement initiatives through preferential access to public food markets, targeted agricultural interventions and procurement of "women's crops".
- Government food baskets for food assistance must be designed to reflect smallholder production while meeting the nutritional needs of target groups.
- Public food procurement from smallholders must be closely coordinated with capacity development strategies so as to ensure that farmers can respond to increases in demand and higher food quality and safety standards.
- Cross-sector coordination and specific multistakeholder arrangements for implementation are crucial to ensure synergies among public food procurement, agricultural interventions and food security and nutrition strategies.

among the rural poor, who are typically net food buyers and also rely on their agricultural income to meet their food needs. Nonetheless, smallholder market access is often hampered by significant constraints, high levels of risk and vulnerability to shocks. Public food procurement can provide an accessible market channel for improving incomes, food security and nutrition as well as fostering positive spill-over effects in rural communities.

Several governments are now implementing initiatives that aim to target public food procurement at smallholder farmers with a view to strengthen rural livelihoods and promote food security and nutrition goals. Despite the expansion of these programmes, research on their impacts in terms of food security and nutrition as well as improved farm incomes remains rather limited. Nevertheless, it is possible to draw important lessons from countries' experiences in this area. This guidance note will provide a stepwise approach to guide the design and implementation of public food procurement programmes based on best practices found in the existing literature (Miranda, 2018). It will focus on ways to foster stronger links between public food procurement, smallholder livelihoods and food security and nutrition.

## Purpose of this guidance note

The purpose of this guidance note is to provide support to stakeholders in the design and implementation of public food procurement initiatives that aim to facilitate food purchases from smallholder farmers.

The guidance note will give answers to the following overarching questions:

- How can public food procurement contribute to improvements to smallholder livelihoods, food security and nutrition outcomes?
- What are the main challenges involved in procuring food from smallholder farmers?
- What are the key strategies and interventions needed to promote smallholder participation in public food procurement?
- How can synergies with other policies and programmes be promoted to strengthen the impact of public food procurement on food security and nutrition outcomes?



## Background

### **Public food procurement: strengthening smallholder livelihoods, food security and nutrition through government food purchases**

In developing economies, public procurement of goods and services accounts for 50 percent or more of total government expenditure, representing between 15 and 20 percent of gross domestic product (World Bank, 2015). In high-income countries, public procurement is equally significant, reaching on average 12 percent of gross domestic product and about 29 percent of total government spending (World Bank, 2015). The large size of government purchases gives public procurement the power to influence markets and regulate market players. Given its power, public procurement has been used to serve different policy goals, ranging from economic development such as job creation, innovation, and industrial development to environmental sustainability and social inclusion (McCrudden, 2007; Arrowsmith, 2010; FAO, 2015).

Most countries in the world seek to advance social, economic, political or environmental benefits through their public procurement practices. In Europe, this strategy was first implemented in the 19th century when Belgium, France and the UK sought to improve employment conditions and secure a minimum wage for workers by stipulating specific clauses in government contracts. Likewise, public procurement has been used as tool to enforce racial equality and non-discrimination legislation in the Canada, South Africa and the USA. Countries in Africa, Europe and Latin America have also used it to promote the economic inclusion of women, disabled persons, and indigenous peoples and other ethnic minorities (EC, 2010; Rozenwurcel and Drewes, 2012; Quinot, 2013).

Public procurement has also been widely adopted as a way to encourage the development of the small and medium enterprise (SME) sector in all regions of the world (Quinot, 2013; Nyeck, 2015; DCED, 2017; OECD, 2017). The USA has one of the largest and most comprehensive schemes in this area, instituted in 1953 under the Small Business Act. Furthermore, public procurement has been commonly used to promote green products and services supporting environmental goals (EC, 2008a; OECD, 2015). The Global Review of Sustainable Public Procurement by the United Nations Environment Programme found that 41 different countries had sustainable public procurement provisions in their policy and/or regulatory framework (UNDP, 2017).

The wide range of policies described above highlight the potential of public procurement to support the achievement of social, economic and environmental objectives. Governments have shifted from a narrow focus on cheapest prices to a concern with achieving the optimum combination of price, quality and development outcomes.

In this context many countries are also aiming to link government food purchases to domestic food production so as to promote social, environmental and economic benefits. Governments generally make large food purchases for food assistance, hospitals, schools, nursing homes, prisons, the military, etc. Because of its sheer value, public food procurement can also be used to drive different policy goals.

In the European Union, for example, government food procurement is used to promote environmental goals by targeting foods that generate lower greenhouse emissions and favouring short supply chains (EC, 2016). Government food purchases have also been used to expand SME growth in the food sector (DEFRA, 2014). Public food procurement strategies to boost rural economies, promote agricultural development and improve food security and nutrition can be found in both developing countries and high-income economies (Morgan and Sonnino, 2008, 2010). In the USA, the



Farm to School Programme aims to make purchases from local producers and suppliers for school lunches in order to support the farming sector and increase consumption of fresh foods at schools (USDA, 2015). In India, the Public Distribution System seeks to promote food security in the country by procuring food grains and distributing them to poor households through food subsidies and in-kind transfers (Bhattacharya *et al.*, 2017).

Several governments are also adopting public food procurement as a tool to strengthen smallholder livelihoods. Food purchases have been specifically targeted at smallholder farmers in order to provide a market channel and a source of income to producers. In addition to supporting smallholder livelihoods, public food procurement can also promote positive nutrition outcomes on dietary diversity when food purchases also target more diverse and healthier foods (NPLAN, 2011; Ruel and Alderman, 2013; Niebylski *et al.*, 2014; Caldeira *et al.*, 2017). These foods can be procured from smallholder farmers, improving household availability and access to food from own production (Ruel and Alderman, 2013), and distributed through different food assistance strategies, expanding availability of and access to diverse food in the targeted populations (Drake and Woolnough, 2016).

There are many examples of public food procurement initiatives that aim to generate positive impacts on smallholder livelihoods, local economies and food security and nutrition. In Latin America, for example, these can be found in Brazil, Bolivia, Guatemala, Honduras and Paraguay. In Africa, they can be found in Burkina Faso, Ethiopia, Ghana, Kenya, Rwanda and Senegal. Public food procurement from smallholders is in most cases linked to food assistance strategies such as Home Grown School Feeding (HGSF)<sup>1</sup> and food reserves.

The potential of public food procurement to generate positive effects on smallholder livelihoods has also been highlighted by international institutions.

<sup>1</sup> HGSF constitutes a school feeding model that is designed to provide children in schools with safe, diverse and nutritious food, sourced locally from smallholders (Home Grown School Feeding Resource Framework, 2018). Available at: <http://www.fao.org/3/i8724en/i8724EN.pdf>

### Box 1

### Public food procurement in Brazil

In 2003 the Government of Brazil created the Food Purchase Programme (PAA),<sup>2</sup> which aims to procure food from smallholder farmers for food assistance strategies. Within the national family farmer category, the PAA prioritizes the most vulnerable producers and farmer organizations such as women, land reform settlements, indigenous peoples and Quilombolas.<sup>3</sup> Subsequently in 2009, the Government also instituted the national school feeding legislation (Law no. 11947/2009), which states that 30 percent of food purchases for school feeding must be procured from family farmers. Together, the PAA and school feeding programme (PNAE) constitute one of the largest public food procurement initiatives from smallholders in the world. Between 2003 and 2013, the programmes purchased 3 million tons of food from over 200,000 smallholder farmers (IPC-IG, 2013). The PAA and PNAE programmes are not only conceived as measures to improve smallholder farmer incomes and the nutritional status of vulnerable groups, but also to support local economies.

<sup>2</sup> <http://www.mda.gov.br/sitemda/secretaria/saf-paa/sobre-o-programa>

<sup>3</sup> Quilombolas are communities of descendants of Afro Brazilian slaved people who escaped colonial slavery.

HGSF is being promoted by the African Union through the Comprehensive Africa Agriculture Development Programme. The Community of Latin America and Caribbean States (CELAC) has made commitments to promote public food procurement from smallholders and included specific actions in the CELAC Plan for Food and Nutrition Security and Eradication of Hunger 2015.



**Box 2****Public food procurement definition**

Public Food Procurement refers to initiatives that aim to provide a market channel to smallholder farmers by removing key barriers to entry in public food procurement markets.

The Committee on World Food Security 2016 policy recommendations<sup>4</sup> also include actions to promote links between smallholders and public food procurement.

The World Food Programme (WFP), in collaboration with national governments, also includes HGSF as part of its food assistance strategies. A total of 46 countries have a WFP-supported HGSF programme. In addition, WFP has implemented the Purchase for Progress Programme (P4P), which combines food purchases from smallholder farmer organizations and agricultural support interventions to strengthen livelihoods and improve food security in rural communities.

Given national governments' pledges to implement or scale up food procurement initiatives, it is crucial to better understand their potential to foster synergies between rural livelihoods and food security and nutrition and, importantly, how these novel strategies can successfully procure a diverse food basket from smallholders.

<sup>4</sup> CFS 43, 2016. Connecting smallholders to markets, Policy recommendations. Rome. Available at: <http://www.fao.org/3/a-bq853e.pdf>

**Public food procurement conceptual framework**

Smallholder agriculture is still a key source of income and food security in most of the developing world (Davis *et al.*, 2017). Nonetheless agriculture remains predominately a low-return and highly risky activity (Poulton *et al.*, 2006). Despite recent gains in poverty reduction, most of the poor are still concentrated in rural areas and earn a living from agriculture.

The need to increase smallholder agricultural production and productivity as a means to address poverty and food insecurity has been widely recognized by governments and international institutions. However, the importance of expanding smallholder market participation should not be understated. Smallholders can benefit from greater engagement with markets both in terms of increased output for sale as well as access to inputs and services. Despite these potential benefits, a great proportion of farmers in developing countries still remain in semi-subsistence farming systems.

In most of the global South, agricultural commercialization takes place under a series of constraints that generate risks and high transaction costs. These factors limit smallholders' ability to invest, take advantage of new market opportunities and raise their incomes. Risk and uncertainty involved in market participation is a major source of transaction costs (Ellis, 1993; Key *et al.*, 2000). High transaction costs help to explain why smallholders may not always respond to increases in demand and price rises (de Janvry *et al.*, 1991; Delgado, 1999). Vulnerability to risk and the high costs of transaction are thus key determinants of the forms of agricultural production and marketing that smallholders engage with (Poole, 2017).

When market transactions occur under a high degree of uncertainty, they can become very costly for farmers. Greater market participation can lead to more uncertainty as the safety of subsistence is replaced by the insecurity of unstable markets and adverse price conditions. Selling to markets entails obtaining information on prices, identifying a suitable buyer and negotiating the terms of the exchange, while having little certainty on the outcome of

market transactions. Many of the markets where smallholders operate are volatile, exposing farmers to price risks. Households have unequal initial endowments, access to finance and information, and therefore the costs and returns from market participation vary greatly among them (Delgado, 1999). In order to avoid risks, smallholders may limit their market engagement, especially in formal markets with more stringent requirements (Ellis, 1993). In other cases, farmers may opt out of these formal markets altogether as transaction costs outweigh the benefits of market participation (Ellis, 1993). Subgroups of smallholders such as women, ethnic minorities and farmers in very remote areas are particularly vulnerable to risks.

The numerous constraints involved in market participation can generate adverse effects on household income and food security. The high levels of risk often deter farmers from making investments in improved technologies and cultivation techniques as well as diversification strategies. Hence, risk and uncertainty in agricultural markets undermine productivity gains, agricultural growth and the livelihoods and living standards of the poor.

