

Food Aid at a Crossroads

– *policy issues on the use of
food aid*

Ottawa, June 23, 2005

Workshop Report

This one day workshop held at the auditorium of the International Development Research Centre in Ottawa sought to answer three questions:

- What are the real issues underlying the current debates on food aid?
- What are the essential positive elements of food aid which should be preserved?
- What aspects of food aid policy need to change in Canada and elsewhere?

Issues in Current Food Aid Debates

1. **Effectiveness of Food Aid** – the effectiveness of many current uses of food aid in responding to hunger has been challenged.
2. **Efficiency of Food Aid** – the cost efficiency of food aid has been challenged in two areas – the cost of procurement for in-kind donations and the relative inefficiency of food aid as a transfer compared to cash transfers.
3. **Impact of Imported Food Aid on Local Markets** – local farmers and farm organizations and agricultural development organizations allege that imported food aid can disrupt the local markets causing hardship to local producers.
4. **Sufficiency of International Food Aid** – food aid levels are approximately 7.5 million tonnes/yr and have been falling steadily over the long term. There are serious concerns about the adequacy of this level to meet global needs.
5. **Impact of In-Kind Food Aid on International Markets** – agricultural commodity exporters allege that in-kind food aid acts as an export subsidy thereby distorting international markets and displacing commercial exports.
6. **Governance of Food Aid** – the existing governance structures to regulate the use of food aid are said to be insufficient to address the above problems.



Food Aid Effectiveness

Chris Barrett of Cornell University argued that the effectiveness of food aid should be assessed **solely** on its impact on reducing hunger and poverty, Millennium Development Goal #1. Food aid is useful for:

1. Saving lives,
2. Fulfilling the human right to food, including the requirement that it is nutritionally adequate,
3. Protecting assets, especially human health, and
4. Facilitating the growth of productive assets where food availability and local market performance are limiting.

John Hoddinott of the International Food Policy Research Institute approached the use of food aid as a potential means to achieve sustainable poverty reduction. He identified several elements of sustainable poverty reduction:

1. Mitigating the negative effects of 'shocks'. Fear of shocks may cause poor people to refrain from taking potentially beneficial actions because of perceived risks. The long term destructive impacts of shocks on livelihoods can be profound.
2. Increasing the level of productive assets controlled by poor people.
3. Increasing the return on those assets.
4. Providing transfers to those who are unable to benefit from other poverty reduction measures.

He argued that food aid is primarily important in responding to shocks in situations where a food crisis exists or is threatened and local food markets are insufficient to meet the need. For asset creation and asset return improvement as well as for straight transfers, food aid is rarely the most effective resource to use.

Both speakers underlined the critical issue of timing – food aid has positive effects when it arrives on time, and can have very negative effects if it is late. Barrett emphasized the critical issue of targeting in general while Hoddinott pointed to the importance of intra-household targeting such as is possible with some school feeding programs. Hoddinott and Barrett agreed that commodity food aid should be used more judiciously and proposed decision criteria (see Figure 1).

Robin Jackson of World Food Program (WFP) identified the particular role that food aid can play in HIV-affected households, a growing and serious problem in Sub-Saharan Africa. In these cases food aid plays several roles:

1. an essential element of AIDS treatment,
2. an important element in ensuring adequate nutrition for AIDS orphans, and
3. a safety net element for AIDS-affected households.

