Investing in agriculture when it is worth it. Empirical evidence from rural Uganda.

Olivia Bertelli*1

1Lancaster University – United Kingdom

Abstract

The low level of agricultural productivity in Sub-Saharan Africa is often deemed to be due to low levels of investment. Yet, why such low investments persist and how to make farmers increase them is still not clear. Using unique data collected in rural Uganda in 2015 and 2016 I show that farmers increase their investment in cattle when their herd value exogenously increases. Based on an instrumental variable approach using the sex of a recently born calf as a source of exogenous variation in cattle value, I find that ten additional dollars in herd value raises investment in cattle health by 3$, resulting in higher milk production and 20$ higher profits. These results indicate that farmers do react to the profitability of their activities and may take investment decisions based on the 'quality' of their productive assets.

Keywords: Empirics

*Speaker