

Socioeconomics Discussion Paper Series

Series Paper Number 9

Potential economic and poverty impact of improved chickpea technologies in Ethiopia

I Macharia, A Orr, F Simtowe and S Asfaw
ICRISAT, Nairobi, A.Orr@cgiar.org

10/31/2013



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Abstract

The national agricultural research organization of Ethiopia in collaboration with the International Crops Research Institute for the Semi-Arid Tropics (ICRISAT) developed and released a total of 11 improved chickpea varieties between 1974 and 2005. These varieties are high-yielding, stress tolerant, with desirable agronomic and market traits. However, until now there exists no systematic study to assess the economic impact of this research investment in Ethiopia. This information is useful for justifying future donor investments and other collaborative ventures in such projects. The objective of this study is to assess the potential economic and poverty impact of improved chickpea varieties adopted by Ethiopian farmers. The economic surplus model (based on DREAM model) was applied to estimate total benefits. With an annual chickpea production of 175,734 tons, chickpea price of US\$ 164/tonne, a 31% production benefit, a supply and a demand elasticity of 0.9 and -1.4 respectively, maximum adoption of 75% and an annual increase of consumption of 2.6%, the economic surplus produced was estimated at US\$ 111 million for 30 years. Consumers are estimated to get 39% of the benefit and producers 61%. With project costs of US\$ 22 million, the benefit cost ratio is estimated at 5:1 and an internal rate of return of 55%, indicating that the investment is profitable. Even with the worst-case scenario i.e. lowest benefit (15%), highest discount rate (13%), lowest elasticities and price the benefit-cost ratio of 2:1, still justified the investment. The generated benefit is expected to lift more than 0.7 million people (both producers and consumers) out of poverty. Thus, further investments in the chickpea and other legume research in Ethiopia is justified as a means of poverty alleviation.

Keywords: Economic impact, chickpea, improved varieties, Ethiopia

JEL classification: Q160

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1 Introduction

Impact assessment aims to determine the consequences of an intervention in the development process. The analysis can either be ex-ante, i.e. conducted prior to the intervention, or ex-post, i.e. after the project is implemented. In the former case it can help with difficult decision making in the allocation of limited resources and is based on some type of prediction model, while in the latter case it can determine the impact of past investment in research on target beneficiaries and is a way to learn some of the lessons of the past, as it is measured at some point in time after the intervention has taken place.

The need for impact assessment arises for several reasons: a) the assessment is important for accountability for the use of scarce public funds, b) the assessments are intended to better inform policymakers about the likely magnitude and distribution of payoffs to the technologies under evaluation, c) the results can allow scientists and policymakers to better judge the possible impact of the technology in other project countries, d) evaluation of cost effectiveness of technology transfer mechanisms used by the project, in the interests of possible improvement i.e. it help in learning about more and less successful approaches to development and poverty reduction thus improve targeting of research programs and help adjust resource allocation across programs.

Chickpea is one of the major pulse crops that have enjoyed investments in research and development in Ethiopia. This is mainly because it presents an opportunity to reduce poverty and food insecurity in dry parts of the country. In general, chickpea is an excellent source of protein, fiber, complex carbohydrates, vitamins, and minerals thus it can reduce malnutrition and improvement of human health, especially for the poor who cannot afford livestock products (Asfaw, 2010). Second, it has the capacity to fix atmospheric nitrogen in soils and thus improves soil fertility and save fertilizer costs in subsequent crops. Third, it promotes more intensive and productive use of land, particularly in areas where land is scarce and the crop can be grown as a second crop using residual moisture. Fourth, it increases livestock productivity as the residue is rich in digestible crude protein content compared to cereals. Fifth, the growing demand in both the domestic and export markets provides a source of cash for smallholder producers.

In recognition of the potential of chickpea to increase agricultural productivity and hence reduce poverty, the national agricultural research organization of Ethiopia in collaboration with International Crops Research Institute for the Semi-Arid Tropics (ICRISAT) have developed and released several high-yielding and stress tolerant varieties of chickpea with desirable agronomic and market traits. A total of 11 improved chickpea varieties have been released, between 1974 and 2005 as a result of the above research program (Appendix 1). However, until now no systematic study has been conducted to assess the economic impact of this research investment in Ethiopia.

