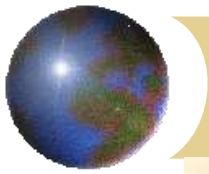


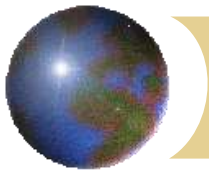
*Foreign Aid, food aid, and  
small loans (microfinance)*

**World Poverty and Economic  
Development, ECRG 3240 Fall 2012**



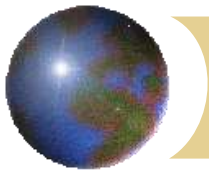
## *Does food aid and foreign aid? The case against what Oxfam calls “food dumping”*

- ✦ Aid is used for ***political purposes by donors***, not to help the poor--most U.S. aid for example goes to Israel, Egypt, Russia, Ukraine and other key allies
- ✦ ***Aid is “fungible”*** so it can be diverted from the poor and used for political purposes-- governments sell the food and use the funds for other purposes.
- ✦ Aid can have ***disincentive effects*** on local farmers prices can be depressed by cheap food imports.
- ✦ Emergency aid can have a “***moral hazard***” effect: countries prepare less for future crises.



## *Foreign aid can be made more effective in reducing poverty:*

- ✦ **Less official aid**, rely more on private capital flows and FDI-- promote "trade not aid" (Ftas such Nafta, CAFTA)
- ✦ **Channel more aid through multilaterals** such as the World Food Program and UN who can direct more aid to basic services for the poor (the "Oslo Consensus or Oslo 20:20 Initiative)
- ✦ Use leverage of multilaterals to **reallocate public spending within LDCs**--of the \$40 billion targeted for poverty reduction, \$30 billion is to come from LDC governments in (1% of GDP, .2% of world)



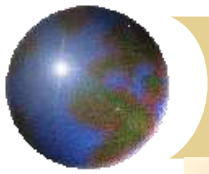
# *Food Aid: pros and cons*

## Critics say food aid:

- Forestalls agricultural development— Caford Jamaican milk example.
- subsidizes MNCs and promote grain exports
- Is used for political ends by donor and host government.
- FFW projects benefit the wealthy not just the poor.

## In defense of food aid:

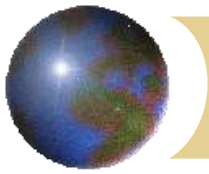
- Food is a basic need for many poor ctys.
- Selling food aid lowers food prices— a universal subsidy.
- Many poor countries import food anyway.
- Low cost to donors (food surpluses)



*Why food aid? – about 20% of total foreign aid in 1990.*

**U.S. & later EEC Food aid** is a by product of farm prices supports in the 1960s and 1970s— what to do with surplus grain and other products generated by price supports?

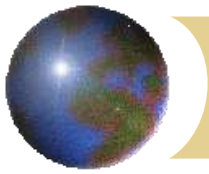
**Answer:** give it to those who cannot buy— Public Law 480 passed in 1954, surprisingly, studies find food aid did not have negative effects on LDC farmers...



## *Bangladesh's 1973 Famine, a pivotal event for World Food Aid*

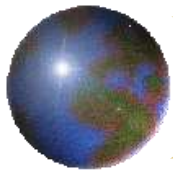
- ✪ In October of 1973 the United States decided to punish Bangladesh for selling jute to Cuba.
- ✪ The U.S. stopped grain shipments, just as floods were creating food shortages in Bangladesh.. an estimated 100,000 people died because of delayed grain shipments.
- ✪ Following a bit conference\*\*, the use of food aid for political ends was "banned" under international law– the World Food Program, a special U.N. agency was set up to monitor and set guidelines of disbursing food aid.

\*\*these events inspired, in part, the play by David Hare, "Map of the World" [www.bridgesrep.org/?map\\_of\\_the\\_world/critics.htm](http://www.bridgesrep.org/?map_of_the_world/critics.htm)



## *Conclusion after 50 years of Food Aid*

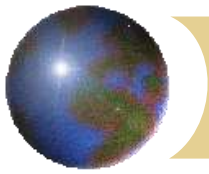
- ⊕ Direct distribution of food aid has not been as harmful as expected, the World Food Program has helped after BGD's 1973 famine.
- ⊕ Governments have been able to use the food aid to reduce imports and accelerate growth.
- ⊕ Landless workers benefit from a universal subsidy paid by European, U.S. and Japanese consumers— *who in turn enjoy visiting farms in the French and English countryside (Prince Charles?— see Collier, 2011, chapter 10).*



