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**The dynamics of soil degradation and incentives for optimal  
management in the Central Highlands of Ethiopia**

**By**

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**Submitted in partial fulfillment of the requirements for the degree of  
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**Dedication**

*To my mother, Zemamu Gebremedhin; my wife, Hiwot Hailu and my  
daughter, Lydia Chilot*

## **Declaration**

I, the under signed, hereby declare that this thesis, which I submit for the degree of PhD in Environmental Economics at the University of Pretoria is my own work and has not been previously submitted for a degree at another university.

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**ABSTRACT**

In Ethiopia, as in the rest of sub-Saharan Africa, soil degradation (decline in soil quality due to topsoil loss and net nutrient extraction) has become the most important natural resource problem imposing on-site costs to individual farmers in terms of reduced yield and off-site costs to society as a result of externalities. Excessive soil loss rates reaching over 100 tons/ha on croplands are not uncommon. Much worse, the amount of nutrients extracted from the soil through cropping is estimated to be several folds the nutrient inputs added to the soil in the form of organic and inorganic nutrients. Consequently, per capita food production, income and savings have been falling.

Nonetheless, despite the seriousness of soil degradation problems and its negative consequences on food security and income to individual households and the nation at large, the magnitude of the threat that soil degradation poses on current as well as future income and how best to address the problem is not well known. The few available estimates based on static models that do not account for the inter-temporal use of the soil capital indicate the importance of the soil degradation problem but could not provide the full costs that continued soil degradation will have on the country's economic development. Furthermore, the attention provided to the analysis of soil conservation adoption and soil nutrient management practices to date is minimal. This thesis, therefore, using an inter-temporal optimisation framework analysed the tradeoffs of soil

use that smallholder farmers' face in their production decisions. Also, using econometric models that account for simultaneity of choices and plot level survey data, the thesis analysed the determinants of soil fertility and soil conservation adoption decision behaviour of smallholder farmers in the Central highlands of Ethiopia. For the former purpose, the study developed a dynamic analytical control model, derived optimality conditions, solved steady state dynamic and profit maximizing static solutions and then compared results with current average farmer practices. For the latter purpose, multinomial logit models for discrete dependent variables involving multiple choices, Heckman's two-step and Tobit regression models for the censored continuous dependent variables of intensity of inorganic fertilizer and stone/soil bunds, respectively, were employed.

Four major conclusions are drawn from the optimization results. First, steady state optimal output and input levels under the dynamic decision rule are found to be significantly higher than the static solutions signifying that the static decision rule is sub-optimal. Second, current farmer practices involve a net nutrient (N) extraction of 16.2 kg/ha from bottomlands and 56.7 kg/ha from slopping lands entailing a total soil user cost of Birr 255 per ha and Birr 928 per ha, respectively, suggesting smallholder farmers discount the future heavily (display a high rate of time preference) and hence over exploit the resource stock. Third, although current soil nutrient inputs and conservation efforts are lower than the dynamic steady state solutions it is well above the requirements of the static decision rule. Smallholder farmers, therefore, appears to have private incentives and hence consider some of the externalities of soil degradation. These findings suggest that the social gains from better utilization of soil resources are tremendous and government assistance that unlocks the private incentives and help smallholder farmers adjust input use levels towards the socially desirable steady state levels would be desirable to improve profitability of smallholder agriculture and attain sustainable use of the soil capital. Fourth, a comparison of steady state dynamic solutions where Nitrogen stock is the sole determinant of soil quality with a case where both Nitrogen stock and rooting depth impinge on soil quality confirm the main hypothesis that the socially

optimal path of soil use not only diverged from the private optimal path but also depends on the nature of soil degradation smallholder farmers face on their plots. In the highlands of Ethiopia where smallholder farmers manage multiple plots of heterogeneous soil quality and where perception of soil degradation is a function of plot characteristics, soil conservation projects and programs should consider plot heterogeneity in program design and implementation.

