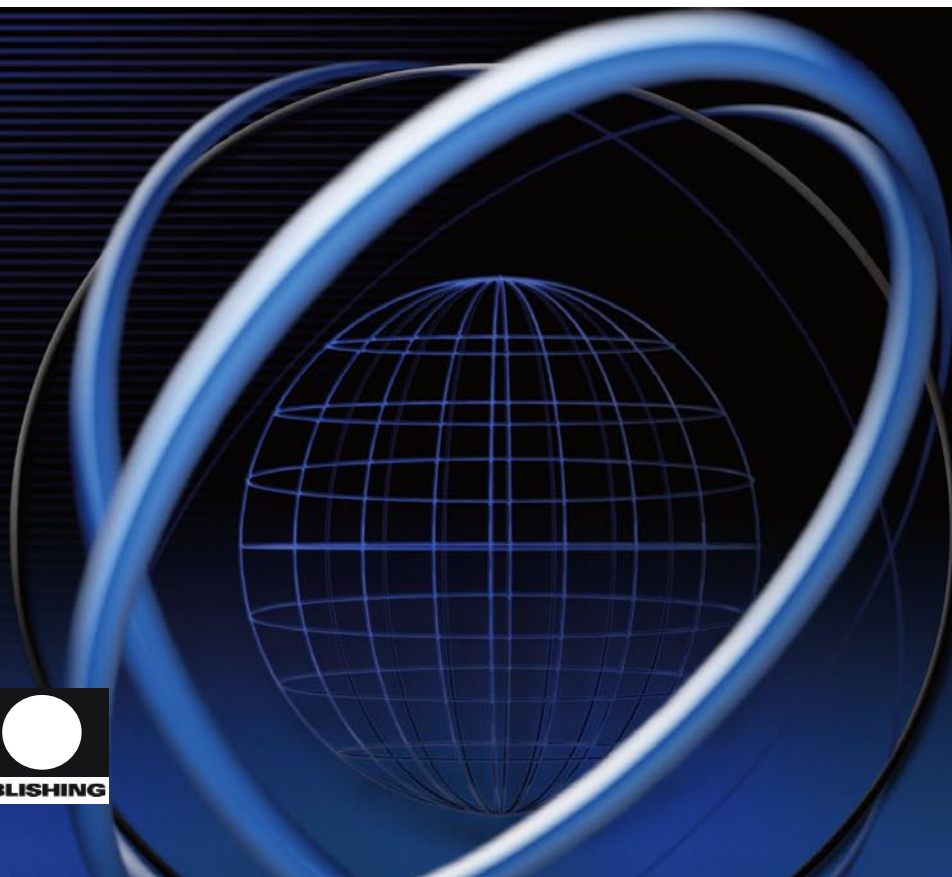




**The Development Dimension**

# **The Development Effectiveness of Food Aid**

**DOES TYING MATTER?**





The Development Dimension

# The Development Effectiveness of Food Aid

DOES TYING MATTER?



ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

# ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

The OECD is a unique forum where the governments of 30 democracies work together to address the economic, social and environmental challenges of globalisation. The OECD is also at the forefront of efforts to understand and to help governments respond to new developments and concerns, such as corporate governance, the information economy and the challenges of an ageing population. The Organisation provides a setting where governments can compare policy experiences, seek answers to common problems, identify good practice and work to co-ordinate domestic and international policies.

The OECD member countries are: Australia, Austria, Belgium, Canada, the Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, the Slovak Republic, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. The Commission of the European Communities takes part in the work of the OECD.

OECD Publishing disseminates widely the results of the Organisation's statistics gathering and research on economic, social and environmental issues, as well as the conventions, guidelines and standards agreed by its members.

*This work is published on the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of the Organisation or of the governments of its member countries.*

*Also available in French under the title:*

**L'efficacité de l'aide alimentaire pour le développement**

LES EFFETS DE L'AIDE LIÉE

© OECD 2006

---

No reproduction, copy, transmission or translation of this publication may be made without written permission. Applications should be sent to OECD Publishing: [rights@oecd.org](mailto:rights@oecd.org) or by fax (33 1) 45 24 13 91. Permission to photocopy a portion of this work should be addressed to the Centre français d'exploitation du droit de copie, 20, rue des Grands-Augustins, 75006 Paris, France ([contact@cfcopies.com](mailto:contact@cfcopies.com)).

