



Food Aid: Policy Reforms and Targeting Performance

**Chris Barrett
Cornell University**

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Food aid in support of MDG #1

What role for food aid?

- Save lives
- Fulfill human right to food
- Protect assets
(especially human health)
- Facilitate productivity and asset growth where food availability and/or poor market performance are limiting.



Food aid is a complement to other resources.

**Need to embed food aid in development strategy,
not fit development strategies to food aid policies.**

C.B. Barrett and D.G. Maxwell, *Food Aid After Fifty Years: Recasting Its Role*.
(Routledge, 2005).

Food aid in support of MDG #1

Yet food aid's effectiveness in advancing MDG #1 depends on:

- Whether it is *focused on this goal*. Given tight budgets, need to use resource efficiently. Tinbergen Principle.
- How it is managed by operational agencies:
 - Efficacy of targeting and timing
 - Whether it creates net disincentive effects that trade long-term losses for short-term gains
 - Procurement and supply chain management
 - Is food the right resource for a given problem

Background

Much has changed since modern food aid began with the enactment of PL480 in 1954, even since the 1990 Farm Bill, which was the last major reform of U.S. food aid.

Yet contemporary policy debates often become derailed by failures to appreciate the significant changes that have already occurred.

Debates often also divorced from **empirical realities of** food aid programs, both successes and failures, especially regarding **targeting**.

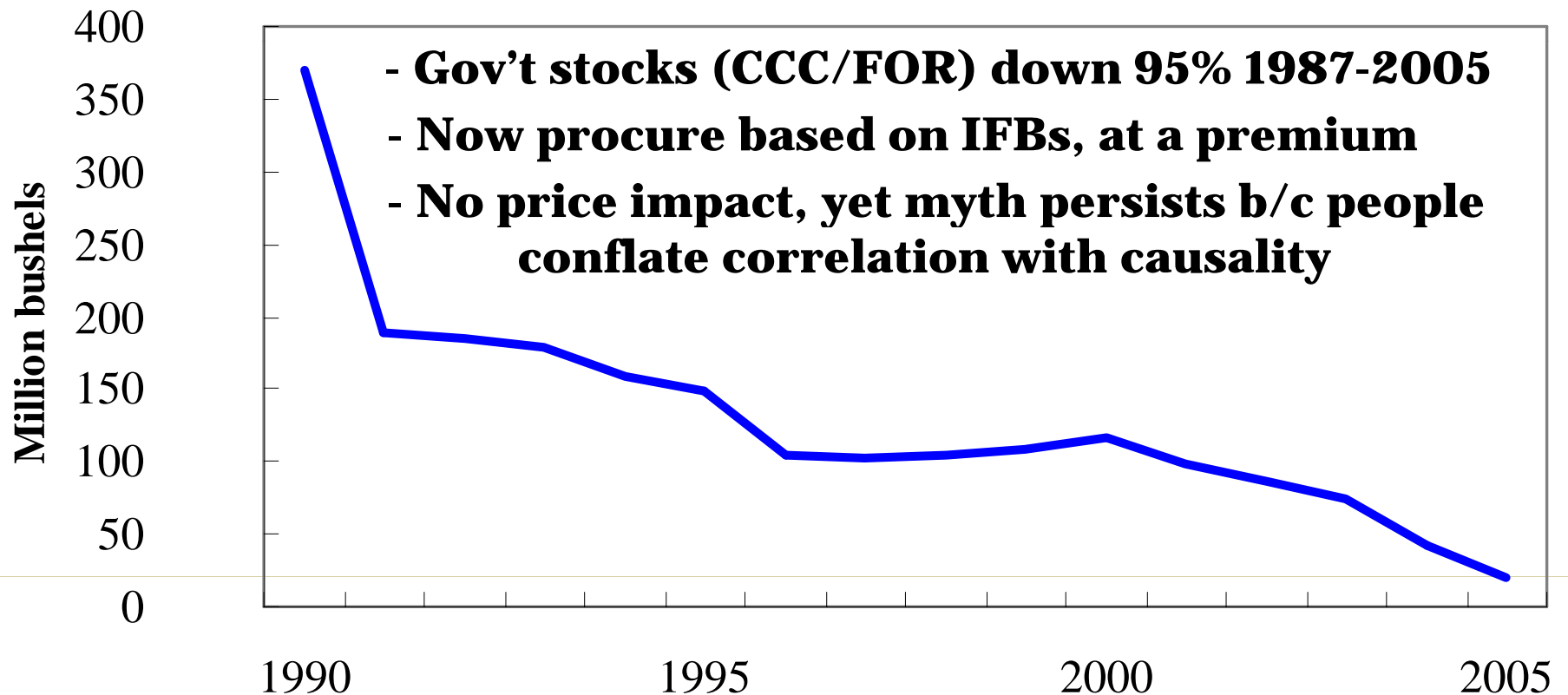
Need to identify **key focal points** for improving food aid.

