

The Effects of Food Aid on Donor and Recipient Countries¹

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April 13, 2004

“It is easy to rationalize our farm surpluses into international assets. But in doing so, we deceive no one but ourselves. We can go on making a virtue of them, but thoughtful people and informed leaders abroad are not deceived by what we say; they see clearly that we have been making our foreign economic policy fit our internal convenience.”

—Theodore Schultz (1960) in *Value of U.S. Farm Surpluses to Underdeveloped Countries*

I. Introduction

Food aid is viewed as many, especially those in politics, as being the safest, most unobjectionable, form of aid. One of the reasons often cited as a benefit of food aid in place of other types of aid is that food aid is less susceptible to corruption. Thus more of the aid, in theory, arrives at the intended population rather than ending up in the hands of corrupt bureaucrats. These generally positive views have led to a position where few people in the governments of developed countries offer strong

¹ Prepared for presentation at the University of North Carolina at Chapel Hill International Trade and Development Workshop Series, Spring 2004.

² The author thanks Elisa Wagner for assistance in data acquisition. In addition, the author has benefited from consultation with the UNC Chapel Hill faculty and graduate students: namely Professors Patrick J. Conway, William A. Darity, Jr., Alfred J. Field, Jr., and Xiadong Wu; and students Rouben Atoian, Charles B. Braymen, Codrin C. Nedita, Bidisha Lahiri, Kellin C. Stanfield, and Ekaterina V. Tsibarova. All errors, of course, are my own.

objections to the donation of food, even in place of other types of aid. After all what could be better than feeding people in need.

Despite this estimable view, food aid has become an increasingly controversial topic on the world stage. Many food aid laws were originally designed to deal with problems other than food shortages in developing countries. For example Public Law 480, the most prominent of the United States food aid laws, was passed in 1954 to dispose of the surplus agricultural commodities stockpiled, through price support systems, by the US government [Cathie, 1981].

II. US Food Aid Laws

Public Law 480

The US food aid laws are divided into several laws. The most prominent among these is Public Law 480, also known as the food for peace program. The original motivation of PL 480 was to match US agricultural surpluses, previously acquired by the Commodity Credit Corporation (CCC), which were costly to store, with countries in need of food. While PL 480 is constantly changing, it currently consists of three major parts, or titles, each with their own rules and expressed purposes. Title I is administered by the USDA while Titles II and III are administered by the Agency for International Development (AID).

Food aid donations under public law 480 can take various forms. Regardless of the form the aid takes, some common rules apply. First, a commodity may not be sent abroad as aid if doing so “would reduce the domestic supply of the commodity below the supply needed to meet domestic requirements.” Secondly, and perhaps most importantly for the implications of this paper, agricultural commodities include only those goods, “or the products thereof produced in the United States.” And under Title II “a product of an agricultural commodity” is “not considered produced in the United States if it contains any ingredient that is not produced in the United States, if that ingredient is produced and is commercially available in the United States at fair and reasonable price.” Thus US food aid is restricted completely to US produced products, or even to a subset of these products.

Title I

Title I provides for the sale of food to the governments of developing countries at competitive market prices. This sale is considered to be food aid because of the concessionary payment terms. Any food purchased under Title I may have payments differed for up to five years. After this period payment is made in “reasonable annual amounts” over a period of up to 30 years [PL480, 2002]. Additionally if the developing country chooses to make payments in their own currency, instead of dollars, these funds “may” use the payments to carry out development activities within

the country. However, this provision has not been implemented due to budgetary reasons [US Food Aid Programs Description, 2003].

Title II

Provides for the donation of agricultural products for both emergency and non-emergency uses. Emergency needs are provided for under a government-to government framework while non-emergency needs may be provided for through private voluntary organizations, cooperatives, and intergovernmental organizations. Commodities may come from stockpiles resulting from price support programs or furnished from private stocks [US Food Aid Programs Description, 2003].

Title III

Provides for “government-to-government grants to support long term development in the least developed countries” [US Food Aid Programs Description, 2003]. Recipient governments, under this title, are allowed to sell the commodities acquired on the domestic market and may use the revenue generated for economic development activities [PL480, 2002].

Other Food Aid Laws

In addition to PL 480, two other major food aid laws, Section 416(b) of the Agricultural Act of 1949 and The Food for Progress (FFP) program need to be considered. Both of these laws are administered through the

CCC. In fact the FFP program could be considered a part of either PL 480 or Section 416(b).

Section 416(b)

Section 416(b) is a program to dispose of surplus commodities by donating them overseas in “developing and friendly” countries. Surplus goods can be disposed of through 416(b) if they cannot be sold or disposed of in normal domestic channels without hurting price support programs or sold abroad at competitive world prices [Agricultural Act of 1949, 2002].

Just as with PL 480, there are some regulations of note within Section 416(b). First, in addition to the surplus commodities of the CCC, other food commodities may be donated through this program if they are acquired “in the normal course of operations,” meaning they were not obtained specifically for Section 416(b) distribution. Secondly the donation of food must go to countries that can use the food “efficiently and effectively” and such that it will not interfere with US marketing or disrupt world agricultural prices. We should note here that no mention is made of price disruptions in the receiving country, merely the world markets. Finally, food may be sold or bartered by the recipient for a number of reasons including: to pay for costs of distribution and to execute developmental activities.

The Food for Progress Program

The Food for Progress (FFP) program was originally authorized by the Food Security Act of 1985. It allows the CCC to export commodities either on credit terms or on a grant basis. Eligible recipients include developing countries and emerging democracies that have committed to the introduction or expansion of free trade in agriculture. Commodities may be provided under Title I of P.L. 480 or Section 416(b). A major difference between FFP and Section 416(b) is that FFP allows for the purchase by the CCC of products not currently in inventory.

III. Literature Review

As early as 1960 there was recognition of some of the problems involving food aid laws. Only a few years after the enactment of food aid laws economists were already citing the view that food aid is beneficial to development as a reason for the lack of appropriate aid to developing countries [Schultz, 1960]. Schultz, in his examination of the cost of food aid to the US and the benefit of the same to developing countries notes that the CCC costs are about twice the value of the products in the world market. This does not mean, however, that food aid costs us twice what it is worth to recipients. In fact Schultz expects that, despite high CCC costs, the real cost of PL 480 food is close to zero and the real benefit to

receiving countries is about 37 cents per dollar of CCC costs. There is a problem with accounting for food aid at the higher CCC cost to the extent that it “creates a feeling of complacency in the donor country” and thus may reduce other forms of much needed aid [Sen, 1960].

