



Case studies of countries affected by the economic crisis

The first section of this report described how hunger has been on the rise for the past decade, even before the 2006–08 food crisis and the current economic crisis. It then described the nature of the economic crisis and how it is transmitted to developing countries, the impact on undernourishment, and the coping mechanisms used by the poor to deal with the situation. In this section, we present case studies that show how the economic crisis is affecting five countries and the poor people who live there. Two of the five (Bangladesh and Nicaragua) are rated by the IMF as being at medium risk from the crisis, while the other three (Armenia, Ghana and Zambia) are rated as high risk.

A variety of coping mechanisms have been used by the poor to adapt to the crisis, depending on their own specific situation (Table 3). The relative importance of remittances,

FDI and ODA varies across these countries (Figure 19). The importance of remittances (Figure 20) and trade has been increasing over the past decade (Figure 21), although trade in goods and services relative to GDP has declined in Armenia during the past 15 years.²⁶ Analysis of the FAO price database shows that the global food crisis caused key staple food prices to increase in all of these countries (Figure 22).

TABLE 3

Transmission channels (financial inflows), government responses and household adaptations used by the poor in five countries affected by the economic crisis

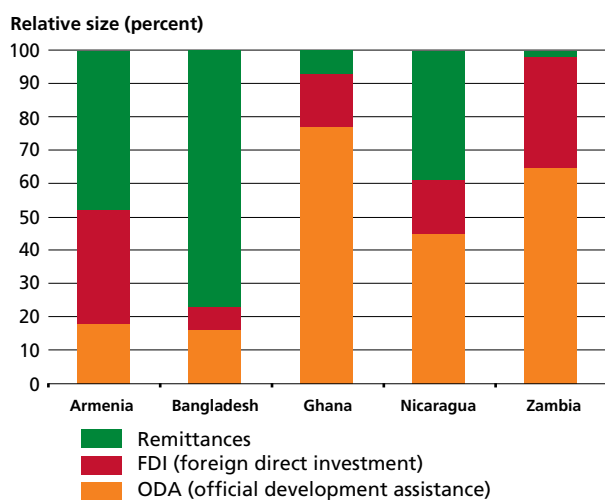
	Armenia	Bangladesh	Ghana	Nicaragua	Zambia
Transmission channels	Remittances	Remittances, FDI, ODA	Remittances, trade, FDI, ODA	Remittances, FDI, ODA	Trade, remittances, FDI, ODA
Government responses	Building infrastructure, subsidies to small and medium enterprises, creation of two free economic zones, building of affordable housing, increase in minimum wage	Scaling-up of pre-existing food distribution programmes, tax breaks, cash subsidies	Targeted cash transfer programme (LEAP), national health insurance, education allowance, school feeding, national youth employment programme	School feeding, productive safety nets, fair-price shops	Increased spending on education, health and agriculture
Household adaptations: new income sources	Small-scale business development	Casual labour	Migration, crop diversification, casual labour	Out-migration, petty trade, collecting fuelwood	Return to farming, petty trade, theft, prostitution
Household adaptations: consumption smoothing	Livestock sales, borrowing	Borrowing	Livestock sales	Livestock sales, borrowing	Support from extended family, livestock sales
Household adaptations: changes in expenditure patterns	Dietary changes (wheat to potatoes), reduced use of health services	Eating fewer meals, eating lower-quality foods, cutting health expenses	Dietary changes (maintain staple food consumption but reduce intake of other foods), shift from private to public school, reduced health expenditures	Dietary changes	Eating fewer meals, eating lower-quality foods, cutting health and education expenses

Notes: The items listed under transmission channels for each country are those identified by the IMF as channels where the particular country is at high or medium risk from an adverse shock. FDI = foreign direct investment. ODA = official development assistance.

Source: FAO.