The objective of this study is, therefore, to assess the potential economic and poverty impact of improved chickpea varieties adopted by Ethiopian farmers. This information is useful for justifying future donor investments and other collaborative ventures in such projects.

2 Conceptual framework

A simplified illustration of the expected impact pathway of improved chickpea technologies is shown in Figure 1. The starting point consists of inputs in terms of financial and human resources. These inputs enable the breeding of the improved chickpea varieties. After the development of improved varieties, financial and human resources are again required in the diffusion of these varieties to the farmers in terms of demonstrations, outreach programs and availing the improved seeds to the farmers (step 4). It is assumed that this will prompt the farmer acceptance and use of the technology (step 5). The adoption then increases the chickpea yields and consequently increases the farmers' income, which will lead to reduction in poverty as well as welfare gain to the farmer and the society as a whole.

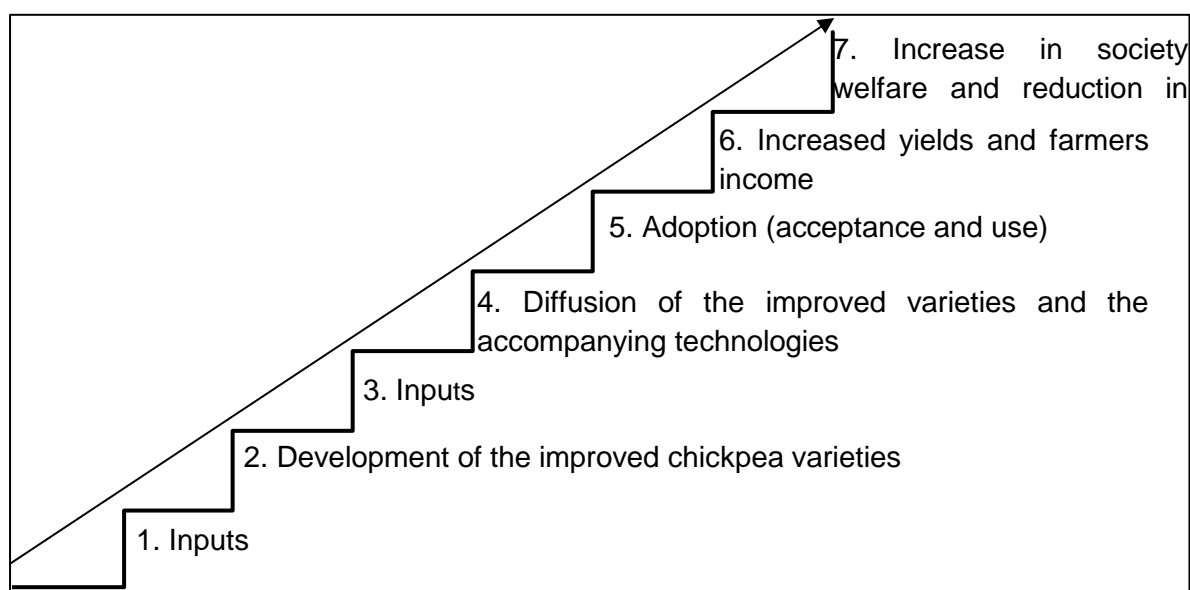


Figure 1. Improved chickpea technologies impact pathway

There are two major challenges in this study. The first is to establish causality between the intervention and the final impact as it is often difficult to link the intervention with the end result. This gap lies between adoption and increased income as well as between increased income and increase in society welfare and reduction in poverty. The second challenge is to establish a realistic counterfactual, i.e. a reference point for the situation without intervention. This is crucial because impact is defined as the difference between the situation without intervention and the situation after intervention.

The framework is therefore built essentially upon key principles which include: (1) demonstration of causality (2) clearly derived and explained assumptions, (3) comprehensive description of data sources, and (4) full explanation of methods and treatment of data. Generally, the establishment of plausibility relies primarily on well-founded argument regarding the impact rather than the presentation of rigorous proofs (Baur et al., 2003).