The sensitivity analysis of the steady state dynamic solutions showed that a rise in the discount rate lowered steady state optimal input levels, output and the resource stock whereas a lower discount rate have the opposite effect. Measures that raise the future worth of soil resources would, therefore, be crucial to induce smallholder farmers to adopt soil conserving farming techniques. Similarly a rise in output price and a fall in the price of inorganic N fertilizer would have the impact of raising steady state optimal input and output levels whereas a fall in output price and a rise in the price of inorganic N would have the opposite effect. Policies aimed at improving market access and efficiency of existing input and output markets that ensure the delivery of inorganic fertilizers at the right time, product mix and reasonable price, therefore, are likely to increase the use of inorganic fertilizers and soil conservation practices which ultimately contribute to a more sustainable use of soil resources.

The econometric analyses of soil fertility and soil conservation adoption behavior of smallholder farmers provided a number of findings of policy relevance. First, the study showed the importance of farmer education in raising the likelihood of using most of the soil fertility management (SFM) practices as well as intensity of use of inorganic fertilizer and stone/soil bunds suggesting investment in education are indispensable to reducing soil degradation and improve farm income. Second, livestock, a proxy for the wealth position of households, is positively and significantly related with the likelihood of using inorganic fertilizers and integrated soil fertility management (ISFM) practice. Livestock also has a positive and significant effect on the intensity of use of inorganic fertilizers and stone/soil bunds. Households with livestock (particularly oxen) utilize not



only their land more productively but also lease in additional land from fellow farmers, take the production and marketing risks associated with using inorganic fertilizers and stone/soil bunds. Improving smallholder farmers' access to better livestock husbandry techniques particularly veterinary services coupled with measures that increase oxen ownership (individually or collaborative) would be vital to enhance adoption of soil fertility and conservation practices. Third, project assistance in sharing the initial investment costs of soil and water conservation (SWC) structures and access to extension are found to be important determinants of the intensity of SWC and inorganic fertilizers as well as the likelihood of using ISFM technologies suggesting government assistance is vital in improving adoption and hence contribute to more sustainable use of soil resources. Fourth, the likelihood of using manure, ISFM and stone/soil bunds is found to be significantly higher on owned lands than rented in or sharecropped plots suggesting that improved tenure security is a precondition for households to engage in soil fertility management and soil conservation practices that have a long gestation period. Fifth, plot size and number of plots, a proxy for farm size, are positively and significantly related with the likelihood of using all types of SFM but animal manure. Land redistribution in the already degraded and land scarce highlands, therefore, not only contribute to land fragmentation but also by raising the fixed costs of operating micro (very small) and dispersed plots further undermine sustainable farming and increase nutrient mining. Sixth, while access to institutional credit for the purchase of inorganic fertilizers enhanced both incidence and intensity of inorganic fertilizers it has a detrimental effect on the use of stone/soil bunds. This is an important tradeoff that should be considered seriously in policy formulation.

## TABLE OF CONTENTS

<b>ACKNOWLEDGEMENTS.....</b>	<b>IV</b>
<b>ABSTRACT.....</b>	<b>VI</b>
<b>LIST OF TABLES.....</b>	<b>XVI</b>
<b>LIST OF FIGURES.....</b>	<b>XVIII</b>
<b>ACRONYMS AND ABBREVIATIONS.....</b>	<b>XIX</b>
<b>CHAPTER I: INTRODUCTION.....</b>	<b>1</b>
1.1 Background and motivation .....	1
1.2 Problem statement .....	4
1.3 Objectives of the study.....	6
1.4 Approaches and methods of the study .....	7
1.5 Organization of the thesis.....	7
<b>CHAPTER II:OVER VIEW OF THE AGRICULTURAL SECTOR, SOIL RESOURCES AND SOIL DEGRADATION IN ETHIOPIA.....</b>	<b>8</b>
2.1 Performance of the agricultural sector .....	8
2.2 Overview of the soil resources and soil degradation in Ethiopia.....	13
2.2.1 Soil resources of Ethiopia.....	13
2.2.2 Soil degradation in the Ethiopian Highlands .....	19
2.2.3 Impact of soil degradation.....	22
2.2.4 Soil conservation and soil fertility management efforts in Ethiopia....	23
2.2.4.1 Soil conservation research and extension efforts in Ethiopia .....	24
2.2.4.2 Commercial fertilizer use in Ethiopia.....	25
2.3 The policy environment.....	28
2.3.1 Agricultural development policy .....	28
2.3.2 Land tenure regimes.....	30
2.3.3 Agricultural pricing policies .....	32
2.4 Summary.....	34