---

## Foreword

*I*n the context of the 2001 Development Assistance Committee (DAC) Recommendation on Untying Official Development Assistance to the Least Developed Countries<sup>1</sup> and against the background of the WTO Doha Development Agenda, as well as the possible renegotiation of the 1999 Food Aid Convention, the DAC asked for a factual assessment of the developmental effectiveness of food aid and the effects of its tying status.

The assessment gave rise to the present document. It was commissioned by the DAC Working Party on Aid Effectiveness and Donor Practices. It is published by the DAC, whose members work together to increase the effectiveness of their aid.

This study was undertaken by Dr. Edward Clay, Senior Research Associate with the Overseas Development Institute (UK), in collaboration with Barry Riley, who was primarily responsible for the investigations concerning the United States and Canada, and Ian Urey, Imperial College London, Wye Campus, as statistician.<sup>2</sup>

The team benefited from advice and information provided by many individuals within DAC members' development agencies, as well as Dirk Bezemer and Kelvin Balcombe (Imperial College, London), Jonathan Innes (Booker Tate Ltd), Jens Schulthes (formerly WFP), Chris Barrett (Cornell University) and Max Merbis (Free University, Amsterdam).

Diana Evans edited this volume with the assistance of Amy Arnstein and Ann Gordon. The project was managed by Frans Lammersen.<sup>3</sup>

The work has been carried out thanks to generous voluntary contributions from Belgium, Germany, Sweden and the United Kingdom.

1. See: [www.oecd.org/dac/untiedaid](http://www.oecd.org/dac/untiedaid).

2. E-mail contacts: Edward J. Clay ([e.clay@odi.org.uk](mailto:e.clay@odi.org.uk)); Barry Riley ([barryriley@comcast.net](mailto:barryriley@comcast.net)).

3. E-mail: [frans.lammersen@oecd.org](mailto:frans.lammersen@oecd.org).



## Table of Contents

<b>Acronyms</b> .....	9
<b>Preface</b> .....	11
<b>Executive Summary</b> .....	13
<b>Chapter 1. The Development Effectiveness of Food Aid</b> .....	19
Introduction .....	20
Scope of the assessment .....	21
Definitions and analytic concepts .....	21
A priori assessment of members' programmes .....	23
United States .....	23
European Union .....	26
Other DAC member programmes .....	27
World Food Programme .....	28
Food aid: an appropriate resource for development? .....	28
Introduction .....	28
An uncertain resource? .....	29
Responsiveness to needs .....	31
International policy responses .....	33
Additionality: opportunities and challenges .....	36
The developmental effectiveness of food aid: key research findings from the literature .....	37
Introduction .....	37
Emergency food aid, shocks and crises .....	38
Food aid as a safety-net against poverty and disaster risks .....	40
Food aid and national economic development .....	40
Food aid and agricultural development .....	41
Food aid and recipient food preferences .....	42
Programme food aid .....	42
Project food aid .....	44
Financial aid <i>versus</i> food aid .....	46
Notes .....	48

<i>Chapter 2. The Role of the Tying Status of Food Aid</i> . . . . .	49
Introduction . . . . .	50
The definition of tied aid . . . . .	50
When is food aid tied? . . . . .	50
Scope of the survey . . . . .	53
Food aid categories . . . . .	53
Survey data . . . . .	53
Method of investigation . . . . .	54
Measuring the cost-effectiveness of supply . . . . .	55
Alternative commercial transactions: prices and costs . . . . .	57
Assumptions . . . . .	58
Findings . . . . .	59
Transfer efficiency and mode of supply . . . . .	59
Donors . . . . .	61
Recipients . . . . .	63
Food aid uses and channels . . . . .	64
Commodities . . . . .	66
Influences on resource transfer efficiency . . . . .	69
Other effects of tying: issues for investigation . . . . .	70
The problem of evidence . . . . .	70
Uncertain, fluctuating food aid allocations . . . . .	71
Effects on local production, local markets and trade . . . . .	71
Tying as a source of inflexibility that reduces the effectiveness of food aid . . . . .	73
Notes . . . . .	74
 <i>Chapter 3. Conclusions</i> . . . . .	 77
Introduction . . . . .	78
Developmental effectiveness . . . . .	78
A priori assessment . . . . .	78
Key research findings . . . . .	79
The role of the tying status of food aid . . . . .	80
Issues for further investigation . . . . .	82
 <i>Annex A. Information Collection and Consultation with DAC Members and Other Stakeholders</i> . . . . .	 85
<i>Annex B. Selected Literature Review</i> . . . . .	87
 <b>References</b> . . . . .	 115
 <b>Boxes</b>	
2.1. Resource transfer efficiency: a worked example . . . . .	57
B.1. Final impact evaluation of Cape Verde Title II monetisation programme . . . . .	112



