

DEVELOPMENT CO-OPERATION DIRECTORATE
DEVELOPMENT ASSISTANCE COMMITTEETERMS OF REFERENCE FOR AN ASSESSMENT OF THE DEVELOPMENT EFFECTIVENESS OF
FLEXIBLE SOURCED FOOD AID

DAC meeting on 22 September 2006

In accordance with the conclusions of the acting DAC Chair at the 14 February 2006 DAC Meeting [DCD/DAC/M(2006)2/FINAL], this note is submitted for APPROVAL to the 22 September 2006 DAC meeting under item 11 of the agenda [DCD/DAC/A(2006)10].

The first version of the note was discussed at the 22 June 2005 DAC meeting. Based on that discussion the terms of reference were revised to focus exclusively on an assessment of the development effectiveness of flexible sourced food aid. This revision was not discussed by the DAC because one Member indicated strong opposition to the assessment during the ongoing WTO negotiations on Agriculture, which also addressed the provision of food aid. Subsequently, it was decided to table the revised terms of reference for the September 2006 DAC meeting, which would allow Members to take account of the outcome of the WTO negotiations.

The proposed work has been requested by the Working Party on Aid Effectiveness and is related to the 2005 - 2006 PWB, output area 5.1.2. Aid Effectiveness [DCD/DAC(2004)23/REV1].

Contact Person: Frans Lammersen - Tel: +33 (0) 1 45 24 89 88 - E-mail: frans.lammersen@oecd.org

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Recently, the trade organisation of South African grain farmers, has warned its members to think carefully before planting maize, on the grounds that there is likely to be a huge surplus in production. This dire warning came as the WFP announced that ten million people in Mozambique, Lesotho, Malawi, Swaziland, Zambia and Zimbabwe face hunger and will need humanitarian assistance until the next harvest. The common sense approach would be for donors to buy maize in South Africa and transport it to those in need in the rest of the region. Yet most donors do not work in this way, preferring to purchase the surplus from their own farmers and ship it - at great expense with fatal delays.

Mozambique News Agency, AIM Report No 306, 5 October 2005

EXECUTIVE SUMMARY

This note sets out revised terms of reference for follow-up work to the 2004 DAC assessment of the development effectiveness of food aid and the effects of its tying status. The initial terms of reference were discussed at the 22 June 2005 DAC meeting, which concluded that the discussion should be continued after the 6th WTO Ministerial Conference had taken place. Subsequently, the committee decided to discuss the terms of reference in September 2006, to take account of the outcome of the WTO negotiations on Agriculture, in which context the provision of food aid was discussed.

The initial terms of reference, which resulted from wide ranging consultations amongst bilateral donors and multilateral agencies suggested studying three issues; (i) flexible sourcing; (ii) additionality of funds; (iii) common evaluation benchmarks.

The revised terms of reference, however, focus exclusively on the flexible sourcing of food aid, e.g. assessing the development effectiveness of the flexible use of funds for local and regional procurement of food aid and will provide guidance on the provision of food aid in developmentally effective ways. This focus is congruent with the goal of promotion local and regional procurement that the DAC is pursuing in the context of its wider debate on the tying status of aid.

The assessment will use the methodology developed by the DAC Network on Development Evaluation and be based on the principles of the Paris Declaration on Aid Effectiveness. It will include extensive consultation with recipient governments, civil society organisations, the private commercial sector and recipient country level representation of donor agencies.

In addition, wide stakeholder involvement will be actively sought, including with the DAC Network on Development Evaluation, the OECD Joint Working Party on Agriculture and Trade, other parts of the Development Cluster (e.g. DEV and SWAC) and other intergovernmental organisations, in particular the WFP, FAO, International Grains Council (charged with the implementation of the Food Aid Convention), WTO, and International Finance Institutions.

The follow-up work has been specified in general terms in the 2005 – 2006 PWB under output area 5.1.2. The work will be based on three extensive case studies and is budgeted at € 201,163. As specified in the PWB it will require voluntary contributions.

