

Riera, Olivia; Swinnen, Johan

Working Paper

Household level spillover effects from biofuels

LICOS Discussion Paper, No. 356

Provided in Cooperation with:

LICOS Centre for Institutions and Economic Performance, KU Leuven

Suggested Citation: Riera, Olivia; Swinnen, Johan (2014) : Household level spillover effects from biofuels, LICOS Discussion Paper, No. 356, Katholieke Universiteit Leuven, LICOS Centre for Institutions and Economic Performance, Leuven

This Version is available at:

<https://hdl.handle.net/10419/126496>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.



LICOS Centre for Institutions and Economic Performance

Centre of Excellence

LICOS Discussion Paper Series

Discussion Paper 356/2014

Household level spillover effects from biofuels

Olivia Riera and Johan Swinnen

KU LEUVEN

Faculty of Economics And Business

LICOS Centre for Institutions and Economic Performance
Waaistraat 6 – mailbox 3511
3000 Leuven
BELGIUM

TEL: +32-(0)16 32 65 98

FAX: +32-(0)16 32 65 99

<http://www.econ.kuleuven.be/licos>



Household level spillover effects from biofuels

Olivia Riera^{1*} and Johan Swinnen^{1,2}

¹ LICOS Centre for Institutions and Economic Performance and Department of Economics
University of Leuven, Belgium
6 Waaistraat, 3000 Leuven, Belgium
Olivia.riera@kuleuven.be - +32/16.32.65.86

² Centre for Food Security and the Environment
Stanford University, USA
473 Via Ortega, Stanford, 94305-4205, CA - USA
Jo.swinnen@kuleuven.be - +32/16.32.65.86

* Corresponding author

Abstract

The indirect effects of biofuels are mostly considered negative. In this paper, we argue that there may be a positive indirect effect of biofuels on food security and poverty. Our analysis shows that the introduction of castor production for biofuel in a poor country as Ethiopia can significantly improve food productivity of rural households who produce raw material for biofuel production. This spillover seems particularly linked to enhanced access to inputs and technical assistance which were provided as part of biofuel feedstock production contracts. Our results thus help nuancing the view that biofuels necessarily harm smallholders' food security.

Keywords: biofuels, contract farming, productivity, spillovers, Ethiopia

Acknowledgments

This research was financially supported by the University of Leuven Research Council (EF and Methusalem projects).

1. Introduction

Biofuels are an increasingly controversial issue, in particular in developing countries. On one hand, the proponents of the use of biofuels in developing countries point out that three quarters of the world's poor consume only 10% of the global energy supply (Bazilian et al., 2010).¹ Because energy poverty constrains poverty reduction efforts (Lee & Chang, 2008; Odhiambo, 2009; Kebede et al., 2010), diversification of energy resources, including biofuels, is viewed as a way to improve energy access and security – and thereby development. Sovacool (2012), for example, argues that decentralized production and distribution of biofuel energy in poor countries is a ‘low hanging fruit’ to expand energy access to energy deprived population in low-income countries. On the other hand, those opponents of biofuels argue that biofuels cause environmental problems and worsen food security. This is reflected in the ‘food’ versus ‘fuel’ debate (Bindraban et al., 2009; Cotula et al., 2008; Pimentel et al., 2009; FAO, 2008).

Empirically, the research on the relationship between food security and biofuels reaches conflicting conclusions. Some studies on the impact of biofuels suggest that biofuel investments provide alternative income through employment, boost economic growth, and thereby reduce the incidence of poverty and improve food security (Arndt et al., 2011; Huang et al., 2012; Negash & Swinnen, 2013). Others show that biofuel expansion reduces the availability of food and increases food prices, thereby jeopardizing food security for the poor (FAO, 2008; von Braun et al. 2008; Mitchell, 2008; Zhang et al. 2013).

The debate on the costs and benefits of biofuels has been dramatically changed by two studies (Searchinger et al., 2008; Fargione et al., 2008) highlighting the so-called indirect land use change effect (ILUC) which should be taken into account when evaluating the welfare

¹ The majority of those energy poor households live in the net oil importing Sub-Saharan Africa. They often depend on direct burning of solid biomass as a prime source of energy with undesirable effects on health and agricultural productivity (Duflo et al., 2008).

effect of biofuels. These authors pointed out to the unintended consequences of releasing more carbon emissions due to land-use changes induced by the expansion of cropland for ethanol and biodiesel in response to the increased demand for biofuels. These arguments were reinforced by the 2008 food crisis which brought the link to food prices, food security and biofuel production to the forefront. For both environmental and food security reasons, the indirect effects of biofuels are considered negative.

In this paper we argue that there may be another indirect effect of biofuels which may be particularly important for smallholder feedstock production in poor countries. Using micro-survey evidence from Ethiopia and a matched plot pair design through which we control for the effect of plot and farmer characteristics, we find that food crop productivity improved on plots intercropped with biofuel feedstock (castor) due to enhanced access to inputs and technical assistance which were provided as part of the feedstock production contracts. Our estimates are in line with studies which have identified similar spillover effects of cash crop production on food crop productivity (Maertens, 2009; Minten et al., 2007; Barrett et al., 2012).

Our paper is the first to identify these indirect effects of biofuels on food crop productivity and to provide an estimate of the potential size. There is only limited information so far on the importance and the nature of contract farming in biofuel supply chains. Yet available studies suggest that it is present in several developing countries. Contract farming in biofuel chains is documented in *Jatropha* production in Zambia (German et al., 2011) and Tanzania (Portale, 2012), in soybean in Brazil (Padula et al., 2012), and in palm oil in Malaysia and Indonesia (Vermeulen & Goad, 2006). Our results may therefore have far reaching implications and may potentially be important for many poor people.

