


4-2

Surviving Shocks in Ethiopia: The Role of Social Protection for Food Security

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Executive Summary

Ethiopia has suffered from frequent disasters such as droughts, famines, epidemics, floods, landslides, earthquakes, civil wars, and mass displacement, as well as rapid declines in major export commodity prices. The government and the international aid community can help reduce the negative effects of these shocks on food security for vulnerable populations with a social protection strategy, which can include prevention of shocks, ex ante social insurance, and ex post social assistance. Social protection helps vulnerable populations manage their risks better and helps to create the link between relief and development.

Policy options for social assistance programs that increase food security include targeted or general cash, in-kind, or voucher transfers; cash or in-kind conditional transfers (school feeding, employment guarantee scheme, food for training); price subsidies; and programs for the vulnerable. Social insurance options include cash or in-kind reserves, rural credit and microfinance, insurance schemes, livelihood diversification, and public works for the construction of infrastructure programs. The government also has the option to pursue agricultural policies that will minimize exposure to shocks, such as providing input subsidies for exportable commodities or moving away from export-led development and toward food self-sufficiency. Different social protection measures have varying levels of domestic and international support and are effective for targeting different groups of vulnerable people in Ethiopia. In response to the 2002 drought, the Government of Ethiopia revised its Food Security Strategy (FSS) and implemented a Productive Safety Net Programme (PSNP) in 2004 that includes cash transfers and a food-for-work (FFW) public works program.

Your assignment is to design a new social protection program for the Government of Ethiopia that incorporates various forms of social assistance and social insurance, taking into account the different interests of stakeholders, the nature of the risk, coping strategies, and the poverty the vulnerable are facing.

Background

Income and Price Shocks in Ethiopia

Ethiopia is known for the many droughts, floods, famines, and wars that have raged there for the past 40 years. Since 1965 there have been 15 major droughts in Ethiopia, with four consecutive years of drought beginning in 1999. The worst flash floods in Ethiopia's history hit in August 2006, rendering 140,000 people homeless. After a 30-year civil war Ethiopia granted independence to Eritrea in 1991, but a border conflict broke out from 1998 to 2000, leading to massive internal displacement in both countries as civilians fled the war zone.

Income shocks resulting from the failure of harvests due to war and weather are not the only disasters Ethiopians face. The Ethiopian economy is based on agriculture, which contributes 48 percent to gross domestic product (GDP) and employs 78 percent of the population (World Bank 2006a). The major agricultural export crop is coffee. Recent expansions in global coffee production have caused a price shock for Ethiopian farmers. In 2001 coffee prices plummeted, and coffee on the international market was worth an inflation-adjusted 16 percent of what it was in 1980 (Oxfam 2004). Ethiopians have experienced a crippling decrease in foreign exchange earnings (U.S. Department of State 2006), severely decreasing the country's ability to buy food imports.

What is the effect of these income and price shocks? The link between poverty and vulnerability depends on how great the risks are and what assets are available to cope with risks (World Bank 2001). Using household panel data, Dercon (2003) shows that shocks have a persistent negative effect on growth in Ethiopia. In 2004, 44 percent of Ethiopians were living below the poverty line (World Bank 2006b). Ethiopia is a least-developed country, ranked 170th out of 177 countries in the United Nations Development Programme's Human Development Index for 2005. It has one of the world's highest incidences of malnutrition and one of the lowest primary-education enrollment ratios. GDP per capita was US\$141 in 2005, about 20 percent of the average for Sub-Saharan Africa (World Bank 2006a).

At the 1996 World Food Summit, the Food and Agriculture Organization of the United Nations (FAO) defined food security as follows: "Food security exists when all people, at all times, have access to sufficient safe and nutritious food to meet their dietary needs and food preferences for an active and healthy life" (FAO 1996). A good definition of food security is one that incorporates the various levels at which food security can be obtained: the national level, the household level, and the individual level. This multi-level concept includes food availability, food accessibility, and food utilization. More recently, the notion of food security has expanded to encompass the stability of the food supply. National food availability depends on the production of food. If there is a production gap and supply cannot meet demand, food availability depends on food imports or food aid. Ethiopia consistently faces a production and import gap in meeting the demand for food, and emergency food assistance had to be provided to at least 8.6 million people in 2005, more than 10 percent of the population.