TERMS OF REFERENCE FOR AN ASSESSMENT OF THE DEVELOPMENT EFFECTIVENESS OF FLEXIBLE SOURCED FOOD AID

1. Introduction

1. At the 22 June 2005 meeting, the DAC discussed terms of reference for an assessment of food aid sourcing and budget additionality. After the discussion, the Chair concluded that, while there was broad support for further work on food aid, there was no consensus and that the discussion should continue after the conclusion of the 6th WTO Ministerial Conference, which addressed, *inter alia*, the issue of food aid in the context of the negotiations on agriculture.¹ Subsequently, the issue was raised at the 14 February 2006 DAC meeting which concluded that to discuss the terms of reference in September 2006 to allow taking account of the outcome of the WTO discussions on food aid, which were scheduled to be concluded by the end of July 2006.²

2. Proposals for follow-up work to the Assessment of the Development Effectiveness of Food Aid and the Effects of its Tying Status³ were discussed with stakeholders in Brussels (EU Food Aid Council Group, EU Commission and EURONAIID), Geneva (WTO), London (Food Aid Convention), Rome (IFAD, FAO and WFP) Washington DC (USAID, USDA, Congress, OMB and NGO's) and Canada (CIDA, Agriculture Canada and NGOs).

3. The discussions suggested that follow-up work should add value to the food aid debate through providing guidance on ways and means to improve its effectiveness also in the context of good humanitarian donorship.⁴ In particular, three issues were identified: (i) flexible sourcing (*e.g.* local and procurement); (ii) additionality of budgets for food aid, and (iii) common standards to monitor and evaluate food-based programmes.

4. Although the issue of additionality is important, it has not been retained in the revised terms of reference and donors might wish to consider this in other contexts such as the FAC. The suggestion to develop common standards to monitor and evaluate food-based programmes has been discussed with the DAC Network on Development Evaluation, but no resources are available to address this issue.

5. Thus, the revised terms of reference focus solely on the issue of the development effectiveness of flexible sourcing of food aid. This focus will also closely align the assessment with the shared goal of the DAC to promote local and regional procurement, which is being pursued in the wider context of its debate on the tying status of aid.⁵

1. DCD/DAC/M(2005)8/PROV

2. DCD/DAC/M(2006)2/FINAL

3. DCD/DAC/EFF(2004)9

4. Principles and Good Practice of Humanitarian Donorship (2003)

5. DCD/DAC(2005)49/REV1

6. The proposed follow-up work is related to the 2005 – 2006 Programme of Work and Budget in particular output area 5.1.2, which mentioned that follow-up work would require finance on the basis of voluntary contributions.⁶

7. The rest of this note is structured as follows: Section 2 provides the background to the Terms of Reference. Section 3 sets out the draft Terms of Reference. Section 4 outlines how his work could be undertaken. Annex 1 provides the budget for the Terms of Reference and the profile of food aid deliveries.

8. Members are invited to:

- i) Comment on the proposal to assess the implications of flexible sourcing of food aid on its development effectiveness.
- ii) Indicate their willingness to support the work with voluntary contributions.

2. Background

9. The background chapter provides in section 2.1 an overview of 2004 food aid flows. Section 2.2 highlights recent developments in donor policies concerning flexible sourcing of food aid. Section 2.3 sets out briefly the international context. Section 2.4 recalls the relevant conclusions of the first assessment.

