MICHIGAN STATE UNIVERSITY

USAID FROM THE AMERICAN PEOPLE

Local and Regional Food Aid Procurement

Successes and Challenges as LRP Moves into its Second Generation

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Presentation for EGAT and Africa Bureau Staff, USAID Ronald Reagan Building Washington, DC

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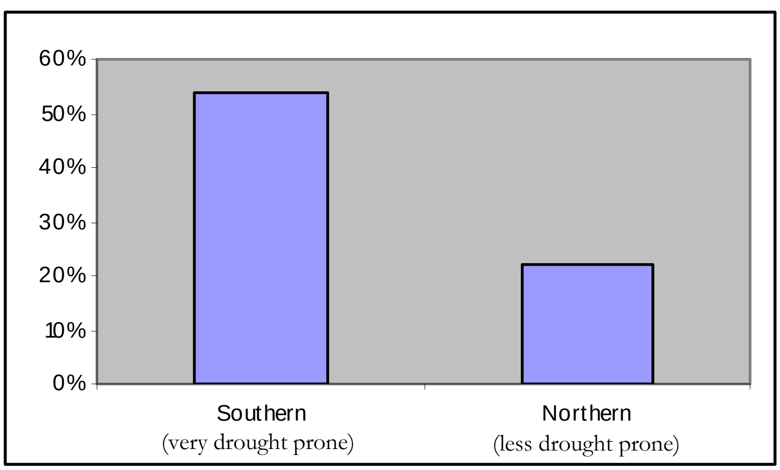
Outline

- Prefatory remarks on food markets and the poor
  - When is food the preferred resource?
- World Food Program's record in first generation LRP
  - A proven model
  - Nature of success
  - Bases for success
- Second generation LRP
  - More complex objectives/riskier outcomes
  - More difficult to assess
- Key issues in 2^{nd} generation LRP

Is food typically the preferred resource?

- Households living in drought prone areas are most reliant on food markets for purchases

Percent Net Buyers of Maize in Two Provinces of Zambia, 2004

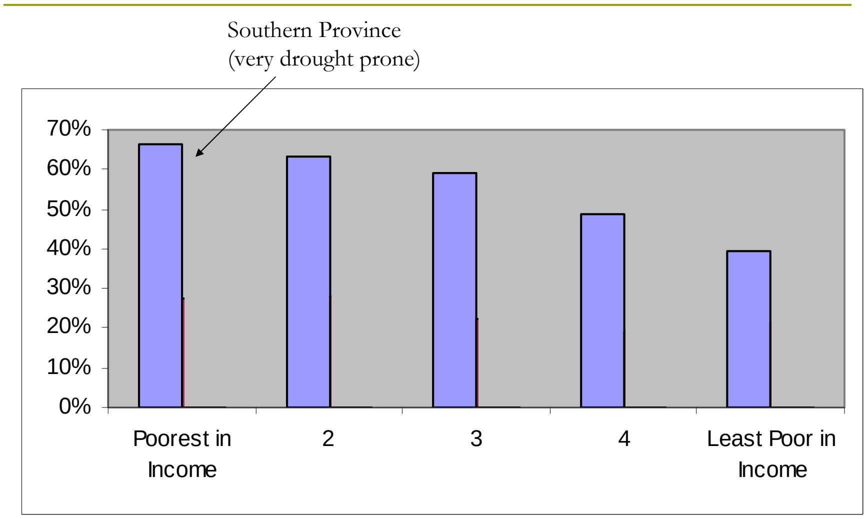


Source: MSU/MACO Supplemental Survey, Zambia, 2004

Markets and the Poor

- Within these provinces, the poorest are the most reliant on food purchases

Percent Net Buyers of Maize in Two Provinces of Zambia, by Quintile of Income per capita, 2004



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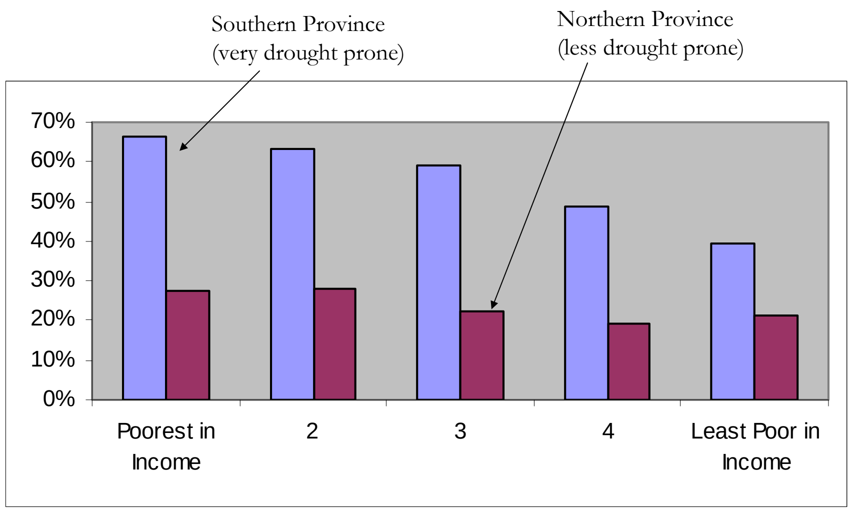
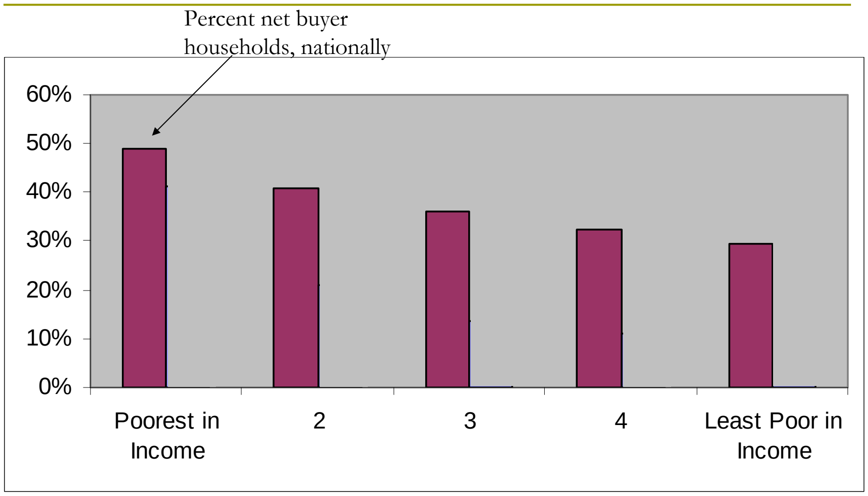