Public food procurement can address some of the risks and uncertainties involved in market participation. Public procurement markets are not in themselves more favourable to smallholders than other formal markets are. However, governments have the ability to shape their procurement processes in order to facilitate smallholder engagement with public food markets. The State can be a powerful market player not only because of the size of the demand but also because it has the power to define how it will purchase goods and services. Governments are thus able to provide more certainty around market access and the terms of exchange, creating a more favourable market channel to smallholders.

Public food procurement can therefore provide an accessible market channel and a source of income to farmers, promoting their engagement with markets. Market access and a source of income allow smallholders to make investments in production and productivity as well as raise household welfare. This in turn

can generate positive impacts on livelihoods, food security and nutrition. These outcomes are of course multidimensional and depend on policy coherence between public food procurement and interventions in other sectors, including agriculture, nutrition and social protection.

The synergies between public food procurement, poverty reduction, food security and nutrition can occur through the following pathways:

- **Increases in household consumption** – source of income enables households to increase expenditure on food and buy more diverse food baskets;
- **Increases in production** – source of income allows farmers to invest in productive assets, raising production and increasing availability of and access to food;
- **Reducing negative coping strategies** – source of income can minimize negative coping strategies such as reducing household food consumption, while investments in production can reduce vulnerability to risks such as crop failure and livestock diseases.

These synergies can be further promoted by linking purchases from smallholder farmers to nutrition interventions and food assistance strategies that aim to improve dietary diversity and quality in vulnerable communities. Naturally, this requires food security and nutrition policies that aim to achieve these specific goals. This link not only provides a market and a source of income to farmers but also generates positive effects on nutrition and food security outcomes at the household and community levels through the following pathways:

- **Production diversification** – increases in demand for diverse foods provide incentives to farmers to diversify production and encourage household dietary diversification;
- **Increases in access to and availability of more diverse foods** – food assistance programmes expand access to better and more diverse foods through their food distributions, while smallholder production diversification expands the availability of different foods in local markets.

The impact of public food procurement on smallholder market access and resulting improvements in income, food security and nutrition depend on a number of factors. Chief among these is the careful design of the procurement rules, procedures and contracts that guide food purchases from smallholder farmers (Brooks *et al.*, 2014; FAO, 2015; Nehring *et al.*, 2017; Kelly and Swensson, 2017) and, in particular, the ability of public procurement initiatives to reduce risks and uncertainty, remove barriers to entry and offer incentives for market engagement.

Market participation and its positive impact on household income and food security is also heavily influenced by households' productive efficiency, which in turn depends on labour supply, access to assets, infrastructure and finance. Market functionality is also key, as it determines the costs of production, competition levels, prices and price volatility. Hence agriculture interventions that help to address constraints such as limited access to land, water, inputs, services, technologies and infrastructure are crucial to the participation of farmers in public food markets.

Importantly, the impacts of public food procurement on enhanced household nutrition and dietary diversity are also dependent upon a number of factors. The nature and scale of the government food demand reflect the goals of food security and nutrition policies. Therefore, when food security and nutrition interventions aim to diversify diets, then public procurement will increase the demand for different foods such as fresh vegetables, fruits and pulses, promoting diversification. Conversely, if food security and nutrition programmes aim to increase access to and availability of staples, then the increase in demand will be restricted to these crops and the synergies with food security and nutrition will concentrate on pathway numbers one, two and three.

It is important to highlight that production diversification will also depend on capacity development interventions and investments targeted at smallholders that help to address constraints that prevent them from diversifying production. Food baskets must also be compatible with smallholder production systems

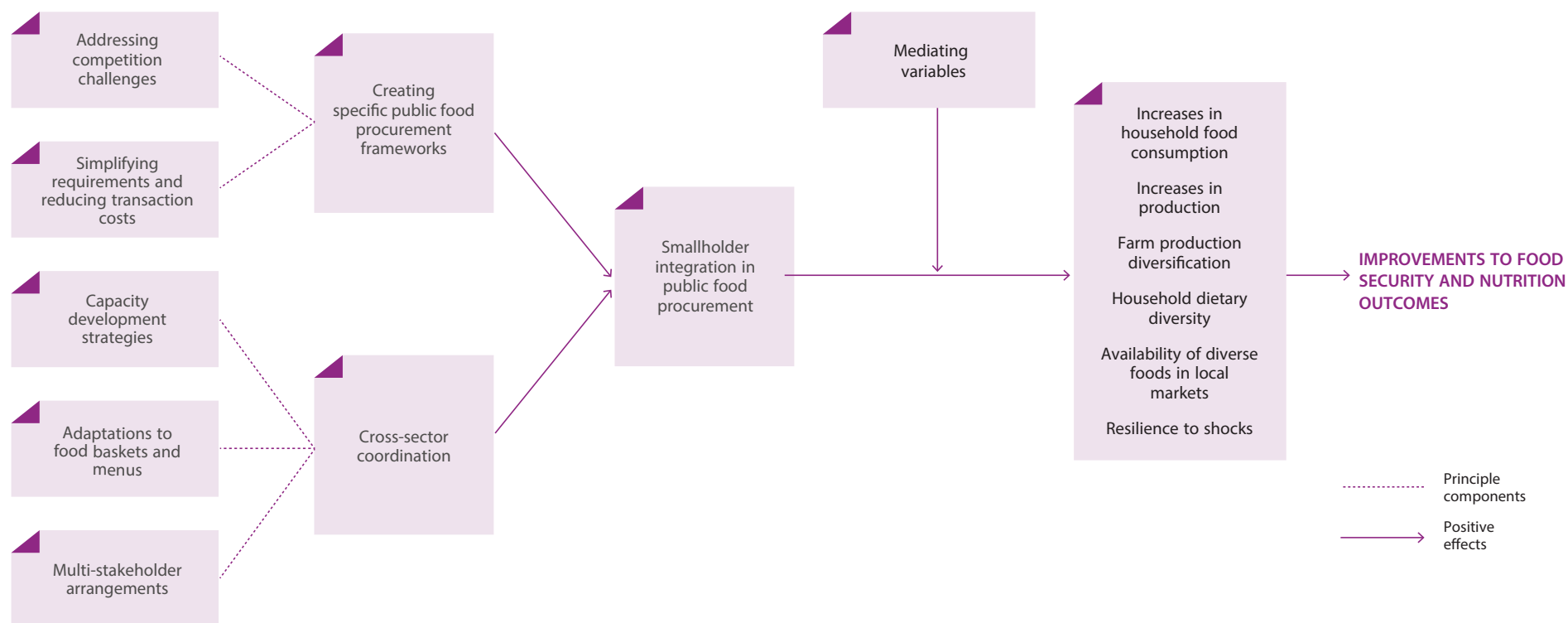
and reflect smallholder food crops. It should also be noted that improvements to nutrition outcomes are also determined by other variables such as access to basic sanitation, clean water, health services and education, as well as income and market integration levels (Jones *et al.*, 2014; Kumar *et al.*, 2015; Sibhatu *et al.*, 2015). Research has also shown that strengthening women's access to and control over resources and decision-making plays an important role in household food and nutrition security (FAO/IFAD/UNICEF/WFP/WHO, 2017). Public food procurement must be a component of a country-specific package of measures to address malnutrition in vulnerable populations.

Public food procurement from smallholders is thus a multidimensional strategy which requires coordinated actions in public procurement, agriculture and food security and nutrition domains. Multisectoral arrangements are key to achieve coordination and coherence among different policies and programmes.

The conceptual model (figure 1) below describes how public food procurement can generate improvements to smallholder livelihoods, food security and nutrition. It encompasses the key elements that enable the integration of smallholders into public food procurement markets and the pathways that generate positive impacts on the availability of and access to more diverse foods in households and communities. The boxes connected by lines represent factors that determine the success of public food procurement in terms of its ability to promote smallholder market participation. Likewise, the boxes connected by arrows show the positive effects of smallholder market integration on food security and nutrition outcomes. The role of other variables such as market functionality, health, education, gender empowerment and social protection in this outcome is also highlighted in the "Mediating variables" box in the figure.

The sections that follow in this guidance note will provide specific guidance on how to promote stronger synergies between public food procurement and food security and nutrition outcomes as well as explore best practices in the design and implementation public food procurement initiatives.

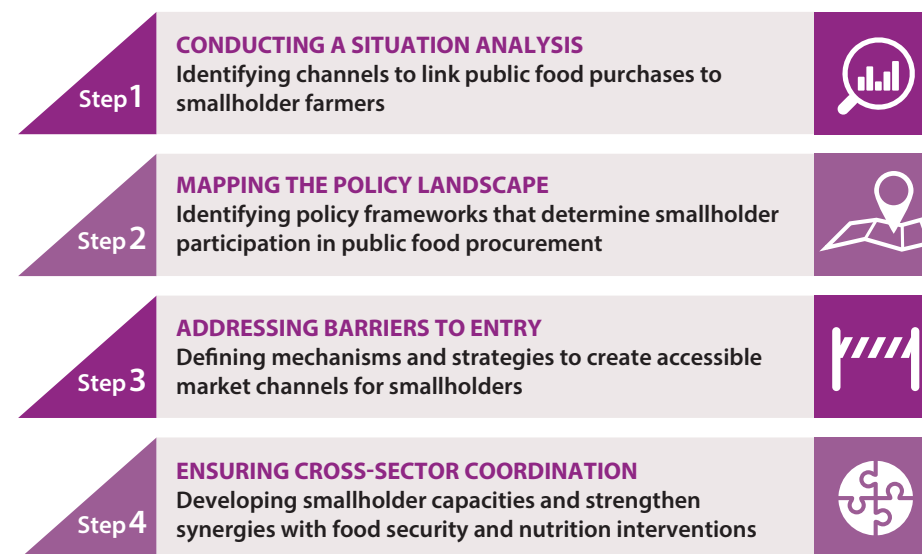
FIGURE 1: Public food procurement conceptual model



# Stepwise approach Public food procurement promoting food security and nutrition

The following section will provide a four-step approach to assist the design and implementation of public food procurement initiatives targeted at smallholder farmers. It offers a set of best practices to foster synergies between public food procurement, smallholder livelihoods and food security and nutrition strategies.

FIGURE 2: Four steps to design public food procurement initiatives



## Step 1 CONDUCTING A SITUATION ANALYSIS

The first step in devising public procurement initiatives is to conduct a situational analysis so as to paint an initial picture of smallholder farming systems and identify possible channels to link smallholder supply to government demand for food. This analysis will indicate prospective public food markets that can be targeted at smallholders and the potential of local smallholder production to supply them. Furthermore, it will pinpoint ways to generate stronger synergies with food security and nutrition outcomes.

The guiding questions for the situational analysis are as follows:

- **Food production and agricultural holding:** What is total production of crops and livestock produced by smallholders? What is the total area and the average size of land plots under small farming? What is the geographic distribution? What are the number and percentages of smallholders producing commodities of interest? What are their production and surplus commercialization capacities after meeting their consumption needs? What are the potential and opportunities to increase production? What are the potential and opportunities to diversify production? What are main the agricultural seasons and associated small farming production? What are the main agro-ecological zones and associated production? What is the average distance of potentially targeted farms to purchasing entities? Which crops are predominately produced by women? What is the potential of women to supply food to government intuitions?
- **Food processing, post-harvest and storage:** What are the key types of food-processing activities that smallholders and SMEs engage in? What is their processing and commercialization capacity? What is the level of access to the necessary infrastructure and facilities, logistics and general connection with market channels?
- **Food trade and marketing:** What is the level of smallholder participation in markets? What are the common types of associational models adopted

by farmer organizations? Are there any women-only farmer organizations? What is the capacity level of farmer organizations? How do they participate in markets? What are the relationships between farmers, traders and processors? How do women participate in value chains?

