

Comment on “Does Food Aid Harm the Poor? Household Evidence from Ethiopia”

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Food donations or sales substantially below market price by a country with an exportable surplus of food to a country in need are defined as food aid. Supporters of this form of aid have argued that it is an effective means of reducing hunger, that used for food for work programs, it may stimulate development, and that by reducing the need for food imports it prevents large cumulative deficits for poor countries, and so provides a platform for growth. Opponents argue that food aid increases the dependence of developing countries on food imports. The dumping of the surplus production for free or nearly no cost to poorer nations means that the farmers from such countries either cannot produce at competitive prices, or lose the incentive to produce entirely (leading, over time, to the deterioration of the infrastructure of production). They also argue that food aid is inefficient - it often doesn't reach the most needy, and has high administrative costs.

Credible empirical evidence on the role of food aid in combating poverty is, however, very limited. Levinsohn and McMillan's study is an important first step. They use household-level non-parametric regressions, based on two Ethiopian household surveys (1999-2000), to identify the relationship between household income and the household selling or buying wheat (a cereal typically distributed by food aid programs). Their main results are:

- (i) Net buyers of wheat are poorer than net sellers.
- (ii) At all income levels there are more buyers of wheat than sellers. Only 12% of Ethiopian households sell wheat.

- (iii) The net benefit ratios are higher for poorer households, indicating that poorer households benefit proportionately more from a drop in the price of wheat

Levinsohn and McMillan also undertake a welfare analysis of food aid in Ethiopia. They treat the Ethiopian wheat market as a partial equilibrium in a closed country, which received extra wheat via food aid. They observe the actual price (with the wheat aid), and then calculate a counterfactual wheat price that they believe would have held, given some posited elasticity of demand, absent food aid. Finally, they calculate the distributional effect under the counterfactual price and conclude the poor were typically better off with the low (with food aid) price rather than the high (without food aid) price.

Based on these findings, they conclude that Ethiopian households at all levels of income potentially benefit from food aid, and that the benefits go disproportionately to the poorest households.

Discussion

While focused on food aid, this paper is an important contribution to the broader program evaluation literature, which examines the poverty impact of different public policy interventions. The paper provides valuable evidence on the potential impact of food aid on households at different points in the income distribution. However, the exclusive focus on household benefit ratios at a single point in time limits the lessons learnt regarding the overall worth of food aid. In order to conclude whether food aid is a beneficial policy intervention one would need a more comprehensive analysis of the history of food aid in Ethiopia, and an analysis of the way that aid is targeted. I will address these issues in turn.

History and Context:

Levinsohn and Macmillan consider households' wheat trading status as of 1999-2000, and show that food aid today can benefit the poor. However, food aid has been important in Ethiopia since early 1980s, (see Figure 1, which is taken from Jayne et al (2002)). This history implies that to evaluate more effectively the worth of food aid as a public policy one must also ask whether the observed short-run beneficial effect of food aid is a result of a history of food aid. That is, in the long run can food aid change production patterns and thereby worsen poverty? This is particularly important as most critics of food aid point to the long run disincentive effects of food aid for domestic production.

Ideally, one would, therefore, like to augment this study by an analysis of net benefit ratios along the Ethiopian income distribution pre and post food aid. This would tell us whether the provision of food aid was associated with households changing from being net producers of wheat to becoming net consumers of wheat. In the absence of longitudinal or repeated cross-sectional data that allows for such a direct assessment of the dynamics of food production, indirect evidence could be used to examine the dynamics of food aid.

One possibility would be to use aggregate data to examine the evolution of annual wheat production, amount of food aid and wheat prices between 1980-2000.¹ Such an analysis, while unlikely to be informative of the causal impact of food aid, can provide evidence on whether changes in food aid provision were correlated with long-term changes in production patterns in Ethiopia.

It may also be possible to exploit the fact that food aid programs do not cover all crops to provide further indirect evidence on the long-term effects of food aid. It would be interesting to see whether the net benefit ratios along the income distribution look similar for another

important crop, which is not covered by food aid programs. This analysis could be made more rigorous by undertaking a difference in difference analysis which exploits, in addition to differential crop coverage by food aid, cross regional differences in food aid flows.

Turning to the welfare analysis undertaken by the authors, it would have been good to have more information on the relevance of the assumed demand and supply elasticities in the welfare analysis for Ethiopia. For, despite food aid, Ethiopia remains a net importer of wheat. Hence, if Ethiopia is a small player in the world wheat market then the relevant wheat price for Ethiopia would be the world wheat price, and food aid need not depress food prices.²

Targeting:

Levinsohn and McMillan's study examines the potential of food aid to help the poor. However, if this analysis is to be relevant for policy design it is important to ask who, in reality, benefits from food aid programs. Two recent papers, Jayne et al (2002) and Clay et al (1999), specifically examine who received food aid in Ethiopia during 1995/1996. Both papers found evidence of imperfect targeting-- the very poor are more likely to get food aid but so are the very rich. They also report evidence of inertia in both the regional and household-level allocation of food aid over time. That is, the best predictor of a household or region's current food aid recipient status is its previous recipient status. In contrast, food aid need of a region or household does vary over time. They, therefore, hypothesize that the rigidity in food aid targeting is likely due to high fixed program costs, rigidities in the governmental process of determining food aid allocations to local administrative units and political income transfer objectives.

Per se, these findings do not affect any of Levinsohn and McMillan's analysis. They do, however, suggest that any welfare calculation of the impact of food aid should take into account the partial targeting of such schemes.

Conclusion

If there are domestic markets for food, then an alternative to food aid is cash transfers. Clearly, all the welfare effects of cash transfers to the poor would be positive if they lead to poor consumers buying up poor farmers' wheat. More generally, Coate (1989) shows that whether food aid is preferable to cash transfers depends on whether the relief agency distributing food aid is more efficient at transferring food to the poor than traders.

Food aid began in the 1950s as a means for rich countries to dispose of agricultural surplus. If the domestic imperatives of rich countries are such that some fraction of aid from rich to poor countries will always take the form of food aid, then Levinsohn and McMillan's results are reassuring (at least for the short run). However, if the form of aid to developing countries can be altered and food aid substituted for by other forms of aid, such as cash transfers, then it remains unclear whether food aid is a preferred public policy intervention in situations other than emergencies.

References

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Endnotes

¹ Figure 1 suggests that the responsiveness of food aid to domestic food production is relatively limited

² I am grateful to Don Davis for this observation