Source: MSU/MACO Supplemental Survey, Zambia, 2004

Markets and the Poor (3)

- And the poor spend a much higher share of their income on food staples

Percent Net Buyers of Maize Nationally in Zambia, by Quintile of Income per capita, 2004



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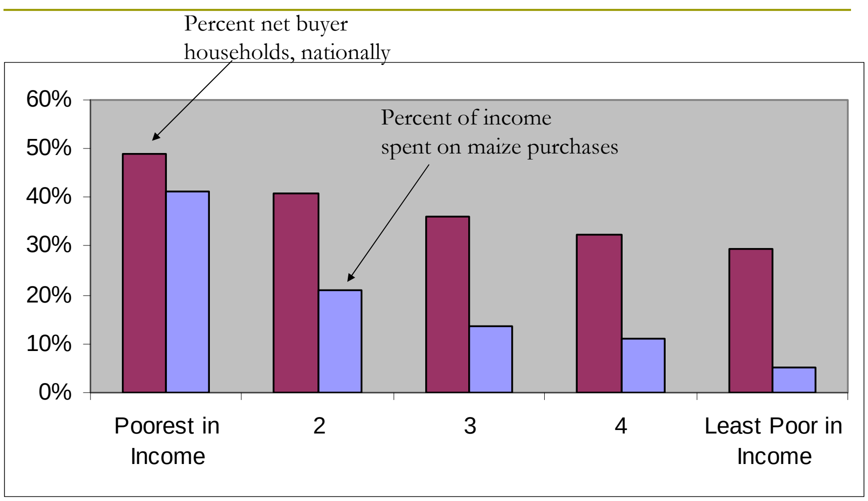


Source: MSU/MACO Supplemental Survey, Zambia, 2004

Markets and the Poor (4)

The poor

– and those living in drought prone areas –

are <u>more</u> reliant on markets, not less

WFP's record in 1st generation LRP

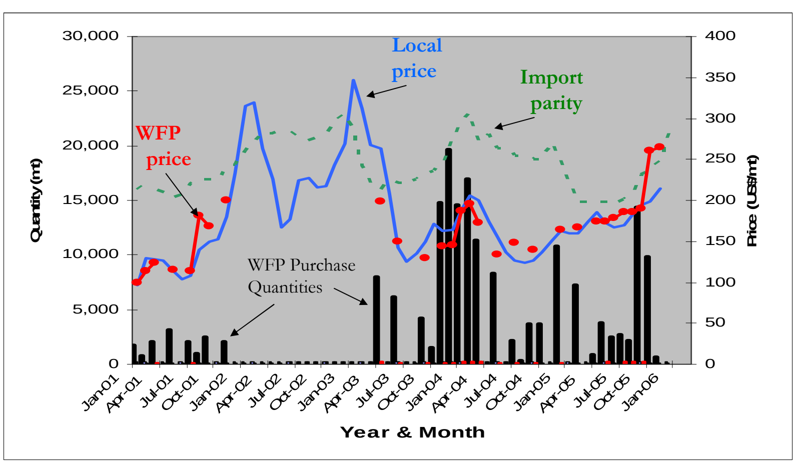
- High level of procurement
- Highly cost effective
- Improved timeliness
- Market development
  - Maize in Uganda
  - *Faffa, Likuni Phala*
- Generally good performance not distorting the market

Cost savings = feeding more people

- On actual WFP procurement of maize in Kenya, Uganda, and Zambia from 2001-2005:
  - Savings compared to U.S. food aid: US$67,700,000
  - Extra maize this would purchase: 437,719 mt
  - People this could feed: 1,800,000 for 2 years
    - 1,200 kcal/person/day — or 720,000 each year
  - During at most 8/180 months would U.S. food aid have been cheaper
- Consistent with other findings
- Savings on CSB and maize meal even higher
  - And timeliness advantage also larger