The paper is organized as follows. In section 2, we describe the biofuel policies and castor production and its link with food security in Ethiopia. In section 3, we present the setup

of the castor outgrower scheme in the study area and explain our empirical methodology. Section 4 contains descriptive statistics on the farmers and plots producing the biofuel feedstock and a description of our measure of productivity. Productivity differences and econometric results are presented in section 5. Section 6 discusses and concludes.

2. Biofuels in Ethiopia

Ethiopia is a relevant case to study the micro-level effects of biofuels in developing countries. On the one hand, Ethiopia is a major energy importer. In fact it is considered as the number one “energy poor country” in Africa (Nussbaumer et al., 2012).² Developing renewable alternative resources therefore sounds appealing. On the other hand, Ethiopia’s agriculture sector is heavily dominated by subsistence smallholder farmers whose food security is vulnerable and who are often food aid recipients (Devereux & Guenther, 2009).

2.1 Biofuel policies

Enthralled by the various commonly portrayed opportunities lying ahead of the development of biofuels (such as energy source diversification, foreign currency saving, rural poverty alleviation and technology transfers), in 2007 the Ethiopian government launched an extensive biofuels expansion strategy and an ad hoc investment promotion program for two biodiesel crops: castor and jatropha. At the same time, the government established a 10% blending requirement of ethanol with petrol, and biodiesel with diesel. While the ethanol target was successfully reached in 2012 in major cities, progress regarding the biodiesel target is meager. The government manages a vertically coordinated ethanol production system while biodiesel is left largely to private operators.

² The authors constructed a Multidimensional Energy Poverty Index (MEPI) – that focuses on the deprivation of access to modern energy services and ranked countries using the scores from the index.

The availability of land, especially in under-developed regions makes Ethiopia attractive for the potential production of biofuel. According to government reports, 23.3 million hectares (20% of the total country area) are available for the plantation of both castor and jatropha (MoME, 2007). Even taking the more modest estimate by the World Bank (2011) of 7 million hectares of non-cultivated and non-protected land and the high dependency of the country on oil imports, the development of a biofuel industry presents a notable opportunity to improve energy access and substitute fuel import for small-scale rural use, if not for transport or industrial sector.

From 2007 onwards, the Government of Ethiopia has specifically supported the economic attractiveness of biofuel production and the expansion of investments in the sector by providing incentives to investors which include tax holidays, low-cost land leases, and long term credit facilities, among others. The government's interest in biofuels was later reemphasized in the Growth and Transformation Plan (GTP). Over a five year period (2010-2015), Ethiopia's GTP foresees increasing the production of ethanol to 194.9 million liters, biodiesel to 1.6 million liters, and an increase in blending facilities to 8 for ethanol and to 72 for biodiesel. As outlined, the main objectives for promoting biofuels are to create clean energy source diversity, serve as substitute for petroleum import and create jobs for local people. The document also recognizes the important contribution of involving the private sector and smallholder farmers into the development of biofuel.

However, after a few years of enthusiasm, Ethiopia substantially downsized most of the incentives that were in place to promote the production of biofuels. The key reason behind this policy shift away from biofuel was an increasing concern over competition between food and biofuel crops and over bad management of land investments. This issue was raised by both the international and local communities and led to a substantive narrowing of land being

allocated to investors for the production of biofuel feedstock. Now, only what is categorized as marginal land can be used for biofuel production (Negash & Riera, 2014).

2.2 Castor production and food security in Ethiopia

The emerging biofuel feedstock production from private firms in Ethiopia thus far is dominated by two major non-edible crops i.e. castor beans and jatropha (Table 1). Both have been identified by the government of Ethiopia as priority crops for biodiesel feedstock because of their numerous attractive properties. First, castor, a non-edible crop that gives oil bearing seeds, has seen its global demand and production rise in recent years and it is believed to have strong market potential (Wijnands et al. 2007). The oil (i.e. biodiesel blended or not) can replace diesel without any engine modification. In addition, it can be used as automotive lubricant, as raw material for the cosmetic industry and in pharmaceuticals. Second, the oil contains a toxic element and hence cannot be used as food or animal feed source. Third, it can grow on marginal soils and is said to combat desertification (Reubens et al., 2011; Wani et al. 2012). These last two characteristics make castor production less threatening to local food production. However, at the same time, these marginal areas where castor production is allowed are areas with low agricultural potential and/or degraded areas and are often characterized by strong food insecurity.

There are also other potential links between castor production and food security, such as the impact of castor production on the productivity of other (food) crops, through rotation or spillover effects. This is an issue which has received little attention in the biofuel literature but has been widely studied in the literature on cash crops and export agriculture (e.g. Minten et al., 2007). In the rest of this paper, we analyze these spillover effects from biofuel crops and we study how they affect food production, and thus food security, at the household level.

3. Data and methodology

3.1 Data

A farmers' survey was organized in February-March 2011 soon after the main harvest season in the South Nations and Nationalities (SNNP) region of Ethiopia. The objective was to evaluate the castor contract farming system established by a company in the Gomo Gofa and Wolayta districts which are known to be heavily food insecure (Figure A1) (CSA, 2011).

Castor production started in the region in 2008 with castor seeds being distributed to more than 10,000 farmers in the two districts. However, due to the low value of castor as cash crop, initial take-up was very and the company had to undertake extensive promotion campaigns to encourage farmers to grow castor. After three years of operation, adoption of castor had substantially increased.

The contract offered by the company to its suppliers is standard to most outgrowers contract schemes. Farmers receive all the necessary inputs such as fertilizer, herbicide, and technical assistance. In return they allocate part of their land for castor production and pay in seeds during harvest. The price of castor seeds is set in advance. The firm's extension workers at the village level are responsible for training farmers, facilitating group formation, input distribution and for following up the cultivation and output collection. The promoters of the crop are mainly extension agents hired by the company (83%), but government extension workers have also been involved in disseminating the information.