This first stage of the analysis intends to provide an overview of smallholder production systems, food crops and value chains and help to determine the types and amounts of food that can be supplied by them. It also identifies which regions in the country have the potential to supply food to public institutions. The various constraints involved in food production and processing which affect smallholder production levels and market participation can only be assessed by multidisciplinary teams and are to be addressed by agricultural support programmes which should be coupled with public food procurement initiatives.

The main sources of data for this stage of the analysis are agricultural surveys and agricultural censuses, which are normally annual or seasonal and nationally representative. Although agricultural surveys and censuses are an essential part of national agricultural information systems, many countries may not have them. However, annual estimates may exist for different commodities based on non-probability sample surveys. In the absence of any sample survey, opinions of experts, windshield surveys, administrative records and rapid rural appraisals are widely used to provide these estimates. These should be examined closely, as they may be incomplete or inaccurate; nonetheless they may still be useful to ratio estimates (FAO, 1996). Local or regional assessments and studies of local smallholder production and value chains as well as stakeholder consultations can provide partial but useful estimations as well.

The second set of questions aims to identify key public food procurement markets, including the demand for food assistance strategies. It also collects information on the main features of public food demand, e.g. size, regularity and types of food.

■ **Food demand:** Which government agencies buy food? What types of food do they procure? What are the main food assistance strategies that distribute food? What is the food basket provided by them? What is the size of government food purchases? What is the frequency of food purchases? What are the administrative level and geographic distribution of food procurement?

It is also crucial to gather data on poverty and food security and nutrition. Identifying vulnerable households and geographical areas with high incidence of poverty and food insecurity will help target poor producers who may have the potential to engage in markets but are in need of support. Importantly, this will also contribute to synergies with food assistance strategies and agricultural development efforts which are typically directed at poor communities and producers. Below are the questions to guide this analysis.

■ **Poverty and food security:** Which rural areas have the highest concentration of rural poor households? Which geographical areas have the highest concentration of food- insecure households? What is the proportion of undernourished people as a percentage of the total population? Which population groups are at highest risk of being poor and food-insecure? Which geographical areas are targeted by food assistance strategies? Which geographical areas are targeted by agricultural interventions? What are the targeting mechanisms used to identify poor and food- insecure households?

Poverty and food security definitions, typologies and measurements are numerous and varied (Jones *et al.*, 2013). The answers to the questions above will thus be based on countries' own definitions, metrics and data availability. Nonetheless, some data sources that can assess the status of vulnerable populations at the subregional and household levels are: poverty maps, Household Consumption and Expenditure Surveys, The Living Standards Measurement Study, WFP Comprehensive Food Security and Vulnerability Analysis, WFP Food Consumption Score, IPC Classifications, Household Dietary Diversity Score and participatory assessments.

Question groups one to five and related data should be jointly analysed to identify possible links and synergies between government food demand, smallholder production and food security and nutrition. These links are context-specific: countries implement strategies differently and there is no single effective model. Public food procurement initiatives must exploit the synergies described in the conceptual framework in ways that consider local context, vulnerable populations' needs and smallholder potential as well as government technical and financial capacities at both national and subnational levels.

## **Step 2** MAPPING THE POLICY LANDSCAPE

The participation of farmers in markets and their ability to take advantage of public food procurement opportunities is dependent upon a wide range of factors. Well-functioning input and output markets, appropriate infrastructure and transportation, as well as progressive tax systems and coherent trade policies can all be considered important to market integration. A complete analysis would by necessity cover a great number of policy areas and related programmes with varying degrees of influence on smallholder engagement in markets. In order to make a feasible mapping of the policy landscape, it is necessary to identify and include areas directly associated with public food procurement and smallholder participation on public food markets, while deliberately putting less emphasis on policies with indirect influence.

The key areas summarized in this second step should be the focus of the mapping and analysis of the policy landscape. The goal is to understand the rules that guide public procurement processes and identify the main hurdles to smallholder participation in public food markets. The analysis should also aim to identify the agricultural and rural development policy framework, pinpointing key programmes designed to strengthen the productive and marketing capacities of smallholders.

### Box 3

## Public procurement terminology

**Bid security** – monetary guarantee intended to dissuade bidders from withdrawing their bid before the end of the bid validity process. The most common forms of bid security are: bank guarantees, letter of credit, bonds, checks or cash.

**Open tendering** – competitive bidding process in which any interested party can submit a bid and compete to win a government contract.

**Performance guarantees** – a written guarantee from a third-party guarantor (usually a bank or an insurance company) submitted to a procuring entity by a contractor on winning the bid in order to guarantee the full and proper performance of the contract. The most common types are checks, bank deposits, letters of credit, insurance guarantees and performance bonds.

**Preferential treatment schemes** – schemes that give preferences to certain categories of suppliers, goods or services by providing a competitive advantage in public procurement processes.

**Procurement methods** – basic methods adopted by governments for purchasing goods and services. The most common methods are open tendering, request for quotation and single source procurement.

**Public procurement** – process by which governments purchase goods, services, capital and technologies for their own or public use.

**Public procurement frameworks** – laws, regulations and procedures that guide public procurement.



## Public procurement methods

Public procurement framework has been defined as laws, regulations, procedures and institutions that guide government purchases (Thai, 2008). Public procurement processes are normally tightly regulated by legislation. This is intended to prevent corruption and abuses as well as control public spending. Given the significant size of government purchases and the responsibility that public entities have to deliver high-quality services to society, the vast majority of countries have legislation in place to safeguard the integrity of public procurement systems.

Public procurement normally involves high levels of competition. In most public procurement systems open tendering is the main procurement method used (Arrowsmith *et al.*, 2000; UNCITRAL, 2011; OECD, 2015). In open tendering, any interested supplier may submit a tender and sellers compete with each other to win the government contract. Open tendering is considered a good practice as it allows the maximum number of tenders possible, increasing the chances of acquiring the best-quality good or service at the best possible price.

Nonetheless, high levels of competition can pose significant barriers to entry on the part of smaller suppliers, especially smallholders, farmer organizations and SMEs. Large traders and food suppliers have many advantages over smallholders, as they have more experience in formal markets and more access to working capital and finance. They are in a better position to supply food in larger scale and fulfil public procurement requirements. These actors also have better access to information on public-tendering opportunities and more resources and skills to participate in public procurement processes.

In order for public food procurement to provide a market to smallholders, governments must first address competition issues. Public food procurement must provide competitive advantages to targeted smallholders through preferential treatment schemes such as set- asides, price preferences or procurement award criteria. The mapping and analysis of the policy landscape must pinpoint the main procurement methods established in public

procurement laws and regulations and determine if there are any provisions for preferential treatment schemes. If not, these must be defined and instituted through laws, regulations or policy. It is highly unlikely that public food procurement initiatives will successfully make purchases from smallholders without adaptations to public procurement methods (Brooks *et al.*, 2014; FAO, 2015; Kelly and Swensson, 2017). It is important to devise specific procurement instruments designed to give smallholders advantages over larger suppliers.

Countries that are currently implementing public food procurement initiatives targeted at smallholders have introduced some type of preferential treatment scheme. These have often been established through specific legislation such as school-feeding laws or specific decrees. However, in other cases preferential treatment has been instituted in regulations or policies pertaining to specific procuring entities such as marketing boards, public companies or food reserves. The types of preferential treatment schemes available to governments will be discussed in the following section.

## Public procurement requirements

Public procurement systems are not only characterized by high levels of competition among suppliers but also by stringent legal, technical and financial requirements for participation. These requirements are designed to ensure that suppliers have the necessary capacity to perform a government contract and comply with laws and regulations. Fulfilling all the public procurement requirements is one of the principal barriers to participation in public procurement processes (EC, 2008b; International Trade Centre, 2014; DCED, 2017). The level of bureaucracy and the financial costs involved are often beyond the capacities of smallholders and farmer organizations, especially those living in remote rural areas. Requirements thus create significant transaction costs to farmers which can outweigh the benefits of participating in public food markets.

The high level of requirements stipulated by public procurement rules has in many cases undermined the ability of preferential treatment schemes to offer

a market channel to smallholders. In addition to devising special procurement methods for public food procurement, the requirements for participation in these processes must also be adapted to suit the realities of smallholders (Brooks *et al.*, 2014; FAO, 2015; Nehring *et al.*, 2017; Kelly and Swensson, 2017). The mapping exercise must pinpoint all the requirements for participation in public procurement and identify key constraints. The most common requirements are:

- **Registration requirements:** these are designed to ensure that smallholders and farmer organizations have the legal capacity to enter into contracts with procuring entities. This often entails registering as some form of legal entity, paying taxes and opening bank accounts. In some countries, suppliers need to demonstrate that they are not bankrupt or have they been convicted of a criminal offence, as well as submit audited financial accounts. Most farmer organizations operate informally through farmer groups and clubs. In the vast majority of cases, farmer organizations need to transition into some type of formal organization that satisfies this legal requirement, i.e. associations, societies, cooperatives or enterprises. This will also entail completing the necessary forms, presenting documentation, paying tax and fees and raising capital. It is important to note that registration with the ministry of agriculture may not always give farmer organizations the necessary legal capacity to participate in public procurement.
- **Bid securities and performance guarantees:** these entail presenting some form of monetary guarantee to procuring entities. These guarantees aim to prevent suppliers from withdrawing their bids and to ensure that they fully perform the conditions of the contract. They usually take the form of bank guarantees, letters of credit, bonds, checks or cash. These financial requirements pose significant challenges to smallholders, as they have limited liquidity or access to financial services.
- **Food safety and quality requirements:** food suppliers are usually required to comply with food safety regulations and obtain permits and

licenses. This entails going through inspections, paying fees and making investments to upgrade food production, post-harvest and processing sites. These requirements can generate constraints to smallholder farmer and SMEs' participation in markets, as they usually lack the capital to make the necessary investments as well as knowledge of food safety regulations. Certification and licensing processes can also be bureaucratic and costly to smallholders.

- **Food procurement specifications:** highly detailed and restrictive food specifications can also pose challenges to smallholders. The nature of smallholder production, i.e. seasonal, small-scale and variable, can limit their ability to comply with overly specific food requirements. Packaging requirements can also create difficulties, as farmers may not have the resources to invest in different packaging materials.

Many countries have simplified these requirements so as to address key obstacles to smallholder participation in public food procurement markets. Some of these have been instituted by laws or decrees. In other cases, they were established through new regulations guiding specific procurement processes or government institutions. Best practices in this area will be discussed in Step 3.

### **Agricultural and rural development policy framework**

Mapping the policy landscape should also take into account the country's agricultural development policy framework and identify key capacity development policies and programmes targeted at smallholder farmers and farmer organizations. Smallholder inclusion in public procurement markets depends not only on adaptations in public procurement frameworks but also on farmers' capacity to respond to increases in demand and new market opportunities.

Rural household participation in markets is highly dependent on access to assets, skills and finance as well as the nature of markets. Better-off households are in a better position to respond to market signals and engage in public food procurement. However, this will not be the case for many smallholders. Public

food procurement programmes should also aim to reach farmers who have the potential to generate surplus and diversify production but are in need of support. Moreover, engaging in more stringent markets requires farmers to comply with higher food safety and quality standards.

Market access through public food procurement therefore needs to be coupled with capacity development strategies that aim to address key constraints in production, post-harvest management, processing and marketing. There is a need for agricultural interventions at the household level such as finance, extension and training; however, strategies that address physical infrastructure constraints, e.g. transport, storage and irrigation, are also necessary (Kydd and Dorward, 2004; Barret, 2008). Improvements in agricultural productivity also lessen the risk of higher food demand, resulting in higher food prices.