Maxwell and Singer (1979) make the general conclusion that “food aid is never neutral: that is its use is influenced by a constellation of interests in both donor and recipient countries, not all of which (some would say none of which) are concerned with true development for the poorest people in poor countries.” But they do not leave the matter there, going on to explain that the answer to the food aid debate depends on how food aid is actually used. To that end they provide a list of “7 guiding principles” for food aid programs. These include: (1) food aid can be useful in cases where food is a constraint on growth or on the reduction of income inequality; (2) food is most useful when it substitutes for the normal commercial imports of a country (this is in contrast with the restrictions of Section 416(b)); (3) food aid is best in a broad program which, among other things, puts emphasis on domestic food supplies; (4) food aid must be planned in advance and guaranteed availability; (5) food aid should be products which are part of the normal diet; (6) food aid must not substitute for other aid; (7) resources created with food aid sales must be used for development purposes. Current policies now, as then, do not fulfill all of these stated principles.

Other studies have shown that, in contrast with Maxwell and Singer's principles, foreign aid in general is dictated by political and strategic concerns as much as it is by economic needs. Thus aid and food aid transfers, in particular, because they are aligned with donor interests, are often of less value to recipient countries, and also cost the donating country less than the value accounted to aid or agricultural budgets and reported in official statistics as food aid [Clay and Stokke, 1991]. This occurs for several reasons, not the least of which is that if the food given as food aid were sold in the world market it would likely depress the price of food. This means that the "market price" used in calculating the value of food aid has been artificially inflated by the aid itself.

There has also been a great deal of antidotal evidence suggesting that importation of food aid by developing countries has a negative impact on the market price of domestic agricultural goods or domestic agricultural production and hence on the incomes of farmers. This decline in prices could occur for many reasons including [Maxwell, 1991]:

1. Public or private sector food aid sales cause local market prices to fall below optimal levels.
2. The availability of food aid allows the Government procurement agency to pay 'low' prices to farmers.
3. The availability of food aid allows the Government procurement agency to buy less, which in turn leads to a price fall.
4. Food aid causes a national policy disincentive, allowing government to neglect agriculture and/or food security.
5. Food aid causes taste changes which reduce demand for local staples.

6. Prices on the local market fall because food aid recipients buy less.
7. Food aid contributes to excessive local stocks in the public or private sectors, which overhang the market and drive prices below optimal levels.
8. Food aid discourages local storage which in turn increases price instability and reduces incentives.
9. The availability of food aid encourages government to neglect agriculture and/or long term food security.
10. Food aid causes taste changes which reduce demand for local staples.

These possibilities, of course, do not encompass all points of view. Arguments have also been made that food aid actually stimulates additional food production in receiving markets, particularly if the food aid received is complementary to local production. (Lavy, 1990).

More recently research has shown support for the idea that food aid is allied with US, or donor country, interests by showing a consistent relationship between producer interests and US food aid policy and a strong relationship between commodity stocks and food aid shipments [Diven, 2001]. This result is achieved by disaggregating the data along commodity lines and investigating specifically wheat and rice with the following model:

$$\text{FOODAID}(c)(t) = b(t) + \text{STOCKS}(c)(t-1) + \text{EXPORTS}(c)(t) + \text{AIDLAG1}(c)(t) + \text{LDCPROD/CAP}(c)(t-1) + e$$

Where (c) represents the individual commodity and data is restricted to PL 480 shipments. Analysis was done using Ordinary Least Squares.

Despite the disagreement on whether or not food aid is detrimental to agricultural production, more recent adaptations of food aid programs have attempted to deal with some of the problems of food aid. In 1980 the FAO (Food and Agriculture Organization) Committee on Surplus Disposal was set up to help guarantee that food aid did not interfere with normal trade in agricultural goods. However, the nature of food aid makes controlling all possible negative impacts of aid difficult.

While no one disputes the need for food aid to deal with emergencies, such as floods or famines, much of the food aid distributed is not for emergency (or relief) uses. For example in 2002 approximately 43% of all food aid given to Africa was designated as “Food Security” or “Developmental Food Aid”, both of which are non-emergency forms of aid. In addition, as shown in the graphs at the end of this paper, 2002 was an exceptional year in food aid history as emergency aid rarely constitutes even ten percent of food aid. The question that now arises is what impact of these free food imports have, when they are not needed for emergency uses, on the receiving country.

IV. Data

I am currently using two datasets. The first is from the OECD and lists all aid donations since 1960 by donating country, receiving country and purpose of the aid. In addition I am in possession of USDA data sets for the years 1996-2002 listing all US food aid by recipient country, aid program, and type of food. Unfortunately at this time I am having trouble reconciling the two datasets. I am also in the process of attempting to acquire a dataset similar to the USDA set from the European Union as well as agricultural price data in both donor and recipient countries.

All analysis, thus far, has been done with the OECD dataset, with no attempts to reconcile the data with that from the USDA. That said the data show a very recent, interesting trend of dramatically more relief food aid donations to Africa and indeed all developing countries, particularly on the part of the United States. I question this trend as relief food aid was consistently a very small part of the food aid bundle until 1998 (so small in fact that it is very hard to see most years in the graph) but since 1999 it has jumped sizably with no particular explanation. The question arises as to whether this indeed represents greater relief food aid or just a re-accounting of what constitutes relief aid.

V. Goals

My current goal is to investigate more thoroughly the relationships between food aid and developing country conditions. Specifically I am interested in market prices, country needs, and future agricultural production in addition to the country's development overall. In addition I would like to simultaneously examine the costs and benefits to the donating country and the market impact of selling potential food aid in the domestic market.

I propose to do the developing country research by disaggregating along commodity lines as well as by recipient country and broadening the view to encompass food aid donated by the US outside PL 480, which has been the traditional focus of research, as well as by other donors such as the EU.