Informal Coping Strategies

Households in Africa try to mitigate some of their risks by forgoing income in exchange for risk reduction and by using informal coping strategies. For example, they build social relationships, diversify incomes, take children out of school, reduce meals, save, sell assets, and avoid risky yet highly productive agricultural techniques (World Bank 2001). Informal coping strategies to deal with shocks are often costly and insufficient. Taking children out of school and selling productive assets lead to poverty traps. Reardon et al. (1988) report that after the 1984 drought in the Sahel, informal transfers amounted to only 3 percent of total losses for the poorest people. Self-insurance, which involves saving during good times and spending those savings for consumption during bad times (consumption smoothing), is problematic in Ethiopia because financial systems are underdeveloped and assets are usually in the form of livestock. A shock can result in both a decrease in earnings as well as lower fertility or death in livestock, meaning that savings will not be available when they are most needed. Covariant shocks that are common to many people at once, like drought, war, or pests, alter the terms of trade between food and livestock, because everyone sells assets at the same time, driving down livestock prices.

During the 1984 famine, relative food prices rose by a third in Ethiopia (Dercon 2002).

Safety Nets and Social Protection

Social protection has recently become central in the development agenda, because poor people in African countries are becoming more and more exposed to risks, owing to the AIDS crisis, changes in international markets, and endemic natural disasters in certain regions (World Bank 2001). Safety nets are based on a redistribution of resources to the poor to protect their livelihoods against poverty traps and to reduce chronic poverty by ensuring access to food and reducing vulnerability. In Africa, short-term safety nets to protect against structural adjustment were devised in the 1980s. The idea of social protection is more recent and emphasizes state involvement in long-term development through social assistance and social insurance (Adato et al. 2004). The World Bank defines social protection as "interventions that assist poor individuals, households, and communities to reduce their vulnerabilities by managing risks better" (World Bank 2001, i). It encompasses both social assistance and social insurance programs and emphasizes the coordination between the different programs. Social assistance helps people after they have faced a shock so they do not fall into a poverty trap. Social insurance provides the link from relief to development, by creating or protecting investments that support long-run growth. Within social protection, there is a distinction between those programs and strategies that serve as safety nets (keeping people out of poverty) and those that serve as cargo nets (lifting people out of poverty) (Barrett and Maxwell 2005). Some ex post social assistance programs such as food-for-education (FFE) and mother and child health initiatives (Barrett and Maxwell 2005) and some ex ante social insurance programs such as livelihood diversification and rural credit are cargo nets.

An effective social protection strategy is supported by coordinated policy initiatives in pursuit of other development strategies and should seek to (1) reduce or prevent the risk itself, (2) lower the cost of insurance against the risk, and (3) promote low-cost coping mechanisms during and after a shock (World Bank 2001).

Reducing and preventing risk. The government's first priority should be to prevent shocks from

taking place. The government should have sound macroeconomic, education, rural infrastructure, financial, and health policies in place that ensure that the poor have access to markets and can build human capital. Although weather and natural disasters are not under the government's control, it can mitigate the impact of drought by investing in water-harvesting programs and education, as well as in irrigation facilities. Some epidemics can be minimized through vaccination programs. Landslides can be prevented by investing in proper land management practices. The government can also control the degree of exposure to commodity shocks. The Government of Ethiopia has already taken a number of measures to minimize the impact of the decline in world coffee prices, including suspending taxes on the export of coffee, easing restrictions on domestic coffee sales, and advising farmers to bring their crop to market. According to its 2002 poverty reduction strategy paper (PRSP), the government has launched an export promotion strategy based on diversification as a way of addressing the vulnerability transmitted through international prices for exportables.

Lowering the cost of risk insurance. Social insurance reduces the impact of shocks *ex ante*—that is, before the problem occurs (Gentilini 2006). Such insurance programs include public works programs (food-for-work) and construction of infrastructure, cash or in-kind reserves, insurance schemes, rural credit and microfinance, income diversification, and preventive supplemental feeding.

