

Social Protection and Agriculture in Ethiopia

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1	Introduction	2
2	Agriculture and social protection in Ethiopia: complementarity or convergence?	3
3	'Land politics' and social protection in Ethiopia	4
4	Agricultural development strategies in Ethiopia	5
5	Ethiopia's Food Security Programme.....	6
5.1	Productive Safety Net Programme (PSNP)	6
5.1.1	Direct linkages – PSNP public works	8
5.1.2	Indirect linkages – investment of PSNP transfers	9
5.2	Household Extension Packages (HEP)	10
5.3	Voluntary Resettlement Programme (VRP).....	11
6	Other social protection interventions for Ethiopian smallholders.....	12
6.1	Disaster prevention and risk management	12
6.2	Weather-indexed drought insurance.....	13
6.4	Ethiopian Commodity Exchange (ECEX)	14
7	Conclusion	15
	References: Ethiopia case study	17

List of Tables

Table 1	Investment uses of PSNP cash transfers for investment, by income quintile	9
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List of Figures

Figure 1	Objectives of Ethiopia's Productive Safety Net Programme.....	7
Figure 2	Ethiopia's proposed integrated drought risk management plan.....	13

1 Introduction

Agriculture and social protection in Ethiopia are inextricably interconnected. Smallholder farming is the dominant livelihood activity for the majority of Ethiopians, but it is also the major source of vulnerability to poverty, food insecurity and their often fatal consequences – chronic malnutrition, premature mortality, recurrent famines. Ethiopian farmers have been the recipients of enormous volumes of food aid and other humanitarian assistance over recent decades, to such an extent that emergency relief has become institutionalised within government structures and donor agency country programmes.

The discourse surrounding the complex relationship between agriculture and social protection in Ethiopia can be approached from either perspective. From the agricultural policy perspective, the government's unshakeable belief in the centrality of farming as the backbone and potential source of growth for the Ethiopian economy is mirrored by its almost ideological view that land is the ultimate 'safety net' for rural households, who should therefore be protected against losing their access to land – by being prevented from selling it. From the social protection perspective, awareness that able-bodied farmers are the main 'beneficiaries' of safety nets and humanitarian food aid has fuelled the government's visceral fear of creating 'dependency' in rural communities, which in turn explains the predominance of public works projects as their preferred delivery mechanism for food aid, as well as recent shifts in safety net thinking towards cash transfers rather than food aid, with predictable multi-annual transfers expected to lead to 'graduation' within a defined time period.

The discourse on agriculture and social protection (or 'safety nets') in Ethiopia might start at a high level of ideological rhetoric and theoretical abstraction, but it plays itself out in real-world policy choices that attempt to find a balance between maximising opportunities and minimising risks. This policy dilemma can be succinctly stated: in a high-risk environment, should you adopt conservative strategies that minimise risk but keep people poor, or push aggressively for growth and 'grow your way out of poverty'? In the past, the Government has apparently been satisfied with the former approach, but recent policy statements, specifically the 'Plan for Accelerated and Sustained Development to End Poverty' (PASDEP), signalled its impatience with the evident failure of this strategy, and embarked on a significant and ambitious shift towards agricultural commercialisation for income generation and wealth creation at household and national levels. Adopted around the same time, the 'Productive Safety Net Programme' (PSNP) represents an impatience with decades of food aid that have failed even to sustain rural Ethiopians in their poverty, let alone generated growth, food security and poverty reduction. In a two-pronged attack on rural poverty in Ethiopia, therefore, the PSNP injects cash into a moribund agrarian economy, while PASDEP promotes market chains and export crops that will generate further cash income. This is a major move away from a 'survivalist' preoccupation with growing food for subsistence and delivering food aid for survival when food production is inadequate. Whether it will succeed only time will tell.

This paper explores the linkages between social protection interventions and support to small farmer development in Ethiopia. The paper is divided into six main sections. Following this Introduction, Section 2 argues that agricultural policies and social protection policies in Ethiopia have become increasingly convergent and synergistic in recent years. Section 3 explores the paradoxical relationship of small farmers to land, which is regarded by the government not only as a key productive asset but also as a fundamental 'safety net', but could also be interpreted as contributing to the 'poverty trap' that millions of Ethiopians find themselves in. Section 4 briefly reviews recent developments in agricultural policy in Ethiopia, focusing on the recent drive for agricultural commercialisation as encapsulated in the shift from 'ADLI' to 'PASDEP'. Section 5 analyses the components of the 'Food Security Programme' in detail, with empirical evidence of the impact of the Productive Safety Net Programme (PSNP) on agriculture. Section 6 discusses recent innovative interventions that build linkages between social protection and agriculture, such as weather-indexed drought insurance and the design of an 'integrated drought risk management plan' and a commodity exchange for Ethiopia. Section 7 concludes.

2 Agriculture and social protection in Ethiopia: complementarity or convergence?

The Government of Ethiopia's policies for agriculture and social protection follow a trajectory that can be interpreted as a kind of convergence. In the past, policies of 'agricultural promotion' and interventions that might now be labelled 'social protection' were more or less distinct, linked only by the fact that social protection – or more accurately, safety nets or humanitarian relief – was triggered as a response to agricultural failure. When harvests failed, safety nets intervened to protect farming families against the severest consequences. This sequential separation can be conceptualised as a 'seasonal policy timeline', with agricultural policy (such as inputs provision) delivered during the farming season and safety nets (typically food aid or food-for-work) delivered during the 'hungry season' several months later. In this sense, agricultural policy and social protection policy are mirror images: the more effectively farming fills household granaries, the smaller the annual appeal for humanitarian assistance, but several million Ethiopians need 'emergency relief' for several months every year to see them through to the next harvest, and in years of catastrophic crop failure this figure rises to 12 or 14 million.

Terminology matters: the phrase 'social protection' is not yet current in Ethiopia, perhaps because of its close association with 'social welfare' – and by extension, 'dependency' – to which the government is strongly opposed because it believes in self-reliance at household and community levels, especially in rural areas where most people are either farming or have relatives farming or otherwise working for them. Instead, Ethiopia has decades of experience with 'safety nets', signifying transitory support mechanisms of last resort (rather than institutionalised permanent welfare systems), and more recently it has introduced 'productive safety nets' (as discussed below), emphasising the synergies that the government aims to achieve between 'livelihood protection' and 'livelihood promotion'.

