

**Research Brief:
Cash, Local Purchase, and/or Imported Food
Aid?:
Market Information and
Food Insecurity Response Analysis**



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Cash, Local Purchase, and/or Imported Food Aid?:
Market Information and Food Insecurity Response Analysis
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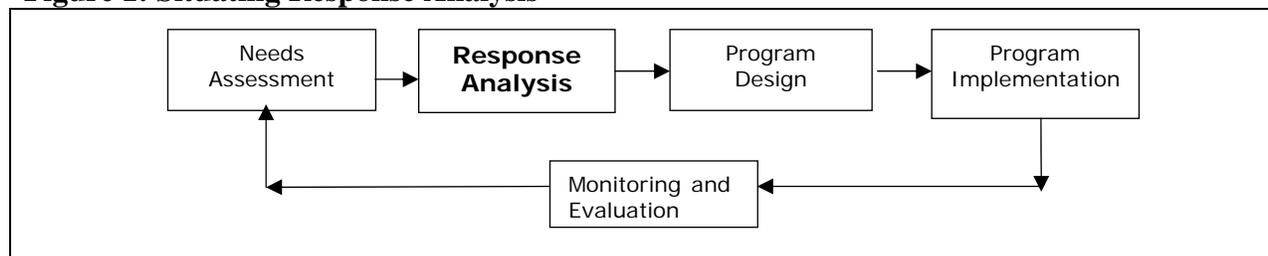
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Just as food aid's capacity to preserve lives and livelihoods is well-known, so are concerns regarding the efficacy, cost efficiency, and possible disincentive effects of food aid. Cash-based interventions are growing in popularity but are relatively new for some agencies. Additionally, there is growing governmental and private voluntary organizational interest in long-term cash programming for social transfer programs. Including market assessments in a response analysis can assist CARE country offices (COs) in determining when cash, locally or regionally procured food, imported food aid, or some combination will most improve lives and livelihoods during periods of food insecurity.¹

1. Situating Response Analysis

The Market and Response Analysis (MRA) framework is a series of key market analysis questions intended to assist CARE country offices in identifying the most appropriate aid response to conditions of widespread (acute or chronic) food insecurity.² Only relatively recently has “response analysis” been taken seriously as a distinct step in linking information from early warning and needs assessment with response, whether in the form of food or any other in-kind transfer, or cash³ (see Figure 1). This framework is one component of a well-designed response analysis and is for use when there is clear evidence of food insecurity, or the expected onset of a food security crisis, but before any intervention is planned. While understanding market functioning is a critical component in determining what resource options may be appropriate, concerns about gender, power, nutrition, leakages, etc. must also inform the programming design and the resources considered.

Figure 1: Situating Response Analysis



Source: Adapted from FAO 2006, FSAU Integrated Phase Classification Tool

The purpose of the MRA framework is to guide program decision-makers in selecting the right intervention for the situation they confront. There are three important points:

- In order to facilitate rapid humanitarian action, response analysis must be informed, to some extent, by a good baseline analysis (in particular, knowledge about how

¹ This research brief draws on two documents: “A Market Analysis and Decision Tree Tool for Response Analysis: Cash, local purchase, and/ or imported food aid?: The Decision Tree” (Barrett, Lentz, and Maxwell, May 2007); “A Market Analysis and Decision Tree Tool for Response Analysis: Cash, local purchase, and/ or imported food aid?: Background Paper.” (Maxwell, Lentz, and Barrett, May 2007); “Market Response Analysis Framework for Food Security: Draft Implementation Guidelines” (Lentz, December 2008). Interested readers are directed to these documents for a more comprehensive view.

² The analysis in this paper can be applied to food insecurity in both acute and chronic food insecurity situations.

³ We use “cash” as a shorthand for conditional or unconditional cash transfers, provision of vouchers, cash-based employment schemes, etc. The precise identification of “household” depends on targeting strategies implemented by the agency distributing resources.

markets work) and early warning information (market indicators), and must to some extent gauge the sort of a response that would be appropriate *before* needs assessments are completed.

- Response analysis is an iterative process, not a once-and-for-all decision. Ongoing monitoring should continue to track market indicators and other information sources described below to understand the on-going impact of program intervention choices.
- The best indicators and analytical methods to use depend on the context: the data and human resources available to a country office, the situation on the ground, etc. The framework is not a mechanical formula to be implemented identically in all places and times, merely a carefully structured set of questions backed up by methods for feasibly yet rigorously answering those questions.

2. Description of the Decision Tree for Appropriate Aid Response

Barrett and Maxwell⁴ advanced a basic decision tree to guide response analysis. The logic behind their decision tree began with food aid and worked backwards to demonstrate when food is – and is not – an appropriate response, as follows:

1. **Are local markets functioning well?**
 - a. **If yes, consider at least some cash.**
 - b. **If no, go to question 2.**
2. **Is there sufficient food available nearby to fill the gap?**
 - a. **If yes, consider local or regional purchases.⁵**
 - b. **If no, consider transoceanic food shipments.**

As a rule of thumb, food aid is an essential resource for responding to situations that are underpinned by both a *significant food availability deficit* and *market failures* that inhibit adequate and appropriate response by commercial traders. An outright deficit of food, whether at the level of a local community or a nation state, requires importing the food necessary for human consumption from somewhere else. When coupled with market failures, even increased demand stimulated by cash transfers does not reliably stimulate sufficient commercial inflows of food, instead causing local prices to rise, thereby injuring food insecure people who did not receive transfers. The “first best” use of food aid arises under this combination of circumstances: food deficit and market failures. Though such circumstances are becoming less frequent in an era of globalized markets, they are neither rare nor to be assumed the norm.

