

**Farm Policy and Foreign Food Aid:  
Educating Students and Stakeholders on the Food for Progress Program**

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## **Introduction: An Overview of the Food for Progress Program Education Portfolio**

This portfolio of materials focuses on the Food for Progress Program (FFPr), one of the more recent additions to the suite of international food aid policies. FFPr is an in-kind program relying on monetization of U.S. crop commodities to aid recipients in foreign countries in their agricultural development goals. Like most agricultural trade policies of the U.S., food aid programs like FFPr are primarily concerned with improving demand for U.S. products and expanding export opportunities. Additionally, FFPr seeks partnerships in recipient countries where agricultural and economic development lags but could be improved with increased production of commodities where U.S. demand could not normally be met with domestic production.

Unlike export promotion cooperator programs and domestic farm policies there has been little attention paid to these relatively modest programs owing to their small size and irregular implementation. As the role of international nutrition and health grows the need for improved education on the function and potential economic consequences of these programs is increasingly apparent. The objective of this Honors project submission is to remedy some of this providing an analytical review of program operation and the pertinent economic factors to be considered. That is followed by a set of written and presentation materials for use in extension and education settings. These separate components of this project packet are detailed next:

### Analytical Review

In this section I discuss the function of FFPr, compare it to total U.S. agricultural exports, and look at benefits and downfalls of the program. The intended audience is someone who wants to understand FFPr and the type of economic models and data that would be required to examine the economic efficiency of the program. To provide context, the FFPr budget versus the total U.S. agricultural exports in Fiscal Year 2017 amounts to approximately one-tenth of one percent. That scale of the FFPr budget (0.1% of total exports) should provide readers a solid idea of the potential for direct impacts on farmers as compared to normal fluctuations in economic activity. I use the remainder of the review to provide examples of how these small targeted expenditures

made in collaboration with industry and institutional cooperators may create additional markets for U.S. farmers and benefits to the U.S. economy.

U.S. consumers are of immediate concern as beneficiaries of the program, both because they fund the program through their taxes and the geography of the program implies that success will create import potential for lower cost products to the U.S. Data collection and analysis for FFPr has been too sparse to adequately monitor impacts in recipient countries so it stands to reason that attempts to measure returns to taxpayers will be difficult. This review does consider the economic pathways that would require empirical analysis for detecting the presence and size of benefits of the program. The potential for negative or unintended consequences of FFPr are considered alongside the potential benefits. One area often criticized in the process of commodity monetization as a funding mechanism for program operations. Monetization often results in projects having less money than what was spent to procure commodities from the U.S. market. The use of this method may be an ineffective use of funds which would be better spent in direct spending on program objectives. Additionally, depending on the project there is the possibility of crowding out of domestic industries, a common indirect negative impact.

In the conclusion of this section I ask readers to consider the benefits and issues of FFPr in hopes so they may understand for themselves how they would judge the quality and effectiveness of the program. Unlike many policies that have stated primary objectives, the multiple components of this program and the weight attached to goals that are not direct economic benefits to U.S. stakeholders will play importantly to a reader's conclusion about whether the program is worth the funding it currently earns, whether it should be lowered or expanded, and how it may be improved or have its objectives altered. The main takeaway I hope readers have is that there is little to no monitoring and evaluation of projects which makes it difficult for the public to know if this program works. Providing a better explanation of how the program works and giving clear definitions of program function to economic impacts so that the public can properly understand the stakes of the program and articulate their interests.

### Extension explainer

The next item in the portfolio reduces the material from the prior review to the core functions to be explained to make a reading suitable for extension education. These type of ‘explainer’ articles aimed at stakeholders and provide core factual information about a program or policy for purposes of stakeholder education. The goal of this explainer would could easily be a take home synopsis or the basis for an hour-long breakout session where experts follow-up this introductory material entertaining questions and discussion from a stakeholder audience. The explainer concludes with a section discussing the potential to reach policy goals using FFPr as might be useful for stimulating focused discussion.

### Classroom Teaching Materials

The target education for the final set of materials is a Purdue upper division College of Agriculture student who has completed their introductory agricultural economics coursework (e.g. AGECE 217). The materials here were developed and used to fit into the “International Agricultural Development and U.S. Policies” section of Purdue’s Agricultural Policy course (AGECE 410).