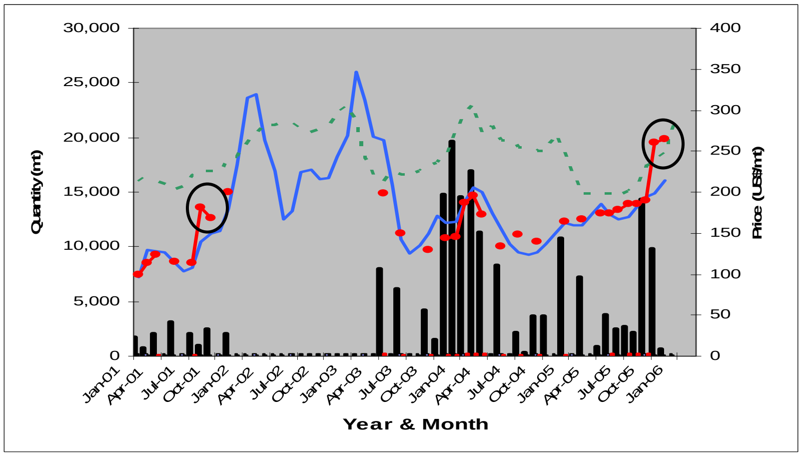
LRP's Track Record- Zambia

WFP Purchases, local wholesale prices, and IPP from SA in Lusaka



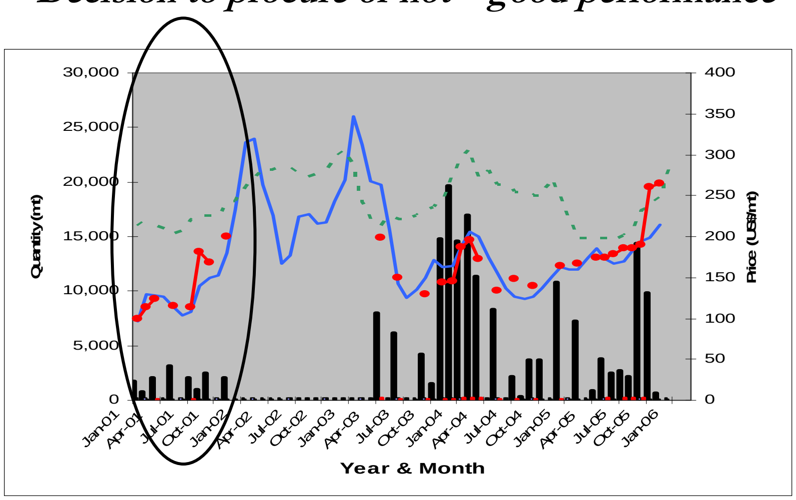
LRP's Track Record- Zambia

Prices Paid – generally good performance



LRP's Track Record- Zambia

Decision to procure or not – good performance



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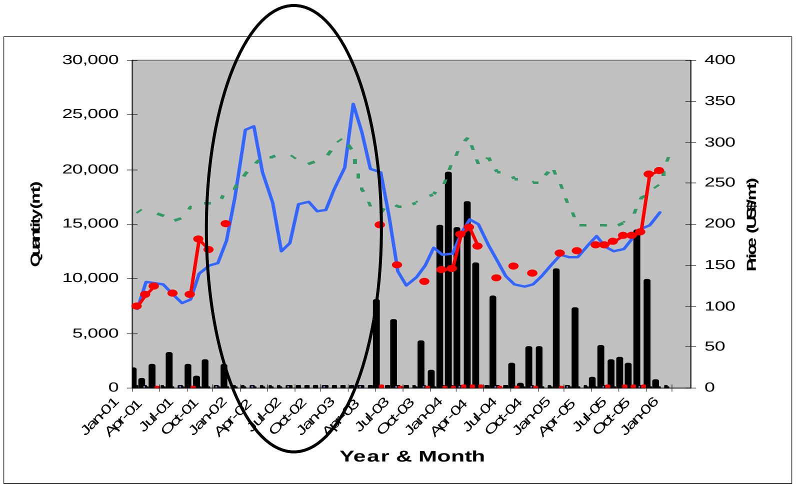

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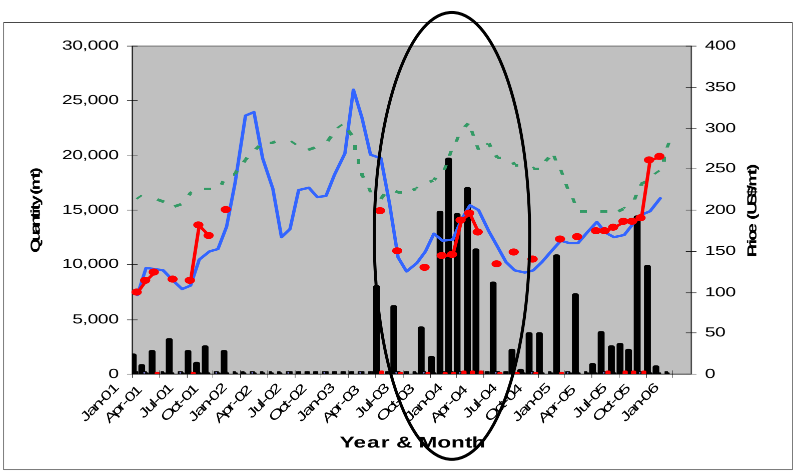


Bases for this Success

- Clear objectives
  - Minimum cost subject to timeliness needs
- Simple decision rule consistent with a market environment
  - Buy locally if $P<IPP$
  - Subject to timeliness
- Rigorously applied