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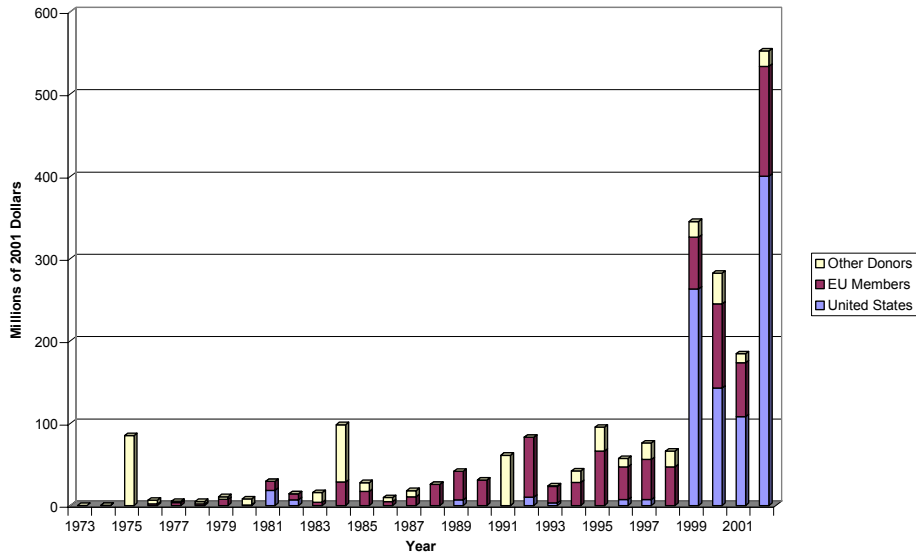
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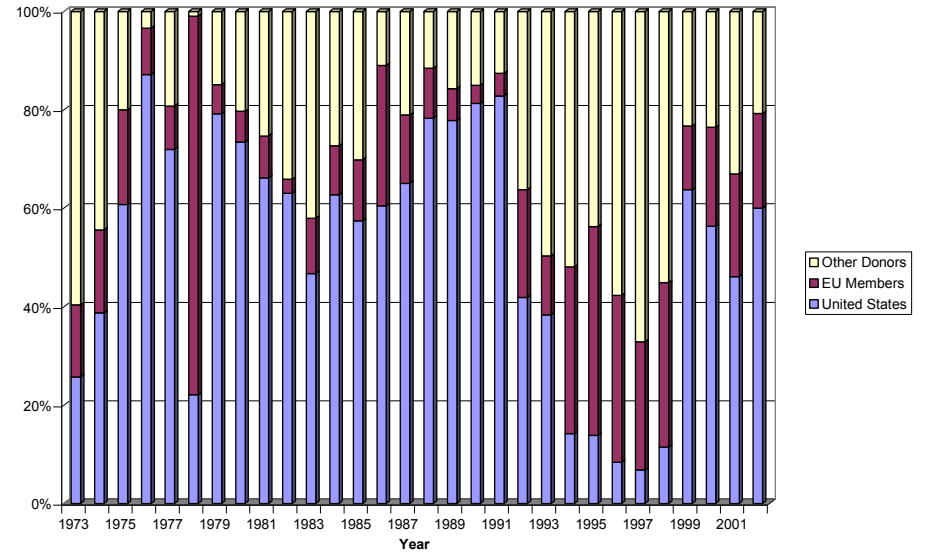
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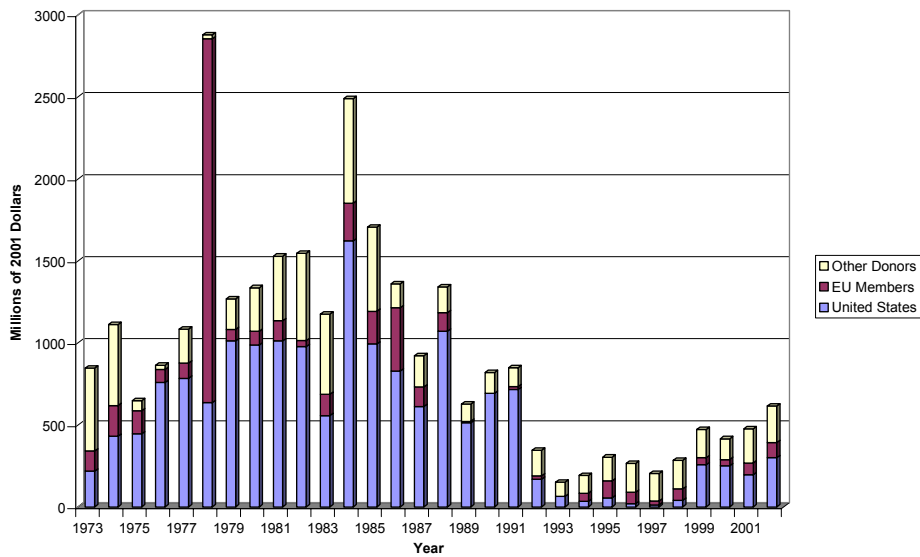
Relief Food Aid to Africa



