

already made available (increasing the **flexibility** of food aid). Underlining all this would be the need to preserve the unique humanitarian role of food aid and to maximize its contribution to development.

*Broadening donor participation and the commodity basket*

The first consideration in strengthening the FAC would be to take on board the recommendation of the WTO Ministerial Conference in connection with broadening the *range of donors and donable foodstuffs*. Traditionally, food aid commitments to the FAC have been made by a handful of major donors and comprised commodities viewed in a narrow sense, i.e. basically grains<sup>1</sup>. However, food aid needs go well beyond grains. There is a great deal of fungibility in the importation of commodities (i.e. a country could very well import commercially all its grain needs and very little of another essential food commodity, e.g. vegetable oils) which in essence implies that the need for assistance is being transferred from one food commodity to another. Thus, there is scope for a broader definition of food aid to respond more rationally to food aid needs as well as to recognize the status quo in donors food aid programmes. As we have seen, a large and growing share of food aid is made available in non-grain commodities.

Broadening the commodity base would also help in enlarging the donor base and also facilitating donors' ability to comply with their commitments under the FAC. A grains-only based FAC restricts the participation of those potential donors that may not have grains to contribute but have other desirable food commodities. To the extent that such commodities are imported commercially by potential food aid recipient countries, they constitute legitimate commodities to be included in the food aid basket. They contribute to the same degree as grain commodities in mitigating balance of payments difficulties and can free resources for the importation of other basic foodstuffs.

Similarly, enlarging the commodity base would give greater recognition to efforts by donors who respond flexibly to needs by providing a variety of commodities and cash resources (to be used for the purchase of non-grain commodities and non-food items which facilitate a rapid and nutritionally balanced response to needs). Other donors could also be in a position to provide such commodities for flexible use, but they are discouraged from doing so because these donations would not be counted against their FAC obligation. This is especially a consideration for smaller donors who do not have much slack in their food aid budget, i.e. it is just enough to cover only their grain FAC obligations under normal market conditions. Therefore, a system that would reflect the total value of contributions would provide an incentive to all donors to respond more rationally to food aid needs.

One argument against expanding the food aid commodity basket to include a wider range of food commodities is that some of these commodities may not be of priority from the food security point of view, i.e. are not commodities primarily consumed by the poor. There is no guarantee that a country receiving such commodities as food aid would make available in turn foreign exchange to import those basic foodstuffs consumed by the poor. There can be two

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<sup>1</sup> Up to 1995, grain comprised wheat, coarse grains, rice and their products. Pulses were added to the list of eligible commodities in the 1995 FAC.

remedies to this problem. One would be on the part of the donors to commit that a certain minimum amount of food aid would be provided in basic foodstuffs<sup>1</sup>. Thus the FAC commitment by donors could consist of two types of minimum commitments (schedules): *Type I* would include commitments in basic foodstuffs only; and *Type II* would include commitments over and above *Type I*, encompassing all other food commodities as well as cash resources. Not all present and potential food aid donors need to participate in both schedules. *Type I* would be appropriate for donors that have donable commodities in the basic foodstuffs category. Those donors that do not (and these are likely to be new donors) would participate in *Type II* commitments only. However, whether commitments are against *Type I* or *Type II*, donors' obligations to meet such commitments would be identical.

The second remedy in avoiding potential problems with an enlargement of the food aid basket concerns the recipient countries themselves. In essence this entails a form of an undertaking, whereby a country that has needs in basic foodstuffs but, because of limited food aid availabilities in these commodities, it is instead allocated another food commodity (which it would otherwise have imported commercially), this country could undertake an obligation to import commercially an equivalent value of the basic foodstuffs it needs. In terms of its implications for the food import bill of the recipient country, this undertaking is essentially neutral.

#### *Establishing new FAC commitments*

With the broadening of the donor and commodity composition of food aid in the way it was suggested above, it will be necessary to establish new minimum levels of commitments under the FAC. Two commitments would have to be made: *Type I* (basic foodstuffs) and *Type II* (other commodities, including basic foodstuffs above *Type I* donations). In order to illustrate how the new *Type I* and *Type II* commitments could be established, data from 1995 is used as shown in Table 1.

*Table 1. Actual food aid shipments in 1995 and wheat equivalent volumes*

Commodity	Actual shipments (000 tons)	Wheat equivalence coefficient	Wheat equivalent volumes (000 tons)
Wheat	4975	1	4975
Rice	1187	2	2374
Coarse Grains	1823	1	1823
Pulses	323	2	646
<i>Total "grains"</i>			9818
Vegetable oil	305	3*	915
Sugar	30	2*	60
Dairy Products	63	4*	252

<sup>1</sup> The definition of basic foodstuffs would need to be determined but good candidates of commodities that could qualify as basic foodstuffs may include in addition to grains and pulses, vegetable oils, dairy products and sugar.