3 Analytical framework

3.1 Welfare effects

To assess the wider economic and welfare effects of adoption of improved chickpea technologies, analyses at the sector-level and beyond are needed.

The economic surplus model is the most common approach for the evaluation of such technologies effects as it uses a partial equilibrium approach to estimate the net benefit due to technologies and the distribution of such gains between producers and consumers, expressed as changes in producer and consumer surplus (Alston et al., 1995). The principles' behind this model is that when the supply increases, price and demands adjust, so that part of the benefits goes the consumers.

A number of spreadsheet templates have been developed specifically for economic surplus computation. These include: 1) MODEXC originally developed by International Center for Tropical Agriculture-CIAT (Lynam and Jones, 1984), 2) RE4 developed by the Australian Centre for International Agricultural Research-ACIAR, (Davis et al., 1987), and 3) Dynamic Research EvAluation for Management (DREAM) developed at ISNAR/IFPRI (Alston et al., 1995)

DREAM was selected for this assessment because of its simplicity. Examples of impact assessments that have utilized the DREAM model include: Pachico et al. (2002), Lusty and Smale (2003), Macharia et al. (2005).

The model is based on the assumption that the technology adoption leads to an outward shift in the product's supply curve that trigger a process of market-clearing adjustments in one or multiple markets affecting the flow of final benefits to producers and consumers (Alston et al., 1995).

$$\Delta PS_{i,t} = (k_{i,t} + PP_{i,t}^R - PP_{i,t}) [Q_{i,t} + 0.5(Q_{i,t}^R - Q_{i,t})] \quad (1)$$

$$\Delta CS_{i,t} = (PC_{i,t} - PC_{i,t}^R) [C_{i,t} + 0.5(C_{i,t}^R - C_{i,t})] \quad (2)$$

where, i is the intervention region in time t , k is the realized supply curve shift (reduction in the per unit cost of production), ΔPS and ΔCS are the producer and consumer benefits, k is the supply curve shift (reduction in the unit cost of production), PP^R and PP are producer prices with and without technology, Q^R and Q are the annual production totals with and without technology and PC^R and PC are consumer prices with and without the technology. Thus, the producer experiences a change in income due to a lower production cost per unit while the consumer experiences a gain in income by buying at lower prices. These series of benefits can be converted into present value totals by conventional discounting techniques where, say, for a thirty year¹ stream of benefits.

¹ Empirical studies that have specifically analyzed lag times for agricultural research have concluded and recommended that a 30-year lag is necessary to capture all the benefits (Pardey and Craig, 1989; Chavas and Cox, 1992).

$$\begin{aligned}
 VPS_i &= \sum_{t=0}^{30} \Delta PS_{i,t} / (1+r)^t & (3) \\
 &= \Delta PS_{i,0} + \Delta PS_{i,1} / (1+r) \\
 &\quad + \Delta PS_{i,2} / (1+r)^2 + \dots + \Delta PS_{i,30} / (1+r)^{30} \\
 VCS_i &= \sum_{t=0}^{30} \Delta CS_{i,t} / (1+r)^t \\
 &= \Delta CS_{i,0} + \Delta CS_{i,1} / (1+r) \\
 &\quad + \Delta CS_{i,2} / (1+r)^2 + \dots + \Delta CS_{i,30} / (1+r)^{30}
 \end{aligned}$$

Where VPS_i and VCS_i are the present values for producer and consumer surplus respectively for region i , and r is the discount rate. Typically, there are three investment indicators that are used in assessing the impact, i.e. net present value (NPV), internal rate of return (IRR), and benefit-cost ratio (BCR). The NPV is defined as the sum of the present values of the cumulative cash flow induced by an investment generated over a defined time period. Costs and benefits of the technology that occur in future periods are discounted.

$$NPV = \sum_{t=0}^n \frac{B_t - C_t}{(1+r)^t} \quad (4)$$

where B_t is benefits of the technology, C_t represents the technology costs, r is the discount rate, and n is time periods for which the technology will be there. A technology project is profitable and acceptable if the NPV exceeds zero.

