



**AgEcon** SEARCH  
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

*The World's Largest Open Access Agricultural & Applied Economics Digital Library*

**This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.**

**Help ensure our sustainability.**

Give to AgEcon Search

AgEcon Search  
<http://ageconsearch.umn.edu>  
[aesearch@umn.edu](mailto:aesearch@umn.edu)

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

# **Impact of Productive Safety Net Financed Livestock Credit on Food Security and Poverty Status of Rural Households in Ethiopia: A Simulation Approach**

**Ayalneh Bogale\*, Wubshet Genene\*\***

*\*African Centre for Food Security, University of KwaZulu-Natal, South Africa.*

*Correspondences to: [bogalea@ukzn.ac.za](mailto:bogalea@ukzn.ac.za)*

*\*\*CARE Emergency Project Management, Eastern Hararghe Region, Harar, Ethiopia*

***Selected Paper prepared for presentation at the International Association of Agricultural Economists (IAAE) Triennial Conference, Foz do Iguaçu, Brazil, 18-24 August, 2012.***

*Copyright 2012 by authors. All rights reserved. Readers may make verbatim copies of this document for non-commercial purposes by any means, provided that this copyright notice appears on all such copies.*

## **Abstract**

The study seeks to analyze impact of livestock credit and simulate the effect of change in covariates of poverty on households' consumption expenditure. Data was generated through in person interview of sampled rural households in the Ethiopian Productive Safety Net area. Descriptive statistics, poverty indices, multiple regression, and simulation techniques were applied. The results identified covariates with statistically significant coefficients. The specific contribution in increasing consumption expenditure and reduction in poverty indices as a result of marginal change in covariates was examined. These specific factors need to be considered in designing poverty reduction strategies depending on magnitude of their contribution.

**Keywords:** FGT poverty indices, Household Expenditure, Productive Safety Net, Simulation

## **Introduction**

The food and nutrition policies and strategies of the 1980s enjoyed great success in most countries as they made food available for growing population. Unfortunately, a number of underlying causes contributed to their recent failure which contributed to nearly one billion people to be food insecure though most developing countries registered significant economic growth of about 6 percent. After many years of neglect, agriculture and food security are back on the development and political agendas and a number of developing countries have continued to expand their spending on food security and agricultural production. Ethiopia is among countries which have adopted national agricultural and food security investment plans to devote at least 10 percent of their national budget to agriculture to achieve agricultural growth of 6 percent a year.

However, Ethiopia still remains to be one of the poorest countries in the world and ranks among the lowest for most human development indicators (World Bank, 2010). The Ethiopian economy is highly vulnerable to droughts and adverse terms of trade by virtue of its dependence on primary commodities and rain-fed agriculture. Thus the country's growth performance is highly correlated with weather conditions. A one percent change in average

annual rainfall is associated with a change of 0.3% in real GDP in the following year (Mwanakatwe and Barrow, 2010).

The Sustainable Development and Poverty Reduction Program (PASDEP) of the government of Ethiopia has intensified sectoral programs in health, education, and infrastructure to achieve the MDGs which underscore the centrality of poverty reduction (MOFED, 2006; Carter and Barrett, 2005). PASDEP put in place new programs for food security, the Productive Safety Net Program (PSNP) and made some improvements to the strategy of agricultural development-led industrialization. The PSNP is much more coherent and predictable program of community asset building than the previous system of emergency appeals for food aid (Tassew et al., 2008; Anderson et al., 2011). The objective of the PSNP is to provide transfers to the food insecure population in chronically food insecure districts in a way that prevents asset depletion at the household level and creates assets at the community level (Gilligan et al., 2009). It is linked to various asset-building activities of the chronically food insecure households which receive at least one of several productivity enhancing services, including access to credit, agricultural extension services, technology transfer and irrigation and water harvesting schemes. These asset-building interventions are collectively referred to as the Other Food Security Program (OFSP) (Gilligan et al., 2009). In line with this, different food insecurity and poverty reduction projects have been implemented in Oromia National Regional State. The Food Security Project financed by World Bank and other co-financers is among the largest project found under implementation in the region since 2005.

Fedis district is one of the major project locations in East Hararghe zone of Oromia region which benefited from PSNP and OFSP. The project implementation started in 2005 and until mid-2009 about Birr 6 million was transferred to the district and more than 3700 households have benefited. Major portion of the fund was allocated for household asset building and income generating activity. About 96% this fund was used by beneficiary households for livestock credit as a revolving fund.