Meat and fish	27	5*	135
Other non-cereals	359	3*	1077
<i>Total others</i>			<i>2439</i>
<b><i>Grand Total</i></b>			<b><i>12,257</i></b>

\* assumed for the sake of illustration (based on approximate market values).

The wheat equivalent of all food aid in grains in 1995 amounted to some 9.8 million tons. The FAC commitment has in the recent past been on average some 60 to 70 percent of the total food aid in grains (both within and outside the FAC). If the definition of basic foodstuffs for *type I* commitments were to include, for example vegetable oils, sugar and dairy products (1227 thousand tons in wheat equivalent in 1995) and if one were to assume a commitment to the FAC of these commodities proportional to the commitment in grains (say 65 percent of the total provided), then this would correspond to about 800 thousand tons. Under these assumptions, the total minimum commitment under *type I* would become some 6.2 million tons of basic foodstuffs. It should be noted that this does not represent any increase in commitments but simply redefinition of the food aid actually provided.

As regards *type II* minimum commitments under the FAC (i.e. for commodities other than basic foodstuffs), again starting from the actual shipments of such commodities during 1995 (1212 thousand tons in wheat equivalent) and assuming the same proportion committed under the FAC (65 percent), we arrive at another 800 thousand tons in wheat equivalent. Again, this level corresponds to existing donors and donable commodities only, and does not represent any real increase in the overall volume of food aid.

To recapitulate, under the assumptions made, using data for 1995, an expanded FAC, to include a broader commodity coverage and without assuming any real increase in overall availability of food aid, could have a minimum commitment of 7.0 million tons of commodities (in wheat equivalent) out of which 6.2 million tons *type I* commitments (in basic foodstuffs) and 0.8 million tons in *type II* commitments (other food commodities). In addition, it would be reasonable to assume that broadening the commodity base could bring in new donors and thus *type II* commitments could well increase by an amount of say 500 thousand tons in wheat equivalent, bringing the overall total minimum commitment under the FAC to 7.5 million tons in wheat equivalent.

Monitoring the compliance of donors' commitments to an enlarged FAC would require establishing coefficients of wheat equivalence for the broader possible basket of donable commodities. The most appropriate base for such coefficients would be the relative price of each donable commodity vis a vis that of wheat, established for a base period. In order to facilitate donors' budgetary allocation and also to avoid possible switching between commodities as relative prices change from year to year, it would be desirable that established wheat equivalence coefficients remain stable for 3-4 year periods at a time. Perhaps they could be updated at the time of re-negotiation (or renewal) of the FAC, if relative prices had meanwhile changed. In any case however the equivalence coefficients have to reflect in general terms relative market prices or else donors may be discouraged from

providing certain commodities if the credit they receive for them was less than what they are worth<sup>1</sup>.

*Possible instruments to increase responsiveness to variable needs*

Another issue that concerns the role of food aid in general, and as a means of appropriate assistance under the *Decision* in particular, is its degree of responsiveness to variable needs, i.e. its flexibility. In order to analyze possible response mechanisms to variable needs it is necessary to establish the nature of such needs. One major source of variable needs is the food situation in the developing countries themselves. Needs will be high when these countries are experiencing crop failures and/or are affected by other human-made disruptions. These relate to the ordinary emergency food aid category. The second major source of variable needs is external to the countries affected and relates to the level of the world market price of food commodities. This latter source of variable food needs may be attributable partially or fully to the reform programme, depending on a "narrow" or "broad" definition of legitimate needs (see above). The difficulty with meeting the needs due to this second factor (i.e. needs under the *Decision*) is that they would vary in an inverse relationship to the availability of food aid.

In fact, the factor that is responsible for increasing assistance under the *Decision* (increasing world market price) is also responsible for a reduced availability of food aid. Countries would require assistance in years of sharp increases in world prices (compared to what would have prevailed in the absence of the Uruguay Round) in order to maintain adequate levels of food imports and their level of consumption. But, under fixed food aid budgets, years of high prices would imply lower volumes of food aid. Thus, ordinary ("business-as-usual") food aid is not likely to be very responsive to the variable needs for assistance under the *Decision*, precisely because in years when such assistance would be needed most, its volume would tend to decline.

Therefore, new instruments to deal with the variable needs under the *Decision* would need to be considered and existing mechanisms strengthened. In general this will require adding a **time flexibility** in the provision of food aid (to complement the commodity and donor coverage flexibility discussed above) and exploiting possible **complementarities** with other non-food aid mechanisms (i.e. financial facilities) that already exist or to be developed.

Two existing mechanisms to deal with ordinary emergency needs are the International Emergency Food Reserve (IEFR) and the resources made available towards Protracted Refugee Operations (PROs). The IEFR is a multilateral instrument administered by the WFP and has a minimum annual target of 500,000 tons of cereals to be met by voluntary contributions (including one-third in the form of cash) while the resources contributed towards PROs are not target based but made available largely as needs emerge. Both the IEFR and the PRO instruments have played a crucial role in meeting emergency needs but suffer from resource problems which hamper their effectiveness. Raising the minimum target of the IEFR has been suggested in the past as a needed improvement, but more

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<sup>1</sup> Rice is a case in point for which on occasions in the past the wheat equivalence coefficients were either "overvalued" in which case donors had an incentive to provide rice, or "undervalued", having the opposite effect.

importantly it is essential for the IEFER to have access to **stand-by resources** to be drawn upon when needed.

