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Food Aid and Dependency: Implications for Emergency Food Security Asessments

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Food Aid and Dependency: Implications for Emergency Food Security Assessments

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The opinions and views contained in this desk review reflect those of the author(s), and do not necessarily reflect the views of the World Food Programme.

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Executive Summary

Discussions on food aid and dependency often draw on what appears to be a broad body of evidence, but closer inspection reveals that much of this does not in fact demonstrate a causal link between the two. This desk review has three objectives: (i) to identify the pathways through which negative dependency might arise; (ii) to outline how the targeting and management of food aid might affect the likelihood of negative dependency as a result of emergency operations or follow-on protracted relief and recovery operations; and (iii) to suggest indicators that assessment teams might employ in context-sensitive evaluations to reduce the risk of fostering negative dependency through food aid.

Understanding Negative Dependency Triggers

An individual, household or community exhibits dependency when it cannot meet its immediate basic needs without external assistance. Helping individuals, communities and organizations to meet basic needs when they otherwise could not – fostering positive dependency – is indisputably desirable. The undesirable aspect, negative dependency, arises when current needs are met at the cost of reducing recipients' capacity to meet their basic needs in the future without external assistance. Aid distributions can simultaneously foster positive dependency for some stakeholders and negative dependency for others, so it is important to determine who benefits and who is harmed by aid distributions, and it is critical to gauge the relative benefits and costs. We define alterations of behaviour by households or communities in immediate response to assistance as incentive or disincentive effects. Much of the evidence of dependency effects in fact refers to these shorter-term disincentive effects; discussions of dependency often confuse the short-term and longer-term effects.

Food aid flows can have two classes of effects: an insurance effect before the flow and a transfer effect after it. Both can alter behaviours, for example by changing incentives, and can trigger negative dependency. Expectations of assistance may induce changes in behaviour, notably increased risk-taking, an effect economists label "moral hazard". After a crisis, provision of food or cash is effectively an income transfer.

We encourage caution when assessing the dependency literature. Many of the alleged negative effects of food aid or negative dependency triggers are supported only by unverified anecdotes rather than detailed ethnographic or econometric research. Such reports of food aid causing negative dependency are based on the simultaneous existence of aid and negative dependency rather than on demonstrable causality.

The contexts of the crises in which disincentives or negative dependency have been identified makes it difficult to generalize about prospective negative dependency and underscores the critical role of context. Such adverse effects are often attributable to poorly designed or badly timed programming.

Critical Assessment of Impacts across Stakeholders and Levels of Analysis

This review focuses on individual food aid recipients, traders, producers and host communities affected by recurrent crises and by responses to such crises; food aid impacts these stakeholders and their livelihood strategies differently. Assessing the possibility of food aid causing negative dependency is not just a matter of

determining the likelihood that a stakeholder is adversely affected by food aid in the short term – the incentive effect: there is a fundamental need to determine whether the adverse effects are strong enough to trigger negative dependency, in other words a loss of future independent capacity to sustain well-being.

Food aid has both transfer effects and insurance effects for each stakeholder group of households and communities. Insurance effects include crowding out – that is, displacing – or filling in – adding to – existing safety nets and moral hazard[1] effects associated with induced changes in risk-taking behaviours. We find little evidence that food aid crowds out remittances at the household level or encourages moral hazard. Programming decisions intended to discourage dependency may be too severe. In cases where food aid could cause moral hazard behaviour, we argue for the need to distinguish between opportunistic behaviour – which makes full use of external services but does not necessarily result in long-term adverse consequences – and negative dependency.

The transfer effects of food aid change prices and trade patterns. Poor timing and poor targeting of aid can cause sharp price adjustments and can harm local producers and exacerbate import displacement. The evidence for food aid causing adverse consequences is strongest regarding local food producers, but the evidence is mixed. Emergency deliveries of food aid tend to displace imports far less than food aid delivered under programmes or monetized projects. The impact of food aid on traders is a significant issue that requires further study. To mitigate some of these potential problems, we suggest a context-based assessment of stakeholders before programmes are implemented, with questions intended to help to assess the likelihood of adverse consequences in line with the *Emergency Food-Security Assessment Handbook.*

Methodological principles to anticipate the risks of negative dependency during emergency food-security assessments

If recipients are severely food-insecure, the possibility of negative dependency should be a secondary concern. Negative dependency can be more damaging to some stakeholder groups than to others. Using the most appropriate form of aid and making aid more transparent and accountable will limit adverse effects on non-recipient consumers, producers and recipients. An opportunity to limit adverse consequences of aid exists at the programme-design stage.

Assessment methods and tools to be tested; areas for future research

It would be useful to develop a method to measure the likelihood and severity of each adverse consequence. Assessments of negative dependency should be ongoing: core data collected during programming and, ideally, following termination of a programme would provide insights for future programming decisions.

[1] Expectations of assistance may induce changes in behaviour, particularly increased risk-taking – an effect that economists call “moral hazard”.

Introduction

1. Concerns about dependency affect discussions and decisions about programming aid. Yet the meaning of dependency is not always clear: discussions often draw on what appears to be a broad body of evidence, but much of it does not in fact demonstrate a causal link between food aid and dependency, however it is defined. This desk review has three objectives: (i) to identify the pathways through which negative dependency – to be distinguished below from positive dependency – might arise; (ii) to describe how the targeting and management of food aid might affect the likelihood of negative dependency arising from emergency operations (EMOPs) and follow-on protracted relief and recovery operations (PRROs); and (iii) to suggest indicators that assessment teams might employ in context-sensitive evaluations to reduce the risk of fostering negative dependency through food aid. The role of food aid distributed for six months to one year in areas with recurrent crises is highlighted.

2. The review begins with a conceptual framework that outlines how emergency food aid could trigger "negative dependency"; for example, under particular circumstances food aid may cause behavioural disincentives, displace trade or have other adverse consequences. It then examines the impact of food aid on trade and prices, a primary concern surrounding negative dependency, and whether food aid as insurance might crowd out other forms of insurance against shocks or encourage excessive risk-taking by beneficiaries. A series of questions intended to assess the relative threat of negative dependency is then linked to the *Emergency Food Security Assessment (EFSA) Handbook*. Assessments of prospective negative dependency can impact which types of programming to implement. The review next considers how prior assessments can provide guidance for programming decisions and suggests that further case studies may provide an opportunity to test the feasibility of the assessments. The review ends with some conclusions.

Understanding Negative Dependency Triggers: A General Conceptual Framework

3. A household or community exhibits dependency when it cannot meet its immediate basic needs without external assistance.[2] Dependency is not necessarily an undesirable outcome: for households that cannot support themselves, such as those without able-bodied adults, dependence on external assistance enhances welfare; the alternative is destitution. To distinguish it from the more common, pejorative use of the term "dependency", this welfare-enhancing type is referred to as "positive dependency." Helping individuals, communities and organizations to meet basic needs when they otherwise could not – fostering positive dependency – is indisputably desirable.

4. The undesirable aspect, "negative dependency", arises when meeting current needs is achieved at the cost of reducing recipients' capacity to meet their own basic needs in the future without external assistance. Aid distributions can simultaneously foster positive dependency for some stakeholders and negative

[2] Our definition is a generalization of that proposed by Harvey and Lind (2005), who identify four main uses of the term "dependency"; see also Lensink and White (1999) and Riddell and Sobhan (1996); governments and aid agencies relying on relief resources, Riddell and Sobhan (1996); aid receipt resulting in erosion of individuals' initiative, (Lappe and Collins (1977); aid undermining local economies, see Isenman and Singer (1977); aid receipt stigmatizing recipients, see Dean (2004).

dependency for others. For example, in-kind deliveries of aid may alleviate food insecurity for poor households while possibly harming the livelihoods of traders. It is important to determine who benefits and who is harmed by aid distributions, and also to gauge the relative benefits and costs. One way in which negative dependency can arise is when individuals, households or communities alter their behaviour in immediate response to assistance: such short-term changes are defined as incentive or disincentive effects. As discussed below, much of the evidence of dependency effects in fact relates to these short-term disincentive effects; debates and discussions about dependency often confuse the short-term and long-term effects.

