

931-0887

Reprint No. 3

A/D/C

IMPROVING THE EFFECTIVENESS OF FOOD AID

Gordon O. Nelson

A SEMINAR REPORT

AGRICULTURAL DEVELOPMENT COUNCIL
1290 Avenue of the Americas
New York, New York 10104

The Agricultural Development Council is a field-based organization investing in human resources through an extensive program of educational activities. The Council is dedicated to developing, among South and Southeast Asian countries, a broader awareness and expertise in meeting the major challenges of raising agricultural production and promoting rural development, as well as achieving a more equitable distribution of the gains from development.

The Council's training, research, publications and seminar programs focus on the socioeconomic issues that accompany the foregoing concerns. Its current priorities include:

- Irrigation and Water Management
- Renewable Resources (land, water, forests)
- Employment and Rural Labor Markets

The Council, with personnel and funding from international sources, operates chiefly through a network of staff Associates stationed in Asian countries.

The Research and Training Network is designed to identify research and training needs through a seminar program which provides a forum for communication and cooperation among the academic, private and governmental experts and their counterparts in the Third World.

PA 111 0074

IMPROVING THE EFFECTIVENESS OF FOOD AID

Gordon O. Nelson

A SEMINAR REPORT

This report, reprinted from the A/D/C monograph *Food Aid and Development*, is an interpretive account of a seminar held in Colombo, Sri Lanka, August 18-20, 1980 and sponsored by the Council's Research and Training Network. In addition to the present report and accompanying appendices, the monograph includes revised editions of the seminar papers.

Single copies of the reprint are available free of charge. Additional copy requests require \$1.00 for postage.

Single copies of the monograph are available at no charge to residents of Asia, Africa and Latin America. Additional copies are available at cost plus postage (\$5.50). Individuals residing in the United States, Canada, Europe, Australia and New Zealand may purchase copies at cost plus postage (\$5.50).

Subject to supply limitations, A/D/C will consider requests from individuals in developing countries for multiple free copies of either the reprint or monograph to be used in teaching; formal written requests should include course outlines and expected student enrollments.

**Gordon Nelson participated in the Sri Lanka seminar both as a paper contributor and as rapporteur. He is at the Food Research Institute, Stanford University, Stanford, California.*

IMPROVING THE EFFECTIVENESS OF FOOD AID: A REPORT OF THE SEMINAR

Gordon O. Nelson

Food aid offers an important potential mechanism for transferring real resources. In recent years food aid has become an increasingly scarce resource, largely because world commercial demand for foodgrains has increased more rapidly than the agricultural surpluses produced by developed countries. And the absolute volume of food aid has diminished since its heyday in the 1960s. Nevertheless, food aid continues to play a significant role in total foreign aid, especially in several large, food deficit countries, and it is likely to remain an important element in the development assistance arena for some time.

Experience has shown that food aid can be used extensively to promote social and economic development. However, as most observers point out, the full potential of this resource has rarely been realized. The central question is, How can food aid best be used as an instrument for development? A number of related questions also come to mind: What are the links between food aid and development? What, within the overall goal of economic and social development, are the varying objectives that different countries, with different environments, hold? What sorts of policies might successfully achieve these objectives? And what are the requirements for the effective implementation and management of food aid programs?

Recognizing the importance of these issues and following up on its earlier seminar on food aid, the Agricultural Development Council's Research and Training Network organized and sponsored a seminar on "Improving the Develop-

mental Effectiveness of Food Aid," which met in Colombo, Sri Lanka, August 18–20, 1980.¹ The overall purpose of the seminar was to enable experts whose experience with food aid covered a wide range of issues and activities to explore the kinds of policies that might increase the effectiveness of food aid in promoting development. Holding the seminar in Asia also reflected an RTN concern to make use of Asian countries' long experience with food aid programs and to include as participants a number of experts from countries currently receiving food aid. Thus seminar participants represented recipient-country government agencies charged with food programming as well as departments of the United States government that administer food aid programs, universities and volunteer agencies in several countries, and international organizations.