Following a two-stage random stratification, the data represents smallholder farmers in castor growing areas of the region. It contains information about 478 farmers in 24 villages of which 113 grow castor and 83 intercrop it.³

³ Extensive information on the sampling methodology can be found in Negash and Swinnen (2013).

3.2 Empirical strategy

Evaluating the effect of technology adoption on productivity faces numerous challenges. Observable and unobservable farmers' and land characteristics are correlated with farm productivity measures because they influence technology and crop adoption decisions, input application choices and observed outcomes. Farmers and farms heterogeneity will lead to a selection bias if not properly accounted for. For example, more skilled and/or better educated farmers can be more inclined to adopt the new technology. If this is the case, comparing outcomes of adopters and non-adopters to analyze the impact of a given technology will suffer from a self-selection problem and yield inconsistent and biased results. Hence, it is important to control for farmer differences when comparing outcomes across types of farmers. But a second challenge lies in the fact that farmers can implement the technology on their best plots or at least on plots having favorable characteristics and offering a higher productivity for the technology being adopted. Differences across plots should also be accounted for when comparing outcomes across plots.

To overcome these methodological challenges, we follow the method proposed by Barrett et al. (2004) and used in Chen & Yen (2006) and Minten et al. (2007). Using data from adopting farmers only and detailed information on plots both under the new and old technology, we are able to isolate the productivity effect of adopting the technology, i.e. in our case castor production. We use panel data methods applied to a situation where instead of the 'time' dimension, we have different plot observations. The vast majority of farmers who adopted castor have more than one plot and at least one is intercropped with castor. Because farmers simultaneously use both technologies, i.e. at least one plot is intercropped with castor and one plot is not, we will randomly select one plot intercropped with castor and one plot without castor production. Using a sample of paired plots cultivated by the same farmer in the same season and using detailed information on plot characteristics to control for differences,

we are able to measure the spillover effect from adopting castor and hence resolve the unobserved heterogeneity problem.

Following the specification from Barrett et al. (2004) and Minten et al. (2007), the technologies on each of the two plots, the castor intercropped plot and the plot without castor, can be represented by:

$$y_{ic} = f_{ic}(x, z)$$

$$y_{nic} = f_{nic}(x, z)$$

Where y_{ic} is a measure of productivity of castor intercropped plots, y_{nic} a measure of productivity on plots without castor, x is a t dimensional vector representing production inputs under the control of the farmer and z is a s dimensional vector including exogenous plot characteristics.

Taking a standard logarithmic Cobb-Douglas function,

$$\log y_{ic} = \alpha_{ic0} + \sum_{j=1}^t \beta_{icj} \log x_{icj} + \sum_{j=1}^s \delta_{icj} \log z_{icj} \quad (1)$$

$$\log y_{nic} = \alpha_{nic0} + \sum_{j=1}^t \beta_{nicj} \log x_{nicj} + \sum_{j=1}^s \delta_{nicj} \log z_{nicj} \quad (2)$$

Differencing equations (1) and (2), we get the differential production function:

$$d \log y = \alpha_0 + \sum_{j=1}^t \beta_j d \log x_j + \sum_{j=1}^s \delta_j d \log z_j + d \varepsilon \quad (3)$$

Where $d \log y$ is the difference in productivity, $d \log x$ the difference in input application rates on the two plots, $d \log z$ reflects the exogenous differences in the plots and $d \varepsilon$ is a mean zero independent error term. All farmer-specific characteristics that are plot invariant, whether observed (e.g. education, gender, household size, rainfall) or unobserved (e.g. ability, social connections) are differenced away. Direct estimation of Equation (3) and particularly the

parameter α_0 gives consistent and unbiased estimates of plot productivity differences attributable to castor production.

4. Descriptive statistics and food productivity indicators

4.1 Farm and farmers characteristics

The predominant farming system of the study area is a mixed crop-livestock system. The most important food crops which farmers cultivate include diverse types of cereals and root crops and enset (commonly called “false banana”) ⁴. Some farmers produce some local cash crops such as fruit, ginger, coffee, and cotton. Crop production entirely depends on rainfall, which is often erratic and unpredictable and which leaves many vulnerable to food insecurity. Almost half (47%) of the families in these regions face 2 to 3 months of food shortages, according to CSA (2011).

Descriptive statistics of farmers growing castor are shown in Table 2. 89% of the households in our sample are headed by a men. The average head has about 45 years old and 3 years of education. On average, households have 7 members of which 4 are in the labor force (productive age group). The large majority of households participate in activities benefiting the community and less than 10% of them had a mobile phone at the time of interview. Looking at an indicator of food insecurity, only 19% of the sample had a food gap⁵ of at least 2 months which is considerably smaller than the regional average of 47%. Smallholder farmers have on average 1ha of land but there is a wide dispersion. The land they cultivate is divided into 3 plots, of which 1 is intercropped with castor. The average area allocated to castor is 0.13 ha and the variation among farmers is small. On average, the contract with the company was ongoing since one and a half year.

⁴ Enset is a perennial and relatively drought-resistant plant, maturing at around four years and grows up to seven years, serves as a food store for most households.

⁵ “Food Gap” is defined as the number of months that the household runs out of its own stock of food and lacks the money to purchase food.

Table 3 provides details on the extent of intercropping with castor. The number of crops castor is intercropped with varies from 1 to 11, with the proportion of plots where 2, 3 or 4 or more crops are cultivated in total being fairly equal in the sample (table 3a). It can also be seen that there is a large diversity in terms of the crops that are cultivated together with castor. The most frequent crop is maize, closely followed by haricot beans and then coffee, sweet potato and mango (table 3b).

Qualitative indicators (table 4) show that 67% of the households are happy with the assistance they received from the company and 53% would recommend other farmers to join the program. Slightly less than half of the sample is satisfied with the contract itself. To understand farmers' motivation, we asked them about their perceived benefits associated with growing castor. 87% of participant farmers responded that they planted castor in the expectation of higher income. Interestingly, only 10% of them stated it was mainly to benefit from higher soil productivity associated with planting castor. This suggests that a small share of farmers were aware of the soil improvement benefit of castor, especially when used in intercropping.