The IRR is the discount rate, r^* , at which the project's NPV equals zero. Thus the IRR is a measure of the actual investment efficiency regardless of the discount rate.

$$NPV = \sum_{t=0}^n \frac{B_t - C_t}{(1+r^*)^t} = 0 \quad (5)$$

The third investment criterion used to measure the efficiency of investment is the benefit-cost-ratio (BCR). Its computation is similar to that of the NPV but it is expressed as a ratio of the sum of a project's discounted benefits to the sum of the project's discounted costs.

$$BCR = \frac{\sum_{t=0}^n \frac{B_t}{(1+r)^t}}{\sum_{t=0}^n \frac{C_t}{(1+r)^t}} \quad (6)$$

A program is deemed to be acceptable if the BCR is greater than or equal to one.

3.2 Poverty reduction

With the emphasis on poverty alleviation as a central objective of many donors and governments, tracing the impacts of research on poverty is a logical extension of the economic surplus approach. Generally, the adoption of improved chickpea varieties can reduce poverty in a number of different ways. First, it can help reduce poverty directly by raising the incomes or home consumption of the farmers. Second, can reduce poverty indirectly through the lower chickpea prices for consumers as well as increased employment in the value chain.

To estimate the number of household that would escape poverty due to the adoption of improved chickpea technologies, the methodology by Alene *et al.* (2009) for West and Central Africa is used.

$$\Delta N = \left(\frac{ES}{AgGDP} \times 100 \right) \times \frac{\delta \ln(N)}{\delta \ln(AgGDP)} \times N \quad (7)$$

where ΔN is the number of households who escape poverty, ES is the total benefits from the introduction of improved chickpea varieties, $AgGDP$ is the total value of agricultural production (agricultural GDP), $\delta \ln$ is the elasticity of poverty reduction with respect to agricultural GDP growth, and N is the total number of poor households (Alene *et al.*, 2009).

4 Data

The input data required in the DREAM model includes: (1) "equilibrium" quantities and prices, to define the size and structure of the market under consideration at a specified point in time; (2) evidence of how the technology will change either producers' cost structures or consumers' willingness to pay for different quality products where the technology will be adopted (the K factor), (3) adoption rate, (4) economic parameters on the market response to change (elasticities of both supply and demand), to predict how producers and consumers will react to new prices generated by market forces, (5) research and extension costs incurred in obtaining the new technology.

As is typically similar for many impact assessment studies, there was no baseline data collected in this study before the intervention. This has thus precluded the possibility of using the "before and after" approach of comparing the same households in tracing changes associated with the adoption of the varieties. The study hence make use of the panel data collected in two household surveys, a baseline survey in 2008 and a follow up surveys in 2010 (for more information see Macharia *et al.*, 2011) and secondary data. For this study, the financial year 2001/02 was chosen as the base year. This year was considered to be most appropriate given that only <1% of the chickpea production area was allocated to the improved chickpea varieties (CSA, 2002). The analysis used "real" values based on 2001/02.

4.1 Chickpea supply and demand ("equilibrium" quantities)

The total annual average (1993-2009) chickpea production is estimated at about 170,551 tonnes, while the area under production is estimated at 178, 621 ha, giving yield of 1 ton/ ha.

The data also indicates that the cultivated area under chickpea and production of chickpea have increased by 63% and 183%, respectively during the same period.

For the analysis the 2001 production of 175,734 tons is used. Since in Ethiopia foreign trade in chickpea is negligible, a closed economy² market-clearing model is assumed to assess the overall benefits and their distribution. In a closed economy, the equilibrium price is entirely determined by domestic supply and demand.