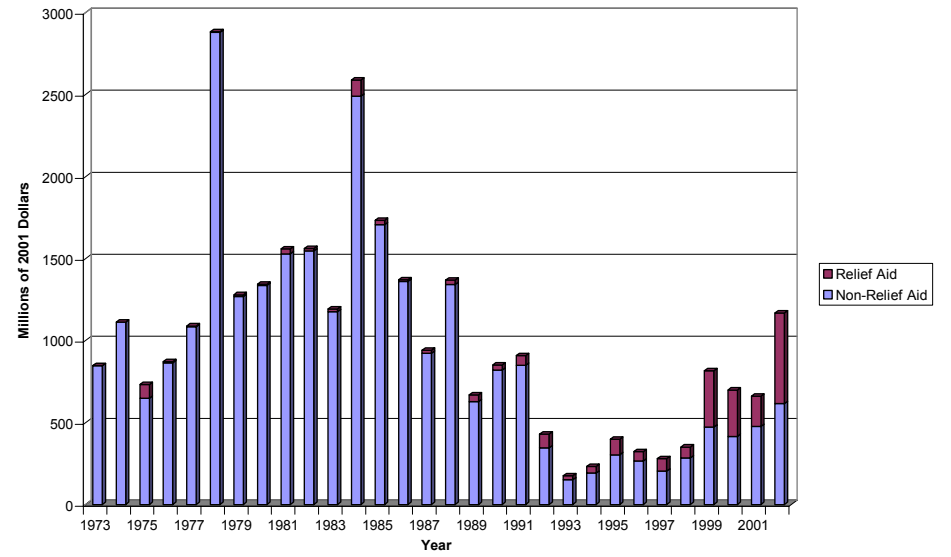
Total Food Aid to Africa by Donor



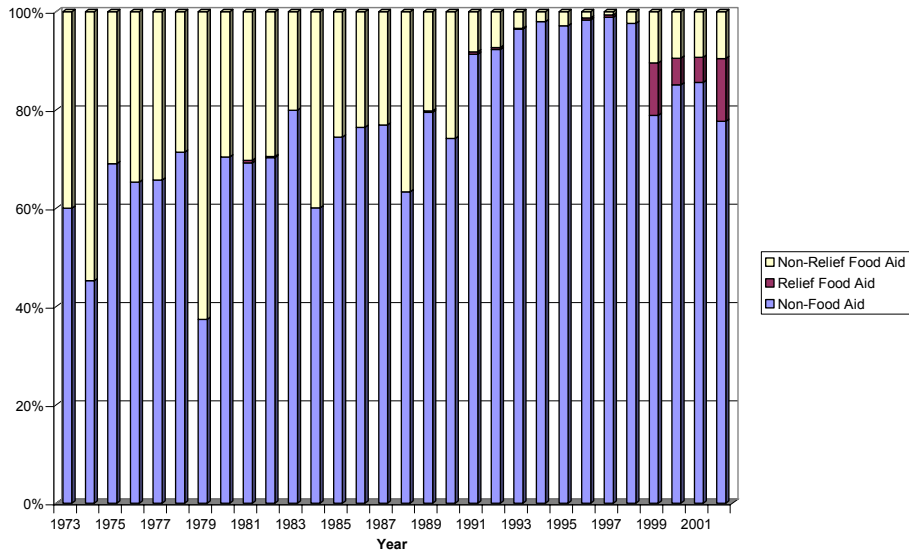
Food Aid to Africa Excluding Relief Food Aid



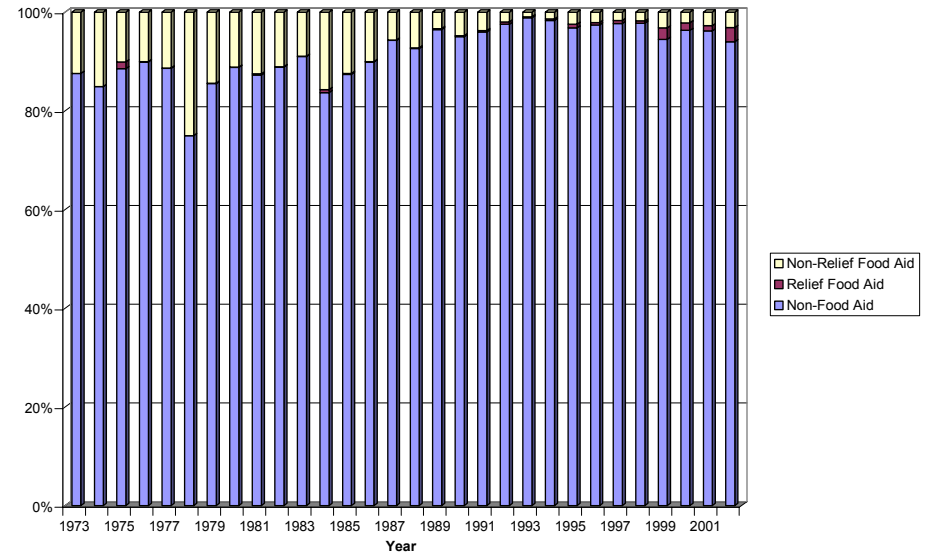
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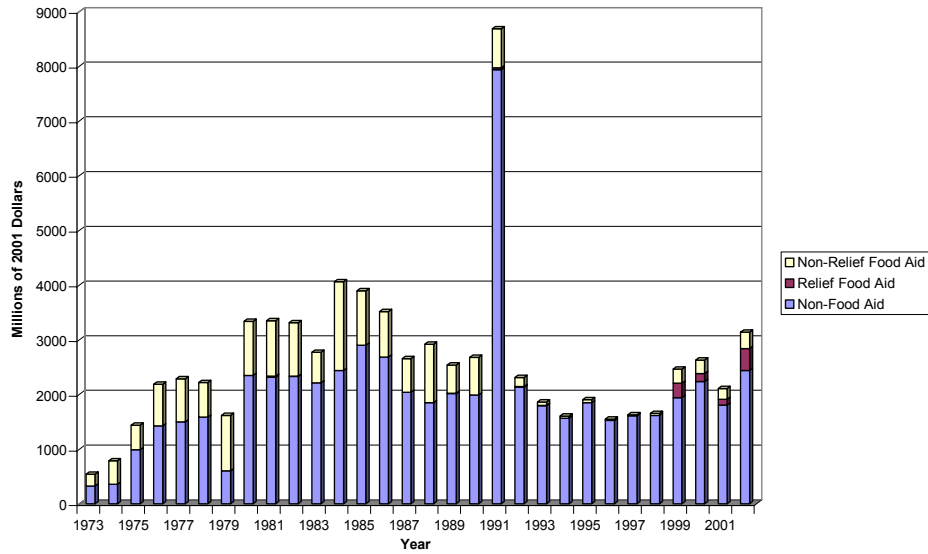
Breakdown of US Aid to Africa