This report does not summarize the proceedings of the conference. Rather, it is an interpretive account of the discussions generated by the five major presentations—four of which appear, with this report, as chapters in a recent A/D/C monograph—on, respectively, the relation of food aid to economic and development strategy; the nature of food aid resources and their effects on an economy; food aid as an instrument of human capital formation; and decision making and implementation of food aid programs in a recipient country. The fifth paper, presented orally, offered ideas for future research that are discussed in the last section of this report. The seminar agenda, participants, and papers presented are appended to this report.

This report attempts to highlight the major issues of the seminar and to give the reader an idea of the areas in which participants reached general agreement and of those in which they differed. The report also reviews some important issues that were discussed briefly during the seminar but that will require further consideration.

MAJOR ISSUES

Food aid issues are highly interrelated. Inevitably, discus-

¹The RTN seminar on "Implementation of United States Food Aid—Title III," was held at Princeton, January 15–16, 1979.

sions about food aid touch on most of the major development and welfare issues facing developing countries. Although the seminar discussions generally followed the varying themes of the five presentations, the sections of this report redefine these themes somewhat in order to consolidate the account.

Production-Consumption Reconciliation

In most recipient countries, food aid affects the entire food system through supply and demand shifts which, in turn, affect market prices. The traditional conflict between the farmer's wish for higher prices as an incentive to increase production and the consumer's wish for lower prices that will make it possible to increase or protect consumption poses a clear problem for those who are attempting to fit food aid programs into general welfare and development strategies.

Until recently, analysis of food aid policies and programs has focused on the production effects of such aid, particularly its price disincentive effect. Increasingly, however, it is being recognized that lowered production incentives need not necessarily be the result of food aid imports. For example, price disincentive effects for producers can be modified by using food aid, in a variety of ways, to increase demand. And food aid can be used directly to increase agricultural productivity, as through public works (e.g., food-for-work) projects. Moreover, although price incentives may be necessary they are rarely sufficient to increase production; technological change in the form of modern agricultural inputs is crucial to increasing production in most developing countries.

From the consumption perspective, lowered food prices as a result of food aid imports can be extremely helpful to consumers in food deficit developing countries. As Engel's Law implies, the poor—here the marginal farmer and the landless worker—are particularly sensitive to food prices. The higher prices that encourage production will discourage consumption among poor people and will significantly lower their real incomes. Thus in most developing countries, higher food prices do have legitimate welfare implications. And this

is true not only in urban areas, for many—in some countries, most—farmers are net purchasers of food.

There are a number of ways of alleviating the problems of both consumers and producers, but most tend to be costly. Food aid can be targeted to poorer groups, for example, but in the experience of most seminar participants the very poorest people are difficult, if not impossible, to reach. In the view of several participants, the magnitude of the poverty problem in many countries precludes targeting food aid on a meaningful scale. And producers can be offered price incentives through guaranteed procurement plans but only at considerable expense.

One of the central points of discussion in the seminar, and one on which the participants generally agreed, was the potential usefulness of food aid as a means of bridging the gap between short-run (between six months and six years) consumption requirements and long-run increases in agricultural productivity. To quote one participant, “Food aid resources can be used to increase the degrees of freedom available to policymakers in food deficit countries” who confront this fundamental production–consumption dilemma. One strategy, for example is to use tradeoffs between commodities—such as between wheat and rice—to serve both consumers’ and producers’ needs better. The strategy of using food aid as a short-run measure requires detailed analysis and understanding of a particular country’s food system and a real commitment to developing that country’s agriculture.

Finally, participants repeatedly voiced their concern about the knowledge gap on the consumption side of the equation. They expressed a strong plea for more analytic work in this area, pointing out our need for answers to such questions as, What are the dynamics of food aid vis-à-vis consumption and incomes? How are the benefits and costs of various food aid programs distributed across income groups? What are the limits of our current analytic techniques in exploring these questions?

Human Capital Investment

The use of food aid in the development of human capital is a topic that was touched on at the 1979 RTN food aid seminar but discussed in depth only at the present meeting. Traditionally, we have tended to view food aid as a welfare instrument, not an investment resource. In fact, however, as one participant pointed out, using food aid to improve nutrition and health and to increase participation in education can be viewed as a real investment expenditure that increases long-term labor productivity, especially when combined with investments in capital and land.