Complementing the minimum target of the IEFER with stand-by resources could also be linked to meeting needs under the *Decision*. To ensure that such stand-by resources are made available, consideration could be given to institutionalize them under the FAC in the form of a *type III* commitment. These would be over and above *type I* and *type II* commitments and would be completely flexible in the time dimension. In practical terms donors to *type III* commitments would make a pledge to contribute certain amount of resources (on a stand-by basis) over a period of, say, five years that could be drawn upon at any time during that period to meet exceptional needs as and when they arise.

Consideration could also be given to adding some flexibility in the time dimension to *type I* and *type II* commitments in the form of carrying forward or calling forward as needs dictate. In the case of **carrying forward**, unutilized commitments during a given year (due to low needs) could be added to the minimum *type I* and *type II* commitments of the following year. On the other hand, in the case of **calling forward**, the minimum commitment under a given year could be increased by an amount from next year's commitment which in turn would imply that the commitment for the subsequent year may be decreased by the amount called forward.

A significant potential contribution of limited food aid resources towards responding to the legitimate needs under the *Decision* could be made if food aid were to be used in **conjunction with a financial facility**. As already mentioned, the *Decision* also recognizes that countries affected may be eligible to draw on the resources of international financial institutions under existing or new facilities in order to be able to purchase food from the world market in years of high world market prices. However, as such high prices are normally due to a physical shortage of global food supplies, making funds available during such years, earmarked for the purchase of food in the world market, is likely to lead to even higher prices. The result will be a transfer of resources partly to the affected countries but also to the grain exporters.

Assistance under financing facilities would therefore be more effective if it were complemented by a **physical reserve** which would be released at the same time as the funds are made available. Perhaps an appropriate mode in the use of food aid could be to contribute towards building up such a physical food reserve. Thus in years of plentiful supplies, available food aid over and above emergency requirements and essential nutritional assistance projects, could be put aside in the donor countries themselves, under national food reserves, earmarked for use under the *Decision*. In turn, in years of high prices, these supplies would be made available to countries eligible for assistance, including those that received additional resources from compensatory financing facilities<sup>1</sup>. This should contain price increases even with the additional purchasing power made available to the countries affected. In other words, this would avoid a self-defeating syndrome, namely that the "cure" (extra finance) aggravates the "illness" (higher prices).

*Use of instruments based on the nature of variable needs*

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<sup>1</sup> Clearly the specific terms of these transactions (i.e. price to be charged) would have to be worked out.

Based on the nature of variable needs discussed above, in general, four distinct circumstances of ordinary emergency needs and needs under the *Decision* can be identified. These are based on possible combinations between low/high prices in the world market (corresponding to low and high needs under the *Decision*) and low/high domestic food production in the developing countries (corresponding to high and low ordinary emergency needs). Responding to these needs will call for a judicious combination of available instruments and those that may become available in the future. Some preliminary ideas as to how these instruments may be best employed follows.

*Case A: Low world price/high domestic production.* In this case, needs under the *Decision* would be zero while ordinary emergency needs would also be relatively low. Such emergency needs would be easily met; drawing on IEFRR regular resources would most likely be adequate. As food aid levels may be relatively high and the overall needs low, donors should be encouraged to make contributions towards a physical reserve and carry forward arrangements. Any food aid resources over and above ordinary emergencies and supplementary feeding projects should be directed towards such uses.

*Case B: Low world price/low domestic production.* Again needs under the *Decision* would be zero while ordinary emergency needs would be moderately high as the low world market prices would permit the countries affected to respond to those needs partly from their own resources. Emergency needs would be relatively easily met as food aid levels would be high. Drawing on IEFRR regular resources and shifting resources from other uses to emergencies, or making use of IEFRR stand-by resources would be adequate. Again, food aid resources above emergency and project needs should be contributed towards physical reserves and carry forward arrangements.

*Case C: High world price/high domestic production.* As the volume of imports of developing countries would be below normal, the needs under the *Decision* would not be large. At the same time, low needs for ordinary emergencies (due to high domestic production) would free up food aid resources to meet needs under the *Decision*. If the regular emergency resources under the IEFRR are not adequate, use could be made, as needed, of stand-by resources and calling forward arrangements.

*Case D: High world price/low domestic production.* The needs in this case would be high for both ordinary emergencies and under the *Decision*. This is the most difficult case and would normally require the use of all possible regular and complementary resources. Beyond drawing on regular and stand-by IEFRR resources, calling forward resources may be needed, as well as releases from any food-aid-supported reserves that may have been put aside during years of plenty. The latter would be especially necessary if resources were also made available from related compensatory financing facilities for the importation of food.