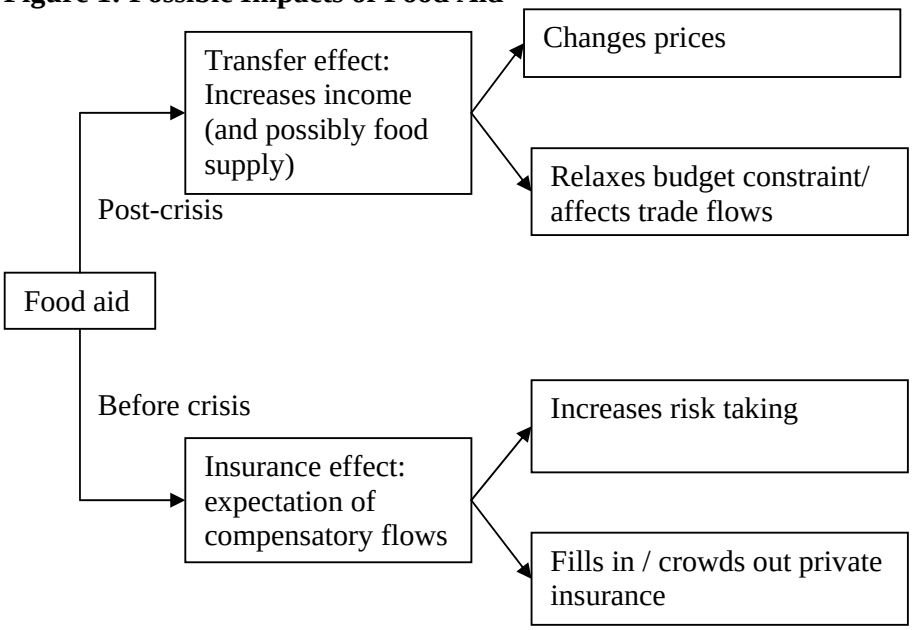
5. To understand how such effects can arise, it is helpful to have a conceptual framework. One approach is to begin with the idea that households hold a bundle of assets or endowments that include (i) physical capital in the form of agricultural tools and livestock, (ii) natural capital such as owned land and access to common property resources, (iii) human capital in the form of knowledge, skills and health, (iv) financial capital such as cash in hand, bank accounts and outstanding loans, and (v) social capital such as networks, norms and social trust that facilitates coordination and cooperation. Households also have labour power – the ability of household members to generate income.

6. Households allocate these endowments to agricultural production, paid employment locally or elsewhere through migration and remittances, and non-farm, own-business activities. The allocations are based on perceptions regarding current and future returns to these activities, their variability and the extent to which returns move together (co-vary) or diverge. All the activities generate income, and households may obtain income through transfers from other households, non-governmental organizations (NGOs) or governments.

7. Figure 1, which represents the possible impacts of food aid at a general level,[3] shows that food aid flows can have two classes of effects: an insurance effect before the flow, and a transfer effect after it. Both effects can alter behaviours, for example by changing incentives, and can generate positive dependency or can trigger negative dependency. This paper focuses on the possible undesirable consequences.

[3] Some aspects of food aid could be represented in multiple boxes. For example, at the household level, food-for-work (FFW) programmes can provide insurance to absorb excess labour and can change the relative wages of households: the former may result in increased risk-taking behaviour, the latter may result in decreasing incentives to produce. Because the majority of the literature is concerned with FFW displacing production, we present FFW disincentives as a consequence of changes in prices. In the interests of simplifying the interrelationships, each effect of food aid is represented only once.

Figure 1: Possible Impacts of Food Aid



8. Before a crisis, the expectation of assistance may induce behavioural responses in that prospective recipients anticipate food aid flows in response to an adverse shock, as shown at the bottom of Figure 1. Food aid may supplement social safety nets, providing insurance for people who are not "insured", that is without access to support during a crisis; it may also crowd out or displace existing informal and formal insurance through remittances, household labour exchange and government relief efforts. The former constitutes positive dependency; the latter is negative dependency if crowding out undermines safety nets and leaves individuals less able to cope without outside assistance in a crisis, triggering further need for food aid over time.
9. Expectations of assistance may induce changes in behaviour, particularly increased risk-taking, an effect that economists call "moral hazard". Because the insurance will at least partially reimburse an actor if a low-payoff event occurs, actual risk exceeds the perceived risk that guides behaviour, inducing individuals or organizations to take on more risk than they would if they fully internalized the consequences of their choices. Moral hazard is typically thought to be a negative dependency effect in that it may increase the frequency and severity of adverse shocks. But recent literature on poverty traps emphasizes that if cautious management of risk induces poor households to choose low-risk, low-return livelihood strategies that leave them chronically vulnerable, providing insurance and encouraging more risk-taking may be desirable as a medium-term to long-term strategy to induce accumulation, growth and self-sufficiency (Carter and Barrett, forthcoming).
10. After a crisis, providing food or cash is effectively an income transfer, which increases local demand for food; the increase in food consumption is greatest when the transfer is provided in kind, which also increases the supply of food and typically leads to greater growth in supply than in demand. This has two potential effects: first, it will exert downward pressure on local food prices if local markets are not well integrated into national and global markets; second, food aid will

typically displace some commercial purchases from domestic and foreign suppliers. Assistance provided in the form of cash for local purchase of food expands local demand, which can increase local prices if local markets are not well integrated into national and global markets, and boosts domestic and foreign commercial purchases.

11. Changes in prices or in the volume of food traded locally may trigger negative dependency effects. Higher food prices driven by local purchases or cash transfers may force poor consumers to liquidate productive assets to meet immediate consumption needs, thereby compromising future well-being. Lower prices brought about by in-kind food aid may decrease local production and market activity in the short term and decrease longer-term investments in agriculture. Food aid can reduce trade volumes to the point where trade is uneconomic for importers; it can also increase negative dependency by disrupting marketing patterns.

12. In principle, food aid – like any sort of aid – could induce exchange-rate appreciation and thereby undermine the competitiveness of agricultural producers, but there seems to be no empirical evidence for this.

13. In the next section, these potential effects and associated dependency triggers are discussed with reference to particular stakeholder groups. Caution is recommended when assessing the dependency literature: many alleged negative effects of food aid or negative dependency triggers, for example in Lappe and Collins (1977), Jean-Baptiste (1979) and Jackson and Eade (1982), are supported only by anecdote rather than detailed ethnographic or econometric research. These reports of food aid causing negative dependency are based on the simultaneous existence of aid and negative dependency rather than on demonstrable causality; the distinction is critical. Hoddinott (2003) explains: "Purported disincentive effects are based on the assumption that receipt of food aid and other household characteristics are uncorrelated. This is a strong assumption. If food aid goes to poorer villages… or villages receiving shocks that reduce the returns to labour, then the claimed disincentive effect is merely capturing the impact of these other characteristics" (p. 2). Similarly, Barrett and Maxwell (2005) argue: "…claims of dependency seem to have the direction of causality wrong. Shocks cause behavioural change that may necessitate various types of safety nets, including food aid. But food aid volumes transferred, in almost all cases, simply too modest to make people dependent upon them, although they can help keep them alive and they can surely change the incentives that affect the behavioural choices they make…" (p. 180).

14. The contexts of the crises in which disincentives or negative dependency have been identified make it difficult to generalize about potential negative dependency and underline the critical role of context. Adverse effects are often attributable to poorly designed or badly timed programming. It is emphasized that Figure 1 provides only a conceptual framework for guiding assessment of the possibility of triggering negative dependency.

Critical Assessment of Impacts across Stakeholders and Levels of Analysis

15. Food aid impacts different stakeholders and their livelihood strategies in different ways. Assessing the possibility that food aid might cause negative dependency is not just a matter of determining the likelihood of a stakeholder being adversely affected by food aid in the short term: more fundamentally, it requires determining whether the adverse effects are strong enough to trigger negative dependency, in other words loss of future independent capacity to sustain well-being.

16. This paper focuses on stakeholders affected by recurrent crises and by responses to such crises, including individual food aid recipients, traders, producers and host communities.[4] Figures 2 and 3 show the framework of Figure 1 for households and communities. The primary stakeholders are households of internally displaced people (IDPs), refugees and needy households that are not displaced. This review is as concerned about the effects on non-recipient poor households as on recipients, recognizing that inevitable targeting errors lead to omission of food insecure households from the recipient rolls.

17. This paper focuses on household-level effects as the most disaggregated level of analysis, because there has been little research to date on aid-induced intra-household responses to crises, including possible shifts in traditional labour divisions or control over different household enterprises, and potential links to negative dependency. Gender-disaggregated analyses of coping strategies and of the likelihood of negative dependency could inform policy responses; they are also a fruitful area for future research (Hemrich, 2005). For example, del Ninno and Dorosh (2003) find that when Bangladeshi women are directly targeted to receive food aid, households consume more of their transfers in-kind – that is, they have a higher marginal propensity to consume – than when men are targeted. Targeting men or women in a household can result in different levels of aid consumption and therefore different nutritional status.

