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Review of the Impact of Productive Safety Net Program (PSNP) on Rural Welfare in Ethiopia



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Review of the Impact of Productive Safety Net Program (PSNP) on Rural Welfare in Ethiopia

Gashaw Desalegn and Seid Nuru Ali

Abstract

This article reviews the empirical literature on the impact of the Productive Safety Net Program (PSNP) on different welfare outcomes of rural households in Ethiopia. The main finding of the review is that the PSNP had in general positive impacts on some attributes. PSNP has been found to have positive impacts on the food security of households, increasing crop yield and households' income. It has also been found to impact welfare in the form of improved health and school attendance, higher rates of insurance uptake, and improved cognitive skills in children.

However, there is scant evidence on how much PSNP has protected or mitigated the possible deterioration in the purchasing power of beneficiaries after shocks such as drought and food price spikes. There is one exception to this literature gap, which showed that PSNP had a role in mitigating the adverse impact of inflation on the cognitive skills of children.

In the face of declining land to labour ratio, increasing population, changing climate and environmental challenges, an important issue that needs to be addressed through research is the impact of PSNP on the longer-term perspective of agricultural transformation in Ethiopia. Furthermore, an implicit assumption in almost all major studies in the country in relation to social protection interventions such as PSNP is that, rural agricultural households can make a better livelihood within the framework of agriculture. A process of rural transformation requires engagement of households in side-line activities such as cottage industry, small scale manufacturing and services activities. Investigating the role of PSNP in this regard might be useful.

Keywords: productive safety nets programs, Ethiopia, welfare, food and nutrition security, price shocks

JEL Classification: H5, H7, I38

1 Background

Agriculture is the country's largest economic sector, contributing about 39 percent of the country's GDP (EEA, 2016) and employing 73 percent of the working population (CSA, 2010). Production systems are dominated by rain-fed smallholder farming with little mechanization. Subsistence mixed farming with crop cultivation and livestock husbandry is practiced on most farms. The high dependency of the Ethiopian agriculture on good rainfall conditions means that, the onset, duration, amount and distribution of the rainfall determines the performance of the agriculture sector and the economy of the country in general (Berhanu & Befekadu, 2000; Devereux & Sussex, 2000). More than 95 per cent of the country's agricultural output is generated by subsistence farmers who, on average, own less than 1 hectare of cultivated land with poor soil fertility as a result of continuous cropping and little input of nutrients to replace removal with harvest (Devereux & Sussex, 2000).

Cognizant of the fact that the agricultural sector is the backbone of the economy in terms of employment, its contribution to GDP and the main source of foreign currency, the Governments of Ethiopia over different period gave due emphases in their national policies, plans and programs, to the agricultural sector and rural development (Berhanu & Befekadu, 2000; and Drechsler and Soer 2016). Despite the various measures taken by governments of Ethiopia to transform the agricultural sector, food production in Ethiopia is highly variable and unpredictable, mainly due to erratic weather, which has triggered famines for centuries.

Famine and hunger - due to drought and other natural and man-made hazards - are the most catastrophic hazards causing widespread suffering in Ethiopia. The most recent drought episodes occurred in 1972-73, 1984-85, 1993-94, 1999-2000, 2002-2003, and 2014-2016. The first two resulted in serious damage in terms of loss of lives and livelihoods, due to a lack of appropriate preparedness and an inadequate disaster management system that was not capable of properly managing the effects of disaster. Drought associates with loss of harvest and livestock. Its impact is very high in terms economic costs and it drags back the speed of lifting millions of people out of poverty (Devereux & Sussex, 2000; Drechsler & Soer, 2016).

In the previous decade, the country has made different efforts to increase the performance of the agricultural sector by taking different measures such as using modern inputs - fertilizer and improved seeds-putting in place extension services. As a result, agricultural production on average grew by 6.6% during 2009 to 2014. Over the past decade alone, cereal production has more than doubled to nearly 20 million tons, mainly as the result of the expansion of cultivation land, increased productivity due to favourable rains, increased use of fertilizer and improved seeds, and lower impact of pests and diseases (CSA, 2013).

Ethiopia has also made advances in agricultural production and food security. According to Global Hunger Index reported by IFPRI Ethiopia is among the top seven countries that have recorded significant progress in reducing hunger. The country reported to have reduced its hunger index from 42.2% to 28.7% between 1999 and 2011 (Von Grebmer et al., 2012). Stunting prevalence decreased from about 58% in 2000 to about 44% in 2011 (CSA, 2011). The percentage of the population under the national poverty line has fallen from 44.2% in 1999 to 29.6% in 2010, with the rural poverty rate falling from 45.4% to 30.4% over the same period (Anderson & Elisabeth, 2015).

Both Government of Ethiopia and donors have immense contribution in strengthening Ethiopia's agricultural resilience, contributing to a reduction in the number of Ethiopians threatened with starvation. The decline in poverty and malnutrition can be attributed to a number of factors including production and marketing interventions in the agriculture sector (EEA, 2016).