In Ethiopia, conditional work programs with long-term development objectives (public works) are called food-for-work (FFW), and programs with short-term relief goals are called employment guarantee schemes (EGS). The Government of Ethiopia commits 80 percent of the food aid it receives to FFW social insurance programs. Public works programs are especially widespread in northern Ethiopia, where 57 percent of sample households participated in FFW projects, supplying an average of 45 days of labor in 2000 (Holden et al. 2006).

By guaranteeing a minimum income to all those who can work and encouraging sustainable labor activities (such as preventing soil nutrient mining and excessive forest clearing), FFW programs can preserve human capital and, by reducing downside risk exposure, encourage asset accumulation and adoption of improved technology (Holden et al.

2006). Moreover, because FFW is a transfer, it can provide liquidity that helps participants purchase inputs that enhance productivity such as improved seeds and fertilizer, reduces distress sales of livestock and machinery, and helps keep children in school. Finally, long-term development can occur through the creation of valuable public goods like roads, irrigation, and water conservation structures that can induce private capital accumulation (Holden et al. 2006). This infrastructure also contributes to food price stability as marketing mechanisms improve.

Ethiopia adopted the Productive Safety Net Programme (PSNP) in 2004 with the goal “to shift from a relief-oriented to a productive and development-oriented safety net” (World Bank 2004). Under the PSNP, labor-intensive public works provide grants to households whose adults participate in public works subprojects that are determined locally by the beneficiary communities through an annual, participatory planning process. Currently there is a focus on watershed management, through, for instance, the building of micro-dams. Direct support through grants is provided to households that are labor-poor and cannot participate. The PSNP aims to reach more than 5 million people living in 262 of the most chronically food-insecure *woredas* (districts) in Ethiopia (Andersen 2005).

Whereas most social assistance programs ensure that the population has access to food, programs that fall under social insurance, such as strategic reserves, can help make sure that food is available. Strategic grain reserves became more widespread in Africa in the 1980s after recurring shocks threatened national food security in many countries. The main function of reserves is to help the population cope with food emergencies. They can also serve to stabilize prices and provide loans of grain to aid organizations if they experience delays in the arrival of supplies. Food from reserves that is sold into the market should be replenished through purchases in the domestic market following harvest. These purchases should be financed by sales from the reserve. Donor assistance is also expected to help replenish the quantities that are distributed, either free or at subsidized prices, to vulnerable population groups through relief programs during food emergencies (Lynton-Evans 1997).

To deal with risks before they occur, people can diversify their livelihoods by combining activities with low levels of covariance or by taking up low-risk activities, even at the expense of low returns. Diversification can occur by taking off-farm wage employment or by self-employing in a nonfarm activity. A survey of the Tigray region of northern Ethiopia found that total off-farm work accounts for 35 percent of income; wage employment, 28 percent; off-farm self-employment, 7 percent; FFW, 17 percent; manual nonfarm wage work, 9 percent; and skilled nonfarm work, 2.2 percent (Woldenhanna and Oskam 2001). This finding shows that diversification already occurs in Ethiopia and that the rural poor often have nonfarm incomes. Poor farm households have a stronger incentive to diversify their income sources into off-farm activities because their farm labor has a lower marginal value (Woldenhanna and Oskam 2001).

Low-cost coping mechanisms. Social assistance provides ex post (after the problem occurs) mechanisms for coping with shocks (Gentilini 2006). Such assistance may include targeted or general cash, in-kind, or voucher transfers; conditional cash, in-kind, or voucher transfers (such as the employment guarantee scheme, food-for-training, and food-for-education); targeted or general programs for the vulnerable (palliative supplemental feeding and mother-child health programs); and subsidized agricultural inputs or subsidized commodity prices.

General transfers are given to all members of the population, without regard to need, to prevent distress sales of productive assets or migration. For example, the government might give everyone a sack of grain or 50 Birr if a covariant shock has affected the whole population and there is no access to food. The Government of Ethiopia does not, however, currently provide general transfers. In contrast, targeted transfers go to those in the greatest need. Targeting can be based on geographical location, demographics (ethnic group, gender, or poverty level), or survey data on populations.

Conditional transfers are in-kind or cash transfers to the needy linked to a certain activity. For example, children may receive food during lunchtime if they go to school. Participants may receive a transfer in exchange for work (as in the EGS) or for the completion of a training program. Conditional

transfers are usually self-targeting (participants select themselves into the programs), but in Ethiopia the government targets them administratively and the poor must be identified.

