

**THE USE OF LOCAL AND REGIONAL PROCUREMENT
IN MEETING THE FOOD NEEDS OF THOSE AFFECTED BY
DISASTERS AND FOOD CRISES**

**Office of Capacity Building and Development
Foreign Agricultural Service
The United States Department of Agriculture**

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Preface

This study was undertaken in response to a specific legislative requirement contained in Section 3206 of The Food, Conservation, and Energy Act of 2008 (The Farm Bill) for the United States Department of Agriculture (USDA) to develop a local and regional food aid procurement pilot program. It provides background information about prior local and regional purchases for the purpose of designing a pilot procurement program that meets the objectives and conditions contained in the Farm Bill and that is carried out within the context of the Bush Administration's policies.

The Administration has requested the authority, starting with the FY 2006 budget, to allow up to 25 percent of Public Law 480 Title II funds to be used for local and regional purchase in order to improve the timeliness, flexibility, and effective use of food aid for those threatened by food security crises. This policy is based on the view that the ability to purchase food aid commodities locally and regionally offers an exceptional opportunity to meet humanitarian needs in an efficient and timely fashion; fill food pipeline gaps prior to the arrival of food shipped from the United States; and increase the total amount of U.S. food aid available for saving lives during food crises. It is also based on the view that local and regional purchase has potential value for strengthening and expanding commercial markets, stimulating local and regional production, and reducing emergency food aid requirements.

This is a study by USDA and does not reflect the views of other food aid agencies. Readers are advised that the conclusions drawn in this study should not be interpreted as a policy statement. They are intended to inform the development of the guidelines and methodologies that will govern the implementation of the pilot procurement program. In that regard, the terms used in the study are for analytical, rather than for policy purposes. Therefore, a glossary of terms used in the study is also provided to assist the reader to understand clearly the content of the study. Readers should neither assume, nor expect, that the use of the terms will be entirely consistent with how they are used in current policy and in operational practice by the United States Agency for International Development (USAID) and others.

Lastly, USDA is indebted to many organizations and colleagues for their generous assistance in providing information for the study. USDA would specifically like to thank the governments of Australia, Belgium, Canada, France, Germany, Ireland, and the United Kingdom, as well as the European Commission, the World Food Program, CARE, Catholic Relief Services (CRS), Joint Aid Management (JAM), Save the Children Federation of the U.S. (SCF-U.S.), and World Vision for their generous assistance that helped us to understand their procurement policies, practices, and experiences.

Glossary

Affected population- The three *vulnerable groups* typically affected by *disasters* and *crises* whose food consumption was threatened or worsened significantly.

Beneficiary local purchase – Food purchases made directly in markets in the affected areas by beneficiaries using donor-provided assistance. Purchasing assistance can be provided directly to *targeted beneficiaries* through *cash transfers* and *food vouchers*, as well as provided indirectly to support the increased *beneficiary local purchases* of selected nutritious food commodities through *self-targeting* strategies.

Cash transfers – Cash that is provided directly to targeted beneficiaries requiring assistance to purchase food.

Crises – Same as *Food crises*.

Disasters - Natural events that result in the need for emergency food assistance that are caused either by slow-onset natural events, such as drought, or by rapid-onset natural events such as floods or earthquakes.

Economically vulnerable – The group of consumer households that faces a direct threat of reduced access to food due to short-run or long-run market changes associated with a disruption in market supply, an increase in food prices, and in extreme cases, a total market collapse. Higher prices that result from the market effects of disasters and crises will result in a fall in the food consumption of this group. This can create an additional need for food aid.

Emergencies – Same as *Food emergencies*.

Famine - A type of food *crisis* that is often triggered by a shock or *disaster* that involves a process of an intensifying food emergency (*pre-famine*) leading to an outcome of a state of widespread starvation.

Food aid – Food purchased with donor funds.

Food aid needs – The amount and quality of specific food aid commodities required by *targeted beneficiaries* to meet the immediate need to eat.

Food aid requirements – Same as *Food aid needs*.

Food assistance – Assistance that is provided to meet the food needs of vulnerable groups. Direct forms of assistance are *food aid*, *cash transfers*, and *food vouchers*. Indirect assistance is provided through market-available *self-targeted commodities* which help the *economically vulnerable* to purchase less expensive and more nutritious food.

Food consumption insecure - *Vulnerable groups* that are not *food consumption secure*.

Food consumption security - Exists when all *vulnerable groups* have adequate and stable access to an adequate level and quality food for their immediate consumption in order to lead a

healthy and active life. Food consumption security relates specifically to access to food by the vulnerable, rather than to access to food by all. (See *Food security*)

Food crises - Complex food emergencies that generally involve natural disasters, man-made factors, and conditions of severe chronic hunger and food insecurity. These can be temporary or prolonged events that are caused by severe political crises, conflict or economic changes. Examples are pre-famine, HIV/AIDS, and food price crises.

Food emergencies - Disasters and food crises

Food needs – These are the immediate need for the food required to eat and the need for continuous access to food to eat from normal food sources, including markets. *Food aid* meets the immediate need to eat among *targeted beneficiaries*. In the event the need for stable access to food is not met, *food aid* is required to meet an immediate need to eat.

Food requirements – Same as *Food aid needs*.

Food security- Exists when all people at all times have both physical and economic access to sufficient food to meet their nutritional needs for productive and healthy lives. FAO also identifies ‘stability’ as a central element of food security.

Food vouchers – A voucher provided directly to targeted beneficiaries requiring assistance to purchase food.

Geographically vulnerable - The group of households that live in geographic areas facing the threat of a reduction in food consumption due to a potential or actual natural disaster or food crisis.

Import parity price - The key benchmark for assessing the feasibility of local procurement based on a comparison of the cost of purchasing a locally available commodity versus the cost of importing the same commodity. The benchmark is used by WFP and others to calculate the cost of importing the same commodity from a regional or international market.

Intermediary local purchase - A type of donor-supported local purchase that involves the purchase of food made in the affected country. Food is purchased by designated intermediaries that keeps food markets in the affected areas functioning during emergencies and that increases the market supply of food available for *beneficiary local purchases*.

Intermediary regional purchase – A type of donor-supported regional purchase that that involves the purchase of food in the same region as the affected country. Food is purchased by designated intermediaries that keeps food markets in the affected areas functioning during emergencies and that increases the market supply of food available for *beneficiary local purchases*.

Livelihood group – Households which have the same basic *livelihood* pattern.

Livelihoods – These are the various ways in which the principal adult members of households work, earn their income, and acquire their food. Groups of households with similar patterns are characterized as belonging to a homogenous *livelihood group*.

Local procurement – The purchase of *food aid* by donors and food aid organizations in the country affected by a disaster or food crisis.

Local purchase – The purchase of food made in the country affected by disasters and food crises by food aid organizations, beneficiaries and purchase intermediaries. Local purchases are donor-supported interventions to increase the food consumption of targeted beneficiaries. One type is the purchase of *food aid* that is directly provided to beneficiaries (*local procurement*). Another type is the purchase of food by the *targeted beneficiaries* themselves (*beneficiary local purchases*). *Beneficiary local purchases* can be made with donor-financed *food vouchers* or *cash transfers*. Donors can also support increased *beneficiary local purchase* of specific food commodities through *self-targeting* strategies. A third type is the purchase for beneficiaries by designated intermediaries (*intermediary local purchase*) that can keep food markets functioning in the affected areas during emergencies and that can increase the market supply of food available for *beneficiary local purchase*.

Need for food aid - The immediate need by certain vulnerable groups for food aid.

Pre-famine - The period of an intensifying life-threatening *food emergency* that often results from a combination of a natural disaster, typically drought, and man-made factors.

Pre-positioning - Placing in-kind food aid contributions close to areas of expected food aid needs.

Regional procurement – The purchase of food aid by donors and food aid organizations in a country that is not affected by the disaster or crisis and that is in the same region.

Regional purchase – The purchase of food that is made by food aid organizations and purchase intermediaries in the same region as the country affected by the disaster or food crisis. They are donor-supported interventions to increase the consumption of food by *targeted beneficiaries*. One type is the purchase of *food aid* that is directly provided to beneficiaries (*regional procurement*). Another is the purchase for beneficiaries by designated intermediaries (*intermediary regional purchase*) that keeps food markets in affected areas functioning during *emergencies* and that increases the market supply of food available for *beneficiary local purchases*.

Self-targeted foods – These are food commodities whose low prices make them more likely to be purchased by the *economically vulnerable*. Therefore, donors use them as means of improving the nutritional content of one or more foods in the diets of those whose nutritional status is inadequate.

Self-targeting – A strategy that stimulates the purchase of *self-targeted food commodities* among *economically vulnerable* households in order to improve food consumption security in the short and long run. The short-run objective is to stimulate the purchase of *self-targeted food commodities* by the *economically vulnerable* during disasters and food crises. The long-run objective is to increase the market supply of *self-targeted food commodities* that are produced either locally or regionally.

Special needs vulnerable – These groups have a demographic and/or health condition that makes them highly *food consumption insecure*. They typically have special nutritional needs that require special types of food aid.

Targeted beneficiaries – The *vulnerable group or groups* that are targeted to receive food aid or other food assistance.

Vulnerable groups – The *economically vulnerable, the geographically vulnerable, and the special needs vulnerable*.

Acronyms

CAADP – Comprehensive Africa Agriculture Development Program
CARE – Cooperative for Assistance and Relief Everywhere
CFSAM – Crop and Food Supply Assessment Mission Report of the Food and Agriculture Organization of the United Nations and the World Food Program
CRS – Catholic Relief Services
C-SAFE – Consortium for the Southern Africa Food Emergency
CSB – Corn Soy Blend
DAC List – Development Assistance Committee List of the Organization for Economic Cooperation and Development
EC – European Commission
EMOP –Emergency Operation of the World Food Program
EU – European Union
FAC – Food Aid Convention
FAO – Food and Agriculture Organization of the United Nations
FAS –Foreign Agricultural Service of the United States Department of Agriculture
FEWS NET –Famine Early Warning Systems Network
FFP –Office of Food for Peace of the United States Agency for International Development
GIEWS –Global Information and Early Warning System of the Food and Agriculture Organization of the United Nations
HEPS – High-Energy Protein Supplement
IDP – Internally Displaced People
IEHA – Initiative to End Hunger in Africa
IFAD – International Fund for Agricultural Development
IPC – Integrated Food Security and Humanitarian Phase Classification Framework
IPP – Import Parity Price
IRA – Immediate Response Account of the World Food Program
JAM – Joint Aid Management
JAMR – Joint Assessment Mission Report
LDC – Least Developed Country
LIC – Low-Income Country
LIFDC – *Low Income Food Deficit Country*
LR Purchase – Local and Regional Purchase
LR Procurement – Local and Regional Procurement
LTSH – Landside Transportation, Storage and Handling
NEPAD – The New Economic Partnership for Africa’s Development
OECD – Organization for Economic Cooperation and Development
OFDA – Office of Foreign Disaster Assistance of the United States Agency for International Development
OMB – Office of Management and Budget of the United States Government
PEM – Protein-Energy Malnutrition
PEPFAR – The President’s Emergency Plan for AIDS Relief
PLWHA – Persons Living with HIV/AIDS
PPP – Pilot Local and Regional Purchase Program
PRRO – Protracted Relief and Recovery Operation of the World Food Program
PVO – Private Voluntary Organizations
P4P – Purchase for Progress Program of the World Food Program

SAFEX – South Africa Futures Exchange
SCF - Save the Children Federation
SENAC – Strengthening Emergency Needs Assessment Capacity Project
U.N. – United Nations
USAID – United States Agency for International Development
USDA – United States Department of Agriculture
WFP – World Food Program of the United Nations

Executive Summary

The Food, Conservation, and Energy Act of 2008 (the Farm Bill) authorizes the Secretary of Agriculture to implement a five-year, \$60 million pilot local and regional procurement program for food aid. As specified in the Farm Bill, the United States Department of Agriculture's pilot local and regional procurement program will consist of field-based projects in which the local or regional procurements of eligible commodities will be made to respond to food crises and disasters. The Farm Bill requires that these procurements assist those who are affected by disasters and food crises, and therefore vulnerable to a drop in food consumption. It also requires that the procurements not cause harm to other consumers, producers or markets. The Farm Bill allows a portion of the funding for the pilot program to be used to provide development assistance that is related to protecting the food consumption of vulnerable consumers, and therefore to facilitate economic development and reduce food aid requirements over time.

This study is the first step in developing the pilot program and provides information for developing the guidelines, regulations, and methodologies that will guide the implementation of the program. The study examines the experiences and strategies supported by donors and implemented by the World Food Program (WFP) and by CARE, Catholic Relief Services (CRS), Joint Aid Management (JAM), Save the Children Federation of the U.S. (SCF-U.S.) and World Vision. These experiences were examined in relationship to meeting the goals of the program. The overall goal is to use local and regional food procurement in providing food aid that assists in saving lives, protecting lives and reducing suffering among those affected by disasters and food crises. The specific sub elements of this goal are to meet the urgent food needs of those affected by disasters and food crises, to ensure that local and regional procurements do not cause any harmful secondary effects, and to contribute to development and food security.

In this study, *procurement* refers to the *purchase of food aid* by donors and food aid organizations. *Local procurement* refers to the donor-financed purchase of food aid in a country affected by a disaster or food crisis, and *regional procurement* refers to the donor-financed purchase of food aid in a different country in the same region. *Purchase* refers to the types of donor-supported food purchases by food aid organizations, beneficiaries and purchase intermediaries that are designed to increase the consumption of food by targeted beneficiaries. *Local purchase* refers to the types of donor-financed food purchases by food aid organizations, beneficiaries and purchase intermediaries in a country affected by a disaster or food crisis. *Regional purchase* refers to the types of donor-supported food purchases by food aid organizations, beneficiaries and purchase intermediaries in a different country in the same region.

This study examined procurements for emergencies and non emergencies, recognizing that both have important goals that differ somewhat, depending upon food security conditions. Local and regional procurements were undertaken to respond to food insecurity conditions in emergencies and non emergencies. A primary reason for undertaking donor-funded and WFP and PVO-implemented procurements was to provide

timely food aid for saving lives during emergencies. A second reason was to improve food security in chronically food insecure areas through procurements that were primarily aimed at increasing food production and farm incomes. There is also current interest in, although little experience with, using local and regional purchases of food aid to benefit small farmers in low-income communities and to provide food benefits to groups with special food aid needs during both emergencies and non emergencies. One of these arrangements involves the procurement of food from farmers for feeding children in neighboring schools.

To meet the humanitarian imperative to save lives in food emergencies, WFP provided the largest response to food needs arising during emergencies and relied heavily upon local and regional procurement to obtain the food aid required. Its large local and regional procurements were indispensable in moving food immediately to large numbers of those facing life-threatening circumstances after rapid-onset disasters such as earthquakes and floods. The use of local and regional procurements to meet the urgent food needs of those living in the geographic areas affected by earthquakes and floods was likely to have saved the lives of countless individuals. Regional procurements during the later stages of droughts, especially when pre-famine conditions existed, also facilitated timely and effective life-saving responses. In addition, WFP and PVOs responded to emergencies under extraordinarily difficult working conditions in certain geographically-affected areas, and often faced extreme time pressure in procuring and delivering food aid in response to life-threatening conditions. When food was required to save lives, food that was procured locally and regionally by WFP and PVOs quickly reached those with food aid needs. Thus, local and regional procurements provided food aid responses that often played an important role in augmenting and complementing the in-kind food aid that was provided during emergencies by the United States Government and other donors.

There was a considerable difference between the types of procurement experiences of WFP and the PVOs. WFP's local, regional, and international procurements were primarily large in size, and often focused on addressing needs that were perceived to be life-saving. They were also guided by policies agreed to by the country members of WFP's Executive Board and by well-developed procurement procedures. PVO procurements were typically smaller, sometimes life-saving, often more localized, and usually had a 'linking relief to development' orientation and objective. Moreover, some PVOs gained additional practical experience in developing and implementing other types of local purchase programs, particularly cash transfers and food voucher programs, in order to provide food assistance with development benefits for those vulnerable to weak food markets and higher food prices.

WFP's primary operational focus in emergencies was on the timely delivery of food aid to those groups that were assessed as being the most food insecure. This focus on timely response to food aid needs was most apparent in the goal to procure food aid as rapidly and cost-effectively as possible for the purpose of preventing breaks in food aid pipelines. WFP's goal of using local and regional procurements to prevent pipeline breaks in emergencies was particularly relevant to situations when in-kind food aid was

not available. Procurements were especially important in responding to location-specific complex emergencies, particularly when they prevented breaks in existing food aid pipelines. WFP and many PVOs were able to maximize their food purchases and reach more of those in need by cost-effectively procuring food locally and regionally. Thus, by employing procurement policies, methods, and operational procedures, WFP and PVOs were systematically able to purchase more food aid, avoid pipeline breaks, and ultimately reach more of those with urgent needs in an expeditious manner.

The study uses past local and regional procurement experiences to draw two final conclusions. The first is that a successful response that meets the food needs of those affected in disasters and food crises emergencies has three elements. One is the careful identification of food needs of all those affected and the appropriate food responses and intervention required. Another is the adequate availability of resources for local and regional procurements and other purchases to respond flexibly and appropriately to urgent needs as developmentally as possible. And the third element is the application of cost-effective procurement and delivery methods and mechanisms to ensure that those in need of food aid receive assistance when and where it is most needed.

The second conclusion is that a comprehensive and integrated approach will help guide the appropriate use of local and regional procurements in meeting the goals of the pilot program within the overall context of assessing and responding to food needs in emergencies and non emergencies. The study concludes by identifying considerations that support a balanced approach to both save and protect the lives of those affected by food emergencies, as well as to protect and strengthen markets that keep farmers and consumers working, studying and eating, rather than reacting to high food prices that keep food off their tables.

I. *Introduction*

“Most of the people in the world are poor, so if we knew the economics of being poor, we would know much of the economics that really matters. Most of the world's poor people earn their living from agriculture, so if we knew the economics of agriculture, we would know much of the economics of being poor.”

Theodore W. Schultz
Nobel Prize in Economics Acceptance Lecture, 1979

This study of prior procurements made by the WFP and PVOs is based on three central premises linking the food needs of vulnerable groups with the markets that can help them. The first is the economic importance of protecting and strengthening market structures. Market mechanisms that are efficient will allocate food better and more sustainably than any other food distribution mechanism. Strong producer markets benefit farmers and the majority of the chronically food insecure who depend upon markets for their food. Moreover, the well-being of many of the poorest farm-households who both sell output and buy their food depends upon both types of markets. Greater reliance upon food markets is also a safeguard against the risk of long-term food aid dependency. The second is the humanitarian imperative of making procurement in these markets when life-threatening conditions require that the food needs of those who cannot purchase their own food are met immediately. The third is the practical reality that food aid procured in markets with large supplies, especially the United States, will continue to be required for the foreseeable future to assist those with food-specific needs. It will take time for food and agricultural markets in food insecure countries to develop until they are able to provide all consumers with affordable access to food on a sustained basis. Local and regional procurements can play an especially important role in generating greater local market demand that can prevent a collapse in prices when increases in supply occur while these markets are developing.

It is important to clarify the meaning in this study of local and regional purchase and local and regional procurement.¹ *Procurement* refers to the purchase of food aid by donors and food aid organizations. *Local procurement* refers to the donor-financed purchase of food aid in countries affected by disasters and food crises, and *regional procurement* refers to the donor-financed purchase of food aid in a different country in the same region. The usage of these terms, local and regional procurement, is consistent with their use by the United States Agency for International Development (USAID) and the World Food Program (WFP). *Local and regional purchase* refers to all types of donor-supported food purchases by food aid organizations, beneficiaries and purchase intermediaries that are designed to increase the food consumption of targeted beneficiaries.² Therefore, while *procurement* refers only to food aid, *purchase* refers to

all purchases of food provided *to* targeted beneficiaries (i.e. food aid), purchased *by* targeted beneficiaries, and purchased *for* targeted beneficiaries. For example, cash transfers and food vouchers are examples of donor support that are provided to increase the local purchase of food *by* beneficiaries.

Local and Regional Procurement in the Farm Bill

The United States Government (USG) is the world's largest food aid donor. In Fiscal Year 2008, the USG provided approximately \$2.9 billion³ worth of U.S.-produced food aid to the WFP and to Private Voluntary Organizations (PVOs) for both emergency and non-emergency programs.⁴ The USG traditionally responds to appeals from WFP and the PVOs by providing food aid in the form of contributions of in-kind commodities purchased on the U.S. market. However, Section 3206 of the 2008 Farm Bill provides the United States Department of Agriculture (USDA) with \$60 million over five years for the implementation of a Pilot Local and Regional Purchase Program (PPP) that will permit greater flexibility in responding to both emergency and chronic food aid needs around the world.⁵

The main elements of the PPP that are specified in the Farm Bill are an initial study of past procurement experiences, the development of guidelines and regulations, the implementation of pilot purchase activities, and a final evaluation of the pilot purchase activities. As stated in the Farm Bill, the first task is "*to study prior local and regional procurements for food aid programs conducted by other donor countries, private voluntary organizations; and the World Food Program of the United Nations.*"⁶ Therefore, this is a study report of prior donor-funded local and regional purchases (LR purchases) made by WFP and the PVOs that will lay the foundation for the development of guidelines and methodologies for the implementation of this pilot program.

The study examines the purposes and strategic manner in which LR procurements were made. Prior experiences are studied with regard to their approach in addressing food needs, in promoting development, and in avoiding harmful potential impacts on producers, low-income consumers, and markets. The study examines the methodological and procurement approaches used to procure food at reasonable prices, while at the same time avoiding procurements that harm farmers, that increase food costs for low-income consumers, or that have other negative impacts on markets. The study also examines whether methodologies and practices exist for ensuring that the food aid was produced in and procured from a developing country, was not re-sold or transshipped, and was not used for purposes other than food aid. It also examines prior LR procurements and purchases used for developmental purposes that have helped to reduce the vulnerability of those at risk from disasters and crises.

Local and Regional Procurement Supported by the U.S. Government

During the course of this study, USAID received \$125 million for local and regional procurement in response to current food emergencies, including the global food price crisis. This funding was received in the form of FY 2008 and 2009 supplemental

International Disaster Assistance and FY 2009 supplemental Development Assistance appropriations. USAID, together with its implementing partners, will monitor local and regional food prices for any indication of destabilization linked to local purchases. Of this \$125 million, \$30 million in Development Assistance funds are expected to be used to support activities that increase the ability of smallholder farmers to benefit from local and regional procurements of food staples. Section 491 of the Foreign Assistance Act of 1961 (as amended) enables USAID to use International Disaster Assistance funds to respond rapidly to the food and non-food needs of disaster victims around the world.

Therefore, USAID provides some funding to WFP and to PVO implementing partners for the local and regional purchase of various types of life-saving emergency food aid, including high-energy biscuits and ready-to-use therapeutic food (RUTF), as does the U.S. Department of State's Bureau for Population Refugees and Migration (PRM). In addition, the President's Emergency Plan for AIDS Relief (PEPFAR) has the authority to fund local and regional food purchases to provide nutritional support to people living with HIV/AIDS and generally provides two types of foods: fortified blended wheat flour and RUTF.

How the Study Was Conducted

The Office of Capacity Building and Development (OCBD) in USDA's Foreign Agricultural Service (FAS) invited the member countries of the Food Aid Committee of the Food Aid Convention, WFP, and PVO members of the Food Aid Consultative Group (FACG), PVO members of the Alliance for Food Aid, and PVO members of the Trans-Atlantic Food Aid Policy Group in mid-July to provide information about experiences related to their past and ongoing LR procurement and purchase programs. USDA also extended this invitation in various other meeting venues in Washington D.C.

This study is based primarily on a review of various reports, in-person and telephone interviews, and e-mail exchanges with donors, PVOs and the WFP. Only the experiences of organizations which are involved in either funding or implementing LR procurement programs and which responded with information about their programs and experiences were included in the study. USDA also received information from several donors, specifically Australia, Belgium, Canada, the European Commission (EC), France, Germany, Ireland, and the United Kingdom. USDA also spoke with many PVOs, including Joint Aid Management (JAM), CARE, Catholic Relief Services (CRS), Save the Children Federation of the U.S. (SCF-US), and World Vision.

The study was conducted by food security specialists within USDA's Food Assistance Division. Its primary purpose is to contribute to an informed discussion, both within and outside of USDA, regarding the most effective uses of cash resources provided for LR procurement that are consistent with the objectives and conditions of the PPP authorized in the Farm Bill. The study was conducted independently of any interest group, trade association, institution or organization which might have a vested interest in food aid being sourced either inside or outside of the United States. USDA consulted with the various offices within the Executive Branch which are involved in providing food assistance. The findings of the study will also be discussed with the Agricultural

Committees of the House of Representatives and the Senate, as well as the Foreign Affairs Committee of the House of Representatives.

This study assesses prior LR procurement experiences using past independent evaluations of LR procurements where available.⁷ However, this study is not a formal evaluation of the humanitarian or developmental impacts, the cost-effectiveness, or the timeliness of past LR procurements made by WFP and other PVOs. The study does not examine the effectiveness or the cost-effectiveness of individual procurements, nor does it evaluate the performance of specific PVO or WFP programs in relationship to achieving their stated objectives. A formal evaluation of prior LR procurements by response objective, by organization, by type of disaster or crisis, and by analytical and/or procurement method is outside the scope of this study, yet could provide valuable information for improving the impact and cost-effectiveness of LR procurements.

Disasters and Food Crises

The disasters that are addressed in the study are natural events that have resulted in the need for emergency food assistance. They are caused either by slow-onset natural events, such as drought, or by rapid-onset natural events such as floods or earthquakes. The speed of onset of the disaster and the severity of the effects of the disaster are the two major determinants of the level and timing of food need upon which the LR procurement of food aid is based. Disasters of particular interest are drought, floods and earthquakes. Food crises are understood here to be food emergencies caused by more complex situations, generally involving natural disasters, man-made factors, and conditions of severe chronic hunger and food insecurity. These can be temporary or prolonged events that are caused by severe political crises, conflict or economic changes. The food crises that are studied are those associated with the threat of famine, the pervasive and pernicious effects of HIV/AIDS, and the sharp increase in food prices and price volatility.

