

Policy Options to Stabilize Incomes of Ethiopian Grain Producers

Research Presentation by
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Abstract:

Natural fluctuations in environmental conditions lead to wide variation in agricultural yields in Ethiopia. The negative effects of this yield variation are borne mostly by the small-scale farmers who account for 95% of agricultural production in Ethiopia. Along with yield risk, producers face high levels of price variability in regional grain markets that are constrained by limited transport and storage infrastructure. Without adequate access to credit or insurance markets, producers cannot smooth their consumption over these price and yield risks. The resulting income instability not only reduces food security but also discourages adoption of new production technologies which could increase farm productivity. This paper will propose two candidate policies to address both price and yield risk in the Ethiopian context. The first is a direct price support scheme, which is anticipated to be effective in preventing price collapses in surplus regions. The second is rainfall insurance, which can mitigate farmer's losses during shortage years. I will develop a theoretical model in which to analyze these policy options and their welfare consequences. I will then simulate this model using empirically estimated parameters. Ultimately, the project aims to design an optimal policy intervention for stabilizing incomes of Ethiopian grain producers..