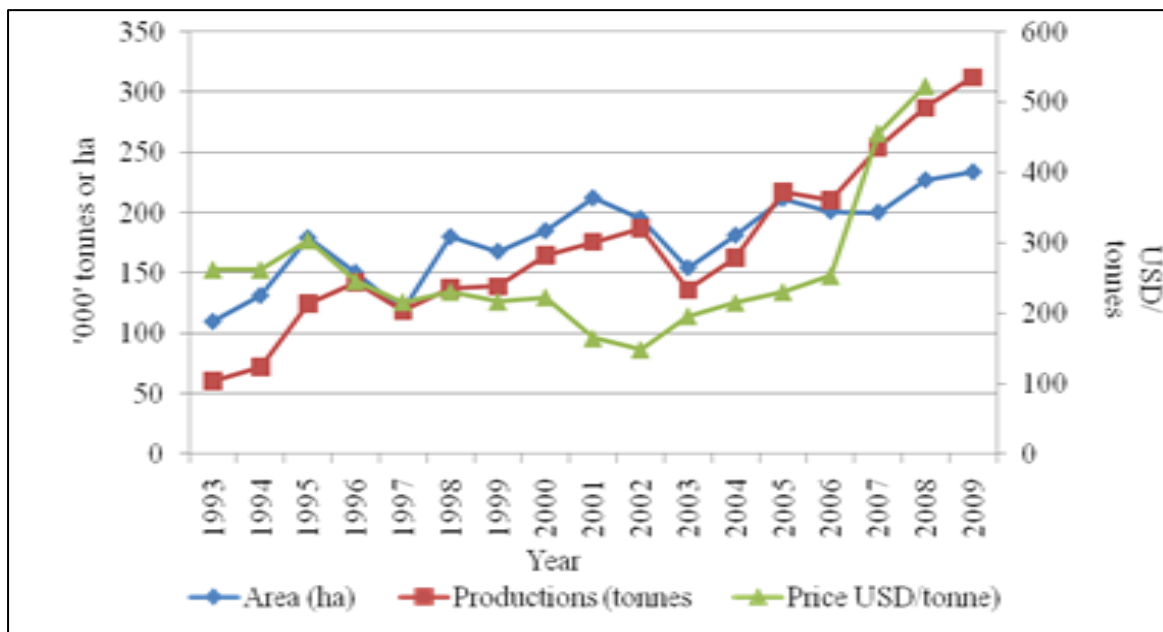


Figure 1. Area production and price of chickpea

Source: FAOSTAT, 2011

4.2 Chickpea prices ("equilibrium" price)

Most of the information on national chickpea prices come from the FAO Statistical Database (FAOSTAT, 2011) while those for farm level from household surveys (Macharia *et al.*, 2011). Though prices are not differentiated by chickpea types, chickpea price shows upward trends (see Figure. 1). Again for the analysis the 2001 price of 164 USD/tonne is used.

4.3 Benefits

Due to lack of chickpea variety yield trial data³, the measurement of benefits associated with the adoption of the improved varieties is based on comparative analysis of net benefit between the improved and local varieties analyzed using the panel data of 2008 and 2010 (Macharia *et al.*, 2011). The result shows that the improved varieties have higher yields (33%), and a better selling price as compared to the traditional varieties. However, the average cost of production per ha is 340% higher for improved varieties. In terms of profit,

² Assuming that there is little or no international trade in the commodities concerned.

³ A problem may also arise in obtaining an accurate measure of the yield advantage, because the absolute yields of improved varieties grown in farmers' fields under farmers' conditions are in many cases lower than yields in variety trials.

the improved technologies obtained significantly higher benefits than traditional varieties (31%).

4.4 Adoption rates

In *ex ante* studies, future adoption rates are normally based on expert estimates (Hareau *et al.*, 2006). In this study adoption rate is calculated as proportion of area allocated to improved chickpea to the total chickpea hectareage. The improved varieties have shown an impressive adoption rate starting at 0.69% in 2001 at a national level (CSA, 2002) reaching over 63% in 2009 (Macharia *et al.*, 2011). Maximum adoption level of 75% is assumed with a base value of 0%.

4.5 Demand and supply elasticities

In the absence of country specific demand estimates, the demand elasticity for the semi-subsistence farming system in developing countries like Ethiopia are often approximated with a value close to one (Alston *et al.*, 1995). We assumed a supply elasticity of 0.9. Given that the price responsiveness of demand is usually higher in the developing countries, a demand elasticity coefficient of -1.4 was as well assumed (Qaim, 1999). Because of high population growth in Ethiopia and expectation of higher demand in future an annual growth rate of 2.6% on average (World Bank, 2011) was used to extend future demand.