Subsidizing fertilizers or other technologies increases productivity in absolute terms, which is desirable if there is a domestic food shortage. Ethiopia stopped subsidizing agricultural inputs such as fertilizer in the 1980s under the structural adjustment reforms. Fertilizer subsidies were indirectly reintroduced in the 1990s through subsidized input credit and state enterprises that distribute fertilizer (Delgado et al. 2002), but input subsidies are still minor in Ethiopia (especially compared with some countries, like Malawi). Input subsidies also help farmers who export their produce by reducing their costs and thus making their prices more competitive on world markets. The government can also opt to subsidize consumers by offering a commodity price subsidy—that is, subsidizing the cost of a commonly consumed food.

Policy Issues

Ideally, the Government of Ethiopia would eliminate all risks and prevent all shocks, but this is not realistic in the near future. Ethiopians continue to face covariate risks such as AIDS, war, droughts, and commodity price volatility, as well as individual risks such as illness, gender discrimination, widowhood, and old age. As a consequence, the government must now implement a social protection program that links relief for food security to long-term development objectives.

The Government of Ethiopia is operating under conditions of scarcity. Direct redistribution is not fiscally sustainable, because of the large number of poor and the low amount of public funds. Needs are high, and there are major trade-offs between different uses of public funds and limited public sector implementation capacity (World Bank 2001). Which social protection programs are most appropriate, supportive of long-term growth, cost-effective, and donor-pleasing? Should the government focus on prevention, social assistance, or social insurance? If shocks are not prevented, the government must choose policies that will help the most vulnerable people of Ethiopia cope with the most catastrophic shocks without crowding out beneficial private actions. Furthermore, the government

must ensure that the programs it adopts benefit the vulnerable and are not captured by elites or the middle class.

Different stakeholders within Ethiopia each want the government to implement the programs that benefit them the most. At the same time, donors and nongovernmental organizations (NGOs) will decide what kinds of programs are politically acceptable to them. For example, donors might resist policies that distort trade, such as input subsidies. They are likely to pick programs through which they can control the use of their funds. Donors also have an incentive to impose conditionality on social assistance programs so that they have evidence that recipients are spending transfers as intended and not irresponsibly. Conditional transfers allow donors to feel as if they are influencing behavioral changes associated with less poverty (Schuber and Slater 2006).

When designing social protection programs that involve transfers, the government needs to address the following issues: Should transfers be provided conditionally (like EGS) or unconditionally? Should people be paid in kind or in cash? Should programs target specific populations or be available to all citizens? Three questions arise with regard to conditional transfers: Will service delivery agencies (government-administered education and health services) be able to meet the additional demand entailed for people to meet conditions? Will the social welfare administrations be able to meet the additional administrative demands related to conditionalities? And will it be cost-effective to impose conditionality, taking into account the administrative costs of administering conditionality (Schuber and Slater 2006)?

Whereas social assistance programs and FFW ensure access to food, strategic grain reserves can contribute to food security by ensuring the availability of food. According to the PRSP, issues facing Ethiopia are the purpose and size of the strategic reserve under favorable conditions, depending on the cost of holding stock and the possibility of exports. Should more emphasis be placed on establishing a foreign exchange fund, financed by higher export sales, as an integral part of strategic arrangements? Would donors give aid to Ethiopia, knowing it is only being stored for future use? Since the crisis of 1987/88, donor confidence in the strategic grain reserve has eroded owing to

unauthorized drawings. Since 1992 donors have pledged to replenish the reserve, although it remains well below the target level. Despite increased government commitment of funds, donor confidence remains fragile and the reserve remains dependent on donor support (Jones 1994).

Stakeholders

The Government of Ethiopia

The government will want to promote long-term economic growth and pursue social protection programs that help foster this growth in the most efficient and effective manner. It will also be important for Ethiopia to satisfy the needs of donor governments, because the country relies heavily on aid and will need even more assistance to implement a new social protection policy. In the National Food Security Strategy, one of the government's main objectives is to end food aid and reduce its dependency on donors. Likewise, the government wants to minimize the dependency of its citizens on aid. The government may also be concerned with issues of decentralization. For example, FFW projects may empower *woreda*-level officials because those projects naturally benefit from local expertise.

