

APPENDIX D

A Review of Two Studies on Returns to Public Agricultural Investments

Many parts of Asia have achieved impressive gains in agricultural productivity and poverty reduction over the past half-century. By contrast, sustained agricultural development remains elusive in most of Africa. Can African policy makers learn from Asia's green revolution? Conditions differ in many respects between Africa and Asia, as well as across countries within Africa, and the impacts of various investments and policies in Asia may not necessarily produce the same impacts in Africa. However, it is instructive to understand the mix of public investments and policies that helped many Asian countries achieve their smallholder-led green revolutions and to consider the potential lessons for Africa.

Two studies are especially insightful to provide guidance. The first study, carried out by the Economist Intelligence Unit (EIU 2008), estimated the contribution of various types of public investments and strategies to agricultural growth and poverty reduction in six Asian countries: China, India, Indonesia, South Korea, Taiwan, and Vietnam. The second study, carried out by IFPRI (Fan, Gulati, and Thorat 2008) provides an in-depth analysis of India to identify the returns to various types of public expenditures over a 40-year period.

Main Findings

The EIU study highlights the primacy of policy and enabling environment in driving both agricultural growth and poverty reduction in most of Asia (Table D1). As stated by the report:

“In places such as Korea and Taiwan, land-to-the tiller reforms created a broad-based agrarian population with ownership over land and strong incentives to increase output. In China and Vietnam, increasing individual farmers' rights over their land and output, combined with agricultural market liberalization, substantially improved farmers' incentives and stimulated rapid growth in output and private investment. Indeed, policy and institutional reforms have been central to (arguably, the main sources of) agricultural growth in China and Vietnam because those countries had to overcome complete state control of the entire economy. But getting institutions and policies right also mattered a great deal in the other four Asian economies as well” (p. 7-8).

“Appropriate policy reforms not only bring about one-off efficiency gains...more importantly they improve incentives for private investment in resource conservation, technology adoption, innovation, and increased modern inputs application, all of which lead to higher steady-state rates of output growth” (p. 8).

“Policy and institutional improvements can also improve equity since administrative power over farmer behavior tended to favor the wealthiest and those with the best political connections, rarely poorer individuals or communities” (p. 8).

The EIU (2008) study contends that policy and institutional reform in Africa may not produce the same magnitude of benefits as in Asia because of its view that African nations have already undertaken most of the major sectoral reforms enacted in Asia. However, food and input markets in Africa continue to be hampered by unpredictable state operations, trade barriers, and sudden entry and retreat from markets. If anything, state intervention in food and input markets appears to be on the rise. The high degree of policy uncertainty creates

Table D1. Summary of Analysis of Six Asian Economies' Agricultural Growth Boom Periods

	Agricultural growth effects			Poverty-reduction effects		
	Median share of agricultural growth attributable to:	Median rank by total effect	Median rank by benefit/cost ratio	Median share of poverty reduction attributable to:	Median rank by total effect	Median rank by benefit/cost ratio
Policy / institutional reform	40%	1	1	30%	1	1
Infrastructure						
Rural roads	10%	3.5	3	15%	3	3
Irrigation	9%	4.5	4	8%	5	4
Electricity/health/education	9%	4	7	18%	2	4
Agricultural inputs delivery						
Fertilizer/seed/chemicals	10%	5	6	7%	6 (tied)	6
Agricultural credit/insurance	2%	6 (tied)	8	5%	6 (tied)	2.5
Agricultural/ natural resource management research/extension						
Ag./NRM research	15%	2	2	10%	4	2
Ag./NRM extension	2%	6 (tied)	4	5%	6 (tied)	2.5

Source: The Economist Intelligence Unit (2008).

major market risks and impedes private investment from flowing into the agricultural sector to support smallholder farmers. In these ways, there is still a great deal to be gained from sectoral reform in Africa, not necessarily to liberalize private trade *per se* but to reduce the risks and costs imposed on private trade arising from unpredictable government actions. The policy environment will clearly influence the impact of public investments on agricultural growth and poverty reduction.

As shown in Table D1, other investments found by the EIU study to have high payoffs were: crop science R&D and investments in rural roads, electricity, health, and education. These investments helped smallholders produce more food while also improving their access to markets and services. Resources invested in input subsidies and direct distribution of fertilizers and other agri-chemicals showed modest returns on average. Input subsidies played a greater role in irrigated areas where the combination of water control, improved seed varieties and fertilizer raised yields dramatically. Returns to subsidies were lower under rainfed conditions, especially in semi-arid areas.

The IFPRI study of India estimates the return to various types of government expenditures in terms of agricultural growth and poverty reduction. Moreover, this study estimates impacts at different periods in India's development path from the 1960s to 2000.