Nevertheless, Ethiopia remains vulnerable to a range of shocks and stresses that could undermine the impressive progress made in poverty reduction. The country remains one of the world's most food insecure countries, with all key dimensions of food security indicators.

Despite the achievements in increasing crop production by about 9 percent between 2004 and 2014, the sector still fails to resist drought shocks. This implies there is little transformation of the sector. In rural Ethiopia only 12 percent of the households have a formal financial account (CSA, 2016). Household asset and savings are kept in the form of livestock and grain as there is limited access to or preference for financial institutions (EEA, 2016).

Despite the frequent droughts that occurred in Ethiopia over the last two decades, there were little or no incidences in which drought translated into famine and loss of lives. Ethiopia has developed the institutional capacity to deal with the hazards of shocks. In particular, the country established an early warning system that predicts and assesses the number of potentially vulnerable people and early action can be taken accordingly. While calls for donors during drought stress are still operational, a more durable system called the productive safety net program (PSNP) has been in place since 2005. It has the purpose of supporting vulnerable rural households with cash transfers or equivalent food transfer and/or a combination of both in return for their engagement in infrastructural development. In 2015, PSNP provided assistance to about 8 million households with a status of chronic food insecurity. According (Drechsler & Soer, 2016) about 82 percent of the beneficiaries participated in public work activities while 18 percent of them (1.4 million) obtained direct support. Only some 18 percent of beneficiaries obtain a direct hand out under severe conditions of risk.

2 Overview of Food Security Programs in Ethiopia

Food insecurity is a situation which occurs in individuals, households or nation level that has neither physical nor economical access to the nourishment they need. In particular, food insecurity includes low food intake, variable access to food, and vulnerability- livelihood strategy that generates adequate food in good times but is not resilient against shocks. These outcomes correspond broadly to chronic, cyclical or seasonal, and transitory food insecurity, and all are endemic in Ethiopia (Devereux & Sussex, 2000).

Ethiopia has been a net importer of food. It also secures aid from international donor community in particular during times of severe drought. Although food aid is a standard response to transitory food insecurity (e.g. Drought emergencies), in Ethiopia it had been an institutionalized response to chronic food insecurity until 2005.

Food insecurity problem in Ethiopian is a very complex concept to be addressed. All major manifestations of food insecurity that is chronic, seasonal and transitory food insecurity are persistent in Ethiopia for more than half a century. Though the causes are many, different researchers agreed on drought to remain one of the key drivers of food insecurity in Ethiopia. Food insecurity during drought shocks is compounded by the rise and volatility in grain prices. Since 1950, the country experienced more than twelve drought-induced and food security crises.

From table 1, it is fair to conclude that in every two or three years Ethiopia faces one drought year that leads to huge food crises and loss of millions of livestock. Drought shocks prior to the 1990s have also claimed human lives. However, the drought that occurred in the year 2015/16 is the strongest in the history of the country (Mohamed, 2017). Nevertheless, strong institutional capabilities designed to deal with the risks of such shocks in the form of early warning system and early responses highly minimized the probability of famine and loss of human lives.

Tab 1 Chronology of drought-related food security crises in Ethiopia

Year of event	Major relative incidences
1953	Food security crisis in Wollo and Tigray. Raya Azebo is the most vulnerable from Tigray.
1957-58	Food security crisis in Tigray, Wollo, and south-central Shewa. About 1 million farmers in Tigray might have been affected, with about 100,000 being displaced.
1962-66	Many parts of the northeastern Ethiopia suffered from droughts and Food security crisis. Tigray and Wollo were severely hit.
1973-74	This was one of the most significant food security crises which affected parts of eastern Harare, SNNPR and the Bale lowlands. About 100,000 to 200,000 people died as a result of this extensive crisis.
1977-78	Most parts of the Wollo were severely hit by food security crisis owing to erratic rainfall, pest damage, and frost actions. About 500,000 farmers were affected.
1984-85	This was the most serious one by affecting over eight million people and causing the death of one million Ethiopian's. Most parts of Ethiopia including relatively food secure areas like Wolayta, Kambata and Hadiya were affected by severe food insecurity. Drought and crop diseases were the main drivers of the food security crisis in this case.
1987-88	Tigray, Wollo and Gonder were severely affected due to drought and civil wars.
1990-92	Rain failure and regional conflicts resulted in approximately 4,000,000 people being affected.
1993-94	Widespread food insecurity, but few deaths or cases of displacement were reported because of early responses by the government and international aid organizations.
1999-2000	Three years of successive poor rains in Somali region was led to 100,000 deaths of citizens.
2003-04	Over 13 million people affected, but the response mitigated the worst potential outcomes.
2008-09	Almost 3 million people were affected in which majority from pastoral areas of the country.
2011-13	Severe food security crisis occurred in the south-eastern lowlands. In pastoralist area of Afar, Somali and Borana (Oromiya) the quality and quantity of livestock was decreased.
2015-16	Consecutive failure of two rainy seasons has had profound impact on the lives and livelihoods of millions. Due to El Niño drought more than 27 million people become food insecure and total population of 18.1 million people required food assistance in 2016 and totally over 40 percent of Ethiopian population have been affected. This was the strongest drought that has been faced in Ethiopian history. But numbers of deaths due this shock were not reported.