There have been some unintended negative interactions between the two sets of interventions. For instance, public works projects are often implemented during the months leading up to the next harvest – at the peak of the hungry season, but also at the peak of the farming season. The competition for household labour between public works and the household farm often forces farmers to neglect their fields, compromising the next harvest and perpetuating the cycle of agricultural under-performance and rural food insecurity. The main policy response has been to tinker with design and implementation modalities: mainly to try to time public works better, and there have been suggestions (not yet implemented to our knowledge) that works should be undertaken before the farming season starts, with payments deferred until the 'hungry season'. (This was proposed as long ago as 1993, in the Directives in support of the National Policy on Disaster Prevention and Management: "coupons, in lieu of wages, could be redeemed immediately or at a future date".) A more radical recommendation would be to de-link the delivery of social protection from any labour requirement altogether. The asset creation benefits of public works are too inadequate to justify the conscription of cheap labour, while the poorest and most vulnerable households are typically labour-constrained, rather than underemployed with 'surplus labour' to allocate to public works.

More recently, the positive linkages between agricultural policy and social protection policy have become increasingly recognised, in general and in Ethiopia, and there are attempts in many countries to achieve synergies between the two. But recognition that positive linkages might exist is not new. Thinking on 'linking relief and development' in Ethiopia since the early 1990s has concentrated on efforts to generate agricultural growth through safety nets, by using public works programmes to simultaneously transfer food rations (a classic 'consumption smoothing' safety net objective) and also (in theory) to construct useful economic infrastructure such as roads (to integrate markets for farmers and traders), or to subsidise agricultural activities such as vegetable gardens (promoting production of secondary food crops for both consumption and sale).

Faced with 'low input, low output' agriculture, it might seem logical for policy-makers to assume that farmers face binding input constraints, and that the solution from both an agricultural and a

social protection perspective lies in the intensification of smallholder production to maximise yields from small plots of farmland. This thinking underpins many interventions that can be described as 'productivity-enhancing safety nets' (Devereux 1999), such as Sasakawa Global 2000, which delivers fertiliser and seeds to farmers on a revolving credit basis and has had some success in raising crop yields in some places – including parts of Ethiopia – at some times. Unfortunately, revolving credit schemes depend on reliable repayment and do not cope well with variability in production and repayments. Global 2000 projects are prone to collapse whenever a bad harvest undermines farmers' ability to repay their loans. In Ethiopia, a perverse outcome occurred in the 1990s, when farmers were encouraged to take on inputs packages as loans, and were actually imprisoned when drought shocks left them unable to repay these loans after a failed harvest. This experience raises broader questions about the logic of providing social assistance or income-generating support to poor households in the form of (even zero-interest) loans, which could simply leave them indebted and worse off than before – another example of a 'negative synergy' between agricultural and social protection objectives.

In fact, efforts at achieving synergies in both directions (promoting agricultural growth in Ethiopia through 'productivity-enhancing' safety nets, or achieving social protection through risk-reducing agriculture) have been persistently compromised by the instability of the natural environment, especially fluctuations in rainfall on which smallholder agriculture depends. Neither investments in agriculture nor investments in social protection appear capable of dealing with this risk. Irrigation might seem a logical way to proceed, but the scale of the need is so vast and the available moisture in the highlands is so low that large-scale irrigation has never emerged as a realistic option, though it is repeatedly recommended.

3 'Land politics' and social protection in Ethiopia

Successive Ethiopian regimes have located the source of Ethiopia's economic stagnation and vulnerability in the agriculture sector, yet they have also looked to smallholder agriculture as the potential source of economic growth, household and national food security and poverty reduction. In 2000, Prime Minister Meles Zenawi captured this ambivalence succinctly when he said: "The agricultural sector remains our Achilles heel and source of vulnerability. Nonetheless, we remain convinced that agricultural based development remains the only source of hope for Ethiopia." At the heart of this ambivalence is the politics of land.

The overthrow of Emperor Haile Selassie following the 1974 famine signalled the abrupt ending of an essentially feudal system in Ethiopian agriculture. Colonel Mengistu's Derg regime believed that unequal landholdings and exploitative labour relations based on sharecropping explained Ethiopia's persistent vulnerability to famine, as well as constituting a gross social injustice. The Derg military dictatorship used its unfettered power to force a radical agrarian transformation on rural Ethiopia. Between 1976 and 1991, all farmland in the highlands was confiscated by the state and redistributed equally per capita within rural communities. This radical land redistribution was motivated by both egalitarian and efficiency concerns. The intention was not only to break the power of the landlords over the peasants, but to give all rural households the means to achieve sustainable increases in agricultural productivity and rural incomes (Devereux *et al.*, 2005).

Importantly, land was conceptualised as a safety net for rural households by the Derg (a view that is shared by Meles Zenawi's EPRDF government). As long as rural families enjoyed guaranteed access to land, they retained the potential to generate a subsistence livelihood, and in this sense the Derg's land redistribution can be seen as a crude form of social protection. Motivated by its socialist egalitarian ideology, the Derg also implemented agricultural policies such as state farms, villagisation and forced resettlement, all of which failed to generate the intended growth in agricultural productivity and were later abandoned. It is no coincidence that the Derg presided over an even worse famine, in 1984, than the famine of 1974 that had paved its accession to power. The land redistribution remains as the Derg's lasting impact on Ethiopian agriculture.

After the Derg was overthrown in 1991, the EPRDF government under Prime Minister Meles Zenawi reaffirmed the Derg's commitment to land equality, and Meles has vociferously resisted

suggestions that a land market should be encouraged to emerge in rural areas. Although the current regime is more market-oriented, Western-aligned and democratic than its predecessors, Meles insists that land is special and should not be commercially transacted. The argument is that allowing smallholders to sell their farmland converts this essential livelihood input into a liquid asset that would inevitably be monetised through 'distress sales' for food during crises such as drought, forcing millions of small farmers off the land, concentrating farmland in the hands of a minority of rich landowners, reviving quasi-feudal labour relations in agriculture, and displacing rural poverty into urban slums. So the privatisation of land rights is resisted on the grounds that land provides a vital and irreplaceable 'productive safety net' to poor rural Ethiopians.