Several factors could be contributing to the effectiveness of such intervention in improving the well-being of households. Based on social and cultural behavior of communities, sex of household head could play an imperative role in determining household well-being (Datt and Jolliffe, 1999; Bogale et al., 2005; Bigsten et al., 2002). Albert and Collado (2004) reported

that households headed by younger individuals tend to be poorer than those headed by older persons. The role of family size in determining per capita expenditure has also been well examined (Mulat et al., 2003; Geda et al., 2005). Education level could measure the household's human capital and therefore attainment of higher level of education is expected to provide higher levels of household welfare (Datt et al., 2000). Losses of farm land to other uses because of population pressure and limits to the amount of suitable new land that can be brought into production is one of the constraints that can drive rural households to poverty (Brown et al., 1990; Ehrlich et al., 1992). Earlier theoretical and empirical works have also emphasized on the importance of livestock holding, distance to public services, availability and access to credit, and use of yield enhancing technologies including high yielding varieties and fertilizer in determining rural households' well-being (Anbes, 2003; Bogale and Shimelis, 2009; Dercon et al., 2008; Elias, 2007; Khandker, 2005).

This study will focus on household level impact of livestock credit and other socio-economic variables on poverty indicators. The hypothesis of particular interest to be tested will be “participation in livestock credit program leads to increases in household welfare” which was actually measured by household consumption expenditure and used as proxy for household poverty status. The paper also presents simulation results of other relevant variables as they impact household consumption expenditure.

## **The Data and Description of the Study Area**

The data for this study was based on household survey carried out in Fedis District of the East Hararghe zone in Oromiya Regional state. Based on the altitude, moisture and physiography, the study area can be categorized into two agro-climatic zones, the midland and lowland which account for 39 and 61% of the total area, respectively. The climate of the area is characterized by warm and dry weather with relatively low precipitation. It receives a bimodal type of rainfall, *Belg*<sup>1</sup> and *Meher*<sup>2</sup> rain.

Agriculture is the major source of livelihood of the community. However, its productivity is dependent on the merit of rain-fed agriculture. The farming system is subsistence type dominated by smallholder farmers. Sorghum and maize crops take the largest proportion of

---

<sup>1</sup> Belg is small rainy (cropping) season extends from months of March to May.

<sup>2</sup> Meher is long and main rainy (cropping) season extends from month of Mid June to September.

crop production. The farming system mainly relies on mono-cropping, and absence of improved farming practices have resulted in low productivity of crops. Even though livestock keeping constitutes an important activity, many households lost their livestock assets due to recurrent drought.

The primary data for this study was collected through structured questionnaire from 140 sample households, 70 credit users and 70 non-users. Credit users are those households who received the livestock credit before 3 years from survey year (2009) while the non-user households are those who were initially targeted for credit but have not received. The credit users were selected using systematic random sampling method from among the list of credit users. Data was collected on socio-economic and demographic characteristics, resource endowment, access to community services, access to livestock credit, consumption expenditure, and production activities of the households.

## **Empirical Methods**

In order to analyze the household level data collected for the study, various empirical methods have been used. These are econometrics model (multiple linear regression), and Foster, Greer and Thorbecke (FGT) decomposable poverty measure and poverty simulation. In the process of modeling the determinants of poverty, attempts were made to identify and quantify the link between different household and community variables with poverty.

Two approaches can be distinguished in modeling the determinants of poverty. The first approach represents poverty as binary choice model where the endogenous variable is expressed as dummy variable, with 1 representing the household being poor and 0 otherwise. The second approach expresses household level poverty based on consumption indicator of wellbeing and defines poverty in terms of the household's per capita consumption level (World Bank, 2002; Mulat et al., 2003). Many researchers have successfully employed the later model (Mulat et al., 2003; Solomon, 2005) to study dimension and determinants of poverty in rural Ethiopia. Moreover, in many developing countries, with which Ethiopia shares similar experiences, OLS model has been successfully applied (Albert and Collado, 2004; Datt and Jolliffe, 1999; Datt et al., 2000).

The approach used in this study is multiple linear regression model to analyze the determinants of household consumption expenditure. The natural log of household consumption expenditure per AE is used as the dependent variable because its distribution more closely approximates the normal distribution. The simple mathematical expression of the model is given by:

$$\ln C_i = \beta' X_i + \varepsilon_i \quad (1)$$

Where:  $C_i$  is consumption expenditure per adult equivalent of household  $i$

$X_i$  is the set of independent variables that are hypothesized to determine consumption expenditure which includes household and community characteristics

$\beta$  is a vector of coefficients to be estimated on these independent variables,

$\varepsilon_i$  is a stochastic term assumed to be normally distributed with  $\varepsilon_i \sim N(0, S^2)$ .

