

## How effective is global food aid?

**G**lobal food aid serves as a critical safety net for poor countries. But does food aid reach those who most need it when they most need it? And, more broadly, has it generally been effective in “smoothing” consumption patterns—that is, averting sharp changes in the overall availability of food? In a new IMF Working Paper, “Foreign Aid and Consumption Smoothing: Evidence from Global Food Aid,” Sanjeev Gupta, Benedict Clements, and Erwin R. Tiongson examine the cyclical properties of food aid and evaluate how successful it has been in helping the economies it targets.

For decades, the international community has supplied food aid to developing countries to help them meet shortfalls in their domestic food supplies. This aid has proved to be crucial in averting famine and preventing malnutrition, disease, and associated social problems that, over the long term, exact a heavy economic toll.

Few would argue with the goal of food aid, but is it as effective as it could be? In an examination of the experiences of some 150 developing and transition countries from 1970 to 2000, the authors evaluated whether global food aid did, in fact, stabilize consumption, whether it targeted those countries most in need, and whether ill-timed disbursements of food aid actually had negative fiscal consequences.

### Problems with aid disbursement

Research on foreign aid often looks at assistance in the aggregate rather than examine its component



North Korean schoolchildren eat a lunch that includes fortified foods supplied by the UN World Food Program.

parts, such as disaster relief, humanitarian assistance, and food aid. The research that has looked specifically at the food component of aid has tended to concentrate on individual country programs. This new working paper, by contrast, focuses on global food aid and its cyclical pattern.

In particular, the paper assessed the timing of global food aid disbursements and whether they suffered from the same unfortunate pattern identified in earlier research on individual programs—that is, a “procyclical” pattern. Such a pattern implies that food aid falls as the recipient country’s food production contracts, which means that less is available exactly when it is most needed. More desirable would be a countercyclical distribution of food aid, which means that food aid increases at the same time food production falls in recipient countries.

### Pitfalls of poor timing

A procyclical pattern to the distribution of food aid can have serious macroeconomic consequences in recipient countries. While some food aid is distributed directly to households, a substantial portion is sold in domestic markets at below-market prices. These food sales generate counterpart funds in local currency, providing critical budget support for the country. When food aid is procyclical, it creates problems for fiscal management, as these counterpart funds are not available to stabilize the budget at a time when other revenues are weak. This fluctuation is especially problematic in countries where the size of counterpart funds is substantial. A procyclical pattern of food aid also aggravates fiscal management problems on the expenditure side because of the increased pressure on the budget caused by intensified spending on programs designed to offset the adverse consequences of food shortages.

### Selected IMF rates

Week beginning	SDR interest rate	Rate of remuneration	Rate of charge
May 19	1.68	1.68	2.22
May 26	1.67	1.67	2.20

The SDR interest rate and the rate of remuneration are equal to a weighted average of interest rates on specified short-term domestic obligations in the money markets of the five countries whose currencies constitute the SDR valuation basket. The rate of remuneration is the rate of return on members’ remunerated reserve tranche positions. The rate of charge, a proportion of the SDR interest rate, is the cost of using the IMF’s financial resources. All three rates are computed each Friday for the following week. The basic rates of remuneration and charge are further adjusted to reflect burden-sharing arrangements. For the latest rates, call (202) 623-7171 or check the IMF website ([www.imf.org/cgi-shl/bur.pl?2003](http://www.imf.org/cgi-shl/bur.pl?2003)).

General information on IMF finances, including rates, may be accessed at [www.imf.org/external/fin.htm](http://www.imf.org/external/fin.htm).

Data: IMF Finance Department

## A mixed record

When the authors analyzed the statistical relationships between global food aid and cyclical fluctuations in food availability, they found that roughly two-thirds of the countries indicated slight, but not significant, countercyclicality. Overall, food aid is acyclical—neither significantly procyclical nor countercyclical. Thus, the timing of the disbursement of food aid is not optimal.

But global food aid was found to be progressive—targeting

those most in need—and responsive to absolute shortfalls across countries. For African countries, and the poorest countries in all regions, the authors found that food aid was significantly progressive and countercyclical. But for the majority of the countries that were only moderately food insecure, food aid was acyclical. And

even in those countries where food aid was found to be both progressive and countercyclical, the quantities of food aid disbursed were woefully inadequate to cover the shortfall in supply.

The authors concluded that, for global food aid to have the maximum positive impact, its quantity must be increased and its timing improved. For this to occur, the international donor community needs to pay attention to, and understand, the economic cycles of its aid recipients. Because food aid programs are sometimes hampered by slow implementation and bureaucratic inertia, the development of early warning systems could prove vital to triggering their mobilization. Better coordination among donors is also critical. The IMF's Poverty Reduction Strategy Papers, the authors indicated, could serve as a tool for devising and coordinating food aid strategies and agricultural development. ■



Two children share a tin of sardines in Loungi, Sierra Leone. In 2002, the country received 100,000 metric tons of food aid.

Copies of IMF Working Paper 03/40, "Foreign Aid and Consumption Smoothing: Evidence from Global Food Aid," by Sanjeev Gupta, Benedict Clements, and Erwin R. Tiongson, are available for \$15.00 each from IMF Publication Services. See page 166 for ordering details. The full text is also available on the IMF's website ([www.imf.org](http://www.imf.org)).

## Available on the web ([www.imf.org](http://www.imf.org))

### Press Releases

- 03/67: IMF Approves \$18 Million PRGF Disbursement to the Azerbaijan Republic and Requests for Waivers of Performance Criteria and Extension of Arrangement, May 15
- 03/68: Joint Statement by Heads of IMF, World Bank, and World Trade Organization, May 16
- 03/69: IMF Managing Director Issues Statement on Uruguay Sovereign Debt Exchange, May 16
- 03/70: Press Statement by IMF First Deputy Managing Director in Ecuador on May 16, May 19
- 03/71: Mission for the Fifth Review of Turkey's Economic Program to Start on May 21, May 20
- 03/72: Press Statement by IMF First Deputy Managing Director in Brasilia on May 20, May 20
- 03/73: Statement by Horst Köhler, Managing Director of the International Monetary Fund, on the Work Program of the Executive Board, May 21, May 28
- 03/74: IMF Managing Director Horst Köhler Proposes Appointment of Mexico's Deputy Secretary of Finance Agustín Carstens as Deputy Managing Director of the IMF, May 29

### Public Information Notices

- 03/60: IMF Concludes 2003 Article IV Consultation with Morocco, May 9

- 03/61: IMF Concludes 2002 Article IV Consultation with St. Lucia, May 9
- 03/62: IMF Concludes 2003 Article IV Consultation with Ghana, May 16
- 03/63: IMF Concludes 2003 Article IV Consultation with the former Yugoslav Republic of Macedonia, May 20
- 03/64: Executive Board Reviews IMF's Income Position, May 22

### Speeches

- International Monetary Seminar, Banque de France, Anne O. Krueger, IMF First Deputy Managing Director, May 13
- "Cooperation in Trade and International Financial Integration," Horst Köhler, IMF Managing Director, WTO General Council Meeting on Coherence, Geneva, May 13
- "The Challenges of Globalization and the Role of the IMF," address by IMF Managing Director Horst Köhler, given at the Annual Meeting of the Society for Economics and Management at Humboldt University Berlin, May 15

### Statement at Donor Meeting

- Pakistan—Statement by the IMF Staff Representative, Pakistan Development Forum, May 12

### Transcripts

- Press Briefing by Thomas C. Dawson, Director, IMF External Relations Department, May 22