



Markets 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
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Objectives of Emergency Food Aid

- Save lives
 - Ensure food security (reduce severe food insecurity)
 - Protect/sustain livelihoods
 - Food Security triad:
 - Availability
 - Access
 - Utilization
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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 - Local production was unavailable, and FA met a gap in supplies, keeping the prices relatively low, but was withdrawn when local production revived

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
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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
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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)
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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)
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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

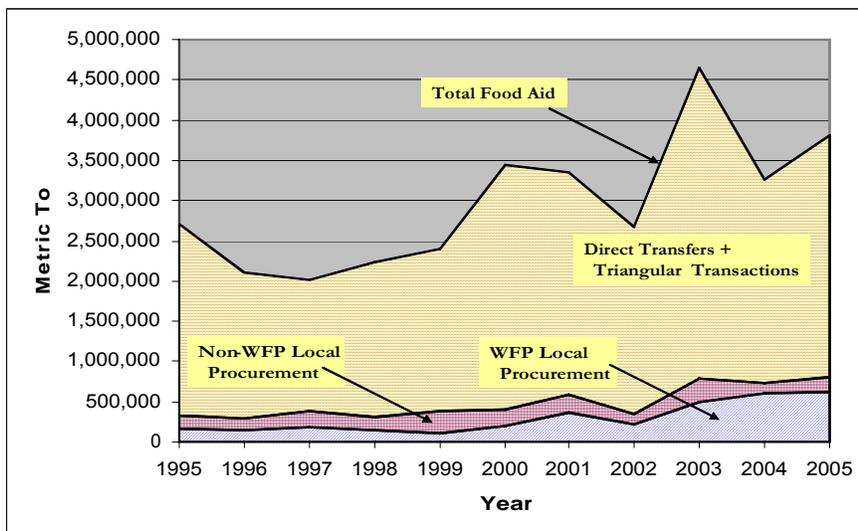
Shifting a bit to look at the supply side of food aid

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
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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
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For more information

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