$S^2$  is the variance of the regression

Using the estimated parameters of the model, predictions of consumption per adult equivalent for each household  $i$  can be generated and that makes it possible to compute the probability of a household to be classified as poor. Moreover, associated with any given level of predicted consumption, it is possible to derive all three indices of poverty, namely head count, poverty gap and severity of poverty (Foster et al., 1984). Then following Datt et al. (2000) and Mulat et al. (2003), the probability of a household being poor (head-count index), poverty gap index and squared poverty gap index can be estimated. Finally, the aggregate poverty level ( $\hat{P}_\alpha$ ) of the sample was calculated as the weighted mean of the above household poverty measures, where the weights are given by households' size ( $h_i$ ). Mathematically it can be expressed as:

$$\hat{P}_\alpha = \frac{\left( \sum_{i=1}^n h_i p_{\alpha i} \right)}{\left( \sum_{i=1}^n h_i \right)} \quad (2)$$

This formulation of determinants of poverty with its various correlates can be used to simulate the impact of various policies and changes in socio-economic factors on poverty by changing the level of significant explanatory variable.

## Results and Discussion

### *Demographic and socio-economic characteristics*

In a country like Ethiopia where agriculture is traditional and mainly dependent on family labor, demographic factors have significant influence on productivity and hence determine households' living condition. The sample was composed of both male and female headed households. Of the total sample households 72.9% and 27.1% were male and female headed household, respectively. Female headed households represent about 20 and 34% from credit non-user and user groups respectively.

**Table 1** presents the distribution of sample household heads by age group and credit access alongside other demographic and socio-economic factors. The average age of the non-users was 35.96 years while that of the users was 35.17 years. The mean age difference test between the credit non-users and users was found to be statistically insignificant. The mean family size of the sample households was 4.3 in adult equivalent terms. The mean difference test of family size was statistically insignificant. The sample household size in AE ranges between 1.6 to 8.26 for non-users and 2.36 to 9.82 for the credit users.

The average size of own-cultivated land was 0.73 ha, with 0.25 ha being the minimum and 2.25 ha being the maximum landholding. Credit users and non-users cultivated, on average, 0.689 and 0.765 ha respectively. The mean difference test of cultivated land holding between the two groups was statistically insignificant. All sampled households possess their own farmland whatever small it is. About 47% of the non-users and 52.9 % of the users expressed that their landholding was too small to satisfy home consumption.

Effort has been made to assess the ownership of livestock and its value for both groups. Accordingly, the study results revealed that the maximum livestock holding for sample households was 6.4 TLU whereas the minimum was zero. On average credit non-users and users owned 1.67 and 2.29 TLU respectively. The mean difference test of livestock holding for the two groups was statistically significant at 5% probability level. Similarly, the difference between the average livestock size per adult for the non-user and user group, which were 0.41 and 0.57 TLU, respectively is statistically significant at 5% probability level. On average non-users possessed livestock worth Birr 3245 whereas the users owned livestock worth Birr 5191. This relatively higher value of livestock holding by credit users



may be attributed to their credit access and relatively better engagement in livestock fattening and marketing business.

Understanding the importance of infrastructure in supporting socio-economic development is important to highlight the accessibility of those social services in terms of proximity in walking hours taken by sampled household. Accordingly, the mean distance travelled to reach basic social services were analyzed for credit user and non-users. The results indicated that sample households travel on average between 34 minutes to 2:35 hours to health services, market centres, schools and water sources.

### ***Household consumption expenditure***

The overall households mean real consumption expenditure per AE for the sample households was Birr 1350.20. The mean consumption expenditure for credit non-users and user groups were Birr 1265.57 and 1434.96 respectively based on December 2006 constant price. The mean difference test of consumption expenditure for the two groups was statistically significant at 10% probability level. The mean share of food and non-food expenditure to total expenditure was found to be 66 and 34%, respectively (**Table 2**).

Moreover, the share of non-food expenditure was significantly higher for credit users than non-users. This implies that credit might have contributed for households to satisfy their non-food needs better.