Source: Hill and Porter, Anderson et al, 2015

Ethiopia has been taking different measures to overcome food insecurity. Three government regimes have tried a resettlement of vulnerable rural households, particularly from the northern part of Ethiopia to mostly lowlands of western Ethiopia. Relocating farmers to a new resource base was, for example seen as a means of rehabilitating the victims of famine during the Derge regime. However, gradually the then government considered resettling as the cheapest solution to food insecurity.

Food-for-Work (FFW) Program had started during the Derge regime after the great famine of 1984-85. According to Arega (2012) the strength of the FFW program is that it allows household members to work for their benefits rather than receiving handouts. The beneficiaries receive the food aid in return for a community work such as construction works on road, clinics, school, and soil conservation.

Despite all these efforts, food insecurity, particularly chronic food insecurity has been on the rise. Even in recent years, millions of people were unable to feed themselves even in years without drought. As a result, there was a need to provide long-term assistance to such households. To this end, the government of Ethiopia in collaboration with the donor partners launched Food Security Programme (FSP) in 2003.

The FSP was funded by the Government of Ethiopia (GoE) and development partners and implemented, mostly through government administrative channels in Amhara, Oromia, Tigray and Southern Nations, Nationalities and Peoples Region (SNNP). Harari and Dire Dawa were added to the program in 2005. FSP is a special arrangement which focuses on addressing vulnerability, which exists in different parts of the country. During the first two phases (2005-2009), the FSP comprised three complementary components: the Productive Safety Net Program, the Other Food Security Program (OFSP), and the Land Access Programme (resettlement).

The GoE and Development Partners reviewed the successes and lessons learned from past implementation and designed the 2010-2014 phase of the FSP, which comprise four components: Resettlement program, Productive Safety Net program (PSNP), Household Asset Building Program (HABP) and Complimentary Community Investment (CCI).

The main objective of the resettlement program is to enable chronically food insecure households attain food security through improved access to land. Each settler household is guaranteed the assistance of packages that includes provision of fertile farmlands, seed, oxen, hand tools, and food ration for the first eight months. The settlers also provided access to essential infrastructures such as clean water, health post, feeder roads.

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 asset at the community level. The second purpose of the PSNP is to help bridge the income gap of the chronically food-insecure households. The PSNP has two components: labor-intensive public works and direct support. Chronically food-insecure households are selected using a combination of administrative and community targeting systems to either participate in public works or receive direct support. The able-bodied are engaged in public works, for which they are paid a minimum amount of money, whereas labor-poor households (those that are unable to participate in manual labor due to reasons such as old age, disability or having children who are too young or without parents) are given the same sum of money while being exempted from public works. A key feature of the PSNP is its household focus.

The Household Asset Building Program (HABP) is one of the four components of the Food Security Program, and it contributes to the achievement of the FSP's expected outcome of improved food securities of households living in chronically food insecure areas. The intervention using HABP includes introduction of appropriate technologies which help improve production and productivity and Preparation and dissemination of different menu of technological packages through the extension service packages. The packages comprise of provision of improved inputs to increase livestock's and crop production, Moisture conservation and utilization, Natural resource development, Trainings, Support for additional income generating activities, and Provision of market information. HABP bridges the transition from graduating from PSNP to complete food security.

CCI is an intervention which is designed to create community assets and complement household investment through creating an enabling environment. As the food insecure households are resource poor, living in drought – prone and degraded areas, focusing on crop and livestock production alone may not entirely solve the problem of food insecurity. For these areas income diversification through non –agricultural activities is important. To this effect, the food security program considers complementary income sources in non– farm activities.

The cornerstone of the FSP in Ethiopia is the Productive Safety Net Programme (PSNP). This works through cash or in kind transfer to chronically food insecure households through participation in large-scale public works. The other additional programmes under the FSP such as HABP and CCI are designed to complement the PSNP by providing additional products or services designed to improve agricultural productivity or support microenterprise development.

Income transfer helps chronically food insecure households by increasing short run consumption, where as additional investment such as investing to enhance agricultural productivity may improve the long run consumption of households. In Ethiopia PSNP is targeted to short-term food security needs while HABP and other programs are aimed longer term sustainable improvements in food security (Hoddinott, Berhane, Gilligan, Kumar, & Seyoum Taffesse, 2012).

