THEMATIC BRIEFING PAPER 1: THE GLOBAL FOOD CRISIS: A BLESSING OR CURSE FOR RURAL MOZAMBICAN HOUSEHOLDS?

The feared impact of high global food prices on poverty has provoked rapid and large scale response by governments and international institutions. The broad picture sometimes painted is that food price rises are a problem for urban populations, but could be positive or at least largely neutral for rural households. This paper will use the findings from in-depth livelihoods research[1], carried out in five 'livelihood zones' (LZs) in Nampula and Zambezia Provinces of Mozambique, to throw empirical light on the likely impact of high food prices on different households. The data shows, unsurprisingly, that the impact of rising prices varies considerably, depending on economic status and where people live.

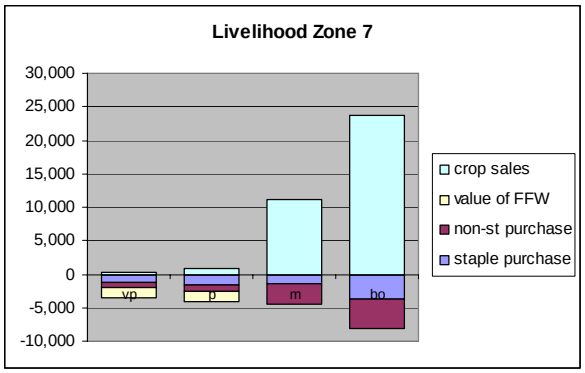
It is hard to predict what will happen to food prices over the coming years. This year's (2008) prices at harvest time are around double those of 2007. It seems likely that the seasonal variation could be similar, meaning that the purchase price in the coming 2008/9 hunger season would also be double that of 2007/8 (Traders were predicting in July that the price would reach 13 MT/kg for maize grain in producing areas, which could mean 20 MT/kg for maize flour on the coast.). The following analysis is based on a simplified scenario where <u>all</u> food prices are double those of the baseline years (2007/8).

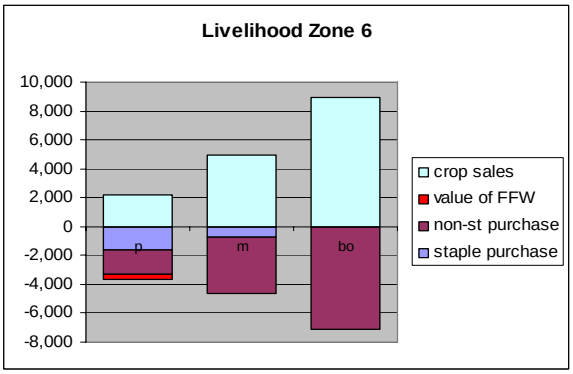
To what extent will price increases affect farmers in different livelihood zones and in different wealth groups?

Agro-ecologically, the coastal districts of Nampula are similar. Commercially, however, there are distinct differences between the southern and northern districts. The north (zone 6) has a more subsistence-type economy, while the south (zone 7) produces more for the market (especially cashew) and relies more heavily on the market to purchase food. Figures 1 and 2 show the impact (in MT/household) of a doubling of all food and crop prices in each zone. It assumes that wages paid in food are linked to food prices and would halve.

[1] The methodology used for this assessment was the Household Economy Approach. Because people's livelihoods depend in part on their productive and market opportunities, and in part on how well-off they are, the assessment began by disaggregating the population into common livelihood zones and (within those zones) wealth groups. A 'livelihood zone' is a geographical area in which people share the same overall options for obtaining food and cash income. A 'wealth group' is a population within a livelihood zone that shares similar food and cash income options and roughly the same levels of overall income. The income and expenditure of each wealth group, and the ways in which they find food, were all then quantified. "Livelihood Profiles" were developed to provide a basis for understanding the local economy from the household-level up. For more details see: FEG Consulting and Save the Children (2008) **The Practitioners' Guide to the Household Economy Approach**, Regional Hunger and Vulnerability Program, Johannesburg

Fig 1 and Fig 2: Impact of doubling of food prices on the household economy of different wealth group[2] in LZs 6 and 7, (MT/household/year)





In the aggregate, there is a net benefit of 2,000 MT/household in LZ7, and a slight deficit of 500 MT/household in LZ6. In LZ7, the overall local economy 'profits' because of considerable economic benefits for the better-off and middle – around 50% of their total income (around 15,000 MT and 6-7,000 MT respectively). However, just over half of all households (the poorer half) would be net losers: the extra cost (over 3,000 MT) would be over 75% of their annual income. Since they cannot double their income from other sources, they would be forced to cut back on many purchases, including non-staple food, reducing the quality of their diet. Even if the poorer half of households in LZ7 substituted cassava flour for all their other food purchases in order to meet their kilocalorie needs, they would still face an income deficit of around 2,500 MT, or 60-70% of their 2007/8[3]annual income. In LZ6, the income deficit for the poor would be around 25%.

