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LOCAL AND REGIONAL FOOD AID PROCUREMENT: AN ASSESSMENT OF EXPERIENCE IN AFRICA AND ELEMENTS OF GOOD DONOR PRACTICE

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Policy Messages: Procuring food aid supplies locally and regionally can save lives by improving the timeliness and reducing the cost of food aid delivery.

- Experience with local/regional procurement (LRP) in Africa has demonstrated significant cost savings compared to in-kind food aid;
- World Food Program (WFP) experience in Africa shows that LRP can be efficient relative to both local and international prices, and can be designed to have minimal disruptive effects on local markets while providing an important additional outlet for marketed surplus;
- A wide range of procurement modalities, each potentially appropriate under different circumstances, are available. For example, donors can and do rely upon WFP to carry out the local procurement. WFP can allow quick start-up to procurement activities, and may be cost effective (relative to other LRP modalities) when large quantities are needed, but is relatively inflexible as it is obliged to follow its own established procedures. Reliance on NGOs may require greater local monitoring by the donor, but can offer greater flexibility, since NGOs may be able to procure and distribute (smaller quantities) more quickly than could WFP or a commercial buying agent

PURPOSE: This Policy Synthesis is a summary of a longer report that discusses the procurement of food aid within the country or region where it is needed. Referred to as local and regional procurement – LRP – this practice has become a major element in multilateral food aid response over the past decade¹. The paper examines the relevance and the rationale for using LRP, reviews the efficiency of World Food Program (WFP) LRP activities in Africa relative to in-kind food aid and to prices in the markets in which it occurs, and proposes a classification of risks in LRP. It then discusses a range of potential LRP modalities, and proposes a

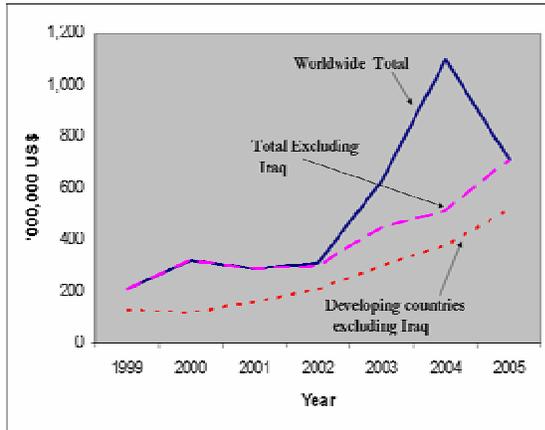
framework of guiding principles, information systems, and operational procedures for responsible and effective LRP. Finally, the paper briefly discusses the implications of this research for expansion of U.S. government (USG) authority to engage in LRP.

REVIEW OF LRP PRACTICE: WFP conducts 75%-80% of all LRP in Africa and maintains an organized data base that facilitates analysis; we focus on their activities for these reasons. From 1999 to 2005, the value of LRP by WFP in all developing countries quadrupled, and the share of developing countries in total procurement rose to nearly 75% (Figure 1). The share of LRP in total food aid also rose, to about 22% in Africa in 2004/05. This rise in global procurement was linked primarily to changes in

¹ “Local” refers to purchases within the recipient country, while “regional” refers to purchases in a neighboring country, for example, purchases in South Africa for delivery to Zimbabwe.

European food aid and development policy, followed in late 2005 by a Canadian decision to use up to 50% of its food aid budget for purchases in developing countries.

Figure 1. World Food Program Worldwide Food Aid Procurement, 1999-2005 (US\$m)



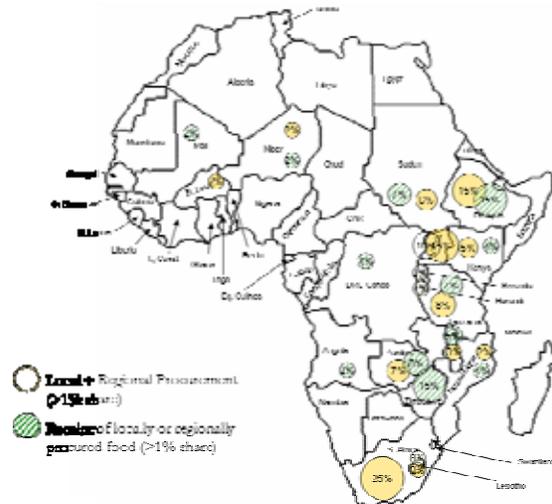
Maize dominates LRP in Africa, with a 60% share in 2005. Blended food now ranks second, after rising by more than four times in the continent since 2001. Food aid flows within and between countries of Africa tripled between 2001 and 2005; of the food aid crossing borders within the continent, nearly 60% came from South Africa. The rest remains heavily concentrated in Southern and Eastern Africa, with Ethiopia, Uganda, Tanzania, Zambia, Sudan, and Kenya leading the way (Figure 2).

