



The Food Aid Debate in Trade and Development

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It is generally agreed that making progress towards eradicating hunger worldwide is a moral obligation for the richer countries of the world. The instrument known as food aid is widely regarded as an important vehicle for providing assistance to needy countries. However, fresh debates in the present Doha round of WTO negotiations have brought a renewed interest in food aid issues. The Doha round is designed to put development at the centre of trade negotiations, and along with agriculture, to the fore among the contentious issues to be agreed.

However, the issue of food aid elicits strong opinions from a number of perspectives ranging from major think tanks and significant donor governments to the development community and NGO stakeholders, and now more recently from among economists and influential members of the international financial institutions (IMF, World Bank and the WTO) charged with monitoring the efficiency of the international economy.

At the core of the emerging debate among the donor community (where differences of opinion exist), and opinion formers such as the OECD, is the concern that food aid programmes could be counterproductive or even contribute to long-term food insecurity in recipient countries.

However, food aid is also contentious among the development 'stakeholders' (such as the UN, LDC governments and influential NGOs, such as the World Food Programme), whose primary concerns relate to the effectiveness of food aid as a development tool. Here, food aid is seen as something of a 'mixed blessing', helping substantially in some instances but having perverse effects in others. The critique in this context is the potential for causing producer disincentives in low-income countries, or of disrupting commercial trade. There have also been disagreements over the desirability of using genetically modified foods in the midst of humanitarian crises.

Finally, the debate is also more recently being joined by influential critics of the current food aid system from the international economic community and organisations such as the World Bank and in debates around the WTO, from the perspective of economic efficiency. Here the concerns revolve around inappropriate use of food aid – either to pursue donor self-interest or as a form of covert export subsidy – which causes the system to under-perform in its core role of getting food into situations of drought or famine where food is unavailable and markets cannot function reliably to deliver it quickly enough to sustain human lives.

This policy brief provides an overview of the magnitude and importance of food aid as a development tool, and looks at whether the efficiency problem is intrinsic to food aid, or whether it arises from donor-country policies that tend to misuse food aid – in some cases for purposes for which it is demonstrably not effective – for example to support domestic farm prices, to promote commercial agricultural exports, to maintain a viable maritime industry or even to advance geo-strategic aims.

Background and major trends in food aid flows

From its early beginnings in the 1960s, in terms of absolute volume, food aid peaked around the 1980s at just under \$4 billion. These amounts have now declined dramatically to less than one-tenth of 1980 levels in 2004. But the relative decline has been more dramatic still. From a share of over 25% of all development assistance in 1980, food aid accounted for around only 5% of total overseas development aid (ODA) in 2004. This relative decline is of course also partly a result of the almost four-fold expansion of total ODA assistance during that period.

The scope of total provision of food aid amounted to roughly 180 million tonnes in the period of 1988 to 2002. Within that timeframe, food aid was received by 148 countries across the globe with quantities of very uneven distribution. The fact that almost 70 countries received food aid in every year over that period simply indicates that food aid seems to be a longer-term issue for needy countries. The major recipients during this period were Bangladesh, Ethiopia and Russia, with each receiving approximately 7% of the total. In addition, more than

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half of all food aid was delivered to 14 countries while further 89 countries were in receipt of 10%, leaving 42 countries sharing the remaining 17%.

Over the past 40 years, however, as donor governments' farm policies have evolved, thereby reducing or eliminating most public food stockpiles, this sort of 'programme' food aid has waned. Nevertheless, it is now claimed by development stakeholders and NGOs alike that, as the majority of food aid is now 'tied' to conditions set by donor countries, its real cost is roughly half as much again as the equivalent local food purchase and around one-third more costly than if it was procured in another nearby developing country.

Taken together, such anomalies are thought to reduce the effectiveness of food aid by at least one-third against other forms of overseas development assistance (ODA), i.e. providing tied food aid instead of financing commercial imports. (WFP, 2005)

Hence food aid is a complex issue, because it is as much a political concern as it is an economic one. The complexity arises from the fact that a judgement about which food aid system is best used for any particular development provision is usually not based on solely economic grounds, but on a political decision that largely ignores economic issues, or concerns for efficiency. Hence, decisions on food aid are generally regarded as political.

In analysing the effectiveness of food aid, we first describe and assess the three different kinds of food aid used, which have differing impacts on donors and recipient countries. We will see that these distinctions in turn have an impact on the crucial procurement and dispatch policies – an assessment of which is required in order to determine food aid's effectiveness.

Not only are the three kinds of food aid procured differently, it becomes important to judge the procurement of food aid in the light of its conditionality, whether it is tied or untied, before assessing sourcing issues or potential barriers to greater efficiency in procurement and delivery.

Food aid procurement

Central to an analysis of the effectiveness of food aid is the procurement of it, because taken together with the definitions of which food aid types are employed, the conditionality of procuring food aid determines the effectiveness of delivering it, whereas the different food aid types determine how food aid is targeted.

