

# Policy implications arising from the development impact of local and regional food aid procurement

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# Food Aid

**Tied Food Aid:** Donation in kind, i.e. commodity grown and/or processed in country of donor

**Untied Food Aid:** Donation as funds which can be used to procure food aid commodity in benefiting country or regionally



## **EC Council Regulation No. 1292/96**

### **Deals with food aid policy and food aid management**

Endorses food aid procurement within the benefiting country or in a neighbouring country.

It is understood to:

- contribute to the development of domestic and regional marketing systems
- assist in the development of local agriculture and livelihoods in source countries
- have positive impact on rural incomes



**Preliminary Desk and Field Study on behalf of EuronAid in 2003 revealed there was very little hard evidence to support the rationale behind this pillar of EC Policy**



**Desk and Field Study for EC-Prep undertaken to examine the issues in greater depth 2004 to 2005**



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# Structure of the EC-Prep Project

## Research hypothesis

Local and regional procurement of food aid can make a much larger contribution to LDC economies and livelihoods of the poor. Policies can be put in place to increase such benefits.

## Research approach

- Literature review - 2004
- Two case studies - Uganda (Oct 2004)
  - Ethiopia (Jan 2005)

## Leading to

- Documentation and appraisal of current practice
- Development of good policy and practice guidelines



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# WFP local purchases in Uganda

## WFP is the main buyer of food aid commodities

- Between 28,000 and 121,000 tonnes/annum over 5 years
- Mostly maize and maize meal
- 95% is purchased from **large Kampala-based traders**
- 5% (max) is from **farmers' groups**; target is 10%
- US provides limited financial support for local procurement



# Cost comparison of US imported commodities and equivalent local purchase

US imports cost 2.9 times more than the equivalent local purchase in 2004

Commodity	Food for Peace 2004 (tonnes)	If equivalent tonnage purchased in Uganda
Maize meal	10,000	22,873
CSB	2,500	5,673
Pulses (green)	15,980	55,632
Maize (bulk)	10,030	29,148
Vegetable oil	1,000	1,960
Split peas	690	1,396
Sorghum	3,600	9,408
<b>Total</b>	<b>43,800</b>	<b>126,091</b>

(Source John Magney, UGTL)



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# Pros and cons of large trader purchase

## ■ Pros:

- Creates a large and remunerative market
- Contracts give access to working capital necessary to purchase grain
- Enables significant investment in grain drying and cleaning, and
- Teaches how to meet contractual specifications

## ■ Cons:

- Food aid supply is the preserve of a few companies (12 with mean of 8,600 tonnes)
- Traders active in regular maize marketing are not among them
- No significant improvement in quality along the regular supply chain





# WFP local purchase from small-scale farmers' groups

- Farmers rely heavily on the domestic food aid market
- A small, but highly subsidised and artificial marketing channel
- Most groups ill-equipped to meet quality specifications or follow contractual procedures



# Local purchases and regional markets in Uganda

## **Uganda is competitive in regional markets but:**

- Exports are mainly informal, due to quality problems
- WFP's operations tend to crowd out the development of formal maize exports to Kenya
- Bank finance for stock assembly is only available against WFP contracts
- Larger storage and drying facilities are mostly in the wrong location (in Kampala not maize growing areas)
- WFP standards are less strict than regional standards



# What happens when WFP reduces procurement in Uganda?

## Significant reduction in WFP local purchase would lead to:

- Failure of companies currently supplying food
- Scaling down and informalisation of the maize sub-sector
- Decline in maize prices and negative impact on production



# Uganda conclusions

- Direct procurement from farmers limits the development of links between marketing groups and urban-based traders
- By encouraging the emergence of a formal grain trading sector, local food aid procurement can provide a platform for successful export development
- The positive impact of local food aid purchases can only be sustained over the long-term if grain trading companies are able to diversify into regional markets, particularly Kenya
- We need to address constraints of
  - access to finance
  - delivery from a stock position, and
  - access to grain of high and uniform quality
  - ***Commodity exchange/Warehouse Receipts System ?***



# Food Aid in Ethiopia

## ■ Growing food aid dependency

- Average food aid is 900,000 tonnes/annum
- USA is leading donor of food aid in kind, supplying only US grain which
  - Increases market price instability
  - Sets back efforts to intensify production
  - Encourages unsustainable food consumption patterns

## ■ Future reform involves

- Cash-based productive safety-net programming
- Targeted at chronically food insecure families
- Multi-annual support



# Local procurement in Ethiopia

- **Local purchase of approx 200,000 tonnes and tending to increase**
  - Mainly funded by EC and member states, and implemented by DPPC, WFP, EuronAid, and range of NGOs
  - Main commodities are maize, wheat, sorghum and blended foods
- **Origins in 1983 with REST in Tigray**
  - EC has followed REST model of Cereal Availability Studies
- **Efficient food aid pipeline through EFSRA**
  - Grain loan system facilitates local food aid procurement
  - Offsetting donors' bureaucratic procedures



# Impact of Local Procurement in Ethiopia

- Development of agro-industry, e.g. blended food sector worth US \$3 million per annum – enables development of regional marketing
- Crop diversification, e.g. soya
- Increased liquidity in grain market
- Positive impact on market prices
- Increased cereal production
- Limited or no impact on development of grain market



# Ethiopia Conclusions

- Local procurement is perceived to be beneficial to local development
- Procurement through open tenders on formal contracts develops the business acumen of large traders but is not appropriate for small-scale producers
- Food security reserve is a key factor in the successful operation of local purchase in Ethiopia
- EC model based on Cereal Availability Studies is sound
- Problems with timing of procurement





# Development Impact of Food Aid

- Note: Evidence base is very thin
- Development benefits will become more apparent if impact assessments are undertaken in the supplying sectors
- Available evidence on local procurement shows:
  - direct purchase from farmers' groups problematic
  - increased numbers of traders in the market
  - many of these traders specialise in the food aid market
  - increased liquidity
  - increased cereal production
  - crop diversification
  - development of agro-industry
  - need to improve the timing of local procurement



# Policies for Strengthening the Development Impact of Food Aid

Local procurement has a greater role to play in the development of grain markets and local economies, thereby benefiting producers and consumers. Policies should:

- Encourage increased local procurement
- Devote increased resources to assessing impact in source economies
- Focus on developing existing marketing systems rather than developing exclusive relationships with producer organisations
- Encourage agencies still supplying in-kind aid to untie a substantial proportion



# Conclusions for Strengthening the Development Impact of Food Aid

- Findings confirm the hypothesis that local and regional procurement of food aid can make a much larger contribution to the economies of developing countries and poor people in particular, and that policies can be put in place to increase such benefits
- If procured locally or regionally: Food aid should be regarded as an investment tool for rural development rather than as only a relief tool to meet the short-term needs of hungry people