18. In this section, the theoretical links between food aid and negative dependency triggers are discussed, and the empirical evidence of negative dependency for particular stakeholders is examined. In some cases, there is a theoretical argument for negative dependence based on food aid, but there is little or no substantive evidence of negative dependency actually occurring. In other cases, negative dependency seems to arise as a result of programming errors such as poor targeting or delayed delivery that can in principle be rectified. The context in which food aid is distributed offers insights into the causes of adverse consequences and ways of avoiding them.

Food aid as a transfer

Prices

19. Food aid can drive down local or national food prices in three ways: (i) monetization of food aid can flood the market, increasing supply,5 (ii) households receiving food aid may decrease demand for locally produced

[4] The disincentive and negative dependency effects on government behaviour and many NGOs' financial reliance on food aid are important aspects of food aid dependency that fall outside of the remit of this paper. See Barrett and Maxwell (2005) for analysis of NGOs and food aid dependency; see Harvey and Lind (2005), Collier (1999) and Van de Walle (2005) for discussions of local and national government dependency on aid.

[5] This is can be minimized if adequate safeguards are in place.

substitutes or, if they produce substitutes, may sell more, and (iii) recipients may sell food aid to purchase other necessities or complements, driving down prices of the food aid commodity and its substitutes and increasing demand for complements. Reduced prices hurt net sellers of the commodity and can create a disincentive for them to invest in their own agricultural production if food aid deliveries are regular occurrences. In extreme cases, producers could lose their livelihoods as a result of low prices, which would make them dependent; but this is hypothetical rather than observed. Reduced prices can also decrease the relative payoff of investment in agriculture by governments or producers.

20. Faminow (1995), Clay *et al*. (1996) and Barrett and Maxwell (2005) have shown that monetization of food decreases prices; Barrett and Maxwell (2005) argue that monetizing food aid has the largest adverse affect on local market prices. To address this concern, the United States requires all agencies undertaking monetization to complete a Bellmon analysis, which analyses the local food situation before monetization is started. This requirement was enacted in 1977 to keep United States food aid from flooding recipient markets, driving down local prices and displacing United States commercial food exports (Ralyea, 1999). In order to be granted the right to monetize, operational agencies must demonstrate that the recipient country has adequate storage facilities and that the monetized commodity will not result in a substantial disincentive in either domestic agriculture or domestic marketing (Ralyea, 1999). Before 2002, recipients of United States food aid were required to monetize food at not less than 80 percent of its market value in the recipient country, to discourage possible dumping of food aid; the 80 percent minimum was cancelled in the 2002 United States Farm Bill.

21. Price decreases may be unavoidable if food aid is delivered in kind. Colding and Pinstrup-Andersen (2000) argue that for small open economies that are price-takers,[6] the effect of food aid on prices will be limited. Lind and Jalleta (2005) found that most farmers observed that grain prices fell during distributions of food aid in Delanta Dawunt in Ethiopia, but stabilized within a few weeks. Many recipient economies are not robust, however, and inflows of food aid can cause large price decreases, reducing producers' profits and so limiting their ability to pay off debts and in turn reducing capacity and incentives to invest in improving agricultural productivity. A recent New York Times article about concerns over the possible mistiming of food aid deliveries to coincide with Nigerian harvests quotes the economist Edward Clay as saying, "There is a real risk that late arrival will disrupt recovery in Niger and distort agricultural trade within West Africa." Barrett and Maxwell (2005) describe a collapse in sorghum prices in southern Somalia in 2000, linking it partly to poorly timed sorghum food aid delivered to Ethiopia that then moved across the border and adversely impacted producers in southern Somalia. Tschirley, Donovan and Weber (1996) found that large amounts of maize food aid delivered to Mozambique caused the market prices of yellow and white maize to fall (see also Maxwell, 1991 on Ethiopian prices during 1984–1985). In each of these examples, the mistiming of food aid deliveries – food aid arriving late as the next harvest was coming on to the market – is at least partly to blame.

[6] Price-taking refers to a nation's inability to influence prices because their demand (or supply) is too small.

22. As these cases show, the targeting and timing of food aid deliveries are fundamental in terms of potential negative impacts on local food prices: households that receive food aid will purchase less food or sell more; food-insecure households with limited capacity to purchase food prior to the distribution of food aid will have a less adverse impact on market demand than food-secure households that receive aid. This argument applies equally to households that are periodically food-insecure: food aid provided during the lean season will have little effect on purchases. Hence, poorly targeted or mistimed food aid is likely to distort prices considerably.

23. Leach (1992) found that food aid sold by recipients reduced the price of food during the lean season; lower prices benefited food-insecure households in the host community and refugee households, and traders of complements such as soap or vegetables benefited from increased demand from aid recipients. Bezuneh *et al*. (1998) and Barrett *et al*. (2002) found that food aid distributed directly or through food-for-work (FFW) programmes to households in northern Kenya during the lean season brought about increased purchases of agricultural inputs, thereby increasing agricultural productivity – precisely the opposite of a negative dependency effect. The adverse effects of food aid deliveries on prices do not necessarily generate negative dependency if operational agencies target and time distributions appropriately.

24. There has to date been no systematic examination of the impact of food aid inflows on traders of substitute products. Reduced prices possibly reduce the profits of traders or producers with access to storage; in cases of unseasonably high prices, it is unlikely that food aid will render traders dependent. Stabilizing prices through supply increases can end speculation (Ravallion, 1997), but traders are often capital-constrained and may lose their livelihoods if profit margins fall because of reduced prices or demand. This area requires further research.

25. Food prices usually fall in local markets after food aid distribution. The scale of the decrease and the damage caused depends on the season, targeting efficiency and local, regional and national demand (Barrett and Maxwell, 2005). To determine whether falling prices foster negative dependency, it is necessary to assess how food aid inflows change prices and how permanent those prices are likely to be, or at least how permanent they are perceived to be by farmers, governments and marketing intermediaries. Persistent price decreases can depress production, marketing incentives and investment, creating negative dependency, but these effects can be wholly offset by the compensating effects of productive inputs and by insurance effects.

26. Triangular transactions or local and regional purchases – the opposite of monetization – can drive up prices, potentially benefiting net sellers – individuals who sell more than they buy – and market intermediaries and harming net food purchasers – those who buy more than they sell. This can foster negative dependency among consumers if it causes distress sales of productive assets, which will compromise livelihoods in future. It is largely a hypothetical concern: there has been little monitoring or research regarding local and regional purchase, so the risks are unknown.

Household production and marketing incentives

27. Production disincentives can take two forms. First, reduced prices resulting from an inflow of food aid may decrease the relative payoffs of investing in own production. This type of disincentive impacts recipients and producers in areas with food aid flows, including producers in host communities. In theory, a country is most at risk for production disincentives in the face of inelastic demand and elastic supply (Centre for International Economics, 2002).

28. Second, FFW programmes may be more attractive than recipients' own production, either because FFW pays immediately or because households consider the payoffs of FFW to be higher than the return on labour on their own plots. In this case, programmes based on food aid-based take productive inputs away from local agricultural production.

29. These disincentive effects can be short-term, in which case concerns about negative dependency are minimal. The risk of triggering negative dependency is largest when food aid has what producers expect to be a permanent negative effect on prices or when it interrupts regular investment or maintenance cycles that maintain or enhance local agricultural productivity. The triggers to study are thus the expected medium-term to long-term price effects and any disruptions in on-farm activities resulting from the method and timing of food distribution; both are largely driven by variables such as targeting methods and timing of deliveries.

30. Anecdotal evidence suggests that food aid in the form of FFW programmes harms local production by encouraging households to reallocate their labour from production to FFW. There is little econometric or ethnographic evidence in support of this claim, however, and the opposite has been seen to occur, for example in the FFW programme for on-farm soil and water conservation in Tigray, Ethiopia, crowding in – that is, encouraging – on-farm labour and private investments (Holden, Barrett and Hagos, forthcoming), or in lean-season FFW projects enabling smallholders to purchase fertilizer and hire labour to increase production in Baringo district, central Kenya (Bezuneh *et al*., 1988).