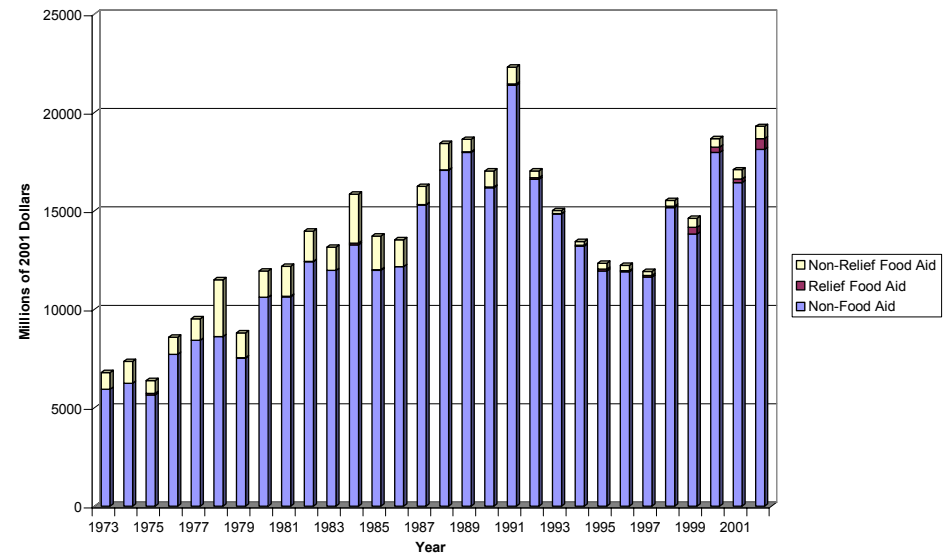
Breakdown of Total Aid to Africa



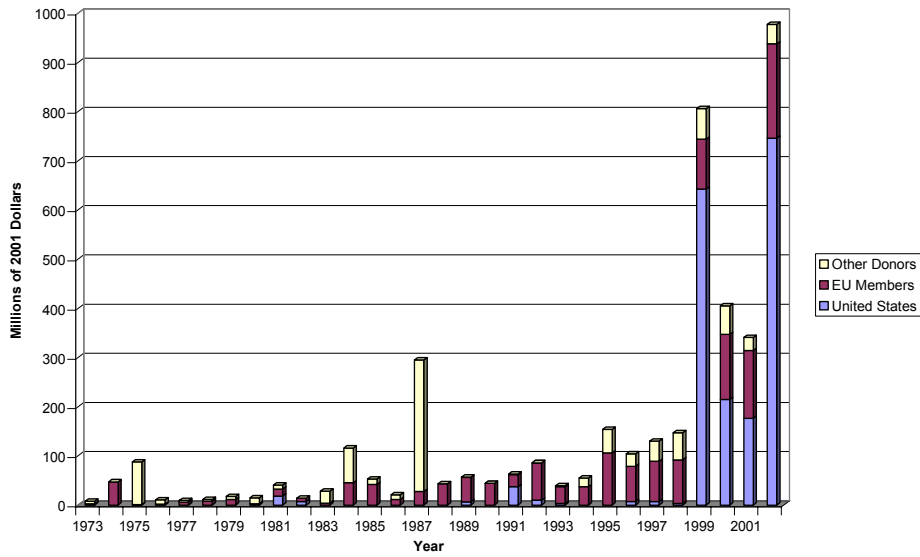
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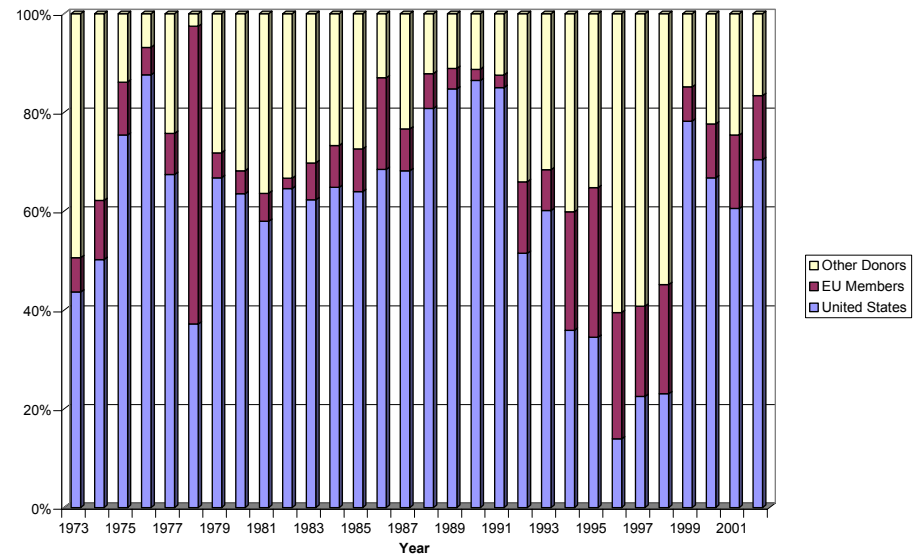
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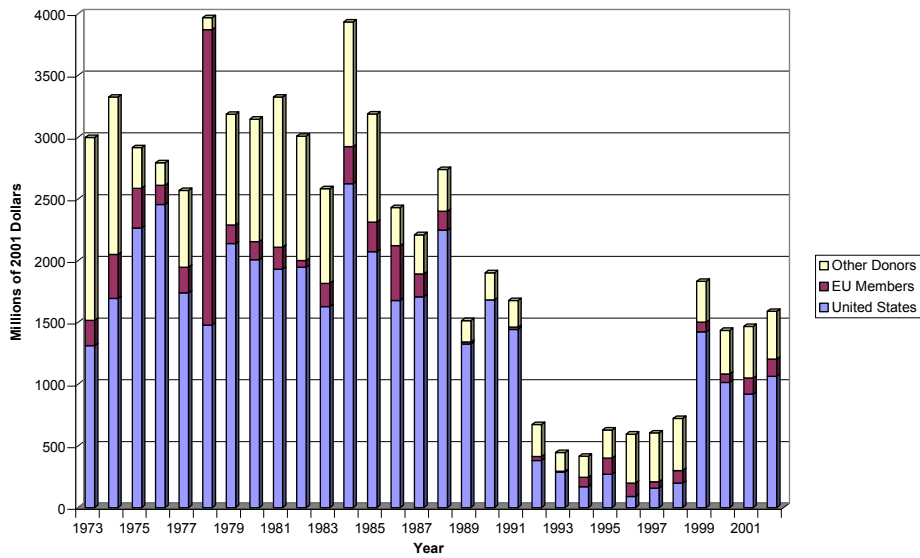
Relief Food Aid to Developing Countries (Excluding LDC Unspecified)



