

Transitioning US Food Aid toward Local and Regional Purchase: Lessons from the European Union experience

Each year millions of tons of food are shipped from the United States as food aid to respond to crises resulting from droughts, conflicts and severe poverty. While there is little doubt that this aid has saved countless lives, it is also clear that the US program, designed over 50 years ago when the US had abundant food surpluses to dispose of, is enormously inefficient.

A recent study by the US Government Accountability Office found that rising shipping costs now account for 65% of the cost of food aid. CARE, one of the world's biggest charities, has announced it is turning down some \$45 million a year in federal financing for food aid, saying the US program is not only plagued with inefficiencies, but also may hurt some of the very poor people it is intended to help. Deliveries of in-kind food aid can undercut local farmers' crop sales, especially when they arrive late, after a new harvest. Changing the way at least a portion of US food aid is purchased could make a huge difference for food aid recipients in countries and regions around the world.

The Bush Administration has proposed that up to 25% of non-emergency food aid be used to purchase food in recipient or neighboring countries. However, when the House of Representatives considered its version of the Farm Bill, even an amendment offered by Representative Blumenauer (D-OR) for a \$100 million pilot program for regional and local purchases of food aid was not included. Senator Harkin has announced plans to include a pilot program that allocates \$25 million a year for four years to test local and regional purchases of food aid in the 2007 Farm Bill.

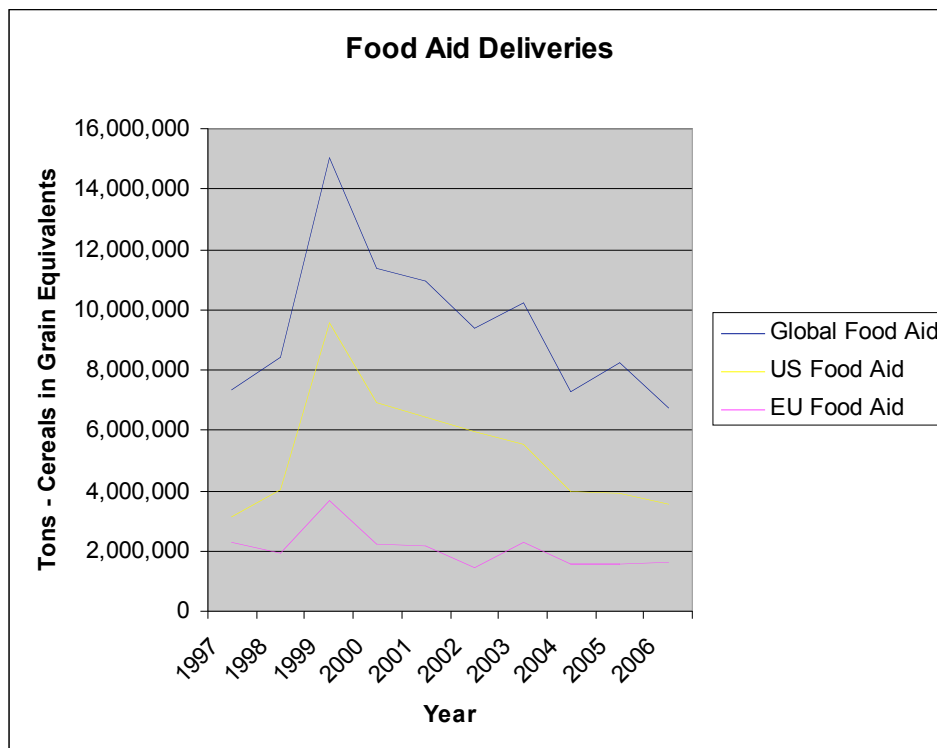
While the implementation of a pilot program would be a welcome first step, these policies are not untested. Useful lessons can be drawn, for example, from the European experience with local and regional procurement of food aid. The European Commission and the member nations began to untie their food aid purchases in the 1980s. That process accelerated after the approval of the Single Market Act of 1992, which requires that the member states tender for all but the smallest actions across the whole European Union. The 1996 EC Regulation on Food Aid then provided for increased budgetary flexibility to address food security matters. Under this regulation, in-kind food aid can be justified in specific cases where there is no alternative and such food aid can be provided within the framework of the Food Aid Convention. Most importantly, the 1996 Regulation allowed for more flexible use of food aid budget lines to also finance other food-security related activities.

This greater budgetary flexibility has led to a substantial shift in from solely providing food aid to also financing other, related food security measures to address the longer-term causes of food crises. As of 2006, 97% of the European Commission's food aid budget is procured locally or regionally. The member states of the European Union also have their own food aid budgets. The UK, Germany, Sweden, Netherlands, Denmark, Finland, France and Italy provide from 88 to 99 percent of their food aid budgets for local and regional purchase. Together with the EC food aid budget, those countries provide 95 percent of total EU food aid¹.

Lessons from the EU Experience:

- **The EU has maintained consistent levels of targeted emergency food aid since its transition to local and regional purchases.** The EU has continued to meet its commitments under the Food Aid Convention. The volume of EU food aid deliveries closely tracked both global and US levels (although it is notable that EU food aid actually slightly increased in 2006, while US volumes declined).² The volume of global food aid deliveries do vary significantly from year to year from the high of more than 15 million tons in 1999 (when roughly one-third went to Russia via bilateral food transfers) to the current 6.7 million tons in 2006. In general, there has been a downward trend in global food aid volumes since the early 1990s. The number of recipient countries has declined from 120 in the early 1990s to 83 in 2006.³ Countries such as Brazil, Thailand, Morocco and Mexico, among others, while still in need of national food distribution policies, no longer require outside food assistance.