### ***Determination of poverty line and poverty indices***

In order to determine poverty line, the cost of basic needs method was applied. In the first run a ‘basket’ of food items typically consumed by the poor were identified from the food consumption questionnaire. The quantity of the basket is determined in such a way that the given bundle meets the predetermined level of minimum caloric requirement i.e. 2200 kilocalorie per day per adult (WHO, 1985). This ‘basket’ was valued at local prices and the value of food poverty line was determined. As a result, the food poverty line was estimated at Birr 1376.07.

To account for the non-food expenditure and identify the total poverty line, non-food expenditure pattern of households whose total expenditure lies between +/- 10% of the calculated food poverty line was examined. Thus households whose total expenditure value lies between Birr 1238.46 and 1513.67 were evaluated to estimate their average share of food expenditure. Accordingly, 19 households were identified and their food to total expenditure ratio was calculated. The average share of their food expenditure was taken as average Engle coefficient and the inverse was used to calculate the total poverty line. Accordingly the average food expenditure share was found to be 72.34%. Thus the total poverty line is found to be Birr 1902 per adult equivalent in nominal terms.

In order to possibly compare these figures with nationwide figures and consider the effect of inflation, this poverty line figure was deflated by the survey month food and non-food consumer price indexes (CPI) of Oromiya region, which were 192.2 and 163.1% respectively (CSA, 2009). Thus the deflated food and total poverty lines are found to be Birr 716 and 1039 per adult equivalent per year respectively at December 2006 constant price. These results were extensively used in the subsequent analysis of poverty.

Using this poverty line and per adult equivalent consumption level obtained from the estimated model, the Foster, Greer, and Thorbecke (FGT) (1984) class of poverty indices were estimated for each household. As shown in **Table 3**, the resulting poverty indices reveals that the percentage of poor people measured in head count index ( $\alpha = 0$ ) is 38.18%. This figure indicates that this proportion of households live in absolute poverty. This poverty index was very close to the national figure reported by MOFED (2006) which was 39.3% for rural areas.

The poverty gap index ( $\alpha=1$ ), a measure that captures the mean aggregate consumption short fall relative to the poverty line was found to be 6.26% with a value of 6.63 and 5.88% for credit non-users and user groups respectively. This index captures the mean aggregate consumption shortfall relative to the poverty line and provides information on the budget required to lift all the poor households out of poverty. Similarly, the poverty severity index ( $\alpha=2$ ) in consumption expenditure was found to be 1.4% implying a mild inequality within poor households. This is 1.3 point lower than the national average poverty severity index for rural areas (2.7%) in Ethiopia.

### *Determinants of consumption expenditure*

Selected explanatory variables were used to estimate the multiple linear regression model to analyze the determinants of household consumption expenditure using SPSS version 16.

**Table 4** presents the parameter estimates, t-ratio and P values. For a cross-sectional data, the fit of the regression model is good, with adjusted  $R^2$  of 0.638. In general, the model performed well. The F- test result also showed that the selected variables in the model have high joint significance. Therefore, it is possible to interpret the model results meaningfully.

With only few exceptions, the signs on the variables are as expected, and the relative magnitudes are also reasonable. Since the dependent variable of the model is the natural logarithm of real consumption per adult equivalent, the estimated coefficients measure the percentage change in real consumption per AE for a unit change in the independent variable. When the explanatory variable is dummy, the percentage change in dependent variable from a unit change in dummy variable is approximately  $e^g - 1$ , where  $g$  is the coefficient of the dummy variable. Among the 17 variables considered in the model, 11 variables were found to have a statistically significant impact in determining the consumption and hence poverty status of households at less than 10% probability level. Hence, interpretation of the effect of significant and plausible explanatory variables follows.

The result shows that household family size in AE has negative impact on consumption and found to be significant at less than 1% probability level. The level of household consumption decrease as household size increases and the chance fall under poverty line increase. The coefficient (-0.134) indicates the marginal effect which implies that decreasing household size by one unit, ceteris paribus, will increase consumption by 13.4% and hence improves the poverty status of the household. This output clearly shows the importance of decreasing fertility rate. The more probable solution is improving access of the poor to education and information on family planning methods.

The coefficient of age of household head is positive and is significant ( $P < 0.1$ ). This implies that an increase in age of household head increases consumption and the likelihood for the household to become non-poor. This is possible because older farmers have better experience in farming, accumulate wealth and use better planning than the younger ones. Hence, they

have better chance not to become poor. Keeping other factor constant, consumption level increases by 0.6% as age of the household head increases by one year.

