Markets and food aid

Presentation for the US Dry Bean Council: Mini-Conference on Health and Food Aid

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Markets and Food aid

- How are commodity markets affected by food aid?
- How can markets contribute to food security?
Why look at markets?

- Markets are not an end in themselves
- Millions of people rely on markets for their food security, and more generally for their livelihoods
- Markets are dynamic players in how households respond to shock, the effectiveness of selected response alternatives of humanitarian agencies, and longer run food security and livelihoods
- Markets can be used effectively to help meet food security needs

Objectives of Emergency Food Aid

- Save lives
- Ensure food security (reduce severe food insecurity)
- Protect/sustain livelihoods
- Food Security triad:
  - Availability
  - Access
  - Utilization
Food Aid and Negative Effects on Markets

- From Schultz onward, economists have discussed “price disincentive effects”

Simple Logic:
Food aid adds supplies to local markets
► flooding the markets
► lowering prices for local producers
► ► crowding out both local production and local trade

The evidence on disincentives?

- Literature shows these cases:
  - If large amounts of food aid arrive in market when local product is in market (eg. harvest), prices fall
  - If large amounts of food aid arrive in market when product is easily available in other domestic markets or within the region or consumers have easy substitutes, prices fall

- Basic problems: Need to look at details of programming: how much, where, when, and how
  ► Lack of flexibility a key problem
Why limited negative market effects?

- **Availability issues:**
  - Local markets are integrated with other markets, so the product is distributed over many markets, with less impact on any one market
  - Quantities were relatively small and “disappeared” into the markets quickly
  - Local production was unavailable, and FA met a gap in supplies, keeping the prices relatively low, but was withdrawn when local production revived

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Why limited negative market effects?

- **Access issues:**
  - Food aid targeted a population that had no purchasing power and did consume most of the food aid

- **Utilization issues:**
  - Food aid commodity was appropriate within consumption basket and so not sold into the market
Food aid and markets: Positive side

- Food aid may provide commodity for traders and consumers when no local products are available
- Food aid may enable households to avoid selling productive assets, so they can continue to earn income and work with markets
- Food aid may enable households to maintain their health and thus continue working, caring for the family

Food aid as the main response?

- We can control for and avoid most of the serious negative effects of food aid on markets
- But food aid may not be the best use of our resources
Evidence of markets contributing to food security during emergencies

- Food aid in markets can lower prices for basic staples during a critical time for ensuring access
- Food aid can help provide liquidity in markets, with traders continuing to function
- Markets enable households to use food aid as a fungible good to obtain other goods
- Markets offer the option of cash transfers (potentially more efficient way to ensure food security)

Key elements in Food Aid decisions

- Alternative responses to food-related emergencies
  - Food aid
  - Non-food, in-kind aid
  - Cash transfers
  - Market interventions
  - Interventions in other sectors
    - Seeds as a key intervention (Malawi program)
How can markets contribute to food security?

- Simple logic:
  - Most households (even in rural areas) obtain food and other goods from the market
    - Well-functioning markets provide goods with low costs in a timely fashion
    - Well-functioning markets are also key to income opportunities
      - Higher incomes can help improve overall food security

Shifting a bit to look at the supply side of food aid …..
Trends in food aid: Local and regional purchases (LRP)

- Looking at how and where agencies obtain their supplies of food aid
- Increasing use of local and regional purchases by World Food Programme, especially in Africa
- European donors pushing hard, tying aid
- US lacks mandate for LRP
- Using LRP may mean increasing amount of food aid made available by 75%

Figure 2. Volumes of food aid delivered to African countries, by delivery mode, 1995-2005

Source: WFP Procurement Data Base, as estimated by Tschirley and del Castillo, 2006.
Beans in LRP for WFP

- Beans have remained 10% of LRP in 2001-2005 period
- Overall LRP has increased by 150% in period, to $707 million

- So, bean value purchased has been increasing
  - Increasing markets for beans as a cash crop, income generating

What does this all mean for US Dry Bean Council?

- Excerpt: “Promote areas of mutual interest in the use, consumption and marketing of edible dry beans worldwide”
What does this all mean for US Dry Bean Council?

- Disincentive effects of food aid deliveries are over-rated as a problem, except for the “big problems”
- But, that does not mean that all is rosy for food aid as a solid market for US bean production (WTO, etc.)
- Market development continuing to be a key feature for food security

What does this all mean for US Dry Bean Council?

- LRP is an opportunity for beans to increase role as a cash crop in many areas
  - Smallholder crop with strong income implications
- LRP, done right, can enhance local markets and bean demand overall
- Investments in bean productivity and quality enhancements valuable for market development: seeds and technology transfer programs/exchanges
For more information

- Visit the MSU Food Security Research Group website:
  http://www.aec.msu.edu/agecon/fs2/index.htm

- Contact me at donovanc@msu.edu