2.1 Food Aid Flows

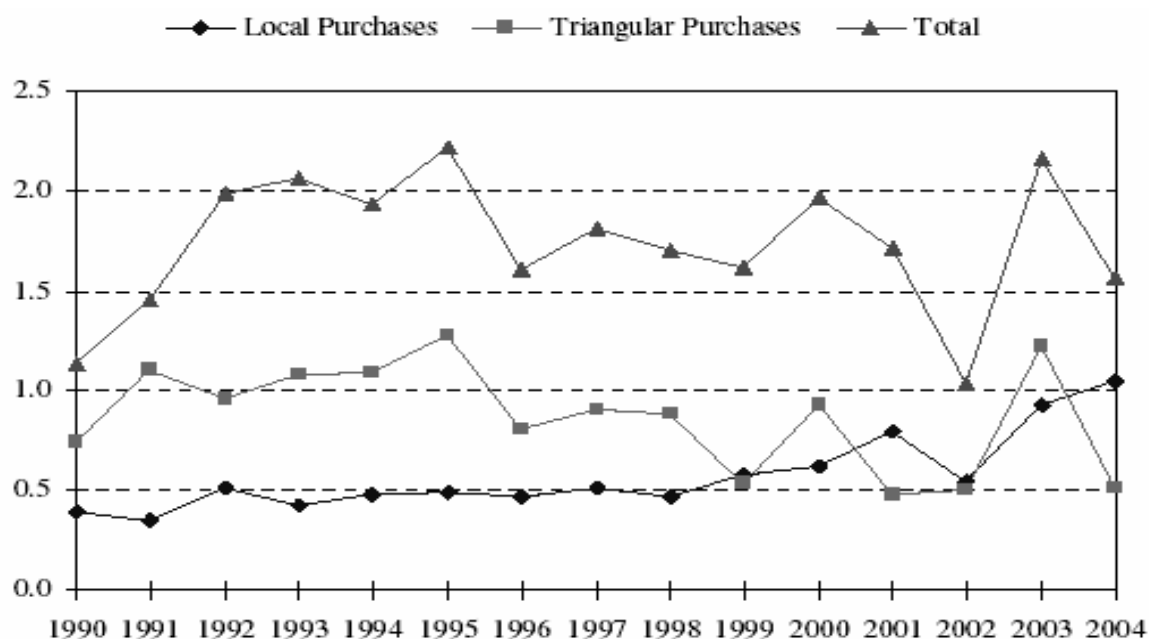
10. In 2004, the volume of bilateral ODA in the form of food aid amounted to USD 3.4 billion (including USD 581 million reported by the EC). As a share of total bilateral ODA this constituted a drop from 7% in 2003 to 5.4%. Emergency food aid represented the largest category at USD 1.9 billion but decreased by 37%, and their share in global food aid declined to 58%. Programme and project food aid continued falling to 1 million tons and 2.1 million tonnes respectively.⁷

11. In 2004, 1.9 million tons (26%) of food aid was procured through local purchases or triangular transactions (Graph 1). The main donors of commodities procured through local purchases were the European Commission (25%), Germany (9%), and Norway and the United Kingdom (8% each). The main donors of commodities procured through triangular purchases were the European Commission (28%), Japan (23%), Sweden (7%), the United Kingdom (6%), and the Netherlands and Germany (5% each). All DAC donors have recent experience of supporting developing country sourcing of food aid.⁸

6. DCD/DAC(2004)23/REV1

7. WFP INTERFAIS The Food Aid Monitor May 2005

8. Ibid

Graph 1. Food Aid Procurement in Developing Countries in 1990-2004 (in million tonnes)

Source: WFP Interfais 2005

2.2. Donor policies

12. The 1996 EU Regulation on Food Aid and Food Security allows for the use of food aid budgets to procure locally from an EC-determined shortlist of eligible developing countries.⁹ Other donors also continue to report further steps in providing operational flexibility in sourcing food aid in recipient countries and the immediate region. In 2004, Australia and France indicated changes to enable them to source food aid in developing countries. In 2005, Canada announced that up to 50 % of its food aid can now be purchased in developing countries.¹⁰

13. In addition, the United States administration is asking Congress to increase the funding for flexible sourcing of food aid under its International Disaster and Famine Assistance account.¹¹ According to the USAID, shipping in-kind assistance from the US normally requires three or four months to arrive at an emergency distribution point once it is ordered. Having the option to flexible source food would enable the US to get food to hungry people faster. In addition to providing a faster option, local purchases of food will, in many cases, save the dollars that would otherwise have been spent on transportation costs, allowing the US to purchase additional food aid to feed more people.¹²

9. EU Council Regulation 1292/96

10. CIDA Press Communiqué dated 22 September 2005

11. House Resolution 2744 and 3057 FY 2006

12. Remarks by Andrew S. Natsios, Administrator USAID, "The Local Purchase Initiative", Kansas City Export Food Aid Conference May 3, 2005.

2.3 *The international context*

14. The 1990 **Food Aid Charter** by the Comité Inter-États de Lutte Contre la Sécheresse au Sahel and the Club du Sahel is a joint declaration by donors (Canada, European Community, Germany, France, Netherlands and United States) and Sahelian countries. The Charter's aim is to curb the adverse effects of food aid and integrate this form of aid into longer term concerns for food security. In that context, local and regional purchases are encouraged whenever possible to respond to emergency situations in the region.