31. In theory, poor timing and FFW wages that are above market rates can cause negative dependency by diverting labour from private uses, particularly if FFW obligations reduce labour during a critical part of the production cycle (Jackson and Eade, 1982; Lappe and Collins, 1977; Molla, 1990; Salisbury, 1992). Grassroots International (1997) argues that serious production disincentives occurred in Haiti because of the poor design of FFW programmes funded by the United States Agency for International Development (USAID): "Private aid agencies consistently operated job-creation programmes in rural areas at key planting and harvesting times, pulling people out of their fields with the lure of relatively high short-term wages." For highly food-insecure recipients, participation in FFW programmes may provide food in the short term, but it will impede labour investment in future production.

32. FFW programmes are often used to counter a perceived dependency syndrome associated with freely distributed food. Evidence suggests, however, that poorly designed FFW programmes may create greater risk of harming local production than free distribution. Ravallion (1991) argued that setting wages correctly will induce self-targeting by food-insecure households, whose time is less valuable than that of richer households. Barrett and Clay (2003) argue, however, that in

structurally weak economies the design of FFW programmes is not as simple as determining the appropriate wage rate: in rural Ethiopia, higher-income households had excess labour and hence valued time more highly – not less – and so allocated this labour to FFW schemes in which poorer households could not afford to participate because labour was scarce. Bennett (2001) argues that FFW programmes in Cambodia are an additional source of employment, not an alternative, and that very poor people rarely participate because of labour constraints. It follows that some targeting in addition to FFW may be necessary to reach the neediest households. Identifying (i) those eligible for FFW, (ii) own-production labour requirements, (iii) expected duration of distribution and (iv) structural factors such as the productive assets available to a household and local wages can help to determine the appropriateness of FFW and the consequent risks of negative dependency.

Community production and marketing incentives

33. The evidence of production disincentives at the local level is mixed and highly dependent on context. Sellers and producers are harmed by large price decreases, the magnitude of which depends on season, type of commodity and the characteristics of local markets. Local producers are most at risk when food aid arrives simultaneously with harvests, or when food aid floods thin markets – that is, markets characterized by low transaction frequency and volume. The Overseas Development Institute (ODI, 2000) reported: "…there is much evidence of ineffectiveness and some evidence of late-arriving, inflexible relief hampering the recovery of local economies affected by natural disaster…" (p. 1).

34. Other research finds that in certain contexts food aid does not impact local production. Abdulai *et al.* (2005) find that production decisions are not adversely affected by food aid in sub-Saharan Africa on a macro-level, nor in Ethiopia on a micro-level. By addressing targeting-related placement effects, the authors find an apparently negative correlation between food aid and production that does not appear to reflect a causal relationship between food aid and reduced labour inputs or on-farm investments.[7] Abdulai *et al.* (2005), who used repeated longitudinal observations of households, refuted claims of negative dependency among Ethiopian farmers in their sample. Recent research in Kenya suggests that producers choose their crops on the basis of long-term price trends, not short-term fluctuations. Production changes may therefore be more likely to occur in areas with recurrent crises that receive a long-term, steady stream of food aid rather than one-off responses such as EMOPs (Deloitte Consulting, 2005). This is not to say that long-term food aid or transparent deliveries of aid will necessarily result in dependency, which still has not been shown rigorously.

35. When aid agencies regularly procure food from the same market, the producers may make planting decisions in the expectation that aid agencies will purchase their food for distribution as aid; if the agencies do not purchase the crops, the over-production could drive down prices, harming the producers (L. Brown, WFP,

[7] In some instances, placement effects may explain the relatively poor performance of food aid in communities that are difficult to target. For example, a community that appears relatively more dependent on food aid than another may be more impoverished or it more difficult to implement an appropriate food aid programme.

personal communication). This is another under-researched hypothesis for which we know of no empirical evidence.

36. Evidence of the direct impact of food aid on household production is mixed at the national level, but food aid does not appear to harm long-term domestic production (Abdulai *et al*., 2005; Barrett *et al*., 1999; Barrett, 2002; Isenman and Singer, 1977; Lowder, 2004; Maxwell and Singer, 1979). The limited available evidence at the national level indicates no persistent negative effects (Barrett *et al*., 1999; Abdulai *et al*., 2005) and no long-term negative dependency impact of food aid on local production; there is no evidence at smaller scales.

37. The effects of food aid on marketing intermediaries are largely unknown. Ravallion (1997) argues that during famines, individually rational – that is, self-interested – trading behaviour may exacerbate food insecurity. Concerns about future scarcity can cause prices to rise rapidly as a result of speculative holding of grain stocks, as occurred during the 1974–1975 Bangladesh famine: the actual harvest shortfall was much smaller than expected, but by then many poor people had died because of a food price spike or had been forced to sell productive assets to buy food. Injecting food aid into markets may stop the rise of food prices, and buffer stock releases and other food-supply tools can propagate easily through markets for substitute foods (Barrett, 1998).

38. To date, there is no empirical research on the impact of food aid on traders. Those who sell substitute products may suffer short-term losses as a result of decreased demand, falling prices or both; the hypothesis that this could drive some out of business is untested. Traders of complementary goods may benefit from food aid, which allows households to make other purchases, either through the sale of aid or through released income; this hypothesis is also untested.

Table 1. Food aid changing prices

	Theoretical adverse consequence	Evidence	Issues for assessment
FFW programmes alter the relative wage rate.	Decreasing household production.	Anecdotal evidence suggests that FFW can decrease household production. Adverse effects of FFW programmes appear tied to poor programme design.	Seasonality, wages, own-production labour requirements, expected duration of the programme, structural factors discouraging self targeting.
Prices fall as a result of aid inflow.	Decreasing national production.	Empirical evidence suggests that national production levels, especially in the medium and long term, are not impacted by food aid distribution.	Seasonality – procyclical or countercyclical – integration of local market.
	Decreasing local production.	Empirical evidence of harm to producers is mixed and highly dependent on context.	Seasonality, market characteristics such as infrastructure and market integration, targeting effectiveness.
	Decreasing local investment in food marketing by traders.	There is no research to date analyzing whether traders are harmed by food aid distribution.	Vulnerability of traders to temporary disruptions in trade volumes or prices
	Decreasing household investment in production	Households appear to take a long-view with respect to price fluctuations and therefore do not change investments into production as a result of short-term price changes.	Recurrence of the crisis, historical price levels.
Prices increase because of local or triangular purchases.	Creating additional food-insecure households.	There is no formal research assessing this issue.	Surplus level, market integration.

Trade effects[8]

Imports

39. Food aid is not wholly additional to existing consumption and purchases (Barrett and Maxwell, 2005; Bennett 2001): the relative additionality of food aid depends on local market characteristics (Dorosh *et al*., 2002). Determining the level of

[8] We do not disaggregate trade effects by stakeholder level. The more relevant categories are net sellers, net buyers and traders.

integration of local markets in the global economy requires data on the procurement and infrastructure of food aid, the extent of trading in the markets, seasonality and the prices of commodities produced and delivered.

40. Aid does not appear to displace national production, but it can displace local production. Food aid seems to have its greatest trade effect in displacing imports, which could weaken a state's ability to be self sufficient in the future. Barrett, Mohapatra, and Snyder (1999) find that 1 kg of food aid displaces 0.3 kg of imports; Clay *et al*. (2005) find higher ratios. Successful targeting of insecure populations appears to limit import displacement (Lowder, 2004); Dorosh *et al*. (2002) argue that import disincentives will be strongest when domestic prices fall below import prices. Studies of the medium-term to long-term effects of food aid on commercial food imports suggest that imports recover after 3–5 years and increase thereafter, indicating the absence of negative dependency in terms of persistent disruption of commercial food trade due to one-off emergency shipments (Barrett *et al*. 1999; Lowder, 2004). The evidence base is small and has not been researched in post-conflict areas.

41. Barrett and Heisey (2002) find that multilateral food aid is more responsive to need than bilateral food aid. On average, multilateral aid displaces little domestic or imported food at the national level compared to bilateral aid, and has limited negative impacts on imports and domestic production (Barrett and Heisey, 2002). The amount of distributed food aid is on average small relative to total need, so negative dependency effects are modest, which is consistent with the evidence presented above on the production effects of food aid flows.

42. Clay *et al*. (2005) find that food aid and imports are complementary emergency food security responses. However, the relative inflexibility of food aid compared to cash can hinder the recovery of local economies. If targeting food-insecure households limits trade displacement, as suggested by research on programme versus targeted aid, well targeted emergency aid would cause little lasting displacement of national trade (Lowder, 2004). When domestic prices fall below import prices, traders cannot afford to import food.