4.6 Discount

The analysis further assumes a planning horizon of 30 years. To define present values of project costs and benefits, a discount rate of 10% is assumed (Gatzweiler, *et al.*, 2007)

4.7 Research costs

Because of non-availability of project costs, this study estimated the costs for research, adaptation and extension. International and local research, extension, and seed multiplication costs are estimated by determining annual staff costs. These costs are then increased by 10% of the total research costs to account for the costs of fixed factors⁴ such as land, buildings, and equipment that are shared with other projects.

International research includes the costs of breeding, research materials, training, and evaluation costs provided by ICRISAT, while local research and extension costs are the cost borne by National Agricultural Research Systems (NARS) partners in Ethiopia. Research expenditure was calculated in terms of full-time-equivalent (FTE)⁵ scientist per year.

Cost of research is estimated at US\$ 1.75 million/variety based on Kate and Laird (2000). Costs for testing and adaptive breeding program was estimated at US\$ 80,000/variety, based on 2 full-time equivalent (FTE) scientists, and median cost per researcher estimated

⁴ This is a simplified way estimating depreciation to fixed factors that are often shared between various activities. 10% is comparable figures for public agricultural research in the United States.

⁵ $(1.75*11) + (0.08*11) + (20.13*0.1)$. This is the main proxy measure used to analyze the allocation of research resources as a scientist may be involved partly in research and partly in other activities. It was assumed that the expenditure associated with a unit of scientist time remained constant.

at US\$ 20,000 (Bohn *et al.*, 1997) ,and at least two years of testing. The total expenditure was then estimated at about US\$ 22 million⁶.

4.8 Sensitivity analysis

A sensitivity analysis was conducted to test the robustness of the results by changing the main parameter of interest i.e. production benefit, elasticities, adoption rate and research costs. All were decreased by 50% and increased by 25% from the baseline values.

4.9 Poverty parameters

Due to non-availability of the AgDGP data of Ethiopia, the GDP of US\$ 8111 million (UN, 2001) and shares of AgGDP of 38% (Fan *et al.*, 2008) is used to derive the AgDGP of 3,082 million. For the elasticity of poverty reduction with respect to AgGDP, the value utilized by La Rovere *et al.* (2009) for Ethiopia (-1.67) is employed. The total number of poor people (*N*) was estimated at 25 million⁷.

4.10 Summary of the parameters used in the DREAM model

Table 1 shows the summary of the data used in the model estimation.

Table 1: Major data and assumptions for the DREAM model

Parameters	Base
Chickpea supply and demand (1,000 tonnes)	176
Price of chickpea (\$/tonne)	164
Price elasticity of chickpea supply	0.9
Price elasticity of chickpea demand	-1.4
Consumption: growth rate (%/year)	2.6
Benefit (%)	31
Maximum adoption level (%)	75
Discount rate (%)	10
Research costs (million US\$)	22

5 Results and Discussion

5.1 Economic surpluses

Estimates of economic surpluses are shown in Table 2. The total benefits from the adoption of the improved chickpea varieties have a present value of about US\$ 111 million when summed over the 30 year period of the simulation. The biggest portion of these benefits goes to producers (61%). The total benefit is about 5 times the amount spent in chickpea improvement research including extension. The IRR of 55% can be said to be attractive because the return is above the prevailing discount rate during the same period (10%).

⁷. Poor were defined as those living below international poverty line of US\$ 1.25 per day.

Table 2: Economic surplus expected

Economic surplus (million US\$)			Costs discounted (million US\$)	Benefit/Cost ratio	Internal rate of return (%)
Producer	Consumer	Total			
68	44	111	22	5	55

5.2 Sensitivity analysis

When the yield benefit was assumed to be 16% (instead of 31%), total benefits amounted to US\$ 54 million, with a benefit/cost ratio of 2:1 (Table 3). With a more optimistic scenario of 39% yield benefit, which can be achieved if farmers become efficient in input allocation, the benefit cost ratio became 6:1. Increasing the discount rate by 25% brings the economic surplus down to US\$ 86 million and the benefit cost ratio to 4:1.