Yet despite the land reform, it remains the case that agricultural livelihoods in Ethiopia are among the most precarious in the world, with major livelihood shocks guaranteed every few years. In this context, given the tiny landholdings that most rural families have been allocated, it is debatable whether the non-transferability of land rights constitutes a 'safety net' or a 'poverty trap'. Certainly, a wealth of evidence from many countries confirms that pro-poor land redistribution can boost agricultural productivity and raise the incomes of households that receive land (Eastwood *et al.*, 2004:2). On the other hand, recent thinking and empirical work on 'asset thresholds' reveals that households with inadequate access to key productive assets (eg landholdings that are too small) may be unable to accumulate assets and grow their way out of poverty. Even worse, where livelihoods are subject to recurrent shocks, such as droughts in Ethiopia, 'asset poverty' will be perpetuated as households repeatedly sell off non-land assets for food, becoming chronically dependent on emergency relief for their survival (Carter and Barrett, 2007). In such contexts, land redistribution might only have served to 'equalise poverty' and to entrench agricultural stagnation, while prohibitions on land sales might be trapping millions of families in unviable livelihoods. What might be needed instead is consolidation of fragmented landholdings into larger, economically profitable units, plus facilitating livelihood diversification for asset-poor families that will never be able to make a sustainable living from their 'starvation plots' – in Dessalegn Rahmato's pithy phrase (Devereux *et al.*, 2005). In 2001, half of all smallholder households in drought-prone Wollo and Tigray were farming less than half a hectare (Berhanu and Samuel, 2002: 35).

Land redistribution has also been identified as contributing to another source of rising vulnerability and increasing needs for formal social protection in rural Ethiopia, namely, the decline of informal social protection in poor rural communities, especially those where the 'equalisation of poverty' has severed the patron-client relationships that tied poorer and wealthier families together, in ways that were certainly exploitative but equally certainly ensured that the 'client' had a 'patron' to turn to for assistance in times of crisis. A livelihoods survey in Wollo found that land redistribution together with other economic and demographic stressors has precipitated a collapse in better-off groups within agriculture-based communities since the 1990s, which has contributed to both rising vulnerability and agricultural stagnation, because poorer families can no longer rely on wealthier neighbours for access to productive resources such as oxen for ploughing, or for informal social assistance during difficult times (Devereux *et al.*, 2003).

4 Agricultural development strategies in Ethiopia

Given Ethiopia's history of chronic food insecurity and recurrent catastrophic famines, it is hardly surprising that food security has always featured strongly as a priority in successive Government development plans and strategies. The most significant policy statements of recent years have included 'Agriculture Development-Led Industrialisation' (ADLI), the 'Sustainable Development and Poverty Reduction Programme' (SDPRP), and the 'Plan for Accelerated and Sustained Development to End Poverty' (PASDEP). Significant programmes that support agriculture but also have social protection aspects include the 'Food Security Programme' (FSP) and its flagship component, the 'Productive Safety Net Programme' (PSNP).

Ethiopia's current Poverty Reduction Strategy Paper (PRSP), known as PASDEP, for the period 2005–2009, takes forward a number of the same measures emphasised in its predecessor, the SDPRP, which prioritised food security, rural development, human development, and capacity building. However, PASDEP does introduce some new emphases, perhaps the most significant

being a push for the commercialisation of agriculture as a strategy for stimulating broad-based economic growth.

PASDEP's thrust toward large-scale agricultural commercialisation represents a departure from the Agriculture Development-Led Industrialisation (ADLI) strategy, which saw small farmers as drivers of growth in agriculture and the wider economy (Amdissa Teshome, 2006). PASDEP outlines a strategy for large-scale commercialisation with a strong export focus, emphasising crop diversification beyond coffee to include other high-value niche markets, including floriculture, horticulture and spice production. Crops that receive special attention will be cultivated in specific agro-ecological zones where their productivity can be maximised, and irrigation will be utilised where feasible. PASDEP aims to double agricultural production in Ethiopia in five years, with consequent improvements in smallholder incomes and Ethiopia's foreign exchange earnings. In contrast to the preoccupation of earlier policies with achieving food production self-sufficiency, there is a strong emphasis on marketing of produce, with farmers exhorted to aim higher than mere subsistence. "The farming community should abandon the traditional system of agricultural production and adopt market-oriented approach and promote efficient system of marketing that encourage both sellers and buyers" (Government of Ethiopia, 2007: 105). PASDEP's approach is consistent with the strategy outlined in the 2008 World Development Report on Agriculture, which argues for the development of market chains and expansion of export crops for agricultural-based economies (World Bank, 2007).

5 Ethiopia's Food Security Programme

In addition to its focus on agricultural commercialisation, PASDEP renews the Government of Ethiopia's commitment to the Food Security Programme (FSP), which was initiated by the 'New Coalition for Food Security' after the food crisis of 2002. The FSP aims to address food insecurity through a \$3 billion package of interventions that are intended to boost agricultural productivity for the estimated 8.3 million chronically (or 'predictably') food insecure, and to provide protection against agricultural vulnerability for the estimated 6.7 million transitory ('unpredictably') food insecure Ethiopians. The Food Security Programme has three main components, which together are designed to attain household food security over a five-year period: (1) the 'Productive Safety Net Programme', with two sub-components – Public Works and Direct Support – which bridges food gaps with cash or food transfers while building community assets; (2) 'Household Extension Packages', which support a range of non-farm livelihood activities; (2) 'Voluntary Resettlement Programme', which relocates people from the most vulnerable highland communities to more productive land. In terms of the World Bank's 'social risk management' terminology (Holzmann and Kozel, 2007), resettlement and extension packages are instruments of *risk reduction*, while social transfers ('direct support') contribute to *risk coping* and public works has elements of *risk reduction*, *risk mitigation* and *risk coping*, depending on what kinds of public works activities are undertaken.

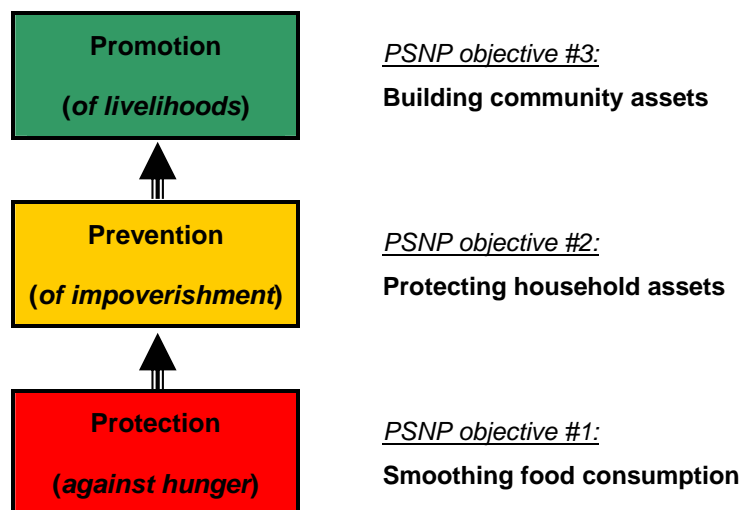
5.1 Productive Safety Net Programme (PSNP)

The Productive Safety Net Programme is the largest social protection scheme in Africa outside of South Africa's social grants schemes. The PSNP delivers social transfers to some eight million Ethiopians each year, either through 'public works' activities or as 'direct support' for households that are labour-constrained, with three distinct objectives:

1. **smoothing food consumption** in chronically food insecure smallholder households, by transferring food or cash to buy food during the 'hunger gap' months;
2. **protecting household assets** by avoiding damaging 'coping strategies' such as selling productive assets or taking on high-interest loans to buy food;
3. **building community assets** by selecting public works activities that create infrastructure with developmental potential (eg feeder roads).