Affected Populations

This study of past LR procurement experiences considers the affected populations to be those vulnerable groups that are affected by disasters and food crises and whose food consumption worsened significantly or was under an imminent threat. The food consumption insecure, who are those most adversely affected by disasters and crises, have two types of food needs. The first is an immediate need for food to eat and the second is a need for assistance to protect their ability to acquire food in markets on a normal and continuous basis.⁸ Thus, prior LR procurements and purchases are studied as responses to the food needs created by the food consumption insecurity of those affected groups during emergencies and non emergencies. In this context, these interrelated food needs are different from food aid requirements, or *food aid* needs, which are the amount and quality of specific food aid commodities required by specific vulnerable groups to meet their immediate need to eat.

Those who are food consumption insecure are the vulnerable groups affected because of where they live, the economic conditions they face, or because they have

special needs. Thus, those who are food insecure due to a disaster or crisis are comprised of the geographically vulnerable, the economically vulnerable, and those with special needs. Those who are *geographically vulnerable* live in areas that face either the threat of a potential natural disaster or crisis or the negative consumption effects of a natural disaster or crisis. Those who are *economically vulnerable* are the group of households that face market-related threats to food access, which although generally non-life threatening, usually exacerbate their chronic hunger and lead to a decline in their nutritional status. Their vulnerability is primarily related to either short-run or long-run changes in market conditions associated with a significant reduction in market supply that causes significant food price increases. The economically vulnerable face the threat in extreme cases caused by disruptions in supply that can cause a complete market collapse in which food is completely unavailable. Although the effects of higher prices are generally non life-threatening except in the case of a market collapse, higher prices during disasters and food crises will reduce food consumption that creates an additional need for food aid. Longer-term market changes that cause higher prices also cause a long-run decline in the food consumption of consumers and small farmers. Those who are the *special needs vulnerable* face chronic and acute vulnerability, and therefore have special food needs as a result of their demographics or poor health.

The food consumption-related food insecurity of these groups increases since their normal ability to acquire food at the levels and quality needed is affected and they are unable to consume the quantity and quality of food that is adequate to live an active and healthy life.⁹ Some who are food consumption insecure are directly affected by a reduction in the level or quality of food available to them for immediate consumption during a disaster or food crisis, while others are indirectly affected as a result of a reduction in their normal ability to acquire the food required to feed themselves and others in their care. Some are affected both directly and indirectly.

II. The Changing Food Security Context in which Local and Regional Procurement Has Occurred

The Changing Threat

During the past thirty years, disasters have become more frequent and widespread, and chronic food insecurity and hunger continue to be difficult to resolve. Famine and starvation threats that once were viewed as being exclusively caused by production failures due to drought are now recognized as being caused primarily by the failure of individuals to access food, either because markets have ceased to function and/or because individuals have lost the means with which to buy food.¹⁰

In November 2008, the Food and Agricultural Organization (FAO) painted a worrisome picture of the state of global food security, suggesting that “lower (current) prices may be associated with more poverty and hunger rather than less.” FAO also indicated that “a cutback in grain stocks (due to restricted access to credit for essential inputs) against the background of continuing low grain stocks, which have not been re-

built since the high food price episode, would increase the risk of a global food crisis if harvests turn out to be poor, especially if countries cannot access credit for food imports”.¹¹ Thus, it is clear that the confluence of disasters and food crises, along with other complicating conditions, will continue to pose a challenge for the global community in meeting the first Millennium Development Goal to reduce the number of those suffering hunger in half by the year 2015. The common denominator for most, if not all of all of these problems, is the basic question about the need for food and how markets can better meet those needs.

As the understanding of these multiple threats has improved, so too has the notion that food insecurity is not just a problem of a lack of food availability, but that it is a problem of both food availability and food access that is often related to markets. Thus, as the understanding of the importance of food and market access has increased, there has been growing interest in finding ways that markets can be used to improve food *security*. This involves examining how markets can function better in providing affordable access to food, rather than blaming them for contributing to food *insecurity*.¹² It is through this optic that this study will examine how past local and regional procurements were made and, therefore, how they could be best used strategically to solve some of these critical food consumption problems.

Markets and Food Consumption Security and Insecurity

Local and regional procurement began during the market liberalization period that followed the failure of central planning and market control.¹³ When markets did not function, such as was widespread in Sub-Saharan Africa during the Cold War, a decline in food production would result in famine unless adequate amounts of food aid were provided in time to those in need. Many governments, especially those in the Sahel, began to harness the developmental potential of local and regional markets to such an extent that the Sahel as a region is no longer as vulnerable to famine caused by drought as it was 35 years ago. Now that food markets exist in all but the most remote rural areas of the world, the level of market access to food has become the most critical factor that has an immediate effect on the food consumption of the majority of those who are chronically food insecure. The performance of markets, combined with the level of resources that the economically vulnerable have to participate in those markets, have become the two most critical factors that determine who eats, when they eat, what they eat, and how much they eat. When food markets performed poorly and large numbers of people were unable to buy food, policy makers ‘blamed’ the markets and were more inclined to take market-controlling actions, which although intended to reduce food consumption insecurity, often had the opposite effect for those they were trying to assist. Over the 30-year period in which local and regional procurements have occurred, markets have grown in importance as the primary means through which most of the world’s chronically vulnerable have obtained their access to food. Thus, the development and food policy environment in which LR procurement have occurred has been especially important.

Markets in the Process of Development

One of the most basic economic development challenges over the period of market liberalization was to make agricultural markets become the engines of agricultural sector growth that would not only increase the overall supply of food available in the market, but also stimulate the growth of non-agricultural sectors. Growth in the agricultural sector certainly led to growth in the macro-economy. However, some governments recognized that the pace, quality and sustainability of this growth depended upon whether the growth in the agricultural economy supported, and was supported by, growth in the food economy. Moreover, when the growth of the agricultural and food economies became mutually-reinforcing, it also contributed to human development by making cheaper food more continuously available and in greater quantity. This reduced the persistent vulnerability of the majority of those economically-vulnerable rural and urban consumers who depended directly on food markets as the central mechanism through which they acquired their food on a daily basis. Therefore, promoting agricultural and economic development that resulted in human development required a set of economic instruments to build agricultural and food markets and market systems that helped poor farmers earn more income and that helped the poorest and most food insecure to purchase more and better food.¹⁴ When these food systems functioned well, they improved access to food for those who relied upon markets to obtain their food, even during emergencies.

Markets in Disasters and Crises

An important food policy challenge over the period in which local and regional procurements occurred was the effort to link 'relief to development' by strengthening food and agricultural markets so that they continued to function well enough to protect consumers against increases in food insecurity during disasters and crises. However, governments in the affected countries did not have confidence in many instances that these markets would work well enough during emergencies. Thus, they sometimes placed price controls and imposed trade restrictions, as well as made state purchases of food that caused market uncertainty that reduced private sector activity in the market. When these interventions resulted in a reduction in food available in local markets during emergencies, economically-vulnerable consumers faced higher food prices, was likely able to consume less, and was more likely to require food aid. These types of interventionist measures, when they were adopted, also weakened food and agricultural product markets in the early stages of development by reducing the incentive for the private sector to invest in market activities. Research by Michigan State University has found that some food insecure countries in sub-Saharan Africa have made purchases during drought and flood emergencies that have exacerbated the food insecurity of those who buy food.¹⁵ A variant of this government response problem was experienced during the food price crisis of 2008 when some governments viewed markets as 'the problem', and placed restrictions on the operation of domestic food markets, including banning the export of staple grain.

III. What Are the Main Types of Local and Regional Purchases and Procurements?

There is a wide range of prior experiences among donors, PVOs and WFP with making LR purchases. Therefore, it is helpful to distinguish among the economic types of purchases that were made in order to understand their different implications for meeting the food needs of affected groups and for any potential they might cause harm to individuals, markets, and market systems.¹⁶ The study looks at donor-supported purchases involving markets at the sub-national level in the country in which the food needs existed (*local purchases*) and in the same region as the affected country (*regional purchase*). The regional purchases examined during the study were exclusively regional procurements of food aid from the closest external markets.

There are three types of local purchases. These are purchase of food made in the same country affected by disasters and food crises by food aid organizations, beneficiaries and purchase intermediaries. The study found examples of local purchases by food aid organizations and beneficiaries, although not purchases by intermediaries. The purpose of all of these donor-supported purchases is to increase the quantity and/or quality of foods consumed by vulnerable groups that are the targeted beneficiary groups.

Purchases by food aid organizations were typically *for* the targeted beneficiary groups, most especially the geographically vulnerable and those with special needs. Purchases were also made directly *by* the targeted beneficiaries. These two types of local purchases are referred to here as ‘local procurements’ and ‘beneficiary local purchases’, respectively.

Dr. David Tschirley of Michigan State University makes several important points about the similarities and differences between local purchases made by food aid organizations and by beneficiaries as they relate to the functioning of producer and food markets:

“Operationally and logistically there are important differences between cash transfers and a local (and regional) purchase operation that has to centralize the procurement and movement of food. Yet they have the key similarity that in each case, the increased food consumption made possible by the intervention will come out of the local market; cash transfers just take the PVO ...or WFP out of the role of food wholesaling, using instead the existing (market) system. ..One could see a difference in that local (and regional) purchases involve purchase in surplus areas for shipment to deficit areas, whereas cash transfers will result in final purchases by consumers in primarily deficit areas. Yet even here, the essential difference is just that the donor or NGO is leaving the wholesaling role (in the case of cash transfers) to the market, rather than doing this itself. If markets are functioning well, it would also pull product out of surplus areas (as local (and regional) purchases would do) to meet the increased demand in deficit areas occasioned by the cash transfers.”¹⁷

Dr. Cynthia Donovan of Michigan State University also points out that these two types of local purchases have similar economic consequences:

*“They are also linked in that they are both thought to have positive effects on the local economy. They generate demand for goods: local (and regional) purchase generates demand for local production and farmers see higher incentives to produce; cash transfers mean that consumers have greater effective demand, seek goods on the market and the market has incentive to supply.”*¹⁸

Beneficiary local purchases of food can be made with donor-financed food vouchers and with cash transfers. Donors can also support increased beneficiary local purchases of nutritious food commodities through *self-targeting* strategies supported by governments and/or donors. This strategy is designed to stimulate the purchase of *self-targeted food commodities* among vulnerable consumer households in order to improve their food consumption security in the short and long run. The short-run objective of the strategy is to keep nutritious foods affordable to the economically-vulnerable poor during disasters and food crises by stimulating the purchase of nutritious and lower-priced, *self-targeted food commodities* by vulnerable households. The long-run objective of the strategy is to increase the market supply of lower-cost nutritious *self-targeted food commodities* that are either produced locally or regionally. The *self-targeted food commodities* are food commodities whose properties make them more likely to be purchased in a food market by the economically vulnerable group of consumers who require access to foods with improved nutritional content. Self-targeting is a less common strategy to stimulate local purchases of selected nutritious foods by targeted groups because it is focused only on the economically vulnerable, rather than on the geographically vulnerable and those with special needs. It involves facilitating the supply and purchase of locally-produced foods that are more readily available and affordable for the poorest food purchasing households. This approach has sometimes involved the use of in-kind food aid that has acted as a catalyst for creating a market channel for new more nutritious foods targeted specifically to the poorest consumers.

A third type of local purchase is the purchase *for* beneficiaries by designated intermediaries (*intermediary local purchase*) that can keep food markets functioning in the affected areas during emergencies and that can increase the market supply of food available for *beneficiary local purchases* within the affected communities during the period in which the normal food supply is not available. The intermediary could be a private entity which receives external public support to act in the public interest to keep food markets functioning when they would otherwise collapse, such as during a drought when both market supply and demand ‘dry up’. In one specific case observed, purchase by an intermediary in a drought-affected community could have prevented a food market in a small village from collapsing if it made food available for those willing and able to buy it. If a local intermediary had access to working capital for food purchases during that emergency, it could have filled a void in providing food in the remote community affected since traders typically would not venture into these areas. Although this is a type of local purchase that could be used to target vulnerable households in communities

affected by disasters or crises, there were no examples found in which ‘intermediary local purchases’ were actually made during emergencies.

IV. What Local and Regional Procurements Have Been Made and by Which Organizations?

WFP and the PVOs involved in this study have been implementing LR procurement programs in developing countries for more than 30 years. However, virtually all of the evidence collected for this study in relation to PVO activities is anecdotal since there is very little data available with which to analyze the scope and impact of PVO procurement programs. By contrast, there is some literature available on WFP’s experiences with LR procurement, including six largely qualitative case studies commissioned by WFP that document its procurement experiences in Bolivia, Burkina Faso, Ethiopia, Uganda, South Africa, and Nepal.

There is a considerable difference among the types of procurement experiences that WFP and the PVOs have had. WFP’s local and regional procurements have primarily been large in scale and have often focused on addressing needs that WFP perceived to be life-saving. They were also frequently made under operationally complex circumstances. The scope of WFP’s total procurements is illustrated in two figures in Annex I which cover its total local, regional, and international procurements during the period from 2003 to 2008. A breakdown of commodities purchased by WFP in 2007 can also be found in Annex I.

On the other hand, LR procurements by PVOs were typically smaller in size. Although some were made for high-profile, life-saving operations, PVO procurements were more often made in an effort to meet urgent food needs in ways that linked relief objectives to development objectives. Many of the PVOs indicated that their experience with LR procurement has been limited primarily to purchases from commercial traders operating in areas that were relatively close to the locations in which the food was ultimately distributed.

Who Funds Local and Regional Procurement To Do What?

While there are many donors that fund local and regional procurement, this study looked primarily at the support provided by members of the Food Aid Committee. These donors generally cited two important food security-related reasons for funding LR procurements. The most frequently cited reason was to expedite their assistance in order to save lives during food emergencies. The second was to stimulate agricultural production and raise farm incomes, sometimes by targeting to smallholder farm households.¹⁹ Donor funding for LR procurement was used for responding to disasters, food crises, and non-emergency situations involving chronic hunger. However, responses to disasters and food crises have been a top priority for many donors. This is certainly the case for Australia and Canada. Approximately 65 percent of Canada’s food aid budget for local procurement and purchase goes towards responding to natural

disasters and humanitarian crises. Australia and Canada provide funding assistance to WFP and the PVOs to procure as close to the area of need as possible, regardless of the type of program operation. Australia seeks to meet the need, but also to support the economy in the developing country and to reduce the cost of transport, therefore increasing the amount of food aid it can provide. Canada also provides approximately 35 percent of its food aid budget in support of development food aid initiatives, such as school feeding and safety net programs, through its main development food aid partners, WFP and the Canadian Foodgrains Bank. Although Canada's food aid budget is primarily allocated to responding according to need, Canada has made a commitment through the G8 to double its overall Official Development Assistance (ODA) to Africa which requires that Canada provide proportionately more food aid funding to Africa over other regions. All purchase decisions are made by Canada's food aid partners to procure locally or regionally on the basis of price and the cultural appropriateness of the commodities. Australia and Canada rely upon the needs assessments undertaken by their food aid partners to identifying the needs of targeted groups. Beneficiaries include: refugees, internally displaced people, women, children, infants, pregnant and lactating women, and people affected by HIV/AIDS. Canada does not earmark its funding for specific vulnerable groups in order to provide its food aid partners with the flexibility to target the most vulnerable populations. Australia supports the vulnerable groups identified in WFP Emergency Operations (EMOPs) and Protracted Relief and Recovery Operations (PRROs), and country development programs involving school feeding on occasion.

Belgium has been a leader within the European Community on the use of local and regional procurement, and has worked through the WFP Executive Board and with WFP staff to advance the use of these procurements for economic development purposes. Consequently, it is also the first country to participate in WFP's Purchase for Progress Program (P4P). Belgium advanced the use of local purchase in surplus areas of the Democratic Republic of the Congo for responding to the food emergency in that country. This required other interventions by Belgium that also addressed key bottlenecks for sustaining increases in local production, such as rehabilitating roads and enhancing local milling capacity.

The European Commission (EC) supports LR procurements by WFP and the PVOs to accomplish multiple objectives. On the humanitarian side, the European Commission's Directorate General for Humanitarian Aid (DG ECHO) provides aid that is primarily aimed at those affected by disasters and crises in developing countries.²⁰ DG ECHO uses humanitarian food aid primarily to save lives during emergencies and their immediate aftermath. In addition to short-term relief, it also finances disaster preparedness and recovery operations. Such operations last as long as necessary and are targeted at the immediate requirements arising out of natural disasters (e.g. flooding, earthquakes) or man-made disasters (e.g. outbreaks of war and fighting), and other crises. DG ECHO provides some of its emergency funding for food assistance, which includes procured food aid, cash and vouchers for beneficiary purchases, , and aid for refugees and displaced people.²¹ It coordinates and cooperates closely with partners who implement aid programs on the ground, particularly the U.N. agencies and PVO partners. DG

ECHO and the Directorate General for Development (DG DEV) both emphasize the linkage between relief, rehabilitation and development (LRRD) as a means of facilitating the transition from food assistance to food security in support of the EC's linking relief to development policy.

On the development side, the improvement of food security is one of the EC's five thematic areas in its development aid policy. The EC's food security objective is intended to combat hunger, as reflected in the First Millennium Development Goal. DG DEV's food security program aims to reduce hunger among women, children under the age of five, those suffering from HIV/AIDS, those in war-affected communities, the internally displaced, pastoralists, small farmers and fishermen, the landless, and farm laborers, and the urban ultra-poor. In the context of this food security policy, the funding of food aid for development purposes has lost its significance for the EC. Instead, priority is given to supporting beneficiary countries' agricultural production and marketing capacities, strengthening national and regional food security information systems, and supporting safety net programs. In cases where funding is still required for food aid commodities in non-emergency settings, LR procurement is viewed as a means of assisting in the development of local agriculture and livelihoods by reinforcing the participation of farmers' organizations in national and regional discussions regarding agricultural policies and food security.

France's food aid is primarily given for humanitarian purposes with approximately 80 percent of its funding used to support purchases in response to emergencies and protracted crises. The residual 20 percent is provided in support of development objectives, including school feeding and nutritional initiatives. In that context, France promotes local and regional procurement as the "purchase of goods produced locally or in neighboring countries". France depends on its implementing partners to assess whether food aid procurement is feasible and does not pose a risk of causing inflation. France places greatest emphasis on ensuring that the food aid provided is well-targeted in order to ensure that those affected receive the right assistance and that the local and regional procurements do no harm. A development theme that runs through the various local and regional purchase initiatives supported by France is the need for stronger economically-competitive markets in which more producers can sell more locally-produced food during emergencies and non emergencies.

Irish Aid supports food assistance that is heavily oriented towards meeting the food and nutritional needs of vulnerable children and pregnant and lactating women. Its funding to the WFP for local and regional procurement is in response to Consolidated Appeals (CAP) and to specific emergency appeals. A sample of PVO food assistance programs funded by Irish Aid in 2007 reflects a strong focus on using locally and regionally purchased Ready to Use Therapeutic Foods (RUTF) for use in Community-based Therapeutic Care (CTC) programs that are designed to reduce malnutrition in women and children. In addition, an un-earmarked cash contribution is provided by the Ireland's Department of Agriculture, Fisheries and Food to WFP each year. Some of this funding will likely be used to support of WFP's Purchase for Progress (P4P) Program.

Donor Funding and Sourcing Requirements

WFP has conducted LR procurements in developing countries with funding from European donors for many years. As previously noted, other traditional donors, such as the Governments of Canada and Australia which previously gave largely in-kind donations, have recently begun to provide a greater share of their total contributions in cash. As the number and size of cash contributions from donors has increased, so too has the volume of commodities that WFP was able to purchase in developing countries (as can be seen in Annex II). In 2006, WFP purchased over \$600 million worth of commodities worldwide. More than 50 percent of those commodities were purchased in countries that have been classified as Least Developed (LDCs) or Other Low Income Countries (OLICs) by the Organization for Economic Cooperation and Development (OECD) in its Development Assistance Committee (DAC) List of Official Development Assistance (ODA) Recipients. Cash donations to WFP had increased to such an extent by 2007 that it was able to purchase over \$767 million worth of commodities worldwide, more than 55 percent of which were purchased in Least Developed and Other Low Income Countries.²²

In 2008, WFP received an unprecedented amount of cash and in-kind contributions from both traditional and non-traditional donors. The United States gave nearly \$2.1 billion to WFP in 2008, largely in the form of in-kind donations. Most of the contributions that WFP received were given in response to appeals for ongoing emergency programs and sudden-onset disasters. However, a significant percentage was also given in response to the global food price crisis which had sparked widespread hunger and civil unrest in developing countries around the globe due to shortages and sharp price increases for staple grains and other commodities. In response to WFP's worldwide appeal for immediate cash donations to help stem the 2008 crisis, the Government of Saudi Arabia gave WFP a \$500 million multilateral contribution. By the end of calendar year 2008, WFP's worldwide purchases were likely to exceed \$1 billion.

PVOs have been engaging in LR procurement in developing countries over the years to a lesser extent than WFP. Donor cash contributions to PVOs also tend to be smaller and less frequent. PVOs which have had experience with LR procurement and that provided information for this study include CARE, Catholic Relief Services (CRS), Joint Aid Management (JAM), Save the Children Federation of the U.S. (SCF-U.S.) and World Vision. However, only one PVO, Catholic Relief Services (CRS), was able to provide data on the extent of its local and regional procurement programs. Other PVOs did not track how much cash they receive for the local and regional procurement of food aid, nor did they track how much food aid they were able to purchase with cash donations. Overall, PVOs received considerably less cash for local and regional procurement than did WFP.

CRS indicated that ten of its country programs conducted a total of 54 local and/or regional purchases from 2000 to 2005 with a total estimated cost of approximately \$6.8 million, 98 percent of which was spent in developing countries in Africa.²³ Unlike WFP which receives the bulk of its funding from large bilateral and multilateral donations, the funding for most LR procurements by PVOs comes mainly from private

donations. A limited amount of PVO funding also comes from cash contributions from USAID/OFDA, PEPFAR, and from proceeds generated from the sale of commodities donated under the USDA McGovern-Dole International Food for Education and Child Nutrition Program.

When cash contribution to WFP did not come with donor conditions attached, the decision where to purchase was driven by the primary objective of providing appropriate food to the beneficiaries in a timely and cost-efficient manner. However, donor preferences and restrictions on where cash contributions must be spent have influenced PVO and WFP decision-making. The USG, as well as many bilateral donors, earmark their contributions to WFP for use in response to appeals for specific Emergency Operations (EMOPs), Protracted Relief and Recovery Operations (PRROs), or country programs.

Whereas WFP's first priority is to save lives, the aim of many of its largest cash donors is to make a sustainable impact on food security in the countries in which it operates. The EC supports procurements by WFP in LDCs or in OLICs, as defined by the OECD. The EC believes that untied "extra-continental procurements" in middle income and developing countries result in multiple efficiencies, such as lower procurement costs with large savings in transport and handling, and reduced delivery time. The EC also supports these procurements because they provide the types of food that are preferred by recipients and that provide added flexibility for food aid agencies to procure according to need and cost.²⁴

In addition to developmental objectives related to commodity source, origin and destination, donor guidelines are influenced by the cultural preferences of recipient countries, as well as by restrictions on the trade in commodities derived from biotechnology. The list of both donor countries and food aid recipient countries that have bans or restrictions on the importation of commodities derived from biotechnology and processed food products produced from biotech ingredients remains a concern. The number of bans or restrictions on the importation of biotech maize in many Southern African countries has likely been one of the driving factors behind the increase in WFP's local and regional maize procurements during the past five years.

When purchasing commodities for a life-saving emergency operation, WFP's primary operational considerations are availability, timeliness and cost-efficiency. However, it must always take donor conditions and recipient country restrictions into account. These special conditions and restrictions can lead to purchase and delivery delays when timing is essential and can prevent WFP from achieving cost efficiency (i.e. cost savings). Regardless of the circumstances, WFP's financial rules dictate that, "When conditions are equal, preference will be given to purchasing from developing countries."²⁵ Thus, WFP will normally first attempt to purchase commodities locally in surplus-producing regions of affected countries. If local purchases are not possible, it will resort to buying through tenders limited to regional suppliers or all international sources.

Policy Guidance for Local and Regional Procurement

The policies of the recipient country, particularly regarding food quality and packaging standards as well as import restrictions and phytosanitary requirements, affect how and what the WFP and PVOs procure. It is also important to note that some countries, such as Zambia, encourage WFP to procure food locally as a means of supporting the government's agricultural development policy.

Also, donors who are a party to the multilateral Food Aid Convention (FAC) Treaty have agreed to a set of principles to govern the use of their funding of local and regional food aid procurements. The FAC states that: "*members shall pay particular attention to avoiding harmful effects on low-income consumers due to price changes resulting from local purchase.*"²⁶ Thus, member donors have some responsibility to instruct or encourage those organizations using their funds for local and regional procurements to exercise due diligence by making the necessary effort to analyze the price effects that local procurements could have on consumers, or are having, in order to safeguard against any possible negative effects. The Convention also requires that "*cash contributions shall not normally be made to purchase food which is of the same type that the country which is the source of supply has received as bilateral or multilateral food aid in the same year as the purchase, or in a previous year if the food aid then received is still being used.*" However, since WFP and PVOs are not parties to the Treaty, these principles are not explicitly reflected in the procurement policies of these organizations. Therefore, unless donors require that implementing agencies adhere to the important principles in the Treaty, they are not likely to be explicitly taken into consideration.