During this period, the EU shifted some program and project food aid expenditures to new programs to address longer-term food security issues, while maintaining consistent volumes of emergency food aid deliveries. The total volume of European food aid has thus continued to respond to emergencies as they arose, but the more efficient use of resources meant that new funds were freed up to deal with the underlying problems of food shortages. The European Commission, for example, is funding regional and national information exchanges and research on food security and natural resources management as part of its food security budget line.⁴



Source: data from *Interfais Food Aid Monitor*, World Food Program, 2007.

- **The EU was able to significantly reduce shipping costs as a result of the transition to local and regional procurement.** Since food aid is purchased as close to the delivery point as possible, the shipping costs of EU food aid are less than half of similar volumes of US food aid. In a comprehensive study on food aid programs worldwide, the Organization for Economic Cooperation and Development (OECD) found that the actual cost of tied food aid transfers was on average about 50% more than local food purchases, and 33% more costly than procurement in neighboring countries.⁵

Funding multilateral organizations such as the World Food Programme (WFP) directly so that they can purchase the most appropriate food closest to the area where it needs to be delivered is also contributing to greater timeliness of the EC's WFP donations. Food aid shipments from the United States take an average of five months to reach their destination, making them pointless for rapid responses and potentially harmful if the shipments arrive at time when domestic production becomes available on the market.

- **Most European food aid is managed by the World Food Program, which has extensive experience procuring food where it is most readily available and least expensive.** According to a study commissioned by USAID, between 1999 and 2005, the share of developing countries in local and regional procurement (LRP) by the WFP rose to nearly 75%, accounting for 22% of total food aid in Africa in 2004-2005. The cost savings of LRP relative to in-kind food aid are greatest for corn and corn/soy blends, the two commodities most shipped by the United States to Africa. Corn procured locally or regionally was 61% less costly and corn/soy blends cost 52% less than an equivalent amount of in-kind food aid, regardless of the source. The study compared the cost of corn procured by the WFP in Kenya, Uganda and Zambia from 2001-2005 to the estimated costs of in-kind food aid from the United States. The corn procured locally or regionally by the WFP saved nearly US\$68 million and allowed 75% more food aid to be provided to beneficiaries.⁶

The World Food Program continues to study the best practices for local and regional food aid procurement. In nearly all cases, WFP bidding regulations have ensured competitive procurement practices and have contributed to local traders adopting higher business standards. In Nepal and Uganda, local purchases have led to improved transport infrastructure and increased storage capacity. Overall, the studies have demonstrated that the risks associated with possible price hikes from local procurement have been effectively managed by the WFP and that it is fundamental to take into account the timeliness of purchases and the share of those purchases in local production.⁷

Policy Recommendations

Food aid is one element of what should be a comprehensive policy to address food crises. Changes in both the amount and direction of foreign assistance are also needed to strengthen each nation's ability to feed its own people. Still, when all else fails, food aid is a crucial last resort that can keep a food crisis from turning into a human tragedy. It should be carefully targeted and provided in a way that encourages local production, strengthens local markets and feeds as many people as quickly and efficiently as possible.

The time is ripe for the US government to consider shifting at least some food aid purchases to local and regional procurement. This is not an untested new idea. The WFP and various international NGOs have a significant body of experience with this approach, which has already proven to be generally more efficient and timely than delivery of in-kind food aid. Any pilot program to test LRP by the US government should be guided by this experience. The EU practice of channeling funding for local and regional procurement through respected multilateral channels such as the World Food Program should also be considered in the design of new US food aid programs.

Decisions on where to source food aid should be based on considerations of price, availability and impacts on local and regional markets. In some cases of generalized food shortages, in-kind food aid shipments from the United States would still be the best choice, but that decision would be made after consideration of each situation, not on the inertia of a 50 year old system.

ActionAid USA
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¹ *World Food Program Interfais Monitor*, Table on Food Aid Deliveries in 2006 by Donor Country and Supply Mode. www.wfp.org/interfais, accessed 9/10/2007.

² Clay, E. *European Food Aid: Untying and Budgetary Flexibility*. Working Paper. London, 2004. Overseas Development Institute.

³ World Food Program. 2006 Food Aid Flows, p. 17.

⁴ See. http://ec.europa.eu/europeaid/projects/foodsec/interventions_en.htm.

⁵ Clay, E. Riley, B. & Urey, I. 2005. *The Development Effectiveness of Food Aid: Does Tying Matter?* (OECD), Development Assistance Committee. Report DCD/DAC/EFE(2004)9.

⁶ Tscherily, D., and del Castillo, A.M., *Local and Regional Procurement: An Assessment of Experience in Africa and Elements of Good Donor Practice. Policy Synthesis for Cooperating USAID Offices and Country Missions*. USAID, November 2006. (<http://www.aec.msu.edu/agecon/fs2/polsyn/number70.pdf>).

⁷ *The State of Food and Agriculture: Food Aid for Food Security*, Food and Agriculture Organization, 2006: Box 9: Experiences with the World Food Programme's local procurement, p. 39.