Second generation LRP

- P4P (including USAID support to it)
- USDA
- USAID working with NGOs, WFP
- Some looks like 1st generation LRP, but …
  - More actors
  - More complex, and different, objectives
    - Explicitly developmental
  - More gain (maybe)
  - More risk (definitely)

Key issues in 2nd generation LRP

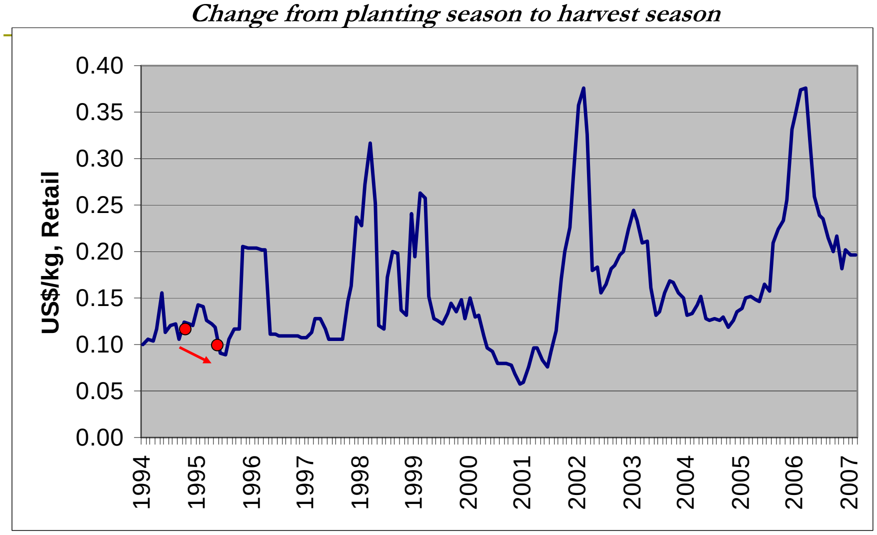
- Benefit:Cost ratio
  - Not clearly high in P4P
    - And developmental LRP in general
  - M&E critical
  - Supporting local MIS
  - ***Need for learning***
- Need for evaluation
  - More complex when many actors
  - But data needs are not complex
  - Need to develop workable, common data base that each organization must maintain

Key issues in 2nd generation LRP (2)

- Pricing
  - Need for a consistent approach across actors
  - If program is approved for a period of time, how protect against buying into a rapidly rising market?
    - Need to avoid idea that LRP is valuable in its own right
  - WFP's plans in P4P for forward contracting

Maize grain prices in Eastern Province, Zambia

Change from planting season to harvest season



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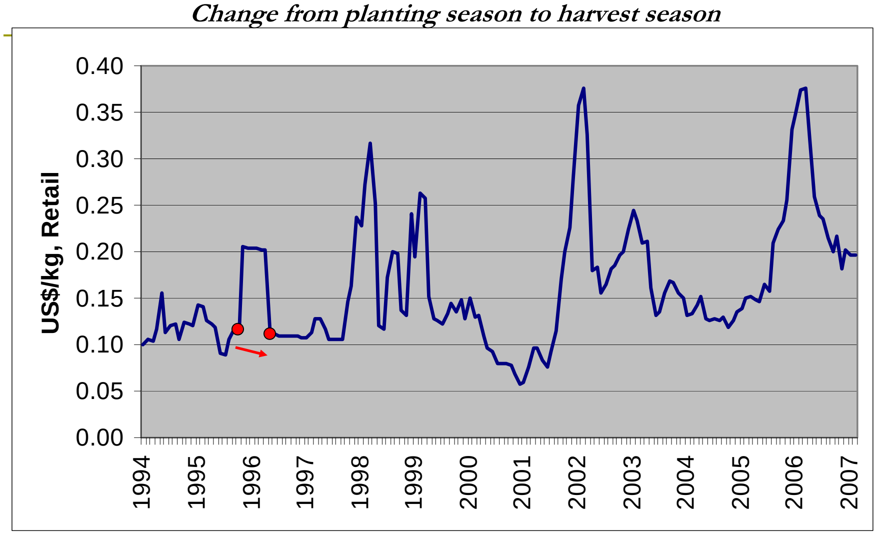

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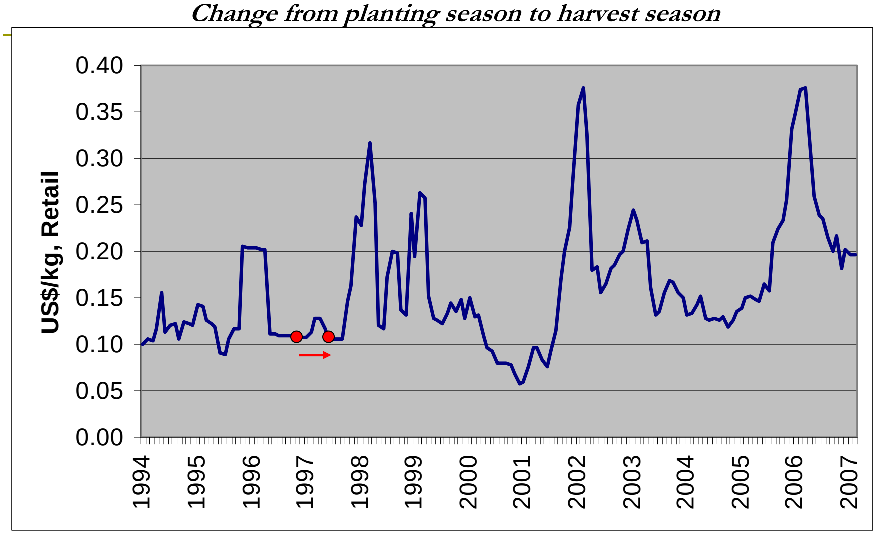