---

## Tables

1.1. Summary of US food aid programmes . . . . .	25
1.2. US food aid programme funding FY 1996-FY 2004 . . . . .	26
1.3. EU expenditure under the food security and food aid budget 2002 . . . . .	27
1.4. WFP operational expenditure by category, 1989-2003 . . . . .	29
2.1. Donor programmes by transfer mode . . . . .	58
2.2. Resource transfer efficient analysis: survey tonnages, donor expenditure and RTE ratio by transfer mode . . . . .	59
2.3. Donors: RTE ratio by transfer mode . . . . .	61
2.4. Recipient countries: RTE Ratio by transfer mode . . . . .	63
2.5. Type of operation: RTE ratio by transfer mode . . . . .	65
2.6. Commodities: RTE ratio by transfer mode . . . . .	66
A.1. List of surveyed recipient countries, commodities and donors . . . . .	85
A.2. Donor transactions with complete cost data . . . . .	86

## Figures

1.1. Total US and EC food aid shipments, 1970-2002 . . . . .	24
1.2. Trend in US food aid levels, 1952-2003 . . . . .	25
1.3. Relationship between cereal food aid, prices and stocks, 1990-2002 . . . . .	30
1.4. Linked scatter plot of wheat prices and cereal food aid, 1976-2002 . . . . .	31
1.5. Volume of emergency, project and programme food aid deliveries, 1990-2002 . . . . .	32
1.6. Skimmed milk powder food aid, 1978-2002 . . . . .	33
2.1. Resource transfer efficiency (RTE) of food aid by transfer mode . . . . .	60
2.2. Resource transfer efficiency of food aid: major donors . . . . .	62



## Acronyms

<b>ACT</b>	Alternative commercial transaction
<b>BoP</b>	Balance of payments
<b>CCC</b>	Commodity Credit Corporation
<b>CIF</b>	Carriage, insurance and freight
<b>CSB</b>	Corn soya blend
<b>DAC</b>	Development Assistance Committee (OECD)
<b>EC</b>	European Commission
<b>EU</b>	European Union
<b>FAC</b>	Food Aid Convention
<b>FAS</b>	Free alongside ship
<b>FBP</b>	Food-based programmes
<b>FECN</b>	Food for Education and Child Nutrition (programme)
<b>FFW</b>	Food-for-work
<b>FOB</b>	Free on Board
<b>FOREX</b>	Foreign Exchange
<b>FY</b>	Financial or fiscal year
<b>GNI</b>	Gross National Income
<b>IEFR</b>	International Emergency Food Reserve
<b>IFP</b>	Intensive Feeding Programme
<b>IGC</b>	International Grain Council
<b>INTERFAIS</b>	International Food Aid Information System (World Food Programme)
<b>IPP</b>	Import parity pricing
<b>ITSH</b>	Inland transport, shipping and handling
<b>MCH</b>	Mother and Child Health
<b>MCHN</b>	Mother and Child Health and Nutrition
<b>MDGs</b>	Millennium Development Goals
<b>NGO</b>	Non-governmental organisation
<b>ODA</b>	Official Development Assistance
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>PDRK</b>	People's Democratic Republic of Korea
<b>PRRO</b>	Protracted Relief and Recovery Operation
<b>RTE</b>	Resource transfer efficiency
<b>SFP</b>	School feeding programmes
<b>SMP</b>	Skimmed milk powder