These objectives correspond to the three functions of 'protection', 'prevention' and 'promotion', as identified in some conceptual frameworks of social protection (see Figure 1, which illustrates social protection as an 'upside-down traffic light', from red for crisis to green for growth).

Figure 1 Objectives of Ethiopia's Productive Safety Net Programme



In terms of the linkages between social protection and agriculture, the 'promotion' component is most relevant, and this is also a crucial (self-imposed) indicator of success for the Government of Ethiopia, which intends to 'graduate' PSNP participants out of the programme within five years of implementation. Importantly, livelihood promotion and graduation are to be achieved primarily through linkages with 'Other Food Security Programmes', especially the 'Household Extension Packages' that generate complementary streams of income for farming families. This is because it is recognised that small transfers of cash or food are more likely to be consumed than invested, while the assets constructed by the public works activities will contribute to an improved enabling environment (eg feeder roads will stimulate trade and integrate fragmented markets) rather than directly generating additional income. Similarly, the Voluntary Resettlement Programme aims to 'graduate' participating households off chronic dependence on food aid by providing access to more and better land, plus a package of inputs and services, that are intended to ensure that these households attain food production self-sufficiency fairly soon after being resettled.

It follows that the success of the PSNP in terms of graduation outcomes should be evaluated only in conjunction with these complementary programmes. The PSNP itself should be evaluated primarily in terms of whether it smoothed household food consumption and protected household assets. The available evidence for both these effects is significant and positive.

In terms of *smoothing food consumption*, a survey of 960 households in eight PSNP districts in 2006 found that 88% of households that received food from the PSNP consumed all this food, while 7% sold some – often to buy other food – and consumed the rest, and a few households gave some of their PSNP food to others (usually family members). Among recipients of cash from the PSNP, 88% used some or all of this cash to buy staple food, and 11% bought other food. Three-quarters of PSNP households reported consuming more food, or better quality food, since the programme started (Devereux *et al.*, 2006: 46). Comparing expenditure patterns of the two categories of PSNP participants, cash recipients spent significantly more on food than food recipients, which is consistent with expectations, since the cash transfers were primarily intended to ensure access to food for farming households that did not produce enough food and did not receive food aid in 2005/06.

In terms of *asset protection*, our survey found that non-participants in the programme were more likely than participants to experience falls in their asset-holdings during the 2005/06 agricultural

year. Much of this asset depletion was attributed to sales of livestock to buy food. Conversely, 62% of PSNP households reported being effectively protected against 'distress sales' of assets for essential purchases, while 23% even increased their asset ownership over the year. However, many PSNP households were forced to sell some of their assets, draw down their limited savings, or even rent out farmland, to survive the 'hungry season'. Sales of productive assets such as land rights are especially concerning because they compromise the future viability of agriculture-based livelihoods. So the objective of preventing further impoverishment of the most vulnerable farming families was only partially achieved, probably because the transfers were too small (the average contribution of PSNP cash to total household expenditure was just 12%), and often delivered too late, to fully cover household food deficits. It is also true that asset-holdings of PSNP participants were lower initially, which is an indicator that the programme was well targeted (Devereux *et al.*, 2006: 17).

In terms of *promoting agricultural livelihoods*, at least two clear linkages can be identified between the PSNP and agriculture, one direct and one indirect.

- (1) *Direct linkage*: public works activities that support agricultural production;
- (2) *Indirect linkage*: investment of PSNP transfers in agricultural production.

The first linkage is a programme design effect; the second is a household behavioural effect. The success of the first depends on the quality and appropriateness of the public works activities. The success of the second depends on individual household choices – how many households decide to invest how much transfer income in their farming enterprises, with what impact on production.

5.1.1 Direct linkages – PSNP public works

Public works has a long history in Ethiopia, partly because the Government, fearing dependency, has always resisted free handouts in favour of making people work – even for emergency relief – and partly because the massive infrastructure deficits in rural Ethiopia are blamed for contributing to food insecurity, and public works mobilises a massive supply of unskilled labour that can be conscripted at low cost into building or maintaining rural roads and other physical infrastructure. The Employment Generation Scheme (EGS) and 'Project 2488' were enormous food-for-work programmes, run largely with World Food Programme support, that pursued both consumption smoothing and asset creation objectives, but were critiqued especially for failing to leave behind assets that were maintained and generated sustainable benefits for local communities.

The PSNP continues this tradition of delivering social transfers with a heavy work requirement to able-bodied Ethiopians; the main difference being that cash-for-work was offered in many (but not all) communities instead of food-for-work. Most of the activities that are implemented under the PSNP Public Works Programme are familiar from the earlier food-for-work projects, and many of these have the potential to promote agricultural production or marketing, directly or indirectly. Activities that benefit agriculture directly, by either raising or stabilising crop yields and farmers' incomes, include small-scale irrigation, micro-dams, and soil and water conservation. Activities that could enhance agricultural incomes indirectly include construction of rural access roads and farmers' training centres, and improved water supplies (spring capping, ponds, shallow wells). Many other activities, such as construction of social infrastructure (school classrooms, health posts) have no immediate income-generating potential, though rural families should benefit from improved education and health in the future, since these are investments in human capital.

The Government commissioned a review of the PSNP Public Works Programme in 2006, which found that the programme faced many of the same problems that undermined the effectiveness of previous public works activities in Ethiopia. These "constraints and challenges" included:

"inadequate coordination and monitoring, untimely delivery of resources, high turnover of staff, inadequate assignment of personnel, lack of timely planning and implementation, inadequate technical support to field staff, inadequate supply of tools and equipment, low level of technical skills of field staff" (Government of Ethiopia 2006: 1).