15. The latest **Food Aid Convention** (FAC) came into effect on 1 July 1999 and is extended to 30 June 2007. The reference to local purchases and triangular transactions is in Article XII which states that *"in order to promote local agricultural development, strengthen regional and local markets and enhance the longer-term food 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")"*

16. Food aid has been brought under the coverage of the **WTO Agreement on Agriculture** to prevent the circumvention of export subsidy commitments. In Hong Kong, WTO Members agreed on the following Ministerial text on food aid, *we reconfirm our commitment to maintain an adequate level and to take into account the interests of food aid recipient countries. To this end, a "safe box" for bona fide food aid will be provided to ensure that there is no unintended impediment to dealing with emergency situations. Beyond that, we will ensure elimination of commercial displacement. To this end, we will agree effective disciplines on in-kind food aid, monetization and re-exports so that there can be no loop-hole for continuing export subsidization. The disciplines on export credits, export credit guarantees or insurance programmes, exporting state trading enterprises and food aid will be completed by 30 April 2006 as part of the modalities, including appropriate provision in favour of least-developed and net food-importing developing countries as provided for in paragraph 4 of the Marrakesh Decision.*¹³

2.4 *The conclusions of the 2004 assessment*

17. The assessment of the development effectiveness of food aid and the effects of its tying status has deepened the understanding of the development performance of food aid and the effects of its tying status. The study estimated that local and regional sourcing of food aid is relatively more cost effective than direct transfers and suggests that the benefits of flexible sourcing would not necessarily be captured by middle income agriculture exporting countries. On the contrary, donor flexibility in sourcing would benefit agricultural development in many low-income developing countries, especially in sub-Saharan Africa. The assessment also suggests that the adding of value through local processing and packaging in recipient countries is likely to be cost-effective.

3. **Terms of Reference**

18. The terms of reference for the assessment of flexible sourcing are set out below. Section 3.1 highlights the objective. Section 3.2 clarifies the focus. Section 3.3 elaborates the DAC approach to measure development effectiveness. Section 3.4 addresses the scope of the investigation. Section 3.5 describes the selection of recipient countries for inclusion in the assessment. Section 3.6 elaborates the method of investigation and Section 3.7 lists the final products.

13 . WT/MIN(05)/W/3/Rev.2

3.1 *Objective*

19. The overall objective of the analysis is to provide guidance to donors on ways and means to improve the effectiveness of food aid through flexible sourcing. In order to provide this guidance, the initial 2004 assessment needs to be complemented with evidence on the effects of flexible sourcing and views at a recipient country and regional level.

3.2 *Focus*

20. The 2004 assessment already documented the substantial work that is being undertaken to assess the development effectiveness of food aid, *inter alia*, in the context of multi-donor evaluations of the World Food Programme¹⁴ and evaluations by major food aid donors.¹⁵ The follow-up investigation will build on this work and focus, in particular, on the effects of flexible sourced bilateral food aid on its development effectiveness.

21. In order to keep the assessment pertinent, it is proposed to:

- Focus on the key development objectives of food aid, including the Millennium Development poverty reduction goals,¹⁶ while also recognising its humanitarian goals.
- Consider all forms of food aid (*e.g.* humanitarian/emergency and development food aid).¹⁷
- Quantify, wherever possible, the cost and benefits of flexible sourcing of food aid or, at least, provide a qualitative ranking of advantages and disadvantages.

3.3 *Measurement*

22. Based on the methodology developed by the DAC Network on Development Evaluation, the assessment will use the following benchmarks: (i) effectiveness, (ii) efficiency, (iii) impact, (iv) relevance, and (v) sustainability.

3.4 *Scope of the assessment*

23. The assessment should consider factual evidence from recipient countries on ways in which flexible sourcing of food aid influences its development effectiveness in what direction and to what degree.

14 . 2004 Annual Evaluation Report World Food Programme (2005)
Joint Evaluation of the Effectiveness and Impact of the Enabling Development Policy of the WFP (2005)

15 . For example, the assessment of US project food aid under PL480 Title II Bonnard and others, (2002) and the evaluation of EU support for food security and food aid (PARTICIP GmbH and Associates, (2004). *Thematic evaluation of food-aid policy and food-aid management and special operations in support of Food security*. Synthesis Report. Report for Evaluation Unit, EuropeanAid Co-operation Office, Directorate General for Development and External Relations Division Directorate General, European Commission. Freiburg and Bruxelles.