Analyzing possible improvements and problems, 70% of the farmers state that the company should increase the price paid for the castor beans. During interviews, several farmers indeed complained that castor was not profitable given the current market prices of other food crops. 22% of the farmers mention that assistance and technical support should be improved and 19% mention the need for additional inputs (fertilizers, seeds and pesticides).

4.2 Food productivity indicators

To measure plot level food crop productivity we use two different indicators, a measure of income and a measure of calories produced, each of which are standard practices in the literature (Govereh & Jayne, 2003; Holden, et al., 2001; Kassie, et al., 2011).⁶ First, we converted all plot level production into monetary values. We computed the food crop value aggregates using average prices from the entire sample that can be considered as a proxy for the regional market price levels. Second, we converted plot level food crop production to calorie equivalent and computed food productivity in terms of the calorie content. Using FAO and WFP guidelines, we used standard food caloric conversion rates to convert food production into energy kilo calorie (kcal) equivalent levels, (FAO, 2003; FAO/WFP, 2009).

To be able to compare plot productivity between plots that are intercropped with castor and plots that are not intercropped with castor, we compute a measure of income and calories produced on each plot per hectare without castor production.

5. Spillovers of biofuel production on productivity

5.1 Unconditional productivity differences between castor plots and non-castor plots

Unconditional productivity differences using the indicators described in section 4.2 for the two plots that were selected in the matched sampling design are presented in table 5.⁷ At the farm level, we compare a plot intercropped with castor with one plot without castor randomly selected among the plots without castor of the farm. Descriptive statistics at the plot level indicate that food crop income per hectare without castor is 79% higher on plots

⁶ Because of data unavailability, we are not able to calculate the Land Equivalent Ratio, a commonly used index of intercropping benefits defined as the relative land area required as sole crop to produce the same yields as inter-cropping (Vandermeer, 1992).

⁷ Since our empirical strategy involves matching one plot intercropped with castor with one plot without castor at the farm level, we lose some observations due to incomplete data. Some farmers only cultivate one crop in the main agricultural season, some others cultivate more than one plot but castor is cultivated on all of them. These cases were excluded from our analysis.

intercropped with castor. Food crop income increases from 2,221 Ethiopian Birr (ETB) to 3,982 ETB and the difference is significant at the 10% level.⁸

An even larger and significant difference appears when comparing food production in calories per hectare without castor across plots that are intercropped with castor and the ones that are not. Total calories produced on plots with castor is on average 112% higher.

To understand where the differences in productivity come from, it is interesting to analyze input differences. The data in Table 5 indicate that labor input (measured as the number of man-days worked on the plot) is similar between the two types of plots but that the quantity of fertilizer applied on plots with castor is double. This reflects the fact that not only do participants receive better access to fertilizers through the contract scheme but also that they use it where they are supposed to, on the plots where castor is grown. The differences do not appear to be due to differences in irrigation because plots without castor seem to be even less irrigated than plots with castor. However, the difference should be interpreted with caution given the small number of plots with an irrigation system.

Comparing the characteristics of the plots, we see that the size of the plots where castor is grown is larger but the difference disappears if we compare the area of land cultivated excluding the land allocated to castor. On average, farmers cultivate 2 to 3 different crops on the same plot. When castor is grown, it is added as an extra crop to the plot but does not seem to reduce the number of other crops on the plot. Table 5 also presents physical characteristics of the two plots that were selected in the matched sample. The descriptive variables indicate that the plots seem to be fairly similar in several aspects such as ownership, soil type, slope and quality 5 years ago. One interesting difference emerges when we look at reported quality. The share of plots with castor considered as fertile by the farmers is smaller than the share of plots without castor that are said to be fertile. This is similar to the irrigation

⁸ At the time of the survey (2011), the US\$-ETB exchange rate was around 17.

differences, and suggests that farmers did not decide to grow castor seeds on their more fertile plots.

5.2 Econometric results

We now turn to the econometric analysis and implement the empirical analysis described in section 3.2 to evaluate and explain the productivity differences between plots where biodiesel is grown and plots where it is not. We ran a differential productivity regression on a sample of paired randomly selected plots, plots intercropped with castor and plots without castor, each pair cultivated by the same farmer. Results are presented in table 7. Potential sources of bias have been removed since observed and unobserved farmer and community-specific variables have been differenced away.

Results confirm that the physical characteristics of the plots do not contribute much to explain the productivity differences between the plots. Only a black soil type leads to significant higher productivity, both when measured by the calories and income indicator. Analyzing the main variable of interest, it can be seen that the intercept is large and significant. The increase in productivity measured in terms of food calories produced ranges between 528,820 and 796,507 calories per hectare without castor, which represents an increase of 35%-52% (columns (1) – (2)). The effect decreases when controlling for the quantity of fertilizer applied on the plot but remains significant. The increase in productivity measured in terms of food income is of similar magnitude. Productivity increases by 46% (or equivalently 1,030 ETB/ha) on plots intercropped with castor (column (3)). Controlling for fertilizer use, the positive effect on productivity measured by income decreases to 25% and becomes insignificant. This confirms the fact that spillovers from castor production for biofuels are partly attributable to better access to fertilizers and inputs.

As robustness tests, we ran several alternative econometric specifications (including Random Effects and Pooled OLS models). The results of these additional analysis are presented in Appendix. All the results are qualitatively and quantitatively similar to the ones presented here, lending support to the robustness of our results.

In summary, our analysis shows that the introduction of castor production for biofuel in a poor country as Ethiopia can significantly improve food productivity of rural households who produce raw material for biofuel production. Indeed, farmers allocated around 30% of one of their plots (13% of their total land) to castor production but as this paper shows, it does not mean that 13% less food is being produced since the increase in plot productivity on the remaining of the land increased by at least 35%. Spillovers of castor production cause strong increase in food productivity, thereby offsetting the impact of reduced land used for food crops.