The unit begins with a pre-class reading suggestion (covering the key export supply and import demand equilibrium) and outlining learning objectives. The presentation begins by reviewing the history of U.S. policy in the area of Foreign Food Aid and then moves to instruction on how FFPr functions and fits into the full set of U.S. farm and food policies. Questions for class discussion are included at the end of the presentation and an instructor outline of the content in the presentation is provided. This is useful for whoever is teaching the material to take notes on and prepare for the lecture.

The short quiz is aimed at reinforcing the learning objectives of the lecture, helping direct student review and retention of key points that could be considered common or differentiating factors in U.S. international development policy at the end of the unit. Review questions on the lecture that focus on critical thinking about FFPr and its benefits and costs are also provided for comparative analysis with other international programs and to prepare students to apply ideas

from class about economic efficiency and reform to policies found to be failing to meet objectives or metrics.

## **Reviewing the Economics of the Food for Progress Program**

### Food for Progress History

Food Aid began with Public Law 83-480 (P.L. 480). P.L. 480 has been amended several times and was eventually renamed the Food for Peace Act (FFPA). The original purpose of the FFPA was to reduce U.S. stored crop acquired through USDA commodity price support programs. The excess stock was used to support humanitarian aid, economic development, and geopolitical goals in foreign countries (USDA-Foreign Agriculture Service, 2020).

After the Cold War ended the goals of the in-kind programs shifted towards emergency aid and long-term agricultural growth and development. This resulted in additional programming, namely Food for Progress (FFPr) (Congressional Research Service, 2018).

FFPr works with countries who need developmental help in the agriculture sector. The program functions by selling donated U.S. agricultural commodities on local markets. The money is then used to fund programs in “agricultural, economic or infrastructure development.” (USDA-Foreign Agriculture Service, 2020).

Authorization for FFPr is provided under Title I of the 1985 Farm Bill and administered by the Foreign Agriculture Service of USDA. Commodity purchases are handled by Commodity Credit Corporation (CCC) from U.S. market supplies and then shipped them to recipient countries for monetization. No Title I funds have been directly appropriated since Fiscal Year

2006, so all FFPr funds come from discretionary authority to use CCC allocations (Congressional Research Service, 2018) similar to the manner in which CCC funds have been used to purchase commodities for market stabilization and price support (USDA Office of Chief Economist, 2019).

### How Food for Progress Works

USDA-FSA creates a list of priority countries each year for FFPr consideration and then takes solicits project proposals. Foreign governments, intergovernmental organizations, private voluntary organizations (PVOs), cooperatives and nongovernmental organizations are eligible to submit project proposals for consideration. The program operates as “in-kind food aid”, with the U.S. outlay being primarily the cost of procuring domestic commodities to sell in international markets. This monetization of U.S. commodities through implementing partners serves a primary domestic agricultural policy goal of FFPr is to increase U.S. agricultural trade with other countries (USDA-Foreign Agricultural Service, 2020).

The limited reviews and analysis of the program that have been conducted show the program to have more identifiable direct costs than benefits. The lack of evaluation and monitoring for the program (Internal Food Assistance, 2017) has generated concern for policymakers about the potential negative consequences for domestic markets where product is monetized. These concerns also stretch to the costs of administering the program and whether benefits beyond increased U.S. export sales accompany the operation of U.S. in-kind purchase aid programs.

The key feature of the Food for Progress program is the outlet excess crop supply and the use of funds to support foreign agricultural development in areas vulnerable to shortages. In Fiscal Year (FY) 2017 FFPr had a budget of \$141 million (USDA-Foreign Agricultural Service, 2017). In FY 2017 the total for agricultural exports was \$141 billion. (U.S. Agricultural Trade at a Glance, 2020).

This means the U.S. agricultural commodities exported through FFPr made up 0.1% of agricultural exports in FY 2017. The immediate question that arises is whether it is possible such a small fraction could make any meaningful difference in U.S. export position as anticipated by the domestic policy objective of expanding foreign agricultural trade? More data and detailed information from consistent implementation of the program might allow for analysis of FFPr projects as a driver of increased long run demand for U.S. commodities in destination countries.