The human capital approach to food aid attempts, through targeting programs of various types, to channel food-aid resource transfers to those groups that make up the most vulnerable segment of the population. The income transfer from targeted programs such as those for food stamps, maternal-child health support, and school lunches not only increases real incomes of recipients and thus total demand but enhances the general quality of life and leads eventually to economic efficiency and growth.

The objectives and logic of the human capital approach to food aid are compelling, and as stated, they met with little resistance from seminar participants. A number of people, however, did raise some pertinent issues regarding the practicality of the approach and the lack of empirical support for it. In fact, an issue that was raised repeatedly throughout the seminar was the proverbial question of equity versus growth. The proponents of the human capital approach argued that this traditional dichotomy is a false one; much experience from the field, however, suggests otherwise.

With respect to practicality, one obvious issue is that of cost. Targeted programs cost literally two, three, and four times the CIF cost of the food aid commodities they use, according to one participant. What then is the opportunity cost of the extra development resources required for targeted programs? A second issue is the scale of food aid required in a given country to implement the human capital approach. One participant, attempting to estimate the amount of food aid needed to establish a meaningful, broad-based school

lunch program in Bangladesh, concluded that the amount was roughly double the already large quantity of current foodgrain imports. A third issue centers on logistic and leakage problems of targeted programs. Several participants from volunteer and donor agencies noted that commodities may sometimes be “lost” or may be misdirected so that the intended beneficiaries never receive them. Finally, participants raised the question of what the experience has been of countries that have followed an equitable, broad-based food distribution strategy, particularly vis-à-vis productivity. In the case of Sri Lanka and Kerala, for example, the connection between social services and economic growth does not appear to be strong. Perhaps it is too soon to make inferences.

The real question is, Why has the improvement in quality of life not yet led to increased productivity and growth? In the absence of a dynamic, efficient economy, using food aid primarily as an instrument for human capital development seems simply to spin a country’s economic wheels. Some participants suggested that because in many countries the poorest of society’s groups live persistently below subsistence level, targeted food aid programs can only help to prevent deterioration of the stock of human capital—they cannot add to it. Thus a catching-up phase may be required before targeted food programs can begin to affect productivity and growth.

Implementation and Management

The operational aspect of food aid programs is often just as important as the overall policy and planning aspect. A certain technical competence—apart from that needed in policy making analysis—is required to monitor, adjust, and evaluate day-to-day operations. And the problems encountered in such operations can be truly enormous: for example, complicated negotiations and ordering, international transport lags and bottlenecks, pressures on limited domestic infrastructure capacity, and stock management difficulties. Thus food aid programs require a high level of technical and managerial competence in order to operate smoothly and to meet

desired objectives. This requirement is particularly strong now, when world foodgrain markets are fluctuating; in fact, however, food aid flows will continue to be irregular because of their nature as well as the market.

Clearly, to undertake such heavy analytic and decision making responsibilities, recipient countries must further develop the capacities of personnel charged with these responsibilities. In general, analytic and managerial capabilities tend to be scarce in developing countries; in particular, personnel trained in food policy analysis are rare. The problem, however, is not one-sided. Although seminar participants from food-aid receiving countries strongly emphasized such countries' needs in this area, participants also noted that many donors face a serious shortage of analysts who are trained in food policy issues related to their food aid program responsibilities.

The demand for food policy analysts and for analysis of food issues is likely to continue to outrun supply for some time even if, in the near future, donors make greater commitments to training, fellowships, and research. Two new international agencies—the World Food Council and the International Food Policy Research Institute—have begun analytic work on food aid issues.

Another major problem for recipient countries in implementing food aid programs is the lack of coordination between domestic agencies and between these agencies and foreign donors. Most of the seminar participants recognized the desirability of great coordination at all levels, but no suggestions as to how to proceed were forthcoming. The problem is not unique to food aid programming; it affects aid programs in general.

Micro Training—Macro Issues

Many economists who deal with food aid have been trained more in micro than in macro economics, yet many key food aid issues are macro in nature: for example, taxation (direct and indirect); investment; employment; and, particularly, wage policy. The traditional starting point for food aid analysis—partial analysis of a system's components—carries a

bias in favor of compartmentalization. But food aid works through recipient economies in a variety of complicated, interrelated ways that affect the system as a whole.