What Has Changed

1. Price Supports and Gov't Grain Stocks History:

Government year-end wheat stocks

(Three-year centered moving average)



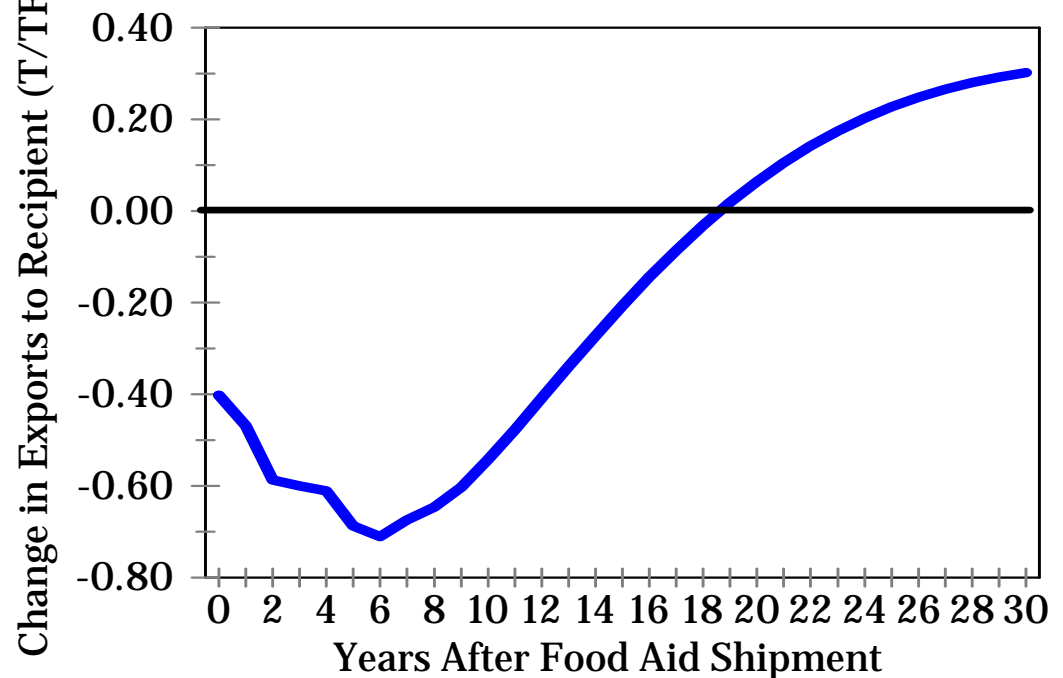
Data source: USDA Economic Research Service

What Has Changed

2. Ineffective Tool for Trade Promotion:

- Trade promotion hypothesis in 1954
- Not only fails to grow donor exports, disrupts markets at margin, esp. 3rd party comm. exports
- Empty claims about stimulating later ag exports growth

Commercial Aid Impacts of Food Aid
(Impulse Response Estimates, mvg avg)



What Has Changed

3. The Cold War Is Over :

- **Diplomatic challenges now quite different.**
- **Beyond fulfilling human rights (1948 Universal Declaration of Human Rights and 1966 International Covenant on Economic, Social and Cultural Rights), no evidence it works.**
- **Geopolitical impact?**
Top 1960 recipients: India, Poland, Egypt, Pakistan, Brazil
Top 2000 recipients: North Korea, Ethiopia, Bangladesh, Kenya and Russia
- **Primary criteria now are humanitarian: most food aid flows in response to emergencies and most now goes to Africa (70-80% of US food aid)**

What Has Changed

4. Alternative Means of Supporting Merchant Marine:

- **1954 Cargo Preference Act to support merchant marine for national security purposes ... share increased 50-75% in 1985**
- **Impact: higher freight costs. 65% of FY2006 food aid program expenditures were on freight, storage and admin**
- **CP premia were ~69-78% in early 1990s-2000, still 47% in 2005 ... yet merchant marine continued to shrink**
- **Small # carriers: 13 bidders, 5 received >50% freight. Major ones are not even US owned corporations**
- **Yet CP only 5-15% US flagged ships' cargoes and >3/4 US-owned ships flagged outside US today ... FA too small to make a difference in overall viability of merchant marine.**
- **Maritime Security Program (1996) provides \$2.1/ship-year ... w/some legal double dipping (CP and MSP)**