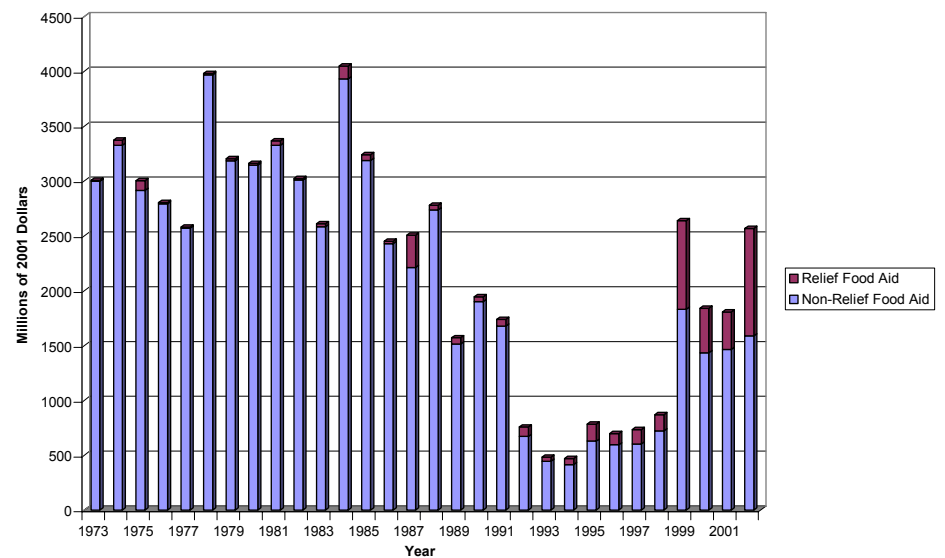
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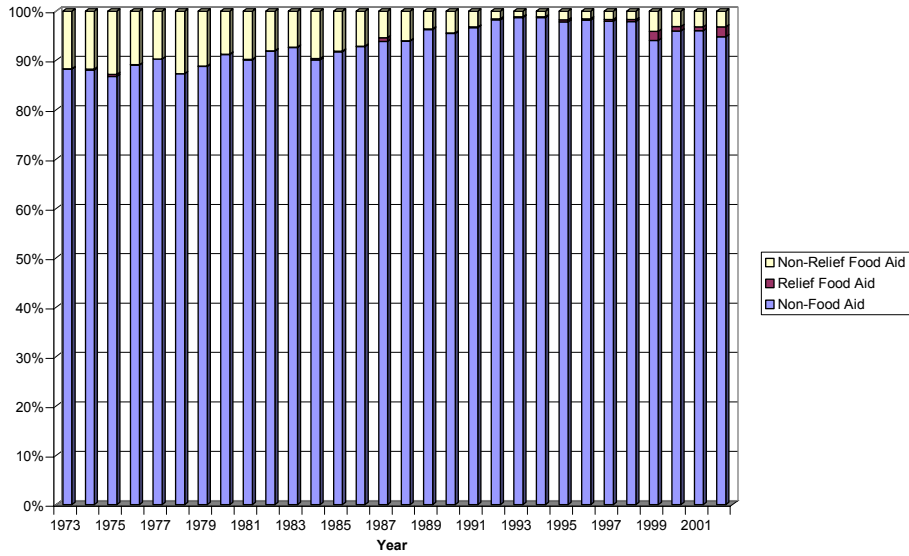
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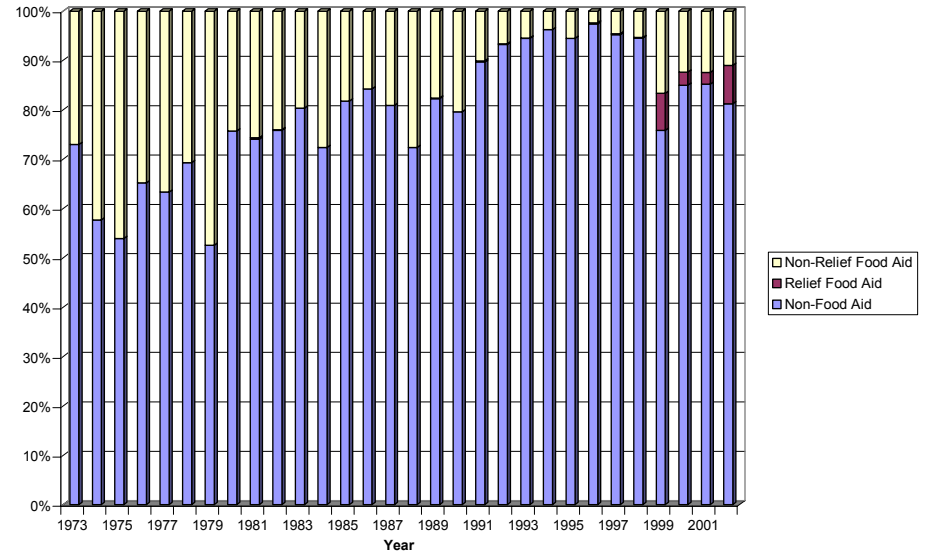
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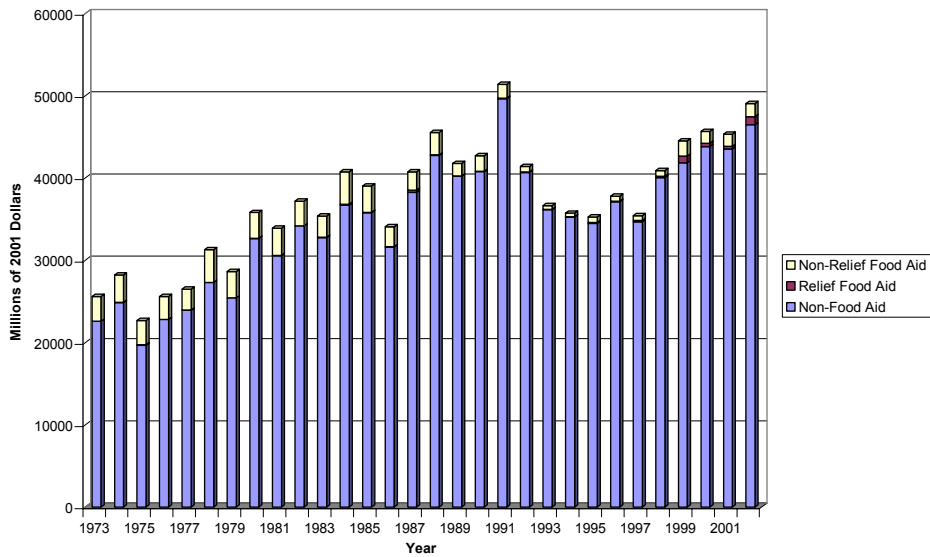