In situations underpinned by just one of these two criteria (food deficits or market failures) food aid is sometimes appropriate. Where food is available elsewhere within the recipient country or in nearby countries but markets have failed, food aid procured locally or regionally is a logical option. Local or regional procurement is often (but not always) a faster, cheaper and more effective procurement method than intercontinental food shipment. In such emergencies, the right mix of international food shipments and locally-purchased food aid depends on the

⁴ Christopher B. Barrett and Daniel G. Maxwell (2005) *Food Aid After Fifty Years: Recasting its Role*. London: Routledge.

⁵ “Local purchases” refer to purchases made in another region within the same country as the target delivery market. “Regional purchases” refer to purchases made in a nearby country.

available quantity, cost, quality and accessibility of local surpluses relative to donor country commodities, as well as, of course, the willingness of a donor to provide cash for local or regional purchase in lieu of in-kind food resources.

By contrast, where adequate food is available and affordable through markets that remain accessible to food insecure or disaster-affected people, food aid is clearly *not* necessary, and is usually not the most appropriate resource for emergency response in terms of cost, timeliness or other criteria. Then cash transfers – whether through direct payments, vouchers, public employment schemes, or other transfer systems – are generally the response of choice when operational agencies can reasonably effectively target vulnerable households, because local traders can typically move food in more quickly and cheaply than international agencies, who in turn can deliver cash more quickly than food.

Fleshing out Barrett and Maxwell’s Decision Tree into an operationally useful tool for market and response analysis requires primarily identification of suitable data and (i.e., reliable, quick, and not excessively technical) analytical methods that country offices can employ.⁶

3. Market Analysis

There are two core components to the MRA framework. The first is to identify the food markets’ context in the face of food insecurity (chronic and/or acute). The context often heavily affects how markets perform and how useful past data will be as a guide to future market behavior. A clear understanding of the context also serves as crucial background to the analysis mapped out in what follows.

The second component involves developing a clear understanding not just of “the market”, but also of the expectations and likely actions of market players, including traders, importers, households, governmental policy makers, and private voluntary organizations. This requires, first, identifying how local supply and prices in the target distribution market will likely respond to increased demand from an injection of cash given to households or to increased supply from local distribution of donated food. If food aid is necessary, the second step examines how prices will likely respond to food procurement in local or regional markets and how producer prices may be impacted by food aid distribution. We break down the two fundamental questions in Barrett and Maxwell’s original Decision Tree as follows:

1. Are local markets functioning well? The objective in answering this question is to establish whether cash-based response is a feasible, effective tool for addressing a food security crisis. If so, for everyone or only for some subpopulations? Completely, or only up to some limit beyond which complementary food aid deliveries will be required?

The functioning of local markets can be broken down into five component questions. The motivation behind these questions, and possible data sources and analytical tools helpful in

⁶ Beyond the immediate market analysis presented below, there are several other considerations in the choice of cash or in-kind transfers, such as security, leakages, nutrition, and intra-household distribution. These are described in more detail in Barrett et al. (2007) and Maxwell et al. (2007).

answering those questions are presented in greater detail in Maxwell et al. (2007) and Barrett et al. (2007), respectively:

- 1a. Are food insecure households well connected to local markets?**
- 1b. How much additional food can traders supply at or near current costs?**
- 1c. How will local demand respond to transfers?**
- 1d. Do local food traders behave competitively?**
- 1e. Do food insecure households have a preference over the form/mix of aid they receive?**

Cumulatively, the answers to subquestions 1a-1e equip analysts to come up with a strong, evidence-based answer to the first fundamental question of response analysis: are local food markets functioning well? If they are, then cash based responses are generally preferable. If food markets do not function well, then food deliveries are typically necessary and one needs to tackle the second fundamental question of the Decision Tree:

2. Is there sufficient food available nearby to fill the gap? The objective in answering this question is to establish from whence the organization should procure food to distribute into the target delivery market so as to provide the most effective response, taking into consideration cultural and nutritional appropriateness, cost, food safety, timeliness and generalized market effects considerations. The historical default has been transoceanic shipment from donor countries. Local or regional purchases are increasingly an option with some donor or private resources, however.