As a consequence, most of the assets that have been constructed under PSNP public works failed to meet minimum technical standards, with the roads, irrigation and water supply projects being particularly problematic. There are variations across localities, reflecting regional differences in implementation capacity, but the general impression is that insufficient attention is being paid to the quality and maintenance of public works assets, probably because the objective of transferring cash or food to poor people was the dominant priority of the PSNP, while the infrastructure creation or asset-building objective was secondary. This raises a familiar concern about whether it is appropriate to load multiple objectives onto a single instrument, given the evidence from various contexts that this often results in all objectives being compromised. No attempt has been made to quantify any agricultural or income gains that might be attributable to public works activities, but our expectation is that these impacts are likely to be negligible.

5.1.2 *Indirect linkages – investment of PSNP transfers*

In terms of the indirect linkage with agriculture – households choosing to spend some transfer income on farming – it is argued that the disbursement of regular and predictable transfers over an extended period of time will enable households to plan their spending more effectively, including saving some portion of each monthly transfer until they can purchase, say, a bag of fertiliser or some seeds. This predictability of transfers, reinforced by a shift away from food to cash transfers, is expected to generate a larger impact on production than occasional and unpredictable transfers of food.

The motivation for introducing cash rather than food transfers on the PSNP is a widely-held belief in Ethiopian policy circles that decades of food aid have generated ‘vicious cycles’ of dependency and disincentives to producers and traders in rural Ethiopia, which predictable cash transfers will displace with ‘virtuous cycles’ of productive investment, asset accumulation, market stimulation and employment multipliers. “Through the provision of cash transfers rather than food, the programme will enable smallholders to increase consumption and investment levels and stimulate the development of rural markets” (DFID 2005: 1). (In fact, recent empirical work has challenged the popular perception that food aid in Ethiopia has generated dependency and disincentives, which suggests that food aid can not be blamed for contributing to the under-performance of Ethiopian agriculture, but this is a separate debate that will not be examined here.)

Our survey findings on investment of PSNP cash transfers in agriculture reveals that more than one in ten households (88 of 768 participants =11.5%) purchased seeds while a smaller number (26 participants = 3.4%) purchased fertiliser. Disaggregating these outcomes by income quintiles, poorer and wealthier households were equally inclined to buy seeds, but most of the fertiliser (which is much more expensive) was purchased by the upper wealth groups. Interestingly, more than half of the households that purchased livestock using PSNP cash (50 participants = 6.5%) were in the bottom two quintiles (Table 1), possibly because poorer families took this opportunity to start rearing animals whereas wealthier households already owned animals.

Table 1 Investment uses of PSNP cash transfers for investment, by income quintile

Use of cash	Poorest → Richest				
	1	2	3	4	5
Agriculture: seeds	15 (17.1%)	16 (18.2%)	27 (30.7%)	17 (19.3%)	13 (14.8%)
Agriculture: fertiliser	1 (3.9%)	6 (23.1%)	11 (42.3%)	3 (11.5%)	5 (19.2%)
Livestock purchase	9 (18.0%)	21 (42.0%)	13 (26.0%)	4 (8.0%)	3 (6.0%)
Business investment	2 (33.3%)	2 (33.3%)	2 (33.3%)	0 (0.0%)	0 (0.0%)
Debt repayment	23 (24.7%)	22 (23.7%)	22 (23.7%)	11 (11.8%)	15 (16.1%)
Education expenses	13 (14.1%)	26 (28.3%)	21 (22.8%)	13 (14.1%)	19 (20.7%)

Source: Devereux *et al.* (2006: 46)

One reason why investment in agriculture is relatively low is that the value of the cash transfer is low and, in terms of food, highly variable across seasons and locations, but generally declining

over time. Given 'Engel's law', that poor people will spend at least 60% of any incremental income on food, their disposable cash transfer income after food and other basic needs have been met is negligible (unless the PSNP is badly targeted, in which case people who spend most of their cash transfers on investment probably should not have received cash transfers at all). As the value of PSNP cash transfers has fallen, due to steady food price rises – averaging 10% per annum in Ethiopia (Alderman *et al.*, 2006) – that have not been matched by increases in cash transfers, so households have presumably allocated ever greater proportions of this income to purchasing food and other essentials, leaving less and less for investment or asset accumulation. Partly as a consequence of the failure of PSNP cash transfers to maintain a constant purchasing power, an estimated 1.8 million PSNP cash recipients reverted to food transfers during 2006, and our survey evidence (reported above) confirms that most food transfers are consumed rather than monetised or bartered, so the investment effects of PSNP transfers are likely to have fallen among households that switched away from cash and back to food.

On the other hand, it must be noted that food price rises are ambiguous for smallholders. For *net producers* (those who produce marketable surpluses) rising prices signify rising incomes from crop sales, and are therefore to be welcomed. For *net consumers* (farmers who fail to meet their subsistence needs from the farm and must purchase some food from the market), rising food prices are potentially devastating and are a major cause of hunger and malnutrition throughout rural Africa. So rising food prices are generally good for agriculture but bad for food security, since they increase the resources that poor people must find to purchase the food they need. High or rising food prices also raise the requirements for social protection or humanitarian relief.

5.2 Household Extension Packages (HEP)

Household Extension Packages (HEP) are intended to assist participants in the Productive Safety Net Programme (PSNP) to increase their assets and incomes, through a variety of assets and inputs packages for agricultural and non-agricultural activities. Households select from a menu of 12 packages that range from livestock assets (a young ox plus sheep and goats), through to fodder for livestock fattening plus improved vegetable seeds plus tillage equipment plus a treadle pump or a donkey cart, to alternative livelihood packages such as beehives or silkworm raising kits. The average package is valued at 1,500 Birr and is repayable at zero interest over 2-4 years (Vaitla, 2006b). However, in Tigray HEPs are much larger (up to 3,800 Birr) with one package comprising five sheep and two beehives with colonies (Slater *et al.*, 2006).

This is a two-pronged approach: social protection is provided in the form of social transfers on the PSNP (usually with a work requirement on public works), while household incomes and assets are boosted through the extension packages. Conceptually, the two prongs reinforce each other: although the packages are provided on credit, the knowledge that predictable transfers are also provided for up to 5 years should give households confidence to take on the loans. Unfortunately, in practice this thinking is undermined by two factors: firstly, budget constraints and political pressure to 'graduate' participants off the PSNP means that retargeting occurs frequently and social transfers are not guaranteed for longer than a single year. Secondly, the size of the HEP loans are disproportionately large (especially in Tigray) relative to the PSNP transfers, raising questions about the ethics and efficiency of assisting chronically poor and vulnerable people to escape from food insecurity by imposing onerous debt burdens on them.