Real exchange rates

43. By displacing imports, food aid reduces the amount of foreign exchange spent on food imports (Colding and Pinstrup-Andersen, 2000; Maxwell, 1991). The balance-of-payments gains can be particularly helpful in stabilizing food availability in poor countries facing foreign exchange constraints (Barrett, 2001). But for countries with floating currencies, the real exchange rate – the relative value of the currency – can be affected by such changes in demand for foreign exchange. In principle, aid flows can cause overvaluation of the local currency (Younger 1992), which can hurt local producers of tradable commodities, reducing their competitiveness and discouraging investment in the sector, thereby fostering negative dependency. However, there is no research on food aid flows causing exchange rate overvaluation; given the modest value of food aid flows, it is unlikely that it would be a significant macroeconomic concern.

Table 2. Food aid changing trade

	Theoretical adverse consequence	Evidence	Issues for assessment
Food aid decreases imports.	Decreasing long-term food security.	Evidence suggests that food aid decreases imports in the short term, although the limited evidence suggests these effects last a few years at most.	Integration of local market into global markets, import prices relative to local prices, local traders' access to foreign exchange and letters of credit for importing food.
Food aid saves foreign exchange that would have been used to import food.	Overvaluing local currency and harming tradables producers.	There is no research as to whether food aid causes overvaluation of local currency.	

Food aid as insurance

44. The effectiveness of food aid as insurance depends fundamentally on the predictability of food aid flows in response to shocks. At the macroeconomic level, Barrett (2001) and Barrett and Heisey (2002) find that multilateral flows from WFP respond weakly but predictably to shocks; bilateral flows from the United States do not respond to shocks. So at the macroeconomic level of nation states, countries have little reason to treat food aid as insurance given past allocation practices. Researchers find that many households do not understand who is targeted for aid nor how the quantity of aid per household is determined (see Gilligan and Hoddinott, 2005 for a recent Ethiopian example); Harvey and Lind (2005) refer to this as lack of transparency and accountability in food aid. If food aid delivery is not reliable, then the effectiveness of aid as household insurance is low. When households cannot rely on food aid being delivered after a crisis, they are less likely to make decisions about livelihoods that depend on aid. Because food aid is ineffective as insurance, few researchers find evidence that it fills in holes – that is, addresses shortfalls – in social safety nets or crowds out – displaces – other food-security measures such as labour, remittances and transfers. The likely negative-dependency effects of food aid as insurance seem modest, though in principle the concerns are real.

Moral hazard

Household moral hazard

45. A poverty trap is a critical asset threshold: households below it are unable to move out of poverty; those above can recover from shocks (Carter and Barrett, forthcoming; Dercon, 2004). If poverty traps exist, giving food aid to a food-insecure household could in theory help it to escape: increasing a household's ability to rely on food aid may encourage it to undertake higher-risk livelihood strategies that offer higher reward, which could move people out of the poverty

trap. By depending on food aid to reduce exposure to the risks of a livelihood strategy, households can begin to accumulate assets and move into more fruitful livelihood strategies. If poverty traps do not exist, a household's expectation of food aid could result in moral hazard: knowing there is a safety net, households may undertake risky strategies that do not pay off, which would leave them more reliant on food aid than they would otherwise have been.

46. Barrett and Maxwell (2005), Little (2005) and Lentz and Barrett (2005) suggest that the quantity of food aid is usually too small to encourage households to rely on it. Recipients often do not know whether they will be targeted to receive aid (Bennett, 2001; Harvey and Lind, 2005). Little (2005) argues that the small amounts and the irregular timing of deliveries discourage Ethiopians from relying on food aid, and finds that Ethiopians in the "famine belt" are not dependent on food aid even though they often receive it. If households cannot rely on food aid, they are less likely to undertake risky behaviour to escape a poverty trap.

47. Not enough is currently known about poverty traps. Until debates are settled and it can be shown that households do rely on food aid, whether food aid causes moral hazard and thus negative dependency or if it encourages appropriate risk-taking to reduce future need for assistance will remain unknown.

Community moral hazard

48. Some unverified anecdotes suggest that communities alter their behaviour when they receive external assistance: for example, *Groupe URD* (2005) reports that in Afghanistan some communities stopped maintaining public goods in anticipation of food aid payments for the same projects; Salisbury (1992) reports that Ethiopians in an FFW scheme planted trees upside down, allegedly to ensure continued delivery of food aid. Such behaviour is often viewed as evidence of negative dependency. But it may be seen as a form of community moral hazard: communities opportunistically choose to invest in their own production or consume leisure rather than maintain public goods, because they expect that programmes will compensate them if they do so later. This type of moral hazard may be termed "opportunism" – behaviour that makes full use of external services but may not result in long-term adverse consequences.

49. Participatory decision-making appears to reduce opportunism. Kibreab (1993) found that opportunistic behaviour was particularly prevalent in programmes that treated refugees as helpless and immobilized and consequently made no demands on them. Agencies running programmes on "business principles" or through community participation did not report lack of refugee motivation (Kibreab, 1993). Hemrich (2005) argues for a "forum approach" of assessing food security that incorporates information systems, target groups and programme decision-makers to improve project performance.

50. Participatory decision-making on FFW projects during the assessment phase may help to show which public-works projects are suitable and whether a community wants the project without the incentive of food aid. Opportunism may be reduced if communities are aware of a clear timeframe for funding (Harvey and Lind, 2005). In cases of community moral hazard, it is important to establish whether food aid is causing opportunistic behaviour or negative dependency: if behaviour is opportunistic, dependency is unlikely. There has been little research to date on community dependency.

Crowding out

51. Households may treat transfers of food aid as they would an insurance payout. In theory, the inflow of additional income changes incentives. Food aid has a possible disincentive effect on labour allocation, remittances and government budget allocations for safety nets. This paper examines the evidence of food aid crowding out these activities, with attention to concerns regarding "dependency syndrome".

Decreased household labour allocation

52. Microeconomic theory argues that introducing any transfer, including food aid, into a community causes recipients to work less as a result of income effects (Kanbur *et al*., 1994). As income increases, the demand for leisure, a normal good, increases. This theoretical decrease in labour, and the resulting harm to future production, is known as the "dependency syndrome." It is also argued that as incomes increases, the amount of labour supplied becomes more responsive to changes in income; in other words, when food aid is effectively targeted, the impact of food aid on labour allocation decisions should be relatively small.
53. There is anecdotal evidence linking food aid with decreased labour supply and reduced yields (Jackson and Eade, 1982; Molla, 1990). However, recent empirical evidence suggests that households do not measurably decrease their labour supply in response to food aid (Abdulai *et al*., 2005). Abdulai *et al*. (2005) argue that earlier findings reflect correlation rather than causality and demonstrate that if controls such as household characteristics are incorporated into statistical analyses, no evidence emerges of food aid causing labour disincentives. Harvey and Lind (2005) argue that lack of transparency as to the timing and quantity of aid causes few households to alter livelihood patterns in expectation of aid.

Community remittances and inter-household transfers

54. Dercon and Krishnan (2003) point out that food aid has fundamentally conflicting impacts when there are informal insurance arrangements among households in a community. Food aid generates a positive income shock for recipient households, which should induce some redistribution among households according to a partial risk-sharing model. But insofar as it reaches those with low current income, food aid also serves as a public transfer, thereby decreasing the need for private transfers. Empirical literature on the "crowding out" of private transfers by food aid finds that displacement of remittances may be less important than other considerations such as price distortions.[9]

55. Dercon and Krishnan (2003) find evidence of partial risk sharing in communities receiving food aid, and full insurance in communities without food aid; they interpret this as evidence of food aid crowding out informal insurance. Dercon and Krishnan appear not to have data on transfers among households and rely on a risk-sharing model to determine the impact of food aid on informal insurance arrangements. Lentz and Barrett (2005), however, have data on transfers and can directly test the impact of food aid on these transfers: they find that food aid did

[9] The evidence as to whether public transfers in non-emergency settings lead to crowding out is mixed. Cox, Hansen and Jimenez (2004) find public expenditures crowd out significant portions of private transfers in the Philippines, but Gibson, Le, Olivia and Rozelle (2005) find in a preliminary study that no linear nor non-linear relationship exists between private transfers and income in Cambodia, Indonesia, Papua New Guinea and Vietnam, and conclude that expansions in public transfers have not crowded out private transfers in these countries.

not significantly impact the amount of remittances received for southern Ethiopian and northern Kenyan households in 1999–2001 (see also Abdulai *et al*., 2005). During covariate shocks, food aid may reduce reliance on remittances, which are better suited to idiosyncratic shocks.[10]

Table 3. Food aid as insurance

	Theoretical adverse consequence	**Evidence**	**Issues for assessment**
Food aid is an income transfer for households.	Increasing consumption of leisure, i.e. dependency syndrome.	Empirical evidence suggests that national production levels are not impacted by food aid distribution, especially in the long term.	Expectation of quantity, and timing of aid, particularly for recurrent crises.
	Crowding out of remittances to food-insecure households.	Recent empirical evidence finds that food aid has no impact on remittances. However, this is an under-researched topic.	Types of food-insecure households; do household members live elsewhere?
FFW programmes pay communities to maintain or establish public works projects.	Decreasing community investment in public works.	Anecdotes report communities refusing to maintain public goods in the absence of FFW payments. Ethnographic evidence suggests this behaviour is opportunistic but not dependent. Participatory decision-making may alleviate this issue.	Community support. Does the community value the project? Would the community undertake the project without support?