What Has Changed

5. Shift From Program to Emergency Food Aid:

- **Until 1992, most US food aid was “program” – govt-to-govt concessional sales on credit: Title I and Section 416(b)**
- **Now mainly to NGOs (43%) and WFP/IEFR (35%) for emergency response (80% of Title II now emergency)**

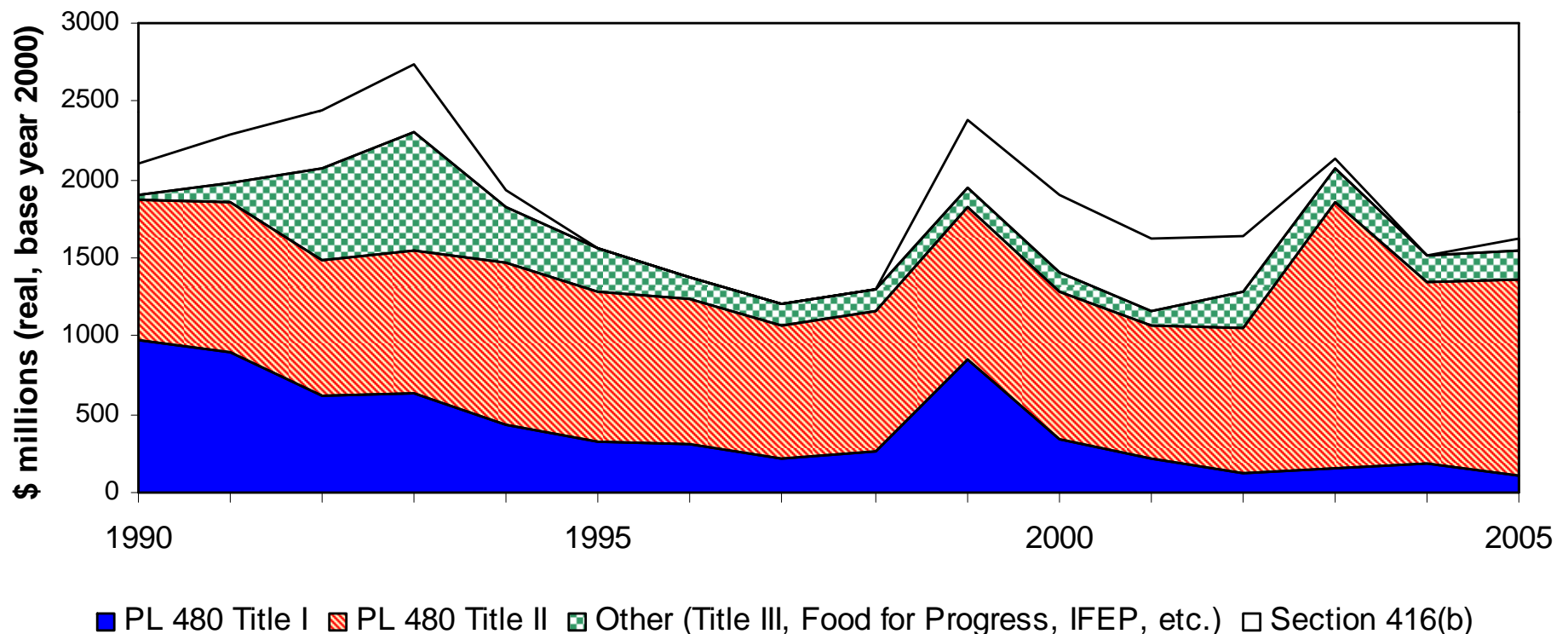
- **Title I down 93% in real terms. 1980-2005 (62.6% to 6.6%)**
- **Title II up 43% in real terms, 1980-2005 (34.4% to 77.7%)**
- **Title II has shifted from 51% non-emergency in 2001 to only 21% non-emergency in 2005**

- **Bill Emerson Humanitarian Trust: used only 3 times each decade, 1980s and 1990s ... used 6 times since June 2002 ... increasing, underappropriated emergency food aid needs.**