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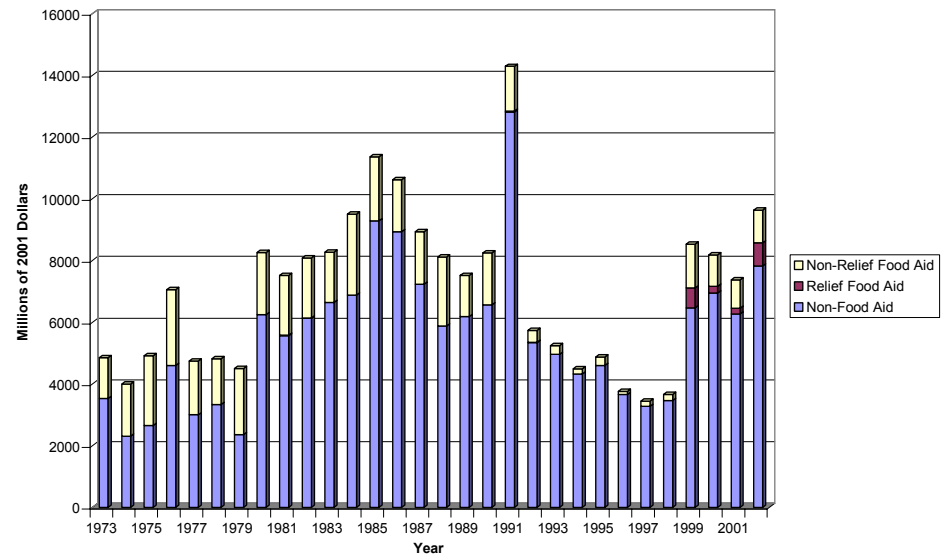
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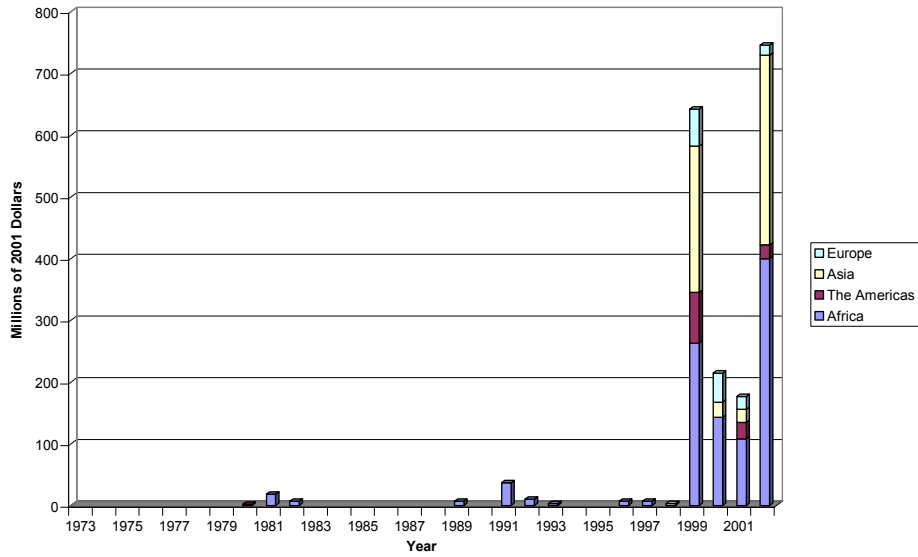
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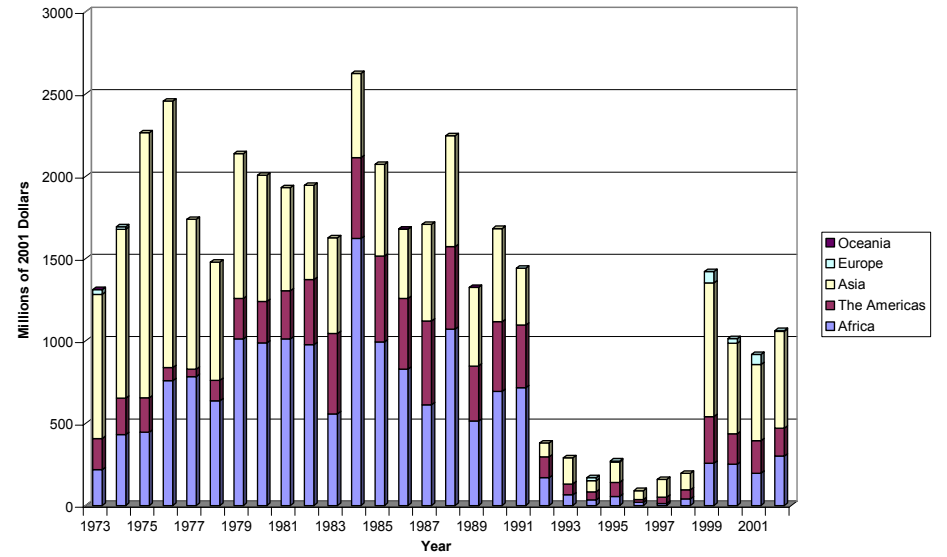
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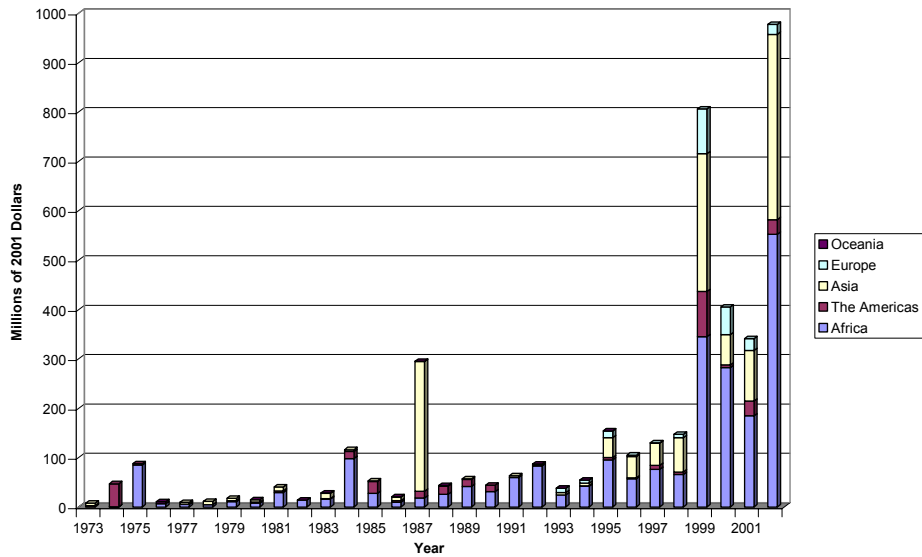
Total US Relief Food Aid