WFP's internal policy guidance is well developed, given the volume and frequency of donor contributions, as well as its organizational mandate, size, and long procurement history. In January 2006, WFP released its "Food Procurement in Developing Countries" policy document that was approved by members of the WFP Executive Board who "*re-affirmed that WFP should continue to undertake food procurement in a manner that accentuated positive impacts and mitigated against negative consequences; urged donors to provide more unrestricted, timely and predictable funding so that WFP could more effectively plan and undertake local, sub-regional and regional food procurement; and requested WFP to give due consideration to optimizing the potential developmental benefits of procurement.*"²⁷ Other policy guidance related to procurement policy includes WFP's guidelines on defining emergencies, exiting emergencies, and conducting needs assessments in emergencies.²⁸ WFP also has well-developed policies related to non-emergency programs.

In general, many PVOs lack rigorous guidelines and implementation policies for LR procurement programs. This is primarily because they receive considerably less funding for LR procurement than does WFP. As a result, most PVO procurements are conducted on an ad hoc basis and therefore tend to be small and infrequent. As more donors have switched from in-kind to cash contributions, the PVOs have begun to recognize the importance of developing internal policies and procedures to govern their

LR procurement programs. World Vision and several other PVOs are actively taking steps to develop such policies.

V. Why Have Local and Regional Procurements Been Made?

Food Emergencies

The motivation for using local and regional procurements during emergencies has been to provide timely food aid that saves lives and reduces suffering. Most donors who provide funding for local and regional procurement in emergencies do so to respond to this humanitarian imperative. They know that if food aid does not arrive quickly after sudden-onset emergencies occurs, acute malnutrition (and in the case of young children, irreversible cognitive damage) will undoubtedly increase, as will the number of deaths. Therefore, their interest is in reaching as many of the vulnerable as possible and they are generally satisfied with estimates of beneficiaries reached, recognizing the methodological difficulties in establishing credible estimates of the number of ‘lives saved’ by their assistance. They see LR procurements as reaching more beneficiaries since the amount of food that can be purchased with their limited budgets will be greater if the food is bought either locally or regionally, rather than if it is bought in the donor country.

With some notable exceptions, virtually all of the PVO experiences in procuring food aid in emergencies occurred in response to localized areas of need and involved relatively small purchases that were generally made in surplus areas of the affected country or in a neighboring country within the region. Nevertheless, several PVOs indicated that they were always looking for ways to improve their emergency response procedures in an effort to reduce delivery times and overcome logistical arrangements.

WFP faces even more daunting challenges in responding to emergencies in a timely manner due to the scale of the needs that it strives to serve, particularly in the face of sudden large-scale natural disasters. Responding to these types of events is particularly difficult when they occur in remote regions of land-locked countries, such as Afghanistan. WFP’s Food Procurement Service readily admits to facing logistical challenges in responding with timely assistance in such cases. Therefore, providing a timely response in a location that is difficult to access has typically involved procuring as much commodity as possible on the local or regional markets, and then preventing breaks in the food aid pipeline by either continuing to procure commodities locally or regionally, or by providing in-kind assistance.

Non Emergencies

Uganda is a good example of a country in which WFP and the host country government have been working together to successfully transition aid programs from relief to recovery through local purchase programs that will have a sustainable developmental impact on the agricultural economy. After more than 20 years of war in

Northern Uganda, the government has made some headway in its peace negotiations with the Lord's Resistance Army. The internally displaced have been leaving the camps in large numbers and resettling on their land and aid agencies have begun to recognize the tremendous agricultural potential in the region.

One of the first to recognize this potential was WFP. WFP's local and regional purchase programs have been far more successful in Uganda than in any other country in the world. In 2007, Uganda was the largest source of commodities for WFP programs. Of the 902,297 MT of food purchased by WFP on the African continent in 2007, 210,223 MT, or 23%, was purchased in Uganda.²⁹ This figure is up considerably from 2006, when WFP only procured approximately 162,000 MT there.

On average, more than half of WFP's local food purchases are distributed within Uganda itself to meet the ongoing needs of the large internally displaced and refugee population in the north, as well as those suffering from the lingering effects of flooding and drought in the Karamoja region in the northeast. The balance of the food is trucked to neighboring countries to fill emergency pipeline needs. The findings from a review of WFP local food purchases in Uganda since 2000, indicate that purchasing food in Uganda has been more timely and cost effective than importing from regional or international markets.³⁰ This is due in large part to the fact that the commodities are sourced from surplus-producing areas that are in close proximity to the regions in which the food will be distributed, as well as to the fact that WFP does not have to pay for ocean or inland freight costs when making local purchases.

Most of WFP's purchases in Uganda consist of maize and beans. The maize market in particular has grown considerably in recent years in response to increasing demand from WFP. The rise in demand has primarily been driven by WFP's desire to fill its local and regional food aid pipelines as quickly and as cost-effectively as possible, but development objectives have also played an important role in the increase. WFP has been working in partnership with the Ugandan government to promote maize as a non-traditional agricultural export in an attempt to diversify exports and reduce the country's over-dependence on more traditional cash crops such as coffee, tea and tobacco.³¹ Evidence indicates that these efforts have paid off.

The increase in the demand for maize has led to higher prices, which in turn, have stimulated local maize production, bolstered employment in agriculture, led to an improvement in commodity quality standards and contributed to the development of a formal grain trading sector. It has also led to the growth of investments in input supply, as well as in milling and transportation services. Most importantly however, it has led to an increase in food supply and availability.

A small number of large-scale farmers from surplus-producing regions and large-scale traders from Kampala have benefitted the most from WFP's increasing maize purchases. This is due to the fact that they can more easily supply large quantities of high quality grain and bid from existing stock positions. Although smallholder farmers have undoubtedly benefitted as well, they are not as well-positioned to bid directly on WFP

tenders. Recognizing this fact, WFP has actively taken steps to encourage the participation of more smallholder farmers, cooperatives and small traders in the tendering process by eliminating some of the barriers to their participation, such as minimum quantity requirements, which had previously been set at 500 MT for traders and 50 MT for farmer's groups.

Although Uganda is now a leading supplier of whole grain maize for WFP operations across central and Southern Africa, maize was not traditionally grown as a staple food crop for domestic consumption until fairly recently. Evidence from a 2005 study indicates that the increase in maize production, coupled with the increase in prices for maize, has not had an adverse effect on low-income Ugandan consumers because the prices of more traditional staple food crops have remained below those of maize. However, more research needs to be done to monitor the long-term effects of the increase in WFP maize purchases on the purchasing-power of smallholder farmers and low-income consumers, as well as on overall household food consumption, particularly if increasing demand from WFP continues to encourage greater numbers of farmers to replace more traditional staple food crops with maize. Steps will also have to be taken to develop alternative markets for Ugandan maize in order to ensure that farmers do not become overly dependent on sales to WFP alone.

As we have seen from the Uganda example, local and regional purchases were also undertaken by WFP and PVOs to meet development objectives, including purchases to increase food production and raise farm income. Income in the business sense is thought of in terms of cash revenue generated by the farm.³² However, an important economic dimension of income is the value of *consumption*.³³ Since local procurements and other local purchases have direct and indirect effects upon food consumption levels that are especially relevant for the poorest and most vulnerable consumers, two important economic points need to be made about income. First, any increase in farm output that is consumed by the farm is an increase in income, just as if it had been sold as marketable surplus.³⁴ Second, economic theory and evidence also suggest that increasing *income* for the poorest *farm-households* is primarily about increasing *consumption* in the poorest *farm-households*.³⁵ It appears that the program goal of using LR procurements to raise farm income was viewed by WFP and PVO's primarily in terms of raising cash income, rather than in terms of raising both cash income *and* on-farm food consumption. Yet the latter objective of raising income is a more appropriate focus under conditions of severe food consumption insecurity where LR procurements are being made to respond to food consumption needs. Consider the case of the farm-households who are net food buyers. Surely, an important way to raise their income would certainly involve raising their on-farm food consumption at the times when their household purchasing power is the weakest.³⁶

One PVO with considerable local procurement experience summarized this development challenge of raising farm incomes, in both cash and food consumption terms, as follows: "*Purchasing from smallholder farmers presents numerous challenges, including not disrupting normal patterns of commercial trade and not artificially inflating prices to such a degree that farmers withhold their stock from the rural markets*

(in order to sell it at a higher price to WFP or to the NGOs). Specifically, if a donor implementing partner or a commercial trader purchases all of the farm produce in a given region, then food prices will rise, creating an artificially high level of demand and eroding the purchasing power of poor, rural families. In such circumstances, even the smallholder farmers that sold their grain for an immediate profit may be forced to buy back a portion at a higher cost to ensure their own food security.”

Although this challenge exists regardless of whether there is an emergency or not, it is likely to be more pronounced during either an initial purchase or a one-time purchase that occurs only during an emergency. To avoid this problem, some donors and their implementing partners have adopted, or are presently developing, approaches involving regular, transparent and more predictable purchases during non emergencies to stimulate production and raise income while also ensuring market stability. One noteworthy example is the local food procurement effort supported by the Government of Germany in Ethiopia. Their primary objective in financing local food procurement was to link low-income farmers in Ethiopia to commodity markets on a profitable and sustainable basis by creating a platform of stable demand for food crops. The goal of this multi-year demand-side intervention was to provide farmers with a reliable market that would help to raise farm incomes and stimulate an agricultural supply response. This is similar to one of the goals of the New Economic Partnership for African Development’s (NEPAD) Comprehensive African Agricultural Development Program (CAADP). The objective of CAADP is to reduce hunger and food insecurity through sustainable increases in smallholder incomes in combination with supply-side interventions designed to raise farm productivity in order to reduce market volatility and to enhance farmers’ access to sources of stable and sustainable demand for their farm products. Similarly, WFP also recognizes the advantages in beneficiary purchase interventions that: “use purchasing power to support the sustainable development of food and nutrition security systems, and transform food and nutrition assistance into a productive investment in local communities.”³⁷

There are several observations that can be made about the objective of raising agricultural production and farm income as a justification for LR purchase. This development goal is more attainable with steady and predictable multi-year local procurements than it is during disasters when procurements occur during one, or at most two production and marketing cycles. LR procurements are an effective production stimulus for increasing long-term farm income if purchases occur on a multi-year basis. Sustained purchases will lead to an increase in farmer confidence that a reliable external donor ‘market’ exists and that they will be able to sell at reasonably favorable prices. The converse is that local procurements are less likely to be an effective long-term production stimulus, and therefore less of a long-term boost to farm income, if they only occur during an emergency, especially when supplies are reduced and when there is uncertainty about whether purchases will occur after the emergency has ended.

It is also important to note that the FAC emphasizes the importance of strengthening local and regional markets in addition to the goal of increasing agricultural production in recipient countries.³⁸ An argument can be made that past LR

procurements have generally strengthened producer markets because the purchases were an additional source of effective demand in thin markets with low trading volumes, and thus benefitted producers and consumers through reducing price volatility in producer markets. However, in the past, most donors, as well as WFP and the PVOs do not appear to have viewed LR procurements as a vehicle for achieving the complementary development objective of improving longer-term market access to food by the majority of the chronically food insecure. This development objective involves improving the functionality of food markets so that vulnerable groups will be able to increase their ability to purchase food on a more sustained basis, including during disasters and food crises. The rationale for this market improvement objective is that an increase in food production alone will not lead to surplus food sales that will raise farm incomes and improve the food access of consumers on a sustained basis. Rather, a well-functioning and efficient market will facilitate the sale of marketable surpluses at prices that are affordable to the majority of consumers and that cover the marginal costs of producing the food. Thus, even if LR procurements have improved producer markets, this doesn't necessarily result in stronger food markets and in stronger linkages between producer and consumer markets. Well-integrated markets provide the strongest foundations for a food system that improves farm incomes for producers and that improves food access for poor and economically-vulnerable consumers.

Linkages between Purchase Responses in Emergencies and Non Emergencies

A common thread in LR purchases made during food emergency and non-emergency periods is that of providing 'food insurance' that protects those living in harm's way against the threat of lower food consumption and worsening malnutrition. There are two examples where LR procurements made in emergencies, in an effort to protect lives, were also linked with LR purchases made to protect lives during non emergencies. One example occurred during the purchase of high-energy foods for children under five in order to prevent increases in wasting during emergencies and to prevent increased stunting, as a result of chronic hunger and malnutrition, during non emergencies. The other example involved the purchase of locally produced foods for use in the Ethiopian Productive Safety Net Program (PSNP).

There were no examples where LR procurements used in emergencies to protect lives, by protecting food consumption, were linked with purchases during non emergencies for protecting and improving food consumption, and therefore lives. There are several important reasons for linking 'food protection' in non emergencies and emergencies. First, research done by Michigan State University (MSU) has shown that in Eastern and Southern Africa most smallholder farmers are normally buyers of staple food and are directly hurt by higher and unstable grain prices.³⁹ MSU also found that smallholder farmers are likely to be hurt even more by higher prices during emergencies since many of the rural and urban poor rely more on markets in emergencies than on emergency food aid distributions.⁴⁰ Second, many of those who are chronically food insecure are those whose condition has worsened in large measure because their food insecurity worsened during previous disasters and crises from which they have not fully recovered. Third, the food protection which is required by special needs groups is the

same during disasters, crises and non emergencies. For example, food protection that is provided through LR purchases of food during non emergencies, particularly for school children, those living with HIV/AIDS, and orphans, is also necessary during disasters and crises. Fourth, households that are chronically food insecure and that rely upon food markets for acquiring their food require that their access to food be protected before, during and after a disaster or a food crisis occurs. If local purchases can be made during non-emergency periods in ways that help strengthen food systems, those food systems will be more likely to function better for those affected by disasters and crises that still require market access to food. Also, problems of chronic food insecurity typically exacerbate the adverse effects that disasters and crises have upon the food consumption of affected groups, thus amplifying food aid needs in emergencies. LR purchases that link emergency and non-emergency food needs can more effectively protect the food consumption of the economically vulnerable who are chronically food insecure before, during and after disasters and food crises occur, thereby possibly reducing some of the need for food aid in emergencies. Therefore, the link between the food needs of those affected by disasters and crises and the food needs that they have during non emergencies is of practical importance in deciding how best to use LR purchases to provide food protection for affected groups during disasters and crises.

Addressing the Needs of Those Affected by Disasters and Crises through Local and Regional Procurement

When credible life-threatening conditions exist in certain phases of certain emergencies, it is entirely appropriate that the priority be given to tailoring LR procurements as much as operationally feasible to meeting urgent food needs. Moreover, while the general concerns about market disruption and higher prices are still important to address, they should never prevent a life-saving response that is necessary when urgent, life-threatening conditions exist. However, during certain phases of disasters and crises when conditions do not pose an imminent threat to life, or when life-threatening conditions are protracted, it is important that the response focus specifically on *protecting lives* and, therefore, on giving *equal weight* to protecting those without immediate access to food by providing them with food, and to protecting the ability of the economically vulnerable to obtain food in the markets in which they normally buy their food.

The use of LR procurement, by its very nature, is focused on: i) saving the lives of those without immediate access to food by providing them with food, and ii) protecting the lives of those who face the threat of a reduction in food access and consumption. However, there is no indication that LR procurement strategies were systematically developed to protect the market access of those who relied on food markets to purchase their daily food and whose continued access to food was in peril. The lack of attention to this distinction is likely due to practical limitations and other perceived higher priorities rather than to a view that the protection of the poor's market access to food is unimportant. Those involved operationally with procurements, often those with business and management backgrounds, are justifiably focused on practical and concrete purchase matters.⁴¹ Therefore, other professionals with non-procurement-specific responsibilities should have the responsibility to develop strategies to identify and apply practical

measures to protect market access to food for the poorest and most economically-vulnerable. If protecting market access is addressed in both strategic and operational terms during emergency responses, LR procurement will have both an immediate and a potentially longer-lasting developmental impact by supporting the existing food system.

The protection of market access is a necessary element of a holistic strategy for using LR procurement as a tool for responding to disasters and food crises. It stands to reason that in situations in which there is no imminent threat to life, high priority should be given to specific protective measures which help to prevent the adverse food consumption effects of higher food prices during a food emergency. In this regard, the positive objective of protecting food access for those who normally buy their food in the markets also specifically addresses the concern that the economically vulnerable not lose their ability to purchase food when they need it the most. The Farm Bill has a requirement to ensure that LR procurements do not price vulnerable consumers out of the market, a condition which is similar to the commitment made by the food aid donor countries that are party to the Food Aid Convention.⁴² The protection of market access to food by the economically vulnerable can be protected either by pro-actively taking steps which will protect poor consumers while LR procurements are made, or by avoiding LR procurements that result in price increases that harm some consumers. This point will be addressed in the final section.

The timeliness of an emergency response is equally as important in disaster and crisis situations that do not pose imminent threats to life as it is in a response to a life-threatening situation. If timely and appropriate responses do not occur to protect the food access of those who normally obtain their food through food markets, the economically vulnerable will then require food aid for the life-threatening conditions that will likely evolve, should the emergency intensify. Moreover, local and regional procurements in emergencies are unlikely to do economic harm if they are part of a comprehensive and integrated approach that, first and foremost, is based upon responding to the food needs of the geographically vulnerable, those with special needs, and the economically vulnerable. As noted earlier in the study, these three vulnerable groups all have food needs in emergencies, but not all of those needs can be met simply through the direct distribution of food in every disaster and crisis. Thus, while the geographically vulnerable and those with special needs often require food aid, the economically vulnerable require some protection, including protection against higher and more unstable prices that might occur from either local or regional purchases, so that they can continue to access food on their own.

Consequently, a basic development challenge related directly to local procurement involves improving the conditions that will improve food consumption security by linking an emergency response with complementary development activities during non emergencies. This involves response interventions designed to keep food markets functioning during disasters and crises, in order to ensure continued food access for those who depend on these markets. And it involves longer-term development investments in order to strengthen those very same food markets upon which the economically

vulnerable depend for their primary access to food during non-emergency and emergency situations.

VI. When Were Local and Regional Procurements Made and for Whom?

Local and regional procurements have been made in response to various natural disasters, particularly droughts, floods and earthquakes. Responses to food crises have primarily occurred during pre-famines, complex emergencies, and food price crises.

Droughts

Local and regional procurements were made more often in response to droughts than to any other type of emergency. Those primarily affected by the droughts examined in this study were the geographically and the economically-vulnerable households, as well as those with special needs, that lived in especially hard hit rural areas. Those facing the secondary effects of drought were the economically-vulnerable households living in the urban and less affected rural areas who relied upon food markets in order to meet their basic food needs.

Local and regional procurements in response to the food needs of those affected by drought varied widely. WFP appears to have the most experience in responding to droughts, and has the operational capacity and the extensive logistics network necessary to respond to large-scale needs. By contrast, PVOs that have engaged in procurements in response to droughts have done so on a much smaller scale. PVOs that made LR procurements in response to droughts also attempted to do so in ways that supported their development programming. That said, there is a clear recognition among many of them that coordinated purchases, such as through the Consortium for the Southern Africa Food Emergency (C-SAFE), have distinct cost-saving advantages over purchases by individual PVOs. The advantages of coordinated purchases are even greater when supply conditions are tight and there is the potential that they will find themselves competing for the same limited supply and therefore paying a higher price for it as a result. The importance of communication, cooperation and coordinated action in helping to avoid a potential *large-purchase problem* is discussed in the final section.

The timing of local procurement is important as droughts evolve over time and the need for food varies, depending upon the phase of the drought. When local supply is still available during the early phase of a drought, as is often the case, local or regional procurements generally have a more life-protecting benefit, rather than a life-saving one. LR procurements have arguably been more life-saving in nature when undertaken during the middle to late phases of a drought, when in the absence of timely and appropriate responses, the pressures on local supply and price intensify. However, two factors can lead to an over-sourcing of food aid in response to drought. One is an absence of information about local market supply and availability. The other is a donor concern that an under-sourcing of food aid in response to a drought could lead to possible famine. However, there was no indication that a systematic bias existed, either in WFP, or in any

PVO towards over-supplying locally and/or regionally purchased food to drought-affected households in rural areas. This was as expected since considerably more attention has been given to improving emergency needs assessments over the last five years. In fact, recent improvements in information availability, quality and timeliness could reduce errors in the types and numbers of households targeted, as well as in the estimation of food aid requirements in specific emergencies.

However, based on a recent analysis by Michigan State University of the timing of regional purchases by some affected governments in response to drought, there is reason for considerable concern that the late arrival of food from such purchases, which are intended primarily to be sold in urban food markets, could also have a harmful effect on markets by reducing the number of traders.⁴³ Markets can be harmed when traders and producers face uncertainty, either with regard to how much food aid will be provided in-kind, sourced from local/regional markets or purchased by the government of the affected country for use in its own social welfare programs. Lower trading prices, combined with the risk and uncertainty that arises with regard to future prices due to purchases by governments in some drought-affected countries, are likely to have an adverse effect upon the pace of recovery of local production in some instances.

Vulnerable Groups with Special Needs during Drought

A common response during drought, and one that was targeted specifically to vulnerable children, including those under the age of five, was to purchase processed commodities on the local markets. Most processed commodities available for sale on the local markets were manufactured either locally or regionally, and thus were often more readily available than those sourced from international purchases or through donor sourced in-kind food aid. In fact, it takes between four to six months for a food aid agency to take delivery of USG in-kind contributions of processed commodities that have not been pre-positioned. When timing was critical, it was often more practical for WFP and the PVOs to purchase fortified, blended food commodities such as high-energy protein supplements (HEPS) from local sources.⁴⁴

In some cases, HEPS was provided to prevent an increase in acute malnutrition among children at risk, and in other cases HEPS was provided through direct therapeutic feeding to respond to wasting when nutritional indicators identified the onset of acute protein-emergency malnutrition.⁴⁵ Some local purchases also involved the distribution of these commodities on a non-therapeutic basis in the form of a take-home ration for households with vulnerable children.

Four points can be made about the local procurement of food for vulnerable children during droughts. First, this type of local purchase has undoubtedly been responsible for saving the lives of countless children by preventing increases in acute malnutrition that would otherwise have led to increased morbidity and eventual death. Second, the value of this intervention depended primarily on the timeliness of the purchase and the distribution of the commodities.⁴⁶ Better timeliness of the purchase *and the delivery* occurred when funds were immediately available for local purchases after

droughts occurred and when there was flexibility within non-emergency nutritional programs that allowed for the use of these foods for emergency purposes. The ability to utilize HEPS from ongoing community-based therapeutic care programs has been a critical factor in preventing an immediate increase in acute child malnutrition after the onset of drought. Third, the beneficiary value derived from the local purchase depended on the nutritional quality of the product as compared with what was available from the U.S. or other international sources. Fourth, some implementing organizations have viewed this type of local purchase as having enhanced the ability of the U.S. Government to achieve its drought response objectives with locally-purchased foods by providing a 'bridge' that protected child nutrition until U.S. in-kind food aid arrived. Had the high-energy foods not been purchased and distributed early on, higher response costs would likely have resulted from the additional need for medical attention for children facing potentially life-threatening malnutrition-infection interactions.

The Geographically Vulnerable during Drought

Locally and regionally purchased food was also provided directly to meet the food needs of those households directly affected by drought. This fact takes into account the realities facing those households whose level of food consumption was reduced as a direct result of a decline in food availability, and ultimately a decline in access to food. The food responses to drought typically did not assume that all households within an affected area were at risk. Livelihoods-based monitoring systems, analytical tools, and assessments were often used to identify those whose access to food was compromised as a result of the effects of the drought upon their existing means of earning income and obtaining food. Among those whose access to food was compromised were those farmers whose loss of production resulted from a drought that reduced the availability of the food that they normally consumed, either because less food was available on their farm to eat and/or because lower agricultural sales reduced the income available for them to buy sufficient food. Thus, these vulnerable farm households were generally assumed to have had less income to buy food at the same time that they were facing higher prices due to a reduction in locally-produced foods available for sale in local food markets. In effect, the geographically-vulnerable households that were targeted to receive direct food aid were those with acute vulnerability which was exacerbated by the disruption of their livelihoods.

Therefore, and as one might expect, WFP and the PVOs typically avoided the purchase of food in areas experiencing drought due to the reduced availability of foods produced in the affected areas. If adequate sources of supply were not available in surplus-producing areas within the affected country, then the purchases were made at the sub-regional, regional or international level. However, during a regional drought, such as that which occurred on a cyclical basis in the Horn or in Southern Africa, regional purchase was not always a viable option for meeting the food needs of the geographically- vulnerable households. There were no indications that WFP or any of the PVOs made local purchases of non-locally produced foods in drought-affected areas. There was, however, considerable evidence of WFP purchases in surplus-producing areas of the drought-affected countries, as well as WFP purchases in regional commodity

exchanges, or in other regional markets in agricultural surplus-producing areas. The regionally-purchased food given to households in areas affected by drought was generally provided by the implementing organization for free, although in some cases it was provided through food for work programs. The direct distribution of locally and regionally-procured food was most appropriate and most effective when it was provided in areas where markets were either non-existent or functioned poorly, as is typical in the most remote geographic areas affected by drought.

The Economically Vulnerable during Drought

Those households that normally purchase their food meet their food consumption and nutritional needs very differently than those who normally do not. Consider the effects of drought upon those who normally purchase their food, such as landless farm laborers, non-farm workers, or small farmers who do not produce enough food to eat. A typical drought pattern is a decline in food production that is followed by a rise in price that affects those who normally purchase their food. As research evidence from sub-Saharan Africa has shown, this increases the economic vulnerability of low-income households, a large number of whom are smallholder producer households that purchase much of their food in rural markets. As Tschirley and Jayne state:

“Price spikes matter for rural as well as urban households. An empirical regularity in East and Southern Africa is that, among rural households, those in drought prone areas are the most likely to be net buyers of maize on a regular basis, even during non-drought years. For example, 71% of rural households in Southern Mozambique were net buyers of maize during the 2001/02 marketing season, compared to about 50% in the surplus north. In Zambia, over 50% of households in drought prone Southern Province were net buyers in during 2004, compared to about 20% in the Northern Province, which is much less drought prone. In both countries, the poorest are the most likely to be net buyers and spend far higher shares of their incomes on these purchase; in Zambia the bottom quintile of households nationally spends about 40% of its income on maize purchases. Price spikes thus have enormous effects on the real incomes of exactly those households that can least afford it: the poorest households in the most drought prone areas of the region”⁴⁷

The threats that droughts pose to food buyers through reduced local supply and higher food prices are compounded when consumer incomes, and therefore purchasing power, falls. Over the progression of a drought, the reduction in local supply often creates a thin local market, and unless higher local market prices attract additional supply from other markets, the local market eventually collapses due to the lack of market integration. The market can also collapse due to a failure on the demand-side when prices that fall due to the loss of incomes do not elicit increases in additional supply. When food markets collapse, even those who could normally afford to buy food, and who could even buy at higher than normal prices during the drought, then require food aid.