6. Conclusion

The effects of biofuels on smallholder farmers in developing countries are still lively debated. We contribute to the discussion presenting micro-evidence on the indirect impact of cultivation of a biofuel feedstock crop, castor, for poor farm households in Ethiopia. Using survey data collected in early 2011 in the SNNP region about farmers engaged in a feedstock production contract with a company, we show that large spillover effects exist. Using a matched plot design to pair plots where castor is grown and intercropped with plots where no castor is grown at the farmer level, and using two measures of productivity (i) food crop income and (ii) food calories produced, we show that productivity is between 35% and 52% higher on plots intercropped with castor. This increase in productivity seems particularly linked to enhanced access to inputs and in particular fertilizer which were provided as part of the biofuel feedstock production contract.

The effect is large but not that surprising since fertilizer use is very constrained in the region surveyed and marginal effects can be very significant in such circumstances. We show that farmers apply the inputs received on the plots where castor is grown. Contract enforcement problems common to food supply chains seem to be limited in this case, especially because of low competition in the area (for a review on contract enforcement problems in global supply chains, see Swinnen & Vandeplas, 2010).

Spillover effects of biofuels on food crops as a result of (a) better access to fertilizer, (b) improved land quality by rotating and intercropping castor beans with other crops and (c) technical assistance by extension agents are channels through which participant households' food productivity may improve under the contract scheme. Other studies have demonstrated that such type of contracts for cash crops can have significant spillover effects on non-contracted food crops (e.g. Masakure & Henson, 2005; Minten et al., 2007). Our findings suggest that such positive spillover effects may also occur in the case of biofuel feedstock. This paper thus help nuancing the view that biofuels necessarily harm smallholders' food security.

7. References

- Arndt, C., Msangi, S., & Thurlow, J. (2011). Are biofuels good for African development? An analytical framework with evidence from Mozambique and Tanzania. *Biofuels*, 2(2): 221-234.
- Barrett, C., Moser, C., McHugh, O., & Barison, J. (2004). Better technology, better plots, or better farmers? Identifying changes in productivity and risk among Malagasy rice farmers. *American Journal of Agricultural Economics*, 86(4): 869-888.
- Barrett, C., Bachke, M., Bellemare, M., Michelson, H., Narayanan, S., & Walker, T. (2012). Smallholder participation in contract farming: Comparative evidence from five countries. *World Development*, 40(4): 715-730.
- Bazilian, M., Sagar, A., Detchon, R., & Yumkella, K. (2010). More heat and light. *Energy Policy*. 38(10): 5409-5412.
- Bindraban, P., Bulte, E., & Conijn, S. (2009). Can large-scale biofuels production be sustainable by 2020?. *Agricultural Systems*, 101(3): 197-199.
- Chen, Z., & Yen, S. (2006). Better technology, better plots, or better farmers? Identifying changes in productivity and risk among Malagasy rice farms: A comment. *American Journal of Agricultural Economics*, 88(3): 763-766.
- CSA (Central Statistical Agency of Ethiopia). (2002-2011). Welfare monitoring surveys.
- Cotula, L., Dyer, N., & Vermeulen, S. (2008). *Fuelling Exclusion?: The Biofuels Boom and Poor People's Access to Land*. IIED.
- Devereux, S., & Guenther, B., (2009). Agriculture and social protection. FAC (Future Agriculture Consortium) Working Paper.
- FAO (Food and Agriculture Organization). (2003). Food energy – methods of analysis and conversion factors. Technical Report. FAO. Rome

- FAO. (2008). Biofuels: prospects, risks and opportunities. The state of food and agriculture. Rome: Food and Agriculture Organization.
- FAO & WFP (World Food Program). (2009). Joint Guidelines January 2009 for Crop and Food Security Assessment Missions. Rome: FAO and WFP.
- Fargione, J., Hill, J., Tilman, D., Polasky, S., & Hawthorne, P. (2008). Land clearing and the biofuel carbon debt. *Science*, 319(5867): 1235-1238.
- German, L., G. C. Schoneveld, & D. Gumbo. (2011). The local social and environmental impacts of smallholder-based biofuel investments in Zambia. *Ecology and Society* 16(4): 12.
- Govere, J., & Jayne, T. S. (2003). Cash cropping and food crop productivity: synergies or trade-offs? *Agricultural Economics*, 28(1): 39-50.
- Holden, S., Shiferaw, B., & Pender, J. (2001). Market imperfections and land productivity in the Ethiopian highlands. *Journal of Agricultural Economics*, 52(3): 53-70.
- Huang, J., Yang, J., Msangi, S., Rozelle, S., & Weersink, A. (2012). Biofuels and the poor: Global impact pathways of biofuels on agricultural markets. *Food Policy*, 37(4): 439-451.
- Kassie, M., Shiferaw, B., & Muricho, G. (2011). Agricultural technology, crop income, and poverty alleviation in Uganda. *World Development*, 39(10): 1784-1795.
- Kebede, E., Kagochi, J. & Curtis M. (2010). Energy consumption and economic development in Sub-Saharan Africa. *Energy Economics*. 32.3: 532-537.
- Lee, C. C., & Chang, C. P. (2008). Energy consumption and economic growth in Asian economies: a more comprehensive analysis using panel data. *Resource and Energy Economics*, 30(1): 50-65.