Highest education level attained is significant ( $P < 0.01$ ) and has a positive relationship with household's welfare. The coefficient, 0.037, shows that, holding other factors constant, harnessing education level by one year will increase consumption level by 3.7%. The plausible explanation is that better educated individual are more active in accepting new technologies and as educated persons have better capacity to manage own resources, credit received, and can allocate and use them properly.

The model result also reveals that size of land cultivated has a significant ( $P < 0.01$ ) and positive influence on consumption per adult equivalent. The effect of landholding size on consumption per adult equivalent is relatively very large (0.81) and thus can reduce the risk of being poor significantly. This is because of the fact that the size of landholding is a surrogate for a host of factors including wealth, access to credit, and capacity to bear risk. Larger farms are associated with greater wealth and availability of capital which increase probability of investment in purchase of farm inputs that increase food production. The estimated coefficient for size of land cultivated by the household implies that, other things kept constant, increasing land size by one hectare per AE will increase consumption per AE by nearly 81%.

Crop diversification is positively correlated with consumption and significant ( $P < 0.05$ ) and thus affects poverty status negatively. The coefficient (0.039) indicates that keeping the influence of other factor constant, the consumption level of households will increase by 3.9% as the ability to diversify to different crop increases by one unit. Thus those households that grow relatively large number of crops tend to be non-poor than those that grow less.

Livestock holding correlated positively with well-being ( $P < 0.01$ ) and had relatively higher impact. Those households having higher TLU/AE are at less risk to become poor. The marginal effect of livestock is 34% in consumption gain. That is, given other variables held constant, the consumption level increases by 34% as household accumulates one more TLU/AE. Thus the likelihood of households being poor diminishes significantly. Therefore households who received livestock credit own relatively higher livestock holding than non-recipients and thus they were relatively better in welfare gain. Results also indicate that, in

the study area, what matters is the size of livestock holding and not the diversity in the type of livestock probably because different types of livestock require different type of management and rearing practices and thus may impose high work burden on household members.

The amount of credit received is positively correlated with the dependent variable and significant ( $P < 0.01$ ). The coefficient, 0.018, indicates that keeping the influence of other factors constant, consumption level increases by 1.8% when amount of credit received increases by 1%. Thus household that received credit had better chance to be non-poor. Credit can create capacity to purchase agricultural inputs and livestock to fatten and resale and thus increase household income which helps to purchase food and non-food items during shocks and in normal time. Moreover, credit will help households to accumulate asset. Moreover, agricultural income has positive correlation with consumption and is statistically significant ( $P < 0.05$ ). Increase in agricultural income leads to a higher level of consumption per AE, with a 1% increase in agricultural income being associated with 4.4% increase in consumption per adult equivalent. Availability of higher agricultural income improves the welfare status of the household that in turn enables them to invest on livestock, access to education, etc, and then reduces poverty.

### ***Simulation on predicted consumption expenditure***

Before running any simulation it is important to predict consumption expenditure of each household using appropriate model that contains variables strongly related with consumption expenditure. Accordingly, the reference (base simulation) results of mean consumption per AE as measured in real terms, poverty head count, poverty gap and poverty severity indices were found to be Birr 1257.83, 37.7, 6.13 and 1.37% using the coefficients of significant explanatory variables. Table 5 presents the effects of the change in certain selected variables on consumption per AE and the poverty indices as compared to the base simulation values. The simulations analysis assumed that the considered changes in the explanatory variables do not affect the model parameters or other exogenous variables. While this is a plausible assumption for incremental changes, it warrants a more cautious interpretation for simulations that involve “large” policy changes. Moreover, when examining the simulations, it is worthwhile to keep in mind the sign and magnitude of the regression coefficients; the

proportion of the population affected by the simulation; and the size of the considered change in the variable (Datt et al., 2000).

One result that is common to most simulations is that the percentage change in squared poverty gap index is generally greater than the percentage change in poverty gap index, and the percentage change in poverty gap index is in turn generally larger than the percentage change in headcount index (Mulat et al., 2003). However, the simulation results of this study show some inconsistency with the above hypothesis. That is, in all simulations except simulation 8 and 9 the percentage changes of squared poverty gap were higher than that of percentage changes of poverty gap index. But percentage changes in poverty head count index were larger than percentage changes in poverty gap index in most of the simulations. This may be attributed to the large number of poor households who are slightly below the poverty line initially might escape the poverty line as a result of the simulated change in these variables.