There are examples of regional purchases made by national governments in response to drought in order to increase the market supply of food and prevent a decrease in food purchases by urban households. Despite the good intentions of these governments, evidence from a Michigan State University study suggests that these purchases had the unintended effect of amplifying economic-vulnerability, and likely contributed to a larger than anticipated number of people that required food aid. Another example involved a potential ‘intermediary local purchase’ in which a local hammer mill which was owned by a women’s cooperative could have played an important catalytic role in preventing a village’s functioning food economy from collapsing during a drought. Had the cooperative been able to purchase a small amount of grain that was available in neighboring markets, the hammer mill could have milled the grain and sold it to those villagers who were still able to buy it, and even possibly to those who would have been unable to buy it. Since this did not occur due to the cooperative’s lack of access to funds for local purchase, food was not available in the market and thus the amount of food aid required by the community increased due to the inclusion of those households that otherwise would have had the income to buy food.

There were also *beneficiary local purchases* in response to drought that addressed food needs by directly increasing the effective demand for food by poor households, and by indirectly increasing the purchasing power of those households through ‘self-targeting’. One example of a beneficiary local purchase program that directly increased the effective demand for food is the Rapid Assistance Program (RAP) run by Catholic Relief Services (CRS) in Kenya in response to the drought in 2005-2006. These beneficiary local purchases assisted the economically-affected households within the affected areas to purchase their food in local markets. These types of purchases had two common elements. The first was a credible indication that the primary negative economic effects of the drought would result in a reduction in the effective demand for food, particularly among poor households. The second was that the added purchasing power that was provided to those affected through the program would keep small shops in business, as well as encourage traders to provide food from other markets.

These demand-side interventions in response to drought were noteworthy in that they addressed an essential economic reality to take into consideration. By identifying and protecting the pathways that enabled those who normally purchased their food to have continued market access to food, these local purchases by beneficiaries had greater potential long-term benefits for this group than if in-kind food aid, locally-procured food aid or regionally-procured food aid had been provided to them directly. The beneficiary purchases also had the benefit of keeping food markets functioning, thus facilitating the most basic element required for exiting the emergency; namely, that markets function as they did before the emergency and that people have the same access to those markets that they had before the emergency. Had the markets collapsed, the return to the conditions that existed before the emergency occurred would have been more difficult to achieve and it would likely have taken longer to end the emergency food aid distributions. This would have made recovery from the drought much slower and more difficult, as well as made it more difficult to make long-term improvements in market conditions that would reduce the chronic food insecurity of the economically-vulnerable. Thus, the benefits of

purchases by beneficiaries played an important role in reducing the vulnerability of those who normally depended upon markets for their access to food during emergencies *and* non emergencies.

Several other important points emerged from discussions with the PVOs that made food purchases during droughts. These PVOs recognized that local and regional procurements that involved providing food aid directly to targeted households would have been inappropriate for households whose food access problems were primarily market-related. They also recognized that food aid provided directly would have been appropriate for those who were affected by drought that normally had no market access to food, such as for children under five, the widowed and the elderly. They also recognized that the design and implementation of interventions to increase purchases by the beneficiaries also posed a different set of operational risks and costs than occurred with local and regional procurement. Thus, organizations with greater knowledge of the communities affected by chronic and acute food insecurity were in the best position to evaluate the benefits, as well as the operational risks and costs of beneficiary purchase options in the particular areas affected, and when necessary, to identify ways to reduce implementation risks and costs to acceptable levels.

Droughts also have secondary effects upon consumers living in urban and rural areas who relied upon food markets for meeting their basic food needs. A *self-targeting* approach has worked well in some cases.⁴⁸ This strategy involved stimulating the purchase of *self-targeted food commodities* among poor and economically-vulnerable households in order to improve their food consumption security in the short and long run. The short-run objective of the strategy is to keep nutritious foods affordable by stimulating the purchase of nutritious and lower priced, *self-targeted food commodities* by vulnerable households during disasters and food crises. The long-run objective of the strategy is to increase the market supply of lower-cost nutritious *self-targeted food commodities* that are either produced locally or regionally. This strategy benefited those in urban and rural markets who faced an *expected* increase in price caused by the reduced market availability of food resulting from drought. This strategy involved the procurement and sale in urban markets of foods that would be both more nutritious and less expensive for the most economically-vulnerable consumers. These commodities were selected on the basis of being 'self-targeting' so that they would be unlikely to be bought by those who could afford the food that was normally available in the market but now at the higher prices as a result of the drought. An example that occurred in Zambia during the Southern African drought of 1992-1993 provides a good illustration of how this strategy has worked successfully in the past.⁴⁹

During the drought, Zambia received food aid provided by the United States, some of which was sold in urban markets to protect the economically vulnerable who could otherwise not afford to buy the small quantity of white maize flour still available. The purpose of this strategy was to make yellow whole-grain corn available for sale to poor consumers as a less expensive alternative to white maize flour which had become increasingly expensive as a result of the drought. Thus, this yellow whole-grain corn became a substitute for the white maize flour. Making an equally caloric, but less

expensive basic food available was an effective strategy that *protected* the purchasing power of low-income consumers who would otherwise be forced to cut back on their purchases and reduce household food consumption.

The conventional wisdom at the time was that the approach would not work because consumers were accustomed to maize flour and that they would *prefer* white maize flour rather than yellow whole grain corn. However, consumers bought the yellow whole grain maize, even when white flour was available in the market. The approach was successful for two reasons. First, it provided the poorest households with a lower cost option that helped them to maintain food consumption at a level that was above what they could have bought if only the more expensive white maize flour was available. Although all urban consumers viewed whole grain yellow corn as being less preferable than the white maize flour, it was *purchased* by the poorest consumers because it was sold at a price that was still within their reach. This self-targeting approach helped protect poor consumers by making assistance available with benefits that were conveyed *indirectly* by enabling them to purchase food with their own resources.⁵⁰ Second, it also stimulated the urban economy by increasing the demand for small-scale milling services which consequently had an income multiplier effect within the urban economy. *This income opportunity provided the incentive for producers and traders to create a future market channel for locally produced whole grain maize that continues to provide poor urban consumers with some market access protection.* As the Director of the Zambian Food Security Project recently noted, "*more of Zambia's rural and urban poor rely on markets than on emergency distribution during local food shortfalls*".

Rapid-Onset Disasters

Local and regional purchases also occurred in response to rapid-onset events, most notably floods and earthquakes. When these disasters occurred, WFP and the PVOs working in the affected country conducted rapid needs assessments to determine life-saving and life-protecting needs. WFP has considerable experience in responding to each of these rapid-onset disasters and has engaged in both large and small-scale purchases, depending upon the magnitude of the food aid needs. PVOs that made purchases in response to rapid-onset disasters generally responded on a small-scale. Those primarily affected were households and individuals with special needs living in the affected areas. Therefore, responses were targeted to geographically-vulnerable households, including vulnerable groups with special needs. The needs related to the conditions of the economically vulnerable in the areas immediately affected were of lower priority in the initial phases of the response, yet often became more important during the stabilization and recovery phase of the response. However, those facing increased economic vulnerability in areas that were not directly affected by the disasters were not typically viewed as target beneficiaries for food assistance during any phase of the response.

Floods and Earthquakes

It appears that LR procurements in response to floods did not occur during the immediate *life-threatening phase* of the response, particularly when urgent assistance was

required to counter acute threats to life. However, one of the PVOs engaged in local purchase prior to the 2000 flood in Mozambique, Joint Aid Management (JAM), was able to launch an immediate response in the aftermath of the severe flooding by distributing foods that had been stored in its prepositioning warehouses. It had purchased maize from Beira, soybeans from Malawi and sugar from local markets and then manufactured these to produce a fortified blended food for its school feeding programs. JAM believes that having this product already on-hand after the flood enabled it to save thousands of lives prior to the arrival of in-kind food aid.

WFP's preferred response option was to immediately buy the food needed for a large-scale disaster response from the nearest regional or international market. When this was not possible, it was often able to 'borrow' the food from an existing Country Program (CP) or Protracted Relief and Recovery Operation (PRRO) that already had food aid in the pipeline. In those cases where borrowing from existing food aid pipelines and diverting food from other aid destinations resulted in food reaching the areas of need sooner than if the food was acquired through a regional or international purchase initiated immediately after the flood, or where WFP had no alternative source of funding, WFP opted to borrow the food. When food was required for an immediate, life-saving operation, it was generally made available through a combination of in-kind assistance and regional and/or international procurement. When WFP procured whole grain on the regional or international market for a flood response, or received whole grain from in-kind donations, it also purchased local milling services for those who lost their essential food preparation tools (e.g. mortars, pestles and cooking utensils).

The immediate response to floods was typically in-kind assistance, as there was often an initial lack of knowledge about conditions in local and regional markets upon which to determine if local or regional procurement of food would be feasible, timely and effective in the earliest phase of the emergency. However, in other cases, such as the 2005 Indian Ocean tsunami, the affected governments provided sufficient information about local market conditions. In this case, it was clear that the fastest way to get aid to the flood victims was to purchase rice from Thailand. Although USG funds could not be used for this purpose, the Thai Government donated the funds necessary to purchase rice for the relief effort, saving countless lives that otherwise might have been lost if the beneficiaries had to wait for the delivery of in-kind food aid.

There is a possibility that an over-sourcing of food aid, in relationship to actual needs, could have occurred if basic information was lacking about the extent and severity of the flood, as well as about the affected population. It could also have occurred if those responsible for responding had a concern that any under-sourcing would lead to a potential loss of life. However, there are examples of investments that have been made to strengthen information systems in an attempt to improve knowledge about those affected. Where information systems are functional, the possibility of over-response is significantly reduced.⁵¹

Typically, once the immediate threat to life subsided, the stabilization phase of the response provided more opportunities for LR procurement. Also, once the stabilization

phase of the response to the flood ended, the recovery phase provided additional LR procurement opportunities. During both of these phases, local procurements were made to reach geographically-affected households and special needs groups. During the stabilization phase, efforts typically focused on stabilizing the functioning of transportation and other systems essential to economic activity, while during the recovery phase efforts focused on repairing and restoring the functionality of basic structural and economic systems.

Local and regional purchase responses to earthquakes follow the same types of patterns as do responses to flooding due to the rapid-onset nature of the disaster and to the immediate threat posed to human life. World Vision's response to the earthquake that occurred in Pakistan in November 2005 provides an interesting example of the effective and timely use of cash for the local procurement of food aid for saving lives. In this case, World Vision, working in coordination with WFP, used OFDA funding to purchase relief commodities on the local market for immediate delivery to victims of the earthquake. Timing was critical, as the earthquake struck at the beginning of winter, leaving victims without food, water and shelter. The USAID Office of Food for Peace also provided a significant amount of in-kind food aid to WFP for the relief and recovery efforts, but the immediate local procurement of food from non-affected areas of the country was essential and served as a bridge to meet food aid (pipeline) needs until the arrival of the in-kind assistance. By having the flexibility to use cash immediately to purchase food commodities locally, World Vision believes that it was able to save at least 10,000 lives. In this instance, World Vision was able to source the commodities locally since sufficient food was still available in the markets in Pakistan. Because Pakistan had well-developed markets and an adequate transportation infrastructure, it was very easy to quickly set up a large-scale logistical operation. In addition, traders were already familiar with commercial tendering practices and with WFP and PVO commodity quality standards. As a result, local traders were able to mobilize immediately and move large quantities of food and other supplies to key commercial and transport hubs to meet the sudden demand from WFP, World Vision and other PVOs.

Health Crises

Foods required in health crises occurring as a result of a combination of poor consumption, poor nutrition, infection and chronic illness related to such diseases as HIV/AIDS, were often the same as those required in other disasters. These were required to treat a sharp increase in acute malnutrition among certain vulnerable groups, including children under the age of five and pregnant and lactating women. For example, the food requirements of people living with HIV/AIDS (PLWHAs) and of children under the age of five who are suffering from the effects of drought are very similar. The President's Emergency Plan for AIDS Relief (PEPFAR) is engaged in the local procurement of high-energy, protein-filled foods, such as the High-Energy Protein Supplement (HEPS) produced in Zambia for PLWHAs. HEPS is used by HIV/AIDS patients on anti-retroviral medication who require a higher protein and higher calorie diet. HEPS is also produced for use in therapeutic feeding centers.

HEPS was first used in a significant emergency response program during the U.S.-led response to the 1992 Southern Africa drought, the worst drought to affect that region during the 20th century. When it became clear in mid-January of 1992 that a severe drought was occurring, WFP was able to begin immediately using locally-procured HEPS to prevent an increase in acute malnutrition among children under the age of five. WFP continued using HEPS throughout the drought response period and acute malnutrition rates were kept within the normal range. Another example of its effective use occurred in 2005 when there was a sudden and unexpected decline in food availability in the western region of Zambia. Health facilities were ill-equipped to cope with the sudden, large influx of malnourished children. Since the Government of the Republic of Zambia had previously banned the importation of biotech corn from the United States, corn and corn-based products, such as corn soy blend, could not be imported for use in therapeutic and supplementary feeding centers. Therefore, the rapid delivery of locally purchased HEPS undoubtedly saved the lives of many young children.

Even when a reasonable supply of locally-produced high-energy foods is regularly available for purchase at relatively low cost, some ability to expand local processing is required as ‘insurance’ to meet the additional needs that may arise due to a natural disaster if the required foods are unlikely to be available regionally. Expanded regular local purchases of high-energy foods for ongoing needs could provide an incentive to promote the expansion of the local food processing industry. The expansion of any one specific food processing firm, such as the one producing HEPS, is an attractive short-run solution. However, a one-firm expansion alone might not result in adequate growth in total processing capacity that might be required during future emergencies. Given the rapid uptick in emergency food needs that results from natural disasters, an expansion of local processing capability for high-energy foods in a country at-risk of frequent natural disasters is desirable. This will provide a type of ‘insurance policy’ for children and HIV/AIDS-affected individuals whose lives will otherwise surely be at risk from an increase in severe acute malnutrition after a natural disaster, if they do not receive adequate high-energy food quickly enough.

Economic Crises

The food price crisis of 2008 was viewed by the United States as having largely been caused by various supply and demand-related factors and it was anticipated that the immediate crisis would be temporary. Supply conditions were expected to improve as important agricultural-producing areas across the world recovered from drought. Moreover, it was expected that global supply would also increase due to the supply response to high global cereal prices. Thus, the food price ‘problem’ was not caused by functioning markets, but rather by high prices.

For those households whose food purchasing power was reduced, it was a food *problem*. However, it was an immediate food *crisis* for those who experienced an increase in acute hunger, malnutrition and human suffering. Furthermore, the imposition of price controls and trade restrictions in those countries that were most affected, as well as the violent reaction by consumers to high food prices, reflected a lack of confidence in

the reliability of markets to provide affordable food. High food prices *and* markets, rather than simply high food prices transmitted *through* markets, were viewed by many governments in low-income countries, as well as by many low-income consumers, to be *the* problem. For some low-income countries, it was also a crisis of political legitimacy as governments were confronted with desperate and irate urban consumers facing high and unstable food prices. Interestingly, the food price crisis had some of the same basic manifestations that natural disasters and other crises have which invariably create supply shocks that lead to significant price increases. However, unlike those facing the effects of a natural disaster, those who were primarily affected by the 2008 economic crisis bought less food primarily because of their *economic* vulnerability rather than their *geographic* vulnerability. Their economic vulnerability was specifically due to the effects of changing market conditions upon the price of food.

Given the urgent need that many had for food during the crisis in early 2008, it is no surprise that an urgent response by WFP and others that provided food as quickly as possible was deemed appropriate for those facing the crisis. WFP responded to the increase in food aid needs as it did in other crises; namely, to the maximum extent possible through food procurement in regional and international markets. Of considerable concern, however, is the possibility that regional and international purchases under these types of high price conditions could have the unintended consequences of further exacerbating the vulnerability of food consumers not receiving food aid, particularly the economically vulnerable. This could happen if local and regional procurements undoubtedly put additional price pressure on food markets ‘pricing’ the poorest consumers ‘out’ of buying food.

Thus, the study offers five conclusions related to the use of local and regional procurement during economic crises related to high food prices, such as the global food price crisis. The first is that regional and international purchases are an important element of a short-term or stop-gap response to economic emergencies, such as the global food price crisis, during which price increases are so sudden and steep that they threaten sharp increases in hunger and malnutrition which could become life-threatening. Also, since prices are mediated through markets, a critical response element should be to encourage short-term food policies in affected countries that will protect food access for the economically vulnerable. Regrettably, the extreme political pressures that build when food and other prices rise precipitously typically result in policy makers appeasing the politically important public by ‘blaming the markets’ and by taking highly visible measures to demonstrate that they are taking ‘decisive action’, such as mandating controls on food prices. However, these ‘controls’ aggravate rather than protect the food consumption insecure.⁵² Thus, when policy makers disregard the negative food security implications of market controls by either imposing trade restrictions and/or setting price controls, they impede and undermine market mechanisms and it is the markets upon which the poor normally depend for obtaining their food.

The second conclusion is that LR procurement in markets experiencing price increases should not be a preferred response mechanism to economic ‘price crises’ when there is no threat to life. This is because LR procurements of food aid for those living in

areas affected by the crisis could easily increase the number of future food aid recipients among the economically vulnerable.

The third is that international food aid purchases and donor-sourced in-kind food aid are more likely to help mitigate, and possibly even reverse price increases, if they add to the aggregate supply of what is sold in local markets. This will provide protection for the economically vulnerable who buy their food, and at the same time not harm farmers, so long as the additional food supplied reduces prices that remain within a target price range that would not become a disincentive to producers.

The fourth conclusion is that complementary policy measures are required in the affected countries to increase food supply, increase the availability of low-cost foods in the market, and create policy incentives that will improve economic competition. These policies will make it more likely that food price increases and the erosion of food purchasing power will be reversed over time.

The fifth is that since so many depend upon food marketed, complementary development investments will also help to improve economic competition in food markets. More economically efficient food markets will enhance food access for the vulnerable during emergencies and non emergencies. These markets will begin to function more efficiently if barriers to entry are reduced so that there is more economic competition in the provision of essential marketing services.⁵³ Governments can also help by creating incentives for the private sector to create new market channels for more nutritious food products that are priced within the reach of poor consumers.⁵⁴ This could be done through the introduction for sale of relatively nutritious whole grains in markets where less nutritious flour is sold, such as through the introduction into the market of a less expensive blended flour product where a preferred unblended flour was being sold.⁵⁵ By tapping into the innovation of the private sector, the public sector could provide the incentive for the private sector to sell lower-cost foods, which in turn would relieve some of the price pressure faced by poor, economically-vulnerable consumers. Furthermore, these markets will function better in the long run if development investments are undertaken to reduce market concentration and foster conditions that will lead to increased market competition within the food and agricultural system.

Famine

Local and regional procurements were made in response to various pre-famine as well as famine conditions.⁵⁶ Since the state of famine is a catastrophe in which there is massive loss of life, food is required to prevent increases in acute protein-energy malnutrition (PEM) and starvation. However, medical attention is also required to prevent and respond to increased PEM and infectious disease. Thus, the specific food and medical-related needs that arise during pre-famine conditions will obviously vary depending upon the food and health conditions in each situation.

The role and responsibility of famine early warning systems, particularly the Famine Early Warning System Network (FEWS NET), is to work with governments,

United Nations agencies with food and agricultural responsibilities, PVOs, and others who collect and analyze data in order to provide useful information about pre-famine and famine-related conditions and food needs. As early *warning* systems, these systems have historically sought to identify pre-famine conditions, as well as the people who are most at risk, often based on the assumption that food aid will generally be required. However, the systems have not operated historically as early *response analysis* systems to analyze specific needs in relationship to the most appropriate response options for meeting the need that are identified. It is this analysis of response options that is especially important in the case of famine, since food alone is often insufficient for preventing loss of life.

While FEWS NET operates at the sub-national level in countries facing a potential famine threat, FAO's Global Information and Early Warning System (GIEWS) operates differently. Countries facing a reduction in food supply that could evolve into a famine threat will often ask GIEWS, along with WFP, to conduct an independent review of the national food supply and demand situation, commonly called the 'food balance'. The FAO/WFP assessments also examine market conditions and market access problems as a means of analyzing the need for food assistance, including food aid that might be procured locally and/or regionally for vulnerable groups.⁵⁷ The GIEWS analysis is important since it provides international legitimacy to the estimated need for food aid when supply changes or other shocks threaten the adequacy of national food availability and exacerbate food consumption insecurity within the affected groups. GIEWS and WFP include the needs of vulnerable populations in Crop and Food Supply Assessment Reports (CFSAMs). Governments with past famine experience, particularly the Government of Ethiopia, try to identify interventions that will prevent internal displacements of populations since the collection of affected groups in large camps increases the probability of life-threatening, health-related disease. While early warning systems are evolving to take this more complex reality into account, their predominant strength still remains in assessing food insecurity in relationship to food needs and food aid. Thus, in situations where pre-famine and near-famine conditions exist, regional or international procurement, rather than local procurement, have been typically made to respond to food aid needs. Furthermore, as a famine process advances, the urgency of the response required precludes taking the time to analyze the possible negative effects of procurements in the markets where they occur.

Complex Emergencies

A large share of local and regional procurements by WFP and PVOs has been made in developing countries suffering from complex emergencies including Sudan, Pakistan and Afghanistan.⁵⁸ Typically, households living in the affected areas and groups with special needs are the targeted beneficiaries. WFP's experiences in Sudan and Afghanistan in particular, provide examples of how local and regional purchases can be used to help meet food consumption needs in emergencies, while helping at the same time to protect the livelihoods of producers and traders in the affected country or region.⁵⁹

Sudan is a good example of how local procurement can be effective during a complex emergency. In 2008, 5.6 million people required assistance under WFP's

country-wide emergency operation. The total volume of commodities required to meet the estimated food aid needs was approximately 633,000 metric tons. Due to the magnitude of the estimated needs, most of the food required to sustain the operation was either procured on the regional or international market, or was delivered in the form of in-kind assistance.⁶⁰ Approximately 92,000 metric tons were also purchased within Sudan itself which were vital in preventing pipeline breaks in between deliveries of in-kind or regionally procured commodities.

Despite the ongoing violence and instability in the Darfur region, there is a considerable amount of mechanized farming along the banks of the Nile River in the relatively stable northern region of the country, which also tends to produce a sizeable surplus crop of sorghum every year. In recent years, WFP has been procuring an increasing quantity of this surplus sorghum with funds from non-USG donors and transporting it to warehouses and food distribution centers throughout the country. Sudan is classified as a Least Developed and Low Income Food Deficit Country by the OECD because it does not produce enough food on an annual basis to meet the needs of its population. Despite this, surplus commodities are often available in some regions. However, since Sudan has limited infrastructure and lacks integrated markets outside of the capital city, merchants are unable to easily transport the surplus stocks to food deficit areas.

Local procurement is effective in Sudan because WFP procures a substantial volume of commodities from large-scale traders in an agricultural surplus-producing region of the country that is not only politically stable, but also relatively food-secure. Therefore, WFP's purchases do not undermine the purchasing power of low-income consumers in the surplus-producing region. Furthermore, the distribution of these commodities in highly food-insecure areas of the country, such as Darfur, does not undermine prices for local producers since the commodities are primarily distributed to refugees and internally displaced people (IDPs) who are scattered throughout the region, many of them located in places where large markets had not previously existed. Poor harvests and an escalation in violence and lawlessness throughout the Darfur region have also contributed to diminished local production in many areas. The large volume of commodities being brought into the region by WFP from local and regional procurement and from in-kind donations is distributed directly to internally-displaced and refugee households. Thus, since the food does not enter directly into the market, it does not depress the prices of staple food commodities available in the local markets, and therefore does not adversely affect the purchasing power of consumers not directly targeted by the WFP emergency operation.

This example demonstrates that WFP and the PVOs can successfully conduct local procurement in an affected country during a complex crisis, provided that the commodities are sourced from surplus-producing areas that have not been severely impacted by the crisis. Otherwise, the more practical solution is either regional or international procurement, donor-sourced in-kind food aid, or some combination. Unlike other types of disasters and food crises, food aid needs are reasonably predictable during a complex emergency.⁶¹ Therefore, LR procurement can serve several purposes. It can

save lives during the most critical phases of the crisis. It can protect access to food for those still able to acquire it on their own. And it can have a potential developmental impact either in more stable areas of the affected country itself or in the region in which the commodities are primarily sourced.

In contrast to Sudan, conducting local procurement in Afghanistan is especially challenging. Although WFP strives to purchase as much of the cereal crop as possible on the local markets, a large quantity of the commodities needed to sustain the WFP Protracted Relief and Recovery Operation are sourced from Pakistan.⁶² The balance comes from other countries in the region, or from in-kind donations. In 2005, above-normal precipitation during the winter months resulted in a bumper cereal crop in Afghanistan. The harvest was estimated to be the largest one in nine years and met 90 percent of Afghanistan's national wheat consumption requirements. Despite a considerable amount of pressure from the Afghan central government and from various donor countries to buy locally, it proved to be extraordinarily difficult for WFP to purchase a significant quantity of the surplus wheat. Although WFP did receive some funding for local procurement, it quickly discovered that it was impossible to conduct such purchases on a large scale or in a timely manner. Markets in rural areas of Afghanistan are neither well-developed, nor well-integrated. As a result, most of the surplus stocks were concentrated in the hands of smallholder farmers in the Northern provinces, rather than in the hands of large-scale commercial traders where it would have been more accessible to WFP. After 23 years of war, Afghanistan also had very little transportation infrastructure and still suffered from a considerable degree of insecurity, particularly in the food-deficit southern region of the country. Its harsh climate also complicated matters, as WFP had to procure food as quickly as possible in order to meet repositioning requirements before the onset of winter.⁶³ Transporting commodities from surplus-producing areas to food-deficit ones proved to be difficult, costly and time-consuming, and in some cases, it also proved to be impossible. As Afghanistan is such a mountainous country, many of the most food-deficit areas in the south are cut off from surplus-producing regions in the north and therefore tend to rely more heavily on cross-border trade with neighboring countries such as Pakistan.⁶⁴ Due to these challenges, WFP also had to rely more heavily on regional and international procurement, as well as on in-kind donations in order to meet the needs of beneficiaries in the food-deficit regions, in spite of the bumper harvest.