There are three major classifications of food aid, with each serving a slightly different purpose and attaining

varying degrees of effectiveness. The three general types are:

- **emergency (or relief) food aid**, which is targeted and freely distributed to victims of natural and man-made disasters;
- **project food aid** (including monetised food aid), which is targeted to vulnerable groups to improve their nutritional status and to support specific developmental activities; and
- **programme food aid**, which is provided directly to a recipient government or its agent for sales in local markets, the proceeds of which are under the control of the recipient government but are subject to some form of agreement with the donor about their management and use.

Procurement of food aid is often seen as one of the main sticking points in the entire debate. The reason for this is the often-cited argument that food aid is not just simply off-loading of excess supply and hence non-competitively sourced, and in particular in the US, where food aid is tied to a number of conditions, namely that it has to be sourced from the US and delivered and packed by US vessels and labour (Barrett, 2002; OECD, 2004; IAP, 2005). This practice means that the current arrangements of procuring food aid operate at a less than optimal level of efficiency and a greatly reduced effectiveness of food aid.

Critics of the status quo in procuring food aid state that unless the procurement regime is changed, food aid will continue to cause trade distortions and it will also fall short of its expected optimal effectiveness. A start in this debate would be to untie all food aid. The debate about untying of food aid has been taken up as the subject of numerous studies (Hilditch, 2001; FAO, 2004; Outterside et al., 2004), almost all of which concluded that a complete untying of food aid would be beneficial and would increase the level of efficiency.

The (un)tying of food aid

According to some OECD figures, the untying of food aid worldwide could increase its effectiveness by between 15-25%, and the untying European food aid in particular (both multilateral and bilateral) could result in 350-600 thousand tonnes of grain equivalent food aid per annum (OECD, 2004).

The way in which food aid is delivered influences its tying status. By its very nature, food aid given 'in kind' is *tied*. Donors have been providing food aid in a number of ways – 21% bilaterally, 28% through NGOs and 51% through multilateral institutions (99% of which is via the UN's World Food

Programme).⁴ European food aid is primarily donated through multilateral agencies, with some passing through NGOs. However, even when provided through multilateral channels, food aid can still be (and is) *tied*. This provides the challenge to further untie food aid, to make it more effective and neutral in its impact on trade.

To be truly effective and fully untied, food needs to be provided as grants rather than conditionally ‘in kind’, which prevents recipient countries from utilising food aid to their long-term, sustainable advantage.

But the US – as the biggest ‘opponent’ to untying food aid but also the largest provider of food aid – is required by legislation to provide it both ‘in kind’ and tied. The farm lobbies in the US, comprising the National Farm Bureau, the National Farmers Union and National Family Farms Coalition, exert immense political pressure on both the US Government and the international donor community to maintain this level of tying. It is in their vested interest that food will be purchased domestically, as it provides a guaranteed purchase of agricultural commodities and hence guarantees farm revenues. This is precisely the reason food aid has been placed at the forefront of the current WTO negotiations, because it is seen as a domestic farm subsidy rather than as a genuine provision of aid.

The present DDA negotiations seem to be addressing this political dimension. Partly as a result of peer pressure from the EU, food aid has become an integral part of these negotiations, forcing it into the political spotlight.

One option presently under discussion is to place food aid under the ‘parallelism’ discipline of the WTO. This would have the benefit that food aid would be treated in the negotiations as an equal agenda item as export subsidies, export credits and state trade enterprises. And given that the elimination of the export subsidies and credits is being discussed, the current food aid system would have to be changed as well. This in turn would lead to the further untying of food aid and to less trade distortion, because trade of agricultural products would be further liberalised. The prospect of abandoning current trade-distorting practices remains uncertain. So far, however, sourcing commodities for food aid domestically is a form of supporting local producers and effectively circumvents the WTO.

The EU is in a good position to achieve full untying of food aid, partly because European food aid does not form a large proportion of bilateral budgets. Most EU member states already make use of *untied*

delivery channels, such as through multilateral agencies or by direct support to a recipient government. The European Community strongly promotes the sourcing of food aid in developing countries, as called for in the Food Aid Regulation (EU, 2004).

Reciprocity in the food aid sector could offer the EU an opportunity to influence/persuade others to follow. Given the already significant untied status of European food aid, it would be sensible to consider ways to achieving full untying.

By looking at procurement (and the three definitions) we acknowledge that food aid is best procured with no conditionality attached, i.e. untied. It is also apparent that untied food aid should be given in form of project food aid, ideally for monetisation, since it is the most cost-effective way of delivering food aid.

Nevertheless, our review of the trends suggests that the use of project food aid is growing, because it can be increasingly procured untied. Conversely, programme food aid has a greater conditionality attached, but it has been favoured up till now because of its use of domestic surplus.

Effectiveness of food aid

Evaluating the degree of effectiveness of food aid is presently a divisive issue within the donor community, since many governments prefer an assessment based on food aid deliveries rather than on its effectiveness in recipient countries. The issue also splits stakeholders such as the NGOs and the Food Aid Organisation. This is partly because any assessment is often based on a populist sentiment, rather than on careful economic analysis. However, one difference is that the latter approach tends to be more concerned with improving food supply conditions in recipient countries.