<b>CHAPTER III: REVIEW OF ANALYTICAL AND EMPIRICAL APPROCHES TO STUDYING SOIL DEGRADATION AND CONSERVATION .....</b>	<b>36</b>
<b>3.1 The relationship between soil quality and soil degradation processes.....</b>	<b>36</b>
3.1.1 The soil capital.....	36
3.1.2 Soil erosion and soil quality.....	37
3.1.3 Soil mining and soil quality .....	39
3.1.4 Measuring soil quality.....	40
3.1.5 Measuring and predicting the rate of erosion .....	42
<b>3.2 Causes of divergence between private and social rates of soil depletion .....</b>	<b>45</b>
<b>3.3 Effect of soil degradation on agricultural productivity.....</b>	<b>49</b>
<b>3.4 Approaches to measuring effect of soil degradation on income and adoption decision behavior of smallholder farmers.....</b>	<b>51</b>
3.4.1 Approaches to measuring economic costs of soil degradation.....	51
3.4.1.1 Positive modeling approaches to measuring economic costs of soil degradation.....	52
3.4.1.1.1 Productivity loss approach.....	52
3.4.1.1.2 Replacement cost approach.....	52
3.4.1.1.3 Hedonic pricing.....	54
3.4.1.1.4 Net benefit of conservation.....	54
3.4.1.2 Normative modeling approaches to measuring economic costs of soil degradation.....	54
3.4.1.2.1 Static linear programming models.....	55
3.4.1.2.2 Dynamic optimization modeling approaches.....	55
3.4.1.2.2.1 Inter-temporal linear programming models.....	56
3.4.1.2.2.2 Dynamic programming models.....	58
3.4.1.2.2.3 Optimal control models.....	59
3.4.2 Approaches to modeling adoption of soil conservation and soil nutrient management practices.....	66

3.5	Summary.....	70
<b>CHAPTER IV: STUDY APPROACH TO MODELLING THE DYNAMICS OF SOIL EROSION AND SOIL NUTRIENT MINING....</b>		
4.1	The analytical framework .....	74
4.2	The nature of soil degradation problem and smallholder soil management practices in the highlands of Ethiopia.....	76
4.3	Modeling agricultural output, soil erosion and nutrient mining.....	79
4.3.1	The optimal nutrient mining and soil erosion control model.....	83
4.3.2	Interpreting the first order conditions (FOCs) .....	86
4.4	Input substitution.....	89
<b>CHAPTER V: STUDY AREA, SURVEY DESIGN AND SELECTED SOCIO-ECONOMIC CHARACTERISTICS OF THE SAMPLE HOUSEHOLDS .....</b>		
5.1	The study area.....	92
5.1.1	Dendi district.....	93
5.1.2	Debre Birehan Zuria district.....	94
5.2	Survey design and sampling procedures .....	95
5.3	Types of data collected.....	98
5.4	Socio-economic characteristics of the study sample .....	99
5.4.1	Household characteristics.....	100
5.4.2	Plot and farm characteristics .....	100
5.4.3	Farming systems and crops grown.....	104
<b>CHAPTER VI: EMPIRICAL SPECIFICATION AND RESULTS OF THE SOIL DEGRADATION OPTIMAL CONTROL MODEL .....</b>		
6.1	Empirical specification of the control model.....	108
6.1.1	The production function .....	108
6.1.2	The soil decay (erosion damage) function .....	109
6.1.3	The nutrient regeneration and depletion function.....	110
6.2	The empirical control model and optimal solutions .....	112