Farmer organizations also need support to develop their marketing capacity and business skills. This includes assistance to transition into some type of formal organization that enables them to obtain legal status. Capacity development strategies should look to remove some of the hurdles in the farmer organization registration process which often prevent farmers from formalizing their organizations.

It is also crucial to devise gender-sensitive agricultural interventions that promote gender equity in access to resources, goods, services and market opportunities. Women play a vital role in food production and household food security. However, their access to assets, inputs, credit and extension services is unequal to men's, limiting their ability to expand their market participation (FAO, 2010). Capacity development must take into consideration women's role in agriculture and respond to their particular needs. Strategies to support farmer organizations should also look to increase women's representation and leadership. Importantly, they should aim to strengthen women-only organizations and assist women to form their own groups. There is evidence of the positive impacts of women-only organizations as well as women's preference for this type of associational model (Mayoux, 2000).

Given that smallholder participation in markets varies across households, geographical locations and markets, the challenge for capacity development initiatives is to identify key constraints that need to be addressed (FAO, 2013). Effective support strategies are thus very context-specific. Value chain analysis is an important tool to understand markets, their relationships, the participation of different actors, and the critical constraints that limit growth. Value chain analysis can also help to identify linkages and relationships among value chain actors and pinpoint the distribution of benefits and power among stakeholders. In addition, gender analysis can help to uncover gender constraints and assist in the design of tailored capacity development strategies and improve women's participation in value chains. The combination of capacity development initiatives will be specific to each country context and, most of all, particular to each value chain (Webber and Labaste, 2010; FAO, 2013). It should also be highlighted that research shows that value chain development is a slow and complex process generally underpinned by public sector support (FAO, 2013). Therefore, the capacity of public and international institutions as well as public-private partnerships to design and implement development programmes is also an important factor.

The importance of capacity development strategies in promoting smallholder engagement in markets has been supported by evidence. Some studies have demonstrated that agricultural interventions have facilitated smallholder participation in public and institutional markets as well as contributed to farm diversification (WFP, 2014a; Dewbre *et al.*, 2015; Escobal and Ponce 2015). Governments may wish to devise specific programmes to support smallholder engagement in public food procurement. Nonetheless, capitalizing on existing capacity development programmes and agricultural investments is likely to simplify implementation, reduce costs and foster synergies with national rural development efforts.

**Step 3 ADDRESSING BARRIERS TO ENTRY**

Public food procurement must address key barriers to entry in public food markets if these initiatives are to provide smallholders with a market channel. As discussed in the previous step, public procurement entails high levels of competition which can hinder the participation of smaller suppliers, and smallholders in particular. In addition to addressing competition challenges, public food procurement needs to reduce uncertainties and transaction costs associated with participation in these markets. Country experiences have pointed to successful strategies to address such barriers and create food procurement processes that are accessible to smallholder farmers.

**Defining mechanisms to give smallholders competitive advantages in public food procurement**

Most public food procurement initiatives provide smallholders and farmer organizations with preferential treatment in their food procurement process. Preferential treatment schemes help to address competition challenges giving farmers more certainty around market access. There are various types of preferential treatment schemes available to governments. These schemes are not new and have been widely implemented both in high-income countries and developing nations to promote different goals, particularly SME growth. Special treatment schemes range from interventionist approaches such as reservations and set-asides to simply supportive ones in which target groups are given assistance to prepare bids and fulfil requirements (International Trade Centre, n.d.; Arrowsmith and Quinot, 2013).

Given the diversity in public food procurement initiatives, it cannot be asserted that one preferential treatment scheme should be recommended over another, but rather that countries should choose based on their particular contexts and policy goals. It is also possible to combine more than one preferential treatment scheme. Countries must also consider provisions in their legal systems, particularly allowances in public procurement laws and regulations to establish preferential

treatment schemes (Swensson, forthcoming). It should be noted that most countries in the world pursue some type of socio-economic and/or environmental goal through government purchases; thus, public food procurement can build on already existing schemes and strategies.

The most common preferential treatment scheme adopted in food procurement from smallholders are reservations. A reservation or set-aside segregates competition, as targeted suppliers only compete with one another. In the great majority of cases, countries have allocated a quota of food purchases to farmers. Some examples of countries that have established quotas for smallholders are: Brazil, Burkina Faso, Ghana, Rwanda, Thailand and Uruguay. These reservations are typically applied to food purchases for HGSF programmes, food reserves or other types of food assistance. Some countries also reserve a proportion of their food procurement to farmers through marketing boards which buy food exclusively from domestic producers.

**Box 4****Public food procurement in Uruguay**

In 2014, the Government of Uruguay reserved a proportion of its food procurement for family farmers. The Law no. 19.299 established a quota of 30 percent for centralized food purchases and 100 percent for decentralized ones. The initiative is targeted at family farmer organizations involved in agriculture, livestock and fisheries as well as small-scale food processing. The Government procures a wide range of foods, including fresh fruits and vegetables, dairy, eggs, meat and fish, as well as flour, bread and oil. Centralized purchases are made by the Centralized Procurement Unit, which is in charge of purchasing food on behalf of central government agencies, while decentralized procurement is carried out by departmental governments.

## Box 5

**Public food procurement in Ghana and Thailand**

The Ghana School Feeding Programme uses a third-party procurement model in which caterers are in charge of purchasing, preparing and distributing school meals. The Programme guidelines determine that caterers must procure 80 percent of commodities for school feeding from smallholder farmers, preferably from local communities or within the district. Caterers are selected through open tendering which is carried out by district assemblies. The programme benefits around 1.6 million primary school children attending 4,952 schools.<sup>5</sup>

The School Milk Programme (SMP) in Thailand was instituted in 1992 as a strategy to improve the nutritional status of schoolchildren and provide dairy producers with a remunerative market. Dairy processors supplying milk to the SMP are required to buy a certain quantity of raw milk from dairy farmers and cooperatives. The quota is established through memoranda of understanding between individual processors and the Ministry of Agriculture and Cooperatives. The SMP covers all pre-primary and primary schools in the country, reaching a total of 7 million pupils.<sup>6</sup>

<sup>5</sup> <http://hgsf-global.org/ghana/en/news/268-ghana-school-feeding-programme-way-forward>

<sup>6</sup> [http://www.dpo.go.th/wp-content/uploads/2014/09/final\\_original.pdf](http://www.dpo.go.th/wp-content/uploads/2014/09/final_original.pdf)

In other cases, such as Paraguay and Uruguay, preferential treatment is applied to all types of public food procurement.

However, public food procurement can also favour smallholders through subcontracting schemes in which the government requires food suppliers to buy a certain percentage of the total value of food purchases from smallholders and farmer organizations. This is done usually through caterers,

traders or processors. In this case, governments do not procure food directly from smallholders but instead require their suppliers to buy specific amounts of food from them.

In some countries, preferential treatment schemes require farmers to submit bids and compete in a tendering process. For example, in Burkina Faso and Rwanda, where the Governments allocated a smallholder quota for the food reserve, farmer organizations are invited to submit bids specifying quantities, types of commodities and price per metric tonne (NSGR, 2013; Amani, 2014). The grain reserves select bids according to best price and quality criteria.

However, some governments have introduced non-competitive procedures in food procurement so as to further facilitate smallholder access to these markets. In Brazil, for instance, the share of public food purchases reserved for family farmers follows a special procurement method that waives the competitive bidding requirements established in the Brazilian public procurement legislation. Eligible suppliers are not required to submit a bid and compete on lowest-price and best-quality basis. Instead, procuring entities issue a public call for food procurement which defines the commodities, quantities, quality requirements and delivery terms. Interested suppliers who meet the family farmer criteria submit a proposal stating the products and quantities they wish to sell to government institutions. Prices are defined by the Government and aim to reflect market prices. Suppliers are selected based on geographic proximity and quality of the proposals.

In light of women's particular constraints in accessing markets public food procurement initiatives should specifically aim to facilitate their participation. Box 6 below highlights best practices in preferential treatment schemes for women.

In addition to reservations, other options of preferential treatment schemes can be used in food procurement from smallholders. Table 1 below summarizes the main types of preferential treatment mechanisms and their key features, and gives examples of countries that have applied these mechanisms to public food procurement.

### **Domestic prices, market distortions and procurement costs – Lessening some of the risks in preferential treatment schemes**

In all preferential treatment schemes, competition in public procurement processes is limited in one way or another. This can generate risks which need to be weighed against benefits. Set-asides and quotas segregate competition among targeted suppliers, which can lead to governments paying higher prices for food. Set-asides can also potentially function as a form of subsidy allowing farmers to persist in activities that couldn't survive without government support. Price/bid price preferences can also have distortionary effects on prices. They give preferred suppliers incentives to increase prices given that they cannot be outbid by non-preferred suppliers. It could be argued that non-preferred suppliers might respond to price preferences by lowering their bids in order to make them more competitive. However, their profit margins may be significantly reduced, making public procurement contracts unattractive to them and reducing competition in the future (McCrudden, 2007). Award criteria can have similar distortionary effects when disproportionate weight is given to non-price criteria.

One of the strategies adopted by governments to lessen these risks is to set the prices they are willing to pay for commodities. The Brazilian and the WFP programmes define prices according to local and regional markets. Likewise, in Burkina Faso and Rwanda market prices are also used as the benchmark in food purchases. This ensures that farmers benefiting from preferential treatment are price-takers. Reduced competition and the absence of a bidding process thus do not necessarily mean that the government will pay more than the private sector. It is unlikely that any competitive process will lead to suppliers submitting bids that are below market prices. Procurement tenders are actually more susceptible to anti-competitive practices than posted-price markets (OECD, 2011).

In fact, the adoption of reference prices is a common practice among countries; for example, governments in Italy, Mexico and Thailand establish reference prices for the procurement of all goods and services. This strategy

#### **Box 6**

### **Providing women with preferential access to public food markets**

Public food procurement initiatives can give women further competitive advantages and preferential treatment by establishing specific quotas, award criteria and bid price preferences. For example, in Kenya the Government has reserved 30 percent of public procurement contracts for women, while in the USA, the Government establishes subcontracting quotas for women-owned businesses.

