



INTERNATIONAL FOOD POLICY RESEARCH INSTITUTE

sustainable solutions for ending hunger and poverty

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PRO-POOR PUBLIC INVESTMENT PROGRAM

The Minister of Finance of a developing country needs to reallocate the country's public investment to help achieve the Millennium Development Goals (MDGs) of halving the proportion of the poor and hungry by 2015:

- *Should the minister increase investment in rural areas, where poverty is rife? If so, how should the increase be allocated?*
- *Should more public investment go to dynamic areas with the best growth potential or to the underdeveloped areas, where many of the poorest people live?*
- *How can institutions, regulations, and governance be reformed to ensure the most efficient and effective public spending?*

These questions highlight some of the challenges that many developing countries face in supporting economic growth and reducing poverty. IFPRI's Pro-Poor Public Investment Program works with governments and private sector, civil society, and international organizations to carry out research on the role of public investment and on strategies to better connect public investments and policies with development goals.



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THE ROLE OF PUBLIC INVESTMENT

Governments use public spending to achieve both economic growth and equity goals. Such spending often consists of long-term investments in research and development, education, health, and infrastructure, as well as short-term social spending on items such as social security and direct food subsidies to poor households.

Studies have shown that certain public investments in rural areas contribute greatly to overall economic growth and poverty reduction. In many developing countries, however, public resource allocation in rural areas is declining as a consequence of macroeconomic reforms and structural adjustment, decreases in international commodity prices, and reduced private investment and overseas development assistance to agriculture. These budget cuts will not only affect future productivity growth and food supplies, but also increase rural poverty and accelerate the degradation of natural resources. Given this reality, how can governments better target their limited and often declining financial resources to achieve growth, poverty-reduction, and environmental goals and efficiently provide public goods and services?

IFPRI'S PRO-POOR PUBLIC INVESTMENT RESEARCH PROGRAM

As policymakers decide how to allocate public spending to increase growth and decrease poverty, they need a clear understanding of how public investments translate into desired development outcomes. Policymakers also need to know how to improve the performance of the institutions that implement public investment programs. To help meet these information requirements, IFPRI has initiated a long-term program on pro-poor public investment, comprising policy-oriented research, capacity building, and policy communication.

The program's objectives are to

- provide research-based policy options for government investments and strategy design (such as poverty reduction strategy papers),
- provide a priority-setting mechanism to target the sectors most likely to promote higher growth and greater poverty reduction at national and regional levels,
- analyze policy options for mobilizing both public and private resources to support needed investments,
- investigate the role of governance in public spending and public service delivery,
- strengthen the analytical capacity of national research institutions through training and collaboration with IFPRI, and
- assist international donors in setting their funding priorities and improving the performance of their investments in development.

PRIORITY RESEARCH ISSUES

1. Monitoring and evaluation (M&E) systems—

developing M&E systems for public spending in agriculture and rural areas and improving the link between resource allocation decisions and impact assessment results.

2. Changes in public investments in rural areas—

determining the extent and causes of the changes in the level and composition of public investments, in order to learn more about government priorities and the factors driving investment trends and composition.

3. Impact of public investments—analyzing the effects of different types of public investments on growth, income distribution, poverty, and the environment in different agroecological, socioeconomic, and administrative regions.

4. Options for financing growth and poverty reduction—exploring options for financing investments that help achieve development goals.

5. Political and institutional context of public investments—investigating the relationship between governance and development outcomes, the influence of governance and political economy issues on resource allocation, and the conditions needed for efficient provision of public goods and services.

Research to date has produced several important findings, especially in Asian countries. First, returns to public investments vary widely depending on the type of investment and the region, even within the same country. This finding implies that better regional targeting has significant potential for achieving growth and reducing poverty with a given level of investment. Second, agricultural research, education, and rural infrastructure are the three most effective areas of public spending. Third, regional analysis in Asia suggests that investments in less-developed areas offer the largest poverty reduction per unit of spending and also produce the highest economic returns. Fourth, government spending on antipoverty programs, such as safety nets or food subsidies, generally has little impact largely because of inefficient targeting and misuse of funds. Fifth, evidence from China and Uganda shows that low-quality/low-cost types of infrastructure, such as rural feeder roads, often have the highest payoff per unit of investment. While some findings in Africa are similar to those in Asia, regional analysis in Africa also concludes that returns from public investment are

high even in high-potential areas, indicating a lack of investment in all regions.

The program, which focused initially on Asia, is now expanding to Africa, the Near East and North Africa, and Latin America and the Caribbean. In Asia, researchers are now studying local governance in China, India, and Vietnam. In Africa, research in Ethiopia, Ghana, Nigeria, Tanzania, and Uganda is examining the role of public spending in growth and poverty reduction. Researchers have also begun work in Kenya, Malawi, and Zambia to identify public investment options to achieve national growth, poverty reduction, and food security targets under the Comprehensive Africa Agriculture Development Programme. In the Near East and North Africa, research in Egypt, Jordan, Morocco, Sudan, Tunisia, and Yemen focuses on the role of public investments in achieving the MDGs. In all these countries IFPRI implements its activities in close collaboration with national research institutions so that research, capacity strengthening, and outreach are well integrated.

A Comprehensive Framework

Whereas previous studies on government spending and investment generally considered only one type of investment at a time, IFPRI is attempting to capture the synergies and dynamics among investments by assessing the impacts of many different types of public investment within one framework. This approach allows researchers to identify the channels through which investments affect growth, income distribution, and poverty in the long run; calculate the number of poor people who are lifted out of poverty by additional spending on various public goods and services; and rank the returns to various public investments. Such results offer policy insights on the most effective government strategies for alleviating poverty.

Ranking of Returns in Poverty Reduction

Investment Category	China	India	Thailand	Vietnam	Uganda
Agricultural R&D	2	2	2	3	1
Irrigation	6	7	5	4	-
Education	1	3	4	1	3
Roads	3	1	3	2	2
Telecommunications	5	-	-	-	-
Electricity	4	8	1	-	-
Health	-	6	-	-	4
Soil and Water Conservation	-	5	-	-	-
Anti-Poverty Programs	-	4	-	-	-

Sources: Fan, Zhang, and Zhang (2002), Fan, Hazell and Thorat (1999), and Hao and Fan (2001).

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