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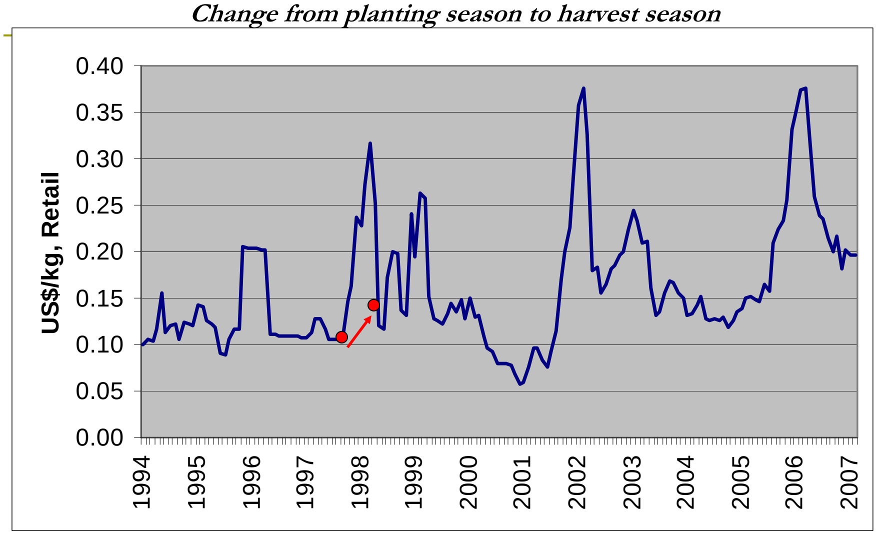

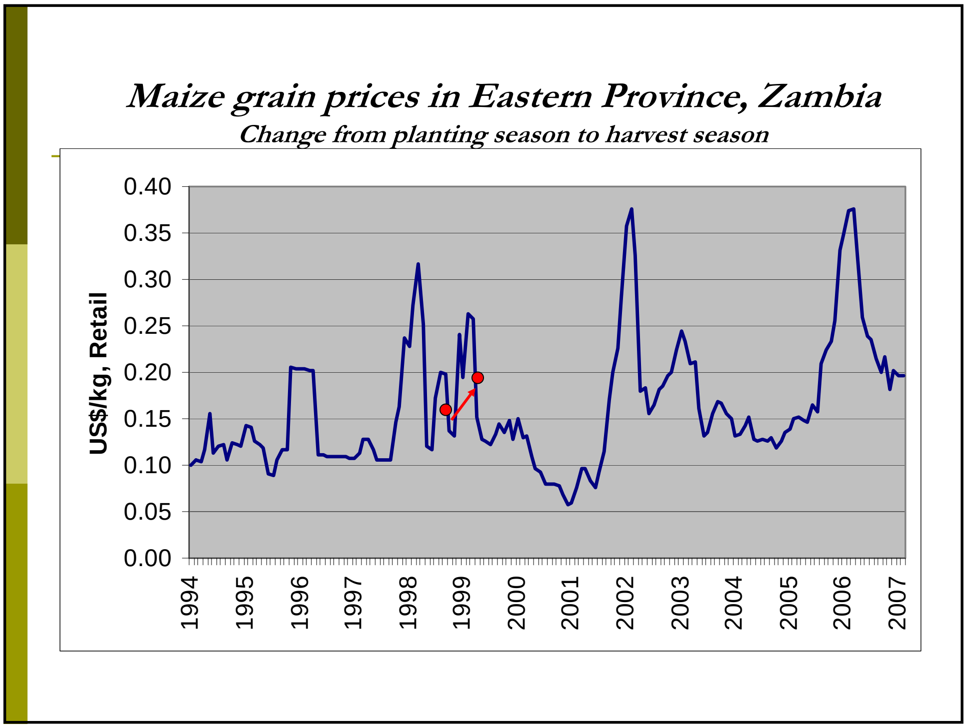
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Change from planting season to harvest season
US$/kg, Retail
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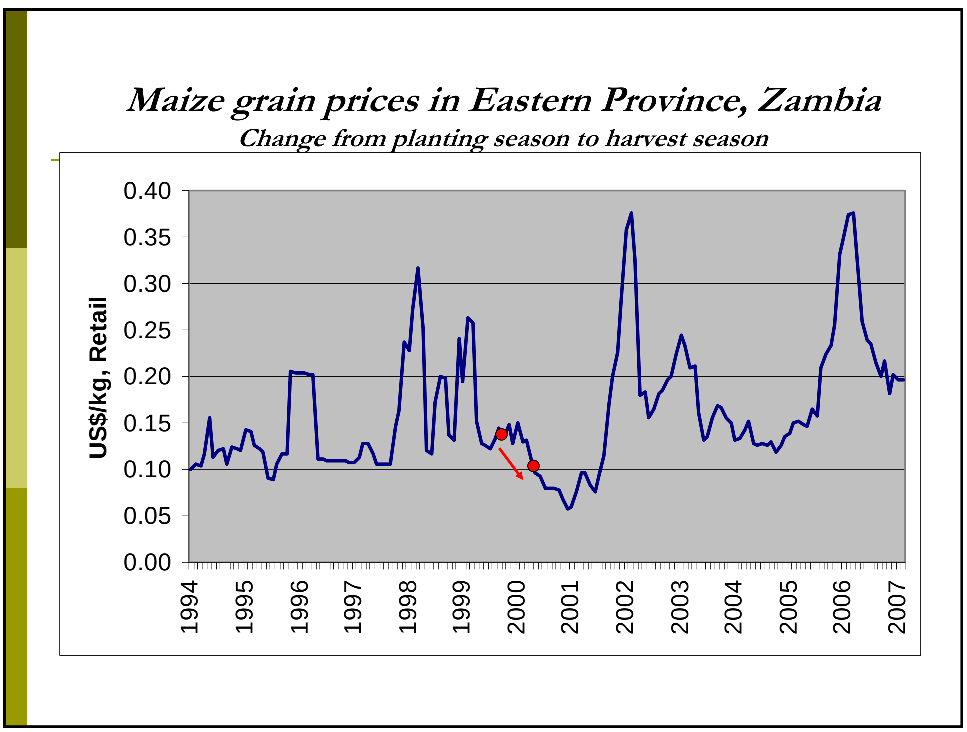
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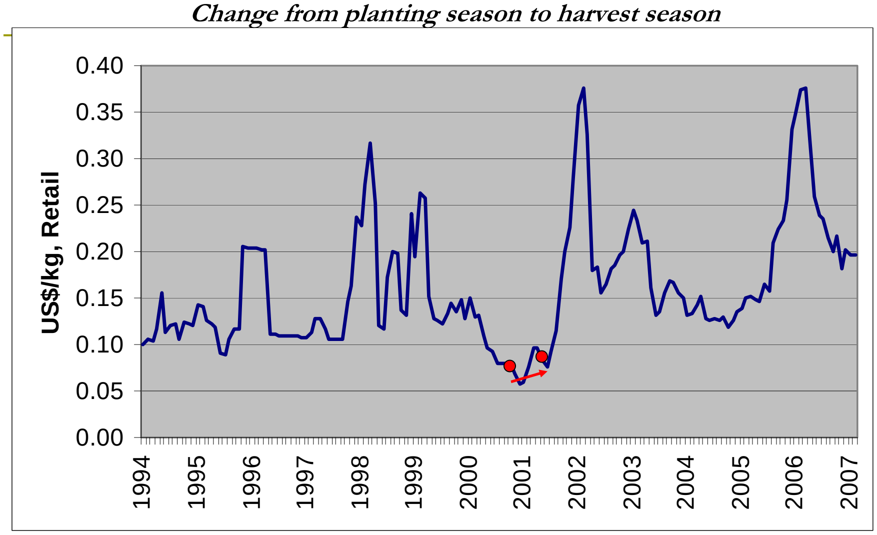