Moreover, countries should seek to set targets for food procurement from women and women-only farmer organizations (ALINe, 2011; International Trade Centre, 2014). These targets are different from set-asides or quotas. They are goals that procuring entities must aim to achieve and act as a monitoring tool to assess the level of participation of women in public food procurement. For example, governments can define a target percentage of contracts awarded to women out of the total number of food procurement contracts. In the USA, the Government has stipulated a 5 percent target for participation of women-owned businesses in public procurement. Gender targets were also adopted in the P4P programme, which included a target of 50 percent representation of women in participating farmer organizations. Public food procurement gender targets should be realistic and defined based on the capacities of women farmers and procuring entities.

aims to ensure that prices and costs remain within budget, thus controlling public expenditure and promoting fiscal responsibility. Defining commodity prices also generates benefits to smallholders, as it gives more certainty around market transactions. However, reference prices need to adequately reflect market prices. If prices are too low, farmers will be discouraged from



TABLE 1: Types of preferential treatment schemes

Type	Method	Features	Country examples
Reservation	Set-asides	Allocates a quota of government purchases to a specific category of supplier. Set-asides segregate competition, as targeted suppliers only compete with each other	<ul style="list-style-type: none"> <li>• HGSF in Brazil</li> <li>• Food reserve in Burkina Faso</li> <li>• Food reserve in Rwanda</li> <li>• All types of government food purchases in Uruguay</li> </ul>
	Qualification criteria	Suppliers that do not meet specific criteria are excluded from the procurement process, reserving the entirety of government purchases to one category of supplier	<ul style="list-style-type: none"> <li>• All types of government food purchases including school feeding in Paraguay</li> <li>• Food Corporation of India</li> <li>• PAA in Brazil</li> </ul>
	Subcontracting conditions	Governments do not make purchases directly from targeted suppliers; instead they establish a fixed quota which must be subcontracted or procured from targeted suppliers or producers	<ul style="list-style-type: none"> <li>• HGSF in Ghana</li> <li>• School Milk Programme in Thailand</li> </ul>
Preferencing	Bid price preference	Bids from targeted suppliers are discounted by a set of percentage points in order to make them more competitive. Alternatively, bid prices from non-preferred suppliers are increased by a set of percentage points	<ul style="list-style-type: none"> <li>• Child Nutrition Programmes in the USA</li> </ul>
	Award criteria	Assigns additional points or weights at the bid evaluation stage to bids from targeted suppliers or that meet specific socio-economic or environmental criteria	<ul style="list-style-type: none"> <li>• All government food purchases in European Union countries</li> <li>• School feeding in Peru</li> </ul>

Source: Adapted from Watermeyer (2004).



participating in public food markets; if prices are high, procuring entities will end up paying more than the private sector, undermining cost efficiency. Price mechanisms are likely to be context-specific and their effectiveness requires access to market information and expertise.

It should be noted that some governments have used public food procurement as a tool for food price stabilization. In these cases, governments buy commodities when prices are low and release reserves in domestic markets when prices rise. Governments use buffer stocks to keep food prices within a price band. They provide farmers with a minimum price and protect consumers with a price ceiling. Nonetheless, price stabilization is not an inherent feature of public food procurement initiatives. Price stabilization

through buffer stocks is a macro-economic policy choice. If governments choose to pursue food security objectives through price stabilization mechanisms, then public food procurement initiatives will reflect this policy choice. In the wake of the 2007-2008 food crisis, for example, many developing countries adopted price stabilization measures and some governments in Asia were successful at stabilizing food prices for consumers (Watson, 2013). Despite the costs of price stabilization, governments in developing countries have consistently shown a willingness to pay for this policy (Abbot, 2014).

Although governments may wish to protect producers when market prices drop below the costs of production, prices should not exceed a benchmark. Ideally governments should seek to offer market prices. Above-market prices

**Box 7**

### **Price support through public food procurement: implications for food security and nutrition**

Some public food procurement initiatives aim to provide farmers with minimum prices and protect consumers from high food prices through food subsidies or in-kind distributions. Price support can stimulate farmers' participation in markets by reducing price risks. Shocks can lead to sharp falls in commodity prices, making agricultural activity unprofitable to farmers, while price volatility leads to significant fluctuations in farm incomes and uncertainty around market transactions. These risks can generate negative impacts on smallholders' incomes, food security and nutrition. They also reduce the incentives to make investments in production and diversification as well as to participate in markets.

However, maintaining high producer prices can raise consumer prices in domestic markets. A large proportion of poor households are net food buyers. Thus food price increases can adversely affect their food security

and nutrition as well as trigger negative coping strategies. Conversely, low food prices benefit these very same households but deter net food sellers from producing food and engaging in markets. There are important trade-offs regarding price stabilization which must be managed carefully by governments (HLPE, 2011, 2012; FAO, 2016).

Some governments have chosen to procure commodities at a minimum price and distribute subsidized food through social transfers. This strategy ensures that farmers receive a remunerative price and protect the poor against high food prices. In Bangladesh and India, for example, the public distribution system sets a guaranteed price for producers for wheat and paddy rice which are distributed through targeted social safety net programmes. In both countries, food subsidies have contributed to significant reductions in chronic food insecurity among poor households (Bhattacharya et al., 2017). Although some issues have been raised regarding fiscal sustainability of these initiatives, there is broad consensus that targeted food subsidies reduce costs and ensure that the benefits are concentrated among the poor (HLPE, 2012; FAO, 2016).

not only push procurement costs up but can also generate price distortions in domestic markets. This can be especially detrimental to the welfare of many poor households that spend a large share of their incomes on food. These considerations are particularly important when governments decide to make large food purchases in domestic markets, as the magnitude of these market effects will be correlated with the size of government procurement.

Procurement costs are also affected by food prices and the size of government purchases. Public procurement is principally a financial management and fiscal responsibility issue and not just a matter of compliance with legal requirements. Above-market prices can compromise public food procurement objectives by rendering government food purchases fiscally unsustainable. Governments should give careful consideration to public food procurement budget planning and execution.

Preferential treatment schemes run the risk of creating dependency on government procurement, as they may reduce firms' incentives to find alternative market channels and improve competitiveness. Reliance on government food purchases can be reduced by limiting purchases from individual smallholders and/or farmer organizations. The Brazilian programmes, for example, established a procurement cap for both individual producers and farmer organizations. Farmers can only sell a limited amount to the government, which is established in monetary value. This policy reduces the incentives to rely solely on government purchases. It also encourages farmers to react to market signals and engage with other markets. The procurement cap also ensures that the benefits of public food procurement reach the largest number of farmers possible.

Subcontracting schemes have advantages, as they do not limit competition, reducing the chances for market and price distortions to occur. Procuring food from larger suppliers can help to overcome some smallholder supply chain challenges by facilitating aggregation and processing. However, this strategy will only be successful at providing a market to smallholder farmers if procuring

entities are able to ensure that suppliers comply with the established quotas. This entails creating effective monitoring and certification mechanisms, which can be onerous and costly to both procuring entities and suppliers. Additionally, there are important issues around price transmission from suppliers to farmers and how the benefits are distributed along the supply chain so as to ensure that farmers receive a fair proportion of the market price.

These lessons should be taken into account when designing preferential treatment schemes for public food procurement. They provide insights into ways to ensure that public food procurement markets are accessible to smallholders while at the same time addressing some of the risks involved in reducing competition. The programmes demonstrate that preferential treatment schemes can be aligned with transparency and accountability as well as financial responsibility.

More research is needed in order to determine the impacts of preferential treatment schemes on markets, prices and socio-economic outcomes. If the costs and benefits are well understood, governments will be in a better position to decide on the trade-offs between efficiency and distribution (G20, 2016; DCED, 2017; International Trade Centre n.d). It should be highlighted that the extent of market effects will depend greatly on the market characteristics and the size of government purchases.

It is important to bear in mind when considering such trade-offs that competitive procurement processes may not always lead to open and genuine competition among suppliers. In fact, public procurement is particularly vulnerable to distortion via anti-competitive conduct (OECD, 2011). The highly regulated nature of public procurement as well as its transparency requirements can make the procurement process excessively predictable, encouraging anti-competitive behaviour, collusion and bid-rigging (OECD, 2011). Risks associated with competition are thus a concern to be managed in any public procurement method.

Additionally, price as the main criterion does not take into account positive and negative externalities involved in food production and consumption. When prices do not reflect costs and benefits properly, or market information

asymmetries and failures occur, the outcomes of competitive methods cannot be achieved. Thus positive results derived from competitive procurement mainly based on prices are also dependent on market characteristics. In addition, if public procurement processes create barriers to entry that exclude whole segments of society, they cannot possibly be considered efficient, as they undermine competition and consequently affect prices. Using other analytical frameworks, transparency and fairness can also be questioned when barriers to entry exclude several groups of suppliers.

### **Simplifying public procurement requirements and reducing transaction costs**

Public procurement requirements can create significant barriers to entry in public food markets. Many governments have simplified procurement requirements in order to lower transaction costs and facilitate smallholder access to these markets. This approach is also common in countries looking to promote SME participation in public procurement. Many lessons can be drawn from these experiences. The modifications range from reducing the bureaucracy and costs involved with compliance with requirements to adapting food procurement specifications.

Participation in public procurement processes will require some form of registration. Some countries, such as Brazil and Paraguay, have opted for registration with the ministry of agriculture. However, many countries require farmer organizations to register as some type of enterprise, such as in Ghana and Kenya (Arrowsmith and Quinot, 2013). Procurement rules that require farmer organizations to register as enterprises<sup>7</sup> can create additional hurdles for smallholders. Although most governments have implemented reforms, the process of registering a business remains long and costly (World Bank, 2017a). The choice of registration requirement should always consider bureaucracy

and costs and favour options that are more accessible to smallholders and farmer organizations. These requirements should also take into consideration the most common associational models adopted by farmer organizations in their countries. In addition to rationalizing registration requirements for public food procurement, governments should seek to simplify registration procedures, as this not only enables farmers to participate in public procurement processes but also to engage with other private buyers.

Rules related to bid securities and performance guarantees must also be considered when adapting procurement requirements to smallholders. These requirements are considered a good practice in public procurement. However, there is also agreement that these instruments can create significant barriers to smaller suppliers (EC, 2008b; World Bank, 2017b). This is particularly the case for smallholders who are cash-constrained and have limited to no access to financial services. Nearly all countries in the world require bid securities, while performance guarantees are also common but found mostly in developing countries (World Bank, 2017b).

The European Union provides a good example of adaptations in this regard. In order to facilitate the participation of smaller suppliers in public procurement, many governments have substituted bid securities for bid declarations (notarized or not), in which suppliers declare on their honour that they will accept the contract and fulfil all the stipulated conditions. This adaptation removes the financial and administrative burden of obtaining a bid security instrument, while still providing some degree of protection to procuring entities by requiring a formal commitment from the supplier.

In terms of performance guarantees, virtually all developed economies have abolished them altogether (World Bank, 2017b). Many countries, such as Bolivia, Egypt, South Korea and Russia, have waived both bid securities and performance guarantees requirements for SMEs (World Bank, 2017b; DCED, 2017; International Trade Centre, n.d.). Similar approaches should also be adopted in food procurement from smallholders and farmer organizations.

<sup>7</sup> Refers to the most common forms of enterprises found in the majority countries, i.e. sole proprietorship, partnership, corporation, cooperative or companies.

Procuring entities must always guarantee quality and safety standards in their food procurement. Nevertheless, it is important to ensure that these safeguards do not create onerous public procurement requirements that entail obtaining several types of certification and licensing. Although food standards should not be lowered, governments should look to waive some of the requirements that have little or no effect on food safety and quality (International Trade Centre, 2014). Whenever possible, governments can look to address over-complex processes for food safety certification as well as agro-processing standards, given that in most cases these have been tailored to medium- to large-scale enterprises which have high levels of technical and financial capacity (International Trade Centre, 2014).

Compliance with food safety and quality standards is one of the biggest constraints to smallholder participation in markets. The bureaucracy and costs involved in compliance are beyond the capabilities of most farmers and farmer organizations. Addressing this challenge is certainly outside the scope of public food procurement initiatives. Smallholders and farmer organizations need to receive the necessary support to comply with food safety and quality standards. This is crucial not only for participation in public procurement but also for engagement in other formal markets.