What Has Changed

5. Shift From Program to Emergency Food Aid:

U.S. Food Aid Programs, FY1990-2005

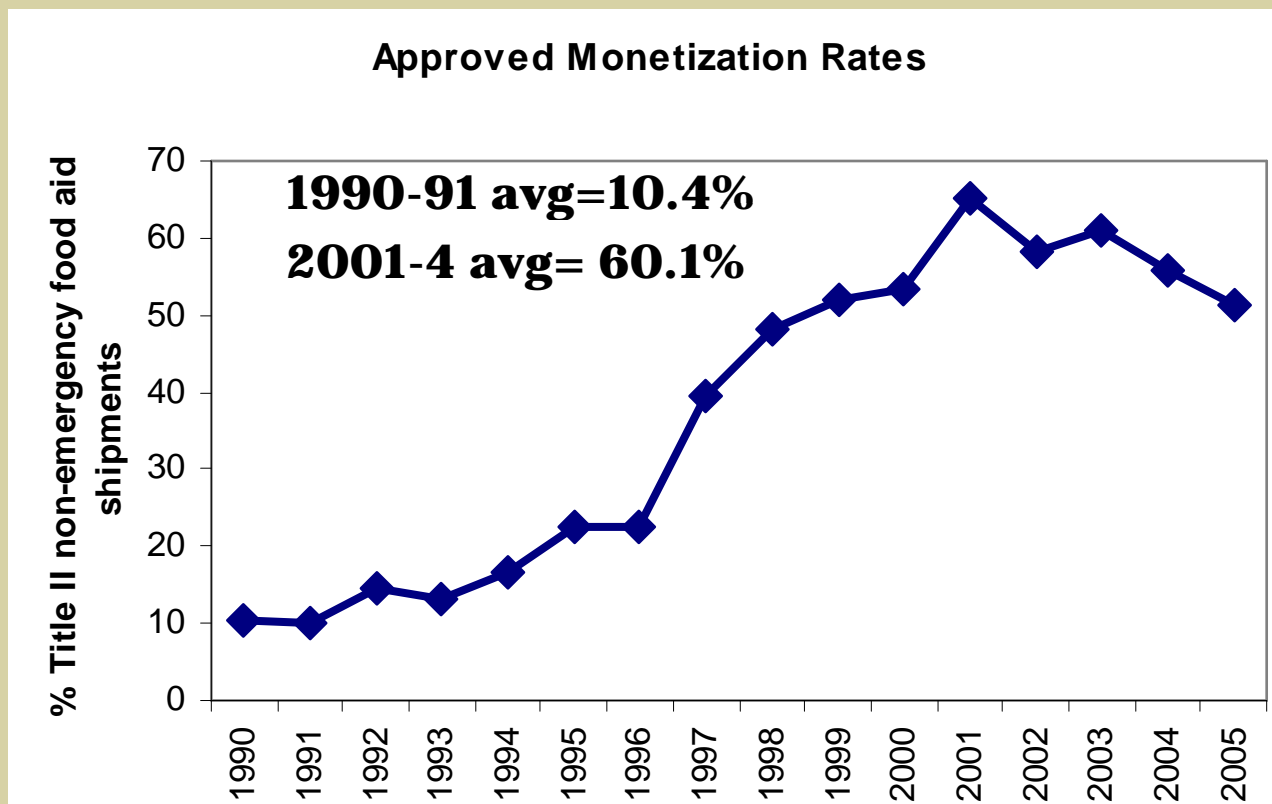


Data sources: USDA, USAID

What Has Changed

6. Relief Traps and Reduced Cash Resources for Devt:

- **Insufficient resources for non-emergency development programming makes it difficult to prevent new emergencies and to limit their adverse impact when they do occur.**
- **Insufficient cash resources to meet needs: distorts NGO behavior ... monetization is the result**



Targeting Performance in Region

USAID GL CRSP PARIMA Project

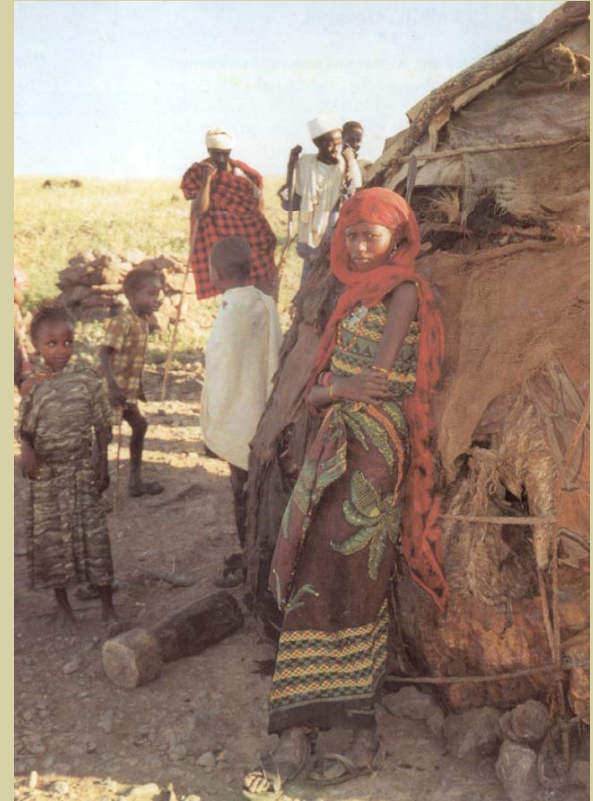
2000-2002 data show that:

- FFD and FFW more effective in reaching the poor than CBT**
- No effect on private transfers**
- FA flows respond to rainfall, not income or asset shocks.**

Punch lines:

- (i) Targeting remains very imperfect and difficult;**
- (ii) beware naïveté about community-based approaches;**
- (iii) do not worry excessively about “crowding out” effects**

E.C. Lentz, C.B. Barrett, “Food Aid Targeting, Shocks and Private Transfers Among East African Pastoralists,” working paper.