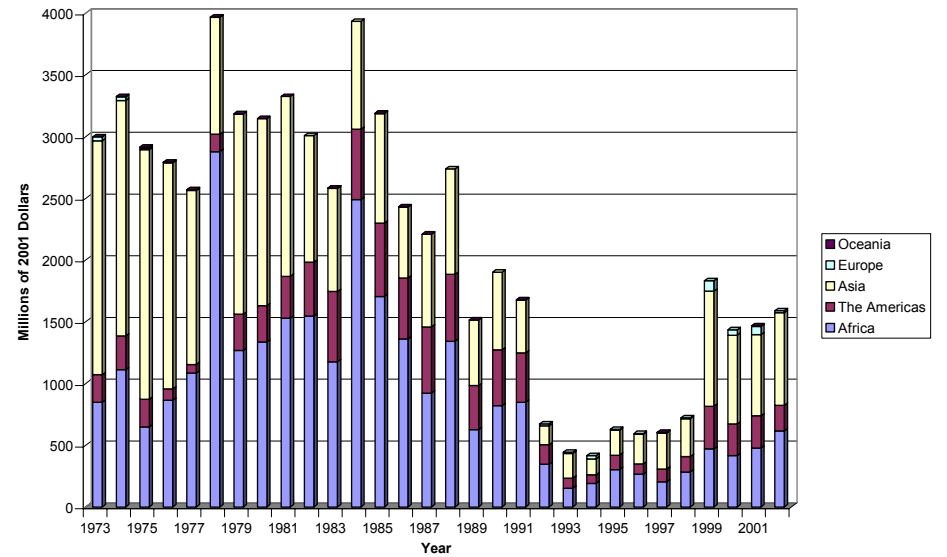
Total US Non-Relief Food Aid



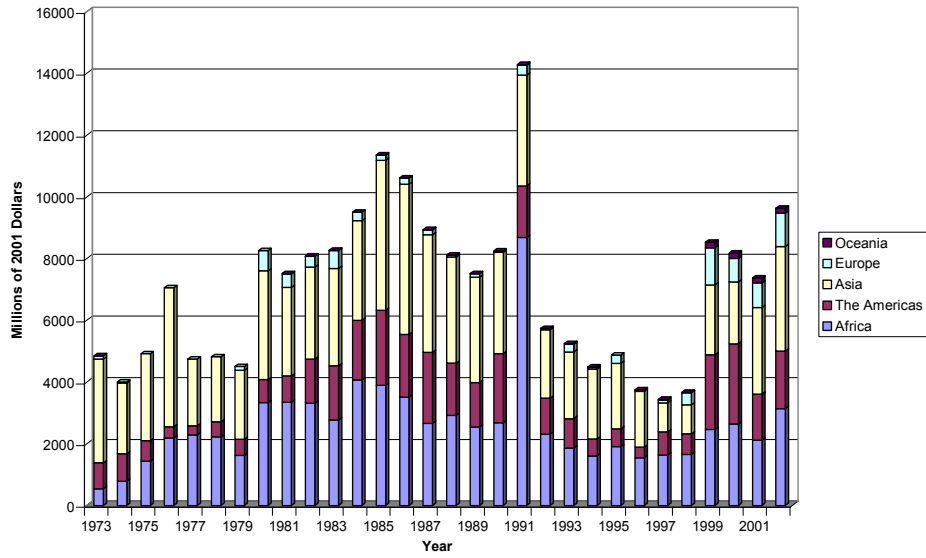
Total Relief Food Aid by Recipient



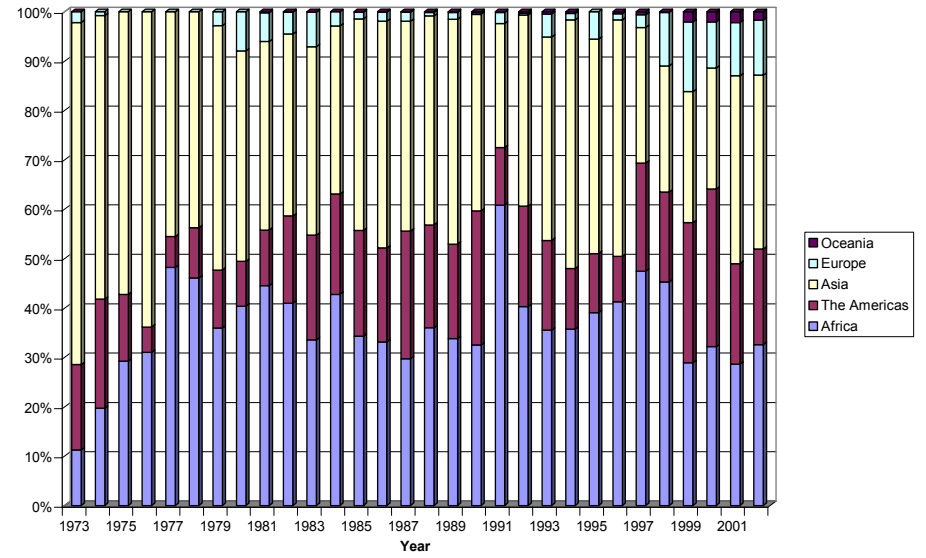
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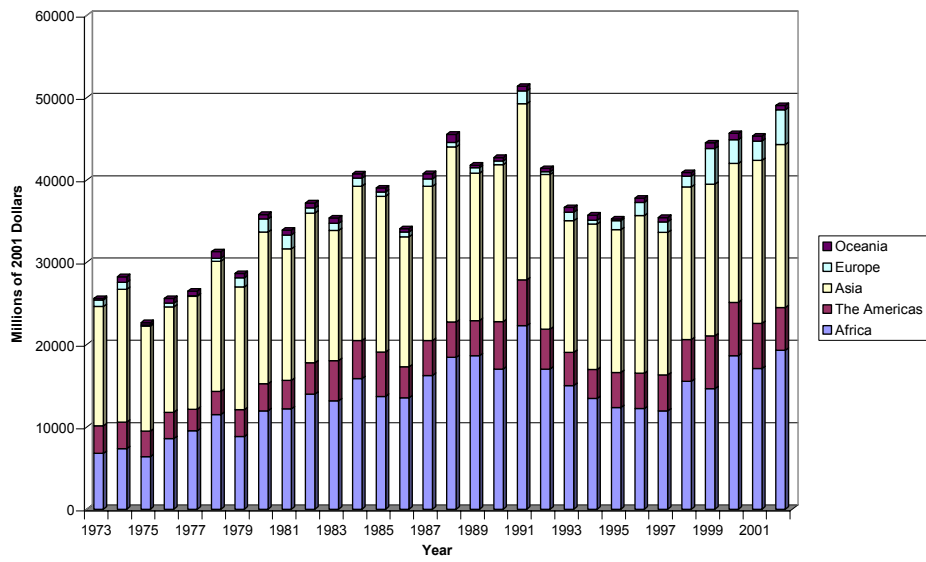
US Total Aid by Recipient



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