For these and other reasons, take-up of the HEP has been slow, and the target of reaching 30% of PSNP households each year for 3 years looks unlikely to be reached. This is reminiscent of earlier experiences with agricultural input loans in the 1990s, when farmers were deterred by high interest rates and punitive repayment schedules. Payment was due immediately after harvest, forcing many farmers to sell food at low post-harvest prices (Vaitla and Zerihun, 2006a). As noted above, farmers who were unable to repay were often imprisoned, even in drought years when crop failure left them hungry and destitute.

Three other concerns with the HEP are worth mentioning. Firstly, skewed availability of certain packages means that household choices are often constrained, and quotas mean that preferred

packages are often unavailable (Vaitla and Zerihun, 2006b). Many participants in Tigray, for instance, feel that beehives were imposed on them rather than freely chosen (Slater *et al*, 2006). As a result, there is a real risk of flooding the market, in this case with honey. Secondly, delays in PSNP payments, or 'rotation' of households out of the PSNP, compromises the impact of the HEP assets and inputs, which might need to be liquidated for consumption needs (in the absence of PSNP cash transfers) rather than invested for income generation (Guenther, 2007).

Thirdly, available evidence reveals that Household Extension Packages were not well targeted, and even that the poorest households were systematically excluded. Our survey found that three in four packages were taken by households in the top two wealth quintiles (Devereux *et al*, 2006). Another study found that the poorest households were screened out of the programme due to a bad credit history or lack of land to absorb HEP livestock (Vaitla and Zerihun, 2006b). This skewed targeting is explained by skewed incentives. Staff are under pressure not only to recover the loans, but also to ensure that households 'graduate' rapidly out of food insecurity. This naturally leads to a selection bias towards households that are perceived as being creditworthy and have potential to generate income from the packages, rather than, say, labour-constrained households that are perceived as likely to default and unlikely to graduate.

5.3 Voluntary Resettlement Programme (VRP)

The thinking behind resettlement schemes can be understood in terms of both social protection and agricultural policy goals. Facilitating the relocation of farming families from areas where land is constrained, agricultural productivity is low and agricultural risk is high, to areas where land is more abundant, agricultural productivity is potentially higher and agricultural risk is lower, seems like an effective strategy for reducing vulnerability (a core social protection objective) and raising farm yields (a core agricultural policy objective). While this sounds like a 'win-win' outcome in theory, in practice resettlement schemes in Africa have more often failed than succeeded, mainly because they are implemented too quickly with inadequate preparation (eg providing basic infrastructure and services at the relocation sites, and ensuring that 'open' land is not actually dry season grazing for pastoralists).

During and following the famine of 1984-85, the Derg regime imposed a forced resettlement policy on many communities in drought-prone highland areas of Ethiopia that were designated as unviable for agriculture-based livelihoods in the long term. This policy was justified as a technical response to a complex combination of chronic food insecurity and acute vulnerability to weather shocks that could not be solved in any other way, but many analysts believed it was motivated by political expediency. It caused great hardship and loss of life, and most people who were forcibly resettled returned home as soon as they could.

Resettlement is also a component of the Food Security Programme, but the emphasis this time is on volunteering rather than coercion. The 'Voluntary Resettlement Programme', also known as 'Access to Improved Land', aims to relieve environmental stress and population pressure in the same vulnerable highland areas as before, by relocating a target total of 440,000 households or 2.2 million people. Each settler household is supposed to be allocated a package of assistance that includes access rights to up to 2 hectares of fertile land, seed, oxen, hand tools, utensils, and food rations for the first eight months. Mindful of the failures of previous resettlement initiatives, settler communities should be well served with essential social infrastructure, including a clean water supply, health post and feeder roads.

The VRP is controversial and donors have been reluctant to support it, fearing the humanitarian consequences if it fails. Although some (critical) unauthorised reports have been written about the implementation and impacts of the resettlement programme, no officially sanctioned independent evaluation has yet been conducted of its impacts, either as a social protection mechanism or as an intervention to stimulate smallholder agriculture.

6 Other social protection interventions for Ethiopian smallholders

Other social protection interventions in Ethiopia that are directly or indirectly linked to smallholder agriculture include: disaster prevention and management, specifically a new 'integrated drought risk management plan'; weather-indexed drought insurance; and a commodity exchange.

6.1 Disaster prevention and risk management

There is an unresolved debate in the social protection literature about the relationship between social protection and emergency responses, with some confusion over definitional boundaries. The consensus appears to be moving towards keeping the two concepts distinct, with the term 'social protection' being applied mainly to long-term predictable social transfers delivered by governments (eg social pensions or child support grants), in contrast to emergency relief which is typically short-term, *ad hoc* and can be delivered by a range of actors including international donors and NGOs (eg WFP). On the other hand, social insurance mechanisms such as weather-indexed crop insurance schemes (see below) are a central element of most standard definitions of social protection, perhaps because insurance implies a degree of predictability that is inevitably absent from humanitarian responses.

Moreover, there are efforts to construct comprehensive 'disaster risk management' frameworks that point towards a convergence between the social protection and humanitarian policy sectors. In Ethiopia, agricultural policies and programmes are coordinated by the Ministry of Agriculture and Rural Development, social protection programmes for farmers (eg the PSNP) are delivered by the Food Security Coordination Office, but humanitarian relief for farmers is provided by the Disaster Prevention and Preparedness Commission. This division of roles and responsibilities has proved to be conceptually confused in theory and cumbersome and inefficient in practice.

The Government of Ethiopia is in the process of revising its Disaster Prevention and Management Policy, as part of a wide-ranging reform of Ethiopia's preparedness and response systems. This involves planning for emergency responses in both the food and (previously neglected) non-food sectors. In the food sector, the World Food Programme and other donors are developing a risk management strategy with the ambition of ensuring that Ethiopians affected by transitory food insecurity receive more predictable and timely relief in the event of weather shocks. This involves the development of an integrated risk management facility, with contingency funds and a weather-indexed insurance scheme. In the non-food sectors, a baseline assessment is being undertaken of humanitarian risks in the emergency aspects of health and nutrition, water and environmental sanitation, and agriculture and livestock.