What Still Needs To Change?

1. Recasting Food Aid In Support of MDG #1:

- **Of 6.2 bn people, 1.3 bn live on <\$1/day, 2.9bn live on <\$2/day and 5.4 bn live on <\$10/day. MDG goal #1 commits to reducing by half by 2015 the proportion of people in hunger and living on less than \$1/day. Even this very narrow task is daunting ... thus need to focus.**
- **Food aid plays a role, but underperforms because of other goals (for which it is ill-suited and ineffective).**
- **Make global food security the sole objective of US food aid**

C.B. Barrett, "The United States' International Food Assistance Programs: Issues and Options for the 2007 Farm Bill," in B.L. Gardner and D.A. Sumner, editors, *The 2007 Farm Bill and Beyond* (Washington: American Enterprise Institute Press, 2007).

What Still Needs To Change?

2. The Golden Hour and Partial Untying of Procurement

- **Golden Hour principle: rapid response essential**
- **USAID proposal for partial untying of FA procurement, permitting “local and regional purchases” ... Canada, Australia and EU already did this.**
- **Cheaper (OECD estimates ~50%!) and faster (139 days median delivery time for US emergency food aid)**
- **Revise Food Aid Convention to reward timely deliveries**

C.B. Barrett and D.G. Maxwell, “Towards A Global Food Aid Compact”, *Food Policy* 31(April 2006):105-118

J. Hoddinott and C.B. Barrett, “Counting Commitments in the Food Aid Convention,” paper for Trans-Atlantic NGO Food Aid Policy Dialogue, 2007.

What Still Needs To Change?

3. Decouple Humanitarian Response from Agribusiness and Maritime Support Programs:

- **Maritime Security Program (MSP) is a cleaner mechanism for supporting merchant marine**
- **Bagging and processing subminima ignores need to match resources to needs. Follow the Danish example and decouple food aid from food processor support ... when Denmark replaced processed cheese and canned meat food aid with bulk grain, wheat flour, peas and vegetable oil, it generated 6x calories and 3x protein at lower cost, from 1990-1997.**

Food aid policy simulations

Based on a detailed, integrated simulation model of the food aid system (USG-OA-households), we find:

- Optimal approach to food aid is context-specific;
- Market implications are crucial because of (i) monetization, (ii) targeting errors, (iii) induced purchases of non-food transfers.

Two core reforms yield highest payoff:

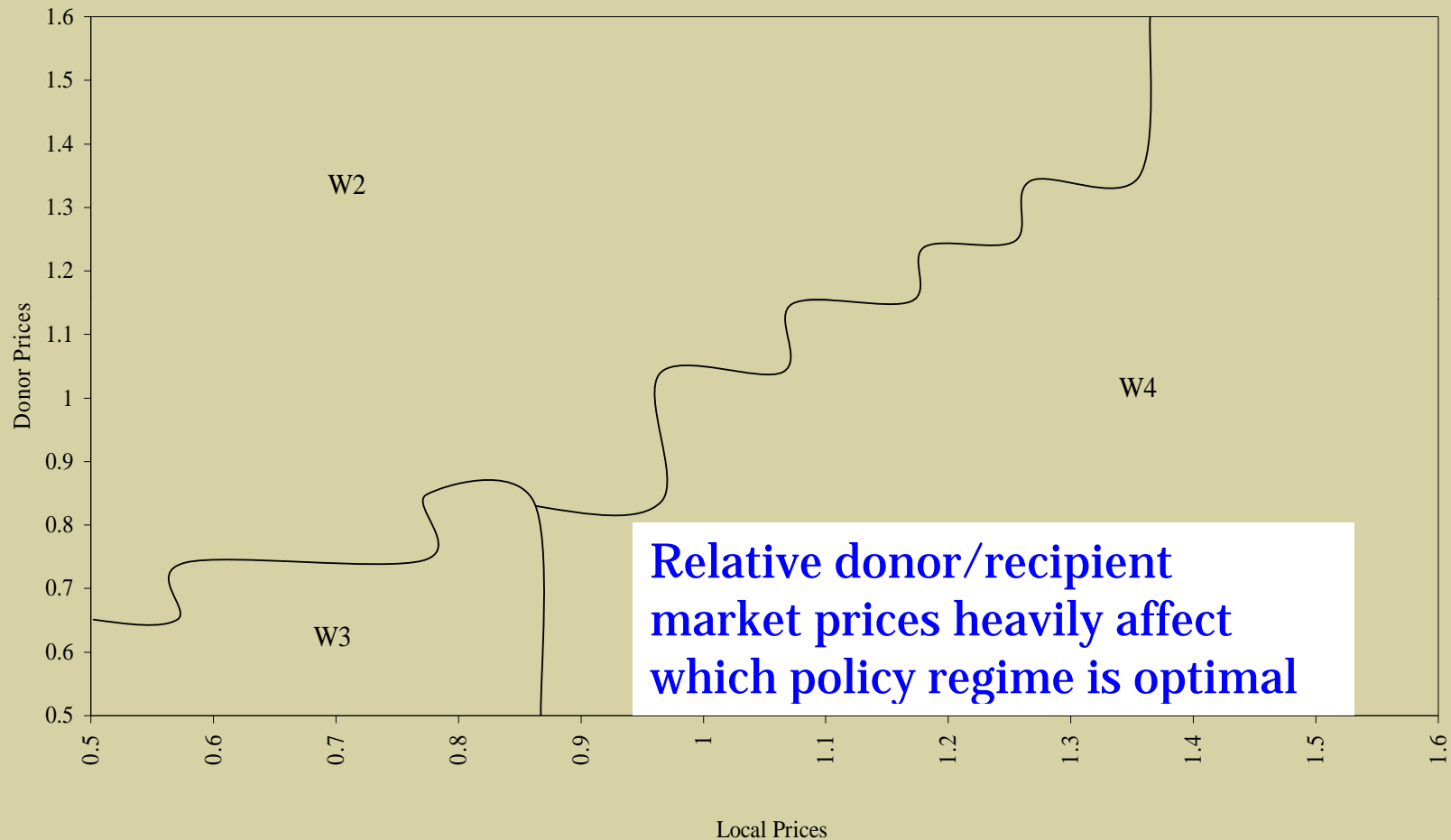
For OAs: improved targeting. This is biggest lever for reducing food insecurity (15-fold bigger than halve CP).

For donors: reduce costs (e.g., ocean freight)

Other punch line: Need to study markets more carefully.

E.C. Lentz and C.B. Barrett, “Improving Food Aid’s Impact: What Reforms Would Yield the Highest Payoff?” *World Development*, forthcoming.

Price-Dependent Optimal Policy Reforms



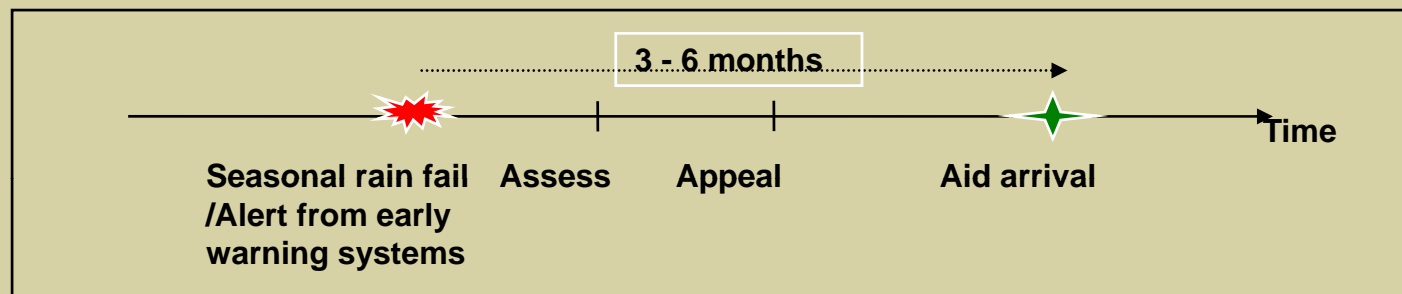
W1=status quo, W2=cash for LRP, W3=no monetization, W4=halve ocean freight

What Still Needs To Change?