Simulation 1 examined the effect of reducing family size to mean value for those households having greater than this value. This simulation affects 41% of sample households. Simulated results showed that this have the effect of increasing the mean consumption expenditure per AE by 1.1% and, which reduces headcount, poverty gap and squared poverty gap indexes by 35%, 22% and 23%, respectively. The slight increase in consumption attributed to the reduction of family size resulted in very high percent reduction in all three poverty indexes.

In Simulation 2, the effect of increasing educational level by 4 grades was analyzed. This includes all sampled households having education level of grade 8 and below. This simulation had the effect of increasing the mean consumption per AE by 2% and which in turn contributed to reduce the poverty head count, poverty gap and squared poverty gap indexes by 36, 35 and 52% respectively.

Simulation 3 examined increase in the cultivated land area per household by 0.5 hectare. This simulation resulted in a rise of household consumption per AE by 1.6%. The headcount poverty, poverty gap and squared poverty gap indexes declined by 22, 24 and 39% respectively. Simulations 4 and 5 examined the relationship between consumption, poverty and ownership of livestock as measured in TLU. Thus simulation 4 and 5 are concerned with increase in livestock holding by one and two TLU for all households respectively. These

simulations resulted in a rise of household consumption per AE by 0.6 and 1.1%, respectively. Accordingly, the headcount poverty, poverty gap and squared poverty gap index declined by 8, 9 and 16% for simulation 4 and by 16, 17 and 29% for simulation 5, respectively.

The effect of providing credit for all non-credit users equivalent to the average amount to users and doubling the amount of credit initially provided only for credit users were analyzed in simulation 6 and 7, respectively. Simulation 6 has an impact of increasing mean consumption per AE by 0.5% while simulation 7 increases by 1.0%. The poverty measures, poverty head count, poverty gap and squared poverty gap declined by 12, 9 and 20% in simulation 6 and by 16, 15 and 9% in simulation 7 respectively. The effect of increasing agricultural income by 20% for all households on mean consumption and poverty was examined (simulation 8). Results depicted that the impact was very small (due to magnitude of the coefficient), this change can only increase consumption per AE by 0.1% and had reduced poverty head count, poverty gap and squared poverty gap indexes by only 2, 2 and 4% respectively.

## **Conclusions**

Based on analysis of primary data gathered from household survey, the impact of livestock based rural credit intervention and other socio-economic variables on household welfare (measured in consumption expenditure) and in the reduction of poverty level have been studied. Moreover, the potential determinants of household welfare were identified. The simulated model scrutinized the effect of change on statistically significant variables on consumption expenditure and poverty level.

Cost of basic needs approach of poverty line determination was used to construct district specific poverty line and found to be Birr 1039 per AE per annum at December 2006 constant price. The poverty indexes were calculated using household consumption expenditures figures derived from the estimated model. Accordingly the study has revealed an overall head count, poverty gap and severity index of 0.38, 0.06 and 0.014, respectively. The study confirmed the profound role of livestock credit in reducing poverty and increasing household consumption expenditure. Based on the empirical findings, it would be important to conclude that livestock credit have profound and far-reaching socioeconomic impacts on the lives of

rural people in the study areas. Thus, in order to reduce poverty strengthening the household asset base through improved credit access for best and locally appropriate income generating activity like livestock fattening need to be prioritized.