Under current international economic conditions that see a trade war shrinking U.S. export market size and limitations on trade due to international health risk a program like FFPr should have its maximal benefit as it removes commodities like soybean meal that FFPr uses for monetization process. The authority to use such a program to expand access to foreign markets and the potential for its expansion may also prove to be leverage in trade deal negotiations where U.S. agriculture becomes a political retaliation target. Expanding demand to more outlets for U.S. commodities into places that have successful development experience that enhances income eases the pressure to continually provide U.S. domestic support for soybean producers.

Of course, any food aid program should have foreign assistance goals that do not require remuneration back into the domestic economy. In theory of international relations, the spending on foreign food aid should generate non-pecuniary returns to the U.S. that are difficult to interpret into economic benefit. To the extent they exist, they would be very indirect. However,

we might expect them to be proportional to the size of benefits in the foreign country so that measured improvements of effectiveness in agricultural economic growth and minimization of negative effects could be the best approach to garnering insight into those indirect benefit flows for the U.S.

### Consumer Benefit of FFPr Programing

A potential benefit to the U.S. economy from foreign agricultural development in countries receiving development aid would be lower consumer prices for tropical goods like coffee, chocolate, and vanilla that are expensive to produce in temperate zones. Many of these products command a premium price currently because of the geography of production and high cost of growing substitutes in more developed economies.

Consumers have a willingness to pay for these desirable goods. Many consume products that are key export priorities of FFPr aid recipient countries. Increased competition for coffee production on the international market means that premium bean supplies are more stable so that events like leaf rust disease in one place do not cause price spikes that are passed up the supply chain to higher consumer prices. The areas where coffee is primarily grown are low income, high poverty countries with many of the farmers only begin to prosper when they are introduced to better maintenance practices.

Local economic growth via agriculture and development aid both contribute to enhanced market information and logistical infrastructure investments which stabilize and reduce costs in the supply chain. Additionally, these practices are expected to lead to high yields and better-quality products. This increases income for farmers and increases the quantity of many of these



U.S. imported goods. The goal then of development projects is to produce more efficient production and more efficient markets. Production specialization in development around a export cash crop that is sustained helps build infrastructure for trade that readily spills over for improved trade in other products. In addition to education and income enhancement many of these aid programs will foster research programs such as those that may develop disease resistant varieties and promote local demand for improved genetics best suited to the growing conditions.

In FY 2017 agricultural imports reached \$114.5 billion. The amount has nearly tripled since 2000 when it was \$39 billion. This shift is attributed to increased consumer demand for product variety at all times of the year. Tropical products such as coffee and cocoa make up approximately 20 percent of U.S. imports (U.S. Agricultural Trade at a Glance, 2020). An increased geography of supply developed with the assistance of foreign aid programs should contribute to a lowering of the real cost of the U.S. import bill.

A critical question in foreign aid and cooperation policies is the value to the U.S. economy of investments that aim to secure peace and prosperity in areas that affect global economic activity. Increasing consumer demand for tropical products such as coffee, chocolate, and many spices that can't be grown in the U.S. make it likely that the U.S. will continue to opt to make investments in foreign agriculture as have been coordinated in development programs like FFPr. A critical monitoring and data concern for understanding the effectiveness of the FFPr program could then be the size and location of program disbursements relative to the sourcing pattern (recipient vs. non-recipient countries) of U.S. imports of key farm outputs where U.S. import demand has surged in this century.

### Degradation of Value Through Monetization

A sustained criticism of programs funded by commodity monetization is the reduction in funding for program efforts that occurs between procurement and resale of commodities. The U.S. Government buys commodities from U.S. farmers to support and stabilize demand and those commodities are then given to the cooperators who implement the FFPr programs, including the sale of commodities into markets nearer to the program recipient location. Funds for program efforts will thus differ from the U.S. government outlay by the transportation costs and any losses/gains from the final sale of commodities.

Because the U.S. supports most prices at or above world market levels it is most common that the funds for program are lower than the starting U.S. outlay for commodities such that direct donation of funds would lead to higher program spending. This leads many development economists to argue the benefits of using direct distribution as opposed to in-kind programs (U.S. Monetization Policy: Recommendations for Improvement, 2009). The result would be 100% of funds going directly into the program as opposed to a portion being lost during the monetization process.