Figure 1

Decision Tree for Food Aid Utilization

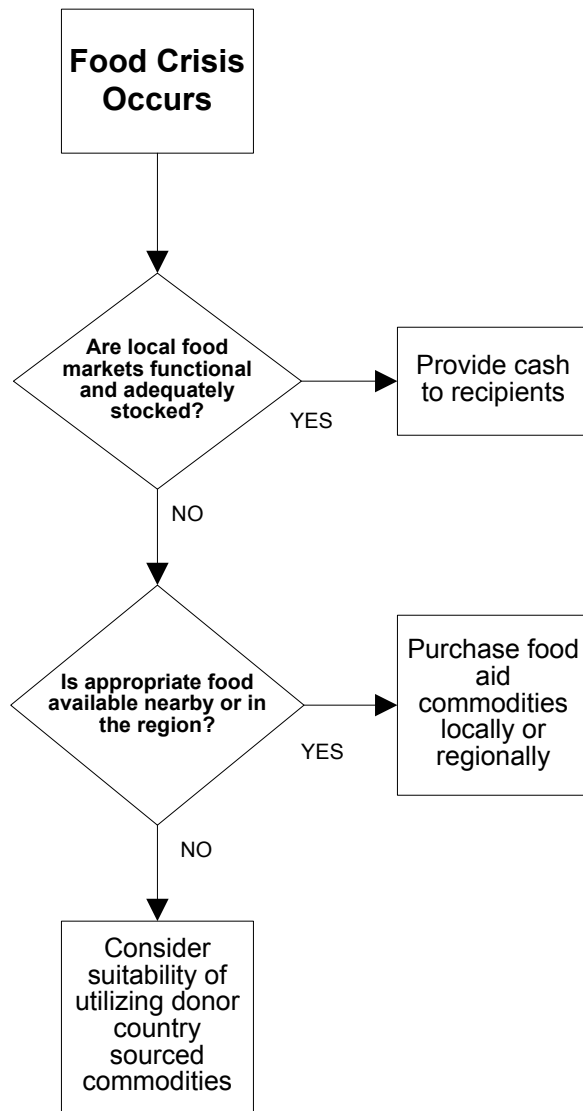


Figure 1

Efficiency of Food Aid

Barrett underlined the importance of Engel's Law which states that the provision of one unit of food never results in a full one unit increase in food consumption. In practice, food consumption increases between 0.3 - 0.9 units – the higher increases coming in those situation where the recipients are very food insecure. That portion of the increased food supply that is not consumed is usually sold or exchanged for other essential supplies or services. These transactions often involve significant losses. The greater the amount of unconsumed food, the greater the 'loss' of the benefit received by food aid recipients. Targeting is an essential element in ensuring the greatest increases in food consumption and, therefore, a more efficient resource transfer.

Food aid monetizations, as they are usually untargeted, result in no or very low additional consumption (and other problems) although the cash produced may be used as a highly efficient transfer.

Barrett, Hoddinott and Edward Clay of the Overseas Development Institute (ODI) all noted that food aid procurement is another major source of reduced food aid efficiency. Clay reported on a recent OECD study he authored which indicated that in-kind food aid originating in donor countries like Canada results on average in 30-50% higher food aid delivery costs over the lowest cost alternative. Much of this inefficiency results from the high costs of ocean freight and donor requirements such as procurement from named suppliers, use of specific shippers and the need to process food aid commodities in the donor country before shipment. Local or regional purchases in developing countries are often the least costly option and these speakers also pointed to the potentially beneficial effects for local agricultural development.

Dirk Booy of World Vision Canada cautioned against allowing the push for better food aid policies to result in a reduction in overall aid to those who are hungry. He noted that there is widespread concern among food aid NGOs, particularly in the US, that if local and regional purchases of food aid commodities are promoted over donor-sourced commodities, governments may not provide the cash required and the overall ability to respond to hunger will be reduced. He also noted that, while procurement in developing countries is often, although not always, cheaper, it can be very difficult to manage in a timely fashion and can result in local price increases that hurt other poor consumers. He stressed the importance of finding ways to include food aid recipients in the formulation of food aid policies.

Scott Brooks, a Canadian farmer who is an active supporter of the Canadian Foodgrains Bank, emphasized that he and other Canadian farmers recognize that food aid procurement has no effect on their farm-gate prices. Most of them he said, when they understand the issue, support increased flexibility to purchase Canadian food aid in developing countries. They want to do that which is most beneficial to those who are hungry.

Impact of Imported Food Aid on Local Markets

It is widely held that food aid activities have negative effects on local markets. Paul Dorosh of the World Bank presented a study of the local market impacts of the use of food aid in Bangladesh, a country that has received food aid for over thirty years. Dorosh reported that food aid has been almost exclusively based on wheat, a second choice cereal in the Bengali diet. (Rice is the cereal of preference.) Furthermore, because the Bangladesh government and donors limited wheat food aid imports to no more than the non-milling wheat import demand, local price effects from food aid were negligible.