Donor Governments

Donors also want to see Ethiopia achieve food security. The kind of funding donors provide, however, depends on domestic politics, not necessarily on what is most effective. For example, even if the Government of Ethiopia supports cash transfers, donors will not provide the needed cash. In the United States, domestic food producers, NGOs, and the shipping industry form an "iron triangle" that ensures the provision of in-kind food aid produced domestically in donor countries. The Coalition for Food Aid lobby represents 14 U.S.-based NGOs that rely heavily on food aid for funding. To get legislative backing for food aid programs, they depend on domestic food producers and maritime interest groups, which in turn insist on domestic sourcing and shipping of the food in the legislation to ensure a handsome profit for themselves. The shipping markups on food aid cargo are one reason why domestically sourced food aid is so inefficient (Barrett and Maxwell 2005). On the other hand, the European Commission, the second-largest donor, has moved to cash

donations (Clay 2005). Different donors also have varying levels of support for conditionality of transfers. Whereas the UK Department for International Development argues that social cash transfers should be unconditional in African countries, the World Bank encourages conditional cash transfer schemes (Schuber and Slater 2006).

The World Food Programme (WFP) and Other NGOs

WFP and NGO interests are aligned with the interests of their donors (mainly the European Union, Japan, and the United States). The WFP feeds some 6 million people in Ethiopia, consisting of 1.7 million of the total 2.6 million people requiring emergency food assistance; 1 million through targeted supplementary feeding; 1.75 million through food transfers under the PSNP; 110,000 orphans and vulnerable children infected or affected by HIV/AIDS; 750,000 people through land rehabilitation programs; 630,000 children through school feeding; and 100,000 refugees (WFP 2006). Although general food aid is mostly sourced from developed countries, the WFP relies heavily on local purchases and triangular transactions to source food for delivery to FFW programs. A local purchase occurs when a food aid donor buys the food aid on the national markets of the country to which it is donating the food. Triangular purchases occur when a food donor buys food aid for a developing country in another developing country (usually close to the country where the food aid will be shipped).

In 2000 NGOs monetized 26 percent of food aid, meaning that food sourced from developed countries was sold on local markets in developing countries in order to fund social programs. Some observers argue that monetized food aid can contribute to economic growth by generating revenues for development and that in public works programs monetized food aid can generate assets such as roads and dams. On the other hand, many argue that food aid monetization has disrupted food markets, labor markets, and production incentives (Jayne 1997).

The Chronically Poor

The chronically poor are defined by their lack of assets, high dependency ratios, residence in remote locations, low-return occupations, chronic illness,

and social barriers. Significant and short-term transfers enable this group to cross crucial thresholds, such as investing in productive assets instead of consuming them, and thereby make it possible for them to switch to positive growth trajectories that can carry them out of persistent poverty (Barrett and Maxwell 2005).

Chronic food insecurity results from structural problems and as such cannot be overcome by periodic interventions using food from the strategic reserve. Instead, programs aimed at identifying and conquering the underlying reasons for the population's inability to produce sufficient food or other tradable outputs are needed (Lynton-Evans 1997). Thus meeting the supplementary food needs of such population groups is not normally considered a function of a strategic grain reserve, but rather an area for specialized relief programs, such as FFE, food-for-training (FFT), and mother and child health initiatives.

The Transitory Poor

Transitory hunger associated with short-term crises represents a relatively small share of hunger worldwide, with estimates ranging from 10 to 25 percent. Most malnutrition in the world arises owing to chronic deprivation and vulnerability (Holden et al. 2006). The transitory poor benefit from social protection programs like FFW.

Vulnerable Members of Households

Intrahousehold distribution is often skewed toward the more powerful members of the family, whereas vulnerable members like young children and pregnant or lactating women are left hungry. Women are more vulnerable to shocks because of weaker property rights. They often bear a larger share of the burden of household coping, such as caring for the sick, elderly, and young; foraging for extra food; dropping out of school; or diversifying into urban informal labor markets (World Bank 2001).

