

# Food Aid: Doing Well by Doing Good

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CGD Notes

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For more than half a century an alliance among the farm bloc, large multinational food processors, the US shipping industry, and charitable organizations engaged in relief and development activities in poor countries has supported generous funding for America's food aid program. By law, the food provided through this program is grown in the US, processed and shipped by US firms, and distributed through US-based agencies and organizations. Who could lose with such a bargain? Hungry people got fed, farmers got paid, and all the intermediaries did well by doing good.

For one, US taxpayers lost. Such US-based food aid usually costs 2-3 times as much as sourcing it locally. Also, farmers and traders in the recipient countries lost, because food supplies sourced from so far away, and through so many bureaucratic channels, usually arrived late. If the new harvest was coming in, local prices collapsed, harming the local rural economy.

These contradictions in the US food aid program have not gone unnoticed. But the political alliance supporting the requirement

that the food have US origins has been untouchable, and no administration dared challenge it. Even analysts concerned with aid effectiveness worried about "additionality" of total aid if food aid was converted to cash.

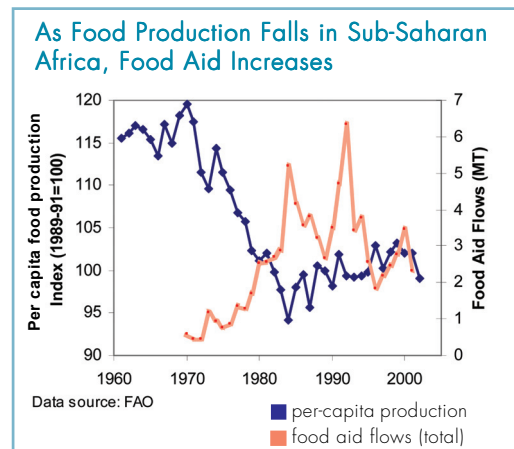
But this fall, Andrew Natsios, the outgoing Administrator of USAID, put the politics of US food aid back on the agenda. Natsios proposed that 25 percent of US funding for food aid be made available in cash for use in "fast response" emergencies where food could be procured locally or close to the area affected. He did not propose reducing the total food aid budget.

The Natsios proposal met with a firestorm of opposition, including from groups he thought would be friendly to the idea. The coalition supporting the status quo seemed unwilling to budge. However, several NGOs are having second thoughts about being aligned so closely with the large food processing industry and with the US farm bloc.

## Uses of Food Aid

The economics of food aid are straightforward. There are three basic situations where food aid is deployed:

- during extreme emergencies when food markets are destroyed or supplies are not available to local traders;
- as humanitarian assistance where food is distributed to poor households to prevent hunger and provide at least a partial safety net; and
- as food injected into domestic markets with the financial proceeds used for budgetary support, often earmarked for



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NGOs and development purposes. Judging the role and effectiveness of food aid for each of these categories requires agreement on the objective function. In extreme emergencies, the objective is to save lives. Allowing people to starve after a hurricane, earthquake or tsunami is a clear failure of food assistance agencies to get supplies to the victims in a timely fashion. Even in such emergencies, however, there are efficient and inefficient ways to mobilize and deliver the assistance, and development-friendly and unfriendly ways to manage the distribution efforts. If there is any warning that the emergency is about to occur (as with most hurricanes), pre-positioning of supplies speeds delivery.

No matter what, accessing supplies from the nearest sources is usually the fastest and cheapest strategy, and local assistance agencies, with adequate financing and planning capacity, are best placed to do this. Procuring supplies from thousands of miles away, to arrive well after the disaster has been stabilized and local markets are functioning again, risks doing serious harm to the local economy.

Humanitarian assistance is a grayer area. By its nature, such assistance is designed to be on-going, in order to stabilize food intake of the poor. Many humanitarian assistance organizations, most of them NGOs, derive much of their local funding from access to donated food supplies and their ability to sell them in local markets. The market impact is not clear cut. Outside supplies are being sold on local markets, thus driving the price down. But the assistance from the NGOs to the poor raises demand for food, helping the price to be higher.

The net result is usually lower prices, and reduced incentives for local farmers and traders, but the poverty reduction must be factored into the evaluation as well. Still, this form of humanitarian assistance would usually

have more positive impact if the NGOs received the same funding directly in cash instead of in kind as food aid.

The third form of food aid, direct commodity assistance to be sold for budget support to central or local governments, was popular from the 1950s to the 1970s, but the distorting effects on agricultural incentives, coupled with the reduction of stored commodity surpluses in the United States, led to its gradual demise.

### A More Efficient Approach

Food aid has long been a political program. I have argued, controversially, that the potential disincentive effect is not just on the local economy. Also, the ready availability of food aid actually can undermine the incentives for government *policymakers* to invest in the rural infrastructure, agricultural research and extension, and domestic price incentives that are needed to stimulate a healthy rural economy. For some countries, food aid can become addictive. Reversing such dependency is hard when both parties in the food aid relationship think it is working just fine.

But progress can be made, even within current political realities. The most efficient form of donor contribution to food delivery agents is always cash. A commitment by Congress to maintain total food aid budgets for five years at, say, 90 percent of current levels, would assure NGOs of future funding. Some of the savings from converting part of the budget to cash support could be used for domestic agricultural programs. US shipping interests might seek additional support from the Department of Homeland Security, a more transparent way to subsidize US merchant marine capacity. This approach would significantly improve the development impact of a given dollar of food aid assistance. Forcing the “all-US option” on delivery agents and recipients minimizes this impact.