In all African countries except Uganda, WFP LRP of maize averaged less than 5% of production and less than 9% of maize marketed surplus from 2001 to 2005. In Uganda, WFP maize procurement averaged about 10% of production and 12% of marketed surplus during the period, and may have exceeded 20% of marketed surplus in 2005. Procurement appears to have reached or exceeded 10% of marketed surplus in Zambia each year from 2003 to 2005 and in Tanzania in 2003 and 2005. In most countries during most years, pressure on local prices from LRP has likely been minimal; however, this issue requires more careful analysis, especially in the largest LRP countries and in less developed markets such as for dry

beans (though data limitations may preclude quantitative analysis of the latter).

EFFICIENCY OF LRP: Previous research has shown that the cost savings of LRP relative to in-kind food aid are greatest for the two main commodities shipped by USG to Africa: the unit cost of locally procured maize and corn/soy blend (CSB) was 61% and 52%, respectively, that of in-kind food aid (regardless of source)². Our analysis compared the procurement cost of maize grain by WFP in Kenya, Uganda, and Zambia between 2001 and 2005, with estimated costs of food aid from the U.S. Results strongly reinforce previous findings: using LRP rather than in-kind donations of maize saved nearly US\$68m, and allowed 75% more food aid to be provided to beneficiaries.

Figure 2. Location of Food Aid Procurement by WFP in Africa, Averages 2001-05



Analysis of the efficiency of WFP LRP activities in Africa relative to local market prices paints a generally favorable picture: the agency has consistently paid competitive prices in Zambia and has done so in Uganda since late 2004, while paying about a 10% premium in Kenya. In all countries, WFP has switched away from local procurement when local prices exceeded

² Clay, E., B. Riley and I. Urey (2004). The Development Effectiveness of Food Aid: Does Tying Matter? OECD.

import parity. The main potential improvement regards the seasonality of purchases; throughout Africa, these tend to be concentrated in months of low or falling supply and high or rising prices. Flexible financing mechanisms are crucial to improving this performance.

MANAGING RISKS: Any food aid operation entails risks. Frequently cited risks attending traditional in-kind food aid are that it may reduce production and trade incentives and breed dependency in the recipient country, or that it may arrive too late, endangering human lives. Regarding LRP, the paper distinguishes between *First Order Risks*, which can be defined with some precision and are relevant to managers for every transaction, and *Second Order Risks*, which are less precisely defined, are not specific to any given transaction, and have consequences that are likely to be less serious or less easily established than those of first order risks. First order risks include (1) that procurement will push local prices above import parity levels or above historical norms, (2) that traders will default on tenders, thus endangering the food aid pipeline, and (3) that procured food will fail to meet minimum safety standards, e.g., for aflatoxin contamination in maize.

Evidence from WFP's activities in Africa suggest that it has effectively managed default and food safety risks through pre-qualification of traders and by using contracting conditions that penalize traders for default. We know of no instances of food safety breaches in WFP procured food; although trader default has occurred, we found no pattern of food aid pipelines being disrupted by these events. Some evidence, though inconclusive, suggests that LRP may have contributed to price surges (risk 1) in Uganda in 2003 and in Niger and Ethiopia in 2005/06. In general, the concentration of purchases during scarce periods in most countries increases the likelihood of price spikes. Given the importance of the issue, and the analytical difficulty of attributing price effects to any one cause, this risk deserves further analytical attention.