Simplifying food specifications to better suit the capacities of smallholders should be an easier adaptation to implement. Food specifications can set minimum requirements and allow for food alternatives or variants that correspond to nutritional content and local preferences requisites (Caldeira *et al.*, 2017). In the European Union, for example, suppliers are often allowed to submit variant bids that comply with basic performance and functional requirements (EC, 2008b). Suppliers may also provide food variants which meet basic nutritional requirements. This strategy is adopted to facilitate SME access to public procurement and has also been applied to food purchases. Food specifications in the PNAE in Brazil aimed to avoid restrictive specifications and focused on food groups, nutrient content and basic nutritional requirements

## Box 8

**Public food procurement in Paraguay**

In Paraguay, the Government has created a special procurement modality specifically designed for food purchases from family farmers and farmer organizations. This modality has been instituted by law, which also reserves the entirety of government food purchases to family farmers (Decree 1056/13). The requirements to participate in public food procurement have been simplified, tailoring it to the capacities of smallholders and farmer organizations. The decree waives bid and performance guarantees, tax registration and legal personality requirements. Suppliers must only comply with basic requisites: (1) registration with Ministry of Agriculture and Livestock or the National Institute for Cooperatives; and (2) participation in technical assistance programmes implemented by the government, NGOs or international cooperation agencies.

rather than specific crop varieties, sizes, colour and appearance.

Boxes 8, 9 and 10 provide examples of how national governments and WFP have simplified their public food procurement requirements in order to facilitate smallholder participation in public food markets.

**Ensuring payments on time**

Timely payments are critical to all types of suppliers, large or small, but are especially important to smallholders who face significant cash constraints. Delays in payments mean that farmers are unable to meet their immediate needs and can also lead to significant losses in income due to rises in farm gate prices after harvest. The risks associated with late payments may discourage farmers from engaging in public procurement markets.

**Box 9****Rwanda: National Strategic Grain Reserve (NSGR)**

In 2011, the NSGR in Rwanda allocated a 40 percent quota for farmer cooperatives. The NSGR at first required farmer organizations to form cooperatives and present a registration certificate from the Rwandan Cooperative Agency. However, most farmer organizations could not fulfil this requirement, given the complex and costly process of establishing and registering a cooperative (Nizeyimana, 2015). This prompted the NSGR to change the rules, and farmer organizations are now only required to register with the decentralized offices of the Ministry of Agriculture, which is a less complicated procedure (Nizeyimana, 2015).

**Box 10****WFP's soft tendering**

In the soft tendering modality, targeted farmer organizations and traders are invited to submit bids and compete for the contract. WFP applies less stringent conditions for tendering, such as supplying smaller quantities, removing specific packaging requirements and waiving bond guarantees, in order to facilitate smallholder participation in the tendering process. This modality was used in most countries where the P4P was implemented. Bids were evaluated according to the country criteria established by WFP, which considers both price and quality.

A P4P study concluded that the lengthy delays in payments to farmers was one of the main contributing factors to high default rates in the programme (Armani, 2014). In Rwanda and Burkina Faso, payment delays generated by WFP's long certification process rendered P4P contracts only marginally attractive to farmers. Upward price volatility coupled with delays in payment led to side-selling among participating farmers, as farm gate prices increased beyond the prices in forward contracts. Likewise, the PAA and PNAE also struggled to ensure timely payments to participating smallholders (Delgado *et al.*, 2005; USP, 2006). Research in public procurement by the World Bank has found that delays in payment to suppliers remain widespread all over the world.

The recognized best practice is to pay suppliers in no more than 30 days (EC, 2008b; World Bank, 2017b). Nonetheless, this timeframe can be too long for smallholder farmers, especially more vulnerable producers. Public food procurement initiatives must establish more appropriate payment timeframes for smallholders. The PAA, for example, aimed to pay farmers within 10 days and the PNAE between 15 to 30 days (Kelly and Swensson, 2017). WFP also made modifications to its standard payment procedure and reduced it to 15 days (Kelly and Swensson, 2017).

**Ensuring access to information**

Smallholder farmers have limited knowledge and information about public procurement, as they do not normally engage in public food markets. Farmers therefore may not be aware of tendering opportunities, preferential access rules and requirements for participation in public procurement. Importantly, providing smallholders with information reduces uncertainties, as it makes the terms of the exchange clear to them. Ensuring access to information on public food procurement opportunities is key to smallholder participation in public food markets.

In most cases, information on public procurement is made available to suppliers on government websites or portals. Several institutions recognize online systems

as a best practice, since they make information widely available and free (EC, 2008b; International Trade Centre, 2014). However, the appropriateness of online tools will depend on the level of internet use in a country. Accessing information on line could be a challenge for smallholders, especially those living in remote rural areas. Using local media channels can make information about tendering processes and special treatment schemes more accessible to smallholders. This information should also be given directly to farmers through farmer organizations, extension services, NGOs or other organizations that work closely with them. The PNAE in Brazil, for example, established in its regulations that calls for food purchases must be published on government websites, local newspapers and notice boards in public spaces, and advertised in local radio stations.

Procurement notices and calls should be clear and provide details on food standards, food safety and quality requirements, prices, delivery points and schedules. Smallholders must also be informed on eligibility criteria and certification requirements involved in preferential treatment schemes. Procuring entities must also allow enough time for farmers to prepare tenders and respond to public calls for food purchases. Information should be provided well in advance so that interested producers can plan and make provisions for their participation in public procurement processes.

### Forward contracts and advanced payments

Forward contracts are contracts between two parties to buy or sell an asset at a specified price on a future date. This type of arrangement can remove some of the risks and uncertainties related to marketing and also protect suppliers and buyers against price fluctuations. Both PAA and the P4P programmes adopted this strategy in order to provide additional guarantees to more vulnerable producers.

Although this contract modality presents several advantages encouraging farmers to participate in public food procurement, the PAA and P4P experiences indicate that there are significant challenges associated with this type of contract. Lessons learned so far suggest that governments should

exercise a certain degree of caution when adopting this approach. In the P4P, forward contracts had the highest rates of default, representing 21 percent (WFP n.d.). This was predominantly due to lack of supplier capacity to produce and aggregate commodities as well as comply with quality standards.

The PAA encountered similar problems, leading the programme evaluation to conclude that most implementation challenges were closely associated with this type of contract (USP, 2006). Between 2004 and 2005, the default rate in forward contracts totaled 70 percent, leading to the cancellation of this contract modality in the PAA (USP, 2006; Graziano *et al.* 2010). High default rates were linked to poor coordination between PAA, extension services and capacity development programmes, which meant that farmers could not meet the food safety and quality requirements. Furthermore, adverse weather conditions led to the majority of farmers losing their crop. Smallholders were required to take on insurance as a safeguard against default. However, insurance payments were delayed and did not cover the total value of production. This was compounded by the fact that many farmers were not aware the insurance scheme and/or did not know how to access it.

The risks to procuring entities are considerably high in cases where advance payments are provided. Contract default can also impact the supply of food to government institutions and food assistance programmes. Smallholders can also be adversely affected by contract default via increases in levels of indebtedness.

Moreover, forward contracts present commercial risks to both smallholder farmers and government buyers (UNIDROIT/FAO/IFAD, 2015). Contract prices may turn out to be lower than on-spot market price or may not cover rising costs of production. For procuring entities, the risk is that agreed prices may actually be higher than on-spot market prices raising procurement costs. In both cases there is an incentive to breach the contract, i.e. farmers defaulting on their contract or procuring entities limiting procurement from smallholders or cancelling purchases altogether. These incentives are stronger when commodity markets are more dynamic.



Forward contracts and advance payments therefore require effective strategies to reduce or spread risk. Investments must be made in capacity development initiatives that will enable farmers to raise production levels and meet food quality requirements. The default rates in the P4P showed a downward trend over the five-year pilot which was attributed to improvements in smallholder capacity (WFP, 2014a). Special insurance schemes are crucial and must be made available to farmers as well as tailored to their needs. These will provide protection against contract default due to low production levels and/or poor-quality crops. The institutional arrangements to manage forward contracts and advance payments should include actors that have experience and skills in financial schemes targeted at smallholders. Finally, prompt advance payments play a critical role in these cases, as they act as an instrument to finance production. Delays will certainly undermine farmers' ability to increase production and improve food quality.

Commercial risks can also be addressed by defining effective price mechanisms and stipulating them in forward contract clauses (UNIDROIT/FAO/IFAD, 2015). Price mechanisms need to provide a rate of return to smallholders that covers fixed and variable costs of production and allows profitability. Inadequate price mechanisms can actually generate uncertainty to farmers in relation to the income derived from sales to government institutions. Effective price mechanisms also ensure the financial sustainability of public food procurement. This can be achieved by allowing prices to be renegotiated near the time of delivery. This approach was adopted by the P4P programme in Kenya (Amani, 2014). Price terms must be clearly defined in contractual clauses so as to provide more certainty to farmers and procuring entities.

The success of this type of adaptation requires a high level of capacity to provide effective production and marketing support as well as tailored financial schemes. Policy-makers must take into consideration the feasibility and appropriateness of forward contracts to country's contexts, capacities and resources.

## Defining eligibility criteria and targeting

Defining clear eligibility rules for preferential treatment schemes is crucial to the integrity and transparency of public procurement systems (OECD, 2009; Kuhn and Sherman, 2014). The absence of well-defined eligibility criteria gives procuring entities a high degree of discretion, which can lead to questions regarding access to preferential treatment schemes and procurement

### Box 11

## Establishing appropriate gender-sensitive eligibility criteria and certification systems

Eligibility criteria for preferential access to public food procurement markets should always be gender-sensitive and encompass the various roles that women perform in agriculture. Very restrictive criteria can potentially exclude women, as women may not always have management control over farms, are often not considered the household head and may engage in more than one agricultural activity, such as processing of crops, fish and dairy products. Importantly, women very often do not own property although they may have rights to farm the land. The P4P evaluation, for example, found that women did not meet the smallholder criteria in most P4P countries, as they focused on land and asset ownership as well as control over production and income (ALINE, 2011; WFP, 2014b). In the case of the PAA in Brazil, although the DAP certification facilitated women's access to the programme, in order to enter into contracts women had to also present ID cards and taxpayer registration, which many women in rural areas still do not have. Despite the fact that the DAP certifies the household and allows the inclusion of both men's and women's names, in practice women were often excluded from the DAP due to cultural norms that dictate that the men are head of the rural household (Siliprandi and Cintrao, 2011).



## Box 12 Smallholder farmer certification in Latin America

The Specialized Meeting of Family Farming, part of the South American trade bloc's agricultural development initiatives, has provided governments with support to develop common criteria to identify family farmers.<sup>8</sup> As a result, Argentina, Bolivia, Brazil, Paraguay, Uruguay and Venezuela have established formal definitions and criteria for family farmers. In all these countries, family farming definitions have been instituted by specific laws and regulations. The recognition of family farmer as a specific category of producer has been accompanied by national registration systems that certify smallholders and farmer organizations. These are usually under the responsibility of ministries of agriculture.

<sup>8</sup> [http://www.reafmercosul.org/descargas/Publicacion\\_Registros\\_de\\_la\\_AF\\_REAF\\_Mercosur\\_set2016.pdf](http://www.reafmercosul.org/descargas/Publicacion_Registros_de_la_AF_REAF_Mercosur_set2016.pdf)

decisions (Quinot, 2013). In addition to predefined criteria, there must be some form of certification process to verify eligibility. It is important to ensure that eligibility is not set on an ad hoc basis by each procuring entity but rather that criteria are consistent and certifiable. Eligibility should be based on definitions of smallholder farmers and farmer organizations which reflect country contexts and the characteristics of smallholder farming systems.

The food procurement programmes in Brazil used a clear definition and criteria for family farming which was instituted by law and adopted across all policies for this sector. Farmers are certified through a declaration (DAP<sup>9</sup>)

<sup>9</sup> Declaração de Aptidão ao PRONAF (Declaration of Legal Capacity to access the National Program of Loans for Strengthening Family Farming).

A single registration system facilitates the identification of farmers eligible to participate in public food procurement initiatives. It removes the need for procuring entities to verify eligibility when they make purchases from smallholders. Certification systems should be able to identify and profile smallholders, farmer organizations and other small rural enterprises.