Summary

56. The role of food aid as insurance against adverse shocks seems limited, because few households appear to depend on food aid receipts for a large portion of their income or consumption, less so over an extended period. There is no demonstrated causality between food aid and prospective crowding out of responses by others or increased risk-taking by recipients. There is little or no evidence of negative dependency triggered by loss of remittances, decreased work on public works projects, increased leisure and reduced work effort or decreased domestic food production as a result of food aid flows. These conclusions rest on limited evidence, however.

57. Adverse consequences resulting from price changes and trade displacement are intimately connected to programming choices and targeting. Evidence that food aid causes adverse consequences is strongest in relation to local food producers; even this evidence is mixed. Food aid can harm producers (i) when food aid drives down prices and they are not fully compensated for the decreased value of their output by the added income from food aid, (ii) when they do not receive aid or

[10] Covariate shocks have a common effect on a group of stakeholders: for example, low rainfall hurts producers and flooding hurts coastal households. Idiosyncratic shocks such as an injury in a household are not correlated across households. Informal sharing in a community, lending and social safety-net arrangements often suffice to cushion people against idiosyncratic shocks. But covariate shocks can overwhelm intra-community transfers systems, necessitating outside assistance.

(iii) when FFW programmes keep households away from productive labour. The evidence is mixed and depends on context and the details of food aid programming. Harm to producers seems most likely when food aid arrives late or during a harvest, when distribution does not targeted the most food-insecure households and when the local market is poorly integrated with national, regional and global markets. Poor targeting or timing appears to be the cause of most of the harm to producers caused by food aid programmes. Imports also tend to fall. However, emergency deliveries of food aid tend to displace imports far less than food aid in programmed or monetized projects. Negative dependency among traders resulting from price decreases or trade displacement has not been established; this is an important area for further research.

58. Food aid may encourage opportunistic behaviour, but the evidence supporting such a concern is limited. As with other possible adverse consequences, this statement does not imply that such behaviours will never occur, so emergency needs assessments need to monitor carefully for such effects. The following sections offer some initial suggestions.

Methodological principles to anticipate the risks of negative dependency during emergency food security assessments

59. Before considering questions that could be asked to assess the risks of negative dependency, three points should be noted. First, if recipients are severely food-insecure, prospective negative dependency should be a subordinate concern; meeting immediate needs is the imperative. Negative dependency in certain stakeholder groups can be more damaging than others: the possible adverse consequences of food aid should first be minimized for acutely or chronically food-insecure recipients, after which the impact of food aid on better-off net sellers, producers and non-recipients, who are less likely to be harmed by food aid, should be assessed. Other negative effects such as those affecting communities, governments or NGOs or import displacement should be considered only after threats of negative dependency to other stakeholders have been minimized.

60. Second, there is no need for a separate chapter on dependency in the *Emergency Food Security Assessment (EFSA) Handbook*: many of the relevant indicators are already covered in chapters 4, 5, 7, 10, and 11. Additional indicators can be incorporated into these chapters; the data collected should be used to inform the response to a crisis, as outlined in chapter 13.

61. Third, evidence of adverse consequences of food aid depends on the context and nature of a crisis. Understanding the local context will help assessment of the threat of negative dependency, which may influence programming choices. Particular forms of aid lend themselves to addressing particular types of covariate shocks (Sen, 1986), so using the most appropriate form of aid will limit adverse consequences on non-recipient consumers, producers and recipients.

62. During "slump" famines, household entitlements[11] decline but food is locally available through markets. In such cases, cash transfers may be more effective than food aid because transport of food aid by agencies is less efficient than

[11] Sen introduced the term "entitlements" to describe individuals' abilities to command access to a range of goods.

transport by traders (Sen, 1990). During "boom famines" marked by high inflation, households may benefit more from in-kind transfers than cash, the value of which may be falling rapidly.[12] Coate (1989) notes: "The relative effectiveness of cash and direct food relief will depend critically on the behaviour of traders and on whether food will be exported, imported or neither exported nor imported" (p. 218). Basu (1996) argues that non-recipient households may be adversely affected by aid relief, depending on how it is distributed. During inflationary periods, local purchases by NGOs for distribution may drive up prices, harming non-recipients. These arguments examine stakeholders' responses to different crises and point out that their results relate to issues that influence the possibility of dependence, including (i) transport costs, (ii) the source of food insecurity, (iii) market conditions and (iv) assessed ability to reach food-insecure households with transfers. A set of core questions follows that lays the groundwork for a contextual assessment of a crisis and that may be relevant for assessing prospective negative dependency among multiple stakeholders.

Data and assessments

63. Most of the data necessary to assess any adverse consequences of aid are already collected in the rapid-assessment phase of EFSAs. In particular, chapters 4 on food availability and markets, 5 on household access and livelihoods and 7 on analysing causes and context collect a wealth of data that can be used. To assess each possible aspect of dependency, two columns are included in the previous tables: the first lists the sections in the EFSA that have questions for assessing each adverse consequence; the second lists additional questions and, in italics, rationale that address dependency.

64. Some aspects of dependency appear to be less critical and less likely than others. The authors' review found that evidence of prior insurance effects of food aid was weak, but that the potential for adverse subsequent transfer effects of aid exists. In other words, assessing "dependency syndrome" is less important than assessing the impact of food aid on local markets, producers, traders and purchasers. In terms of severity, the impact of aid on imports and national production is of less immediate concern than household food security during an emergency.

65. The questions in bold are related to adverse consequences that seem most likely or most severe on the basis of the limited evidence. Questions in normal font may be used if time allows, but either offer less insight into prospective dependencies or address dependencies that should be assessed only after dependencies in chronically or acutely food-insecure households have been minimized. As argued elsewhere, context is critically important; some issues identified as less important may in fact be critically importance in particular situations. Tables 4, 5 and 6 are intended as guides.

66. An opportunity to limit adverse consequences of aid exists at the programme design stage. Harvey and Lind (2005) recommend greater accountability and transparency in programming decisions, which can align recipient and donor expectations as to the timing and duration of relief. With respect to FFW programmes, recipient participation in determining public-works projects will

[12] Tschirley and Howard (2003) argue that first monetizing food aid during an emergency and then distributing the cash earned can stabilize market availability and improve consumers' purchasing power (p. 21). This may be particularly true during "boom famines."

decrease opportunism. Good targeting can limit the adverse consequences of food aid on producers, host communities, importers and governments.

Table 4. Food aid changing prices

Theoretical adverse consequence	Evidence	Issues for assessment	EFSA references	Additional questions
FFW programmes alter the relative wage rate				
Decreasing household production.	Anecdotal evidence suggests that FFW can decrease household production. Adverse effects of FFW programmes appear tied to poor programme design.	Assess seasonality, wages, own-production labour requirements, expected duration of the programme, structural factors discouraging self-targeting. *See also FFW programmes and communities (below).*	EFSA: Table 4-G: checklist of market related data to collect (draft), p. 64. VD: Market behaviour – demand EFSA: Social and gender analysis, p. 127.	**"What is the volume and frequency of transactions in the local labour market?" "Does the market vary seasonally?"** Collect information on current and previous wages paid; differentiate by type of activity and season. *If most households are own-producers, then wage changes will affect them less.* **How do coping strategies vary by gender?** *Programming may have a gender bias; for example women's child-care responsibilities may prevent them from participating in FFW programmes. Evidence suggests that a household's marginal propensity to consume in-kind aid differs according to the recipient's gender. If the goal of a programme is to increase food access and food utilization in a household, targeting women may be more effective. Understanding gender-differentiated coping strategies and livelihood responsibilities may inform programming decisions.*
Prices fall due to inflow of aid				
Decreasing national production.	Empirical evidence suggests that national production	Assess seasonality (i.e., will food aid arrive during harvest	EFSA: Initial assessment of secondary data. p. 147.	How connected are markets in the country? Are storage facilities available? *A Bellmon-type analysis assessing the ability of a national market to absorb monetized food aid will help to*

	levels, especially in the medium-term to long-term, are not impacted by food aid distribution.	(procyclical) or in a lean period (countercyclical)? and integration of local markets with the national and regional markets.	EFSA: Table 4-G: checklist of market-related data to collect (draft), p. 64. Section: IIA. EFSA: 7.3 Analyzing the physical and economic context, pp. 125–126. EFSA: Initial assessment of secondary data such as seasonal calendars, p. 149.	*determine the impact of aid on national markets.*