### Unintended Consequences – Crowding Out Industry

An additional concern in development economics of the monetization efforts arises from the introduction of subsidized foreign commodities competing with local production. Delivering product to a local market will boost supply and lower prices and potentially reduce agricultural development efforts in the country where product is monetized, an effect counter to the goals of the program which seek to encourage foreign agricultural development. This same effect may be

present in the recipient countries of the ultimate development aid (whether the funds are raised through monetization or direct disbursement). Any foreign infusion that is not guided by market forces, such as disbursements of fertilizer to local farmers, has the potential to curb any domestic industry that may form to become the suppliers (Foster, KA. 2019. Personal Communication). Specifically, if FFPr spends money to educate on the benefits of fertilization and planting technology (as the programs they fund often do) we would expect local growth in demand to foster an industrial supplier that provides a further boost to their local economy. Any aid-based distribution of fertilizer inputs would then delay the critical upstream input supply development. Thus, a critical economic concern of aid programs is the potential for crowding out local sourcing and investments that hasten development of a sustainable and profitable agricultural sectors.

### Concluding Comments

The most readily identified problem with FFPr is the lack of monitoring and evaluation (U.S.-GAO, 2017). A commitment to resolving this problem in a manner consistent with recommendation from the U.S.-GAO review would provide ancillary benefits in data collection and analysis that could guide the program to better efficiency and help identify overlaps or inconsistencies with other agricultural development efforts. Indirect effects such as ‘crowding out’ remain a distinct possibility with development efforts that are disparately coordinated and poorly monitored, a concern that is compounded by the lack of research done on the cost and benefit of the program regarding its direct activities.

Another problem with lack of evaluation protocols is the inability to assess how well the goals of FFPr have been reached so that both champions and detractors of the program can debate its future from an informed platform. A main goal stated for the program is to increase international agricultural trade, the small scale of the program prohibits any realistic conclusion of a significant macro-effect so improved information flow in the program is needed to better narrow the stated goals as to some sector and region-specific objectives from the U.S. agricultural trade side.

Can the benefits of FFPr possibly outweigh the costs? The most direct return to the U.S. is via commodity sales and potential for lower priced imports of tropical products from developing and least developed countries. Only with a consistent monitoring program that produces reliable data could we begin to conduct even crude analysis that would allow policy-makers, stakeholders, and the broader public to begin to weigh the strengths and weaknesses of program efforts that have already been conducted and those planned for the future.

## **Food for Progress (FFPr) – Facts and Explanations for Extension Programming in Development**

### Function of FFPr

1. Priority countries and commodities are chosen by the FFPr team annually. These could remain unchanged for a few years, be slightly altered, or change entirely.
2. Implementing partners (nonprofits, industry groups (Land O'Lakes for example), and Land Grant Universities to name a few) submit project proposals. These proposals are read and graded by the FFPr team and other volunteers from the USDA. The readers submit their top project choices to higher ups of the Foreign Agricultural Service for the final decision.
3. U.S. crop commodities are purchased off the market. The implementing partners ship the commodity to the country they are working in or one nearby for monetization. (Monetization is the act of purchasing the commodity of the U.S. market and reselling it elsewhere to get the money for the projects.)
4. FFPr team members stay in contact with the implementing partners to make sure the project is staying on schedule and working well.

### What happens in an FFPr project?

Every project is different, but many projects focus on outreach and education. Some of them work on connecting producers with purchasers (mostly exporters). There are projects that work to bring necessary items to the area they are working in. This could be seedlings, fertilizer, tools, etc.

### The cost of FFPr

In Fiscal Year 2017 (FY 17) the budget for FFPr was \$141 million. The total for agricultural exports from the U.S. was \$141 billion. This means that the commodities exported through FFPr accounted for 0.1% of U.S. agricultural exports in FY 17.

### How is this different from other food aid programs?

The focus of FFPr is to improve agricultural practices in other countries (usually in commodities not grown in abundance or at all in the U.S.). FFPr is an in-kind program, meaning

it uses monetization, as opposed to a direct donation program. The goal is not to sustain the populations they work with, but to teach them how to better their farming practices.