## References

- Albert, J. G., Collado, P. M. 2004. Profile and determinants of poverty in the Philippines, 9th National Convention on Statistics (NCS), EDSA Shangri-La Hotel.
- Anbes, T. 2003 Pattern of credit use and its impact on small farmers' income. A Study in Dire Dawa, Eastern Ethiopia, an MSc Thesis presented to the School of Graduate Studies, Alemaya University.
- Andersson, C., Mekonnen, A. and Stage, J. 2011. Impacts of the Productive Safety Net Program in Ethiopia on livestock and tree holdings of rural households. *Journal of Development Economics* 94:119–126
- Bigsten, A., Bereket, K., Abebe, S., Mekonnen, T. 2002. Growth and Poverty Reduction in Ethiopia: Evidence from Household Panel Surveys, Working Papers in Economics No 65 Department of Economics, Goteborg University.
- Bogale, A., Shimelis, A. 2009. Household level determinants of food security in rural areas of Dire Dawa, Eastern Ethiopia. *African Journal of Food, Agriculture and Nutrition Development* 9(9): 1914 - 1926.
- Bogale, A., Hagedorn, K., Korf, B. 2002. Determinants of poverty in rural Ethiopia. *Quarterly Journal of International Agriculture* 44 (2): 101-120.
- Brown, L, et al. 1990. *State of the World 1990*. W.W. Norton, New York.
- Carter, M. R., Barrett, C. B. 2005. *The Economics of Poverty Traps and Persistent Poverty: An Asset-Based Approach, Strategies and Analysis of Growth & Access*, University of Wisconsin-Madison.
- CSA, 2009. Country and regional level consumer price indices [December 2006 =100] for the month of August 2009, Information Bulletin No. 23, Addis Ababa, Ethiopia.
- Datt, G., Jolliffe, D. 1999. Determinants of poverty in Egypt. 1997. Food Consumption and Nutrition Division Discussion Paper No. 75. Washington, D.C., IFPRI.
- Datt, G., Simler, K., Mukherjee, S., Dava, G. 2000. Determinants of Poverty in Mozambique: 1996-97. Food Consumption and Nutrition Division, Discussion paper No. 78, Washington, D.C., International Food Policy Research Institute.
- Dercon, S., Gilligan, D., Hoddinott, J., Woldehanna, T. 2008. The Impact of Agricultural Extension and Roads on Poverty and Consumption Growth in Fifteen Ethiopian Villages. IFPRI Discussion Paper 00840. Washington, D.C.
- Ehrlich, P. R., Ehrlich, A. H., Daily, G. C. 1992. Population, ecosystem services, and the human food supply. Morrison Institute for Population and Resource Studies Working Paper No. 44, Stanford University.



- Elias, J. 2007. Women workers and labour standards: the problem of human rights. *Review of International Studies* 33(1): 45–57.
- Engle, R. F., McFadden, D. L. (eds) 1994. *Handbook of Econometrics*, Vol. 4. North-Holland, Amsterdam.
- Foster, J., Greer, J., Thorbecke, E. 1984. A Class of Decomposable Poverty Measures, *Econometrica* 52: 761-766.
- Geda, A., de Jong, N., Kimenyi, M. S., Mwabu, G. 2005. Determinants of Poverty in Kenya: A Household Level Analysis. *Economics Working Papers*. Paper 200544.  
[http://digitalcommons.uconn.edu/econ\\_wpapers/200544](http://digitalcommons.uconn.edu/econ_wpapers/200544)
- Gilligan, D.O., Hoddinott, J., Taffesse, A.S. 2008. An analysis of Ethiopia's Productive Safety Net Program and its linkages. *Journal of Development Studies*, 45(10): 1684–1706.
- Greene, W. 2002. *Econometric Analysis*, Fifth Edition. Pearson Education, INC. New York.
- Khandker, S. R. 2005. Microfinance and Poverty: Evidence Using Panel Data from Bangladesh. *World Bank Economic Review* 19 (2): 263-286.
- MOFED 2006, A Plan for Accelerated and Sustained Development to End Poverty (PASDEP) (2005/06-2009/10), Addis Ababa, Ethiopia.
- Mulat, D., Fantu, G., Tadele, F. 2003. Growth, Employment, Poverty and Policies in Ethiopia: An Empirical Investigation of Issues in Employment and Poverty, Discussion Paper 12, International Labour Office, Geneva.
- Mwanakatwe, P., Barrow, L. 2010. Ethiopia's Economic Growth Performance: Current Situation and Challenges. The African Development Bank Group, Economic Brief : Volume1, Issue 5.
- Powell, J. L. 1994. Estimation of semi-parametric models. In: R. F. Engel, and D. L. McFadden (eds), *Handbook of Econometrics*, Vol. 4. North-Holland, Amsterdam.
- Solomon, M. 2005. Dimensions and Determinants of Rural Poverty in North Shewa Basona Werena Woreda. An MSc Thesis Presented to the School of Graduate Studies, Haramaya University.
- Tassew, W., Alemu. M., Tekie, A. 2008. Young Lives: Ethiopia Round 2 Survey Report. Department of International Development, University of Oxford.
- WHO 1985. Energy and Protein Requirements, WHO Technical Report Series 724, Geneva.
- World Bank, 2002. A Source Book for Poverty Reduction Strategies: Core Techniques and Cross Cutting Issues, Vol.1, World Bank Press, Washington, D.C.
- World Bank, 2010. World Development Indicators 2010. World Bank, Washington, D.C.