6.2.1	The nutrient mining empirical control model and optimal solutions.	112
6.2.1.1	Steady state optimal solutions for the nutrient mining scenario .....	113
6.2.2	The nutrient mining and physical degradation empirical control model and optimal solutions .....	114
6.2.2.1	Steady state optimal solutions for the nutrient mining and physical soil degradation scenario .....	116
<b>6.3</b>	<b>Estimating the control model parameters .....</b>	<b>117</b>
6.3.1	Production technology parameters .....	118
6.3.2	Parameters of the erosion damage function .....	120
6.3.3	Parameters of the nutrient decay and regeneration function .....	121
6.3.4	Prices and production costs .....	123
<b>6.4</b>	<b>Model solutions.....</b>	<b>125</b>
6.4.1	Empirical model results of the nutrient mining control model.....	125
6.4.2	Sensitivity analysis of the empirical soil nutrient mining model .....	129
6.4.3	Empirical model results of the nutrient mining and soil physical degradation control model (scenario II).....	136
6.4.4	Sensitivity analysis of the empirical nutrient mining and soil physical degradation control model (scenario II).....	140
<b>6.5</b>	<b>Concluding summary.....</b>	<b>144</b>
<b>CHAPTER VII: MODELLING ADOPTION OF SOIL FERTILITY MANAGEMENT AND CONSERVATION PRACTICES .....</b>		
<b>146</b>		
<b>7.1</b>	<b>Analytical framework.....</b>	<b>146</b>
<b>7.2</b>	<b>Soil fertility and soil conservation technologies in the study area.....</b>	<b>150</b>
7.2.1	Multinomial logit models for the adoption of soil fertility and soil conservation technologies .....	153
7.2.2	Tobit and Heckman’s two-step regression models for the intensity of use of inorganic fertilizers and stone/soil bunds .....	156
<b>7.3</b>	<b>Choice of variables and hypotheses to be tested .....</b>	<b>161</b>
7.3.1	Household characteristics .....	162

7.3.2	Farm and plot characteristics .....	164	
7.3.3	Institutional factors.....	165	
7.3.4	Agro-ecology .....	168	
<b>CHAPTER VIII: FACTORS INFLUENCING ADOPTION OF SOIL FERTILITY MANAGEMENT AND SOIL CONSERVATION PRACTICES.....</b>			<b>170</b>
8.1	Empirical parameter estimation procedures.....	170	
8.2	Results of the empirical analyses of determinants of the use of soil fertility management practices .....	171	
8.2.1	Adoption rate and pattern of soil fertility management.....	171	
8.2.2	Empirical results of the multinomial soil fertility adoption model ....	173	
8.2.3	Results of the two-step Heckman model of adoption of inorganic fertilizers .....	182	
8.3	Results of the econometric analyses of factors determining use of soil and water conservation practices.....	187	
8.3.1	Empirical results of the multinomial soil conservation adoption model. ....	188	
8.3.2	Empirical results of the Tobit soil conservation adoption model.....	189	
8.4	Concluding summary.....	195	
<b>CHAPTER IX: SUMMARY, CONCLUSION AND IMPLICATIONS OF THE STUDY TO POLICY AND RESEARCH.....</b>			<b>197</b>
<b>REFERENCES .....</b>			<b>208</b>
<b>APPENDICES.....</b>			<b>229</b>
Appendix I. Current Value Hamiltonian version of the soil nutrient mining control problem .....			229
Appendix II. Summary of specified functions and functional relationships used in the empirical soil degradation control model.....			232
Appendix III. Derivation of the reduced form solutions for the choice variables ( $L_Y$ ,			

<b>L<sub>S</sub>, K<sub>Y</sub> and F) and the optimal nutrient stock (N) for the soil-mining scenario</b> .....	<b>238</b>
<b>Appendix IV. Current Value Hamiltonian Version and Derivation of Reduced form</b> <b>Solutions for the problem of physical soil degradation and nutrient mining</b> <b>(scenario II).....</b>	<b>244</b>
<b>Appendix V. Derivation of static optimal solutions.....</b>	<b>257</b>
<b>Appendix VI. Soil loss for two plot categories estimated using the USLE modified</b> <b>for Ethiopia.....</b>	<b>260</b>
<b>Appendix VII. Parameter estimates of the multinomial logit soil fertility adoption</b> <b>model, Central highlands of Ethiopia, 2003 .....</b>	<b>261</b>
<b>Appendix VIII. Coefficient estimates of the multinomial logit soil conservation</b> <b>adoption model, Central highlands of Ethiopia, 2003 .....</b>	<b>262</b>
<b>Appendix IX. Parameter estimates of the Tobit adoption model for the intensity of</b> <b>inorganic fertilizer use (kg/ha), Central highlands of Ethiopia, 2003.....</b>	<b>263</b>