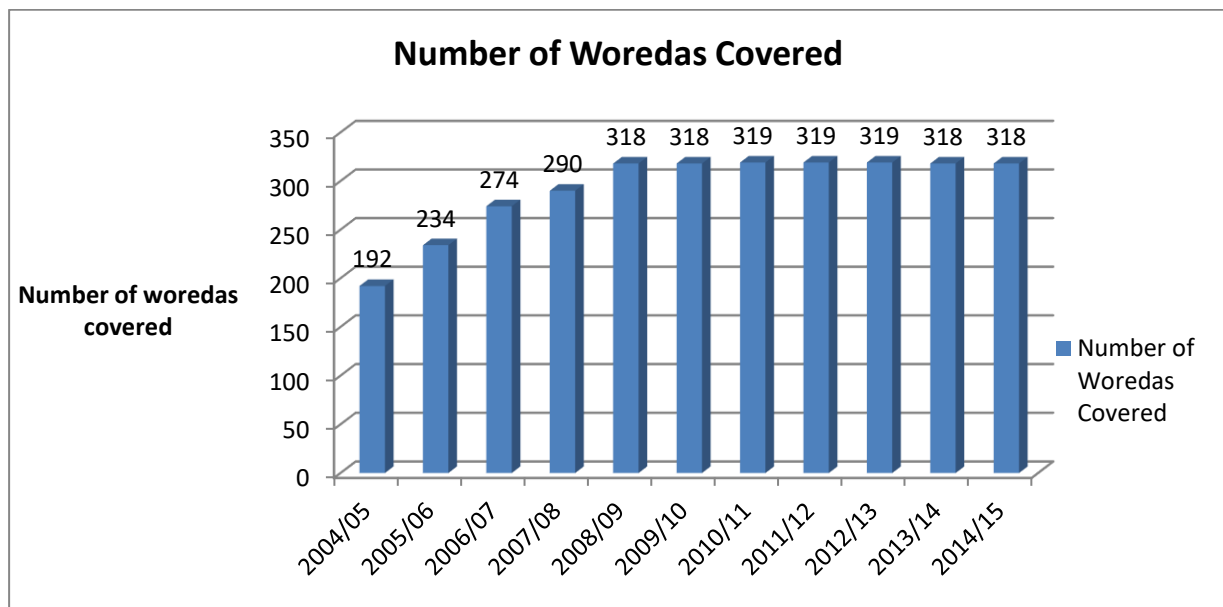
3 Productive Safety Net Program (PSNP) and Its Impacts

3.1 Trends of number of beneficiaries, financing and graduates

Safety Net Program in Ethiopia is the second largest social security program in Africa after South Africa. It covers almost more than 10 percent of the total population. The budget for PSNP is US\$1.5 billion for the first phase (2005-09) and US\$2.1 billion for the period 2010-14 (World Bank 2017). Since its inception the number of beneficiaries has been increasing over time from 4 million in 2004/5 to over 8 million in 2015/16.

The coordinated effort of PSNP to fight food insecurity in Ethiopia has two components: Social Cash Transfer (SCT) programs which provide payments to poor and vulnerable households, and payments for Labor on Public Works projects. In 2005 the PSNP program started with 192 chronically food insecure Woredas (Ethiopian districts). However, the coverage grew to 318 Woredas as of 2015. Out of the total chronically food insecure households, 40 per cent receive food and 60 per cent receive cash (Berhane, Hoddinott, Kumar, & Margolies, 2015).

