



Palestine Economic Policy Research Institute (MAS)

Food Aid and Macroeconomic Indicators in Palestinian Territories

**Fathi Srouji
Haneen Ghazawneh**

2009



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Strategic Objectives

- ◆ Promoting knowledge-based policy formulation by conducting economic and social policy research in accordance with the expressed priorities and needs of decision-makers.
- ◆ Evaluating economic and social policies and their impact at different levels for correction and review of existing policies.
- ◆ Providing a forum for free, open and democratic public debate among all stakeholders on the socio-economic policy-making process.
- ◆ Disseminating up-to-date socio-economic information and research results.
- ◆ Providing technical support and expert advice to PNA bodies, the private sector, and NGOs to enhance their engagement and participation in policy formulation.
- ◆ Strengthening economic and social policy research capabilities and resources in Palestine.

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Researcher: Dr. Fathi Srouji, Research Coordinator (MAS).
Haneen Ghazawneh, Research Associate

Reviewers: Salah Al-Lahham, Program Officer, World Food Program.

Layout: Lina Abdallah

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Palestine Economic Policy Research Institute (MAS)
Jerusalem and Ramallah

Forward

One of the questions that economists keep posing and keep attempting to answer is about the actual, intended or unintended, effects of food aid on the economy of recipient countries. The debate is still very heated between those who argues that there are strong and measurable negative consequences of food aid and those who claim the negative effects are mere illusion and due to faults in measurement tools.¹

The question regarding the potential effects of food aid appear to be quite complicated. They can be addressed on three different levels, micro, meso and macro.

Measuring the effects of food aid on the micro level requires evidence on the impact of food aid deliveries on household labour supply, production incentives, consumption patterns and natural resource use.

At the meso-level, measuring the effects of food aid requires evidence on the impact of food aid deliveries on market development, market prices, informal insurance arrangements and the behaviour of implementing agencies.

Finally, measuring the effects of food aid at the macro level requires evidence on the impact of food aid deliveries on balance of payments, economic growth, international trade and exchange rates.²

The list of economic variables that can be affected by food aid is clearly very long. On top of this are huge variations in the conditions and economic structure of studied countries, the different time-series available and differences in measuring tools and techniques. When put together, this can explain the differences, if not the contradictions, of empirical research results attempting to answer the core question of whether food aid is, overall, positive or negative.

¹ See for example the following reference which strongly denies the existence of negative effects of food aid
Abdulai, A. (*et. al.*): Does food aid really have disincentive effects? New evidence from Sub Sahara Africa. *World Development*, vol. 44, issue 10 (2005).

² Barrett C: Food aid's intended and unintended consequences. ESA Working Paper, No. 06-05. Cornell University. May 2006.

The present study aims to trace the effects of food aid on some basic macro-economic variables in the Palestinian Territories. Despite the time-series data being incomplete and the quality of the data leaving much to be desired, the study reached some interesting preliminary results and provides arguably convincing explanations to them. Perhaps the most significant result and recommendation is the need to improve the targeting procedures of food aid distribution. Poor targeting (where non-poor receive food aid) and leakage (where poor do not receive) lead to significant negative effects on some of the macro-economic variables in the Territories.

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Numan Kanafani
Director General

Executive Summary

This study aims to analyze the effects of food aid on the macroeconomic indicators in the Occupied Palestinian Territories (oPt); namely: agricultural production, food imports, the index of food prices, unemployment, poverty and food security. The study draws on various sources of information, including a food aid database available on the World Food Program (WFP) website; www.wfp.org/fais. This database provides time series data on the quantities of food aid, types of food provided and the donor countries and recipients of such aid. Further information on food aid in the oPt was readily available for the period 1988-2007. Data on other economic variables needed for the study, has been compiled from the Palestinian Central Bureau of Statistics (PCBS) for the period 1995-2007, and from the Israeli Central Bureau of Statistics for the period 1988-1994.

Fluctuations in the volume of food aid provided to the oPt has been widely noted in data related to food aid. For example, the percentage change in the volume of food aid was rising by 220% in 2001 but the following year declined by 59%. This and other such fluctuations can be explained by three factors. First, greater amounts of assistance are needed during periods of deteriorating economic activity which result from a decline in the political and security situation in the oPt (and wider region). Second, some donor countries provide aid based on their production levels and surplus availability or are inspired by political motives rather than needs of recipient countries. Third, the accuracy of the food aid data collected might be called into question since the scale and large number of donor countries providing food assistance may lead to errors such as omitting certain donors or counting quantities of food aid twice.

Regarding the composition of food aid, wheat flour represents the largest proportion of food aid. Of the total amount of food aid provided to the oPt in 2007, wheat represented 73%. In the same year, oil accounted for the next greatest amount (7%), followed by rice (6%), sugar (6%), chickpeas (2.5%), lentils (2.5%), beans (1%) and other foodstuffs (2%). Since bread is the largest Palestinian staple food, it is no surprise that wheat is provided in the greatest amounts.

It is worth noting that 37% of total expenditure on commodity groups and services is spent on food in the oPt. This is a greater proportion than in Jordan (33%) and Israel (17%).