## LIST OF TABLES

Table 2.1. Average annual growth rate for key economic indicators in Ethiopia, (1982-2002) .....	10
Table 2.2. Major types, area and distribution of soils in Ethiopia.....	17
Table 2.3. Calculated range of nutrient losses removed along with water erosion induced soil loss from the highlands of Ethiopia .....	20
Table 2.4. Mean nutrient removals (N, P, K <sub>2</sub> O <sub>5</sub> ) of some cereals in the Eastern highlands of Alemaya, Ethiopia .....	21
Table 4.1. First order optimal conditions for two soil degradation scenarios derived from the optimal control model of soil nutrient mining and physical topsoil degradation	88
Table 4.2. Optimality rules for resource allocation under two soil degradation scenarios	90
Table 5.1. Basic features of the study sample and the study locations.....	96
Table 5.2. Selected household characteristic of the sample households in the highlands of Dendi and Debre Birehan, Central highlands of Ethiopia, 2003 .....	101
Table 5.3. Farmer perception of plot characteristics, Central highlands of Ethiopia, 2003 .....	103
Table 5.4. Land holdings of sample farmers in Dendi and Debre Birehan Zuria districts, Central highlands of Ethiopia, 2003.....	104
Table 5.5. Major crops cultivated, mean crop area (ha) and farmers growing (%) in Dendi and Debre Birehan Zuria districts, Central highlands of Ethiopia, 2003.....	106
Table 6.1. Parameter estimates of the Cobb Douglas production function for smallholder teff production in the Central highlands of Ethiopia, 2003.....	120
Table 6.2. Summary of model parameters of the soil nutrient and soil depth dynamics of the control model .....	123
Table 6.3. A comparative analysis of resource use pattern among dynamic and static decision rules and current farmer practice for the nutrient mining scenario .....	128
Table 6.4. Sensitivity analysis with respect to changes in the biophysical parameters of soil N content, coefficients of the augmentation function and elasticity of output with respect to N fertilizer for the nutrient mining scenario.....	134
Table 6.5. Sensitivity analysis with respect to changes in the discount rate, inorganic	



fertilizer and output price for the nutrient mining scenario .....	135
Table 6.6. Optimal steady state solutions at two levels of natural rate of soil regeneration (Z) along with static solutions and current average farmer practice for the problem of nutrient mining and physical soil degradation (scenario II) .....	138
Table 6.7. Sensitivity analysis with respect to changes in the coefficients of the augmentation function and elasticity of output with respect to N fertilizer and SD, scenario II.....	142
Table 6.8. Sensitivity analysis with respect to changes in the discount rate, fertilizer and output price for the scenario II (nutrient mining and physical degradation) .....	143
Table 7.1. Definition of variables hypothesized to condition adoption of soil fertility management and soil conservation practices by smallholder farmers in the Central highlands of Ethiopian, 2003 .....	169
Table 8.1. Soil fertility management practices used by smallholder farmers for crop production in the Central highlands of Ethiopia (% of plots receiving treatment), 2003.....	172
Table 8.2. Intensity of inorganic fertilizer use by major crops, Central highlands of Ethiopia, 2003. ....	173
Table 8.3. Marginal effects from the multinomial logit soil fertility adoption model, Central highlands of Ethiopia, 2003 .....	181
Table 8.4. Parameter estimates of Heckman’s two-step model for the likelihood of adoption and intensity of inorganic fertilizer use (kg/ha), Central highlands of Ethiopia.....	186
Table 8.5. Use of soil conservation practices by smallholder farmers on cultivated lands (% of plots treated), Central highlands of Ethiopia, 2003 .....	188
Table 8.6. Marginal effects of multinomial soil conservation adoption models, Central highlands of Ethiopia, 2003. ....	193
Table 8.7. Parameter estimates of the Tobit adoption model for the intensity of stone/soil bund use, Central highlands of Ethiopia, 2003 .....	194

## LIST OF FIGURES

Figure 2.1. Gross Domestic Product (GDP) by sector at 1980 constant factor cost, Ethiopia, 1980-1997.....	11
Figure 2.2. Trends in area and production of cereals in Ethiopia, 1980-1996.....	12
Figure 2.3. Yield trend of cereals, pulses and oil crops, Ethiopia, 1980-1996.....	13
Figure 2.4. Commercial fertilizer use in Ethiopia, 1971-1999 .....	27
Figure 2.5. Price trends of commercial fertilizers and major crops in Ethiopia, 1987-1997 .....	33
Figure 2.6. Trends in output to DAP price ratio in Ethiopia, 1987-1997 .....	34
Figure 5.1. Long-term average monthly rainfall and temperature distributions at Ginchi (Dendi district), 1982-2002, Ethiopia. ....	93
Figure 5.2. Long-term average monthly rainfall and temperature distributions at Debre Birehan, 1982-2002, Ethiopia. ....	94
Figure 5.3. Map of the study area. ....	107