Policy Options

Public Works

Besides providing short-term relief, such as creating jobs for the unemployed and providing transfers to those without savings or access to credit, public works programs work toward long-term develop-

ment objectives by providing insurance against income shocks. There is already widespread donor support for the 2004 PSNP, which incorporates FFW as well as a highly desirable and groundbreaking cash transfer component. The transitory poor benefit from the FFW part of the program.

Public works are more expensive to implement than pure relief, however, and require resources beyond unskilled labor, such as technical and managerial support. One study estimates that the annual cost of a job in a public works scheme can range from US\$4,000 to US\$14,000 at purchasing-power parity exchange rates (Subbarao 1997). FFW also has a distortion effect with respect to labor allocation. If FFW programs create low-quality unsustainable goods and divert labor resources away from private endeavors, FFW can undermine long-term productivity (Holden et al. 2006). In 1996 the government of neighboring Eritrea canceled all food for work in the belief that it diverted labor from agriculture and depressed production (Jayne 1997).

Conditional and Unconditional Transfers

Transfers help maintain ex post food security and keep the vulnerable from engaging in detrimental coping mechanisms that lead to poverty traps. Free food will, however, result in reduced food prices, which are detrimental to producers trying to sell their food. Furthermore, a public transfer to a household does not mean that everyone in the household will benefit. The head of the household may use his or her power to use social protection program benefits to meet unnecessary wants, such as cigarettes or alcohol (Pinstrup-Andersen 2005).

The government could expand the PSNP and start supporting other conditional work programs such as FFE or FFT. Lack of cash resources might make in-kind payment the only available option. This shift would lead to the inclusion of cargo net programs targeted at those in chronic poverty. Worldwide, those in chronic poverty are 75–90 percent of the poor, and those in transitory poverty only 10–25 percent.

The FFW component of the PSNP could be abandoned altogether, with a renewed focus on just the transfer component. Conditional transfer programs are not useful, however, for households that cannot meet the conditionality. For example, a single mother may not be able to leave her children

unattended to go to a training program. A person who is sick with AIDS may not be able to provide labor in an EGS, FFW, FFE, or FFT program. On the other hand, unconditional transfers may reduce the incentive to earn income through work (Pinstrup-Andersen 2005).

Targeting

Targeting of food aid decreases the degree to which public assistance crowds out private safety nets, such as loans from relatives, and reduces market distortions that result from substitution effects that occur when people take in-kind payment instead of buying food on the local market. On the other hand, targeting can provide a perverse incentive effect to households who may choose to behave badly in order to qualify for food assistance (Brown and Gentilini 2006). Some built-in leakage to people who are not poor but who are needed for the program to survive may be desirable (Pinstrup-Andersen 1988). For example, social capital can be fostered if a public works program allows all members of the society to work on it, and not just the poorest.

Even if the government decides to target specific populations, there may be errors of inclusion or exclusion. Clay et al. (1999) examined the food aid receipts of 4,218 rural households in Ethiopia in 1995/96 and concluded that food aid targeting exhibits high errors of exclusion and inclusion at both the *woreda* and household levels (Holden et al. 2002). In an FFW program, setting the food or cash wage below the market wage for unskilled labor will attract only needy households to the program. When wages are paid in kind, the use of an inferior good will help self-targeting. There may be individuals within wealthy households, however, who have a different opportunity cost of labor and would participate in a public works program (Jayne 1997). Errors of exclusion occur if, for example, social outcasts are crowded out of transfer programs by elites (Holden et al. 2002).

Cash or In-Kind Distribution

Because of issues of transport, spoilage, and packaging, distributing food is often more logistically challenging than distributing cash, and thus food is more costly to deliver. Cash allows recipients to maximize their utility function more efficiently than an in-kind transfer. If the cash is used to buy food

on local markets, it will stimulate producers in that region. There are, however, several reasons why food or food-linked transfers may be preferred:

1. the impact on food-related outcomes, such as child calorie consumption and health care utilization, may be greater;
2. in food-deficit areas with disrupted or unresponsive markets, cash transfers would result in increasing food prices;
3. security costs may be lower for distributing food than for cash;
4. cash and food are often not substitutable in terms of donor resource availability; and
5. political support for food-linked transfers may be higher (Brown and Gentilini 2006).