Decreasing local production.	Empirical evidence of harm to producers is mixed and highly contextually dependent.	Assess seasonality, market characteristics such as infrastructure and integration, targeting efficacy, storage facilities.	EFSA: Table 4-G: checklist of market related data to collect (draft), p. 64. Sections: IIA, IIB, VB, V. EFSA: 7.2: Analysing the physical and economic context, p. 126. EFSA: 5.1 Determining impact on livelihoods and access to food, p. 88.	**What is the volume and frequency of transactions in local markets?** *If adequate storage is available to local producers, or if the local market can absorb the inflow of food aid, producers will be less adversely affected.* *If the local market cannot absorb a large inflow of food without the price falling dramatically, food aid may harm local producers. This also depends on current prices and their deviations from "normal" years, storage facilities and season.* *If food aid arrives much later than the initial crisis, perhaps timed to coincide with a local harvest, then food aid may harm producers, depending on the magnitude of the price effect. Cash aid may be a more appropriate intervention.* **Is the situation characterized by hard-to-target households or by many households that are minimally food-secure?** (Hard-to-target: consider outdated population rosters, pastoralism, distrust of government or international agencies.) *If targeting food insecure households is difficult, food aid is more likely to leak to those who do not need it. A greater portion of aid will leak into the market, possibly harming producers. This effect depends on season, storage facilities, and prices.*

Traders decrease local investment in food marketing.	There is no research to date analysing whether traders are harmed by food aid distribution.	Assess vulnerability of traders to temporary disruptions in trade volumes or prices.	EFSA: Table 4-G, checklist of market-related data to collect (draft), p. 64. Sections: III, VA, VB.	**What sort of debt burden do traders carry and what repayment periods prevail? Can traders easily obtain credit?** How do traders perceive current demand for food? *If traders carry large debts that must be repaid within the period of emergency operations, any market disruption could imperil enterprise survival with adverse medium-term to long-term consequences for market competitiveness and pricing.*

Decreasing household investment in production.	Households appear to take a long view with respect to price fluctuations and therefore do not change investments into production as a result of short-term price changes.	Assess recurrence of the crisis, previous price levels.	EFSA: Table 4-G: Check-list of market related data to collect (draft): (p. 64). Section: I.	**How much have prices changed in the last month? Six months? Year?** Are there any previous studies offering estimates of local price elasticities of demand or supply or income elasticities of demand?[13] **Can the household obtain credit? Has it done so, and under what terms? Is the household heavily indebted? Is it borrowing against future production?** *Accessing credit based on future production may put households at risk if prices decline.* *Sharp decreases in prices may harm those who borrowed against future harvests.*
Prices increase resulting from local or triangular purchases				
Creating additional food-insecure households.	There is no formal research assessing this issue.	Assess surplus level, market integration, wages relative to food prices, credit availability, ability to target.	EFSA: Judgment-based classification of changes in household food access. p. 87–88. EFSA: Table 4-G, checklist of market related data to collect (draft), p.	**Is the situation characterized by hard-to-target households or many households that are minimally food secure?** (Hard-to-target: consider outdated population rosters, pastoralism, distrust of government or international agencies.) *With local purchases, many minimally food-secure households may be adversely affected by small price increases.* How have livelihoods of host communities changed with

[13] Income elasticity is the percentage change in quantity demanded divided by the percentage change in income. The elasticity of demand (supply) is the absolute value of the percentage change in quantity demanded (supplied) divided by the percentage change in price. The higher the price elasticity of demand, the more sensitive a consumer is to a change in prices. If income elasticities or price elasticities of demand are high and price elasticities of supply are low, the likelihood of negative dependency is very low. First, as food prices decrease or income increases for a consumer, the consumer demands more food. Second, when local price elasticities of supply are low, as the price of food decreases, the amount of food supplied decreases less. Both of these effects limit adverse consequences for producers.

			64. Section: VD.	the crisis? *Depending on the livelihood strategies and context, the inflow of food aid can have different adverse results on food-insecure households in the host community.*

Table 5. Food aid changing trade

Theoretical adverse consequence	Evidence	Issues for assessment	EFSA references	Additional questions and rationale
Food aid decreases imports				
Decreasing long-term food security.	Evidence suggests that food aid decreases imports in the short term, although the limited evidence suggests these effects last at most for a few years.	Assess integration of local market into global markets, import prices relative to local prices and local traders' access to foreign exchange and letters of credit for importing food.	EFSA: Table 4-G, check-list of market related data to collect (draft), p. 64. Sections: II, IIC, III.	Will food aid adversely impact imports? How additional is the food aid? *Compute income elasticities of demand locally. The higher the local income elasticities of demand, the higher the quantity of food purchased by households when income increases because of aid transfers, mitigating adverse impacts on imports.*
Food aid saves foreign exchange that would have been used to import food				
Overvaluing local currency, and harming producers of tradables.	There is no research as to whether food aid causes overvaluation of the local currency	This is an unlikely concern, though it is theoretically possible.		

Table 6: Food aid as insurance

Theoretical adverse consequence	Evidence	Issues for assessment	EFSA references	Additional questions and rationale
Food aid is an income transfer for households				
Increasing consumption of leisure, or dependency syndrome.	There is no empirical evidence of dependency syndrome, or that production levels, especially in the long term, are impacted by distribution of food aid.	Assess expectation of quantity and timing of aid, particularly for recurrent crises. Who are chronically insecure, by livelihood group?	EFSA: Table 5A, p. 70. EFSA: Table 5-K, p. 87. EFSA: Analysing the general nutrition situation and risks: proportion of able-bodied adults available to fulfil essential household functions, p. 113.	What is a household's ratio of workers to dependents? *Recall data about who was working, doing what type of work (for example work on own farm, wage labour, non-agricultural own-business activities), how frequently at different times such as yesterday, one month ago, at this time last year, etc., can shed light on employment levels and volatility, and possibly identify households that are transitorily in need or chronically in need. Chronically insecure households will have stable but low ratios and may be less able to participate in FFW programmes.* What percentage of the households is chronically food-insecure? *Chronically food-insecure households are less at risk for food aid causing negative dependency, because they are already "dependent" on external assistance. Monitoring of prospective dependency and adverse consequences should focus first on transitorily food-insecure households and second on other stakeholders such as traders and producers.* Do displaced households have freedom of movement?

				Displaced households without freedom of movement have little access to alternate livelihoods. These households will all be positively dependent on external assistance, so prior assessments of dependency may not be necessary.
Crowding out remittances to food-insecure households.	There is recent empirical evidence that food aid has no impact on remittances. This is an under-researched topic.	Assess types of food-insecure households. Do members of the household live elsewhere?	EFSA: Collecting data on household coping, p. 81.	Identify households with members living elsewhere. Have these individuals sent remittances in the past? What level of remittances has been received in the last three months?

FFW programmes pay communities to maintain or establish public works projects				
Decreasing community investment in public works.	Anecdotes report communities refusing to maintain public goods in the absence of FFW payments. Ethnographic evidence suggests that this behaviour is opportunistic but not dependent.	Assess community support.	EFSA: Analysing community/ traditional coping mechanisms, p. 79. EFSA: Judgment-based classification of changes in household food access, p. 87–88.	Does the community value the project? Would the community undertake the project without support? *Accountability and transparency in projects and participatory decision making may reduce opportunistic behaviour.*

Assessment methods and tools to be tested: Areas for future research

67. This review has argued that context determines whether food aid results in adverse consequences. Most of the prior data to be collected fits in with data to be gathered during the EFSA process; studies of the prior dependency assessments can be incorporated into other case studies of EFSA assessments and analyses. In addition to determining the relative usefulness, ease of collection and efficacy of the prior data, establishing the relative magnitude of each impact is critical in assessing the adverse consequences of various interventions. It may help to develop a method to measure the likelihood and severity of each adverse consequence; differences among sites will help to drive the relative likelihood of dependency for various stakeholders.