A recurrent theme at the seminar was the importance of the link—fundamental in most developing country economies—between food policy and wage policy. Consumption decisions and labor-use decisions are two key factors that are linked at the micro level and that are necessary precursors to macro-level policy making. Economists, however, are only just beginning to include wage rate and wage policy factors in their analyses of food aid. Clearly the knowledge gap is wide. But, according to one seminar participant, food aid as a wage good is likely to become an increasingly important, perhaps the dominant, question in future.

AREAS OF CONSENSUS

Seminar participants found themselves in agreement on a number of issues—issues that centered around important factors in the programming of food aid for development. Perhaps even more important than consensus on any one issue, however, was the realization that just a few years ago, agreement on some of these matters would probably not have been achieved.

- Food aid is a real resource that can be used in a variety of ways to promote development. Food aid resources are likely to be part of the aid picture for a long time; however, because they are becoming scarcer, efforts should be made to allocate them as efficiently as possible.
- Food aid is only a small fraction of general aid, which in turn is a small portion of the total resources required for development in food deficit countries. Thus although important at the margin, food aid is not a panacea.
- We need a balanced perspective on the issue of the price disincentive effect. It is generally recognized now that this effect may be moderated in a number of ways.

- Food aid and food policy issues are complex: through interrelationships at different levels, food aid generally affects a recipient country's entire economy. Of particular significance are the macro-micro interrelationships and the production-consumption policy dilemma.
- We lack the data bases and analytic techniques necessary for sorting out many of the important food policy issues confronting recipient countries. And among both recipients and donors, analytical skills are in critically short supply.
- Many food aid issues are country-specific: developing countries vary widely in experience, environment, and needs.

MAJOR CONTROVERSY

The major controversy of the seminar centered around the market versus nonmarket interventional use of food aid for development. Participants who gave more weight to the role of price emphasized the significance of the production-consumption dilemma and the sheer magnitude of the food problem faced by many food deficit countries. In these participants' experience, the nonmarket, or targeting, approach has not begun to fill the consumption gap and has had little effect on raising agricultural productivity. Thus these participants felt that targeting cannot effect a long-term solution to the food problem. They did not suggest, however, that targeting is useless. They felt that for vulnerable groups with extremely limited purchasing power (often seasonal), targeting may be the only way of protecting incomes and ensuring minimal nutritional levels.

Advocates of targeting intervention emphasized the short-run needs for selective redistribution of income as well as the long-run benefits of the enhancement of human capital. They felt that targeted food programs should be thought of in terms of investment, not simply welfare.

Whether we view targeting as investment or welfare, we still face the task, crucial to the targeting approach, of iden-

tifying the specific populations most in need of income or food redistribution. In practice, “means” tests have not been very satisfactory, and there is some suggestion that the poorest groups may, in fact, benefit more from market, or price, approaches than from targeting methods.

Food-aid receiving countries commonly use food aid resources in a variety of ways simultaneously: for example, market-price defense, rationing, and targeted distribution programs. And donor categories for food aid reflect such various distribution modes; see, for example, USAID’s Titles I, II, and III. The appropriate mix of programs or modes is very country-specific, and it may well be, as one participant suggested, that the difference of opinion on the market–nonmarket intervention issue stems largely from participants’ varying experience and geographical orientations.

UNRESOLVED ISSUES: A RESEARCH AGENDA

Although the issue of food security and the related matters of domestic reserve schemes and world grain trade were touched on several times during the seminar, they were barely discussed. Clearly, food security is of great importance to food deficit countries, particularly in view of fluctuating world markets in foodgrains and energy and the vulnerability of domestic production to changing weather conditions. The relation of food aid to food security issues must be explored comprehensively. The potential returns to analysis in this area are very high.

The other potentially high-payoff subject for research in food and food policy issues is the methodology itself. New frameworks for analysis are needed to tackle the complex problems explored at the seminar. One such problem is the production–consumption interface and the importance to it of wage rates; another is the whole set of issues involving the evaluation of alternative food aid programs—costs and benefits, distribution of benefits, and cost effectiveness.