<b>SSA</b>	Sub-Saharan Africa
<b>TFP</b>	Therapeutic Feeding Programme
<b>UNHCR</b>	United Nations High Commission for Refugees
<b>USAID</b>	United States Agency for International Development
<b>USDA</b>	United States Department of Agriculture
<b>USGAO</b>	United States General Accounting Office
<b>VGF</b>	Vulnerable Group Feeding
<b>WFP</b>	World Food Programme
<b>WSB</b>	Wheat soya blend
<b>WTO</b>	World Trade Organisation

## Preface

Feeding the hungry is almost universally regarded as a compelling moral obligation. The international community has thus recognised that one of its most important goals<sup>1</sup> is to halve the proportion of people who suffer from hunger by 2015. In addition, policies to attack hunger and malnutrition have been identified as one of the best ways to advance global welfare, particularly in developing countries.<sup>2</sup>

Food aid in kind was one of the earliest aid instruments and accounted for over 20% of all official development assistance in the 1960s. Over the last 40 years, however, the absolute value and relative importance has declined dramatically to less than 5% of total ODA.

The character of food aid has changed over time. More frequent, more severe and longer crises worldwide, both man-made and natural, have increased the role of food aid in feeding emergency victims. Between 1989 to 1999, the share of emergency food aid to total food aid doubled from 20% to 45%.

Tied food aid raises issues of cost effectiveness. This has been assessed by the OECD Development Assistance Committee in the context of its 2001 Recommendation on Untying Official Development Assistance to the Least Developed Countries and its broader agenda on aid effectiveness. At the same time, particularly for donors who have not set themselves specific targets for aid as a proportion of their GNI, it is likely that there is at least some “additionality” in their food aid programmes. Some commentators also argue that direct food-based approaches may, in some cases, produce a more immediate nutritional benefit than cash-based programmes.

This study provides a detailed look into two food aid issues: the first is a comparison of the relative costs of providing food aid in kind with cash contributions, and second is the inherent costs involved in tying food aid. The empirical findings of this study show that, in most circumstances, financial aid rather than food aid in kind is the preferable option, not only for providing project assistance or budgetary support for general development, but even for

1. United Nations Millennium Development Goals ([www.un.org/millenniumgoals](http://www.un.org/millenniumgoals)).

2. [www.copenhagenconsensus.com](http://www.copenhagenconsensus.com).

the distribution of food. The study points out that in many food-deficit situations, local procurement is not always a feasible option, particularly in emergency situations. The study argues therefore that a context-specific rationale is always required when relying on food aid in kind in preference to financial aid.

Furthermore, the study goes on to argue that, for the donor, food aid is often relatively expensive if the aid is tied. The survey compares the costs to the donor of providing tied food aid instead of financing commercial imports to be at least 30%. The actual cost of tied direct food aid transfers was, on average, approximately 50% more than local food purchases and 33% more costly than procurement of food in third countries. Thus, there is scope for considerable efficiency gains in switching to less restricted sourcing.

This study should provide food for thought for policy makers who are involved in developing a coherent strategy for food aid: one that takes account of developmental, as well as agriculture and trade objectives. A more coherent approach is warranted, since, as the study notes, food aid policies operate in a rather compartmentalized environment in most countries. In light of the upcoming WTO negotiations on agriculture and the possible renegotiation of the Food Aid Convention, a coherent approach is required. Instead of food aid being a problem, it must become an effective mechanism to deliver food to those most in need in circumstances where food aid in kind really does have an advantage.

Richard Manning  
DAC Chair



In order to achieve its aims the OECD has set up a number of specialised committees. One of these is the **Development Assistance Committee**, whose members have agreed to secure an expansion of aggregate volume of resources made available to developing countries and to improve their effectiveness. To this end, members periodically review together both the amount and the nature of their contributions to aid programmes, bilateral and multilateral, and consult each other on all other relevant aspects of their development assistance policies.

The members of the Development Assistance Committee are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, the United States and the Commission of the European Communities.

## **Executive Summary**

**F**ood aid has declined in absolute value and relative importance from over 20% of total bilateral official development assistance (ODA) in the mid-1960s to below 5% since the mid-1990s. Meanwhile, the share of food aid for humanitarian relief and crisis-related emergency assistance has increased at the expense both of development programmes and project aid. These trends are manifest in the food aid programmes of both the major food aid donors, the United States (over 50% of total bilateral food aid) and the EC (over 10% of total bilateral food aid), and most other DAC members. Total expenditure by the World Food Programme (WFP), currently channelling about half of global food aid, has risen because of its key role in relief, whilst its development portfolio has contracted.