16 . Reduce by half the number of people who suffer from hunger by 2015 (UN MDG number 1)

17 . As already indicated in the earlier DAC study, as the greater part of food aid is now allocated for humanitarian purposes including rehabilitation (58% in 2004), it is necessary to consider the development implications of all food aid, rather than that nominally designated as development food aid.

The investigations should include relevant aspects such as the specifics of flexible sourcing of food aid, the type of products, the origins of the products and the conditions attached. In addition to the benchmarks set out above, the following elements warrant detailed consideration:

- The cost effectiveness of the flexible sourced food aid, *e.g.* actual costs versus market prices, in country transaction costs, etc.
- The effects on domestic and regional agricultural markets in developing countries, including on food processing and related services.
- The impact on poverty reduction, risk and vulnerability and long term food security, *e.g.* potential adverse effects of resource uncertainty on the operation of development projects.
- Aspects related to local ownership, *e.g.* the extent to which the provision of food aid has been provided in the framework of national development strategies.
- The issue of food dependency, *e.g.* the budgetary implications of food aid for public agencies and NGO programmes, as well as a review of available evidence for final recipients.

3.5 *Selection of recipient countries*

24. The assessment will consider three/four partner countries that formed part of the earlier survey on resource transfer effectiveness: each in the context of three wider regions, each offering scope for exploring the effectiveness and efficiency of flexible sourcing [Table 1]:

- Cape Verde and/or Mauritania. (Both are long term recipients of development food aid and amongst countries with high *per capita* food aid levels: in 2003, respectively 101 and 31 kg per person.)
- Ethiopia (A long term recipient of large-scale development food aid and, recently, the largest recipient with 0.8 million tonnes delivered in 2004).
- Malawi (A land-locked, least developed country that is highly vulnerable to climatic variability and is a recipient of sharply fluctuating levels of food aid).

3.6 *The method of investigation*

25. The assessment will deliberately adopt an eclectic approach using complementary ways of investigating the issues and seeking views and evidence from stakeholders in transparent and inclusive ways:

- Consultations

The consultations with selected stakeholders in recipient countries and the wider region will include government agencies, civil society/NGOs, and private commercial sector and country level representation of donor agencies. These consultations will address the effects of flexible sourcing of food aid and related experiences in organising local purchases and triangular transactions.

- A review of experiences

The review of experiences with food aid will include:

- A stocktaking of food aid and food aid supported activities and how these are changing.
- A review and synthesis of all the available recent evidence on effectiveness and impacts for that country and the immediate region.
- A statistical analysis of food flows including production, regional trade and aid in commodities provided as food aid, identifying trends, relationships between flows.
- Verification of import and local market prices for the commodities included in the cost-effectiveness analysis.
- Identification and, as far as possible, quantification of transaction costs associated with food aid.

3.7 Products

26. The final product will provide guidance on the provision of food aid in developmentally effective ways. This guidance, which will take account of the findings of the earlier assessment, will be based on the three comparative country case studies focusing on flexible sourcing of food aid and its consequences. The guidance will be provided in a synthesis report on the flexible sourcing of food aid and its development implications.

4. Work plan

4.1 Co-operation

27. Active stakeholder involvement will be sought in conducting the assessment. This includes the DAC Network on Development Evaluation, the OECD Joint Working Party on Agriculture and Trade, other parts of the Development Cluster (*e.g.* DEV and SWAC) and other intergovernmental organisations, in particular the WFP, FAO, International Grains Council, WTO, the World Bank and the African Development Bank.

28. For instance, the WFP has already reviewed its own experience with local and regional procurement of food aid. This review will be a useful complementary input into the proposed follow up DAC investigations, which will provide a synthesis of the experiences of bilateral donors, agencies and NGOs with local and regional procurement of food aid.

4.2 Execution

29. The assessment will be undertaken by a small team of consultants including a lead consultant and, as appropriate, regional/country specialists. In addition, regionally based consultants will be engaged to work with the team. The project will be managed by a principle administrator in DCD. The consultancy contract will be awarded according to the OECD procurement rules.