In addition to these two major foci of potential research, participants listed a number of topics that need research emphasis. Although individuals’ rank orderings differed

somewhat, there was little disagreement about the identity of topics requiring attention. Among the most important of these were the following:

- Design of procedures for implementing simple “means” tests
- Identification of food sector linkages
- Identification of the links between food aid and agricultural productivity
- Analytic evaluation of food delivery systems
- Analysis of consumption patterns in recipient countries
- Exploration into the dynamics of poverty

COMMENTS BY V. S. VYAS

Nelson’s report is faithful to the seminar discussions and highlights the main points. I have only two comments to make.

The first comment relates to an area that, though relevant, we did not discuss. In simple terms, we ought to have raised the question of what role food aid will play in Asia in the light of recent developments in some Asian countries. In some areas—for example, Bangladesh—agricultural development seems to be occurring more rapidly than had been predicted a few years ago. Also, there seems to be a breakthrough in rice production, as there has been in wheat production, although no similar advances seem to be occurring in pulses or millets. Most food aid is, of course, wheat. The production–consumption issue that Nelson refers to should perhaps be expanded to include the changing mix in the commodity basket and the lag in adjustment of consumer demand to domestically available foodgrains.

My second comment refers to the issue of how food aid is replaced in the system. This is a topic that we did discuss, but I feel it is not adequately covered in Nelson’s report. Some participants pointed out that food aid could be (*a*) used to bring down the general price level in a situation of food scarcity or (*b*) released in a manner such that a targeted group is “immunized” against high foodgrain prices. In the

context of alternative *b* there was some discussion of the food-for-work program. Nelson's report refers to this discussion but, in my view, does not highlight it sufficiently. Alternative *a*, or the open-market operation, should be underlined, and the huge quantities of food necessary to meet the objective of price stabilization should be emphasized.

Appendix 1

SEMINAR AGENDA

August 18

- Introduction A. M. Weisblat, A/D/C
- Session I: Relation of Food Aid to More General
Economic and Development Policy
- Chairman Thomas Lederer, USDA
- Paper Peter Timmer, Harvard University
- Discussants Barbara Huddleston, IFPRI
Robert C. Chase, USAID
- Session II: Macroeconomic Dimensions of Food Aid
- Chairman Kelly Harrison, USDA
- Paper Gordon O. Nelson, Food Research
Institute
- Discussants Charles H. Antholt, USAID
Joseph Stepanek, USAID
Mahab Hossain, Bangladesh Institute
of Development Studies
- Balance of Payments Support
 - Domestic Budget Support
 - Stabilization Schemes
 - Disincentive Effects

August 19

- Session III: Food Aid and the Formation of Human
Capital
- Chairperson Ruth Zagorin, USDA
- Paper G. Edward Schuh, University of
Minnesota
- Discussants Shubh K. Kumar, IFPRI
Vera Kardonsky-Titelman, WFP/FAO
Sarojini Abraham, UNICEF
Frank L. Goffio, CARE

- Nutrition Program: Large Scale Direct Nutrition Intervention; Food for Pregnant Women; Food for Lactating Mothers; Others
- In Support of Education and Training
- In Support of Family Planning

August 20

Session IV: In-Country Decision Making
Capabilities on Food Aid and Food Policy

Chairman A. M. Weisblat
Paper Patricia Alailima, Ministry of Finance and Planning, Sri Lanka

Discussants Kelly Harrison, USDA
Syamsuddin Syarif, BULOG

Session V: Research Agenda

Chairman A. M. Weisblat
Presentation G. Edward Schuh
Discussant Peter Timmer

Session VI: Open Discussion

Chairmen W. David Hopper, World Bank
W. M. Tilakaratne, Ministry of Finance and Planning, Sri Lanka

Appendix 2

Seminar Participants and Observers

Participants

Sarojini Abraham
Rural Development Section
UNICEF
UNICEF House 11, Jor Bagh
New Delhi 110003, India

Patricia Alailima
National Planning Division
Ministry of Finance & Planning,
Galle Face Secretariat
Colombo 01, Sri Lanka

Charles H. Antholt
Chief, Office of Food & Agriculture
USAID
GPO Box No. 2593
Ramna, Dacca 2, Bangladesh