Even a recent OECD study, which aimed to rank food aid types according to their degree of effectiveness – and/or import displacement – concluded that the issue was far from straightforward (OECD, 2005). The OECD focuses on the ‘value-for-money’ approach to the overall costs of supply and compares individual donor country actions with an alternative commercial transaction that could have been supplied by an OECD or another developing country on a least-cost basis. Here, the idea of ‘import parity’ provided a general basis for assessing cost-effectiveness.

The study supports the case being made in the present paper, namely that the most cost-effective way of delivering food aid is project aid, and in particular project aid for monetisation. The OECD study also confirms the widespread view that untying aid is the preferred option, and cited the US as having the

⁴ According to 2002 figures.

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highest resource transfer efficiency ratio, or otherwise put, the least cost-effective sourcing. This is not surprising, since this outcome is associated with the relatively high US cost levels for direct transfers of tied aid. The OECD study concludes that the most cost-effective donors are those that have untied their food aid, or have the least restrictive procurement rules. This is also observed at the recipient end, where typically direct transfers (tied aid) are less cost-effective than triangular or local purchases.

Conclusions

One can assert that the current system of food aid is effective but that it could be better. The rules of the WTO and for other agencies involved in delivering food aid should be changed to achieve more effectiveness. As the world's largest food aid donor by far, the United States could help more people, in a more timely fashion, at lower cost to American taxpayers, if the Congress would make a few key changes to the current system.

Our analysis suggests that food aid *per se* is not a wasteful way to help the poor if it is procured and targeted in an efficient way. This is the core finding of this study, which suggests that if food aid is granted in the form of project food aid for monetisation and completely untied and targeted in an efficient manner, it *can* be an effective way of alleviating hunger, while having minimal effects on trade and local production.

Inter alia, we have observed the following recent trends:

- There has been a decline in the absolute amount of 'additional' food aid.
- Food aid is less important also in relative terms, as is the proportion of food aid in total ODA.
- The emergence of tied food aid means that it is important to be clear on the three definitions of food aid and their relative components in total food aid.
- The relationship between food aid type and procurement and delivery practices have implications for the tied vs. untied debate.

The analysis undertaken demonstrates that – of the three food aid types - project food aid is the only one that can be provided with few or no conditions attached. This is reasonably encouraging, as project food aid now accounts for 16½% of total food aid and is growing in importance. As also discussed, it is the conditions attached to food aid – rather than any intrinsic defects – which act as a barrier to its more effective use, as these conditions affect the targeting and delivery of the food aid.

The further untying of food aid in general (all types) could result in a 15-25% increase in efficiency. This would be achieved by a decrease in cost of sourcing, as local purchases or triangular transactions are always more cost-effective than direct transfers and hence leading to an increase in efficiency.

Untying project food aid in particular would deliver the largest efficiency benefits for donor and recipient countries alike. This is because donors with a large amount of tied aid have high levels of transfer efficiency but this is associated with high costs; but lower overall cost effectiveness as the food could be sourced more cheaply elsewhere. Turning to recipient country efficiency, however, we could not substantiate the frequently-made claim that food aid automatically leads to agricultural market distortions or barriers to local production. This suggests that food aid *per se* is not the problem so long as it is effectively targeted and sourced.

Further to these 'economic' arguments, understanding the political dimension is crucial if we wish to pursue a better food aid regime. The lack of political will to change the present regime exacerbates the current (but not inevitable) economic distortion in food aid. Covert protectionist behaviour on the part of donor countries, driven by strong agricultural lobbies, attaches sourcing and delivery conditions which contribute to any inherent economic difficulties. Despite some signs that there is a general understanding that this behaviour may not be sustainable, a clear and far-reaching strategy to move towards untied project food aid is still lacking.

It is this lack of political will at the international institutional level that pervades the food aid debate. The present institutions, such as the FAO and the FAC, have proved to be successful in delivering food aid but lack the power to challenge donor behaviour in the sourcing of food aid.

The fact that these institutions are relatively powerless to influence strongly established donor practices lies behind recent suggestions that the WTO (as a stronger multilateral institution) should take a more central role in this debate, by placing food aid under a 'parallel discipline' on a par with export subsidy measures for other, non-food goods and commodities. This would force donors to change their food aid regimes. In addition, a stronger and new body would be needed to oversee food aid administration.

The rationale for these conclusions, as shown in this study, is that food aid can be compliant with effectiveness, if it is provided mainly (or more so than at the present time) in the form of untied project food aid. This desirable outcome *would* tend to be compliant with WTO rules, if the food aid were

placed under the ‘parallel discipline’ which is used at the WTO to address trade-distorting issues.

Considering the small percentage of food aid in overall ODA terms, it remains to be seen whether sufficient political momentum can be generated by donor countries to change the rules of the food aid

debate. It may yet be possible for food aid to be treated as a ‘bargaining chip’ in the present WTO negotiations, as a tool to be traded off in the ongoing DDA by some donors in order to secure other interests, e.g. geographical indicators versus food aid.

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