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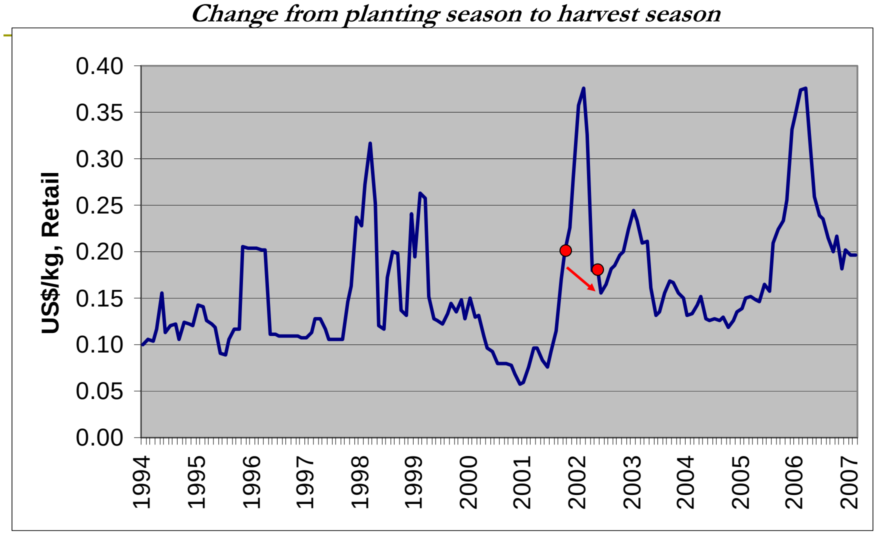