Sensitivity analysis was also conducted on the demand and supply elasticities. Assuming supply elasticity being reduced by half, the benefit cost ratio remains as 5:1. Using the lowest price (US\$ 82) resulted into an economic surplus of US\$ 56 million and a benefit cost ratio of 3:1, while highest price resulted in a benefit cost ratio of 6:1.

With the conservative assumption that research costs will increase by 25% the benefit/cost ratio would drop from 5:1 to 4:1, while reducing the cost by half result in a benefit/cost ratio of 10:1 Even in a worst-case scenario with the lowest benefit (15%), highest discount rate (13%) and lowest elasticities the benefit-cost ratio of 2:1, still justified the investment.

Table 3: Sensitivity analysis of economic impact of chickpea technologies

Parameter	Alternative ^{a)}	Economic surplus (Million US\$)			Benefit cost ratio	Internal rate of return (%)
		Producers	Consumer	Total		
Benefit (%)	15	33	21	54	2	24
	39	86	56	142	6	78
Discount rates (%)	5	130	83	213	10	55
	13	52	34	86	4	55
Supply Elasticities	0.45	81	26	107	5	53
	1.13	62	50	112	5	55
Demand elasticities	0.7	49	63	112	5	54
	1.75	73	38	111	5	56
Price US\$/ton	82	34	22	56	3	25
	205	85	54	139	6	76
Costs (million US\$)	11	68	44	111	4	42
	27	68	44	111	10	195
Adoption (%)	38	33	21	54	2	25
	94	86	55	141	6	78
Worst case scenario (benefit 15%, discount rate 13%, elasticities 0.45 and 0.7, adoption rate 38%), cost US\$ 27 million)		13	8	21	1	11
Best case scenario (benefit 38%, price US \$ 205, adoption rate 94%)		136	88	224	10	200

^{a)} 50% reduction and 25% increase to the base parameters in Table 2

5.3 Poverty reduction

With a total of US\$ 111 million generated due to adoption of improved chickpea varieties more than 0.74 million people, both among producers and consumers, are expected to be out of poverty. Because poverty in Ethiopia is more pronounced in the rural areas as than in the urban areas, this also means that the poor farmers will have less need to resort to damaging coping strategies such as reducing food consumption, selling assets or withdrawing children from school. A national reduction of 3% in the number of the poor people is also expected. Assuming the best case scenario i.e. highest benefit and adoption rate achieved, a national reduction of 6% of the people below the poverty line can be realized.

6 Conclusions

This study provides an *ex-ante* evaluation of the potential impacts of adoption of improved chickpea varieties in Ethiopia. The economic surplus model based on DREAM model was applied to estimate the economic impact. With an annual chickpea production of 175,734 tonnes, chickpea price of US\$ 164/tonne, a 31% production benefit, a supply and a demand elasticity of 0.9 and -1.4 respectively, and an annual increase of consumption of 2.6%, the economic surplus produced was estimated at US\$ 111 million for 30 years. Consumers are estimated to get 39% of the benefit and producers 61%. With project costs of US\$ 22 million, the benefit cost ratio was estimated at 5:1 and an internal rate of return of 55%, indicating that the investment is profitable. With the worst-case scenario-lowest benefit (15%), highest discount rate (13%), lowest elasticities and price, the benefit-cost ratio of 2:1, still justified the investment.

The generated benefit significantly reduces poverty as more than 0.7 million people are expected to escape poverty. However, the benefit can be considered as a lower boundary, since the calculation used conservative parameters. Moreover, if as expected, farmers continue to grow the improved varieties beyond 2030 the returns on investments to this project will become even more significant.

Additionally, technology spillovers to geographic areas not intentionally targeted by the research investment (neighboring countries) could significantly increase the benefit. Similarly, since chickpea like other legumes have the capability of fixing nitrogen, it may also generate significant environmental and sustainability benefits that improve ecosystem health if area under the crop expands beyond what was grown under traditional varieties. The government will also benefit from increased tax revenues received from both producers and consumers. Thus, further studies on social economic impact are recommended.

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