FIGURE 19

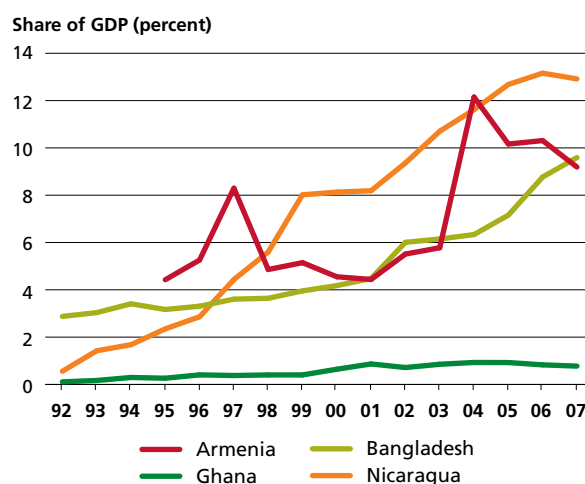
Different countries are vulnerable to different shocks: relative importance of ODA, FDI and remittances



Source: World Bank.

FIGURE 20

The importance of remittances has increased

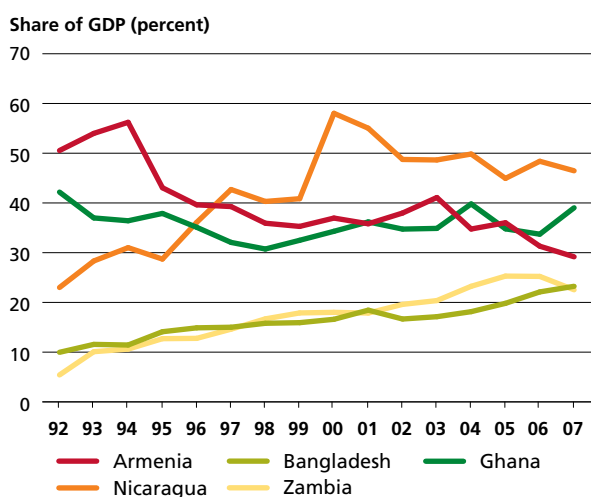


Note: GDP = gross domestic product.

Source: World Bank.

FIGURE 21

The changing importance of trade: average of imports and exports as a share of GDP

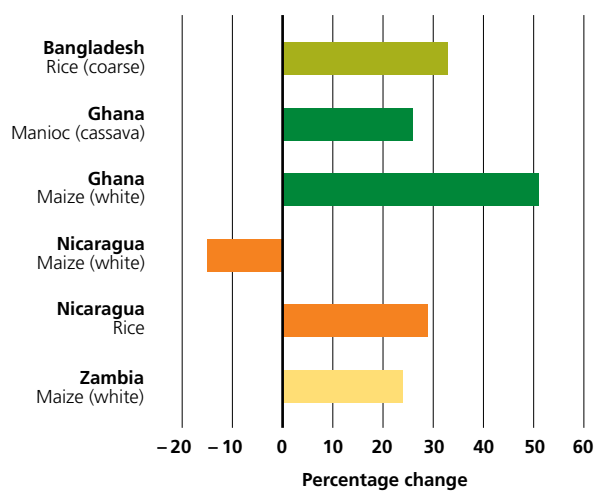


Note: GDP = gross domestic product.

Source: World Bank.

FIGURE 22

Staple food prices soared: increase in real prices from 2007 to 2008



Sources: FAO and Ghana Ministry of Food and Agriculture.



Armenia

Armenia is a mountainous landlocked country in the South Caucasus with a population of 3.2 million, 64 percent of whom live in urban areas. Despite many difficulties, Armenia has successfully switched to a market economy over the past decade, with double-digit growth rates between 2000 and 2007. Wheat is the main staple, supplying about 48 percent of total caloric intake.