Figure 1: Trends in Number of Beneficiaries Woredas of the PSNP

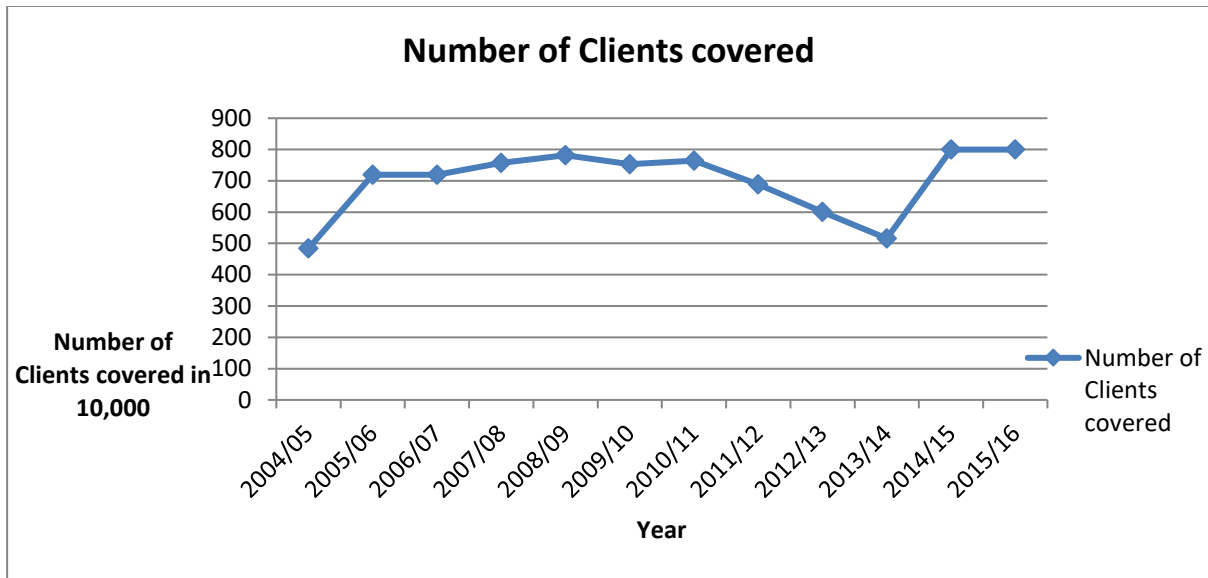


Source: MoA, 2015/16

The PSNP provided food and/or cash transfers to food insecure households in chronically food insecure woredas (those receiving food aid annually prior to 2005) in exchange for labour-intensive public works, while labor-poor households received unconditional “direct support” transfers. The public works component, which covered approximately 80% of programme participants, focused on the implementation of soil and water conservation measures and the development of community assets such as roads, water infrastructure, schools, and clinics. The OFSP provided productive asset packages on credit in order to build household assets and enable graduation from the PSNP as well as investments in socio-economic infrastructure (FDRE, 2014).

The first component, PSNP, built on the successes and lessons learned of the previous phase to improve the program, by expanding into two new regions (Somali and Afar); improving the timeliness of transfers; enhancing the quality of public works; and shifting increasingly to cash transfers. The number of beneficiaries in 2005 was 4.8 million. However, the numbers steadily grew and reached twofold in 2015. According to USAID estimates, the number of chronically food insecure population in Ethiopia has increased to 15 million during the recent drought of 2016 and 2017.

Figure 2: Trends in Number of beneficiaries of PSNP

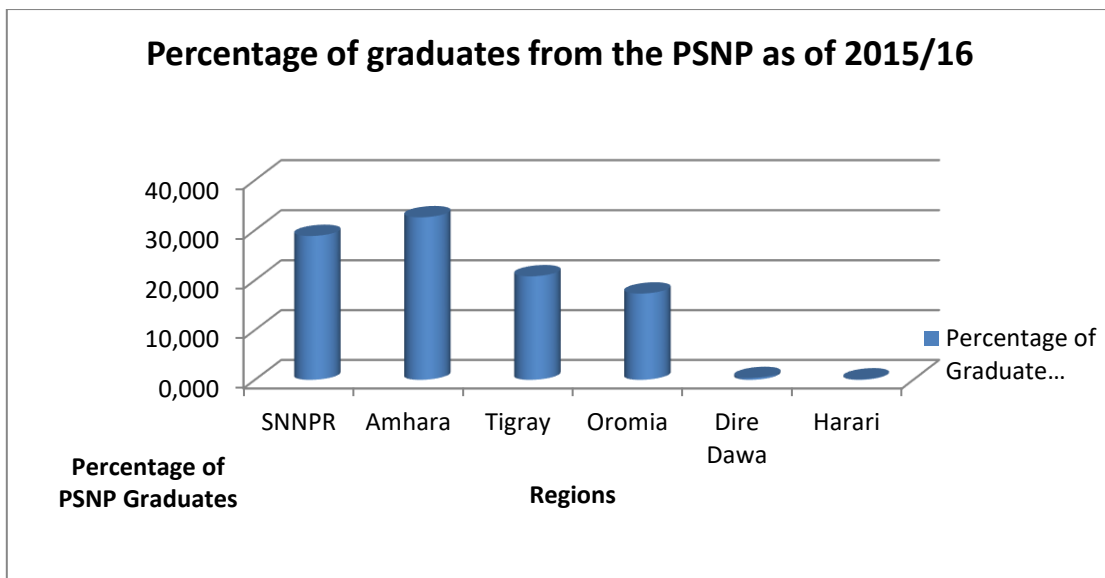


Source: MoA, 2015/16

Productive Safety Net Program beneficiaries who have received regular transfers and complementary interventions throughout the program period will be expected to graduate out of dependency on external support, except during food crises (Slater, Ashley, Tefera, Buta, & Esubalew, 2006).

Graduation of Productive Safety Net Program is the ultimate goal of the program and will result in the reduction of the number of households requiring external food aid and assistance. Once assets of a household is built and linked to other income generating programs the household must graduate from the PSNP. Figure 3 show number of households graduated from the PSNP as of 2015. Amhara and SNNPR region has the highest graduates from the program.

Figure 3: Percentage of PSNP graduates in various regions as of 2015.



Source: MoA, 2015/16

3.2 Impacts of PSNP

A number of studies have been conducted on the impacts of PSNP on certain outcomes such as, enhancing community-level infrastructure and contributing to environmental transformation. Some studies investigated impacts of PSNP at the household level; whether PSNP has helped household in improving food security, increased asset creation and protection, increased utilization of education and health services and improved agricultural productivity

A study by Gilligan, Hoddinott, & Taffesse(2008) using propensity score matching techniques is the earlier comprehensive study that was conducted 18 month after PSNP was operational. The study investigated the impact of PSNP on some outcome such as food security, and asset building. The study found little impact of the PSNP on the specific outcomes due in part to transfer levels that fell far below program targets. Beneficiaries who at least received half of the intended transfer have shown a significant improvement in food security by some measures. However, the result is different for a household who had access to both PSNP and other packages such as agricultural support. These households were more likely to be food secure, as they could borrow money for productive purposes, use improved agricultural technologies, and operate their own nonfarm business activities.