- Maertens, M. (2009). Horticulture Exports, Agro-industrialization and Farm Nonfarm Linkages with the Smallholder Farm Sector: A Case-Study from Senegal. *Agricultural Economics*, 40 (2), 219-229.
- Masakure, O., & Henson, S. (2005). Why do small-scale producers choose to produce under contract? Lessons from nontraditional vegetable exports from Zimbabwe. *World Development*. 33(10): 1721–1733.
- Minten, B., Randrianarison, L., & Swinnen, J. (2007). Spillovers from high-value agriculture for exports on land use in developing countries: evidence from Madagascar. *Agricultural Economics*, 37(2-3): 265-275.
- Mitchell, D. (2008). A note on rising food prices. *World Bank Policy Research Working Paper*, 4682.
- MoME. Biofuel Development Strategy Document. Ministry of Mines and Energy of Ethiopia; 2007.
- Negash, M., & Swinnen, J. (2013). Biofuels and food security: Micro-evidence from Ethiopia. *Energy Policy*, 61: 963-976.
- Negash, M., & Riera, O. (2014). Biodiesel value chain and access to energy in Ethiopia: Policies and business prospects. *Renewable and Sustainable Energy Reviews*: 39, 975-985.
- Nussbaumer, P., Bazilian, M., & Modi, V. (2012). Measuring energy poverty: Focusing on what matters. *Renewable and Sustainable Energy Reviews*, 16(1): 231–243.
- Odhiambo, Nicholas M. (2009). Energy consumption and economic growth nexus in Tanzania: An ARDL bounds testing approach. *Energy Policy*, 37(2): 617-622.
- Padula, A. D., Santos, M. S., Ferreira, L., & Borenstein, D. (2012). The emergence of the biodiesel industry in Brazil: Current figures and future prospects. *Energy policy*, 44: 395-405.

- Pimentel, D., Marklein, A., Toth, M., Karpoff, M., Paul, G., McCormack, R. & Krueger, T. (2009). Food versus biofuels: environmental and economic costs. *Human Ecology*, 37(1): 1-12.
- Portale, E. (2012). Socio-economic sustainability of biofuel production in sub-Saharan Africa: evidence from a *Jatropha* outgrower model in rural Tanzania. Harvard Kennedy School, Belfer Center for Science and International Affairs, Discussion Paper 2012-01.
- Reubens, B., Achten, W. M., Maes, W., Danjon, F., Aerts, R., Poesen, J., & Muys, B. (2011). More than biofuel? *Jatropha curcas* root system symmetry and potential for soil erosion control. *Journal of Arid Environments*, 75(2): 201-205.
- Searchinger, T., Heimlich, R., Houghton, R. A., Dong, F., Elobeid, A., Fabiosa, J., & Yu, T. H. (2008). Use of US croplands for biofuels increases greenhouse gases through emissions from land-use change. *Science*, 319(5867): 1238-1240.
- Sovacool, B. (2012). The political economy of energy poverty: A review of key challenges. *Energy for Sustainable Development*, 16(3): 272-282.
- Swinnen, J. & Vandeplas, A. (2010). Market power and rents in global supply chains. *Agricultural Economics*, 41(s1): 109-120.
- Vandermeer, J. (1992). *The ecology of intercropping*. Cambridge University Press.
- von Braun, J., Ahmed, A., Asenso-Okyere, K., Fan, S., Gulati, A., Hoddinott, J., & Von Grebmer, K. (2008). High food prices: The what, who, and how of proposed policy actions. *Washington, DC: International Food Policy Research Institute*.
- Wani, S. P., Chander, G., Sahrawat, K. L., Srinivasa Rao, C., Raghvendra, G., Susanna, P., & Pavani, M. (2012). Carbon sequestration and land rehabilitation through *Jatropha Curcas* plantation in degraded lands. *Agriculture, Ecosystems & Environment*, 161: 112-120.

Wijnands, J., Biersteker, J., & Hiel, R., (2007). Oilseeds business opportunities in Ethiopia.

Unpublished manuscript, The Hague.

The World Bank. (2011). *Rising global interest in farmland. Can it yield sustainable and equitable benefits?* World Bank Publications.

Zhang, W., Yu, E., Rozelle, S., Yang, J., & Msangi, S. (2013). The impact of biofuel growth on agriculture: Why is the range of estimates so wide? *Food Policy*, 38: 227-239.

Tables

Table 1. Private biodiesel projects in Ethiopia

Type of business model	# of projects	Type of feedstock specialized	Total area (ha)	
			Total allotted/or leased ('000 ha)	Under cultivation ('000 ha)
Large scale plantations ^a	3	Castor, Jatropha, Pongamia	66.7	8
Outgrowers ^b	1	Castor	NA	15-30
Mixed outgrower with plantation	2	Castor	3	3
PPP ^c	1	Castor, Jatropha, Candlenut, Croton	15	7

Source: data collected from the authors' own survey

^a All are foreign firms

^b Cultivation is integrated with farmers' own plots which makes it difficult to estimate the exact land allocation under this scheme. From Negash & Swinnen (2013), 10-20 thousand households cultivate on average 0.15 ha each. This approximately gives a total of 15-30 ha of land allocated to castor under this scheme

^c In some cases, farmers are encouraged to plant jatropha as fences and collect the seeds.

Table 2. Farmers' and farms characteristics

Variable	Mean	SD	Min	Max
# of observations	83			
Head of household				
% of male	90			
Age	43.89	13.32	18	95
Years of education	3.250	4.170	0	15
Household characteristics				
Household size	6.760	2.640	1	18
% of hh members in labor force	59	0.220	0.170	1
% with at least one member working off-farm	41			
% that own a mobile phone	8			
% involved in any communal activity	89			
% that had a food gap of at least two months	19			
Livestock units owned (TLU)	2.800	3.180	0	17.40
Total land owned (ha)	1.030	0.640	0.250	4.750
# of plots owned	2.990	1.100	1	6
Average distance between plots and home (min)	10.87	10.54	0.700	46.50
Castor contract				
Years since start of contract	1.570	0.680	1	3
Land allocated to castor (ha)	0.130	0.087	0.025	0.417
# of plots intercropped with castor	1.036	0.188	1	2
# of extension agents' visits in the last year	8.660	11.03	0	48
% that are satisfied with the assistance from the company	67			
% that would recommend others to join the program	53			
% that are satisfied with the contract with the company	48			