4.3 ***Timeline***

30. Assuming that the study is ready to be launched in September, the selection of consultants is planned for October – November. The consultant will be requested to submit an inception report in early December. The actual in-country assessment is scheduled from end March until end May. A first draft report will be requested in early June for discussion by the DAC that month. The revised draft will be submitted in September 2007, taking into account comments from DAC Members. [Table 3]

4.4 ***Dissemination***

31. As was the case with the first report, this study will, after derestriction, be presented and discussed among a wider group of stakeholders, involving relevant policy communities, recipient countries, intergovernmental organisations, and major non-governmental organisations that are dealing with food aid.

4.5 ***Costing***

32. The follow-up work has been specified in general terms in the 2005 – 2006 Programmes of Work and Budget under output area 5.1.2 Aid Effectiveness and Peer Review. The budget mentioned that follow up work would require voluntary contributions. The follow-up work is budgeted at € 201,163 and requires voluntary contributions. The detailed costing and resulting financing requirements are specified in Table 2.

ANNEX 1

Table 1. Food aid profiles for case study countries and main DAC donors (2004)

	Food aid category			Transfer mode		
	Emergency	Project	Programme	Direct	Local	Triangular
Breakdown of food aid deliveries to case study countries (%)						
Ethiopia	90	10	0	76	23	1
Malawi	55	45	0	44	56	0
Cape Verde	0	67	33	71	0	29
Mauritania	21	48	31	97	0	3
Breakdown of main donors' food aid deliveries (%)						
Australia	38	60	2	82	11	8
Belgium	88	12	0	43	25	32
Canada	36	64	0	83	14	2
Denmark	41	59	0	72	12	16
E.C.	95	5	0	11	47	42
France	47	11	42	67	22	11
Germany	46	54	0	11	61	28
Italy	36	64	0	48	21	31
Japan	62	3	35	58	7	35
Netherlands	100	0	0	16	46	38
Norway	12	88	0	9	73	18
Sweden	100	0	0	2	46	52
Switzerland	96	4	0	14	47	39
UK	90	10	0	9	55	35
US	48	33	19	99	1	0

Source: INTERFAIS

Table 2. Budget

		Days	Rate euros	Personnel euros	Expenses euros	Amount euros
1	Flexible sourcing of food aid					
1.1	Team Leader : design; contacts; supervising; drafting; presenting.	50	880	44 000		44 000
1.2	Research officer : data collection; statistical analysis; write-up	20	250	5 000		5 000
1.3	Travel and local expenses				8 000	8 000
	sub-total					57 000
2	Country Study 1 – Southern Africa (e.g. Malawi)					
2.1	Senior Analyst : design; field work; drafting	33	500	16 500		16 500
2.2	Local research	40	250	10 000		10 000
2.3	Local costs	40	200		8 000	8 000
2.4	Local transport	20	100		2 000	2 000
2.5	International travel	1	4 000		4 000	4 000
	sub-total					40 500
3	Country Study 2 – East Africa (e.g. Ethiopia)					
3.1	Senior Analyst : design; field work; drafting	33	500	16 500		16 500
3.2	Local researchers	40	250	10 000		10 000
3.3	Local costs	40	200		8 000	8 000
3.4	Local transport	20	100		2 000	2 000
3.5	International travel	1	3 000		3 000	3 000
	sub-total					39 500
4	Country Study 3 – West Africa (e.g. Cape Verde or Mauritania)					
4.1	Senior Analyst : design; field work; drafting	33	500	16 500		16 500
4.2	Local researchers	40	250	10 000		10 000
4.3	Local costs	40	200		8 000	8 000
4.4	Local transport	20	100		2 000	2 000
4.5	International travel	1	4 000		4 000	4 000
	sub-total					40 500
5	Total Personnel			128 500		128 500
6	Travel and local expenses				49 000	49 000
7	Secretariat : travel and local expenses					15 000
	sub-total					192 500
8	Voluntary contributions 4.5% overhead : (€192 500 * 0.045)					8 663
	Overall total					201 163

Table 3. 2006/2007 planning

September	October	November	December	January	February
DAC discussion of the draft ToR	Selection of consultants conform OECD procurement procedures		Consultants' inception report		Country case
March	April	May	June	September	
	studies and in country consultations		1 st draft report	DAC discussion	Revised report / DAC approval / Dissemination