Two methodological caveats are worth mentioning in the paper by Gilligan et al. (2008). First, participation in the PSNP is not random. Usually, the most vulnerable groups are selected to be legible to the PSNP. Thus, comparisons with non-participants using propensity score matching may still suffer from selection bias as differences between participants and non-participants may be attributed to unobserved factors such as ability which is expected to be correlated with covariates used to derive the propensity scores of the two groups. Second, a household is expected to have better intervention outcomes when it participates in both the PSNP and the OFSP rather than in the PSNP alone. The study did not make clear if the better outcomes are attributed to the joint intervention under the two categories of programs (supplementary programs) or exclusively due to intervention in the form of OFSP.

Moreover, the result showed that a decline in asset holding was not observed among the treated groups after intervention, while asset holding of the non-participants has significantly increased. The fact that asset of treated group did not decrease over the period is considered to be consistent with one of the key objectives of PSNP. Nevertheless, two important conclusions can be drawn from the result. Primarily, the fact that the asset holdings of non-participants has increased even without participating in the PSNP program serves as evidence of the inherent initial difference between the treated and control groups. Second, a static asset holding position among participants may imply that PSNP helped bridge consumption, which would have been achieved by depletion of assets. If the impact of the PSNP is sustainable, the program would be expected to positively affect the productive capabilities of participants, which could manifest itself in the form of asset growth.

Later work by Hoddinott et al. (2012) attempted to explicitly address the relative importance of the dual introduction of PSNP and OFSP (later replaced by Household Asset Building Programme - HABP) to participants of the PSNP. In that setting, households who participated for five years in PSNP and at the same time received OFSP/HABP transfers were found to have had significant higher agricultural yield than OFSP/HABP participants. Participants in only PSNP had no advantage in the increased agricultural input use or productively. The authors claimed to have circumvented the potential problem of selection bias by using dose-response models by exploiting the significant level of variation in the duration of participation in the PSNP over five years. Nonetheless, while redefining the population in such a way that participants in the PSNP alone could be compared with participants in both longer period PSNP and OFSP/HABP in terms of the impact of PSNP on productivity is in itself interesting, the use of dose response model may not resolve the issue of selection problem. The result shows that 'high dose' participants in PSNP who received transfers under the OFSP/HABP did not have higher yields than OFSP/HABP non-beneficiaries with low participation in the PSNP. This may imply that there is still unobserved heterogeneity issue that uniquely characterized the participants. Future studies need to either address directly the potential self- selection problem or redefine the population

of interest in a panel data framework probably excluding non-participants which are usually presumed to have been better off.

A general equilibrium impact assessment of PSNP is made by Filipowski et al. (2016). This study is very comprehensive. At the first stage, a household impact analysis (of PSNP) is made to determine whether it has impacted the beneficiaries in a certain way and non-beneficiaries as well. Then, the study was extended to analysing the impact of the PSNP on local economy as a whole. Finally, a computable general equilibrium or CGE modelling was applied to see the impact of PSNP on the national economy.

The study reported a 2.8 percent average increase in grain yields annually as a result of the intervention in the zones in which a Soil and Water Conservation (SWC) project was implemented. The program has a multiplier effect of up to 2.4 Ethiopian Birr (ETB) per ETB transferred. However, the study documented that there was variation of multiplier across locals, and it includes both positive and negative spill overs for non-recipient households. Simulating the PSNP at the national scale with a CGE model, the study reported that while PSNP areas saw the largest income benefits in percentage terms (6 percent of household income), the rest of the country experiences real income benefits of up to 2 per cent, as a result of the PSNP's impacts on supply, demand, wages, and prices; and the program increases national value added by 0.99 per cent.

3.2.1 Impacts of PSNP On food security

A study by Gebrehiwot & Castilla (2017) reported that, increase in money received by households from PSNP transfers between 2012 and 2014 had no effect on household dietary diversity. Furthermore, participation in the PSNP was found to have no effect on child nutrition measured by height-for-age or the probability of being stunted. However, the study reported a 13.4 percent increase in average daily calorie consumption per person in PSNP-beneficiary areas indicating that the program does help to reduce household food insecurity.

A handful of studies have investigated the impact of PSNP on food security and asset building. According to Mohamed (2017) and Gebresilassie (2013), PSNP has contributed to the food security of the households in protecting asset, decreasing the rate of migration, increasing credit accessibility and improving productivity in watershed areas. A study by Gebrehiwot & Castilla (2017) reported that PSNP had a positive impact on number of trees planted but fail to find evidence that the PSNP protects livestock in times of shock.