Robert C. Chase
Food for Peace, Room 535
AID/Department of State
Washington, D.C. 20523

Beatrice de Mel
Nutrition Unit, Medical Research
Institute
Ministry of Health & Consultant,
CARE
MRI Baseline Road,
Colombo 8, Sri Lanka

Frank L. Goffio
Consultant to CARE
3, Sprain Valley Road
Searsdale, New York 10583

Kelly Harrison
Office of the General Sales
Manager
USDA, Room 4073, South Bldg.
Washington, D.C. 20250

P. M. Hassen
Food Commissioner
Ministry of Food & Cooperatives
330, Union Place
Colombo 2, Sri Lanka

Mahab Hossain
Research Economist
Bangladesh Institute of
Development Studies
Dacca, Bangladesh

Barbara Huddleston
IFPRI
1776 Massachusetts Avenue N.W.
Washington, D.C. 20036

Catherine Jabara
DS/AGR/ESP
USAID
Washington, D.C.

Charles W. Johnson
Asia/DP, Room 3208NS
AID/Dept. of State
Washington, D.C. 20523

Vera Kardonsky-Titelman
World Food Program/FAO
Calle 82, No. 20-14
Apartado Aereo 091369
Bogota 2, Colombia

Shubh K. Kumar
IFPRI
1176 Massachusetts Avenue N.W.
Washington, D.C. 20036

Thomas Lederer
USDA
Room 3047, South Bldg.
Washington, D.C. 20523

D. M. B. Marapone
Chairman
Paddy Marketing Board
101/I, Sri Chittampalam A.
Gardiner Mawatha
Colombo 2, Sri Lanka

Gordon O. Nelson
Food Research Institute
Stanford University
Stanford, California 94035

Mary Alice Price
Agricultural Development Council
1290 Avenue of the Americas
New York, New York 10104

Calvin H. Raullerson
AA/PDC
AID/Department of State
Washington, D.C. 20523

G. Edward Schuh
Department of Agriculture &
Applied Economics
University of Minnesota
231 Classroom Office Bldg.
1994 Buford Avenue
St. Paul, Minnesota 55108

Priyani Soysa
Professor of Pediatrics
University of Colombo &
President, Sri Lanka Nutrition
Society
Faculty of Medicine
Lady Ridgeway Hospital
Colombo 8, Sri Lanka

Joseph F. Stepanek
USAID, Box 4
APO San Francisco 96356

Christopher Stevens
Overseas Development Institute
10-11 Percy Street
London W1P 0JB, England

Syamsuddin Syarif
Head of Rice & Sugar Import
Division
BULOG
Jalan Gatot Subroto #49
Jakarta-Jelatan, Indonesia

W. M. Tilakaratne
Ministry of Finance & Planning
Secretariat
Colombo 1, Sri Lanka

C. Peter Timmer
John D. Black Professor of
Agriculture and Business
Harvard Business School
Soldier's Field
Boston, Massachusetts 02163

V. S. Vyas
Indian Institute of Management
Vastrapur
Ahmedabad 380015, India

A. M. Weisblat
Agricultural Development Council
1290 Avenue of the Americas
New York, New York 10104

John Westley
USAID/India
New Delhi (ID)
Department of State
Washington, D.C. 20520

Ruth Zagorin
Office of International Cooperation
& Development
USDA
Room 3047, South Bldg.
Washington, D.C. 20250

Observers

Hossain
UNDP Advisor to Ministry of
Finance & Planning
Secretariat
Colombo, Sri Lanka

Sara Jane Littlefield
Director
USAID Office
Colombo, Sri Lanka

George Taylor
CARE/Colombo
27, Alfred Place
Colombo 3, Sri Lanka

W. C. Pan
CIDA — Colombo
Colombo, Sri Lanka

Appendix 3

PAPERS

Alailima, P., *Food Aid and Food Policy: In-Country Decision Making.*

Nelson, G. O., *Macroeconomic Dimensions of Food Aid.*

Schuh, G. E., *Food Aid and Human Capital Formation.*

Timmer, C. P. and Guerreiro, M., *Food Aid and Development Policy.*