Source: own survey

Table 3. Details of intercropping

a. # of crops intercropped with castor

	%
1	33
2	34
3	13
4 or more	20

Source: own survey

b. Main crops intercropped with castor

	%
Maize	39
Haricot beans	35
Coffee	23
Sweet Potato	22
Mango	20
Cassava	18
Moringa	17
Teff	16
Banana	16
Avocado	11
Enset	10

Source: own survey

Table 4. Quality and motivation to grow castor

	% of farmers
Satisfaction	
Farmers satisfied with the assistance from the company	67
Farmers that would recommend others to join the program	53
Farmers are satisfied with the contract with the company	48
Reasons to grow castor^a	
Higher income	87
Higher soil productivity	10
Guaranteed market	1
Other	1
Areas of improvement^b	
Price of castor is too low	70
Technical assistance should be strengthened	22
Input supply should increase and be better timed	19

^a Only one response was allowed.

^b The sum exceeds 100% because more than one response was allowed.

Source: own survey

Table 5. Plot level characteristics (main agricultural season)

Variable	Plots without castor	Plots with castor	Difference	T-statistic
# of observations	72	72		
Productivity				
Food crop income	753	974	220	-0.99 *
Food crop income per hectare	2,221	2,520	299	-0.51
Food crop income per hectare without castor	2,221	3,982	1,761	-1.69 *
Food production (calories)	529,208	797,438	268,230	-1.37
Food production (calories) per hectare	1,521,031	2,003,377	482,346	-0.94
Food production (calories) per hectare without castor	1,521,031	3,224,338	1,703,306	-1.77 *
Plot inputs				
Plot labor input per hectare (adult equivalent)	375	361	-14.12	0.13
Plot fertilizer use per hectare (kg)	14.9	30.36	15.46	-2.31 **
Plot irrigated (dummy)	0.07	0.00	-0.07	2.30 **
Plot characteristics				
Plot size (ha)	0.34	0.42	0.08	-1.66 *
Land cultivated with castor	-	0.13	-	-
Number of intercropped crops	2.74	3.50	0.76	-2.57 **
Years since plot was last left fallow	0.24	0.10	-0.14	1.31
Distance between plot and home (min)	16	19	3.13	-0.72
Plot physical characteristics				
Plot soil type: black	44%	28%	-16%	2.1 **
Plot soil type: mixed	31%	38%	7%	-0.88
Plot soil type: red	21%	31%	10%	-1.33
Plot soil type: other	4%	3%	-1%	0.45
Plot ownership: owned	90%	94%	4%	-0.94
Plot ownership: rented	4%	3%	-1%	0.45
Plot ownership: sharecropped	0%	1%	1%	-1
Plot quality: fertile	58%	42%	-16%	2.01 **
Plot quality: average	32%	42%	10%	-1.21
Plot quality: poor	8%	14%	6%	-1.06
Plot quality 5y ago: better	57%	58%	1%	-0.17
Plot quality 5y ago: same	29%	28%	-1%	0.18
Plot quality 5y ago: worse	8%	10%	2%	-0.29
Plot slope: flat	72%	65%	-7%	0.9
Plot slope: gentle	18%	28%	10%	-1.39
Plot slope: steep	10%	7%	-3%	0.6
Plot with terraces	19%	21%	2%	-0.21

*p<0.10, **p<0.05, ***p<0.01

Source: own survey

Table 6. Selection equation, plots intercropped with castor (=1) versus plots without castor

	Coefficient	z-value
Plot size (ha)	1.99	(1.75)
Plot soil type: black	-0.56	(0.36)
Plot soil type: red	-0.30	(0.44)
Plot quality: fertile	-0.31	(0.30)
Plot quality: poor	0.04	(0.39)
Plot slope: gentle	0.52	(0.53)
Plot with terraces	-0.09	(0.44)
Years since plot was last left fallow	-0.47	(0.47)
Plot ownership: owned	-0.01	(0.61)
Distance between plot and home (min)	-0.01	(0.01)
Plot slope: steep	-0.19	(0.62)
Plot quality 5y ago: better	-0.01	(0.28)
Plot quality 5y ago: worse	0.12	(0.40)
Constant	-0.23	(0.58)
# of observations	142	
Log likelihood	-92.29	
Wald test	33.88	
Prob>Chi2	0.005	

Cluster robust standard errors in parentheses

Table 7. Differential productivity regression on plots intercropped with castor and plots without castor

	Food calories per ha w/o castor		Food income per ha w/o castor	
	(1)	(2)	(3)	(4)
Intercept	796,507*** (227,951)	528,820* (275,115)	1,030*** (268)	550 (402)
D.Plot fertilizer use per ha (kg)		15,766** (6,784)		26*** (8)
D.Plot labor input per ha (adult equivalent)	442 (328)	250 (268)	0.159 (0.480)	0.001 (0.382)
D.Plot soil type: black	883,969* (484,731)	923,836* (526,822)	1,960** (876)	1,510** (631)
D.Plot soil type: red	611,496 (504,917)	267,350 (464,374)	906 (664)	418 (704)
D.Plot quality: fertile	545,683 (660,959)	350,773 (657,900)	52 (1309)	374 (938)
D.Plot quality: poor	757,983 (884,978)	172,095 (617,994)	617 (860)	-99 (644)
D.Number of intercropped crops	106,911 (147,929)	58,423 (125,428)	-85 (163)	-178 (164)
D.Plot with terraces	403,837 (1,249,553)	620,168 (1,199,524)	1,916 (1,415)	1,932 (1,353)
D.Plot ownership: owned	-550,624 (1,133,259)	92,937 (1,119,450)	188 (1,475)	820 (1,514)
D.Distance between plot and home (min)	2,2125* (11,251)	13,115 (12,755)	18 (13)	7 (13)
Observations	68	68	68	68
R-squared	0.138	0.225	0.145	0.273