3.2.2 Health outcome (child nutrition)

A study by (Berhane et al. (2015) found some evidence that PSNP had impacts on schooling and child labor. In 2008, when PSNP payments were low relative to work requirements, participating in the PSNP lowered school attainments for both boys and girls and increased child labor on family farms. As PSNP payments increased relative to PSNP work requirements – especially in 2012 – these adverse outcomes were reversed. In 2012, the PSNP increased girls' school attendances between 6 and 14 percent (depending on the age of the child), improved schooling efficiency by 10 to 20 percent and reduced boys' labour. This study does not found evidence that the PSNP reduces chronic or acute malnutrition. They speculate that child diet quality is poor and most mothers' had not had contact with health extension workers.

A study by Shigute et al. (2017) indicates that participating in the PSNP increases the probability of Community Based Health Insurance (CBHI) uptake by 24 percentage points and enhances scheme retention by 10 percentage points. Using a panel data spanning from 2002 to 2013 Marta Favara (2016) found that children in households that graduated from PSNP had higher cognitive achievement than those remaining in the programme (PSNP). Using child-level panel data from rural areas of Ethiopia, Berhane et al. (2016) analysed effects of both economic and non-economic shocks on child cognition skills measured after the early childhood age window. The study applied difference-in-differences analysis after controlling for child, household and village-level baseline characteristics. The study found

that exposure to these shocks significantly decreased child cognitive skills. However, the PSNP mitigated the reduction in cognitive skills by 0.18 standard deviations.

4 The PNSP and Price Shocks

The relation between PSNP and price is not straight forward. PSNP is operational in two different forms in Ethiopia: food and cash transfers. The cash or food debate is still continuing. However, decisions are made based on availability of resources rather than objective assessment (Sabates-Wheeler & Devereux, 2010). The impact of the PSNP on prices depends on the method of transfers made. Food aid is criticised for being expensive to ship, store, distribute and competing in the local food market unfairly and that may trigger future reduction in food production. On contrary cash transfer is seen as cost-efficient way to deliver, and may help to increase agricultural production (Creti and Jaspars, 2005, cited in Sabates-Wheeler & Devereux 2010). For detail list of advantage and disadvantage of cash and food transfer see Sabates-Wheeler and Devereux (2010).

4.1 Cash transfer may cause food inflation

With poorly integrate and thin market like in Ethiopia, where the majority of the PSNP beneficiaries' live, cash transfers have different links with food inflation. First, cash injection to the local economy via the PSNP beneficiaries will increase price of local market creating imbalance between demand and supply. Thus, cash transfer can fuel local price and endanger the purchasing power of the beneficiaries and can contribute to food insecurity situations. A study by Sabates-Wheeler & Devereux (2010) has documented the evidence that cash transfer in Ethiopia had an inflationary impact.

4.2 Food transfer may depress local prices

If the transfer is made thorough food it increases supply of food. This will also create a boost in the market and depress prices. This will in turn reduce production of agricultural staples and compromise food security.

An important policy implication of the two scenarios is that the decision to choose the particular mode of delivery in the PSNP program to maintain a stable price is to understand the nature of supply in the locality and the size of the beneficiary. During periods of major crop failure with either limited agricultural surplus in neighboring Woredas or little market connection to surplus producing regions, transfers in kind are better than cash transfers. When food insecurity is limited to some households or when shocks are localized with surplus production in the vicinity, cash transfers tend to have better outcomes in terms of production and price stability.

4.3 Food price inflation and declining real value of PSNP cash transfers

Food price inflation can be occurred in different situation. The first case is seasonality. Food price is higher before harvest and lower after harvest. During the hunger period due to the increase in food price the real value of PSNP cash transfer will decreases unless an adjustment is made or cash transfer is indexed. In Ethiopia 80 percent of food produced is consumed on farm, and thus market supplies are limited and prices are highly volatile (Devereux & Sussex, 2000). Food price volatility undermines food security for the poor, who by definition are net food purchasers.

The second case is an increase in general inflation that can erode the real value of cash transfer and decrease the purchasing power of PSNP beneficiaries. The unprecedented rise of food prices in Ethiopia since mid-2007 is significant enough to compromise the real value of the PSNP cash transfer. Because rising food prices erode the purchasing power of un-indexed cash transfers, and the primary intention of PSNP cash transfers is to provide market access to food (Devereux & Sussex, 2000), a general price increase particularly grain price will jeopardize the purchasing power of beneficiaries' irrespective of whether the food items is locally produced or imported.

A general increase in prices affects net sellers and buyers of food differently. Filipski et al. (2016) indicated that general price raises hurt urban net buyers and benefited rural net sellers. The same study found that urban net sellers, such as businessmen, were not affected by price rises because they had price-controlling power. Public servants and wage earners were most affected by price rises. One of the surprising results by the same study was that coefficients on rural net buyers were insignificant. The study explained that even though they are not self-sufficient, rural net buyers benefit from a rise in prices of agricultural products because they are also producers. In this case, the terms of trade cancel each effect out and the impact of a food price increase on the welfare of rural net buyers remains insignificant.