In the medium term, better-off households may take advantage of higher prices to increase their agricultural production, which could push daily wage rates up. However, everything else being equal, even if agricultural wage rates were to double in cash terms, the purchasing power of poor households in LZ7 and LZ6 would remain unchanged from the baseline reference year, as they would still need to purchase the majority of their food at double the price. If wage rates for agricultural labor did not rise, households would have to find other sources of income, for example by migrating into urban centers.

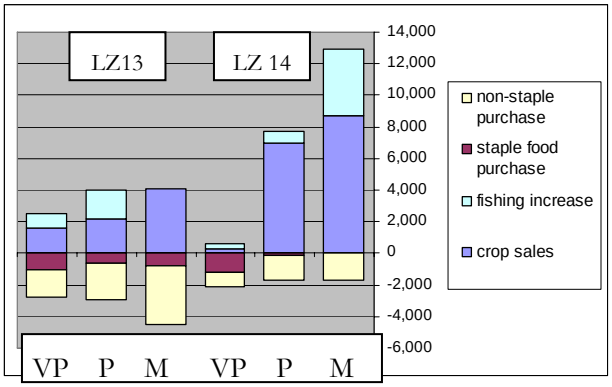
The coastal fishing areas could be worse affected than other areas if the price of fish does not rise in line with other foods. As of October 2008, it appears that meat and fish prices are also rising, but to a lesser degree. Fig 3 assumes a 50% rise in the price of fish – and hence of fishing income. The overall impact in LZ13 is small for all WGs (except the better off, who have a significant net gain and are not shown in Fig 3). Even the poor wealth group (WG2) earn about as much as they spend. There is a more significant difference between the 'very poor' and 'poor' in LZ14. The poorest (around a quarter of the population) sell almost no crops and rely on the market for almost half their food. Food price rises could leave them with a 1,500 MT deficit – a loss of around a third of their total purchasing power. WG2 (almost half the population) is able to sell more crops and would therefore benefit from the

[2] For definition of wealth groups for each livelihood zone, see relevant Livelihood Baseline Profiles. LZ7 has 4 wealth groups whilst LZ6 has 3. vp = very poor, p=poor, m=middle, bo=better off.

[3] An analysis of the room for manoeuvre of the poor is found in issue paper 2, *Just how poor are 'the poor'?*

food price rise by some 6,000 MT (a rise of almost 50% in their purchasing power). The 'middle' and the 'better-off' (who are not shown in Fig 3) benefit still more – by over 10,000 MT and 20,000 MT respectively.

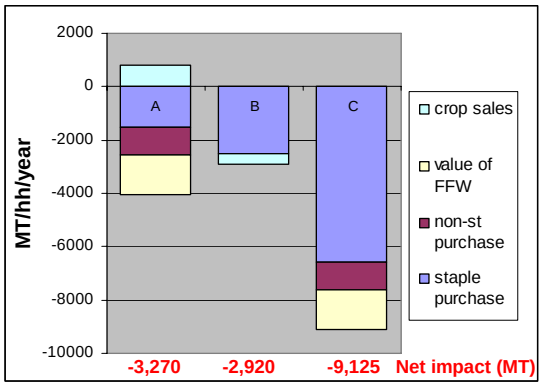
Fig 3: Potential impact of price rises for different wealth groups in LZs 13 and 14, (MT/household/year)



The examples used above assume normal or good production years. In a year when production is poor (such as 2008/9 in parts of Nampula affected by the cyclone), households have to buy far more food to compensate for lost production. This will completely transform the impact of food price rises.

Figure 4 shows three scenarios for the 'poor' in LZ7. Situation A is the one already presented, of normal harvests and food price rises of 100%. Situation B is one of 'normal' (baseline) food prices, but with a 50% reduction in all harvests. Situation C is one of a 50% reduction in harvest *plus* a doubling of food prices. In scenario C poor households will face a deficit of 9,000 MT. In order to cope, households would have to triple their annual income.

Fig 4: Impact of 3 different scenarios (price rises and drought) on purchasing power of poor households in LZ7



It is beyond the scope of this short paper to analyze possible interventions to mitigate the negative impacts of rising food prices. However, an economic shock is similar to a climatic one. In either case, mitigation strategies should be grounded in an understanding of livelihood systems – how people make ends meet and their capacity to cope with a crisis.