Risk Perceptions and Risk Management — A Socioeconomic Analysis of Ethiopian Smallholder Coffee Growers

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Abstract

In recent years, coffee producers’ risk has become one of the major issues in the current discussions within the International Coffee Organisation (ICO) and its member countries. In Ethiopia, coffee growers deal with many risks while often lacking effective mechanisms to manage them. However, information concerning “which sources of risk to coffee income do the growers consider relevant” and “in what risk management tools they are interested in” is too scanty to gain an adequate understanding of their risk behaviour. Therefore, the main aims of this study were (1) to identify the extent and diversity of coffee growers’ perceived risks and preferred risk management strategies, and (2) investigate the variables influencing their risk perceptions and management responses. The data used in this study were gathered from a random sample of 195 smallholder coffee growers in southwest Ethiopia. Factor analysis and linear regression have been employed to analyse the data. Factor analysis identifies five latent variables that account for 62% of the total observed variations in the growers’ risk perceptions. Additionally, estimated results from linear regressions indicate that resource endowments, demographics, access to information and location attributes were statistically significant in explaining the observed variation in growers’ scores on the underlying risk perceptions (latent variables). In similar manner, factor analysis finds six latent risk management variables and explains about 64% of the observed variation in the growers’ preferences for various risk management strategies. Moreover, estimation results of the linear regression equations revealed that perceived risks, demographics, resource endowments, coffee income volatility, and location were statistically significant in explaining the growers’ scores on risk management preferences. Therefore, these information must be utilised to formulate effective and broadly accepted risk management policy and support to smallholder coffee growers.

Keywords: Coffee, Ethiopia, management responses, risk perceptions

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