However, Dorosh pointed out that, if the rice prices were to continue their current long term decline, the demand for rice would rise and the market for wheat would decline. This would lead to a reduction in the maximum 'safe' amount of wheat food aid, possibly to historic low levels. Wheat food aid represents a significant resource transfer to the Government of Bangladesh and the resulting monetization proceeds are used to fund a range of other food security activities.

Government revenues would therefore fall as well as potentially reducing government development efforts.

It is significant that current commercial wheat imports are much larger than current food aid imports and therefore these have the more significant effect on local wheat prices. Dorosh pointed out that despite large wheat food aid imports during the 80s and 90s, the local production of wheat doubled. Since the late 90s however, with the decline in international wheat prices to historic lows, the long term growth in wheat production has stalled and dropped possibly reflecting the disincentive effects of low international prices.

Distortions in the international cereals markets for both wheat and rice appear more significant for local wheat prices than the provision of judicious levels of wheat food aid. In response to questions, Dorosh noted that the impact of food aid on local prices can be significantly higher in smaller markets, where aid constitutes a significant proportion of the market for the commodity in question.

Sufficiency of International Food Aid

Jim Cornelius of the Canadian Foodgrains Bank observed that, at an average of about 7.5 million tonnes/yr, international cereal food aid makes up less than 0.3% of global cereal production and less than 3% of internationally traded cereals. It is a relatively small resource even if it appears more significant in those areas where it is concentrated (Ethiopia, Bangladesh, North Korea).

Without wider agreement on the appropriate situations to utilize food aid, it is difficult to make accurate estimates of the total need for food aid. Furthermore, as the functioning of markets improves, the desirability of donor sourced food aid commodities decreases so that the priority may shift from food commodities to cash resources for commodity purchases which must compete directly with other ODA priorities.

Regardless of level of need for genuine food aid (said by some informed sources to be as high as 20,000 tonnes/yr), at current levels food aid is a scarce resource. Therefore, it is an urgent priority to ensure that food aid practices maximize their impact on hunger and poverty.

Food Aid Governance

Chris Barrett of Cornell University provided an overview of the existing mechanisms for governing the use of food aid – the Food Aid Convention (FAC), the FAO Consultative Subcommittee on Surplus Disposal (CSSD), Uruguay Round Agreement on Agriculture (WTO-AoA) and various voluntary codes and procedures (Sphere Guidelines, Belmon Analysis). None of these mechanisms is adequate to address current needs, and the on-going WTO agriculture negotiations are calling for much stricter trade disciplines on the use of food aid.

Barrett proposes that, in addition to WTO food aid disciplines that deal with the most serious trade related food aid problems, there be a new institutional arrangement for governing the use of food aid. Tentatively termed the Global Food Aid Compact, it would have the following elements:

- would be co-chaired by World Food Program, FAO and OECD/DAC.
- would receive and monitor legally binding food aid commitments, either in cash or in kind.
- would receive for review all ex ante notifications of certain categories of food aid transactions that have a high potential for local or international market disruption (e.g. use of donor country sourced food aid commodities for developmental purposes or for monetizations).
- would develop and maintain a Code of Conduct for the 'best practices' use of food aid.
- would include both donor and recipient governments and other relevant organizations (e.g. food aid NGOs, other UN bodies) which comply with the Code of Conduct.

Stu Clark of the Canadian Foodgrains Bank underscored the importance of providing a guaranteed 'floor level' for international food aid, both as global public good as well as a

guarantee for other international processes (e.g. WTO agricultural trade negotiations). He proposed a politically feasible minimum commitment of 5 million tonnes/yr but accompanied by sufficient cash resources to permit utilization for difficult to reach food emergencies. Looking at Canada's history in the current Food Aid Convention, he suggested that Canada should agree to provide 10% of the overall commitment, equivalent to Canada's portion of international cereal trade. Canada's current commitments are near to this tonnage but an increase in cash contributions would be needed to cover its portion of related non-food costs for emergencies.