## ACRONYMS AND ABBREVIATIONS

ACRU	Agricultural Catchement Research Unit
ADLI	Agricultural Development Led Industrialization
AGNPS	Agricultural Non-point Source Model
AM	Animal Manure
ANSWERS	Arial Non-Point Source Watershed Environment Response Simulation
CBH	Cost-Benefit Analysis
C-D	Cobb-Douglas
CLAD	Censored Least Absolute Deviations
CREAMS	Chemical Runoff and Erosion from Agricultural Management Systems
CSA	Central Statistical Authority, Ethiopia
DAP	Diamonium Phosphate
EI	Erodibility Index
EPID	Extension and Project Implementation Department
EPL	Erosion Productivity Loss
FAO	Food and Agricultural Organization
FDRE	Federal Democratic Republic of Ethiopia
FFHC	Freedom from Hunger Campaign
FOCs	First Order Conditions
GDP	Gross Domestic Product
HARC	Holeta Agricultural Research Center
IGF	Inorganic Fertilizer
IIA	Independence of Irrelevant Alternatives
ISFM	Integrated Soil Fertility Management
LAD	Least Absolute Deviations
LP	Linear Programming
LR	Legume Rotations

MEDaC	Ministry of Economic Development and Cooperation
MFD	Ministry of Finance and Development, Imperial Ethiopian
MLE	Maximum Likelihood Estimates
MNL	Multinomial Logit
MNP	Multinomial Probit
MOA	Ministry of Agriculture, Ethiopia
MPP	Minimum Package Program
MUC	Marginal User Cost
N	Nitrogen
NGOs	Non-Governmental Organizations
OLS	Ordinary Least Square
PA	Peasant Association
PRA	Participatory Rural Appraisal
RSLE	Revised Soil Loss Equation
SCRIP	Soil Conservation Research Project
SD	Soil Depth
SF	Seasonal Fallowing
SFM	Soil Fertility Management
SLEMSA	Soil Loss Estimation Model for Southern Africa
SSA	sub-Saharan Africa
SUEST	Seemingly Unrelated Estimation
SWC	Soil and Water Conservation
TGE	Transitional Government of Ethiopia
TLU	Tropical Livestock Unit
US	United States
USD	United States Dollar
USLE	Universal Soil Loss Equation
VCE	Variance-Covariance
WEPP	Water Erosion Prediction Project
WFP	World Food Program of the United Nations

Chilot Yirga Tizale was born at Woken, North Gonder Zone of Ethiopia in 1964. He earned a BSc degree in agricultural economics in 1986 from the Alemaya University of Agriculture (AUA). Soon after graduation, Chilot joined the then Institute of Agricultural Research (IAR) now the Ethiopian Institute of Agricultural Research (EIAR) as a junior researcher. After working for 4 years he rejoined the AUA and obtained MSc degree in the field of Agricultural Economics in 1994. Currently he is working in the same institution as a senior researcher.

In his thesis, the dynamics of soil degradation and incentives for optimal management in the central Highlands of Ethiopia, he addressed the very important problem of sustainability of current soil management practices and their long-term consequences for the welfare of rural people in the Ethiopian Highlands. Recognizing the inter-temporal nature and dynamic costs associated with the extraction of exhaustible natural resources such as soils, he modeled the dynamics of soil resource extraction and evaluated the consequences of ignoring this dimension for policy design and optimal land management decisions. In the modeling approach developed for dealing with the problem of exploiting non-renewable resource stocks he was able to extend earlier modeling attempts by incorporating innovative extensions to deal with the irreversible soil physical degradation through loss of topsoil as a result of erosion, which normally are ignored in the literature. The study also analyzed determinants of farmers' decisions to adopt soil conservation and fertility management techniques. The results of the study generated useful information for improved policy for optimal soil management and development for the promotion of appropriate smallholder farming technologies. So far one article in an accredited journal has been published and two manuscripts are under review for publication in international journals.