While local procurement is preferred, it is not always possible or appropriate in every complex emergency. Alternatively, making regional procurements in neighboring developing countries can have lasting benefits beyond serving immediate food aid needs in the affected country. Evidence from Afghanistan suggest that regional procurements can sustain and even stimulate production in stable areas neighboring the conflict zone, thereby creating a reliable supplier base for both food aid agencies and the local and regional population. In addition, such procurements can help to protect markets for farmers, and therefore protect their incomes while also smoothing the transition during the post-conflict stabilization and recovery phase.

VII. Methodologies

A critical challenge associated with the use of local and regional procurement involves making a careful determination about how to respond most appropriately to the food needs of those affected by disasters and food crises. This cannot be done without a careful assessment of four essential response-related questions. The first is whether food is necessary for saving or protecting the lives of those affected by the disaster or crisis, and if so, whether meeting food needs alone will be sufficient for saving and protecting lives. The second question, for the situations in which food needs exist, is which of these needs require food aid and when is the food aid required. The third is how to respond appropriately to the food needs that require assistance in a form other than food aid. And the fourth is how to respond with food aid for those who require it in a way that does not unwittingly create an additional food aid need for others and that does not threaten the basic market structures upon which the majority of vulnerable individuals rely for their food. The answers to these questions determine how LR procurements can be used in providing more timely food aid while at the same time can also be used to reduce vulnerability among groups whose market access to food is threatened during situations of acute and chronic food insecurity.

Determining Who Needs Assistance

Decisions to procure food locally and regionally in response to disasters and crises are based on several different types of assessments. In the case of WFP, appeals to donors for emergency food assistance, called Emergency Operations (EMOPS), have been increasingly based upon a combination of emergency vulnerability assessments and emergency assessments of need, such as WFP's Vulnerability Assessments (VAs), Emergency Needs Assessments (ENA) and Joint Assessment Mission (JAMR) reports that involve other U.N. humanitarian agencies. In the case of PVOs making LR procurements, their request for funding generally comes from a combination of assessments, including individually-led PVO assessments complemented by assessment information from other credible sources such as FEWS NET, WFP vulnerability assessment units, and joint Food and Agricultural Organization (FAO) and WFP Crop and Food Supply Assessment Mission reports (CFSAMs). Some PVO assessments are jointly undertaken with other PVOs and have at times occurred simultaneously in the same locations as assessments being conducted by WFP and FAO.

To minimize duplication of assessment effort, FEWS NET has historically made attempts to foster joint assessments as much as possible. However, strong differences over technical approach, along with differences in the organizational mandates of those *responding* to need, have at times impeded work towards developing a joint technical approach in assessing food needs in emergencies that would facilitate prioritizing among emergency responses. The most recent attempt to develop a joint instrument for evaluating priority situations of need, the Integrated Food Security and Humanitarian Phase Classification (IPC) Framework, is a standardized scale for judging the severity of a *country* situation *in food insecurity* terms.⁶⁵ The IPC approach is extremely data intensive, costly to develop and maintain, and currently only available in some countries.

Moreover, the IPC food security classification does not distinguish between the *life-saving* and *life-protecting* needs of the three main vulnerable groups who are affected during different stages of different disasters and food crises.

FEWS NET also uses livelihoods-based monitoring systems, analytical tools, and assessments that are based upon a ‘livelihoods approach’. This approach is “based on the household economy approach livelihoods framework. Household economy analysis requires village-level field work to gather first-hand accounts about how people secure their food and income. Field work is also balanced - or triangulated - with other information sources: primary and secondary. Other primary key informants include field staff from government or nongovernment offices, market traders, and researchers. Secondary sources include documents such as research reports, data (production, rainfall), field trip reports, and academic theses.”⁶⁶

These assessments of food quantity requirements systematically focus on the humanitarian need that individuals and households have for food by identifying the quantity of food required by those who are considered especially vulnerable in the geographic areas affected by a disaster. It is important to note that the assessments begin with the population in the area affected and attempt to identify ‘livelihood groups’, the sub-population groups in these areas which are vulnerable due to the effect of the disaster or crisis upon their livelihoods.⁶⁷ When they exist, baseline vulnerability assessments, often based on the geographic mapping of different livelihood groups (i.e. ‘livelihood zoning’), facilitate the process of identifying the sub-groups most in need of food aid. The quantitative need for assistance is determined by the estimated quantity of food required by households in these vulnerable livelihood groups. In the case of famine and other geographically-specific complex crises, the same geographic assessment optic is used. Assessments of household needs are made by livelihood group, rather than by level of income, and are based on the following calculation. First, estimates are made of requirements based upon a calorically-adequate food consumption intake for households in this group, a level which is typically well-above that of normal actual caloric consumption. Estimates are also made of the *expected* caloric levels that are based on *expected* access to food from normal market and non-market sources for households in each livelihood group. Then, the estimates of expected intake are subtracted from the requirement estimates in order to determine the food need requirements for the ‘food insecure’. Thus, ‘food insecurity’ in these assessments takes on a special meaning as the amount of food aid required for direct distribution. However, it does not indicate how much of the ‘food insecurity’ or how many of the ‘food insecure’ require food to meet immediate life-saving needs, or for that matter to meet less urgent needs. As mentioned elsewhere in this study report, the ability to make a distinction in the food need characteristics of those experiencing different phases of different disasters and crises, and therefore between situations which require literally life-saving responses and those that do not, is critical to ensuring that LR procurements are undertaken only when appropriate.

Therefore, these assessments do not directly or systematically assess either the food needs that economically-vulnerable households who are market-dependent have to

continue purchasing their food or what is required to keep essential food markets functioning during disasters and crises. Their focus is on estimating the food gap, and thus does not explicitly consider the cash or purchasing power required by households to replace their lost cash income for making food purchases. They also do not directly or systematically identify those who are economically vulnerable to higher and more unstable food prices or to a loss of food access due to market collapse. Because the need that the economically vulnerable have to purchase food is not examined in the assessments, the problem of loss of income or a reduction in purchasing power due to higher prices is not adequately understood when either a disaster or crisis occurs. Thus, measures to increase purchasing power directly through higher incomes or cash, or indirectly through encouraging the increased availability of lower cost food products, are not identified for this particular affected group. As a result, there is no evidence of assessment information that either identifies a timely response to a decline in the ability of the food insecure to purchase food or identifies timely interventions to keep food markets functioning during disasters and crises, especially markets where food consumption insecure consumers buy their food.

In summary, assessments of ‘food insecurity’ provide estimates of the quantities of food aid required, but do not clearly and systematically differentiate between the amounts of food aid that are required, literally to *save lives*, and the types of other food assistance that are required to *protect lives*. The lives of the economically vulnerable are protected if they have enhanced market access to purchase food during disasters and food crises. However, a stronger ability to make this distinction between life-saving and non-life saving situations, and therefore different needs, would have several benefits. First, it would lessen the risk that those who require a life-saving response do not receive locally and/or regionally procured food. Second, it would also lessen the risk that LR procurements provide food to some that could have been used elsewhere to respond to truly life-saving needs. Third, it would also help donors to prioritize funding for their individual and collective food responses on the basis of severity and urgency of the need. And fourth, it would then allow for better targeting to the distinct types of food-related needs of the three main vulnerable groups affected depending upon whether or not the situation was life-threatening.

Determining What Types of Assistance Are Required

The methodology for making a determination that food, and therefore food aid, is needed is undergoing change. However, it has largely remained unchanged during the thirty year period during which local and regional procurements have been occurring. Because food needs were primarily seen as being caused by a decline in food supply, assessments have focused, until very recently, on exclusively identifying situations in which food is required to meet shortfalls in food consumption that threaten lives. Donors have also found this approach to be of practical use since they had in-kind food aid available with which to respond. However, the recognition has grown over the past two decades that food needs are also caused by a decline in market access to food and that food markets play an important role in resolving food deficits, particularly through informal cross-border trade. Also during this time, a shift has occurred towards the use

of cash by some key donors as a way to meet pressing food needs and to stimulate demand in markets in order to boost output and incomes in poor areas.

Therefore, with this mix of both cash and food available to respond to needs that are often related to market conditions, it has become possible, and important, to consider the circumstances under which each of the three broad response options would be appropriate for meeting food needs in specific disasters and food crises. These response options are to provide donor sourced in-kind food aid, to use cash to purchase food locally, regionally or internationally, and to provide cash or vouchers for beneficiaries to purchase their own food. USAID, Michigan State University, the International Food Policy Research Institute (IFPRI), CARE, WFP, and others have been working on developing methodological approaches for quickly determining the circumstances under which each of these three options would be most appropriate in an emergency. However, none of these analytical approaches are yet in use.

With the growing recognition of the importance of food markets, and with the availability of food and cash, the nature of assessments began to shift to account for the possibility that food needs could be met through markets as well as through the direct non-market provision of in-kind food aid. Thus, an evolution in emergency assessment methodologies has occurred to examine food needs in the context of market realities. However, the overriding focus has been on the question of whether in-kind food aid, and to a lesser extent local and regionally procured food aid, will ‘damage’ markets. While this concern is understandable from a development perspective, it has obscured a central question that determines whether or not a response is appropriate in a market setting. This basic question is: ‘Do those who are affected by a disaster or crises have a need to purchase their own food, a need to receive food aid, or a need for both?’

These two needs also come into play in WFP’s current ‘Exiting Emergencies’ Policy. This policy indicates that an emergency food aid distribution should cease when those *receiving* food are able to obtain food as they did before the emergency. Thus, for the economically vulnerable whose food consumption is adversely affected by market conditions during an emergency, they must be able to procure food as they did prior to the emergency. This then requires some knowledge of how food markets function on a normal basis, how they function during food emergencies, and how able economically-vulnerable households are to buy food normally and during the emergency. This information would also help to identify the type of assistance that will help to protect them from falling into a state in which they need food aid. It would also help those providing donor-sourced food aid and/or locally or regionally procured food to determine when the need for direct food aid is no longer necessary, and therefore when the emergency has ‘ended’. Moreover, it would help to reduce the risk of a mistaken oversupply of locally and regionally procured food aid that could depress food prices and producer incentives, damage markets. And it would also help to reduce the risk of a mistaken undersupply of food aid that could lead to unnecessary suffering.

Determining When to Procure, Where to Procure, and at What Price

The food aid agencies involved in conducting local and regional procurement each developed their own procurement-specific rules and procedures, some more comprehensive and rigorous than others. WFP has developed a sophisticated procurement system modeled after the supply chain management systems of large commercial buyers. It has also established guidelines and methodologies for conducting local, regional and international procurement. These guidelines and methodologies ensure that every purchase is conducted in a transparent manner and that all of WFP's financial rules and quality standards have been met.

Tenders for local procurement are managed by the WFP country office in the affected country and are customarily awarded to traders from that country. Tenders for regional procurement are undertaken by the WFP regional office nearest to the affected country and tend to attract bids from a variety of traders throughout the region. By contrast, international purchases are administered by the Food Procurement Service (ODTP) at WFP's headquarters in Rome. Tenders for international purchases are generally issued for a large volume of commodities for delivery to multiple destination points throughout the world.

In emergencies, the availability, price and speed of delivery determine the winning bid. In order to ensure that LR procurements are undertaken at fair and reasonable prices, and that donor cash resources are used in the most efficient manner possible, WFP has instituted a set of procurement guidelines based on the principle of import parity. This practice is similar to the approach taken by commercial supply chain managers in calculating the lowest landed cost estimate.

Prior to making a purchase in any given country, WFP compares the lowest bid price of a commodity to the import parity price (IPP) of that same commodity. The IPP is used by WFP and others prior to purchase to compare the estimated total cost of procuring a food locally to the estimated total cost of importing the same commodity from a regional or international market. The 'local' price is based on the in-country purchase price plus all transportation, storage and handling costs associated with delivering the commodity to the food aid distribution center in the affected country. The 'import price' includes the cost of purchasing the commodity from the cheapest non-local source plus all the associated transportation, storage and handling costs associated with importing the same commodity delivered to the food aid distribution center in the affected country. Thus, 'parity' exists when the two costs are equal. Thus, if the local procurement costs are 'below import parity', the estimated cost of the locally purchased commodity is less than of the same imported commodity. Conversely, 'above import parity' means that the local price is more than the cost of the same imported commodity. When calculating import parity costs, the rule of thumb is to purchase locally as long as the local price is at or below import parity, and to import when the local price is above import parity.

Barring all but the most exceptional circumstances, WFP does not procure food commodities in any country when their sale price is above the IPP. In the past, it has only purchased at prices above import parity during the critical, life-saving phase of a response to a rapid-onset emergency, when time was of the essence. However, even in such cases the quantity purchased locally was very small. The only other occasions during which WFP has purchased commodities locally at prices above import parity were as a result of donor conditions stipulating that WFP buy in the affected country or in a developing country in the region. Procuring large volumes of staple commodities at prices above import parity can be inflationary and can also cause some sellers to withhold stocks from the market in anticipation of future WFP purchases. Either of these consequences would likely cause the economically vulnerable to face higher purchase prices in those markets, and possibly in the markets in the affected areas. .

Following a disaster or a food crisis, the supply and availability of food in the affected area is often significantly reduced, if not destroyed, and the subsequent increase in demand tends to push cereal prices toward import parity. This is true in the case of all types of disasters and food crises, including earthquakes, floods, droughts and man-made disasters such as conflict. In the aftermath of a rapid-onset disaster or a conflict, the normal market supply chain may be disrupted for a long period of time before normal trade can resume again. If this is the case, it may even be impossible for WFP to purchase the commodities on the local market and take delivery of them in a timely manner. Although each response is context-specific, WFP may bypass local markets in an emergency situation and purchase the necessary commodities on the regional or international market, so as not to deplete the remaining supply of staple grains or erode the purchasing power of low-income consumers in the affected country. Making the right decision about when and where to purchase is especially critical during a slow-onset emergency such as a drought, when local and regional supplies are depleted gradually over time.

Timing of Donor Contributions

It is important to understand how the timing of donor contributions also affects WFP's procurement strategy. The timing of donor contributions affects not only the price that WFP ultimately pays for a commodity, but it also determines whether or not a local or regional purchase is even feasible. Advance confirmation of pending contributions for ongoing programs allows WFP to have maximum flexibility to plan ahead and purchase commodities during the harvest season when prices are low and there is greater availability. However, WFP is frequently unable to do so since most donor contributions are not announced and/or not available far enough in advance.

A significant share of the cash contributions that WFP receives come in response to rapid-onset disasters. Although WFP cannot predict the number and scale of rapid-onset disasters that it will respond to in a given year, it can anticipate which regions are likely to experience them. The Caribbean, for example, is especially prone to flooding during hurricane season. WFP can predict with near certainty that a chronically food-insecure Caribbean nation such as Haiti will need additional assistance in the aftermath of

a hurricane. Likewise, other flood-prone countries in Africa and Asia, such as Mozambique and Bangladesh, frequently require additional assistance during cyclone season. Although WFP always maintains a six-month supply of commodities in the pipeline for any ongoing operation in order to prevent pipeline breaks, it currently does not receive any donor funding to purchase commodities in advance and stockpile them for later use in disaster-prone regions.

Even after WFP has received confirmation of a contribution in response to a disaster or a food crisis, the cash for a local or regional procurement might not be available immediately. In order to overcome this challenge and expedite its response, WFP created the Immediate Response Account (IRA). The IRA is a special account that is funded by multilateral donors to ensure that WFP has enough cash on-hand at any time to respond as rapidly as possible to a food emergency. WFP Country Directors can borrow up to \$500,000 from the IRA to purchase commodities for their program, but the funds must be repaid as soon as confirmed cash contributions have been made available. WFP generally restricts the use of IRA funds to the first three months of an emergency operation.

Local and Regional Procurement Practices of Private Voluntary Organizations

Joint Aid Management (JAM), a PVO with a considerable amount of experience in providing humanitarian assistance and promoting sustainable development in Southern Africa, has an entirely different procurement strategy and one for which LR purchase works well. Unlike WFP, JAM is unique in that it has a relatively consistent stream of private funding with which to finance its LR purchase programs. Because JAM primarily distributes food aid through non-emergency school feeding programs or through programs targeting persons living with HIV/AIDS (PLWHAs), it also has a relatively stable beneficiary caseload and its programs create a predictable source of demand in the localities in which it operates. Consistent financing and steady demand enables JAM to take advantage of the optimal time to buy, meaning that JAM purchases commodities immediately following the harvest, when there is greater availability and when prices are at their lowest level. Following a purchase, JAM prepositions the commodities in warehouses at a various locations near project sites and factories for later use in its non-emergency programs. In the aftermath of a rapid-onset disaster, the prepositioned commodities can also be drawn upon for an emergency response.

JAM's strategy of buying commodities well in advance of needs and then prepositioning them for later use in areas in which it expects to maintain a long-term presence, is a highly cost-effective way to conduct LR purchase programs. Prepositioning commodities also enables JAM to maintain a constant rolling stock and avoid pipeline breaks. The prepositioned commodities can be used in various types of programs and more importantly, they can be quickly diverted in the event of an emergency. This strategy has also enabled JAM to cultivate a diverse supplier base that includes the participation of smallholder farmers.

However, it is important to highlight another reason why JAM's procurement strategy works so well. JAM has spent a considerable amount of money over time on infrastructural investments in the countries in which it operates, including purchasing trucks, constructing roads through food for work programs, and building a network of permanent warehouses to support its extensive logistical operation. This infrastructure supports its local purchase programs by enabling JAM to easily move commodities from surplus-producing regions to key transport or processing hubs. Over time, programs such as JAM's can make a sustainable developmental impact in the regions in which they operate.

JAM's experience is unique, as most PVOs interviewed during the course of this study do not engage in local or regional procurements on a regular basis. They simply lack sufficient cash and other resources with which to do so. As a result, PVO procurements tend to be small and infrequent and are generally only conducted on an as-needed basis. Because PVOs do not purchase the large volumes of commodities that an organization like WFP does, they also tend to pay higher prices for their commodities. This is due to several factors, including the small size of the purchases and the lack of experienced procurement agents within the organizations themselves. WFP, by virtue of its size and the volume of purchases that it conducts, has a need to maintain experienced procurement staff in various locations around the globe, including in its country and regional offices and at its headquarters in Rome. By contrast, PVOs typically do not. Therefore, PVOs generally conduct LR purchases in one of two ways. They either assign a commercial agent to conduct the procurements for them or the purchases are handled by in-country procurement or logistics staff that might or have the set of skills and degree of experience necessary to negotiate a fair and reasonable price for the commodities.

In order to overcome these challenges, some PVOs have contracted with WFP to conduct their LR procurements for them. There have been many occasions during which WFP has undertaken umbrella procurement on behalf of its PVO partners, but when it does so, it generally charges them a fee for its services. Still, PVOs benefit from enlisting WFP's services in several ways. First and foremost, they are able to take advantage of the volume discounts typically afforded to WFP. Second, they benefit from WFP's experience, as well as its knowledge of the market and of the normal patterns of commercial trade within the region. Furthermore, they benefit from the ability to access the services of WFP's extensive logistics and operational network.

Because PVOs have not had the resources to invest in hiring and retaining experienced procurement staff or to expand and maintain a large operational network to support local and regional purchases, they will have to make a considerable initial investment to build these assets. One way to overcome this challenge and mitigate the initial costs associated with increased local and regional purchases would be to improve the level of cooperation among all food aid agencies.

Sources of Supply for Local and Regional Procurement

PVOs and WFP purchase a significant quantity of commodities through a tendering process that is primarily targeted at large-scale commercial wholesalers. Purchasing from commercial wholesalers has consistently proven to be the most timely and cost-effective way to obtain sufficient quantities of commodities during a disaster or a food crisis. Commercial wholesalers tend to be familiar with PVO and WFP tendering procedures, as well as with buyer expectations with regard to commodity quality. Most importantly, they can supply the large volume of commodities needed during the initial life-saving stage of a response to a disaster or a food crisis.

In order to minimize risks including trader default, delivery delays, or the receipt of poor quality commodities, WFP certifies suppliers in advance, meaning that tenders are only awarded to eligible, pre-certified suppliers. Winning suppliers are also required to submit a performance bond at the time that the contract is signed with WFP. Performance bonds serve to discourage traders from defaulting if they later determine that they can sell their commodities for a higher price elsewhere.

WFP is generally well aware of the extent of market competition that exists among commercial wholesalers and traders who participate in tender offers. Where there are few suppliers, especially for large quantity tenders, WFP is very alert to any potential for collusion. Whenever WFP is concerned about this possibility, it attempts to re-configure the tenders to avoid the possibility of price-fixing. In countries with ongoing food aid programs in which there is only a limited number of qualified suppliers, WFP also takes other measures, such as attempting to reduce barriers to entry into tender competition for smaller traders and other potential suppliers.

Procurements from smallholder farmers and farmer cooperatives comprised a much lower percentage of total LR purchases, although the historical record and recent anecdotal evidence indicate that both PVOs and WFP did conduct some purchases from these groups in an effort to meet developmental objectives. In general, WFP's past efforts to procure commodities from small holders and farmer cooperatives have been largely unsuccessful. Among the many challenges cited by PVOs and WFP when attempting to purchase from these groups were their unfamiliarity with commercial tendering procedures and standard business practices, inconsistent or unacceptable quality commodities, high rates of default and slow pace of delivery.

The lack of adequate infrastructure in rural areas, including warehouses and road networks, as well as accessible and well-connected markets also makes it difficult for smallholders to participate in the commercial value chain. In order to maximize their profits after the harvest and minimize spoilage, many smallholders are forced to immediately sell their produce to local traders. Most lack access to warehouses in which to properly dry and store their commodities. By contrast, producers that have access to warehouses can set aside more stocks for their own use or to sell at a later date when demand is up and prices are high. Many smallholders that lack adequate storage capacity even have to buy back commodities for their own use prior to the next harvest cycle.

Access to a formal warehouse receipts system⁶⁸ or a commodity exchange would facilitate the participation of smallholders and cooperatives in the commercial value chain by enabling them to consolidate their produce in order to take advantage of opportunities to bid on bulk tenders issued by agencies like WFP or by commercial buyers. These systems are equally beneficial to small traders.

The South Africa Futures Exchange (SAFEX) is currently the only functional commodity exchange in sub-Saharan Africa. It has proven to be a cost-efficient and dependable source of commodities for PVO and WFP regional purchases, particularly when timing is critical and local purchases within affected countries are not feasible. As a result, South African traders and farmers have benefitted tremendously from PVO and WFP purchases. In 2007, WFP purchased more than \$17 million worth of commodities in South Africa.

The importance of warehouse receipts systems and commodity exchanges to agricultural development cannot be overstated. Without them, it is virtually impossible for PVOs or WFP to buy in sufficient quantities from either smallholders or cooperatives. The majority of food aid agencies do not have the resources to conduct these purchases on a micro-scale by targeting individual farmers or cooperatives directly. Both PVOs and WFP strongly agree that procurement from these groups should not be undertaken during a disaster or a food crisis, when the provision of food must be expedited in order to save lives. Furthermore, past experience has revealed that undertaking these types of procurements requires a considerable investment on the part of both donors and implementing agencies, as they have proven to be extremely costly, labor-intensive and inefficient. That is not to say that these types of purchases cannot and should not be undertaken, but they must be done under appropriate conditions, keeping in mind all of the associated challenges and risks.

A study by Coulter, et al. (2007), concluded that, “Food aid agencies can adjust tendering procedures to mitigate certain problems, but in countries where they are involved for the medium or long term, they should consider more comprehensive approaches to market development which leave behind stronger and more efficient structures that will serve the host countries better. To this end, they should work closely with partners seeking to improve the performance of grain markets in areas such as contracting, warehouse receipt systems, and exchange trading.”

New initiatives such as the Purchase for Progress (P4P) program aim to do just that. P4P is a new agricultural development program that could potentially transform the way that WFP conducts LR purchases. The goal of the P4P program is to boost the incomes of smallholder farmers by helping them to access reliable markets for their produce. This five-year pilot program will be implemented in 21 countries and is jointly funded by the Bill & Melinda Gates Foundation, The Howard Buffet Foundation and the Government of Belgium. P4P resources will be used to explore and document best practices for using LR purchase as a tool for meeting development assistance objectives including stimulating smallholder production and income in an effort to break the cycle of poverty in chronically food-insecure countries. As part of this effort, P4P funding will

be used to invest in infrastructure like warehouses and feeder roads. Such investments will not only strengthen market linkages, they will also enable the produce from smallholder farmers to be consolidated and transported to markets. Additional funds will be used to support training programs for traders and buyers. And, perhaps most importantly, WFP will receive much-needed cash to support monitoring and evaluation for baseline studies and post-purchase impact assessments. This sort of data, although currently lacking, is vital to understanding the true cost and effect of LR purchases in developing countries. Thus, WFP's P4P program and other developmentally focused purchase efforts could help in improving the impact of purchase activities on smallholder and low-income farmers.