---

#### *Development effectiveness of food aid*

---

*An uncertain resource:* over the years, food aid levels appear to have become more volatile. Allocations relate poorly to partner country needs in terms of poverty and food security indicators. Global food aid continues to be procyclical, i.e. least available when international prices are high. Meanwhile, international and agency efforts to make food aid more assured, including through the Food Aid Convention, have had limited success, and merit further investigation. Finally, the increasing priority accorded to humanitarian crises implies that some countries and some development activities are likely to be excluded, whilst others are marginalised within the food aid system. This raises questions about how food aid can be utilised effectively to support longer-term poverty reduction and other development.

*The developmental effectiveness* of food-based interventions to promote food security and poverty alleviation, and the use of food aid as the transfer mode to support these interventions, remains an unresolved issue. Evidence from evaluations, audits and studies during the 1990s only narrowed the controversy. Most independent reviews of food-aided development activities ranged from being guardedly positive to cautiously negative. A review of contemporary literature and information collected from donor agencies revealed limited new evidence on the developmental effectiveness of food aid that was provided in the last five years. This study therefore draws heavily on the record from the 1990s, complemented by the limited amount of more recent evidence.



*Emergency food aid* plays a clear and crucial role in saving lives and limiting nutritional stress in acute crises caused by conflict or natural disaster. However, there are many reported shortcomings of food aid in responding to these crises. In particular, these include: i) serious institutional inflexibilities; ii) the restricted basket of available commodities, which partly reflecting tying, sometimes creates difficulties in providing socially and nutritionally appropriate rations; and iii) the late arrival of emergency aid that frequently hampers post-crisis agricultural recovery.

*Livelihood protection*: food-based interventions play a role in limiting suffering and the damaging impacts of a shock on livelihoods. Finance for locally sourced food or imported food aid can and should play a role in supporting such interventions. The effects are dependent on the specifics of the local context and include: i) whether food aid is transfer efficient; and ii) whether poverty reduction and other potential developmental implications of food aid are addressed.

*Local economic development*: recent investigations on the effectiveness of food aid are inconclusive. They largely reconfirm earlier findings of marginally positive or negative development impacts with links to unsatisfactory programming in relation to assistance needs. Evidence on *local agricultural development* is also inconclusive. Some positive impacts of pilot and small-scale projects are countered by the persistent reporting of the negative effects of food-based interventions. These reports emanate from those working closely with agriculturalists, and in poor rural communities. Such a range of outcomes suggests the critical importance of context-specific influences on effectiveness.

*Changing consumption patterns* are associated with rapid processes of urbanisation and growth in non-agricultural employment. This makes it difficult to isolate changes in food consumption that can be attributed to food aid.

*Programme food aid* declined after critical and unresponsive evaluations and reviews in the 1990s, which highlighted a combination of ineffectiveness, especially in promoting national economic development, and poor transfer efficiency. Programme aid is now the least assured and the least evaluated category of food aid and its developmental rationale is in doubt.

*Project aid for direct distribution in food-based interventions*: findings range widely from moderately positive to extremely negative in terms of poverty reduction goals or, more narrowly, nutritional improvement. This apparent range of outcomes partly reflects the continuing failure to rigorously monitor and evaluate impacts of these kinds of interventions. Food-based interventions often reach the poorest, such as women or malnourished children. However, exclusion occurs, in particular for those who fail to attend mother and child health (MCH) centres, or the poorest 10% of children who do not go to school. Furthermore, the lack of complementary non-food inputs is consistently

identified as a constraint on project performance. Thus food-based intervention is more likely to succeed as an integrated component of a wider sectoral programme, for example in health or education. These lessons from earlier reviews prompted considerable policy reformulation for project food aid. However, the evidence is still insufficient to confidently assess the extent to which practices have significantly changed and with measurable impacts. Donors should consider strengthening monitoring and undertaking more rigorous assessments.

Monetisation is an innovation that has become a significant feature of international food aid. In 2002, approximately half of all project food aid channelled through NGOs and 13% of delivered food aid was monetised in this way. This trend implies a wide range of circumstances in which project designers saw direct distribution as being less appropriate in poverty reduction and food security promotion. A fuller assessment of the developmental consequences of providing food for cash is needed, including impacts on markets in beneficiary and neighbouring countries.

