Local and Regional Food Aid Procurement

The state of knowledge as LRP Moves into its Second Generation

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Outline

- Background
- What do we know?
- Choosing between modalities
- What do we not know?
- Key issues
Background

- **LRP = Local/Regional Procurement of food aid**
- Rapid growth since 2000
  - Movement of EU to cash based programming
  - Then Canada
  - U.S. …
- **1st generation LRP (“Traditional LRP”)**
  - WFP buying through large competitive tenders
  - Other actors were few and not growing
  - **Assure cheapest possible supply of appropriate food subject to timeliness needs**

Background (2)

- **2nd generation LRP (from late 2000s)**
  - More actors, more modalities, more objectives
    - WFP Purchase for Progress (P4P)
    - USDA food aid pilot procurement project (PPP)
      - U.S. NGOs
    - USAID …
      - **Use purchasing power for development objectives**
  - Traditional LRP still dominates quantitatively
  - But new modalities getting lots of attention and some focused study
Background (3)

- LRP should be seen as one of a variety of options

<table>
<thead>
<tr>
<th>“Traditional” in-kind food aid</th>
<th>Int’l procurement</th>
<th>LRP</th>
<th>Food vouchers</th>
<th>Cash transfers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>Level of engagement with (local) markets</td>
<td>High</td>
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*Local market conditions key to determining which to use*

Background (4)

- And many options within LRP

### Purchase modality
- Routine, large-scale competitive tenders
- Soft-tendering
- Contracting
- Direct purchases
- Through exchanges
- Warehouse receipts (in or out of exchanges)

### Who procures?
- WFP
- Individual NGOs
- NGOs through umbrella organization
What do we know?

- WFP and NGOs are not traders
  - Implications for rules, procedures, disciplines

- 1st generation LRP generally successful
  - Cost and timeliness relative to in-kind food aid
    - Cost ~60%-65% of in-kind (Clay et al, Tschirley & Del Castillo, GAO)
    - Timeliness: 147 days for in-kind, ~35-40 for LRP (GAO)
  - This means
    - More people fed, fewer lives lost
    - Fewer long-term cognitive deficiencies

What do we know?

- 1st generation pricing performance generally good
  - Buying at or near local market price
  - Not buying when local price > IPP
WFP Purchases, local wholesale prices, and IPP from SA in Lusaka

Prices Paid – generally good performance
Decision to procure or not – good performance
Decision to procure or not – good performance

What do we know? (2)

- Some problems in 1st generation LRP
  - Some evidence of price spikes on specific occasions
  - General sense and some quantitative evidence of WFP paying better than the market
  - Seasonality of purchases (Zambia example)
How to Choose?

- Between in-kind and cash or vouchers
- Between traditional (tied) in-kind and LRP
- Between types of LRP

Though typically the choice should be on the mix of approaches

Choosing between cash and in-kind: two questions

- Do markets typically function well in affected areas?
  - Do they function well during normal production years?
  - Do the food insecure typically rely on food purchases for some share of their staple food needs?

Empirical regularities:
- Poor and food insecure are most reliant on food markets
- Drought prone areas are most reliant on food markets
- 2002/03 example from southern Africa
Choosing between cash and in-kind: two questions (2)

- Is there reason to believe markets may not function well in this particular instance?
  - Is there sufficient food nearby to satisfy the new demand?
  - At what price? (transport costs; competitiveness of trade)
  - Is there any physical or policy barrier to the movement of food into the area?

Choosing between tied food aid and LRP

- Each case context specific
- But presumption must be heavily in favor of LRP
  - Efficiency as a moral imperative
Choosing between types of LRP

- Cost, timeliness
- Flexibility
- Complexity (demand on analytical resources)
- Risk of market distortion
- Potential for developmental impact

*Balancing uncertain development impacts against (a) cost and (b) uncertain probabilities of market distortions*

Many unknowns about 2nd generation LRP

- Effects on
  - Farmer incomes
  - Sustainability of any effects that are found
  - Market development
    - Size and reliability for farmers
    - Unit cost reductions
  - Price levels
  - Price instability
    - Size of purchases relative to size of market
Establishing 2nd generation effects is difficult

- Farmer incomes
  - Panel surveys with Impact Assessment designs
  - Technical issues
  - Institutional issues
    - Training and orientation of staff in WFP, NGOs
- Prices
  - Many more actors buying in many more locations?
  - Issue of data availability

Establishing 2nd generation effects is difficult (2)

- Market development
  - Unit cost reductions take time
Key issues in 2nd generation LRP

- Benefit:Cost ratio
  - Programmatic implications of needed research

- Pricing
  - Need for a clear and consistent approach across actors
    - WFP and NGOs are not traders
  - The discipline to not buy
    - How to impose this when partners have time-limited awards?
nominal USD per metric ton

Blantyre-Lunzu, southern Malawi

import parity from South Africa
Key issues in 2nd generation LRP (2)

- Can LRP drive **systemic** improvements in market performance?
  - ZAMACE in Zambia
  - Warehouse receipts (and UCE?) in Uganda

  *This is where the real gains will come*
And not to forget about traditional LRP …

- Has it driven increases in production?
  - The converse of the food aid disincentive debate
- Has the Advance Financing Facility allowed more counter-seasonal purchasing?

Thank you