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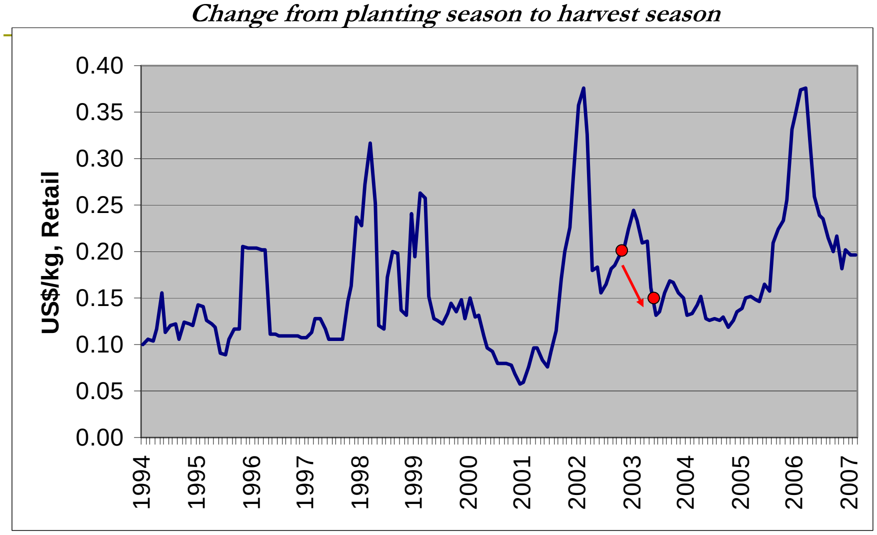

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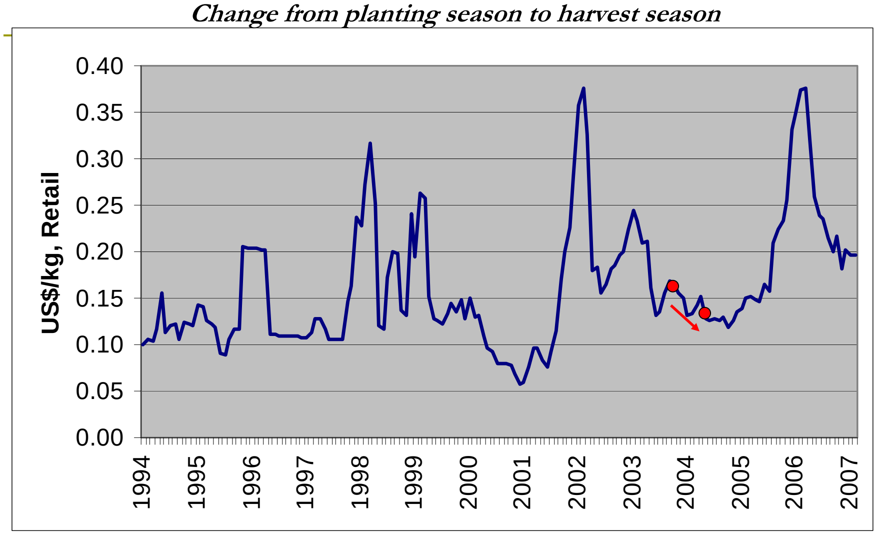

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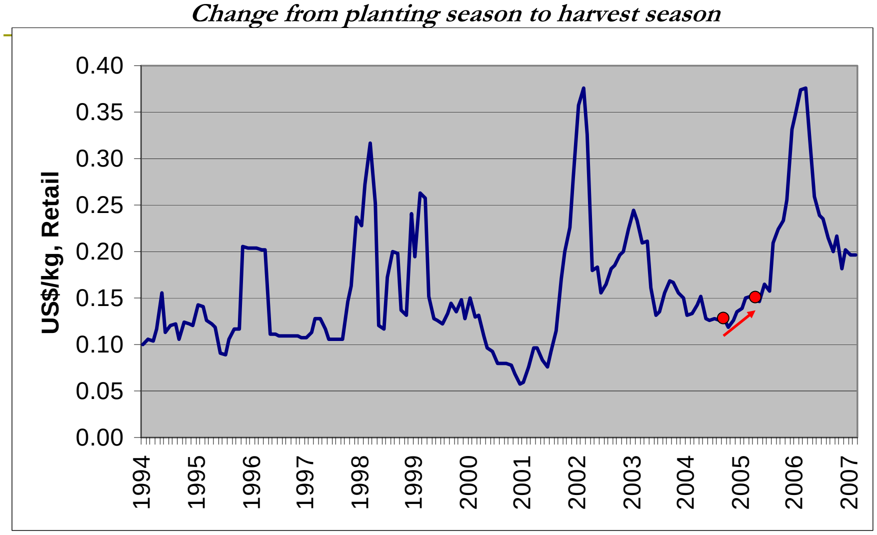

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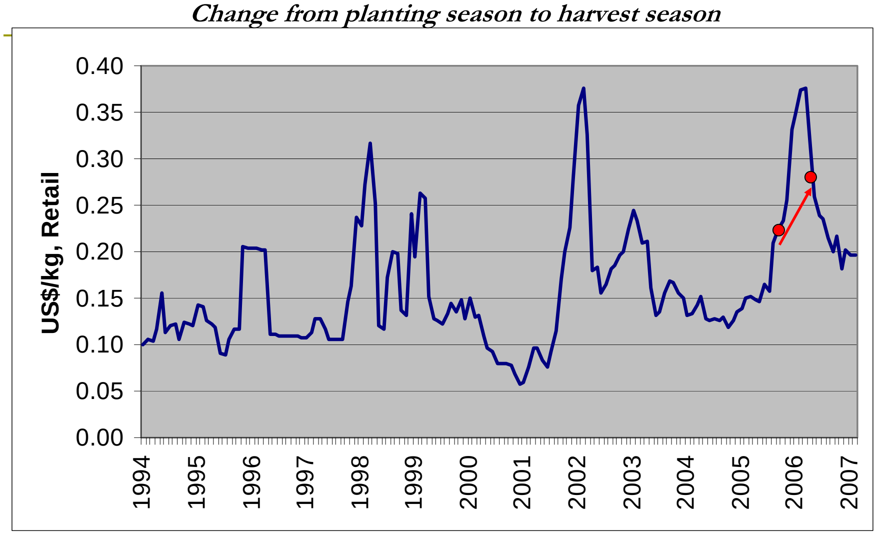