Second order risks relate primarily to medium- to long-term developmental effects of LRP, such

as creating price instability or an unsustainable market, and artificially strengthening some traders at the expense of others. On balance, we conclude that second order risks can be effectively managed through careful selection of traders, competitive tenders, and proper contract specifications. Yet all these risks increase with the share of LRP in a market; when procurement exceeds 10% of marketed surplus, tendering and contracting procedures must be especially well designed and executed.

Overall, the analysis suggests that, by learning from WFP's experience, donors can design local and regional food aid procurement programs that effectively balance the risks of LRP and maximize the desired advantages of timeliness and cost effectiveness.

LRP MODALITIES: Donors considering LRP can choose from a range of modalities. We assess several possibilities based on their likely cost, flexibility, and ability to economize on scarce analytical and managerial resources.

- **Working through WFP** would allow the quickest start-up, require the least monitoring by the donor, and could result in the lowest total cost (among LRP modalities) in large-scale operations. Long-run effectiveness depends in part on WFP's overhead and other charges. This modality would be less flexible than some, being most effective for acquiring large volumes when needs are known 6-8 weeks in advance.
- **Contracting a commercial agent** (either a local trader or international grain trading firm) could, in principle, yield cost savings over working with WFP; realizing these savings, however, would not be automatic. This approach would require more donor analytical and operational resources and may not be more flexible than working through WFP.
- **Working through NGOs.** NGOs have done less food aid procurement than WFP. The limited empirical record suggests that they have at times paid well above market prices for some products. Procurement by multiple NGOs would require greater donor monitoring

to assure consistency of procedures and evaluation of prices paid. The potential payoff would be greater flexibility, since NGOs may be able to procure and distribute smaller quantities more quickly than could WFP or a commercial buying agent. One would also expect NGOs' price performance to improve as volumes and experience increase.

- **Umbrella procurement** on behalf of NGOs, modeled on EU Humanitarian Procurement Centers, could improve the procurement cost performance of NGOs and reduce analytical and operational demands on the local donor office, while maintaining the flexibility advantages of working with NGOs.
- **Procurement by affected households** allows these households to do their own procurement by putting purchasing power in their hands in the form of food vouchers or cash. Potential advantages of this approach are reduced logistics costs for the donor and greater efficiency in converting donor financial resources into food or other necessities delivered to affected households in a crisis.

TOWARDS A FRAMEWORK FOR LRP PRACTICE: The overall *guiding principle* for LRP is to save lives and do no harm. Saving lives requires that LRP be used whenever it will allow more timely delivery of aid to threatened populations, or when it will allow more assistance to be delivered to more people among a threatened population. Two additional proposed guiding principles are that LRP's costs be evaluated on the basis of full cost accounting, and that any explicitly developmental goals of LRP be pursued in a way that does not compromise cost efficiency and timeliness.

Elements of a proposed *Food Aid Procurement Information System (FAPIS)* to minimize the risk of price spikes are (1) a baseline of selected price and household level analysis, to be fully updated every three- to five years, (2) regular partial updates of the baseline (from monthly to yearly, depending on the data), and (3) comparison of local prices to import parity (to be done prior to every LRP transaction). A well functioning local market information system will

help immensely in implementing and evaluating an LRP program.

Operational procedures need to focus on default and food safety risks and, to the extent possible, on second order risks. Specific procedures will vary depending on the procurement modality selected. Key issues are how to screen and contract with traders, developing contingency plans, reducing price risk, deciding whether to accept a price bid, and coordinating with government and other donors.

IMPLICATIONS FOR USG: USG is the largest global food aid donor. The majority of USG donated food is purchased under competitive tender in the U.S. and shipped to the recipient country on U.S. flag carriers. To meet sudden emergencies, supplies can be drawn from pre-positioned stocks of U.S. food aid, or supplies on the sea can be diverted to a more critical destination. Though costly, this approach has delivered vast amounts of food to tens of millions of needy people over the past 50 years. Yet commodities purchased and shipped from the US can take months to arrive, pre-positioned stocks are not always available, and their full cost has not been analyzed. In light of these facts, and of mounting emergency food aid needs, the flexibility to complement on-going in-kind food aid operations by purchasing some food aid locally is under review by the U.S. government. The analysis summarized in this paper suggests that properly designed LRP could be a lower cost, life-saving option compared to in-kind food aid, allowing food relief to be delivered to more beneficiaries within weeks rather than months.

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