Determining Which Negative Effects to Avoid

This section examines the methodological and procurement approaches used for purchasing food related to ensuring that LR procurements do not cause unintended harm either to individuals or to economic markets and systems. The methodologies and approaches that are examined specifically relate to purchasing food at reasonable prices, while at the same time avoiding purchases that significantly increase the cost of food for low-income consumers, harm farmers, that adversely affect world prices for agricultural commodities, and that disrupt normal patterns of commercial trade.

Procuring Commodities at Reasonable Prices and Avoiding Harm to Consumers

Perhaps the greatest challenge associated with local and regional procurement is the limited availability of timely data about prices and conditions in developing country markets affected by these purchases. Since market prices are obviously affected, a key concern of donors and implementing partners is to minimize their effect on prices, and to prevent 'sharp' price rises from individual purchases, as well as to avoid causing inflationary pressures over the long run. How this is done in the absence of real-time data on local market conditions in affected countries is problematic. However, there are 'purchasing power protecting' intervention that could be assumed necessary, even when if there is an absence of quantitative data about market conditions. One example is that a food consumption-protecting intervention is identified, which is based on the assumption that purchase protection is needed to guard against the price increases that will most likely occur from LR procurement. It is helpful for the design, however, to know whose consumption would most likely be affected by these higher prices. For example, in East and Southern Africa, the most affected consumers, including smallholder farmers who rely upon the markets to purchase food. For these consumers, a 'self-targeting' approach would provide some purchasing power protection especially if the self-targeted foods were ones that provided nutritional benefits to the targeted consumers.

When data about prices and market conditions does exist, however, price monitoring can be used to identify, before procurement occurs, whether markets can be expected to handle the volume procured without a significant price rise. Price

information can also be used to determine, for those purchases not expected to cause a price increase, whether the price effects of the purchases were as expected.

The discussion about price information also relates to import parity price, particularly in relationship to prevailing prices, procurements, and vulnerable groups. Import parity price is used to determine when or when not to conduct local purchases. For example, in the event that local prices are below import parity, the rule would suggest that purchases be made locally until local prices increase to import parity. Thus, local purchase could cause significant price increases, yet still continue as long as prices are below import parity, even though the local price increases have been significant. Thus, the use of import parity provides a false sense that consumers will be protected from possible price increases caused by local or regional procurements. It simply does not provide a good guide to anticipate to what extent increases in local procurement will make consumers in the affected markets more economically-vulnerable, and therefore less able to purchase their own food. However, the less of an effect that local purchases have on increasing prices, the less the potential adverse impact the purchases will have on the poorest consumers and the fewer the number of consumers that will be affected. Moreover, a large local procurement of a particular commodity relative to existing supply in local markets could result in an appreciable increase in local prices that could still be below the import parity price of that same commodity.⁶⁹ Thus, local purchases at prices that are below import parity could adversely affect the food consumption of some low-income consumers who purchase food in local markets, thus potentially contributing to their need for food aid. And there is no sound basis for making the assumption that a significant increase in local prices resulting from a local purchase will only result in a negligible decrease in the number of those able to purchase food and in the amount of food they buy.

Avoiding Harm to Markets and Normal Patterns of Commercial Trade

An important theme in this study is that certain uses of local and regional procurement can augment other investments in economic and human development. This section addresses the opposite question which is how to avoid making local and regional purchases that will increase the risk of harming markets and disrupting commercial trade, and therefore undermining development efforts.

The focus by WFP and the PVOs in meeting timeliness and product quality and safety specifications, as well as in minimizing the risk of trader default, is primarily a contractual issue. Those in procurement are obviously conscious of price movements due to their financial impact upon a food aid agency's 'purchasing power'. Moreover, the attention that WFP and the PVOs have been giving to the economic issue of avoiding harm to markets and not disrupting trade has been growing over the past five years. This can be seen particularly in the cooperation between WFP's procurement and needs assessment officials in determining what types of market-related analyses are required and feasible to undertake before and after purchases have occurred. Progress is being made in developing a methodologically-appropriate approach to determine if and when a prospective purchase might cause harm to markets, and if actual purchases have in fact

harmed markets. Given that these questions are important for making decisions about whether, when and where to procure, a simple and practical methodology is required.

There are several possible elements to such a methodology. The first is to determine whether the structure of the market in which the purchases are made is concentrated or is economically competitive. If the market operates in an economically competitive and transparent manner, then purchases by PVOs and WFP are less likely to influence prices, and therefore the willingness of actors such as farmers, traders, and buyers to continue participating in the market. However, if producer and wholesale markets are either monopolistic or oligopolistic in nature, the purchase prices being paid by consumers are above an economically reasonable price. Furthermore, the additional demand associated with WFP or PVO purchases is likely to increase prices further. As a result, the opportunity for larger profits could encourage large traders to behave in a more collusive manner, particularly by making a more concerted effort to prevent new traders from entering into the market. In such a case, WFP and PVO purchases would be harmful to markets, especially where legal prohibitions against collusive behavior are either non-existent or are ineffective.

The second is to determine whether markets are integrated or not. If markets are not well integrated, then the additional demand from a series of local or regional procurements could possibly result in inflationary pressure, especially when the purchases are large in either absolute or relative terms.

The third is to determine the size of all purchases, including the procurement, relative to the amount of food available in the market. If PVO and WFP procurements are large relative to the volume of food traded in markets that are not well-integrated, this will likely cause inflationary damage. Moreover if LR procurements by PVOs and WFP occur in oligopolistic markets, they will create a greater incentive for oligopolistic traders to pass along higher prices to buyers. However, if PVO and WFP procurements are large relative to the volume of food traded in economically competitive and well-integrated markets, they will be more likely to lead to an increased incentive for new traders to enter the market.

The fourth is to determine whether the procurement will exacerbate price instability or fear of instability. This relates to whether or not there is sufficient transparency with regard to purchasing intentions, actual purchases, and the planned and actual uses of the food. If information about LR procurement policies, purchasing intentions and purchases is not available and transparent, this can introduce uncertainty that reduces market participation in a potentially harmful way.⁷⁰ This uncertainty will be even greater in those countries in which governments have periodically intervened to purchase food regionally and/or internationally in response to a reduction in domestic food production caused by a drought. In the absence of transparency about the purpose of PVO and WFP purchases, and about the intended distribution of the food aid, there is a considerable risk that PVO and WFP purchases could also create uncertainty about when and how the food will be distributed, and therefore about possible effects upon market prices. In this regard, evidence from several MSU studies has clearly shown the adverse

effects that purchases by governments in Southern Africa have had upon markets and consumers. Thus, when traders are uncertain about what the food distribution intentions are of a significant buyer, whether it is a government, a PVO or WFP, traders will be less likely to take the risk of buying food because of the concern that they will be unable to sell at or above break-even prices. The potential for this to cause harm is greatest when there is a history of affected country governments having sold their purchased food at prices well below those of the prevailing market prices.

Therefore, a related question is whether the LR procurement is occurring in a context in which the food policy in the affected country has a ‘bias’ in favor of farmers, in favor of consumers, or in favor of market neutrality.⁷¹ LR procurement will be less likely to cause harm to markets if the policy bias is to improve markets, rather than to favor either producers or consumers. Moreover, the two conditions posed in the Farm Bill that stipulate that both consumers and farmers not be harmed by local procurement are more likely to be met if there is a policy emphasis upon market improvement, rather than a bias favoring either producers or consumers. If economic competition increases, marketing margins will shrink and markets will function more efficiently. When this occurs, farmers will receive higher prices and consumers will simultaneously benefit from lower prices. This provides another justification for the striving to achieve the developmental objective of improving the efficiency of food markets in conjunction with the use of LR procurement during non emergencies.

VIII. Other Factors Determining How Procurements Have Been Made

Timeliness and Quality Considerations

The study reveals that local and regional procurements have been made effectively in emergencies to ‘save lives’ by providing high-quality food in a timelier manner than if the programs were relying upon in-kind food aid alone. Furthermore, given the objectives of timeliness, and cost-effectiveness and efficiency, it is clear that the use of tendering procedures targeted at pre-certified suppliers has minimized the risk that one or more of these factors might not be achieved. Thus, the study has confirmed that WFP, as well as those PVOs that have made LR procurements, have put appropriate standards and procedures in place in order to meet food quality and safety specifications, as well as timeliness requirements. They have also instituted procedures that ensure that they are able to identify the source and origin of the locally or regionally procured commodities.

Without exception, the imperative to obtain food for life-saving situations trumps any concerns about the impacts of LR procurements upon consumers, producers and markets. However, some of these purchases are made for developmental purposes, and as this study has shown, not all phases of all emergencies pose an imminent threat to life. One approach to increase the contribution that LR procurement make to development would be to identify those food markets characterized by economic competition, and thus to prioritize purchasing food in these ‘preferred locations’. Thus, tendering would

become the residual purchasing method for non-emergency situations. The possible advantage of this approach is that it could create the incentive for stakeholders in monopolistic and oligopolistic markets to allow a greater degree of market competition if they believed that purchasing organizations would only purchase in non-monopolistic and non-oligopolistic markets. The developmental benefit of this strategy would be further reinforced if the purchasing agents also supported concrete development interventions that facilitated the removal of barriers to entry for participants in food markets. In this regard, purchasing initiatives such as WFP's Purchase for Progress Program (P4P) could play an important catalytic role. Clearly, these and other efforts should be encouraged in order to facilitate and encourage developmentally-supportive procurement and purchasing approaches.

Assessing Market Supply Availability and Competing Demand

A timely and accurate assessment of seasonal crop production across the developing world is sometimes difficult to obtain. The most timely and reliable information available comes from FAO's GIEWS and FEWS NET analyses which will often independently verify the accuracy of, and adjust when necessary, official government estimates of agricultural production, trade, and therefore total food availability. These total availability figures are then viewed in relationship to estimates of food requirements, which are different from estimates of food purchased. Governments that have made staple food purchases outside of their own country have often done so to meet national 'food deficits' when requirements exceeded total availability, or when they were attempting to increase total availability in order to reduce food prices to consumers. Increasingly, developing country governments are also implementing their own social welfare programs and have begun to make purchases for these programs as well. As markets have become more important over time in low-income countries, it has become more difficult to estimate total market supply since accurate information about cross-border trade is difficult to obtain and is highly dependent upon changing relative prices in bordering countries. This is one of several reasons why market purchases that are based on effective demand are a more accurate representation of actual food consumption realities, than are purchasing decisions made on the basis of notional 'food requirement' and 'food deficit' figures. WFP has historically used agricultural production and 'food balance' information as a basis for its decision-making. However, it has begun using market information, whenever and wherever it exists, in order to determine the availability of supply and estimate import parity prices.

WFP actively and successfully gathers 'market intelligence' from a wide variety of other sources as well. Like FAO and FEWS NET, WFP communicates directly with host country government ministries, and because it is such a large buyer in some markets, it has access to information from commodity traders. In addition, WFP's own field staff is among its most reliable sources of information on local and regional trading patterns and practices. These staff members include procurement officers, food aid monitors, vulnerability analysis and mapping staff and logistics experts.

By closely monitoring the supply, availability and prices of staple food commodities on the local and regional markets, and by openly communicating with traders and government officials, WFP tries to estimate the 'marketable surplus' of staple commodities at various times throughout the year. It uses this information to plan its purchases accordingly in ways that it believes will minimize disruption to normal patterns of commercial trade.

There have been times however, when WFP has found itself in competition with host-country governments in the market. No formal protocols currently exist to guide food aid agencies in how to appropriately handle such situations. They have generally been resolved through goodwill and cooperation, although in most instances the first organization to close on a tender is the one that gains the limited supply at the best price. Besides sometimes finding itself in competition with developing country governments, WFP also represents some of those governments as a sales agent that buys commodities on their behalf, or as an advisor, teaching them how to run a commercial tender and procure commodities, such as for their own social welfare programs. At the request of the World Bank for example, WFP has taken on the role of advisor to the Government of Ethiopia and has also provided LR procurement assistance to the Governments of Ecuador and Bolivia.

The impact of PVO purchases on normal patterns of commercial trade is negligible because these organizations have been relatively small buyers in local and regional markets. However, if more donors contribute more cash for local and regional procurement, PVO purchases would become more important, particularly if they are more closely coordinated. As mentioned earlier, disruption to commercial trade will not occur if LR procurement policies, purchasing intentions and purchases are available and transparent to market participants so as to avoid uncertainty that could disrupt normal patterns of trade.

Information System Safeguards against Causing Harm

The study also looked for examples of safeguards taken to protect against procurements that could cause possible negative effects, and to halt purchases if it is determined that negative effects are occurring. The most cost-effective safeguard is through regular ongoing analysis using information available within host country information systems. The affected countries should host these systems, whenever possible, since the goals of local and regional procurement are related to food security during both emergencies and non emergencies. Since food security is the primary responsibility of the country affected, every effort should be made to build information systems that encourage cooperation among the host country, donors, and food aid organizations. This will help to ensure that local and regional procurements made during emergencies and non-emergency periods are as supportive as possible of host country food security policies related to protecting the food consumption of vulnerable groups.

The information systems should provide several types of critical information that help guide the design of specific purchase interventions that will meet the stated

objectives of local and regional procurement under life-threatening conditions, as well as in protecting lives during both emergencies and non emergencies. First, the system should provide information to identify if food assistance is required, and if so, which type of local or regional purchase is appropriate. It should provide information about the expected price and consumption impacts of possible food procurements to guide the selection of an appropriate local or regional purchase response. Finally, it should provide information about the ongoing price impacts of actual food procurements, including likely effects on food consumption of non-beneficiaries. This information should indicate if an ongoing series of procurements should be suspended.

Some progress has been made in WFP work collaboratively with in-country governments to build information systems at the country level that will meet these three information requirements. Although the purpose of WFP's Strengthening Emergency Needs Assessment Capacity Project (SENAC), funded by the European Commission, was to strengthen analytical capacity primarily within WFP, it has contributed to the methodological development and field-testing of market analysis tools. When the funding for SENAC ended last year, the analytical capacity that was developed was "mainstreamed" within WFP. At this stage, critical questions remain as to whether this mainstreaming has resulted in the establishment of a functioning information system to conduct these three types of analyses on a routine basis, whether WFP has the technical staff to conduct these analyses on a routine basis, and whether WFP has adequately prioritized core funding to support the operation of the information system.

Should information not be available through in-country information systems to meet these three specific information requirements, those donors and food aid organizations using local and regional procurement should collectively encourage, and support when necessary, suitable expansions in these in-country information systems to ensure that these information requirements are met. It is important to recognize that there are likely to be significant cost implications in building information systems to undertake these analyses regularly. Therefore, it is particularly important to clearly and carefully determine when analyses are required of *specific* possible negative effects and when the costs of the analyses far exceed any potential benefits from conducting the analyses. For this reason, this study concludes that these analyses should not be done for situations in which life-saving responses are occurring, but rather should be conducted during those phases of those disasters and food crises when the objective of the response is to protect the lives of the geographically vulnerable, those with special needs, and the economically vulnerable.

Commodity Standards

Commodity Quality

There are no universal commodity quality certification standards for WFP and the PVOs to rely upon to guide their local and regional procurement. Instead, like health and phytosanitary requirements, commodity quality standards are determined by the government of the country in which the commodities are purchased. If a food aid agency

purchases commodities on the regional or international market, it must ensure that the commodities also meet the health, phytosanitary and quality requirements of the country in which they will be distributed. However, WFP and many of the PVOs reported that they have also put additional safeguards in place to ensure commodity quality and safety.

WFP pre-certifies all of its suppliers before they are eligible to bid on a tender. As part of the certification process, potential suppliers must prove that they have been in business for a minimum of three years and must also agree to submit to a reference check and an inspection of their facilities. Furthermore, all certified WFP suppliers must adhere to the Good Manufacturing Practice (GMP) and Hazard Analysis Critical Control Point (HACCP) principles. These principles are especially important where processed commodities are concerned. After a processed commodity supplier has been certified, WFP conducts regular inspections of their facilities to verify ongoing compliance. After a recent inspection of two corn soy blend factories in Southern Africa, WFP discovered that there had been a lapse in compliance with its mandatory quality and safety standards. WFP immediately suspended purchases from these factories, but because processing capacity is so limited in Southern Africa, it opted to work closely with the factory owners to rehabilitate their production facilities to comply with the GMP/HACCP principles, rather than revoke their certification. As a result, they are able to continue doing business with WFP.⁷²

Regardless of whether or not WFP is procuring from large-scale commercial wholesalers or from small farmer cooperatives, it requires that all suppliers meet the same technical standards in relation to commodity quality and safety. Although most of the PVOs do not make LR procurements as frequently as WFP, many of them have also established technical standards and minimum testing requirements. Those that lack appropriate procurement guidelines and technical standards frequently hire commercial buyers to handle their purchases for them or they contract them out to WFP. All food aid agencies interviewed during the course of this study confirmed that they inspect all shipments of bulk whole grains for signs of infestation and excessive amounts of foreign material or dust. They also test, where appropriate, for diseases such as aflatoxin. Processed commodities are tested to ensure that micronutrient levels are consistent and do not exceed recommended levels.

WFP and the PVOs recognize that maintaining high commodity quality standards is critical to ensuring the health and safety of the beneficiaries and to protecting the reputation of food aid agencies and donor countries. That is why considerable emphasis is placed upon ensuring that the commodities are thoroughly tested for quality and safety before reaching the hands of the beneficiaries.

Commodity Source and Origin

WFP has established a tracking system that enables it to identify the vendor country and the country of origin for all of the commodities that it purchases. As a rule, all tenders issued by WFP include a requirement that sellers clearly identify the vendor country and the country of origin in every bid. This is important, as many developing

countries import significant quantities of staple grains. Commodities that were procured from a developing country may not necessarily have been produced in that same country. WFP prints the country of origin for every commodity on the packaging prior to distribution. For processed commodities, the country in which the commodities were processed is printed on the packaging. For example, if WFP procures wheat of French origin in Mauritania and the wheat is then milled and fortified in Mauritania, then the country of origin on the fortified wheat flour packaging will be listed as Mauritania. By contrast, commodities purchased on formal commodity exchanges such as the South Africa Futures Exchange (SAFEX) originated in the country in which the exchange is based.

Other Standards

The four main tasks involved with using local and regional procurement appropriately are to identify correctly when the use of local and regional purchase is appropriate, how to implement purchases to ensure the objectives are met, how to avoid having negative effects, and how to determine if adjustments in a purchase strategy are required. Thus, in order for an organization to have a successful procurement strategy, these tasks must be performed well-qualified and competent individuals. This will be achieved if the organizations value the importance of analytical, technical, and procurement-related work performed by well-qualified professionals, as well as the retention of these individuals. If organizations reward excellence, and create an environment in which staff is encouraged to learn from their mistakes and their successes, the organization's ability to make effective local and regional procurements and other local purchases will grow stronger. Thus, given the complexity and importance of responding appropriately to those affected by disasters and food crises, the development of a common set of voluntary institutional and professional standards for food aid organizations and professionals engaged in the analysis and implementation of local and regional purchase would help ensure that the organizations receiving funding 'do good and avoid harm'.

Communication, Cooperation, and Coordination

Until now, response coordination has primarily been handled through the largest local and regional food purchaser, WFP. PVOs have at times shown a commendable degree of cooperation, such as by forming the C-SAFE Consortium during the Southern African Food Emergency. However, as previously noted, the size and scope of WFP's procurement program appears to be expanding rapidly and donor cash earmarked for local and regional purchases is increasing. And, it is entirely possible that PVOs, whose experiences have primarily been with small-scale purchases, will want to also take advantage of the flexibility afforded by LR purchase in order to achieve their own emergency and developmental objectives. Therefore, it is likely that purchase-related problems will occur unless all food aid agencies recognize that greater coordination is necessary for success. If individual organizations carry out their purchases in isolation, they will not only be increasing the risk that others will be unable to achieve their own emergency response and developmental objectives, but they will also likely see their

purchasing power eroded. Thus, a lack of response coordination could lead to all the classic consequences of the *tragedy of the commons*.

As has been noted in the study, WFP has the organizational capacity to engage in large local and regional procurements. Over time, donors that had procured food aid on their own, such as the European Commission, increasingly relied upon WFP, especially to make large procurements on their behalf. And WFP has also noted that some national governments have sought and received WFP's assistance to make their food purchases as well. Moreover, PVOs have shown a commendable degree of cooperation among themselves at times, such by forming the C-SAFE Consortium during the Southern African Food Emergency, as well as cooperation with WFP to implement WFP food aid programs in some affected areas and communities. Thus, some degree of procurement-related cooperation and coordination has been achieved, especially related to consolidating procurements, through working relationships that have developed among WFP, donors, national governments and PVOs.

Nevertheless and as previously noted, the size and scope of WFP's procurement program is expanding rapidly and donor cash earmarked for local and regional purchase is increasing. And it is entirely possible that PVOs, whose experiences have primarily been with small-scale purchases, will want to make larger food aid procurements and other purchases in more places in the future to achieve their organization's emergency response and developmental objectives. As the size of procurement and other purchase programs grow, a key question is whether food aid organizations will have the incentives to act competitively or cooperatively and whether the goals of the pilot program will be better achieved through competitive behavior, cooperative behavior or a mix of both. The current reality is that each food aid organization has its own set of goals, priorities, rules and procedures that invariably reinforce and reward organization-specific rather than collaborative approaches to secure funding. And although PVOs and WFP often work well together at the technical level, funds are awarded to individual organizations for organizational procurements that lead to organizational, rather than collective, visibility. The informal comment made during the study by an official who spoke about 'competing against' other food aid organizations to 'get the food first' suggests how difficult it could be to move beyond simply an organizational mindset towards a more highly cooperative approach in making local and regional purchases that are potentially large relative to the total size of the market supply. It is certainly more likely that *large-purchase problems* could occur if individual organizations carry out their purchases in isolation of what governments and other implementing agencies are purchasing. If this were to happen, isolated purchases by individual food aid agencies could increase the risk that other organizations would be less able to achieve the same goal of providing food aid to those affected by a disaster or a food crisis.

IX. Conclusions

This study is being conducted at a time when disasters are becoming more frequent and widespread, food crises are becoming more complex, and chronic food

insecurity and hunger are becoming more difficult to reduce. More frequent and serious natural and man-made disasters have been occurring and this trend could continue in the short run.⁷³ When pre-famine and other threats to the food consumption security of vulnerable groups occur, those affected require timely and effective support to meet their basic food needs. Complex food crises could take various forms, including those that threaten individuals living with and affected by HIV/AIDS, and those high food price crises, such as the one that occurred earlier in 2008, that directly threaten poor consumers. A lesson of history is that there will be new and unexpected types of food crises, perhaps as a by-product of the current financial crisis or as a result of the confluence of factors such as HIV/AIDS, higher and more unstable global food prices, and turbulence in financial markets and weaknesses in the international financial system.

The study uses past local and regional procurement experiences to draw two final conclusions. The first is that a successful response that meets the food needs of those affected in disasters and food crises rests on three factors. One is the careful identification of food needs of all those affected and the appropriate food responses and intervention required. Another is the adequate availability of resources for local and regional procurements, along with other purchases, to respond flexibly and appropriately to urgent needs as developmentally as possible. And the third element is the application of cost-effective purchase and delivery methods and mechanisms to ensure that those in need of food aid receive assistance when and where it is most needed. These three factors will help to identify and respond to the distinct food needs of all vulnerable groups in life-saving and non life-saving emergencies, while at the same time protecting markets and access to affordable food by those that are vulnerable to higher prices. Underlying these factors is the ability to distinguish between conditions which require life-saving assistances and those that do not.

A good example which shows how local procurement was used effectively as a key element of a comprehensive response to meet the different types of food needs of all of those affected was the U.S.-led response to the most severe drought in Southern Africa during the 20th Century. First, the food needs of the three main vulnerable groups were identified along with the appropriate approaches to respond. Second, the resources available to respond were available, adequate, and provided sufficient flexibility to address the food needs of all affected. And third, U.S. in-kind food aid was provided by WFP for the geographically vulnerable when and where it was required. Food aid was procured locally by WFP and provided in an appropriate and timely manner to vulnerable groups with special needs. And a USAID-supported self-targeting approach led to the introduction of food commodities that protected market access to food by the economically vulnerable. This approach also facilitated recovery and subsequently contributed to a situation in which now "*more... rural and urban poor rely on markets than on emergency distribution during local food shortfalls*".⁷⁴

The second conclusion is that a comprehensive and integrated approach will help guide the appropriate use of local and regional procurements in meeting the three goals of the pilot program. It will do so within the overall context of assessing and responding to the important food needs that occur in emergencies and non emergencies. Therefore, this

section identifies important considerations which will help to achieve the goals of the pilot procurement program. The overall goal is to use local and regional food procurement in providing food aid that assists in saving lives, protecting lives and reducing suffering among those affected by disasters and food crises. The specific sub-elements of this goal are to meet the urgent food needs of those affected by disasters and food crises, to ensure that local and regional procurements do not cause any harmful secondary effects, and to contribute to development and food security. The focus of these considerations is on enhancing the benefits of procurements made during emergencies and non emergencies, and on creating positive synergies among local and regional procurements, other purchases, and other interventions having similar goals.

Local and regional procurements in emergencies are likely to *help* producers, consumers and markets, rather than *harm* them, if they are part of a comprehensive and integrated approach to respond to disasters and food crises. There are three elements of an approach whose purpose is to meet food needs, enhance food security, and contribute to economic and human development. The first is identifying the needs of all groups affected by disasters and crises, and therefore, identifying when local and regional procurements are an appropriate response. The second is ensuring that procurements are integrated into an overall response that facilitates recovery to the normal conditions that existed prior to the emergency, particularly for the vulnerable groups that rely upon markets to purchase their food. And the third is integrating procurement responses during emergencies with purchases and other development investments made during non emergencies. This involves linking efforts to protect food markets during emergencies with efforts to improve producer and food markets during non emergencies so that producers and consumers both benefit during the emergency and over the long run.

Thus, the final section is organized in three parts. Considerations are first raised for identifying appropriate responses for meeting the food needs of those affected by disasters and food crisis in a timely manner. The section then raises considerations related to improving food consumption security during emergencies for those most affected. It then concludes with considerations related to meeting the development objective of improving the long-run food consumption security of the most chronically food insecure.