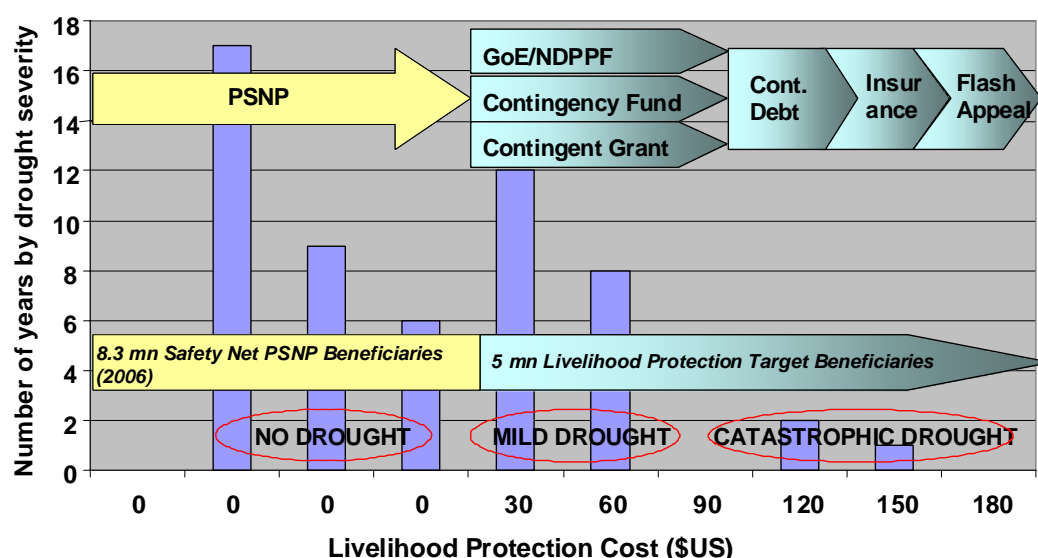
This policy review and reform is motivated by the same recognition that underpins the Productive Safety Net Programme: that Ethiopia's reliance on annual humanitarian appeals for financing 'emergency relief programmes' is concealing problems that are actually chronic and structural in nature, and should instead be addressed through multi-year, multi-sectoral strategies based on developmental approaches and principles. A recent commissioned report (Lautze, 2006) maps out a transition strategy to assist the Government, UN agencies and NGOs in moving towards a more holistic approach. The strategy includes financial restructuring in the health, food security, and water and sanitation sectors, to encourage development initiatives to absorb a portion of the recurrent baseline vulnerability that is embedded within the annual appeal. The report also argues for the establishment of permanent emergency offices in the Ministries of Health, Agriculture and Rural Development, and Water Resources. All of these measures imply reconceptualising 'developmental' and 'emergency' responses for Ethiopian farmers as integrated and inextricable, rather than separate and unrelated.

A specific outcome of this process is the development of an 'integrated drought risk management plan' for Ethiopia. The plan is to apply coordinated financial instruments tailored to different levels of risk that farmers face, thereby enabling the Government and donor agencies to respond to livelihood stress and emergencies as effectively and efficiently as possible – that is, to save lives

and livelihoods at the lowest cost possible (WFP, 2007). In drought years, the PSNP should continue to provide for its 8.3 million chronically food insecure beneficiaries, while contingency finance and weather-indexed insurance would provide for those not covered by the PSNP but facing acute food insecurity.

Mild to catastrophic drought events, which are estimated to occur every three years, would be financed with a three-year Livelihood Protection Facility (LPF) combining: a contingency fund, contingent grant or contingent debt and the insurance component mentioned above (Figure 2). Only after these various disbursements are triggered and funds are exhausted, would a flash appeal be necessary (Hess *et al.*, 2006; WFP, 2007). The trigger for these various financial mechanisms is a software programme called 'Livelihood Early Assessment and Protection' (LEAP), which uses ground and satellite rainfall data to assess levels of drought risk throughout Ethiopia, estimates livelihood stress levels based on projected yield reduction, and then signals the amount of financial resources required (WFP, 2007).

Figure 2 Ethiopia's proposed integrated drought risk management plan



Source: WFP, 2007

6.2 Weather-indexed drought insurance

One innovative component of Ethiopia's new approach to risk management is a weather-indexed insurance scheme. Ethiopian smallholders face persistent risks of drought against which they are unable to insure, due to missing insurance markets. Experience from other countries suggests that insurance delivers both social protection for farmers (a guaranteed safety net against harvest failure) and agricultural growth (confidence to take moderate risks such as investing in fertiliser or high-yielding varieties). Missing insurance markets is a common feature throughout Africa and is explained by such factors as low incomes of farming households, information asymmetries, moral hazard and the covariate nature of agricultural risks. Conventional crop insurance is impractical in such circumstances, but weather-indexed insurance avoids some of these difficulties (especially moral hazard and asymmetric information), by using an index based on the relationship between lack of rainfall, crop failure and humanitarian needs, verified by historical records.

In 2006 the World Food Programme launched the Ethiopia Drought Insurance pilot project, with the aim of assessing the feasibility of using a market-related instrument to finance drought risk in Ethiopia. WFP purchased a weather derivative from a European reinsurer for US\$ 930,000, which would provide a maximum payout of US\$ 7.1m. The project uses an index derived from 10 years of rainfall data from 16 weather stations across Ethiopia, calibrated against the scale and cost of corresponding relief activities. Analysis of these data shows an 80% correlation between rainfall

levels and the number of food aid beneficiaries in each year, suggesting that rainfall is a reliable objective indicator of drought-triggered vulnerability and social assistance needs. (On the other hand, receiving assistance might be less well correlated with actual needs – eligibility for relief is determined largely by whether beneficiaries received assistance last year: “Once you’re in, you’re in. If you’re not, regardless of how vulnerable you are, you have a much less likely shot of being in the system that is triggered by rainfall data (Sue Lautze, *pers. comm.*).)

When total rainfall for the current agricultural season falls below a predetermined threshold in a given location, an immediate payout is triggered to finance relief activities, typically cash- or food-for-work projects. Payouts are calibrated such that severe rainfall deficits trigger larger payouts, ensuring that needs are comprehensively covered (Hess *et al.*, 2006). This mechanism also ensures timely relief, since resources can be disbursed immediately after harvest, protecting household food consumption and assets (Hess and Im, 2007). This is in contrast to initial experiences with the Productive Safety Net Programme, when transfers were often disbursed several months late, undermining its social protection role (Devereux *et al.*, 2006; Slater *et al.*, 2006; Guenther, 2007). In fact, no payouts were made from the derivative contract in the pilot year, as crop production in Ethiopia in 2006 was one of the best on record (Hess, *et al.*, 2006). The sustainability of this project depends on whether donors and/or the government are willing to continue to pay the necessary premiums every year (Alderman and Haque, 2007).