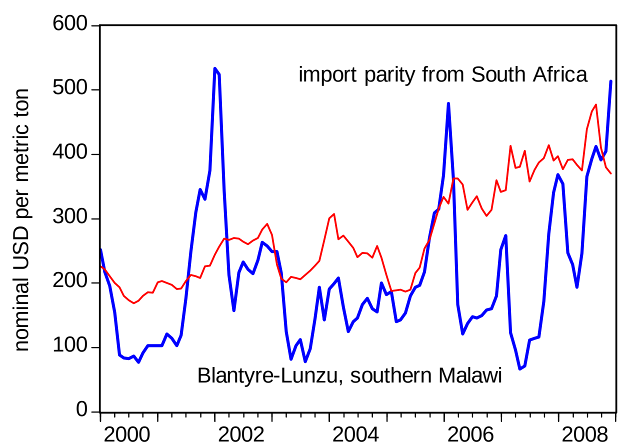
Correlation = 0.14

Key issues in 2nd generation LRP (2)

- Coordination
  - Taking advantage of strengths of different organizations
    - To keep objectives well defined
  - Avoiding uncoordinated purchases
- Who are you really reaching?
  - 2% of Zambian farmers provide 50% of marketed surplus coming out of smallholder sector
    - 10%-20% provide the rest
  - Comparable patterns elsewhere
  - P4P and related developmental approaches will not reach other 80%-90%

Key issues in 2nd generation LRP (3)

- Having the discipline *not* to buy



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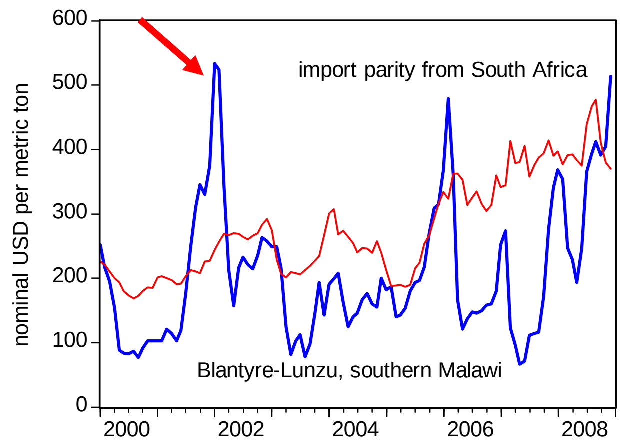

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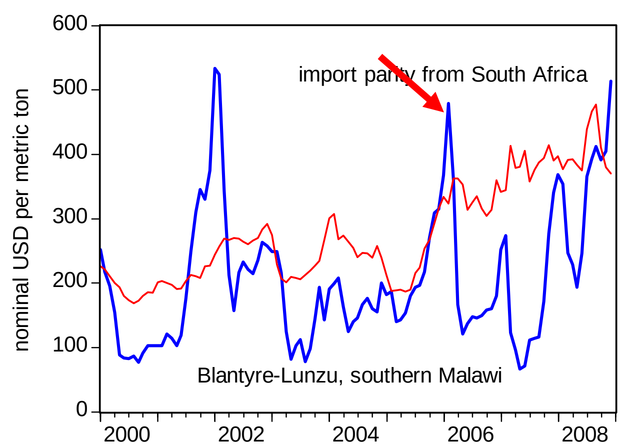

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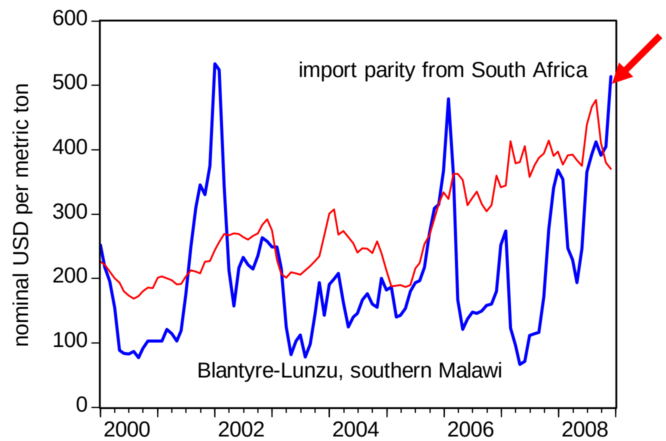

Key issues in 2nd generation LRP (4)

- Taking care with purchases in thin markets
  - Beans compared to maize
  - Much greater risk of driving prices up

Wrapping up

- First generation LRP, based on efficiency criteria, a proven success
  - Will continue to account for vast majority of LRP
- Jury is very much out on developmental LRP
  - Who is it reaching?
  - Need for serious M&E
  - Common data base standards for ex-post assessment
  - Forward pricing very difficult
  - Need for procedures to avoid
    - buying into rising market,
    - Buying above IPP

Thank you