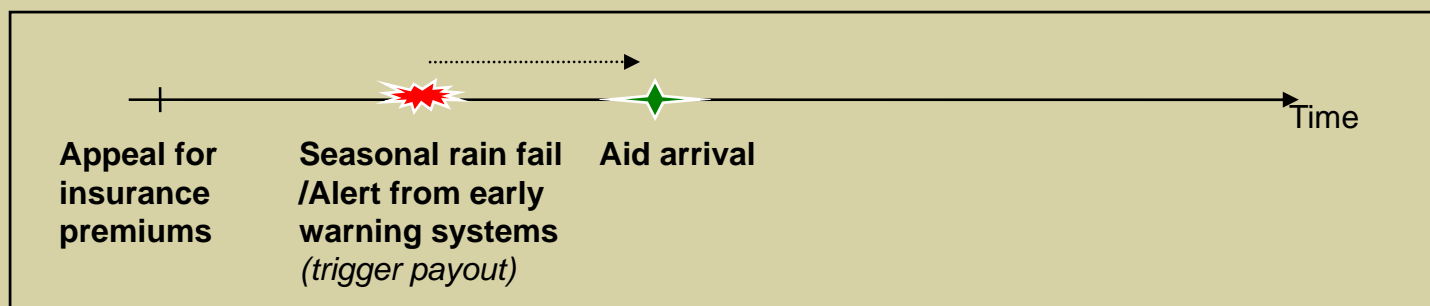
4. Use Emergent Index-Based Risk Finance Mechanisms:

IBRTPs can facilitate more timely and cost-effective response.

Current stage of emergency response



Goal: Using weather index insurance to secure timely and reliable funds to finance effective response to severe droughts

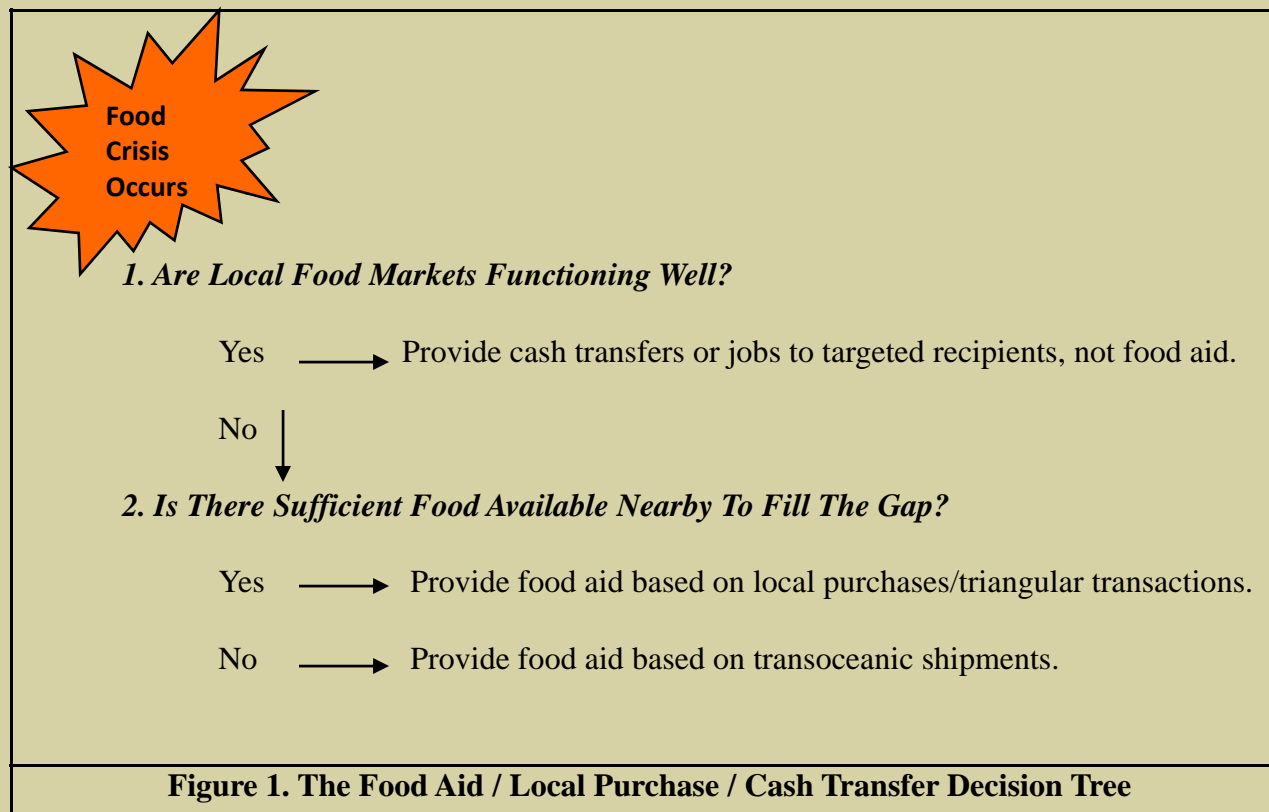


S.C. Chantarat, C.B. Barrett, A.G. Mude and C.G. Turvey, "Using Weather Index Insurance to Improve Drought Response For Famine Prevention," *American Journal of Agricultural Economics*, forthcoming.

What Still Needs To Change?