The question of procuring locally and/or regionally can be broken into three related sub-questions. The motivation behind these questions, and possible data sources and analytical tools helpful in answering those questions are presented in greater detail in Maxwell et al. (2007) and Barrett et al. (2007), respectively:

- 2a. Where are viable prospective source markets?**
- 2b. Will agency purchases drive up food prices excessively in source markets?**
- 2c. Will local or regional purchases affect producer prices differently than transoceanic shipments?**

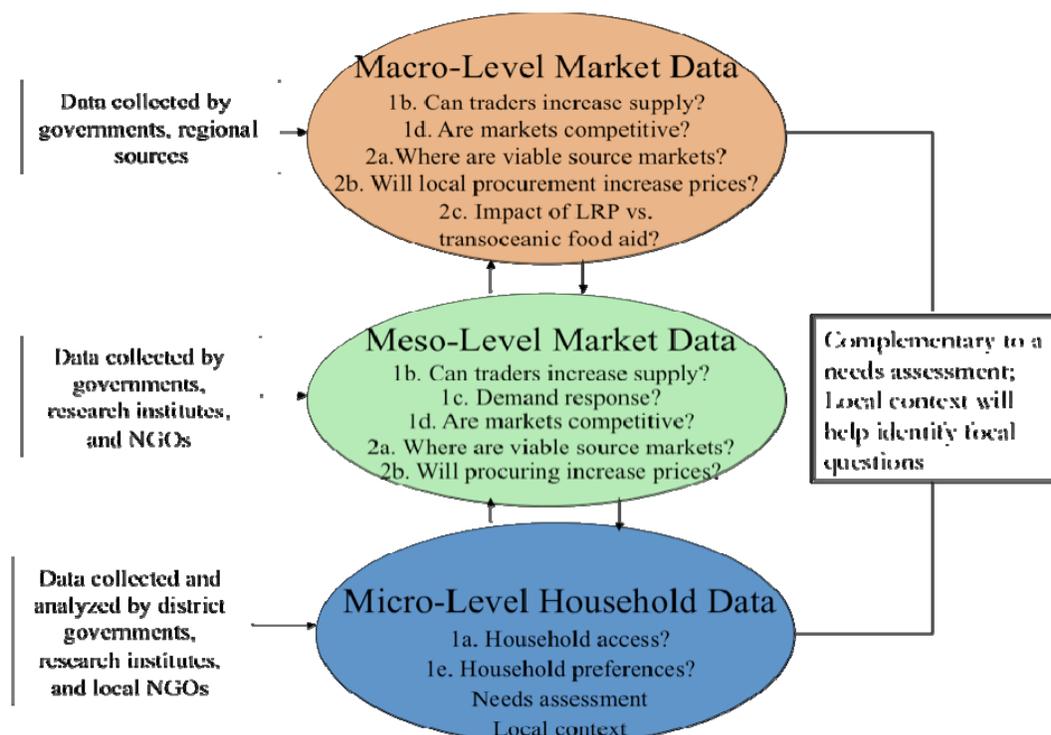
If some food aid deliveries are necessary, question 2 should help the analyst identify which possible local or regional market sources will provide the most cost effective and timely supply, while minimizing harmful price effects to consumers in source market and to producers in the target delivery market.

4. Conclusion: Application of the Market and Response Analysis Framework

The questions above are intended to guide the market analysis required to identify the appropriate resource to respond to a food insecurity crisis, and the appropriate source if the most appropriate resource is food commodities. However, an initial market analysis is not the only requirement. First, that market analysis has to be informed by ongoing monitoring that both precedes the analysis and continues after an initial analysis has been completed and a course of action selected. Second, the context (e.g., emergency or non-emergency; acute or chronic household food insecurity; rapid or slow-onset crisis) will drive the relative changes in market and individual behaviors.

One advantage of the MRA framework is that it is context-neutral. It identifies a variety of methodological approaches to answering key market analysis questions, local contexts, data availability, technical capacity, and resources will determine which methodology is most appropriate. Some of these questions need to be answered at both the national and regional levels and local marketshed levels, while others must be answered at the household level. One approach to implementing the framework is to consider the data collection and analysis processes at three distinct levels: micro, meso, and macro. The figure below lays out the market analysis questions by the level of analysis (Figure 2).

Figure 2: Cross Scale Analytical Approach



District governments and NGOs have a comparative advantage in collecting any necessary primary data at the community (micro-) level, because of their field presence and understanding of the communities where they work. They have a similar advantage in collecting data at the meso-level. The meso-level links the community's marketshed to the broader national and regional economies. Understanding markets at this level generally requires more economic analysis and a mixture of primary and secondary data sources. Lastly, at the macro-level, examining major markets within a country and regional markets requires analysis of secondary data and may be complemented with key informant interviews.

Because local contexts and market conditions are highly variable, and the nature and quality of available data are uneven, it would be inappropriate to promote a single, formulaic method for carrying out market analysis. The Market and Response Analysis Framework is neither simple nor mechanical; thus it offers no hard and fast decision rules based on simple statistics, merely a

logical structure of questions to ask and guidelines on data sources to consult or data to collect, diagnostic tools to use, and some rough rules of thumb that can help to reliably answer those questions. Analysts will need to weigh the relative importance of each aspect in the particular contexts they face. Our hope is that Country Offices and other operational agencies can field test, critique and update this Market and Response Analysis Framework over time so as to refine it into a flexible, reliable, broadly applicable instrument to help field offices anticipate and respond to food insecurity crises in the most appropriate manner possible.

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