Comments from the Plenary Discussion

Each presentation prompted some vigorous discussion of the issues raised. Comments included:

- **Food Aid and HIV/AIDS** – some questioned whether the utilization of food aid in HIV/AIDS treatment implied a long term food aid commitment to people affected by HIV/AIDS. Jackson responded that current HIV/AIDS treatments take only six months. There remained questions about the duration of safety net functions for AIDS-affected households.
- **Role of Food Aid in Changing Food Preferences** – the oft-quoted assumption of food preference change as a result of food aid was discussed. Speakers noted that there is no clear evidence that food aid alone has had this effect. There are also strong pressures from cultural change as a result of urbanization (e.g. demand for bread wheat in West Africa and Bangladesh).
- **Food Aid's Effect on ODA Levels** – the decline in ODA levels since the early 90s was noted and it was suggested that a decline in food aid expenditures might reduce the negative effect of reduced aid expenditures on other long term development activities. Speakers observed that ODA is increasingly focussed on military-related activities and humanitarian responses which may or may not involve food. ODA levels need to be addressed overall. The alleged additionality of food aid resources in overall ODA was not discussed.
- **Cash Transfers vs. Food Transfers** – it was suggested that food transfers by their very nature are both more strongly female-biased and more difficult to 'divert' than cash transfers. The consensus was that these characteristics are context dependent. One speaker noted that there is some evidence that the 'Marginal Propensity to Consume' of food transfers is higher than that for cash transfers – that direct food transfers may be easier to target to very poor people.

In light of the sharply polarized positions at the WTO between the EU and the US on trade disciplines in food aid, it was suggested that North American and European NGOs should explore coming to a common position on this issue in order to influence the outcome of these negotiations.

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Appendix – Attendance List

Name	Organization
1. Laurie Hayley	AAFC – Trade Policy
2. Alexandra Lamont	AAFC – Grains and Oilseeds
3. Paul Finn	AAFC – Grains and Oilseeds
4. Kevin McCort	CARE Canada
5. Bob Bell	CARE US
6. Khawaja M. Adeeb	CARE US
7. Stephanie Vonwestarp	CIDA – Africa Branch
8. Daniel Henry	CIDA – Africa Branch
9. Ken Porter	CIDA - PAHMD
10. Bob Snyder	CIDA - PAHMD
11. Jimmy Smith	CIDA – Policy Branch
12. Matias Margulis	Consultant
13. Chris Barrett	Cornell University
14. Marcel Saucier	International Trade Canada
15. Dan Wiens	Foodgrains Bank
16. Heather Plett	Foodgrains Bank
17. Stuart Clark	Foodgrains Bank
18. Jim Cornelius	Foodgrains Bank
19. Joan Barkman Azar	Foodgrains Bank
20. Kramer, Jacob	Foodgrains Bank – CRWRC
21. Richard Reesor	Foodgrains Bank – farmer
22. Scott Brooks	Foodgrains Bank – farmer
23. Jackie Hogue	Foodgrains Bank - MCC Canada
24. Menno Plett	Foodgrains Bank – WRC
25. John Hoddinott	IFPRI
26. Sebria Retnoningih	Indonesian Embassy
27. Ed Clay	Overseas Development Institute
28. Andrea Lindores	Oxfam Canada
29. Mark Fried	Oxfam Canada
30. Rieky Stuart	Oxfam Canada
31. Lina Holguin	Oxfam Quebec
32. Johniere Smith	University of Guelph
33. Robin Jackson	WFP
34. Phillip Ward	WFP
35. Paul Dorosh	World Bank
36. Dirk Booy	World Vision Canada

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| 37. Emmanuel Isch | World Vision Canada |
| 38. Kathy Vandergrift | World Vision Canada |
| 39. Barry Wilson | Western Producer |
| 40. Bornway Chiripanhura | Zimbabwe Embassy |
| 41. Makumbe Makambaa | Zimbabwe Embassy |
| 42. Michael Oloo | Kenyan High Commission |
| 43. Madina Aliberdieva | Focus Humanitarian Assistance Canada (Aga Khan Foundation) |
| 44. David Mayberry | Foodgrains Bank |
| 45. John Gordon | |
| 46. Theo Addey | |
| 47. Renee Gravel | |