■ Macroeconomic impacts

According to the IMF, the Commonwealth of Independent States (a regional organization whose participating countries are former Soviet republics), of which Armenia is a member, will be more affected by the global economic crisis than any other region.²⁷ During the first two months of 2009, Armenia's GDP decreased by 3.7 percent compared with the same period in 2008, leading the IMF and the World Bank to revise their growth projections downward for 2009 to minus 5 percent and minus 8 percent, respectively. This situation contrasts with average annual growth of 12.6 percent from 2000 to 2007. In early March 2009, the Armenian currency (the dram) was devalued dramatically, losing 18 percent of its value in a single day. Such depreciation causes substantial inflation.

The Armenian economy relies to a large extent on the European and Russian markets for its trade, and its main trading partners have been hit heavily by the crisis. The slowdown has been particularly felt in the construction sector – a key driving force behind Armenia's recent economic growth – as activity has slowed in the Russian Federation and in Armenia itself. The mining sector has also been hard hit by the steep fall in international prices of copper and molybdenum, as has the chemical industry following a slowdown in global demand for chemical products.

Besides being a major trading partner, the Russian Federation accounts for the bulk of foreign remittances from seasonal and long-term migrants. More than 80 percent of Armenia's labour migrants are in the Russian Federation and remittances in 2007 accounted for about 9 percent of GDP, substantially higher than in the mid-1990s (Figure 20). Because of these factors, the IMF rates Armenia as highly vulnerable to a decline in remittances. Furthermore, an extended decline in remittances seems likely, as official remittances dropped by about 35 percent in February 2009 compared with one year earlier. According to International

Organization for Migration (IOM) data, departures to the Russian Federation and other members of the Commonwealth of Independent States in March 2009 decreased by 25 percent compared with the previous year.²⁸ Foreign direct investment, which is another important source of capital inflow (Figure 19), is also expected to decline given the sharp slowdown in the Russian Federation (the main source country).

Past economic growth in Armenia has been accompanied by significant poverty reduction, but a decline in income levels could cause many people to slip back into poverty, negating the progress of the past few years. According to World Bank estimates, the current crisis could push 172 000 more people below the poverty line in 2009–10, increasing the total number of poor people to an estimated 906 000, of whom 297 000 will be extremely poor.²⁹

■ Effects on food security and livelihoods

As most households in Armenia rely on markets to meet their consumption needs, the crisis has an impact on households' ability to access sufficient food and cover other basic needs such as heating, health and education. Many households have already started to substitute wheat products with cheaper potatoes and have reduced their consumption of meat and dairy products to save money. In the longer term, this could lead to greater risk of micronutrient deficiencies. Combined with an increased exposure to diseases – caused by reduced use of health services and lack of funds for heating during the cold winter months – the crisis could lead to increased malnutrition and child mortality if the negative trend continues and mitigation efforts by the Government and the international community do not succeed.

The households most adversely affected by the shock are those relying on remittances from seasonal and long-term migrants or wage labour in the construction and production sectors (particularly the mining and chemical industries). However, households relying on agriculture, trade or social benefits will also be affected indirectly.

According to national statistics, about one-fifth of households had a migrant member aged 15 years or older in 2007.³⁰ Two-thirds of this migration is to other countries, primarily the Russian Federation, with an overwhelming majority of migrants working in construction, which – until the economic crisis – had boomed in recent years.

Remittances from migrant labour plus substantial transfers from the large Armenian diaspora constituted a substantial part of household income before the crisis (9.2 percent in 2007). Even in the poorest quintile, remittances still made up 7.1 percent of income. Households depending on remittances from seasonal migrants and other sources have already experienced a steep drop in income as many seasonal migrant labourers are still waiting for their payments from the 2008 migration season. Migrants with permanent residence abroad find it more and more difficult to send money to their families and friends in Armenia. Households are currently coping by increasing their use of credit for purchases, which, given the bleak outlook for the 2009 migration season, could push households into serious debt.

In 2007, the Armenian construction sector accounted for one-quarter of GDP and was a major force behind rapid economic growth. Construction workers in Armenia are facing a decline in construction activities within the country and competition with tens of thousands of construction workers returning from the Russian Federation. Employees in the mining sector and chemical industry have been slightly more protected through government interventions, but even these workers have already been forced to take paid leave at lower wages and fear losing their jobs in the near future.