Meeting the Food Needs of Those Affected by Disasters and Food Crises: Local and Regional Procurements Made during Emergencies

Given the language in the Farm Bill, the study emphasizes the priority goal of using local and regional procurements to provide timely food aid to those most affected by disasters and food crises. This goal has two dimensions. One relates to the identification of the food needs of those who are affected, and the other relates to the timely response to those needs. The study finds that the primary focus in past local and regional procurements has been on the timely delivery of food aid, largely under the assumption that the food needs of all of those affected have been identified. This focus on the timely response to need is apparent in two prominent operational goals. One is to procure food as cost-effectively as possible, and the other is to prevent breaks in existing

food aid pipelines. By procuring food locally and regionally, and by doing so cost-effectively, WFP and PVOs are able to maximize their food purchases and thus reach more of those in need. The goal of using local and regional procurements to prevent pipeline breaks in emergencies is particularly relevant to situations involving the lack of availability of in-kind food aid. When food was required quickly to save lives in an emergency, food that is procured locally and regionally by WFP and PVOs is likely to reach those in need more quickly than in-kind food aid that is bought and shipped from the United States and other distant developed countries. When levels of available in-kind food aid are insufficient for meeting program requirements, food that is procured closer to the area of need is likely to be available in the food aid pipeline more quickly. It is evident that the food that is procured locally and regionally plays an important role in augmenting and complementing the in-kind food aid that is provided during emergencies by the United States Government and other donors. And it is also apparent that suitable approaches and procedures are used by WFP and PVOs to make cost-effective local and regional procurements. By employing these procurement methods, WFP and PVOs are generally able to purchase more food, and therefore to serve more of those in urgent need. However, it is important that WFP and other PVOs continue to look for ways to improve the timeliness of delivery, especially in sudden-onset, large-scale natural disasters. Therefore, it is encouraging to see the effort being made to explore possible improvements in pre-positioned stocks of food aid commodities, flexible funding arrangements for local and regional procurement, and the possible benefits derived from the use of options contracts and other possible financial instruments.

Local and regional procurements are likely to be even more effective in meeting the urgent food needs of those affected by disasters and food crises if greater attention is paid to the determination of need and the response to that need. Not only will this help to ensure that local and regional procurements do not cause any possible harmful effects upon consumers, producers and markets, but more importantly it will ensure that they have positive short-run and long-run effects. The three areas requiring greater attention are identifying all of the main groups that are affected, identifying the nature of the food needs of each group, and linking this to the determination of circumstances under which local and regional procurements will provide appropriate and cost-effective responses to food needs.

Therefore, the first consideration in meeting the food needs of those affected pertains to identifying all of the groups that are affected by these emergencies, and therefore vulnerable to a fall in food consumption. As previously mentioned, WFP and PVOs have historically made assessments of the food needs of geographically-vulnerable groups and groups with special needs, which have often led to life-saving responses. These two types of groups are the most important to consider when meeting urgent food needs.

It is especially important to distinguish between circumstances in which vulnerable groups, and especially individuals and households, require food aid that will *save* their lives and when it will *protect* their lives. Generally speaking, the more severe the disaster or food crisis, the more likely it is that there will be a *severe* reduction in food

consumption, accompanied by a severe decline in the nutritional status of the affected population, and consequently a much higher risk of death. In these cases, there is clearly a greater need for food aid to ‘save lives’ and to reduce extreme suffering. Similarly, the less severe the disaster or food crisis, the more likely the need will be to protect these two vulnerable groups against a *moderate* fall in future food consumption and/or against a moderate increase in acute malnutrition. Thus, there is a less urgent, but nevertheless important requirement for food aid to protect the lives of those affected in order to prevent a drop in food consumption and an increase in suffering.

This distinction between ‘saving lives’ and ‘protecting lives’ is different from the widely held notion of ‘saving lives and protecting livelihoods.’ The notion of ‘protecting lives’ in this study is about guarding against a fall in household food consumption for those vulnerable groups who are *food consumption insecure*. This is primarily accomplished by keeping markets functioning, keeping prices relatively low and stable, and by protecting assets (i.e. household wealth) and sources of income. The level and quality of assets determines the degree of household wealth (or poverty) since livelihoods are the sources of household income and wealth creation (i.e. poverty reduction). Thus, interventions that protect the assets and sources of income for vulnerable households, generally encapsulated in the notion of ‘protecting livelihoods,’ are important methods for protecting income. However, the protection of assets and sources of income (i.e. livelihoods) alone will not protect vulnerable consumers against a fall in future food consumption and against an increase in acute malnutrition when there is a severe disruption in food markets or when markets have collapsed.

The essential goal of protecting consumers, producers and markets is part of the overall pilot program goal to provide food aid through procurements that save lives, protect lives and reduce suffering among those affected by disasters and food crises’. Therefore, it is important to consider a third type of vulnerable group, which more often than not, simply requires protection against the effects of disasters and food crises. This is the group that is vulnerable to changing market conditions that typically cause higher prices in most, if not all emergencies. The food consumption needs of this group of individuals have not been directly taken into account when local and regional purchase decisions have been made, possibly due to a primary focus of concern on saving lives, rather than on saving and protecting lives. Nevertheless, this group is often highly vulnerable when the threat exists that a weak food market will collapse due to a disruption or complete collapse in market supply. And since a main goal of the pilot program is to avoid procurements that might cause either short or long-term harm to food consumers and producers, it is important to note that this group of consumers is also the most vulnerable to higher prices that might be caused by local and regional procurements. Moreover, because many of the smallest and most vulnerable farm households often buy most of the food that they eat, rather than produce it, any improvements in their cash income that occur from increased sales could easily be nullified if they buy food during periods when prices are rising significantly. It is also the case that those threatened by changes in market conditions are not only threatened by shocks that primarily have location-specific effects, but are also directly affected by certain food crises that are not location-specific, such as the global food price crisis of 2008.

Moreover, there are temporal reasons why those with economic vulnerability to changing market conditions are an important vulnerable group. In the short run, the economically vulnerable are those most affected by sudden changes in market conditions, including potentially significant price increases or increases in price volatility caused by temporary market shocks. These changes can result from slow and rapid-onset disasters, as well as precipitate market crises with significant adverse effects upon the ability of poor consumers to buy food. This occurred during the food price crisis of early 2008. When short-run market shocks occur, those who lose their ability to afford food also clearly require assistance in acquiring food. Thus, this group would be directly affected if temporary local and regional procurements cause a significant short-run price increase. And as history has shown time and time again, urban and rural consumers have sometimes taken to the streets when deteriorations in market conditions have led to sharp increases in food prices.

In the long run, the economically vulnerable are also directly threatened by longer term changes in market conditions, including worsening market trends at the local, regional and/or global level that cause potentially significant long-run increases in prices and price volatility. This economically vulnerable group would also be directly affected in the long run if local and regional procurements caused significant price increases. Moreover, should their economic vulnerability increase as they become more exposed to unfavorable market trends and conditions over time, their long-term economic well-being and food security would also worsen. On the other hand, if markets grow in size and become more economically efficient, market stability would increase and their economic vulnerability would diminish. As this occurs, long-run requirements for food aid would likely fall as economically-vulnerable consumers become better able to purchase their food from these markets on a continuous basis, including possibly during some emergencies. Thus, there are compelling reasons why this particular group is especially vulnerable to the effects of disasters and crises, to the possible effects of local and regional procurements, to conditions that can precipitate food riots, and to the conditions that can impede economic development. And while the economically vulnerable are less likely to face life-threatening situations than are either the geographically vulnerable or those with special needs, they nevertheless have food needs that, if not addressed during emergencies and over the long run, can have potentially destructive consequences. Thus, whenever emergencies occur where markets normally function, it is important that the food needs of the economically vulnerable be explicitly taken into account.

A second consideration is about the type and severity of the food needs of each group that is affected by disasters and food crises and vulnerable to a drop in food consumption. The geographically affected, those with special needs, and those who are economically affected by changing market conditions have distinct food needs during emergencies. While the geographically vulnerable and those with special needs typically require food aid during disasters and food crises, the greatest food need of the economically vulnerable is for food markets to function as normally as possible to enable them to maintain continued market access to affordable food. Therefore, not all of the food needs of those affected are best met through the direct distribution of food.

The type of emergency and its timing also have different effects upon each vulnerable group and their food needs. As is clear from the study, the nature and severity of these needs clearly varies depending upon the particular types of disaster and food crisis, as well as upon the phase of the emergency. Thus, the conditions that arise during different phases of different emergencies sometimes require that food aid be provided to save lives. Food aid is certainly required to save lives during those phases of emergencies when there is a sharp drop, or the threat of a sharp drop, in food consumption that would result in a sharp rise in acute malnutrition. Consequently, it is important to distinguish among the types and phases of emergencies in order to identify which phases of which disasters and crises create life-threatening conditions and which do not. This distinction between life-threatening and non life-threatening situations makes it easier to target emergency food aid responses in a more cost-effective and timely manner. It also can help in making decisions about the types of analyses that are reasonable to undertake during non-life-threatening conditions in order to better determine needs and appropriate responses. And when life-threatening conditions do not exist, there is more time to exercise greater due diligence to ensure that food aid procured locally and regionally for the geographically vulnerable and special needs groups does not cause higher food prices that reduce food access for the economically vulnerable or otherwise harm small scale farmers and markets. And, it also makes it easier for those making purchases to consider during non life-threatening situations the option to procure directly in markets, rather than through tenders, in order to have more favorable long-term income benefits for producers and more favorable consumption benefits for smallholders, landless laborers and other consumers.

A third consideration is about the types of procurement and purchase interventions that are most appropriate for responding to the specific conditions of need using the best means available. These conditions of need differ depending upon differences in the types and phases of disasters and food crises, upon their food consumption effects upon each vulnerable group, and therefore upon the nature and the urgency of the food needs that require a response. When functioning markets provide a practical means through which to respond to the food needs, and when funding is available for procurements or purchases in functioning markets, a central question is how to use markets to respond best to those in need. This involves determining whether the needs of each vulnerable group will be better met through local or regional procurements made by food aid organizations, through purchases of food made by the beneficiaries in the affected communities, and/or through purchases by a designated intermediary who acts directly as a buyer and/or seller on behalf of vulnerable groups in the affected community. As is noted earlier in the study, while there are distinct benefits in using local and regional procurements for the purchase of food for direct distribution to the geographically vulnerable and special needs groups, the priority food need for those who are economically vulnerable is to have continued access to affordable food in functioning markets rather than for the free distribution of food aid.

Improving Food Consumption Security for Those Affected during Disasters and Food Crises

There are also several considerations related to improving food consumption security for the economically vulnerable during emergencies. The first is to ensure that food markets continue to function. The second is to ensure that the economically vulnerable have access to affordable food in functioning markets. If food markets collapse or if food becomes unaffordable, the amount of food that is no longer available or affordable becomes theoretically, and sometimes programmatically, an addition to the total food aid requirement. Either a market collapse or a decline in food affordability not only worsens food consumption security for those who are vulnerable, but it can also lead to physical security problems as food access conditions deteriorate. This, in turn, can lead to food theft or, in extreme cases, to food riots.

Two types of interventions would help to prevent an increase in suffering and an increase in food aid needs, while also guarding against the possibility of food riots. One is to provide a purchase stimulus that would keep the affected food markets functioning. This could best be done through a number of simple indirect actions, including supporting food market-friendly policies during disasters that align market incentives properly, that provide clear price signaling and better availability and communication of price information, and that prioritize the urgent removal of physical and non-physical market impediments. In addition, there could be situations in which more direct market-supportive interventions could be necessary. One possibility could be the use of intermediary purchases that would make staple grain available for sale to villagers in the most affordable way possible, and thereby keep markets, which are the lifeblood of the village and the rural economy, in operation during emergencies. The intermediary purchase could occur at the micro level and help ensure that money is available for food purchases under certain pre-determined terms and conditions should an emergency occur. The intermediary would not act as a profit-maximizing trader, but rather would be paid a fee for the services of providing food for sale for a limited time in the affected community in the most affordable way possible.

Another purchase stimulus could be to provide market incentives that would keep certain basic nutritious food items available and affordable in the market. A purchase stimulus strategy, used by WFP and USAID in response to a drought in Zambia in 1991-1992, kept markets functioning and provided poor consumers with market access to nutritious and affordable food, thereby preventing an increase in the total food aid requirement during the emergency. This purchase strategy, which was aimed at helping the economically vulnerable to buy food, provided an effective complement to the delivery of in-kind food aid to meet the food needs of the geographically vulnerable and those with special needs. Furthermore, the purchase results also had long-term benefits in reducing the economic vulnerability of consumers who were chronically food consumption insecure by stimulating a long-term increase in local food production. The conclusion drawn from this experience is that the local and regional procurement of food aid during emergencies will be more beneficial in meeting the overall food needs of the geographically vulnerable and special needs groups if other interventions occur

simultaneously that explicitly address the food needs of the economically vulnerable. These are purchase interventions that are aimed at keeping food markets operational and at providing poor households with continued market access to low-cost foods during emergencies.

Given obvious concerns about maintaining the affordability of food during disasters and food crises, it is especially important that when local and regional procurements are required, that they are made in markets whose *total* size is commensurate with the *total* size of the procurements and other purchases. This is necessary in order to avoid causing significantly adverse price effects and to avoid creating price volatility. Therefore, it is especially important for donors, food aid organizations, and governments in affected countries to work together to avoid a potential *large-purchase problem* that could reduce the food consumption levels of the economically vulnerable. This problem could be caused by *asymmetric information* in which food aid organizations procure in markets without knowing what the cumulative size of the purchases will be and what market effects a cumulative purchase might have. The problem could also be caused by organizations procuring independently without regard to the purchases of others, and without regard to the cumulative size of the purchases and their effect on the market. These cumulative purchases could de-stabilize the market in two ways. They could be either too large relative to the size of the market supply at any point in time or they could cause a significant swing in prices if there was a sharp change in the size of the purchases from one period to the next. Thus, there is the potential for causing harm to consumers and markets if food aid organizations, along with other large buyers, do not have a common incentive to share information about market conditions and about actual and planned purchases.

If organizations making procurements work cooperatively, rather than competitively, they can achieve greater economy of effort through joint assessments of the functioning of markets, and their underlying supply and demand conditions. Shared knowledge of market conditions would provide a common basis for shared communication that could help avoid situations in which the size and timing of *total* procurements and purchases lead to significant price increases and increased price volatility. In that regard, it is important to identify the non-life-threatening circumstances in which local or regional procurements could have potentially serious adverse effects, particularly on the food consumption of the economically vulnerable, many of whom are farmers who do not produce enough food for their own consumption and who buy most of the food that they consume. By creating the organizational incentives for communication, cooperation, and even procurement coordination, procurements will be more effective and will be more likely to avoid the potential *large-purchase problem* that could have the hallmark features of the *tragedy of the commons*.

The final food security consideration in emergencies is ensuring that local and regional procurements are integrated with other non-food responses in order to facilitate recovery to the normal conditions that existed prior to the emergency. This applies especially to the economically vulnerable who purchased food in markets before the emergency. While procurements in emergencies will reduce food insecurity for those

who require food aid, interventions that maintain market access to food will, if successful, maintain food market and market access conditions that are as near to pre-crisis conditions as possible for the economically vulnerable. However, additional attention is required to facilitate the recovery of income-producing markets that might have been weakened during emergencies. And while the recovery of these income-producing markets will also help the economically vulnerable, other interventions will also be required to assist the geographically vulnerable to recover their normal livelihoods. Local purchases could be used creatively to pump income into local economies in order to create employment and facilitates livelihood recovery, although it is unlikely that local and regional procurement alone could facilitate this type of recovery.

Meeting Development and Long-Term Food Security Objectives: Local and Regional Purchases

This last part of the section concludes with a discussion of several considerations related to the use of local and regional purchases in meeting development-related objectives that will improve food consumption security. Of particular concern is improving the food consumption of those who were affected by past disasters and food crises, as well as better protecting the food consumption of those who have very little ability to cope with the likely consumption effects of a future disaster or food crisis. This discussion focuses on the economically vulnerable who not only are affected by disasters and food crises, but who also face vulnerabilities during non emergencies when the food markets and market systems upon which they rely for buying their food are weakened. As discussed, an increase in food aid needs during emergencies can result from a failure in weak individual food markets or in a weak market system. Thus, considerations are raised which relate to reducing this vulnerability by improving the food market systems upon which the economically vulnerable depend during both emergencies and non emergencies. When local and regional purchases are made during non-emergency periods in ways that strengthen these food markets and market systems, there is an increased likelihood that food consumption will improve for some of those affected by past food emergencies. There is also an increased likelihood that stronger food systems will help protect the food consumption of the economically vulnerable against the possible adverse consumption effects caused by future disasters and food crises.

It is entirely appropriate that in emergencies that pose an immediate threat to life that procurements through tenders are used. However, there is the possibility that tenders for local procurement, especially ones with high minimum tonnage requirements, can result in few bidders and thus more opportunities for collusion. By contrast, direct purchases during non life-threatening conditions in local wholesale, as well as national and regional commodity markets and exchanges, could have greater developmental benefits, particularly if food aid organizations use their purchasing clout to leverage greater market competition among suppliers. Thus, purchases in markets can have a more positive income effect on small traders and smallholder farmers than if food is procured through tenders. Purchases that are made directly in markets during non-emergency, and even some emergency conditions, can help to reinforce development

efforts to increase food availability, strengthen economically-competitive markets, increase farm and trader incomes, and improve market access to food for consumers. Given these benefits, and the possible value that options and other types of contracts could possibly play in providing greater assurance that food will be available locally or regionally when required, the use of purchase protocols other than tenders could be valuable and especially useful for non emergencies, and possibly for some non life-threatening situations as well.

Since so many have the need to gain access to food in the market, particularly in the aftermath of disasters and crises, purchases are an important development tool during non emergencies for increasing the market availability of food and for improving the economic competitiveness of food markets. Many donors have emphasized the use of local and regional procurements to increase production and marketable surplus for smallholders, to improve their market access, and therefore to improve their farm incomes. These interventions are particularly important for their potential to provide significant income benefits to farmers, especially when the benefits are multi-year, predictable, and not vulnerable to significant swings in inter-annual production and market prices. A key factor to consider in developing such an approach is that farmers typically factor risk and uncertainty into their production decisions, and especially production and price risks. Therefore, if local purchases are made in ways that minimize the risks that create income uncertainty for farmers, farmer participation and output responses will likely be more favorable.

A final conclusion of this study is that it is important to achieve a balance between protecting the lives of those affected by disasters and crises, especially the economically vulnerable, and protecting the markets from which they obtain their food during emergencies and non emergencies. Donors and food aid agencies can best protect the food access for the majority of those who are economically vulnerable, both during and after food emergencies, by also improving the economic competitiveness of food markets. Given the importance of preventing a collapse in local food markets in which poor consumers buy their food during emergencies, local purchases during non emergencies in locally-affected areas can also improve the performance of food markets in ways that will attract more supply, and thus help strengthen food markets against a collapse during future emergencies. Development investments made during non-emergency periods that result in better functioning food markets will provide better protection, enhance food access by the vulnerable, and also better serve the income needs of producers when disasters and other food crises occur. Investments that reduce market concentration and increase market competition will also strengthen food markets and make market collapse less likely.

Furthermore, because smallholder farmers often buy some of their food, an increase in cash incomes derived from food sales, including those that are linked to local procurements and purchases, can be offset in food purchasing power terms if the food they buy becomes more expensive. A development approach that seeks to improve the food consumption of those who are vulnerable to market price increases during emergencies and non emergencies, especially small farmers, landless laborers and urban

consumers, should include interventions that stimulate greater market availability of more nutritious food products that poor and economically-vulnerable households can afford. The approach that has been the most successful in delivering nutritious food products to the economically vulnerable on a sustainable basis, including during emergencies, has involved the introduction into the market of self-targeted commodities. While there are few examples of the use of self-targeted commodities in emergencies, there are clear indications that this approach has led to significant food consumption and economic benefits both during emergencies and in the long run.

Food is unnecessarily expensive when higher and more unstable prices result from poorly performing food markets, as is often the case in fragile, newly developing markets. When this happens, an economic development objective that focuses on improving the functionality and economic performance of producer and food markets is particularly important for protecting the additional income gained by farmers from local procurements and other types of purchases. Thus, local procurements and other purchases will be more likely to improve farm income and food consumption within farm households if both producer and food markets are strengthened. And while the direct procurement of food through tenders by WFP and PVOs will provide income benefits to farmers, the benefits to producers and consumers will be smaller than local purchases made in markets that benefit economically-vulnerable groups of consumers on the demand side, and producers on the supply side.

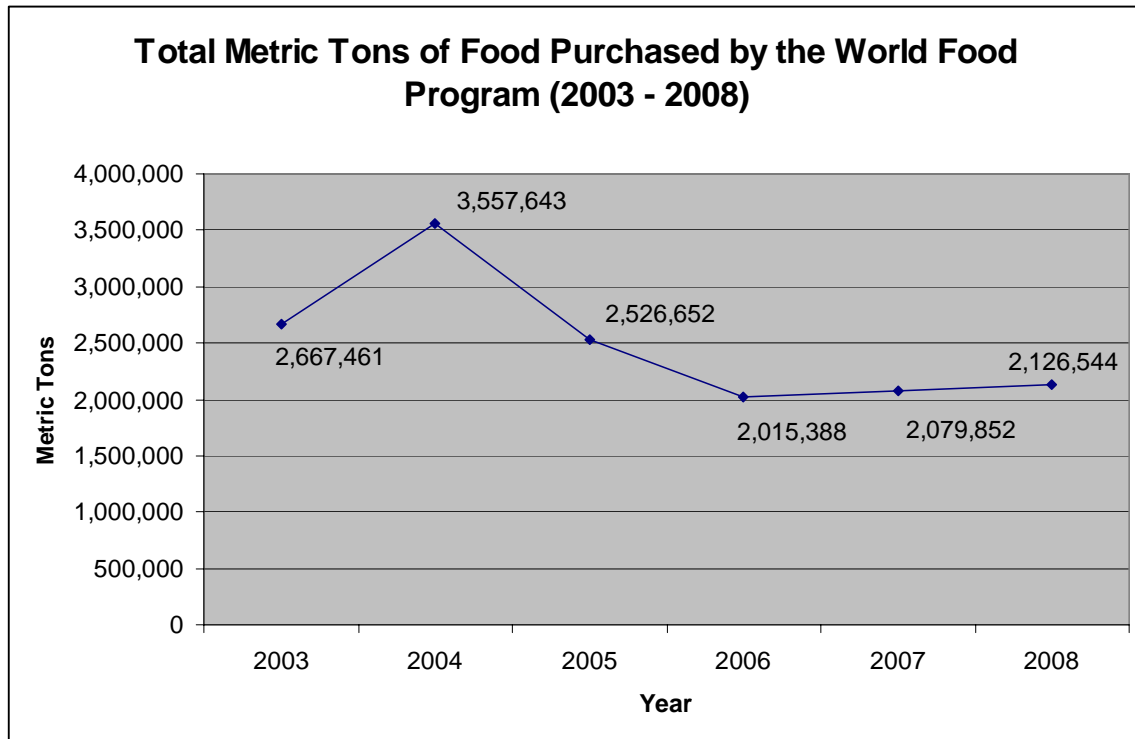
Taken together, the considerations raised in this section provide the basic elements of a comprehensive and integrated approach for guiding local and regional procurements and purchases to achieve the overarching goal of using local and regional food procurement to provide food aid that save lives, protects lives and reduces suffering among those affected by disasters and food crises.

When procurements and purchases are based upon the consideration of whether the emergency conditions require life-saving assistance or not, what the food needs of all of the groups affected by disasters and food crises are, and therefore what the most appropriate and timely response to those needs is, they will be more likely to be effective in reaching the goals of the pilot program. Considerable progress has been made by donors, WFP, and PVOs in developing and implementing effective methods and procedures to ensure the cost-effective purchase and timely delivery of food aid during emergencies. The pilot program affords an opportunity to build upon this progress by taking a fresh look at the food needs of those most affected and how to assist them. Thus, local and regional procurements could be used even more effectively if improvements are made in the four areas previously discussed. One is in identifying the food needs of all of those most affected by disasters and food crises. Another is in identifying when local or regional procurement is an appropriate response to these needs. A third is in ensuring that procurements are integrated into an overall emergency response that facilitates the return to the normal conditions that existed prior to the emergency. And a fourth area is in integrating procurement responses in emergencies with local and regional purchases and other investments made during non-emergencies to facilitate emergency recovery, growth and development. Together, these four areas constitute the main elements of a

comprehensive and integrated approach that can guide local and regional procurements and purchases towards achieving the goals of the pilot program. In addition, they provide a balanced approach that both saves and protects the lives of those affected by disasters and crises, as well as protects and strengthens the markets that keep farmers and consumers working, studying and eating, rather than reacting to high food prices that keep food off their tables.

Annex I

Global Food Purchases by the World Food Program (2003 - 2008)

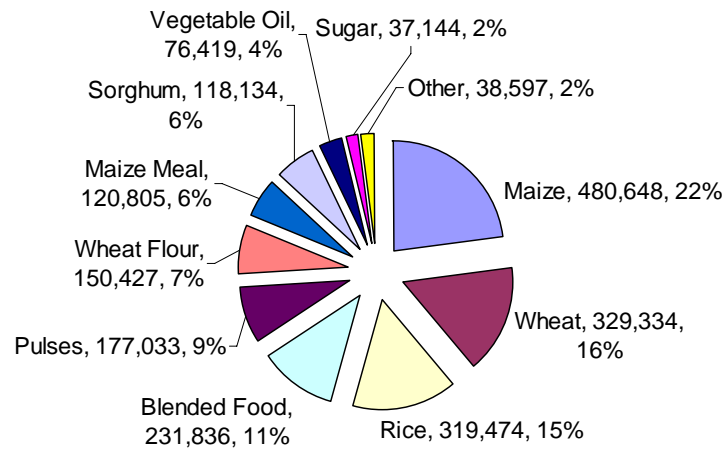


Source: United Nations World Food Program

Note:

- a. The figure for 2004 includes purchases to meet food aid needs in Iraq after the termination of the Oil-for-Food Program.
- b. The figure for 2008 includes purchases made through September 30, 2008.