Table D2. Returns in Agricultural Growth and Poverty Reduction to Investments and Subsidies, India, 1960-2000

	1960s		1970s		1980s		1990s	
	Returns	Rank	Returns	Rank	Returns	Rank	Returns	Rank
Returns in Agricultural GDP (Rs produced per Rs spent)								
Road investment	8.79	1	3.80	3	3.03	5	3.17	2
Educational investment	5.97	2	7.88	1	3.88	3	1.53	3
Irrigation investment	2.65	5	2.10	5	3.61	4	1.41	4
Irrigation subsidies	2.24	7	1.22	7	2.28	6	na	8
Fertilizer subsidies	2.41	6	3.03	4	0.88	8	0.53	7
Power subsidies	1.18	8	0.95	8	1.66	7	0.58	6
Credit subsidies	3.86	3	1.68	6	5.20	2	0.89	5
Agricultural R&D	3.12	4	5.90	2	6.95	1	6.93	1
Returns in Rural Poverty Reduction (decrease in number of poor per million Rs spent)								
Road investment	1272	1	1346	1	295	3	335	1
Educational investment	411	2	469	2	447	1	109	3
Irrigation investment	182	5	125	5	197	5	67	4
Irrigation subsidies	149	7	68	7	113	6	na	8
Fertilizer subsidies	166	6	181	4	48	8	24	7
Power subsidies	79	8	52	8	83	7	27	6
Credit subsidies	257	3	93	6	259	4	42	5
Agricultural R&D	207	4	326	3	345	2	323	2

Source: Fan, Gulati, and Thorat 2008.

As shown in Table D2, most public expenditures to agriculture in the 1960s generated very high returns to both agricultural growth and poverty reduction. During this period, India's green revolution was just starting to take hold, which might make this period particularly relevant for many African countries. Particularly high returns were generated from public investments in roads and education, which had estimated benefit-cost ratios of 6 to 9. Agricultural research investments and credit subsidies yielded benefits that were 3 to 4 times the amount spent. This was the period when improved seed varieties, fertilizer, and credit were being promoted as a high payoff technology package. Irrigation and power subsidies yielded the lowest returns in this period, though returns to these subsidies were more than double spending. In the 1970s and 1980s, the returns to most of the subsidy programs declined though they began to account for a growing share of national budgets. Meanwhile, investments in agricultural R&D, roads, and education provided the greatest payoffs in terms of agricultural growth. By the 1990s only agricultural R&D and road investments continued to yield estimated returns of more than 300%. Estimated net returns to irrigation investments and education were low but still positive, whereas credit, power, and fertilizer subsidies had negative net returns, i.e., a Rupee invested generated less than one Rupee of benefits (Fan, Gulati, and Thorat 2008). These findings are similar to those of Rashid et al. (2007) who concluded that state subsidies in input and output markets played an important role in supporting the initial uptake of improved farm technologies in Asia, but that their return fell

over time and that the subsidies have now become a major drain on the treasury while crowding out other public investments that could produce higher payoffs.

The ranking of public investments in terms of poverty reduction follow the same broad pattern as that for agricultural GDP growth. Spending on roads, agricultural R&D, and education provided the greatest poverty reduction impacts. These findings are consistent with evidence from Africa showing returns to investment in agricultural R&D over 20% per year (Oehmke and Crawford 1996; Masters, Bedingar, and Oehmke 1998). The economic assessment evidence strongly indicates that if the resources that were spent on crop science had been spent on something else, African economies would now be poorer, government finances would be in worse shape, food import bills would be higher, and more Africans would suffer from food insecurity.

Fertilizer subsidies are estimated to have been effective at reducing poverty in the 1960s and 1970s, but subsequently appear to have been highly ineffective (Table D2). Credit subsidies were effective in the 1960s and 1980s. As stated by Fan, Gulati, and Thorat (2008), “These results have significant policy implications: most importantly, they show that spending government money on investments is surely better than spending on input subsidies. And within different types of investments, spending on agricultural R&D and roads is much more effective at reducing poverty than putting money in, say, irrigation” (p. 18-19).

The findings of these two studies from Asia provide potentially important implications for promoting agricultural growth and poverty reduction in Africa. Although the regions differ in important respects, there are strong reasons to believe that the policy reforms and investments in R&D and infrastructure that generated high payoffs in Asia are likely to be crucial drivers of growth in most of Africa as well. The payoffs to most types of public investments will be greater in a policy environment conducive to private investment. As concluded by EIU (2008): “Our assessment is that the interventions that proved most effective in Asia—policy and institutional reforms, an agricultural research revolution, major expansion of rural roads and irrigation, and improved rural financial services delivery—must likewise be the primary targets for new investments.....The specifics of the strategies will vary among countries and even among agro-ecologies within countries, and must be developed internally, albeit with external financial and technical assistance. But the broader patterns are clear” (p. 18). The main caveat to these studies is that they are based on the period 1960-2000. Much has changed since then. Global climate change, constraints and costs associated with bringing new land into production, higher energy prices, the evolving structure of the global food system, the concentration of agricultural R&D research and increasing intellectual property right protection barriers to public R&D, Africa’s increasingly urban complexion, and the possible slow-down of crop productivity growth in the world’s breadbasket zones are several of the most important developments that would need to be carefully considered which might alter, perhaps fundamentally, the way relative payoffs to public sector investments in the future and the nature of the CG research priorities.