Economics of HGSF Procurement

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Presented at the HGSF Regional Technical Meeting
Kenya Medical Research Center
Nairobi, 2-4 March 2010
Understanding market

Market

Process of exchange

Price

Outcome
The objectives

- Un-interrupted Supply of Quality Food (USQP)
- Link smallholders to market
Procurement Model – 1

A. Ingredients of success:
   I. Legal and regulatory environment
      - Contract enforcement
      - Dispute settlement
   II. Risk management institutions and polices
      - Weather risks
      - Macro policy induced risks

C. Advantages
   - Higher likelihood of success because of the linkages with large and medium producers
   - Higher social capital and policy advocacy

D. Disadvantages
   - Smallholders gets excluded; and hence limited impacts in terms of poverty reduction
**Procurement Model - 2**

- **Domestic / Export**
- **Gov. / WFP / NGOs**

Confederation of farm organizations

Coop-1

Coop 2

Coop 3

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**A. Ingredients of success:**

I. Legal and regulatory environment
   - Contract enforcement
   - Dispute settlement

II. Risk management institutions and polices
   - Weather risks
   - Macro policy induced risks

**C. Advantages**

- Better linkages with smallholders
- Higher poverty alleviation impacts

**D. Disadvantages**

- Management difficulties and inadequacy of necessary skills in most poor economies
- Higher transactions costs of doing business
Challenges

- Effective farmers organizations (or good cooks to buy from markets)
- Geographic locations
  - Food insecure locations may not have comparative advantages to supply USQF
- Scale of HGSF operation (Long run view)
  - Size and design of the program matter
Market potentials from HGSF: Ethiopia Example

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<th>Region</th>
<th>Total Food Distributed</th>
<th>2008</th>
<th>2009</th>
<th>Total</th>
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<tr>
<td></td>
<td>Metric Tons</td>
<td></td>
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</table>

Source: WFP
Potential of Scaling up: Ethiopia example

- Poor Children: 61,000 Metric Tons
- Rural primary schools: 166,000 Metric Tons
- Government primary schools: 200,000 Metric Tons
- All primary school children: 209,000 Metric Tons

Grain Requirement at current enrollment level

Quantity in '000 Metric Tons
Potential demand: Ethiopia case

- Poor Children: 611,000 Metric Tons
- Rural primary schools: 1,664,000 Metric Tons
- Government primary schools: 2,002,000 Metric Tons
- All primary school children: 2,085,000 Metric Tons
**Why is scaling up important (long run)**
- At current level of coverage, playing field will not be level (most children will go to school hungry!).
- At current level of coverage, an efficient smallholder-led market is not likely to emerge and sustain.

**What proc model will ensure USQF?**
- Through local coops / farm organization?
- How about association of small traders (if food is not available locally)?
- Procurement through cooks?
- Is it okay to have large market actors supply USQF, if food safety is the concerned?