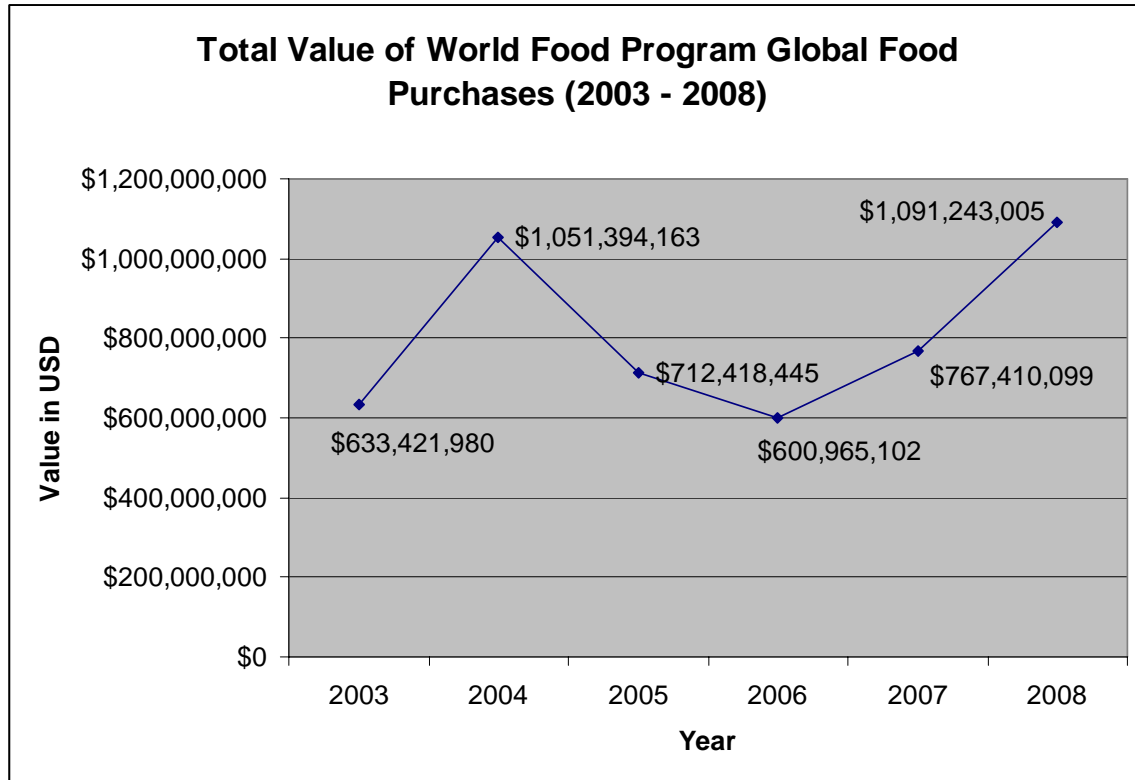
Commodities Purchased by the World Food Program in 2007 (% of Total Quantity of 2,079,852 MT)



Source: United Nations World Food Program

Annex II

Total Value of Global Food Purchases by the World Food Program (2003 - 2008)



Source: United Nations World Food Program

Note:

- a. The figure for 2004 includes purchases to meet food aid needs in Iraq after the termination of the Oil-for-Food Program.
- b. The figure for 2008 includes purchases made through September 30, 2008.

Endnotes

¹ Trans-continental purchases are synonymous with ‘international’ purchases, are generally accepted as being neither local nor regional purchases and thus are outside the scope of this study.

² The Food Aid Convention also refers in Article XII, “Local Purchases and Triangular Transactions”, to “the purchase of food for supply to the recipient country from other developing countries” as “triangular transactions”. In this study we will refer to “local purchase” as local procurement and “triangular transactions” as being regional procurement.

³ This figure includes funding for: 1) the P.L. 480 Title II Program (\$2.4 billion), 2) the Bill Emerson Humanitarian Trust (\$217.2 million), 3) the Food for Progress CCC and Title I-funded Programs (\$155.3 million and \$35 million, respectively), and 4) the McGovern-Dole International Food for Education and Child Nutrition Program (\$91.5 million)

⁴ The total estimated value of USG international food aid programs includes the cost of food purchased on the U.S. market through a competitive bidding process, as well as the costs of ocean and inland freight, internal transport, storage and handling in the recipient country, and other direct and indirect program support costs.

⁵ The Food, Conservation, and Energy Act of 2008, Title III, Section 3206

⁶ Other USG-supported LR procurement activities undertaken by USAID are not the focus of this study, yet are included in the scope of an examination of LR purchases being conducted by the General Accountability Office (GAO).

⁷ The formal evaluations that were reviewed included seven independent country-specific evaluations for WFP local and regional procurement programs in Bolivia, Burkina Faso, Ethiopia, Uganda, South Africa and Nepal.

⁸ It is often the case that some ability to acquire food in markets on a normal and continuous basis needs to be restored. A core element of WFP’s ‘exit objective’ in emergencies is to end its food aid distribution when there is a return to normal conditions. This can happen when the vulnerable are able to acquire food in the ways that existed prior to the emergency. This is addressed in the ‘Exiting Emergencies’ Policy approved by the World Food Program Executive Board. See “Exiting Emergencies” (WFP/EB.1/2005/4-B).

⁹ Locally and regionally procured food can also be thought of as a tool to promote *food consumption security* in which all vulnerable groups have an adequate level of high quality food for their immediate consumption and in which their normal ability to acquire food at the levels and quality needed to live an active and healthy life is neither compromised nor under threat. A state of *food consumption security* is a necessary, but insufficient condition for *food security* because it does not specifically address key aspects of food security that are related to food production and availability, as well as to market availability and access.

¹⁰ Some of the most important factors that contribute to famine threats are natural disasters, poverty, political instability, conflict and HIV/AIDS.

¹¹ Food and Agricultural Organization of the United Nations. November 2008. “Food Outlook: Global Market Analysis.”

¹² Food and Agricultural Organization of the United Nations. 2006. “The State of Food and Agriculture: Food Aid for Food Security?”

¹³ These periods were typified by government planning ministries setting pan-territorial and pan-seasonal prices that were above reasonable costs of production.

¹⁴ 'Income' for farm-households is measured primarily by the consumption of the food they produce and their cash expenditures. As a result, measurements of 'income' and 'food consumption' are highly correlated in the majority of poor households who spend most of their income on food. Thus, when some economists talk about raising the 'farm income' of very poor households, they are likely to be referring to raising 'food consumption.' (Also see endnote 19.)

¹⁵ Tschirley, D. and Jayne T. 2008. "Food Crises and Food Markets: Implications for Emergency Response in Southern Africa." MSU International Development Working Paper No. 82. East Lansing: Michigan State University.

¹⁶ Individual markets that could be affected are input supply markets, product markets (i.e. farm gate and wholesale) and food markets (i.e. retail). Market 'systems' link various essential markets, such as input markets to product markets, product markets (e.g. farm gate) to product markets (e.g. wholesale), and product markets to food markets.

¹⁷ E-mail communication

¹⁸ E-mail communication

¹⁹ 'Raising farm income' in the poorest farm households essentially implies 'raising food consumption' in these farm households. (Also see endnote 14).

²⁰ According to the EC, some 80 percent of the food purchased by WFP - a record US\$612 million - was procured in 69 developing countries in 2007. WFP purchases of food in developing countries in 2008 may reach US\$1 billion. The largest quantity of food bought by WFP last year was in Uganda (210,000 metric tons) valued at nearly US \$55 million - enough to assist some 3.4 million people for one year.
<http://home.wfp.org/stellent/groups/public/documents/newsroom/wfp179626.pdf>

²¹ Food aid for use in humanitarian emergencies was integrated into ECHO in 2007 which now allows ECHO to manage all humanitarian activities through a single financing instrument.

²² World Food Program. Food Procurement 2006 Annual Report and Food Procurement 2007 Annual Report.

²³ Catholic Relief Services Local and Regional Procurement Survey Analysis – 2000-2005

²⁴ <http://jha.ac/2007/10/28/local-and-regional-procurement-of-food-aid-in-africa-impact-and-policy-issues/>

²⁵ Financial Rules as quoted in World Food Program's Food Procurement 2007 Annual Report

²⁶ International Grains Council. 1999. Food Aid Convention, 1999 Article XII (d)

²⁷ See Policy Issues: 2006/EB.1/5 "Food Procurement in Developing Countries" (WFP/EB.1/2006/5-C, 30 January 2006) in "Decisions and Recommendations of the First Regular Session of the Executive Board" 2006 (2006WFP/EB.1/2006/14, 23 February 2006) which states that members of the Executive Board: *"noted the issues involved in local, sub-regional and regional purchases of food products, especially where markets were not well developed, and recognized the positive and possible negative impacts WFP's procurement might have on these markets. The Board therefore requested that WFP continue to advance in its study of the developmental impact of food procurement, both on markets and on the food security of vulnerable groups. The Board further requested WFP to encourage local, sub-regional and regional purchases to the extent possible. In addition, the Board: subject to considerations of cost-*

efficiency, timeliness and appropriateness to beneficiary needs, re-affirmed that WFP should continue to undertake food procurement in a manner that accentuated positive impacts and mitigated against negative consequences; urged donors to provide more unrestricted, timely and predictable funding so that WFP could more effectively plan and undertake local, sub-regional and regional food procurement; and requested WFP to give due consideration to optimizing the potential developmental benefits of procurement by: working closely with national governments, FAO, IFAD and others to assess the capacity of local, sub-regional and regional markets to participate in WFP procurement and to support partner efforts to develop this capacity further; ensuring that WFP country offices and/or regional bureaux, where appropriate to the overall needs of WFP, have the necessary staff to enable them to procure food based on an adequate knowledge and analysis of local, sub-regional and regional markets; and providing the Board, in the framework of its discussions of WFP's operations and country situations, with a detailed breakdown of the origin of commodities purchased or received in local, sub-regional and regional markets and assessments of the capacity of local, sub-regional and regional suppliers to meet procurement needs. The Board requested that the Secretariat provide a report on the implementation of its requests at the Annual Session in 2006, and regularly thereafter."

²⁸ World Food Program Executive Committee Reports: "Definition of Emergencies" (WFP/EB.1/2005/4-A/Rev.1); "Exiting Emergencies" (WFP/EB.1/2005/4-B); "Targeting in Emergencies" (WFP/EB.1/2006/5-A). There are multiple emergency needs assessment reports, such as "Strengthening Emergency Needs Assessments: Progress Report on the Implementation Plan" (WFP/EB.2/2005/4-E).

²⁹ World Food Program Food Procurement 2007 Annual Report
http://www.wfp.org/operations/Procurement/documents/Food_Procurement_Annual_Report_2007.pdf

³⁰ Sserukuuma & Associates. 2005. "Local and Regional Food Procurement in Uganda – An Analytical Review."

³¹ Ibid.

³² Some economists studying farm production, estimate income directly as the value of agricultural/livestock commodities produced and consumed in the home, as well as the value of commodities sold, wages, remittances, etc

³³ Some economists whose interest is in the effect of income on the economic behavior of poor farm-households, especially whether and when they sell their farm output and buy their food, measure income as the combined values of: i) that portion of farm production that is consumed, ii) the household expenditure on food and non-food purchases, iii) net food gifts, and iv) net food loans. Thus, an increase in farm income for food deficit farm-households essentially means an increase in food consumption resulting from an increase in food production and an increase in consumption resulting from an increase in food expenditure. What matters is not simply that increases in farm production and cash income are achieved, but also that increases in food consumption occur as well. Therefore, consumption is the major element of both income components, as expected. Empirical evidence that shows a correlation between income and consumption is incontrovertible.

³⁴ This consumption element of economic income includes all domestically produced or received items (e.g. gifts, loans etc.) that have value and that are *consumed*, since these items had the opportunity cost in not being sold to generate cash revenue.

³⁵ Engel's Law is an economic theory that the percentage of income spent on food consumption falls as incomes rise. It is a law of economics since empirical studies have not refuted this relationship. In keeping with this law, one would expect that consumption is a better proxy for income in poorer farm households than it is in richer ones.

³⁶ Considering the fact that many smallholder farmers, particularly in East and Southern Africa, are net purchasers of food, consumer prices in food markets where and when they buy are as important for them as are producer prices when and where they sell. For example, consider the typical pattern of poor farm households who find their market purchasing power of food low as a result of selling the food they produce in the immediate post harvest period when producer prices are least favorable, and then paying higher prices at times later in the year when they need to buy food. Therefore, the timing of sales and purchases is critical to the well-being of farm-households. This then suggest that an appropriate indicator related to farm-households' decisions about when to buy and sell food would be the consumer price of food price relative to the farm gate price. Changes in this relative price would show that a decrease (increase) in this relative price means an increase (decrease) in the income of the farm-household as measured in food purchasing power terms.

³⁷ Goal 1 of Strategic Objective 5 in "Policy Issues: WFP Strategic Plan 2008-2011" (2008)

³⁸ Article XII (a) states that "in order to promote local agricultural development, strengthen regional and local markets and enhance the longer-term security of recipient countries, members shall give consideration to using or directing their cash contributions for the purchase of food: (i) for supply to the recipient country from other developing countries ("triangular transactions"); or, (ii) in one part of a developing country for supply to a deficit area in that country ("local purchases").

³⁹ Jayne T. 2008. "Smallholder Farmer Behavior and Agricultural Productivity in Eastern and Southern Africa". Michigan State University.

⁴⁰ Mwanaumo A. Undated. "Regional Trade Reduces Food Aid Needs". Michigan State University.

⁴¹ This could also possibly reflect differences in the disciplinary training and experience of those involved in making local and regional procurements since, for example, procurement officers are trained to identify and find practical solutions to procurement problems, while humanitarians are trained to view humanitarian problems in strictly humanitarian terms, and economists are trained to view the problem of humanitarian needs in economic terms,

⁴² Article XII (d) of the Food Aid Convention 1999 states that: "Member (countries) shall pay particular attention to avoiding harmful effects on low-income consumers due to price changes resulting from local purchases."

⁴³ Tschirley, D. and Jayne T. 2008. "Food Crises and Food Markets: Implications for Emergency Response in Southern Africa." MSU International Development Working Paper No. 82. East Lansing: Michigan State University.

⁴⁴ It is worth noting that the local manufacture and sale of these fortified high-energy products has largely been as a result of a need that repeatedly arose during droughts to prevent wasting among vulnerable children.

⁴⁵ weight to height and middle upper arm circumference

⁴⁶ The delivery of locally purchased food should theoretically occur sooner than the delivery of regionally purchased food, which theoretically should be sooner than the delivery of food purchased in the donor country. However, to what extent the theory does or does not apply depends upon actual purchase and shipping arrangements which will vary from case to case.

⁴⁷ Tschirley D. and Jayne T. December 2007 "Food Crises and Food Markets: What Has Been Learned in Southern Africa over the Past Decade?" p. 10.

⁴⁸ Self-Targeting can help to protect the economically vulnerable during food emergencies and non emergencies. An advantage of the self-targeting approach is that it avoids program administrative costs for means-testing and program implementation, which make cash and voucher programs more difficult to sustain over the long term. As noted in the text, a ‘self-targeting’ strategy is a food and food price-based strategy that ‘targets’ lower income consumer groups based on consumer preferences and incomes. This strategy is based entirely on food consumption behavior that economists call *Engel’s law* and *demand theory* which predicts food consumption behavior in relationship to changes in incomes, preferences and prices. These economic laws have important and far-reaching implications for improving the ability of poor hungry households to feed their members. Self-targeting occurs within markets located in poor urban and rural areas when less-preferred and lower-priced foods are sold that they can afford. This can occur either when the private sector sees a market opportunity to sell these foods or when a government provides support from the public sector to encourage the market provision of more nutritious foods that are affordable for low-income consumers.

A self-targeting type intervention for poor urban societies could involve the private sector as has proven to be successful in developed countries. Self-targeting is an element of a successful profit-maximizing sales strategy that is widely used in the food industry. The food industry employs self-targeting strategies in order to increase the purchase of more preferred and higher priced foods by high income consumers. For example, wealthy consumers are more likely to purchase breakfast cereals in supermarkets based on preference rather than on price. Therefore, breakfast cereal producers characteristically pursue profit-maximizing strategies by selling higher-priced brands of cereal with higher per unit profit margins to richer consumers based on product characteristics (e.g. organic, low fat etc.). At the same time, the industry also sells its relatively lower-priced generic brands at lower profit margins to average income consumers whose cereal purchases are more likely to be price-sensitive. Another example of ‘self-targeting’ for profit maximization is the ‘self-targeted’ use of coupons for providing consumers of average income with ‘food discounts’. Assuming wealthier consumers are less likely to use food coupons, they are more likely to pay higher prices for the same store food item that is bought at a lower ‘net price’ by the average consumer who is more likely to use coupons. Thus, the cereal and coupon examples reveal that the food industry employs ‘self-targeting’ to achieve profit maximization which has proven to be successful over many years. This explanation that shows the purchase behavior of food consumers with different incomes can help to explain how a self-targeting approach would reduce the economic vulnerability of poor consumers during drought. Thus, the mirror image of this example is the use of self-targeting to benefit poor consumers in which a similar food expenditure-reducing behavior applies just as it does among relatively less wealthy consumers in wealthy societies.

Therefore, a sustainable self-targeting type intervention for poor urban societies would involve creating a favorable enabling environment for the private sector to make less-preferred, more nutritious foods, yet lower-prices available for sale in local markets. A more direct public sector intervention would involve providing subsidies to increase the consumption of less preferred, yet more nutritious food by low-income consumers.

⁴⁹ When the drought occurred in 1991-1992, donors worked to support the new democratically-elected government’s *Program to Prevent Malnutrition* which liberalized markets during the emergency period as well as provided the food and non-food interventions that were needed to save and protect the lives of the most vulnerable. Famine was prevented at the same time that the poor began to have increased market access to food. The expanded market access that began during the emergency has now lasted for fifteen years. The self-targeting program started as simply an emergency intervention involving food aid, yet has now become the basis upon which a sustained improvement has occurred in the ability of chronically hungry households to acquire the food they need to eat. The Zambian case clearly demonstrates that developmental benefits associated with *how* any in-kind food aid is provided can be significant and long-lasting, particularly for those who seek to become more self-reliant in feeding themselves

⁵⁰ For a discussion of how and why this ‘self-targeting’ approach works effectively in the case of poor and rich consumers, please see endnote 48.

⁵¹ For example, USAID’s Mozambique Integrated Network for Decision-Making (MIND) was designed after the 2000 Limpopo flood to provide better early warning systems for future rapid onset disasters and to assess needs more quickly after natural disasters occur. No flooding event in Mozambique since 2002 has resulted in the same devastating impact upon the geographically vulnerable living in flood prone areas.

⁵² For example, consider the food availability and access implications of Zimbabwe’s experience in trying to ‘set’ lower food prices at politically acceptable levels and to ‘control’ them at this level.

⁵³ Economic efficiency is important in the provision of essential marketing services in input, product and food markets. Key services are: rural assembly, wholesaling, processing, packaging, transportation, and retailing.

⁵⁴ This is a classic case of the public use of private interest to take actions that are consistent with the public interest to reduce food consumption insecurity.

⁵⁵ See endnote 48 for an explanation of how self-targeting programs work and why they are developmentally effective.

⁵⁶ *Famine* is understood here to be a particular form of food crisis that is often triggered by a shock or a disaster. Specifically, a famine is understood as both the process of an intensifying food emergency leading to an outcome of a state of widespread starvation. A disaster often provides the spark that ignites a famine process. Moreover, the underlying conditions of a food crisis, including a less visible worsening of chronic hunger, often fuel the famine process. Thus, when a disaster and/or food crisis is particularly severe, and when the famine process is not interrupted, at some point an uncontrolled food emergency becomes the outcome that is typically referred to as “a famine”.

⁵⁷ The food needs of the geographically vulnerable and special needs groups are considered. The needs of the economically vulnerable are rarely examined.

⁵⁸ According to the OCHA “Orientation Handbook on Complex Emergencies,” the official definition of a complex emergency is “a humanitarian crisis in a country, region or society where there is total or considerable breakdown of authority resulting from internal or external conflict and which requires an international response that goes beyond the mandate or capacity of any single agency and/ or the ongoing United Nations country program.” (IASC, December 1994) “Such ‘complex emergencies’ are typically characterized by: extensive violence and loss of life; massive displacements of people; widespread damage to societies and economies; the need for large-scale, multi-faceted humanitarian assistance; the hindrance or prevention of humanitarian assistance by political and military constraints; and significant security risks for humanitarian relief workers in some areas.”

⁵⁹ A 2007 ranking of WFP’s global purchases in developing countries indicated that Sudan and Pakistan were in the top ten in terms of total volume of commodities purchased. WFP purchased approximately \$25 million worth of commodities in Sudan in 2007 for use in its emergency operation. Preliminary estimates for 2008 indicate that the total volume of commodities purchased in Sudan has risen substantially. At the time of writing, they stood at nearly \$42 million for the year. By contrast, WFP purchased \$36.4 million worth of commodities in Pakistan in 2007. However, according to recent estimates, the volume of commodities purchased in Pakistan in 2008 dropped considerably due to shortages and high prices as a result of a regional drought. Current estimates indicate that WFP has only purchased approximately \$8 million worth of commodities in Pakistan in 2008.

⁶⁰ The USG is the largest donor to WFP’s emergency operation in Sudan. From FY 2006 – FY 2008, the USG provided 50 percent of the total estimated program needs (in metric tons) on an annual basis, in the form of in-kind contributions under the USAID-administered Title II program.

⁶¹ The Darfur crisis in Sudan began in 2003 and shows no signs of abating any time soon. The same is true of the crisis in Somalia, which has been underway since the early 1990s.

⁶² The OECD has categorized Pakistan as an Other Low-income country (OLIC), assigning it a Human Development Index (HDI) rank of 136.

⁶³ Every year WFP has to preposition approximately six months worth of food aid in mountainous rural areas before the on-set of winter, when the roads become impassable until the spring.

⁶⁴ FEWS NET Afghanistan Monthly Food Security Bulletin May/June 2005. "Good wheat harvest underway". 29 June 2005.

⁶⁵ The scale consists of five phases: 1) generally food secure, 2) chronically food insecure, 3) acute food and livelihood crisis, 4) humanitarian emergency and 5) famine/humanitarian catastrophe.

⁶⁶ See <http://www.fews.net> FEWS NET has an exhaustive set of information products and methods for monitoring, analysis, and assessments. Its three monitoring products are called 'Livelihood Baselines', 'Livelihood Zone Maps' and 'Livelihood Profiles'. Its analytical tools are called 'Livelihood Baseline Storage' and 'Livelihood Impact Analysis Spreadsheets'. And its assessments products are called 'Local Livelihoods-based Emergency Assessment' and 'Local Livelihoods'.

⁶⁷ As noted earlier, Engel's Law states that food consumption is income dependent. This is an economic 'law' rather than 'theory' because it has stood the test of time through ample empirical evidence. There is, however, no theory or evidence to support the assertion that food consumption is 'livelihood dependent'. However, the types and levels of income received by a household are arguably related to the sources and manner that adults in those households make their living (i.e. their livelihood).

⁶⁸ According to a World Bank study titled, "Warehouse Receipts: Facilitating Credit and Commodity Markets," by Giovannucci et al. (2000), the benefits of a warehouse receipts system include:

- mobilizing credit to agriculture by creating secure collateral for the farmer, processor, and trader,
- smoothing market prices by facilitating sales throughout the year, rather than just after harvests,
- reducing risk in the agricultural markets, improving food security and credit access in rural areas,
- increasing market power of smallholders by enabling them to choose at what point in the price cycle to sell their crops,
- helping to upgrade the standards and transparency of the storage industry since it requires better regulation and inspection,
- helping create commodity markets which enhance competition, market information and international trade,
- providing a way to gradually reduce the role of government in agricultural commercialization,
- contributing to lower post harvest losses due to better storage conditions (i.e. induces farmers to store in more appropriate warehouses),
- lowering transaction costs by guaranteeing quantity and quality, and increasing quality awareness (assuring the quality deposited is the same as the quality withdrawn).

⁶⁹ For the same reason, and although import parity price would not apply, a large regional purchase of food in a market with limited regional supply can result in an appreciable and potentially adverse effect on local consumers of food in regional markets. Thus, unless there are indications of severe poverty in these countries in which these regional markets are based, there should be considerably less concern about needing to avoid these regional purchases because of potential adverse effects upon consumers.

⁷⁰ The serious damage that uncertainty can cause in a market can be found in the case of the current financial crisis. The credit freeze is the result of credit not flowing between banks largely because banks

are unwilling to lend to each other primarily due to uncertainty about the financial health on and off-balance sheet position of the prospective borrowing banks.

⁷¹ A central problem for governments in low-income countries is deciding how to resolve the ‘food price dilemma’, since an increase in price generally favors producers (and hurts consumers) and a decrease in price generally favors consumers (and hurts producers). The ‘policy dilemma’ is whether to pursue policies that favor producers (e.g. high producer prices), that favor consumers (i.e. low consumer prices), or that favor neither. In the case of producer-biased policies, consumers are hurt. In the case of consumer-biased policies, producers are hurt. In the case of market neutrality, both producers and consumers benefit if markets function with greater economic efficiency. (See: Timmer P, Falcon W. and Pearson S. for a discussion of the food price dilemma.)

⁷² WFP Report on Food Procurement in Malawi, August 2008.

⁷³ Some of the factors that are unlikely to change in the short run are poverty and climate variability.

⁷⁴ Mwanaumo A. Undated. “Regional Trade Reduces Food Aid Needs”. Michigan State University.

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