## *But the evidence is that food aid:*

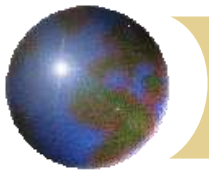
- 1. Additionality:** replaces but does not add to total imports— does not raise the total supply of food— food prices do not fall much.
2. Saves import costs, frees up dollars for other imports—when food is sold or “**monetized**” (India) growth and demand for food rise (see 1990 WDR Box 6.2)





## *Findings on Food Aid (continued)*

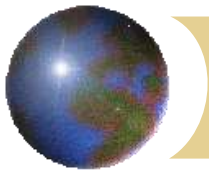
3. Many countries **graduated** from food aid dependence: e.g., India, Indonesia, Colombia became grain exporters
4. Reforms following the 1973-74 famine in Bangladesh, the **World Food Program 1974** made allocation of aid less political, 1976 PL480 Title III forgives food aid loans if the proceeds from food sales are spent on agricultural research.
5. In the main food aid has been well **targeted**-- FFW, food as medicine, indicator targeting etc. it has reduced famine in Botswana and other African ctys.



## *The IPA-JPAL\* critique of Aid:*

1. The poor are must not be hungry because they do not spend extra income on calories (Banerjee & Duflo chapter 2, "A billion hungry people?") – but there are millions of underweight and stunted children?
2. Without randomized trials (RTS) we do not know what really works to reduce poverty, malnutrition, illiteracy, etc. (example: microfinance)
3. Traditional economic analysis of aid and credit and malnutrition needs to take into account corruption and irrationality– people do not always do what is good for them or their children, and this applies even more to the poor (harder to make good choices)

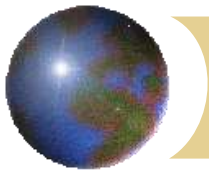
\*Abdul Latif Jameel Poverty Action lab or JPAL



## *The Bangladesh Consensus\**

1. Access to credit is a human right,
2. Microfinance can be a central component of a broader program to reduce poverty as part of a broader social safety net...
3. Public Transcript: Microfinance is self-financing and profitable, but this is basically wrong– the private transcript embeds microfinance as part
4. The subsidy component of Microfinance runs about 30% of the program cost, about 70% of operations self financed.
5. Grameen II shares some common ground with Accion model

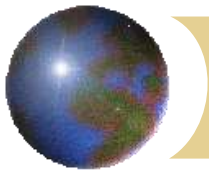
\*See Ananya Roy, 2010, *Poverty Capital pp. 93-132.*



## *The problem with microfinance or direct lending as at Kiva.org or wholeplanet.org:*

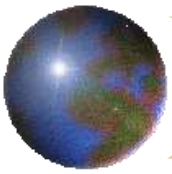
1. In most randomized trials microfinance does not reduce poverty much (Hyderabad, J-PAL experiments see pages 72-79 in Karlan and Appel, 2011)
2. Mohammed Yunus: interest rates are too high, moneylenders replaced with money lenders.
3. People use funds for consumption not investment. If people cannot afford to save, they cannot afford to borrow either.
4. Kiva.org can mislead regarding direct lending, goes to agency see KA, 2011, p. 15-16, 75, 139).