Small-scale farmers and livestock breeders living at higher altitudes, who often combine subsistence agriculture with seasonal labour migration to the Russian Federation, are particularly vulnerable to the downturn. They are coping by selling off their few productive assets, especially livestock, which will hamper their ability to participate in the eventual recovery.

Many small shops in rural Armenia are faced with the problem of an increasing number of households being forced to buy food and other basic commodities on credit. Shopkeepers are fully aware that many of their customers might not be able to repay their loans in the near future, and some have decided to stop providing goods on credit, further limiting household mitigation strategies.

Despite the importance of education, households may be forced to cut their spending on educational costs. This will primarily affect tertiary education, as parents are no longer able to afford school fees and hostel rents.

■ What are the ongoing responses?

It is commonly reported that the Government of Armenia's social-benefit system has contributed to poverty reduction. Social transfers such as pensions and family benefits contributed 18 percent of total income for households in the bottom quintile in 2007. Households receiving this benefit are somewhat protected from the impacts of the global crisis as both pensions and family benefits increased between 2008 and 2009. Nevertheless, these households are still affected by price increases caused by the currency

depreciation. Unfortunately, about one-third of very poor households were not covered by social transfers in 2007. Furthermore, the crisis will place more people in need of assistance, further straining the Government's budget, which is already hampered by losses in tax revenues as a result of the general economic downturn.

Households with employed members in the public sector were helped by a 50 percent increase in the official monthly minimum wage. Since the dram's depreciation, however, the new monthly minimum is less than US\$90, meaning that a household of three or more people with only one income earner will have a per capita income of less than a dollar per day. This group is often referred to as the "working poor".

In April 2009, the Government announced an anti-crisis action plan to promote economic growth through the realization of pan-Armenian projects that had already been planned, including the construction of a nuclear power plant, an Armenia–Iran railway line and the creation of a pan-Armenian bank. In addition, the Government plans to support some existing and emerging enterprises through subsidies, and to promote small- and medium-enterprise development through the creation of two free economic zones. Social-sector priorities include the full and timely implementation of social-sector commitments, a sharp increase in the level of public works, and the availability of affordable housing. These projects, however, can only be realized with the support of external financing.



Bangladesh

Bangladesh is home to more than 150 million people concentrated in 144 000 km². More than 40 percent of the population are children and three-quarters of Bangladeshis live in rural areas. The country sits within the world's largest delta, formed by the Ganges, Brahmaputra and Meghna rivers, making it extremely vulnerable to floods and cyclones. Rice is by far the dominant staple, accounting for more than 70 percent of calories.

In the past decade, Bangladesh has made impressive economic and social progress towards achieving some of the MDGs, despite repeated natural disasters and external shocks. Average GDP growth from 2003 to 2008 was more than 6 percent. The country has met the MDGs for gender parity in education (MDG 3) and universal primary education (MDG 2) well ahead of time. Although poverty fell from 57 percent of the population in 1990 to 40 percent in 2005, challenges remain in eradicating hunger (MDG 1). Recently, the global food and fuel crisis and 2007's Cyclone Sidr have further tested the capacity of the country to meet MDG 1.³¹ A nationwide survey conducted by WFP, the United Nations Children's Fund and the Government in November–December 2008 to assess the impact of high food prices on the population indicated that one in four Bangladeshis was severely food-insecure and that there was a significant increase in severe malnutrition (wasting, stunting and underweight) from the 2005 levels. The global economic crisis could further compound the situation.