In terms of the geographical distribution of donors, the European Union provides about 26% of food assistance in the oPt, with individual European countries providing an additional 23%. North America accounts for 25% of total food aid, followed by Japan (around 18%), The United Nations (4%), and the rest of the world (3%). Arab countries provide only 1% of the total aid. This may be due to their tendency to focus on cash rather than food assistance, particularly since the Arab world, on the whole, imports a huge amount of food.

The study used regression analysis to estimate some standard models for describing the effects of food aid on agricultural production, food price index and unemployment. This was possible with the time-series data available for the period 1988-2007. The study used the correlation coefficient to investigate the correlation between food aid and the value of imports, as well as the correlation between food aid and poverty. This is because there was no time series data available on the value of imports and poverty in the oPt as the Israeli Central Bureau of Statistics did not issue it between 1988-1994. The study also uses descriptive analysis to study the effects of food aid on food security in the oPt. To do this, a review was made of the results from the comprehensive food security assessments in the oPt, conducted in the years 2003, 2006 and 2008 by three international organizations: the World Food Program (WFP), the Food and Agriculture Organization (FAO) and UNRWA.

Using the analysis techniques outlined above, the main findings of the study can be summarized as follows: First, food aid has a negative impact on the level of agricultural production in the Palestinian territories. This finding corresponds with most theoretical studies on the subject and is consistent with many empirical studies in some other countries in the world. Awokuse (2006) showed a negative impact of milk aid provided by the European Union on the production of milk and milk products in recipient countries. The results of another study demonstrated the negative impact of food aid provided in Ethiopia. In the Palestinian context, it is difficult to claim that this relationship is due to the negative impact of foreign aid on prices and domestic agricultural production, since most food aid commodities are not produced locally. Rather, the negative impact of aid on agricultural production can be linked to the increased levels of food aid during times of severe political and security instability. Also, Israel imposing, for example, curfews and closures also leads to lower domestic agricultural production. This means that the relationship between the two variables may be the result of their association with prevailing political

and security conditions, but that they do not necessarily have a direct inverse relationship.

Second, the volume of food aid has a positive relationship with the food price index. This relationship can be explained as follows: providing certain types of food aid, such as grain, could increase the demand for other food items (meat and dairy products), which in turn leads to an increase in the index of food prices. In the Palestinian context, it has been revealed that assistance, in the form of food and others, is associated with significant errors in targeting, as this assistance is provided to individuals and families not eligible, which could increase the demand for other food products. The results of a report on poverty by the Palestinian Central Bureau of Statistics referred to the existence of significant errors of inclusion and exclusion in targeting needy Palestinian households. The same report found that more than 56% of the households receiving assistance in the Palestinian territories in 2006 households were ineligible.

Third, there is a positive relationship between the volume of food aid and unemployment rates, but it is not statistically different from zero. Thus it can be said that there is no statistically significant relationship between the volume of food aid and employment levels in the Palestinian territories. This is because food assistance is distributed for free in most cases, thereby impacting very little on employment levels, which could be increased more if another means of assistance, such as food for learning and training were employed.

Fourth, the relationship between food aid and food imports is positive but weak. Findings show that the correlation coefficient between the volume of food aid and the value of imports of all food items is 0.14. The relationship between food aid and grain imports is negative but negligible. In fact, the correlation coefficient between the two variables is -0.0002.

Fifth, the relationship between the volume of food aid and poverty rates, measured on the basis of consumption, is positive but not strong. Results indicate that the correlation coefficient between the two variables is 0.36. The poverty rate in the Palestinian territories reached 30.3% in 2007. The highest levels were in 2002, with 50% unemployment.

Sixth, the impact of food aid on food security is marginal. The proportion of food secure families has in fact increased whilst aid has increased: 29% in 2003, 34% in 2006 and 36% in 2008. The proportion of insecure families has declined between 2003 and 2006, from 40% to 34%. However

the proportion of food insecure families increased in 2008 to 38% despite a marked increase in the volume of assistance throughout. While it is difficult to overlook the role of food aid in improving food security, the results of the current study indicate a weak impact of food aid on alleviating food insecurity in the Palestinian territories. This might be due to poor targeting and a lack of access for all needy families. The situation becomes even worse when families who are not eligible receive such food aid.

Based on these results, a set of policy implications were developed that aim to improve the situation of food security. These are:

- ✧ Focus on food aid that is orientated toward development (food for education and food for training), especially in periods of emergency.
- ✧ Improve targeting criteria so that needy sections of the population have access to and are eligible for food aid. High levels of mis-targeting have prevented significant improvement to the food security and have caused an increase in food prices.
- ✧ Focus on the agricultural sector since it plays an important role in alleviating poverty and reducing food insecurity. In this regard, sourcing food aid locally, as is the case with olive oil, could work. Local manufacturers could also be involved, to provide wheat flour from Palestinian mills for example. In addition, other food products could be purchased from Palestinian importers, as with rice, sugar, cereals and other dry pulses.
- ✧ Establish mechanisms to implement the national strategy for food security, especially the strategic objectives aiming to stimulate local production and thus help reduce the reliance on food aid from abroad.
- ✧ Work to stimulate real growth GDP. The study shows that GDP growth has a clear positive impact on the unemployment rate, whilst at the same time, reining in soaring food prices in the Palestinian Territories.
- ✧ Expand and constantly update the Ministry of Planning's database on foreign aid. This comprehensive and current database would help researchers conduct deeper analysis of international assistance and its potential impact on the Palestinian economy.