Cluster robust standard errors in parentheses

District dummies included but not reported

* p<0.10, ** p<0.05, *** p<0.01

Appendix

Figure A1: Sampled villages in SNNP (South Nations and Nationalities) region

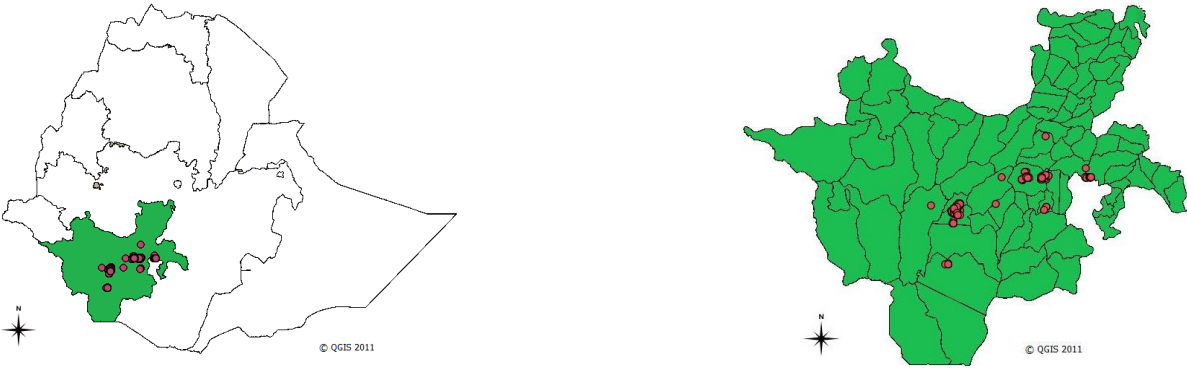


Table A1. Productivity effects on plots intercropped with castor – Random effect model

	Food calories per ha w/o castor		Food income per ha w/o castor	
	(1)	(2)	(3)	(4)
Plot intercropped with castor	705,205*** (251,986)	519,300* (285,095)	558* (331)	247 (405)
Plot fertilizer use per ha (kg)		10,620* (6394)		23** (10)
Plot ownership: owned	332,236 (348,535)	387,795 (322,920)	458 (510)	575 (461)
Distance between plot and home (min)	9,481 (5,792)	7,458 (6,343)	7 (6)	5 (7)
Plot labor input per ha (adult equivalent)	61 (157)	22 (155)	0.130 (0.248)	0.026 (0.237)
Plot soil type: black	450,846 (475,335)	410,154 (462,906)	590 (765)	364 (607)
Plot soil type: red	616,533*** (184,366)	538,125*** (197,743)	592* (334)	470 (327)
Plot quality: fertile	-80,507 (387,901)	53,717 (398,618)	-166 (694)	234 (557)
Plot quality: poor	-822,899*** (260,591)	-722,573*** (249,070)	-1129*** (387)	-883*** (334)
Number of intercropped crops	20,399 (74,274)	-10,708 (59,047)	-88 (74)	-121 (74)
Plot with terraces	371,532 (398,047)	416,758 (438,228)	636 (665)	738 (737)
Number of plots owned by household	-174,798 (219,901)	-136,601 (234,175)	-386 (382)	-287 (402)
Household size	-29,176 (65,340)	-22,971 (62,958)	-26 (103)	-32 (88)
Education of the HH head (years)	33,407 (28,598)	18,604 (25,420)	12 (54)	-0.666 (45)
Gender of HH head	374,575 (414,905)	403,420 (391,039)	865 (624)	843 (552)
Observations	140	140	140	140

Cluster robust standard errors in parentheses

District dummies included but not reported

* p<0.10, ** p<0.05, *** p<0.01

Table A2. Productivity effects on plots intercropped with castor – Pooled OLS model

	Food calories per ha w/o castor		Food income per ha w/o castor	
	(1)	(2)	(3)	(4)
Plot intercropped with castor	701,571** (252,908)	521,224* (289,666)	561* (342)	248 (417)
Plot fertilizer use per ha sila (kg)		10,176 (6,394)		22* (11)
Plot ownership: owned	366,848 (324,139)	424,431 (292,749)	544 (466)	632 (427)
Distance between plot and home (min)	8,905 (5,651)	6,811 (6,081)	6 (6)	4 (7)
Plot labor input per ha (adult equivalent)	50 (160)		0.119 (0.253)	0.010 (0.252)
Plot soil type: black	434,678 (471,066)	379,201 (459,594)	497 (751)	252 (609)
Plot soil type: red	624,458*** (185,020)	553,846** (200,059)	586* (335)	479 (341)
Plot quality: fertile	-105,714 (388,171)	20,784 (402,951)	-208 (651)	179 (553)
Plot quality: poor	-874,359*** (271,358)	-788,933*** (267,452)	-1288*** (397)	-1029*** (364)
Number of intercropped crops	17,494 (71,935)	-12,584 (57,094)	-90 (71)	-121* (69)
Plot with terraces	372,650 (398,055)	420,800 (438,449)	577 (667)	701 (748)
Number of plots owned by household	-180,011 (220,220)	-145,225 (233,717)	-401 (383)	-304 (403)
Household size	-29,070 (64,086)	-23,228 (61,498)	-27 (101)	-33 (86)
Education of the HH head (years)	32,844 (28,446)	18,774 (25,681)	12 (53)	0.115 (45)
Gender of HH head	369,993 (409367)	394,464 (384,467)	843 (606)	815 (533)
Observations	140	140	140	140
R-squared	0.187	0.219	0.139	0.227

Cluster robust standard errors in parentheses

District dummies included but not reported

* p<0.10, ** p<0.05, *** p<0.01