■ Macroeconomic impacts

The economy has become increasingly open to global markets during the past 15 years, both in terms of remittances and in terms of trade in goods and services (see Figures 20 and 21). Bangladesh is heavily dependent on migrants' earnings in the Persian Gulf and other countries, and the IMF rates it as highly vulnerable to a decline in remittances. Indeed, Bangladesh is the fifth-largest recipient of remittances in the world, and remittances are much more important than either FDI or ODA (Figure 19). Ready-made garments are the main driver of exports, accounting for nearly 80 percent of the total. Almost half of the exports go to the European Union and 25 percent to the United States of America, making Bangladesh vulnerable to the recession in those parts of the world. Agricultural exports of shrimp, jute and tea are also important.

The volume of trade, which had increased in previous years, declined in the second half of 2008. A further decrease of 7 percent was observed in January 2009 compared with January 2008. Exports of ready-made garments are diminishing (as reflected by a decrease of the utilization declaration). Fish exports to the European Union and the United States of America decreased by 16 percent in July–December 2008 compared with July–December 2007. Jute exports to the European Union and the United States of America declined by a similar amount during the same period, and then fell further (by 20 percent) in January 2009 compared with January 2008. The emigration of migrant workers decreased by 40 percent in January–March 2009 compared with the same period in 2008. Cancellation of 55 000 work visas to Malaysia in March 2009 is adding to concerns about the increasing number of deportees, which nearly doubled from 4 800 in January 2009 to 8 000 in February 2009.

■ Effects on food security and livelihoods

The recent declines in exports, remittances and income arrive on the heels of the global food crisis and Cyclone Sidr (November 2007), and are further testing the resilience of the Bangladeshi people. In January 2008, domestic rice prices soared to 53 percent above January 2007 levels (in real terms), and, as late as July 2008, rice prices were still 45 percent above those of a year earlier. On average, the real price of rice in 2008 was 33 percent higher than in 2007 (Figure 22). Such increases are a significant shock to the real incomes of poor people, who often spend 40 percent of their income on rice in normal times. Analysis of household survey data from FAO's RIGA database shows that the poorest of the poor (the rural landless who rely on wage labour) were most affected by the food crisis. As a result, after a decade of progress, a substantial number of households were pushed back into poverty even before the global economic crisis. As shown in *The State of Food Insecurity in the World 2008*, female-headed households were affected disproportionately by the food price shocks.

On average, at the end of 2008, households were spending 62 percent of their income on food, up from 52 percent in 2005. This increase in the food budget share forced households to reduce their expenditures on health and education. Other coping strategies include eating fewer

meals, changing diets, diversifying livelihoods and income sources, and taking on more debt. Income diversification could lead to child labour or less child care provided by mothers because of increased time spent on income-generating activities. One-fifth of households reported cutting expenditures on health and one-third were becoming further indebted to financial institutions.

Discussions with focus groups revealed that the deterioration of macroeconomic conditions has resulted in job losses and a shift towards working as daily labourers. The amount and frequency of remittances has decreased because of job cuts abroad, the depreciation of the pound sterling (a large proportion of Bangladeshi remittances come from the United Kingdom) and higher expenses incurred by migrants in host countries. A significant decline in both production and prices has led to a decrease in unskilled wage rates in the fish/shrimp industry and garment factories.

■ What are the ongoing responses?

Given that recent studies indicate that household expenditures on several key items remain lower than before the food and economic crises, there are serious concerns

about health care, food intake, education and debt, and about how these factors will affect food security and nutrition in the longer term. Focus group discussions revealed a bleak perception of the future: participants generally expected that it would take at least one to two years for households to return to the income level prevailing immediately before the global economic crisis, although several focus groups indicated that it could take three to five years. Such a pessimistic outlook is probably attributable to the continuing shocks (including the food and fuel crisis, Cyclone Sidr, and the global economic crisis) experienced over the past two to three years.

In response to the shocks of the past few years, the central bank has made it easier for banks to lend to businesses. It has also withdrawn investments from overseas banks perceived as risky. The Government has scaled up pre-existing food distribution programmes in order to provide subsidized rice for all workers in the ready-made garments sector, and anticipates an increase in short-term spending for rescue packages including tax breaks and cash subsidies to safeguard vulnerable people. However, there is a danger that increased government spending could lead to higher rates of inflation.