The Brazilian DAP registration system certainly stands out as a case of best practices in this area. The DAP is the only registration requirement for participation in PAA and PNAE. It also classifies farmers according to their income, enabling government institutions to identify priority groups. There is also a DAP registration specifically for women and female-headed households.

It should be highlighted that certification procedures are only effective when they are simple and do not burden farmers with additional bureaucracy and fees. It is not always necessary to create legislation defining smallholder farming. However, governments must always define eligibility rules and certification processes for preferential treatment through policies, regulations or similar means.

which is issued by local authorities. The DAP is the main requirement for participation in public food procurement. WFP also defined selection criteria for farmer organizations in each country. This condition not only facilitated the identification and targeting of programme beneficiaries but also ensured transparency and accountability in public procurement. The criteria in these cases also aimed to identify the most vulnerable producers and marginalized groups such as women and ethnic minorities, ensuring that the advantages of preferential treatment benefited the poorest. Boxes 11 and 12 discuss key issues and best practices related to gender, smallholder eligibility criteria and certification. In addition to eligibility criteria, policy-makers can decide on a targeting mechanism to focus food purchases on specific geographical areas

**TABLE 2: Simplifying requirements and reducing transaction costs – best-practices summary**

<b>Registration requirements</b>	Registration requirements are a key transaction cost in public procurement as they usually involve bureaucracy and fees. Ideally farmers/farmer organizations should be required to provide one type of registration which is the least onerous to them.
<b>Bid securities and performance guarantees</b>	Although bid securities are a good practice in public procurement, they can also pose significant obstacles to smallholders because of limited liquidity and access to financial services. Bid security requirements should be waived, reduced or substituted by a bid declaration.
<b>Food safety and quality standards</b>	Governments should always ensure food safety and quality in food procurement. Although these standards should not be lowered, procuring entities should look to waive requirements that have no impact on food quality and safety. These requirements should also be simplified to the greatest extent possible without compromising safety.
<b>Food procurement specifications</b>	It can be difficult for smallholders to comply with overly specific food requirements. Food specifications should be focused on food groups, nutrient content and basic nutritional requirements rather than specific crop varieties, sizes, colour and appearance. Procuring entities should allow for variants that meet the minimum requirements established by procuring entities.
<b>Ensuring payments on time</b>	Payment delays in public procurement are still common in all parts of the world. The recognized best practice is to pay suppliers within 30 calendar days. This timeframe could be too long for smallholders due to their immediate cash needs and limited access to credit. Governments should also establish fines and penalties for late payment.
<b>Ensuring access to information</b>	The terms of the transaction must be made clear to smallholders so as to reduce uncertainty related to market participation. Obtaining information is also a key transaction cost. Information on public food procurement opportunities, preferential treatment and requirements must be publicized through channels accessible to farmers and include all the necessary information for participation in public procurement processes.
<b>Forward contracts and advance payments</b>	Forward contracts offer a number of benefits to smallholders by reducing uncertainty related to market participation. However, the risk of default can adversely affect both procuring entities and smallholders. Governments must establish mechanisms to safeguard both parties against default.
<b>Eligibility criteria and targeting</b>	Preferential treatment schemes must have clear eligibility criteria and certification process. Eligibility rules lessen doubts and ambiguity regarding procurement decisions. Governments must also decide if they wish to target particular subgroups of smallholders. Public food procurement initiatives should always aim to specifically target women.

or categories of smallholders. Some countries have chosen to target specific subgroups of smallholders, giving additional preferences to more vulnerable producers. In Brazil, for example, the PAA gave priority to the poorest farmers in the country and to the northeast region. Similarly, the P4P programme prioritized farmer organizations with little prior experience in collective marketing and limited access to resources. Both programmes demonstrated success at making regular purchases from these groups, although not without challenges (USP, 2006; WFP, 2014a, Miranda *et al.*, 2017). Including these farmers in public procurement markets requires significant long-term investments in capacity development.

Preferential treatment schemes can also target small-scale fishers, forest dwellers, processors and other small rural enterprises, since most smallholders engage in different income-generating activities (Kelly and Swensson, 2017). Given the importance of gender inclusion in poverty reduction strategies, it is recommended that public food procurement initiatives specifically target women. It should be noted here that food procurement initiatives that target smallholder farmer organizations need to be aware that women's representation in these groups may be low and that they may not exert influence over decision-making. It is important to also target women-only organizations. This may be challenging as the numbers of producer organizations can be low; however, public food procurement could provide incentives for their growth.

#### Step 4 ENSURING CROSS-SECTOR COORDINATION

Most public food procurement initiatives that target smallholders and farmer organizations aim to achieve a number of goals. These go beyond the aim of strengthening smallholder livelihoods and include improvements to food security and nutrition as well as boosting local economies. The multisectoral nature of these initiatives requires coordinated responses that can address their complexities (Swensson and Klug, 2017; Kelly and Swensson, 2017).

They demand multisectoral arrangements that bring together various stakeholders to make joint decisions on programme design and implementation. These arrangements facilitate concerted action to address challenges, foster coordination among different government programmes and help monitor implementation (FAO, 2014). The PAA in Brazil, for example, established a working group comprised by several government ministries including the Ministry of Social Development, Ministry of Agrarian Development and Ministry of Finance. Likewise, in Mozambique the Government created a technical council to coordinate the implementation of its national HGSF programme (PRONAE), which brought together 11 ministries.

Cross-sector coordination has proved challenging in most development interventions in most countries. The majority of bureaucracies are not organized in ways that facilitate broad-based concerted efforts across sectors and actors. Competing priorities, limited resources, and a lack of political leadership and policy champions are common barriers to cross-sector coordination. Multistakeholder arrangements for public food procurement have also faced similar challenges. In both Brazil and Mozambique multistakeholder arrangements had difficulties overcoming siloed ways of working, which contributed to a series of implementation challenges, particularly in terms of coordination with capacity development strategies and agricultural interventions (Delgado *et al.*, 2005; USP, 2006; Swensson and Klug, 2017; Milhorange, 2017).

Multisectoral arrangements must have a clear mandate and control over implementation and coordination decisions. Multisectoral platforms should be present at national, regional and local levels, enabling synergies to take place on the ground where food is produced, procured and consumed. They should involve all key actors and sectors that have a stake in public food procurement, including agriculture, social protection, and food security and nutrition. These arrangements should also enable the active participation of civil society and farmer organizations in decision-making processes, not just their mere representation (Cornwall, 2002; Hickey and Mohan, 2005). These actors play

an important role in providing inputs to policy development and monitoring programme performance, as well as ensuring legitimacy and accountability in public food procurement initiatives. For example, in Mozambique the participation of farmer organizations in the Working Group established by the Purchase from Africans for Africa programme (PAA Africa) helped to foster dialogue between farmers and government institutions on public food procurement initiatives in the country (Milhorance, 2017).

The type of multisectoral arrangement for food procurement from smallholders will depend greatly on country contexts and the different policy objectives that governments pursue. The process of building effective coordination mechanisms will always be an ongoing effort. However, there are two key areas where cross-sector coordination is key to the success of public food procurement initiatives: (1) matching government food demand to smallholder farmer supply; and (2) defining targeting mechanisms that can promote an overlap between farmers benefiting from capacity development programmes and farmers participating in food procurement initiatives.

### **Defining food baskets that are compatible with smallholder food supply**

Public food purchases most likely follow food security and nutrition policies. They typically aim to fulfil the nutritional needs of target populations, meet energy requirements and contribute to dietary diversification. The size and composition of food basket items are defined according to these goals. However, food baskets also need to include foods that are normally produced by smallholders or that farmers have the potential to produce. Food baskets should seek to meet food security and nutrition objectives and correspond to smallholder production to the greatest extent possible.

The selection of food basket items should include specific criteria that aim to incorporate smallholder food crops. Food basket criteria that take into consideration agricultural seasons, agro-ecological zones of production, local

cultures, food habits and preferences will facilitate food procurement from smallholder farmers. Ideally, they should specifically aim to include smallholder crops. These types of criteria can be integrated into sector policies such as school food policies or food assistance policies. In the European Union, for example, 21 percent of countries include support to local agriculture as a school food policy goal.<sup>10</sup> Member States such as Austria, Hungary and the Netherlands include seasonality, local foods and environmental sustainability in school food criteria. In Brazil, the school feeding law stipulates that menus should be defined according to local agricultural production (Law no. 11947/2009). The PNAE guidelines also prioritize fresh, non-processed and seasonal foods (Resolution no. 26/2013).

It should be highlighted that food basket design also has implications for the participation of women in public food procurement initiatives. In many countries, there are distinctions between men's and women's crops. More diverse food baskets can potentially facilitate women's access to public food markets. Box 14 provides a detailed discussion of this issue.

Creating food baskets and menus that integrate nutrition goals and smallholder production and seasonality also requires cross-sector collaboration and dialogue among stakeholders involved in procurement, agriculture and nutrition. For example, in Brazil school food nutritionists are advised to work together with local government and rural extension services to tailor menus to according to smallholder supply. In many municipalities, school menu planning included participatory assessments of local smallholder production. Overall, the PNAE was able to purchase a wide variety of food from participating family farmers (Toyoyoshi *et al.*, 2013).

Tailoring food procurement to local food supply is a more straightforward task in cases where agricultural production systems are diverse. In countries or areas where subsistence farming predominates or farmers specialize in a few rain-fed crops, adapting food baskets to local production and ensuring dietary diversity

<sup>10</sup> <https://ec.europa.eu/jrc/en/publication/school-food-policy-country-factsheets>

could be more challenging. Public food procurement initiatives should focus on the main crops produced by smallholders. As the initiative progresses and farmers' capacities develop, other foods can be procured from them. Likewise, governments need not aim to fulfil 100 percent of the food demand with smallholder production. Procurement from smallholders can be scaled up as their productive capacities increase. Cross-sector collaboration is key to achieve this, as capacity development strategies are needed to support farmers to diversify

## Box 13

### Building nutritious food baskets: promoting better diets and nutrition through smallholder production

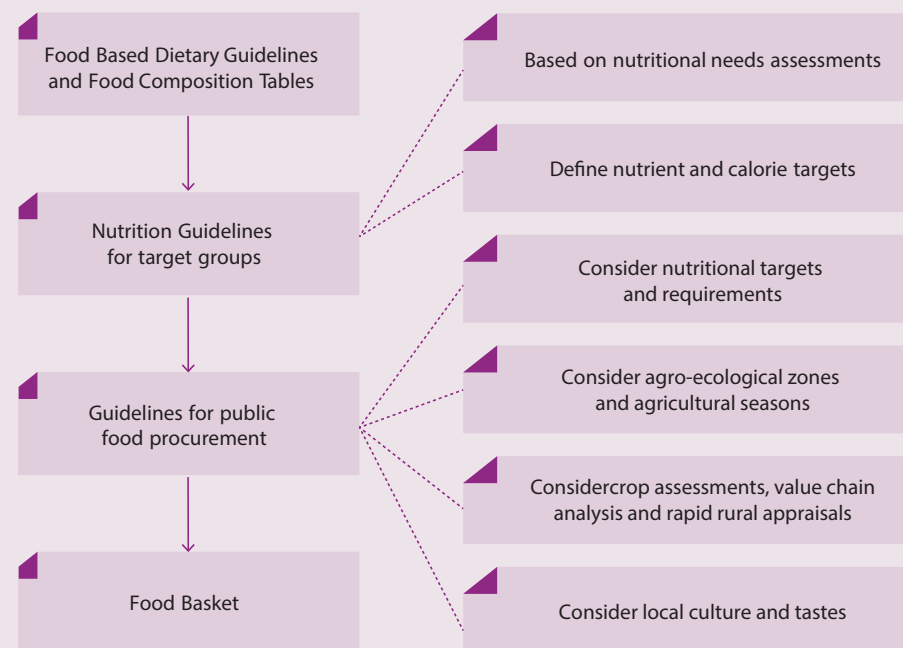
The food baskets purchased by governments are a result of a specific set of policies and processes that aim to promote better diets and improve nutrition outcomes. Food Based Dietary Guidelines (FBDG)<sup>11</sup> are a set of government guidance to promote healthy diets which also serve as a basis for agriculture and food security and nutrition interventions. Nutritional Guidelines and Standards are developed following FBDG recommendations and aim to address the nutritional needs of target groups or populations. They determine nutrient and calorie goals according to nutritional needs assessments. In addition to these guidelines and standards it is crucial to have specific guidelines to incorporate smallholder food crops. Food baskets should be defined according to specific energy, macro- and micronutrient requirements and also take into consideration smallholder food supply and seasonality. In cases where countries have not yet developed their own FBDG, governments can adapt guidelines from other countries, as recommendations tend to be similar in terms of their purposes and uses as well as focus on balance among different food groups.

