

## **CHAPTER 5**

### **CONCLUSIONS AND RECOMMENDATION**

#### **5.1 Conclusions**

The study aims at identifying the determinants of the risk attitude of the Ethiopian households with a special focus on the role of trust in the risk attitude. The analyses are based on sample data of 404 households from the southern part of Ethiopia around Hawassa city. Information was collected by means a survey questionnaire including an experimental in which the respondent could win cash with real payouts. Probit and OLS models are employed to analyze the data. According to our survey collected data analysis, the model results show, the variable ‘trust in relatives’ has statistical significance on the risk attitude of the subjects. Moreover, it has a substantial effect on the other independent variables making it an essential variable in risk-taking attitude of the Ethiopian households. However, it becomes insignificant when the risk attitude of the subjects is tested using the data of the lottery game. Similarly, gender of the household, informal schooling, number of shocks, respondent household, informal sources of information, mobile phone ownership and total non-farm income are all significant variables that affect the risk attitude of the subjects in survey measures but based on the lottery game data set our results indicate only informal schooling, mobile phone ownership and total non-farm income are significant. This shows that the survey data is capable of predicting socio-economic decisions where financial and non-financial matters are involved. The ability to estimate the risk attitude of the respondent households is also validated using the survey data in Table 5:.

The study reveals that men are strong risk takers in Ethiopia compared to women. This could be due the fact that in Ethiopia men are culturally more dominant than women when it comes to decision makings. However, both male and female with informal schooling have 10% significance, but negatively correlated with risk-seeking attitude. Both male and female respondents who attend formal schooling exhibit moderate risk attitude. The result of the descriptive statistics indicates that the average education level of the households is 3.24 which is elementary grade by standard. We suggest that this could be the reason why the level of education is insignificant in our

results. Interestingly enough the mobile phone ownership is both highly significant and positively correlated to the willingness to take risk. The literature review describes that farmers are getting higher access to mobile phones and many of the subscribers are from rural Africa. This shows that mobile phones are important communication and information-exchange tools between the producers and buyers to make a bargain on basic inputs such as fertilizers and improved seeds for higher yields. The lottery measure also indicates that mobile phone ownership is strongly significant variable. This tells us that mobile phones are valuable technologies that have substantial effect on financial and non-financial decisions taken by the Ethiopian households. Similarly, the respondent household variable is strongly significant in both survey and lottery measurements. It is also strongly correlated with the general willingness to take risk in farm management based on the two Probit and OLS outcome. Therefore, we can say that if the subject is the head of the household, then that person has strong influencing power on decision makings in the household. According to our literature review, non-farm income generally increases farmers' welfare that eventually influence the risk-taking attitude of the individuals. Our regression results support the hypothesis that non-farm income of the subjects has strong and positive correlation with the risk-taking attitude of the households.

Following the study on the risk attitude of the population, the estimation results indicate that more than 68% of the households are risk seekers. This is contrary to the previously obtained results in the northern highland of Ethiopia where more than 50% of the households are in the moderate to severe risk aversion category (Yesuf & Bluffstone, 2008). However, there are similar findings in India with extreme risk loving behavior among farmers (85% of the respondents are found to be risk lovers). We believe that the different result obtained in Ethiopia arises from the lower shock prevalence in the southern part of Ethiopia and the extreme occurrence of drought and livestock mortality in the northern part of Ethiopia along with the lack of arable land, erratic rainfall and poor soil fertility that often lead to low yields. All these negative impacts affect farmers' risk attitude to exhibit risk aversion.

## 5.2 Policy Recommendation

The results show that more than half of interviewed households in southern Ethiopia are risk takers. However, there is a considerable gender inequality among the societies. Hence, we recommend that new policy measures should be put in place to reduce this gender gap. Women should be given equal opportunity in decision makings in the household because the role of women in agriculture and poverty alleviation is fundamental to the household and also important to birth rate control where everyone is concerned. Education proves to be an important asset that impacts household risk-seeking attitude positively. It is necessary to prioritize education because it is an investment that increases the return in the labor market. Trust as one of the significant factors of the risk attitude that influences other independent variables should be given priorities in such societies. Trust strengthens connections among different groups of people and it improves the cognitive social capitals and community-based initiatives which are fundamental to socio-economic progress of societies. Hence, ministries and government institutions should prioritize trust in their policy to connect traders, companies and farmers to forge mutual cooperation and thus increasing the economic welfare of people.

Similarly, the increasing rate of mobile phone subscription in the rural households of Africa proves that it increases the risk-taking attitude of the Ethiopian households. Hence, rural households should have easy access to mobile phones. Non-farm incomes are usually considered supplementary income that increases the total annual income of the rural farm households. It is one of the significant variables that reduce the risk aversion attitude of the farmers. Non-farm income should be encouraged among rural farmers because it improves the livelihood of the rural farmers by supplementing the annual incomes of the household during adverse conditions. It can be the source of savings and investments that later help to mitigate risks that may arise from shock prospects.