\*Abdul Latif Jameel Poverty Action lab or JPAL



## *In defense of microfinance, direct lending :*

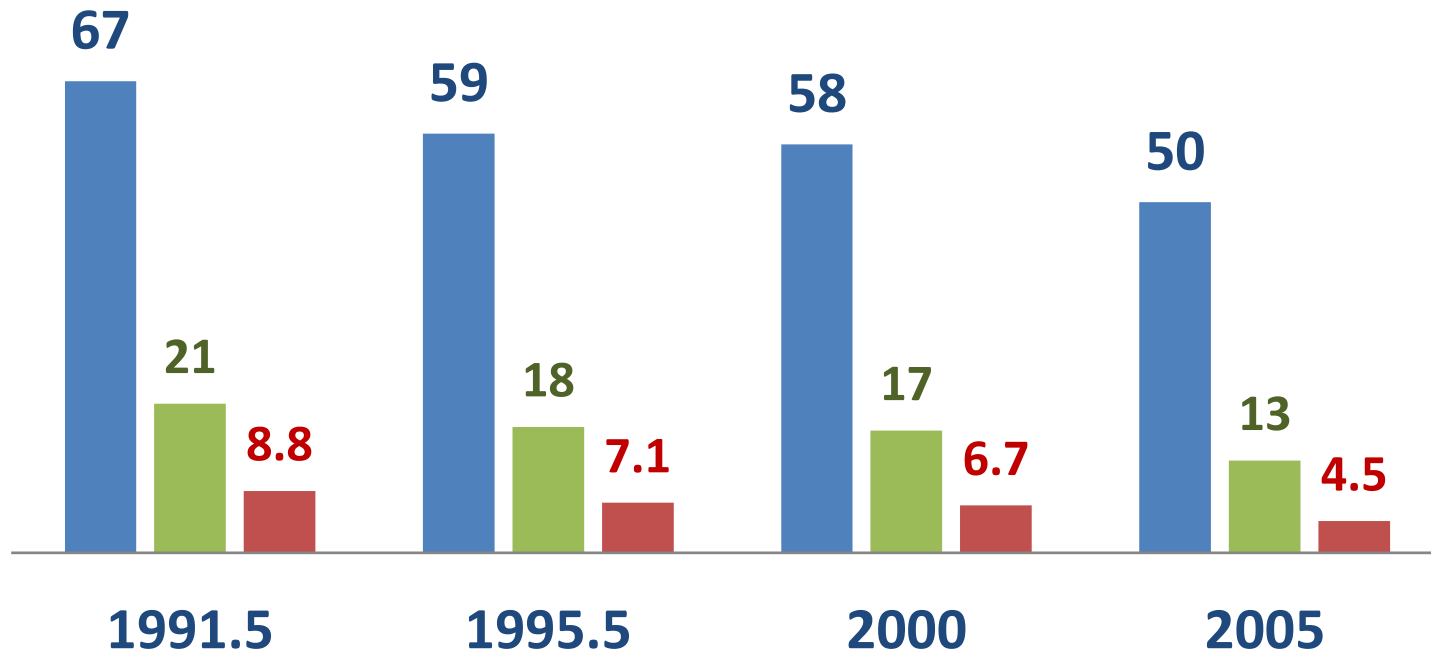
1. There is some evidence from Bangladesh that microfinance works (BGD is evidence).
2. Ananya Roy: public transcript for MFI is that self-financing miracle, private transcript: part of social protection system... ASA, BRAC & Grameen all part of social protection scheme (not real banks).
3. Even at high interest rates, loans can be help (South Africa experiment, see KA, 2011, p. 44-51, 64-66)
4. Grameen II works better, than ROSCAs (rotating savings and credit associations) Tandas, KA, 2011 p. 92-98.
5. Evidence that MFIs smooth consumption over time (Morduch

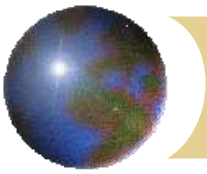


# *MDG 1: Will Bangladesh make it?*

## Bangladesh \$1.25/day Poverty Rate

■ Headcount (H)   ■ Poverty Gap (H\*I)   ■ Gap Squared



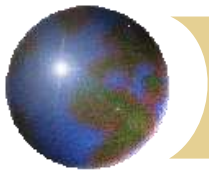


## *CCTs at a glance, 2009 (World Bank)*



### **Conditional cash transfer (CCT) programs**

- CCT programs offer qualifying families cash in exchange for commitments such as taking babies to health clinics regularly or sending children to school.
- CCT Programs in over two dozen countries reduce poverty in the short and long term, particularly when supported by better public services.



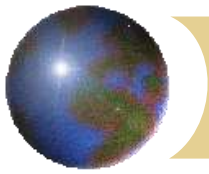
# *CCTs at Glance 2009 (World Bank)*



## **Growing demand for social safety nets**

- Demand for well-designed safety net programs to assist poor families is growing across the developing world, as 2009 develops into a year of tough economic challenges.
- Concern that the 2009 financial crisis could turn into a humanitarian one, especially for poor households already hit by the recent food and fuel crises.



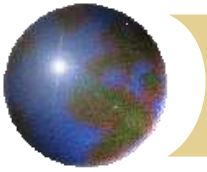


# *CCTs at Glance (World Bank)*

Figure 1 CCTs in the World, 1997 and 2008

**1997**

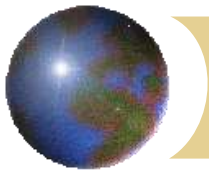




# *CCTs at Glance (World Bank)*

## **Conditional cash transfer (CCT) programs**

CCT programs offer qualifying families cash in exchange for commitments such as taking babies to health clinics regularly or sending children to school. These programs, now found in over two dozen countries, can reduce poverty both in the short and long term, particularly when supported by better public services.