Table 1: Distribution of sample households by socio-economic characteristics and credit access

Variable	Non-User		User		Total		t-value
	Mean	std	mean	std	mean	std	
Age of household head	35.96	9.21	35.17	7.2	35.56	8.24	0.56
Family size in AE	4.30	1.44	4.31	1.48	4.30	1.46	0.032
Education	2.27	1.95	3.26	1.88	2.48	2.4	0.092
Land holding	0.76	0.36	0.69	0.19	0.73	0.21	1.54
Livestock holding per AE	0.41	0.28	0.57	0.38	0.49	0.34	2.13**

\*\*\*, \*\*, \* indicates significance of variables at 1, 5, and 10% probability level, respectively; AE stands for adult equivalent

Table 2: Comparison of mean consumption expenditure per AE in real terms

Expenditure type	Non User		User		Total		t- value
	Mean	SD	Mean	SD	Mean	SD	
Food consumption	903.95	396.60	878.82	419.8	891.38	407.13	0.364
Expenditure							
Non-food consumption	361.63	175.65	556.16	212.9	458.89	217.58	-5.89***
Total consumption	1265.57	499.49	1434.96	545.9	1350.2	528.21	-1.915*
Expenditure							
Percent share of food expenditure	71.43		61.24		66.02		
Percent share non-food expenditure	28.57		38.76		33.98		

\*\*\*, \*\*, \* indicates significance of variables at 1, 5, and 10% probability level, respectively

Table 3: Mean consumption expenditure and poverty indexes

Statistics/Indexes	Value
Mean consumption expenditure/AE (Birr)	1350.20
Poverty line using current price (Birr)	1902.00
Poverty line using December 2006 constant price (Birr)	1039.00
Poverty head count index	38.18
Poverty gap index	6.26
Poverty severity index	1.40

Table 4: Determinants of consumption expenditure per adult equivalent

Description of Model variables	Coefficient values	Robust Std. Err.	t- values	Sig. P-value
Constant	6.507	0.215	30.281	0.000***
Sex of household head	0.044	0.049	0.883	0.379
Family size in AE	-0.134	0.024	-5.707	0.000***
Age of household head in years	0.006	0.003	1.947	0.054*
Dependency ratio	-0.001	0.027	-0.037	0.971
Highest education grade completed in years	0.037	0.011	3.320	0.001***
Size of land cultivated per AE	0.807	0.247	3.263	0.001***
Number of crops cultivated by household	0.039	0.017	2.213	0.029**
Livestock holding in TLU/AE	0.340	0.124	2.743	0.007***
Herd diversification	-0.045	0.026	-1.745	0.084*
Ln amount of credit received	0.018	0.006	2.901	0.004***
Frequency of extension visit per month	-0.044	0.022	-1.979	0.050**
Ln of agricultural income per AE	0.044	0.019	2.288	0.024**
Distance from main market center in hours	0.0227	0.022	1.209	0.220
Ln of non-farm income/AE	0.007	0.010	0.695	0.489
Number of sick individuals in the year	0.038	0.019	1.981	0.050**
Use of manure	0.036	0.069	0.524	0.601
Average distance from basic service in hours	0.059	0.037	1.595	0.113
Number of observations = 140				
Stand. error of estimate= 0.227				
F(17,122) = 15.40				0.00***
Adjusted R- squared = 0.64				
Durbin Watson = 2.388				

\*\*\*, \*\*, \* indicates significance level of variables at less than 1, 5 and 10% respectively

Table 5: Mean percentage change in consumption and poverty indexes after simulation

Description of Simulated Change in selected explanatory variables	% Change in Real Con. Expend. per AE	% Change in Poverty Headcount Index	% Change in Poverty Gap Index	% Change in Squared Poverty Gap Index
1. Reduce family size to mean value for household above mean	1.10	-35.17	-21.88	-23.32
2. Increase education level by 4 grade level	2.10	-36.17	-35.10	-52.14
3. Increase land holding by 0.5 ha	1.60	-21.88	-23.57	-38.51
4. Increase livestock holding by one TLU for all households	0.60	-8.24	-8.87	-15.76
5. Increase livestock holding by 2 TLU for all households	1.10	-15.84	-17.06	-28.89
6. Provide credit for all non-users equivalent to the average of the users	0.50	-11.66	-8.94	-20.17
7. Double the amount of credit provided only for credit users	1.00	-16.14	-15.28	-8.55
8. Increase agricultural income by 20%	0.10	-2.22	-2.05	-3.95