Local and Regional Food Aid Procurement and the U.S. Farm Bill

David Tschirley

MSU Brown Bag
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Roadmap

- Background
  - What is LRP and why should we be interested in it?
- LRP and the U.S. Farm Bill
- Implications (preliminary thinking)
What is LRP?

- Food aid procurement in general
  - Purchasing food aid in the cheapest location possible subject to timing needs
- Regional procurement (in Africa)
  - Purchase in one SSA country for delivery to another
- Local procurement
  - Purchase in a surplus region of one country for use in a deficit region of the same country
    - Kenya: High Potential Maize Zone to East and Northeast
    - Uganda: Central and east to north
    - Mozambique: North (and sometimes Center) to South (and sometimes Center)

Trends and Patterns

WFP Worldwide Food Aid Procurement, 1999-2005
Trends and Patterns (2)

Worldwide Local Procurement of Food Aid by WFP and Others, 1995-2005

Trends and Patterns (3)

- Most of this procurement takes place in Africa and Asia, in roughly equal proportions
  - 65% in 2005
- But Africa receives about twice as much as any other region
  - About 60% in 2005
  - Asia about 30%
- Most procurement within SSA takes place in East and southern Africa
Cost Savings

- 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: 1,200,000 for 2 years
    - 1,800 kcal/person/day
  - During at most 8/180 months would U.S. food aid have been cheaper
- Consistent with other findings
- Savings on processed foods even higher
  - And timeliness advantage even greater
Current maize prices in various SSA markets vs. imported U.S. food aid
Current maize prices in various SSA markets vs. imported U.S. food aid
Current maize prices in various SSA markets vs. imported U.S. food aid

![Bar chart showing maize prices in various SSA markets vs. US food aid](image-url)

- **Randfontein, SA**
- **Southern Province, Zambia**
- **Malawi Retail**
- **Kampala Wholesale**

- **US food aid**
- **Local market**

**Notes:**
- The chart compares current maize prices in various SSA markets with imported U.S. food aid.
- The price is given in US$ per metric ton (mt).
Current maize prices in various SSA markets vs. imported U.S. food aid

![Bar chart showing current maize prices in various SSA markets vs. imported U.S. food aid. The chart compares Randfontein, SA, Southern Province, Zambia, Malawi Retail, and Kampala Wholesale markets, with US food aid and Local market prices represented by different colors.]
Negative Effects of LRP?

- Our review of 2000-2005 LRP by WFP showed good performance
  - Little likelihood of serious market disruptions
  - Great cost savings
  - Greater timeliness

LRP and the U.S. Farm Bill

- Spring 2005: USAID Director Natsios proposes up to $200m per year of Food for Peace Budget be used in cash, primarily for LRP
- Huge uproar from “the iron triangle”
  - Title II NGOs
  - Maritime industry
  - U.S. food processors (the least competitive against LRP)
- Some shifting among NGOs
  - CARE eventually moved actively away from support for U.S. in-kind food aid
  - CRS took a less doctrinaire stance
  - But in large measure, the lobby held
What made it into the Farm Bill?

- Bush administration sticks to its position
- Congress resists
  - Support in the populace is widespread by very shallow, opposition is concentrated and very deep
- Approved program
  - Run out of CCC (no experience in this area)
  - Many requirements
  - US$60m total over 4 years
    - Not all of which would go to commodities (overhead, operations)
    - WFP purchased over $200m (actual commodity cost) in SSA just in 2005
  - A (very small) fig leaf for Congress

Does this failure matter more in today’s price environment?

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[Graph showing price trends]
Does this failure matter more in today’s price environment? (2)
Does this failure matter more in today’s price environment? (3)
Does this failure matter more in today’s price environment? (3)

Does this failure matter more in today’s price environment? (4)
Does this failure matter more in today’s price environment? (5)

- From consumer’s perspective
  - No discernable pass through of maize price boom in Mozambique
    - Need to do more rigorous analysis and for more countries
  - There certainly *has* been pass through on rice and wheat, which are imported
  - So overall cost of staples has certainly risen, which may drive higher food aid needs
  - Assuming a fixed food aid budget and full pass through of maize prices in USD terms:
    - moving fully to LRP at current prices would limit the reduction in food aid quantities to 19%, instead of 38%

Does this failure matter more in today’s price environment? (6)

- From farmer’s perspective
  - IPP-EPP band has moved up sharply, and has probably widened due to increased transport costs
  - So can expect higher market clearing prices in these countries and greater potential for export outside the region
  - But where is the demand??
  - Could come from LRP
  - In this sense, not doing more LRP at this time involves a potentially large foregone gain for farmers
  - But WFP is increasing their procurement …
  - … and aggregate supply response in African agriculture is not high