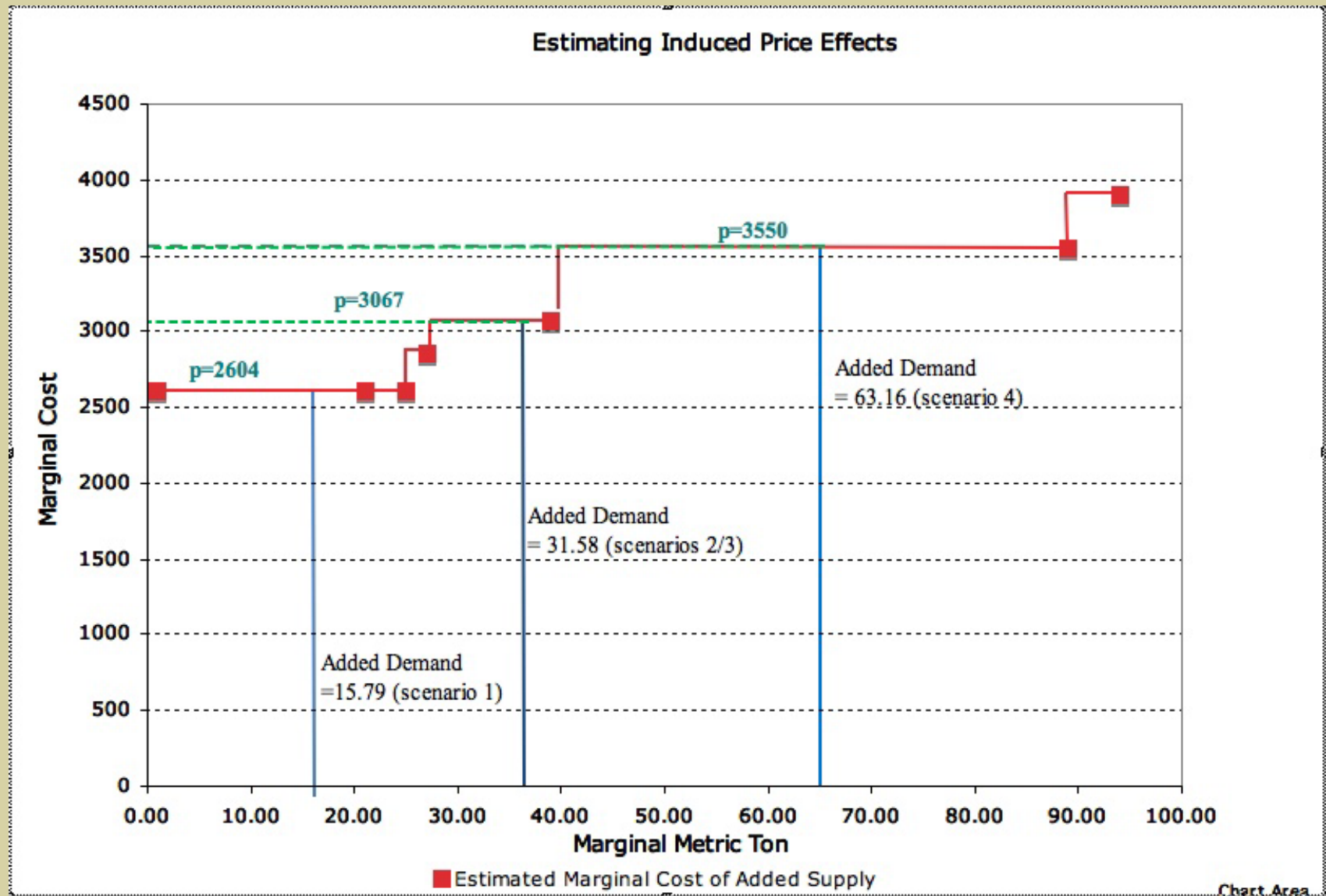
5. Develop and Use Better Response Analysis Tools:

Food resource availability too often drives needs assessment and response planning/implementation.



D.G. Maxwell, E.C. Lentz and C.B. Barrett, “A Market Analysis and Decision Tree Tool for Response Analysis: Cash, Local Purchase and/or Imported Food Aid? A Background Paper,” CARE USA, 2007.

Especially need to develop improved markets analysis skills in OAs.



Conclusion

Much has changed ... suggests a need for further reforms since the environment is now so different.

But much still to change:

- policy reforms (Farm Bill): goals, CP, L&RP, FAC**
- targeting is difficult but very high stakes**
- financing is slow, but new instruments**
- markets important, but little understood**

Food aid remains an important policy instrument, but for markedly different reasons than in mid-1950s, even than in 1990 ... much to do on all fronts.

**Thank you for your time,
attention and comments.**