68. The prior dependency assessments for situations with displaced people will differ from those with affected resident populations. The type of crisis – sudden or slow onset, entitlement failure or production shortfall – can also determine the likelihood and severity of harm to particular stakeholder groups.

69. The review finds that producers are most adversely affected by large price decreases, which tend to coincide with food aid deliveries during harvests. There is little research to date on the impact of food aid on traders. With respect to the impact of aid on these stakeholders, a comparison between Niger and Mali may be informative. The proximate causes of hunger in Malawi and Niger – rising prices and producer shortfalls – are similar, but the seasonal timing of interventions has differed. WFP assessment teams have been monitoring the impact of food aid on local prices; interviews with traders and producers regarding marketing practices, credit constraints, production decisions and prices may help to show when seasonality and the timing of relief most harms producers and traders.

70. Other possible sites include the Cape Verde islands and Bangladesh, both of which have historically received large quantities of food aid but are now minor recipients. Bangladesh's ability to avoid macro-level dependence on food aid has often been referred to as a food aid success story (Ridell and Sobhan, 1996; Dorosh *et al*., 2002). Additional sites could include Afghanistan, Ethiopia, Haiti, Peru and Sri Lanka.

71. Assessments of negative dependency should be ongoing. Core data collected during programming and, ideally, following termination of a programme may offer insights for future programming decisions.

Conclusion

72. This desk review has examined the evidence of food aid causing various types of negative dependency, which arises when meeting current needs occurs at the cost of reducing recipients' capacity to meet their own basic needs in the future without external assistance.

73. Food aid has transfer effects and insurance effects for each stakeholder group, whether households and communities. Insurance effects include crowding out or filling in existing safety nets and moral-hazard effects associated with induced changes in risk-taking behaviours. We find little evidence that food aid crowds out remittances at the household level or encourages moral hazard. Programming decisions intended to discourage dependency syndrome may be too severe. When

food aid could cause moral-hazard behaviour, the review argues for the need to distinguish between opportunistic behaviour and negative dependency.

74. The transfer effects of food aid change prices and trade patterns. Poor timing and poor targeting of aid has been known to cause sharp price adjustments, harm local producers and exacerbate import displacement. The impact of food aid on traders is important, but it has been insufficiently studied. To mitigate some of these prospective problems, a context-based assessment of the various stakeholders before implementation of programming is proposed. The questions fit in with the EFSA handbook and are intended to help to assess the likelihood of prospective adverse consequences.

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Figure 2: Possible impacts of food aid on households

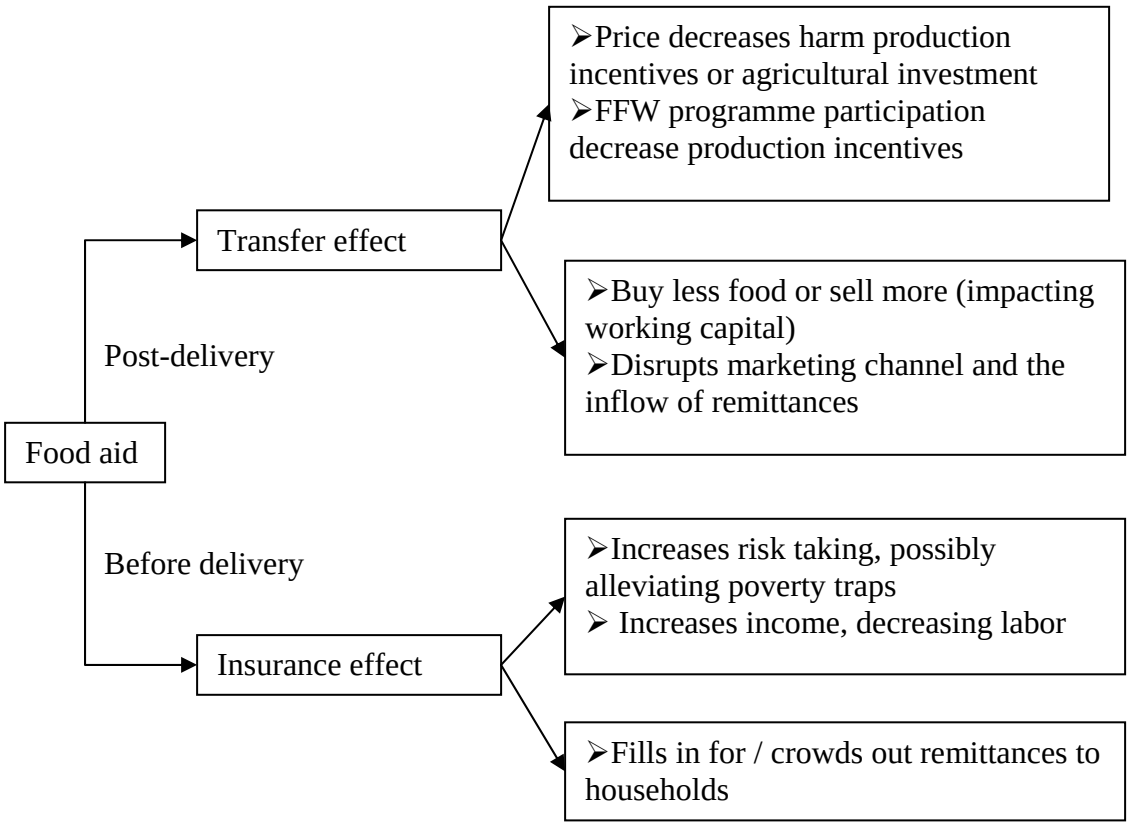
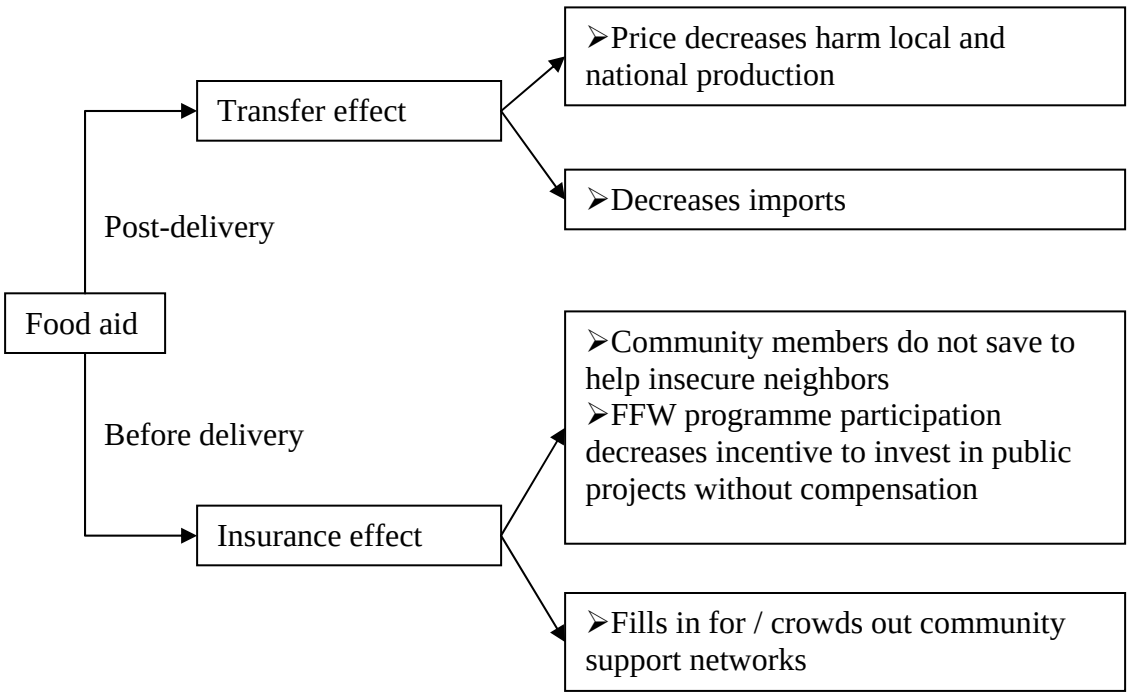


Figure 3: Possible impacts of food aid on communities



Acronyms used in the document

EFSA	Emergency Food Security Assessment
EMOP	Emergency Operation
FFW	Food For Work
IDP	Internally Displaced Person
NGO	Non-Governmental Organization
ODI	Overseas Development Institute
PRRO	Protracted Relief and Recovery Operation
USAID	United States Agency for International Development