

Terms of Reference
Evaluation study of
AGRICULTURAL INPUT SUBSIDIES

Background

Recent years have seen an increase in the interest in agricultural input subsidies as an instrument to promote agricultural development in poor rural economies in Africa. This is despite the fact that many economic advisers in the 1980s and 1990s considered subsidies to be costly and ineffective policy instruments in the African context.

Input subsidies are typically used to support the adoption of new technologies amongst farmers and thus to increase agricultural productivity. This is done by providing access to agricultural inputs, such as fertilizers and improved seeds, at lower costs. Thereby, subsidies are expected to help poor farmers' overcome their cash constraints and risk aversion, thus allowing them to learn about input use and the benefits of these. Subsidies may moreover be used to overcome soil degradation (in the case of fertilizers), and to compensate for high transportation costs to farmers in remote areas or high costs of supplying inputs due to low volume markets.

Implementation of traditional input subsidy programmes can, however, be subject to a number of difficulties. A range of these are presented below, as interpreted from the discussion of traditional input subsidy programmes:

- Subsidies may initially be expensive, and costs may increase as farmers overcome their unwillingness to use inputs and increase their demand.
- Political pressure to expand and extend subsidy programmes may further increase costs, making limitation and exit strategies difficult.
- Subsidies may benefit the richer farmers, who would have bought the inputs in any case. Targeting subsidies to the poor farmers may reduce this problem, but in practice there may be problems of leakage.
- Subsidized inputs may either be used on the "wrong" crops, or low prices may lead to overuse of inputs.

- Subsidies may weaken the development of private sector distributors, as subsidy programmes often are run through government agencies.

As a consequence of concern for such problems, focus has turned towards “smart” subsidies, defined as subsidies that are: limited in time, targeted to those who need them, and designed to enhance commercial distribution rather than supplant it. Due to their design, smart subsidies are expected to improve short-term food security, while (potentially) increasing pro-poor growth and benefitting private markets in the longer-term.

In order to understand the functioning and results of “smart” subsidy programmes it is important not just to focus on production objectives and producer welfare, but also to focus on the consumers and the processes, which can be argued to be necessary conditions for “smart” subsidy programmes to work and to contribute to wider pro-poor growth. Therefore, the Evaluation Department of the Danish Ministry of Foreign Affairs (EVAL) has decided to commission an Evaluation Study of focusing on current and recent input subsidy programmes in Africa.

Objective

The main purpose of the Evaluation Study will be to identify results and lessons learned from “smart” subsidy programmes in Africa, based on existing information. In addition, the intention is to establish what is currently known about results and way of working, best practice etc; outline areas where knowledge is scarce or non-existent, and point to important considerations for further study.