Financial aid is in most circumstances the preferable option: that is an area of near-consensus in independent reviews. This is almost always the most effective and efficient way of funding either direct distribution of food or providing budgetary support for general development and project assistance. Therefore a context-specific rationale is always required when relying on food aid in preference to financial aid.

---

### *The effects of tying food aid*

---

According to the DAC definitions, food aid continues to be overwhelmingly tied. As virtually all food aid is subject to some form of legal or administrative restriction on source of procurement and associated delivery services, it is logical to contrast the cost efficiency of food aid with the actual or hypothetical costs of imports procured on a competitive basis.

### **Resource transfer efficiency**

The study quantifies the cost efficiency of tied food aid for the wider DAC community and not just a single donor. Aid tying would be expected to reduce the resource transfer efficiency (RTE) compared with unrestricted financial assistance. Other negative effects are also likely because of the trade-offs implicit in combining development objectives with promoting domestic agricultural, transport, and processing interests in donor countries.

The analysis of RTE involved comparing the actual aid costs incurred by the donor agency (net of any internal agriculture-related expenditure) with the hypothetical cost of an alternative commercial transaction (ACT) for

importing the same volume of food into the recipient country at the same time as the food aid delivery. The ratio of the actual cost and the ACT provides a measure of RTE in procurement and delivery of the food to beneficiary countries. This ratio is a conservative estimate of the efficiency costs of providing or funding commodity aid compared with making a financial transfer to the recipient country or final beneficiaries. Both the aid cost and the ACT excludes the transaction costs of organising, internally handling, storing, and then selling or distributing the food. The ACT is based on widely quoted international prices and so is very likely the highest cost for importing the same volume of food into the recipient country.

The results are based on a survey including 1 119 separate food aid actions during 2002-03 for 15 recipient countries funded by 16 DAC members. This represented approximately 30% of global food aid as reported to the World Food Programme (WFP) INTERFAIS, amounting to almost three million tonnes of commodities and USD 790 million of donor aid expenditure on procurement and shipping.

### **The cost of tying food aid**

The survey calculates that the overall inefficiency cost of providing tied food aid (*i.e.* direct transfers) instead of financing commercial imports is at least 30%. The actual costs of tied food aid transfers was on average approximately 50% more than local food purchases and 33% more costly than procurement of food in third countries (triangular transactions). Thus direct food aid was almost invariably more costly than alternative commercial imports or actual local purchases or triangular transactions. The most resource transfer efficient forms of food aid are likely to be flexibly sourced, either within the recipient country or from third countries, but not necessarily always a developing country.

Cost efficiency varies widely amongst donors, modes of supply, commodities and destinations, ranging from 10% below to more than 55% higher than the cost of alternative commercial imports. Donors who have formally untied, or who have the least restrictive procurement rules, provided the most cost-effective food aid. Those donors who generally tied their food aid also funded some local and triangular purchases, and these actions were relatively more cost-effective than their tied food aid programmes. Organisations specialising in procurement and logistics (*e.g.* WFP) appear relatively more cost-effective in their local purchases and triangular transactions. Cost differences are not purely a matter of transaction size, but perhaps also of the scale of operation.

Amongst the foods surveyed the largest difference in RTEs (68%) was between local purchases and direct transfers of highly processed and blended foods. This finding supports widespread concerns about the inefficiency of providing “as tied” high value-added foods, processed in OECD countries. This form of

aid is not only highly cost-inefficient, but is also a missed opportunity for donors and their partners to promote local agri-processing capacities.

The overall results show that there are substantial cost inefficiencies associated with tying food aid although some tied aid was quite efficient. The levels of inefficiency are context specific, depending on the commodity, destination and whether the commodity was to be sold, to be monetised or to be directly distributed. There is scope for considerable efficiency gains in switching to less restricted sourcing. Triangular transactions were a third less costly than direct aid. Unrestricted sourcing would be expected to achieve even greater cost savings. The relative efficiency of local purchase and restricted third-country purchasing also suggests that benefits of untying would not just flow to middle-income crop/food exporting countries. Greater donor flexibility in sourcing would clearly benefit agricultural development in many low-income developing countries.