6.4 Ethiopian Commodity Exchange (ECEX)

Prices of food staples in Ethiopia are highly volatile, due to erratic supplies and weakly integrated markets, reflected in high transport and transaction costs, which limit opportunities for smoothing prices through arbitrage across space (transport) and time (storage). Price volatility undermines both food security for consumers and incentives for food producers. Under the Derg regime, food trading was tightly controlled through the Agriculture Marketing Corporation (AMC); however, like many other African countries, Ethiopia underwent rapid market liberalisation in the 1990s, where price controls were eliminated and the AMC was ‘downsized’. These reforms did not reduce food price volatility and have arguably exacerbated it (Gabre-Madhin, 2001). Market actors react sluggishly to signals of changes in food supply or demand, leaving producers highly vulnerable to food price collapses and consumers equally vulnerable to food price inflation. Following bumper harvests in 2001 and 2002, for instance, grain prices collapsed by 80%, which undermined smallholder incomes and left 300,000 tonnes of grain rotting in the fields because it was not profitable to harvest (Gabre-Madhin and Goggin, 2005; Jopson, 2007).

In an innovative attempt to address these high transaction costs, the Ethiopian government is working with the International Food Policy Research Institute (IFPRI) towards establishing an Ethiopian Commodity Exchange (ECEX), which is due to start trading in December 2007 and will cover six crops: coffee, sesame, haricot beans, maize, teff and wheat. A commodity exchange performs three basic functions: (1) *price transparency*: enabling access for everyone to a neutral reference price; (2) *price discovery*: ensuring that demand and supply developments are easily reflected in price levels; (3) *reduced transaction costs*: making it easier to find buyers or suppliers through a centralised market-place. Commodity exchanges can also reduce price risk by trading in futures contracts, and the ECEX will aim to do this in the near future (Gabre-Madhin, 2006).

The Ethiopian Commodity Exchange is expected to reduce transaction costs by: (1) facilitating contact between buyers and sellers, (2) enabling centralised grading of products, (3) ensuring that contracts are enforceable, (4) providing a mechanism for price discovery, (5) simplifying transactions with standard contracts, and (6) transmitting information about prices and volumes which will be enabled through the installation of price tickers at 200 rural sites, giving farmers independent access to price information from the exchange in Addis Ababa. The reduction of transaction costs will enable various market actors, including smallholders, to benefit from a higher share of the final price. Increased information about market prices will also increase the bargaining power of smallholder farmers and enable them to make better investment decisions. This in turn, would generate incentives for increased production. Moreover, if the exchange is linked to a negotiable warehouse receipts system, this can also increase liquidity for farmers by

facilitating access to credit borrowed against the receipt. At least on paper, the ECEX appears to be an excellent example of an intervention that has the potential to achieve both social protection and agricultural growth (i.e. livelihood protection plus livelihood promotion) in a single instrument.

7 Conclusion

Although the term 'social protection' is not used in Ethiopia, many policies and interventions that successive Governments have initiated to provide support to small farmers combine elements of both 'livelihood protection' and 'livelihood promotion'. Convergence between social protection and agriculture comes from both sides, but finds its fullest realisation in approaches to food security, a defining policy agenda in Ethiopia for several decades. The term 'food security' embodies notions of both agricultural growth (*increased* food production or income generation) and attention to improved risk management (*stabilised* food production). Food security policies in Ethiopia in the past have involved (1) *agricultural policies* and practices that reduce risk (eg crop diversification) and (2) *safety net interventions* that delivered social transfers through public works while also stimulating agriculture, either directly (eg vegetable gardens or watershed management) or indirectly (eg road construction for better access to input and output markets). More radically, two Ethiopian governments (the Derg in the 1980s and the EPRDF in the 2000s) have initiated resettlement programmes that relocated millions of small farmers from high-risk highlands to lower-risk lowlands, with the dual objectives of *increasing agricultural production* and *reducing agricultural vulnerability*. Although these interventions both failed, for a variety of social, political and technical reasons, they encapsulate genuine efforts at 'linking relief and development', which is also a theme that is driving the new social protection agenda, with its emphasis on generating economic growth and poverty reduction through cash-based social transfers rather than food aid.

While positive synergies can certainly be obtained between social protection and agriculture (though unfortunately these often exist more in theory and design than in implementation and achievement), negative synergies can occur if different objectives conflict with each other. Social protection for smallholders can undermine rather than stimulate smallholder production, and in Ethiopia this has been most striking in the case of rural public works programmes, which are often implemented at times of year that compete directly with on-farm labour requirements. As discussed earlier in this paper, the simplest way to avoid competition for scarce labour between public works and agriculture in poor farming households is to eliminate labour conditionalities from social protection interventions altogether. However, this recommendation is unlikely to find favour with the present Government of Ethiopia, given its preoccupation with minimising 'dependency', building a 'self-help' mentality, and 'asset creation' by and for communities.

Another non-negotiable issue for the Government of Ethiopia is land rights, but it is our view that land redistributions (last implemented 15 years ago) combined with inflexibility around informal reallocation of land have constructed more of a 'poverty trap' than a 'safety net' for small farmers in Ethiopia's high-risk highland agro-ecologies. There are many options for loosening allocation of land rights that stop short of full alienation and commercialisation, but which could free farmers to pursue more viable livelihoods elsewhere, and could release land to more productive use. These intermediate options (eg land registration, consolidation of fragmented plots and validation of an informal rental market that is already operating covertly) have the potential for positive synergies between livelihood 'protection' and 'promotion' for small farmers.

A number of initiatives that are in the pipeline also have enormous potential to protect small farmers against the shocks that repeatedly thwart their efforts to make a living and threaten the lives of themselves and their families. As discussed in this paper, such initiatives include weather-indexed crop insurance, new attempts at integrated approaches to disaster prevention and risk management, and the commodity exchange that is about to be launched. Together with the drive for agricultural commercialisation and growth as embodied in 'PASDEP', these developments could transform agriculture in highland Ethiopia from a moribund and highly risky economic activity into a more secure sector that generates pro-poor growth and poverty reduction.

Finally, the intervention that is receiving most attention and resources right now is the Productive Safety Net Programme. As discussed above, there is empirical evidence that recipients of cash transfers through the PSNP are using this income to reduce food consumption deficits in their families, as well as investing in farming, small enterprises and education of their children. But these investment effects are limited by the depth of poverty and food insecurity within recipient households, as well as by the small level and erratic disbursement of PSNP transfers. There is also little evidence to date that the assets created under PSNP public works are sustainable. Maximising the synergistic potential of the PSNP requires ensuring that transfers are predictable and sustained (as intended) and adjusted to reflect rising food prices, and that linkages to other sectors (mainly agriculture, off-farm livelihood activities, education and health) are strengthened. There is great potential in the PSNP, as with PASDEP and the other initiatives discussed in this paper, to achieve synergies between agriculture and social protection. Much depends on how effectively these innovative ideas and good intentions are implemented in farming communities.

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