Target commodities and countries change but are usually picked based off a need witnessed by the FFPr team. For example, Leaf Rust Disease has hit coffee and cocoa hard in recent years. The team has been working with these farmers to keep coffee and cocoa available for the world. Knowledge of the threat of the disease has led to research to prevent it.

### Policy objectives

One farm related policy FFPr could aid is price support. The additional exports could supply enough of a market to help stabilize prices by reducing shortages or moving surplus commodities from the U.S. Related, this aids export policy in general. Increased exports help to decrease the trade deficit, which has become a major U.S. policy goal in recent years.

By working to improve agricultural practices in other countries FFPr is aiding in environmental policy goals as well. While U.S. standards do not necessarily apply in the areas these projects are taking place, increased production efficiency in developing economies almost always incorporates practices that improve stewardship of agricultural lands. Benefits could include limiting runoff, helping with erosion, and improved water quality. Each area and each project is different, so they might touch on different goals. As more projects take place across a country there is potential to accomplish more environmental policy goals.

## **Classroom Materials for Foreign Food Aid**

### Introduction

#### *Student Materials:*

The students should read chapter 10 from James P. Houck's Elements of Agricultural Trade Policy. Specific to the economics of FFPr and other food aid policies is the section titled "Export Expansion with Price Guarantees, Subsidies, and Promotion". An important learning objective will be in absence of direct monetary returns from FFPr projects how does the economics student evaluate the potential for indirect benefits in a multi-market, mutli-region setting and what non-economic policy goals might be met or assisted by Food Aid programs.

#### *Learning Objectives:*

Students should understand the following by the end of the lecture:

1. An overview of the history of Food Aid programs in the U.S.
2. How the FFPr program functions to date.
3. Be able to analyze the effectiveness of the FFPr program.

#### *Lecture Notes (see appended presentation slides):*

#### *Outline for instruction that follows presentation:*

1. The History of Food Aid
  - a. WWII Food Aid – Lend-Lease Act
  - b. United Nations Relief and Rehabilitations Administration
  - c. Marshall Act
  - d. Mutual Security Act

- e. Public Law 480
  - f. Food for Peace Act
  - g. Food for Progress
2. FFPr Today
- a. FFPr Function
    - i. Monetization explanation
    - ii. How projects are chosen
  - b. Downfalls
    - i. Lack of monitoring and evaluation and evidence of impact
    - ii. Money lost during monetization
  - c. Benefits
    - i. Exporting excess crop
    - ii. Trade relations
    - iii. Improving crops
    - iv. Consumer benefits – year round access
  - d. Scope
    - i. FFPr accounted for .1% of ag exports in FY17
  - e. Unintended Consequences
    - i. Crowding out – fertilizer example
  - f. Discussion Questions



*Quiz:*

1. What is the proper abbreviation for Food for Progress?
  - a. FFP
  - b. FoodPro
  - c. FFPr

Answer: C, FFP is Food for Peace

2. How does Food for Progress get their money?
  - a. In-kind program – government buys commodities and monetizes them
  - b. Direct distribution – money is given directly to the project
  - c. It is an optional donation box on taxes

Answer: A

3. What percent of U.S. agricultural exports did Food for Progress make up in FY17?
  - a. 1%
  - b. .5%
  - c. 10%
  - d. .1%

Answer: D

4. How are funds appropriated for Food for Progress?
  - a. CCC appropriates them
  - b. PL 480
  - c. The Food for Progress Act

Answer: A

*Discussion based questions for the class:*

1. Based on what you read before class (chapter 10 from James P. Houck's Elements of Agricultural Trade Policy) and today's presentation, do you feel like the benefits of FFPr outweigh the negatives? Consider the consumer benefits/positive externalities vs the potential for crowding out/negative externalities.
  - a. How do you view the lack of monitoring and evaluation? Is there a transparency issue with where the funds are going and the return taxpayers see?
2. Think back on the difference between in-kind and direct distribution... Is the loss of money during monetization justifiable for the extra .1% increase in agricultural exports through this in-kind program? Would the program be better off using direct distribution to mitigate lost money?
3. How do you see FFPr improving economic efficiency?  
(comparative/competitive/absolute advantages)
  - a. How do you see it causing economic inefficiencies? (unintended consequences)

## References

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