# Microcredit video

- ✦ Microcredit Video (Debbi in Pranab captial of Bihar in India)

<http://www.youtube.com/watch?v=gtjc8Q8tT7k&feature=email>

- ✦ Or <http://www.fordham.edu/economics/mcleod/microcredit.mp4>

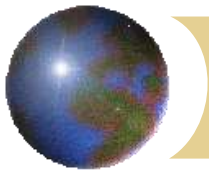
- ✦ What characteristic of the Bangladesh Consensus is captured by short film?

- ✦ The debate over Microfinance

- ✦ [http://www.microcreditsummit.org/enews/2007-07\\_index.html](http://www.microcreditsummit.org/enews/2007-07_index.html)

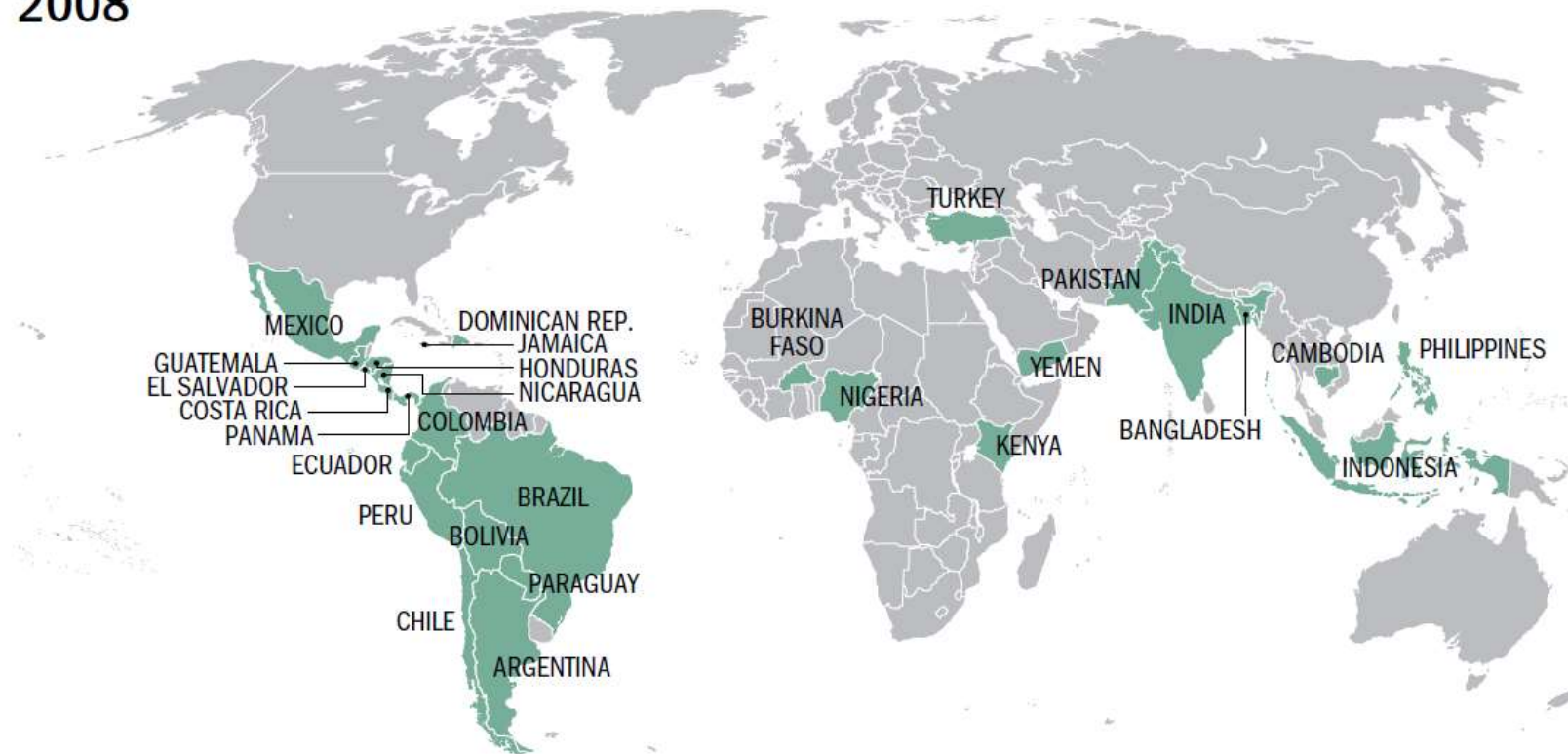
- ✦ PBS Now Documentary (25 minutes)

- ✦ [http://www.microcreditsummit.org/enews/2007-07\\_index.html](http://www.microcreditsummit.org/enews/2007-07_index.html)



# *CCTs at Glance (World Bank)*

2008



Source: World Bank.