Where hyperinflation prevails, food can be a very effective payment medium because it retains its real value in the face of rapidly changing nominal prices (Holden et al. 2002). In-kind transfers also work well in areas where the cash economy is a man's world while food is the responsibility of women. If intrahousehold resource competition exists, then food may be a more effective medium than cash for indirect targeting of transfers to needy beneficiaries (Holden et al. 2002).

Self-Sufficiency

To reduce the exposure to export commodity price fluctuations, the Government of Ethiopia could adopt policies that promote the use of national agricultural production for food self-sufficiency instead of promoting crops for export. Under this approach, farmers would be able to feed themselves, regardless of slumps in world coffee prices. Improving access to markets has been widely recognized as an important element of successful development, however, and the historical success rate of self-sufficiency strategies is dismal. Political support for this option would be difficult to obtain as donors and international organizations like the World Trade Organization and World Bank would protest.

Subsidies

Input subsidies on seeds or fertilizer help increase productivity during food shortages and thus

provide a coping mechanism. If farmers are growing for export (a small portion of the poor), like coffee growers, input subsidies allow them to sell their coffee below the cost of production, increasing the competitiveness of Ethiopian coffee on world markets. In the current climate of trade liberalization, however, donors may retaliate for these trade-distorting subsidies. Instead of producer input subsidies, the government could pursue price subsidies for consumers. For example, the Egyptians famously subsidize bread consumption. Domestic political support for such a policy is easy to garner, as everyone benefits. For both consumer and producer subsidies, however, those who buy more or produce more of the subsidized commodity benefit more, skewing benefits toward richer households (Brown and Gentilini 2006). For this policy to be effective, consumer subsidies would have to apply to an inferior good consumed by the poor (for example, yellow maize rather than white maize) or be geographically targeted to a poor area.

Strategic Grain Reserve

To ensure the availability of food, the government could promote the strategic grain reserve. Public sector procurement and storage can stabilize food prices, since food price instability is an issue in Ethiopia (Gabre-Madhin 1999). Currently, Ethiopia does not use its reserves for price stabilization, so one option is for the government to start using its food reserves in this manner. Price stabilization comprises two concepts—producer price support and consumer price stabilization. Under producer price support, a floor price is set at which the agency charged with operating the price stabilization policy, normally the parastatal grain agency, is required to buy all grain offered that meets a quality specification. In other words, the agency becomes the buyer of last resort. Consumer price stabilization aims at capping consumer price levels at a declared ceiling price. This step would usually occur in the later part of the marketing year when there is pressure on prices to rise as stocks start to run low. Once consumer prices reach the ceiling or trigger price, grain would be released from the reserve into the market in an attempt to hold prices at the ceiling level (Lynton-Evans 1997).

Enhancing the size and function of the strategic grain reserve is complementary to other social protection programs that ensure access to food for

both the chronic and transitory poor. The urban poor would benefit especially because the strategic grain reserve would ensure availability of food. Ethiopia must decide, however, whether to hold stocks in cash or in kind. The Government of Ethiopia may not feel justified in holding millions of dollars' worth of stocks in a strategic reserve if those funds are desperately needed for more immediate concerns. A cash reserve would also mean that food would have to be bought on quick notice, which may not be possible in a widespread emergency.

Income Diversification

Is it more desirable for the government to promote programs that prevent shocks? Income diversification poses such an opportunity. Promoting diversification of livelihoods may not always be effective, however. Sen's 1981 famine analysis shows that crop failures can cause a collapse in demand for local services, so diversification into the service sector may not help. If the government steps in and provides FFW at a guaranteed wage, it increases available off-farm activities, thereby enabling diversification. Profitable diversification into the most lucrative activities such as masonry, carpentry, and petty trade is often impossible for the poor owing to entry barriers (Woldenhanna and Oskam 2001). One option for overcoming these barriers is government support for rural credit to help loosen capital constraints.

Assignment

Your assignment is to design a new social protection program that incorporates various forms of social assistance and social insurance for the Government of Ethiopia, taking into account the different interests of stakeholders and the nature of the risk, coping strategies, and poverty the vulnerable are facing.

Additional Readings

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