However, the impact of PSNP in mitigating the price and other shocks relative to non-beneficiaries' should be seen in a different approach. Though there is a scanty literature on the impact of PSNP intervention on the welfare of the rural poor through mitigating price volatility, some studies attempted to show the counter balancing or mitigating the adverse impact of price and other shocks on food security. For example, Berhane et al. (2016) reported that, food price inflation undercut cognitive skills by more than one standard deviations (0.98 due to cereals price inflation and 0.47 due to inflation in meat prices). On the other hand, the safety net program mitigated the reduction in cognitive skills by 0.18 standard deviations. If these studies are robust, by implication, it can be argued that one plausible avenue through which PSNP interventions could affect the welfare of beneficiaries is reduction of price volatility. Cash transfers through the PSNP scheme may help beneficiaries to smooth out consumption by purchasing staples during harvesting seasons.

5 Conclusion

This article reviews the efforts of addressing food insecurity issues that emanate from adverse shocks such as drought in Ethiopia. In particular, it reviews the operation and impact of the Productive Safety Net Program (PSNP) in the country. When the government of Ethiopia in collaboration with the donor community devised the PSNP program in Ethiopia, it was a great departure from the usual food relief and aid provided at time of emergency. Many criticise the unconditional transfer in time of emergency on some grounds: the first line of argument against free aid was that it tends to create aid dependency; second the food aid only helps the beneficiaries to survive; it does not protect the depletion of the household asset. It was argued that unless a proper food security program is implemented like soil and water conservation and enhancing agricultural productivity along developing non-farm sectors the food aid will not help in the longrun. As a result, early food for work programs were upgraded to a more formal and wider scheme called the productive safety net program (PSNP) in 2005.

Some studies indicate that there is an increasing trend of graduates and the number of beneficiary households of PSNP in Ethiopia. Though there are significant numbers of graduate from the PSNP, the number of beneficiaries constantly increases over time at a rate greater than the graduates.

Many authors have attempted to investigate the impact of PSNP on different economic outcome such as asset building capacity of beneficiaries', food security of households and other health and health related outcomes. Some have found a significant result in their study. For example, Gilligan et al. (2008) found food aid in combination with other components like credit and agricultural packages have significant impact in improving food security of household. A more robust finding by Filipski et al. (2016), claims that a 2.8 percent increase in grain yields and an increase in income of household by 6 per cent. The same study claimed to have found that PSNP have increased value added at national level by 0.99 per cent.

Studies of an impact evaluation of PSNP on food security reported some promising results. Gebrehiwot & Castilla (2017) reported 13.4 percent increase in average daily calorie consumption per person in PSNP beneficiary households. Other studies (Berhane et al., 2015; Mohamed, 2017; Shigute et al., 2017) investigated the impact of PSNP on different health and other outcomes of beneficiaries such as schooling and child labour, CBHI uptake, and child cognition skills.

In this study analysis of relation between PSNP and price shocks has been reviewed. The impact of PSNP on the welfare of beneficiaries via price mechanisms is not straight forward. The impact of PSNP on price inflation depends on whether the transfer is made by cash or food and the situation of food market. When drought shocks are widespread with limited supply of food in the market, the injection of cash transfer is expected to increase price exacerbating the impact of shocks. In such situation, payments in kind, such as grain tend to stabilize prices. On the other hand, when shocks are limited to, pocket areas or household levels in the presence of enough supply of staples in the market, introduction of cash payments tend to have a stabilizing effect rather than payments in kind which tend to depress agricultural production through its dampening effect on agricultural prices. PSNP graduates are surplus producers therefore they will benefit from a price rise on agricultural products.

One of the objectives of PSNP is to protect beneficiaries from different shocks such as price and drought. However, there is scanty evidence that has investigated by how much PSNP has protected or mitigated the purchasing power of beneficiaries from such shocks. There is one exception by (Berhane et al., 2016) that reported inflation cuts cognitive skills but PSNP have a mitigating impact. A future studies on the impact of PSNP on the welfare of rural household through mitigating price volatility need to consider comparing the various impacts of the program when implemented with payments in cash and in kind.

In the long-run, PSNP need to be upgraded or replaced with efforts of building rural capabilities that transforms rural agricultures such as harnessing water resources, replacing the hoe and the plough with modern agricultural tools, changing the mode of saving from grain to financial savings, mode of

asset formation from livestock to financial wealth. In the face of declining land to labour ratio, increasing population, changing climate and environmental challenges, the agricultural sector transformation accompanied by the overall economic transformation that aims at to move the rural population from hotspots of vulnerable agro-ecological zones should be pursued. Recently, the PSNP program has been extended to urban safety net program in which unemployed youth would be engaged in micro and small enterprises. This tends to augment the urban demand for food which in principle should be met with an increase in productivity in the agricultural sector.

An underlining (implicit) assumption in almost all major studies in the country in relation to social protection interventions such as PSNP is that rural agricultural households can make a better livelihood within the framework of agriculture. It might be interesting to propose that individuals are endowed differently in terms of modes of livelihood. The purpose of interventions such as PSNP might be geared towards creating and widening opportunities so that individuals could match their comparative advantage.

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