<sup>11</sup> <https://efsa.onlinelibrary.wiley.com/doi/epdf/10.2903/j.efsa.2010.1460>

production and meet government food demand. Some pilot experiences in African countries implemented by the PAA Africa programme were successful at introducing vegetables and fruits to school menus (Gyori *et al.*, 2016). This was achieved through the provision of tailored production support to smallholders which included input distribution, machinery and training (Gyori *et al.*, 2016).

Box 13 provides guidance on how to design food baskets based on local smallholder production and aligned with food and nutrition standards.

**FIGURE 3: Framework for creating food baskets based on nutritional requirements and smallholder food supply**



Source: adapted from Fernandes *et al.* (2016) and Galloway (2010).

**Box 14****Incorporating women's crops into food baskets**

The design of food baskets also has important implications for the participation of women in public food procurement initiatives. This is largely related to gendered crops and agricultural activities which are common in the global South (Doss, 2002; Orr et al., 2016). Although the distinction between men and women's crops can be complex there is a distinction between who controls the production of certain types and varieties of crops as well as the income derived from them (ALINe, 2011). In many countries, men control staple and cash crop production even though women may be actively involved in production activities related to these commodities. Women's participation in agricultural production and marketing, particularly which crops or commodities are under their control, is context-specific. Nonetheless, more diverse food baskets can potentially facilitate the participation of women in public food procurement, as they are more likely to include crops that women engage with or have the potential to produce.

Gender assessments of the P4P programme revealed that the WFP food basket presented a major obstacle to the participation of women (ALINe, 2011; WFP, 2014b). The P4P food procurement concentrated on maize and sorghum, which in the majority of countries are under the control of men. In countries where the P4P procured pulses, women's participation was higher. Similarly, research into the PAA in Brazil found that the wide range of foods procured by the programme was a key contributing factor to the participation of women (Silprandi and Cintrao, 2011). The PAA food basket included poultry, eggs, vegetables and fruits, which were normally under the control of women. The PAA also procured several types of processed foods that were considered in the realm of women such as cakes, biscuits, jam, cassava flour and fruit juices.

More diverse food baskets that include women's traditional crops not only promote better nutrition but can also create additional market channels for women, improving their incomes and socio-economic status as well as household welfare.

### **Promoting coordinated targeting between food procurement, capacity development programmes and food security and nutrition interventions**

As discussed in previous sections, capacity development is a fundamental element for smallholders to participate in stringent markets, like public food procurement, as it enables farmers to respond to increases in food demand and higher food quality and safety requirements. Most capacity development programmes will adopt a type of targeting mechanism. On the other hand,

public food procurement may focus on specific geographical areas or smallholder groups. Therefore there is a risk that farmers receiving agricultural support will not benefit from market opportunities and vice versa. This can certainly be the case in countries where food procurement is carried out by government institutions other than the ministry of agriculture. For example, one of the key implementation challenges in the Brazilian public food procurement programmes was to target farmers who were benefiting from the government's agricultural support strategies. In the first years of the PAA, many farmers selling

## Box 15

## Responding to common concerns around public food procurement initiatives

### Concern 1: Public food procurement will raise food prices and distort markets.

Large food purchases at above-market prices run the risk of raising food prices and distorting markets. However, the magnitude of these effects is highly dependent upon market structure and the size of government procurement. Governments can lessen these risks by making targeted purchases at market price. The ability of procurement prices to reflect market price relies on effective price mechanisms. Any price increases generated by higher demand can be offset by capacity development interventions to help farmers use inputs more intensively and efficiently. Increases in production triggered by greater market participation and access to inputs, services and credit can help stabilize local markets.

### Concern 2: Public food procurement will lead to dependency on government purchases and reliance on staple crops.

Reliance on government purchases can be prevented by establishing procurement caps for individual producers and farmer organizations. This encourages farmers to find additional market channels. Offering market prices also reduces the incentives to rely solely on the government. The ability of smallholders to participate in markets beyond public procurement depends on expanded access to assets, technologies and public goods as well as public sector investments to foster competitive and well-functioning markets (Barret, 2008). It is unlikely that one single intervention such as public food procurement will lead to broad-based market participation. While public food procurement can act as a springboard for smallholder market integration, long-term agricultural development policies and sustained investments are needed in order to achieve this outcome. In regard to production diversification, it should

be noted that the nature of government purchases, i.e. food baskets, are a function of food security and nutrition policy. If the policy in this area is to diversify diets, then public food procurement can actually increase demand for foods other than staples, creating incentives to diversify household production and food consumption.

### Concern 3: There is no evidence that public food procurement has impacts on incomes, food security and nutrition, so there are not positive impacts.

This statement is a fallacy. The absence of evidence simply means that no or not enough research has been done. The outcomes and impacts of public food procurement have not yet been subject to extensive research. Most of the research available relies on qualitative approaches, and studies using quantitative methods and representative samples are largely missing from the literature. Many of these initiatives are recent and results take time to materialize. Similar to most types of development interventions, outcomes are highly dependent on the quality of programme design and implementation. As explored in the paragraph above, smallholder market integration depends on a number of factors as do food security and nutrition outcomes. Many public food procurement initiatives such as HGSP or food reserves usually aim to promote different goals, and thus require more complex evaluation methods. Existing research indicates a correlation between public food procurement initiatives, agricultural income and food security. However, there is a need to address key research gaps and provide governments with evidence on impacts to further inform policy decision-making processes.

### Concern 4: Public food procurement can lead to abuses and corruption.

All public procurement processes are susceptible to corruption. This concern thus applies to the wider public procurement system in the country. The integrity of public procurement systems relies on sound procurement procedures and effective oversight and control mechanisms, including enforceable sanctions. Governments can draw on a number of international guidelines and standards pertaining to good governance and anti-corruption measures in public procurement, such



as the UN Convention Against Corruption (Article 9), the UNCITRAL<sup>12</sup> Model Law on Public Procurement, and the OECD<sup>13</sup> Recommendations on Public Procurement. Preferential treatment schemes and horizontal policies need not be associated with higher corruption risk. For example, the 2015 OECD Recommendation on Public Procurement<sup>14</sup> highlights how governments can pursue social, economic and environmental objectives through public procurement while ensuring integrity. In line with international best practices, this guidance note has explored several ways to align adaptations to public food procurement frameworks with core public procurement principles, such as transparency and accountability as well as fiscal responsibility.

**Concern 5: Public food procurement initiatives will compromise cost-effective procurement practices and create administrative burdens.**

There are more general concerns that some cost-efficiency will be lost when public procurement is used to support socio-economic and environmental goals. To date, there is no research exploring procurement procedure costs and administrative burdens associated with public food procurement initiatives. Nonetheless, as discussed in this guidance note, a narrow focus on financial costs will not take into account the positive and negative externalities involved in food production and consumption. Moreover, the Sustainable Development Goals have highlighted the important link between sustainability issues and public procurement. Adapting public food procurement frameworks is likely to generate start-up costs at the early stages and require capacity development and training for procuring entities. There is a need to better evaluate the costs and benefits of public food procurement initiatives and draw lessons for future policy development.

<sup>12</sup> United Nations Commission on International Trade Law

<sup>13</sup> Organization for Economic Co-operation and Development

<sup>14</sup> <https://www.slideshare.net/OECD-GOV/oecd-recommendation-on-public-procurement2015>

to the programme were not benefiting from the special credit scheme for family farming, nor were they receiving technical assistance from extension services.

It is crucial for public food procurement initiatives to promote coordinated targeting mechanisms. Coordinated targeting consists of a deliberate effort to identify and select beneficiaries of agricultural interventions and public food procurement initiatives (Cirillo *et al.*, 2017). There must be an overlap between capacity development beneficiaries and farmers who supply food to government programmes and institutions (Gyori *et al.*, 2016). This can be done in three ways: (1) using the same database, registry list and/or targeting method adopted by agricultural interventions; (2) using a unified or single registry database that can identify households that are participating in capacity development programmes and social protection strategies; and (3) selecting the same geographical areas targeted by agricultural interventions but not necessarily the same households (Cirillo *et al.*, 2017).

In Brazil, the DAP's database was combined with the database of the single social protection registry (Cadastro Único) in order to strengthen synergies between agricultural interventions, the PAA and social protection programmes and increase their impact on poverty reduction and food security and nutrition. This strategy helped to expand the participation of farmers registered in the Cadastro Único in PAA purchases (Mello *et al.*, 2014). As pointed out by the literature, all targeting mechanisms will be imperfect in their design and implementation. However, they should aim to promote overlaps to the greatest extent possible. Importantly, they must avoid over-complex and expensive mechanisms. The success stories in the PAA and PNAE also pointed to the importance of close collaboration between procuring entities and rural extension services.

## Concluding remarks

Public food procurement can help build important synergies with food security and nutrition outcomes. Market access and a source of income enable rural households to possibly raise food consumption and dietary diversification and make investments in production and productivity. Impacts on nutrition can be further promoted when government purchases aim to provide diverse food baskets. These commodities can be procured from smallholder farmers, creating incentives to diversify production and promoting household diet diversity. Increases in production of diverse food crops can expand their availability in local markets, also generating positive impacts on nutrition at the community level when paired with nutrition interventions.

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Nevertheless, smallholder participation in public food markets, as with most formal markets, can be constrained by barriers to entry and high transaction costs. In sum, the most critical constraints are related to the high levels of competition and requirements involved in public procurement. The rules and procedures that guide public food purchases must be adapted in order to

facilitate smallholder participation in these markets. There are also challenges in terms of smallholder capacity to respond to increases in demand and higher food quality and safety standards. Furthermore, public food procurement may require smallholders to diversify production so as to supply a wider range of foods. Public food procurement must therefore also be closely coordinated with interventions in different sectors. Capacity development strategies are crucial to raise agricultural production and support diversification as well as compliance with food standards. Moreover, government food demand must be compatible with the nature of smallholder production, i.e. seasonal, low to medium production diversity and traditional or indigenous crops. Food baskets must aim to address the nutritional needs of target groups through commodities that can be produced by smallholders.

Public food procurement is a multidimensional strategy encompassing interventions in public procurement, agriculture and food security and nutrition. Hence the success of public food procurement in terms of market access and food security and nutrition outcomes depends upon the concerted action among different actors and sectors. Multisectoral arrangements play an important role in enabling dialogue and coordination and are a crucial element in these initiatives.

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