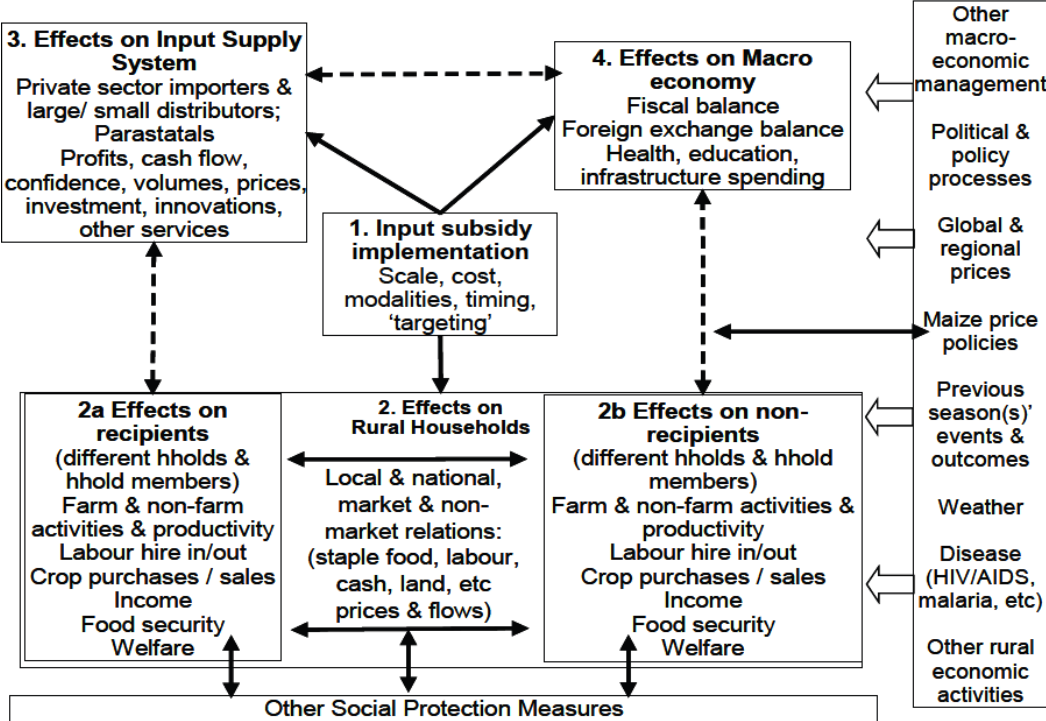
In order to do this, the study will identify and assess studies, evaluations and research of sufficient quality. From this, the study should contrast, compare and synthesize information results obtained as well as the way results have (or have not) been achieved, hindering and enabling factors, pre-conditions etc. This should include the role of the surrounding conditions, which at the same time facilitate and are influenced by “smart” subsidy programmes, if allowed be the available material.

Overall methodology and scope of work

A key aim of the study is to gain understanding not just with regards to immediate results, but also for the interventions’ way of working, the interplay with hindering and enabling context factors etc. An overall conceptual framework of important conditions is proposed as point of departure for organizing the assessment in the study is presented in figure in 1. It should be

considered whether there is a need to revisit this during the inception phase, once a preliminary assessment of available information has been carried out.

Figure 1: A conceptual framework for investigating agricultural input subsidies impacts.¹



The study will be based on existing documentation. It will collect, analyze and assess existing evaluations, research and studies of sufficient quality and distill key knowledge with regards to results and ways of working, interplay with contextual factors etc. An important part of the work will be to establish a more comprehensive analytical strategy for the selection and analysis of evaluations and other studies, clarification of the expected strengths of conclusions, important hypotheses and assumptions for the work etc., need for modifications of the conceptual framework etc.

Outputs

- A short Inception Report containing (a) a brief overview of the identified evaluations and other studies, as well as the support covered by them; (b) based on the above, a detailed description of the proposed methodology and analytical framework to be applied in the study, including the criteria against which existing documentation will be assessed, and the implications for the coverage, strength and limitations of the analysis and its conclusions, lessons learned etc..

¹ Figure 1 is from School of Oriental and African Studies, Wadonda Consult, Overseas Development Institute and Michigan State University (2008). *Evaluation of the 2006/7 Agricultural Input Supply Programme, Malawi: Final Report*. London, School of Oriental and African Studies; March 2008.

- An Evaluation Study in draft(s) and final versions, of not more than 40 pages, appendices excluded. The study should comply with EVALs guidelines. The final Evaluation Study will be published and made available on the Internet by EVAL and will also be made available in hard copies.

In addition, the consultants should be prepared to present the study at a workshop or seminar organized by EVAL.

Team

The work will be carried out by a team from the Department of Food and Resource Economics, Faculty of Life Sciences, University of Copenhagen.

Management, Timing and Reporting

The department of Food and Resource Economics will be responsible for all findings, conclusions and recommendations of the Evaluation Study.

The Evaluation Study will be managed by the Evaluation Department of the Danish Ministry of Foreign Affairs.

The work will commence December 2010, and the Inception Note will be presented to EVAL not later than May 1, 2011.

A draft Evaluation Study will be submitted to EVAL not later than June 1, 2011, and a final Evaluation Study not later than two weeks after comments to the draft Evaluation Study have been received from EVAL.

Evaluation Department