Ghana

Ghana is a West African country of 24 million people that has achieved significant progress in reducing poverty and hunger. The diet in Ghana is relatively varied, with cassava accounting for 24 percent of total calories and maize another 13 percent. The percentage of people living below the national poverty line declined from 52 percent in 1991–92 to 29 percent in 2005–06. This progress is in danger, however, because Ghana's small open economy is vulnerable to external shocks affecting FDI, trade, ODA and remittances. For each of these individual components of financial flows, the IMF rates Ghana's vulnerability as medium, but because it is vulnerable to several different types of shock, the IMF's overall assessment is that Ghana is highly vulnerable to the crisis. In the context of Ghana, ODA is much more important than either FDI or remittances (Figure 19).

■ Macroeconomic impacts

Ghana's currency lost about 30 percent of its value against the US dollar between early May 2008 and early May 2009. Although a depreciated currency can help countries adjust to

macroeconomic shocks, it also means higher import costs for food, fuel and fertilizers, as well as higher debt repayments – putting pressure on the government budget and curtailing economic growth.

Ghana is facing a reduction in foreign capital inflows and higher interest rates, making the financing of the current account and budget deficits more difficult. Timber exports declined by 27 percent and remittances by 16 percent in January–February 2009, compared with the same months in 2008. Exports of horticultural products and shea nuts (the raw material for shea butter, which is used in the cosmetics industry) have also decreased. The impact later in the year is likely to be larger because of lags in transmission of the crisis from developed countries.

■ Effects on food security and livelihoods

Household purchasing power has been reduced as a result of lower prices for selected cash crops, declining remittances and rising inflation, including of food prices. Fortunately, the price for Ghana's main cash crop, cocoa, has remained



relatively high, providing a cushion for the 1.6 million cocoa producers.

For now, the most affected group appear to be shea nut collectors. Shea nut collection is a key income source for women in the savannah – the country's poorest and most hunger-prone area – during the lean season, providing a buffer against seasonal food insecurity. Focus group interviews with women smallholder farmers in the north revealed that one-third of incomes are derived from shea nuts in that area. Lower volumes and lower prices for shea nuts mean that women are spending a larger share of their income on food, at the expense of health and education.

Unskilled labourers' livelihoods are affected by declining volumes in industries such as timber. With their reduced incomes, unskilled labourers who have moved away from home are sending fewer remittances to their families elsewhere in Ghana and are trying to find alternative employment opportunities. Three percent of households in Ghana rely mainly on unskilled labour for their income.

As in many countries, the global food crisis hit poor households hard. Prices of white maize and imported rice in 2008 were 51 and 43 percent higher in real terms than in 2007, constituting a large shock to the purchasing power of the poor (Figure 22). The impact was moderated to some extent by the diversity of the Ghanaian diet; the fact that cassava, which is not widely traded on world markets, accounts for about one-quarter of total caloric intake; and the availability of locally produced rice. However, cassava and local rice prices increased from 2007 to 2008 by 26 and 33 percent, respectively. While these increases were smaller than those for white maize and imported rice, they were still substantial and suggest that demand shifted towards these staples in response to higher prices of other foods.

High food and fuel prices, coupled with lower incomes, have put pressure on food consumption and livelihoods. Urban households – in the capital Accra in particular – face high food and utility costs. The decline in income is to some extent mitigated by Ghana's social-protection system, which includes, among other things, an education allowance and a national health insurance system. This will allow some households to spend more on food without sacrificing access to basic social services.

The main coping mechanisms being used by families include reductions in the quality and quantity of food consumed. There is also probably some substitution towards cassava as it is generally a cheaper source of calories than maize and rice. However, with its low protein content, cassava is less nutritious than an equivalent amount of grain. Casual labourers are migrating, cash-crop farmers are diversifying into crops where prices remain attractive, and smallholders in the north are selling livestock and seeking alternative occupations, such as casual labour. In some cases, parents are moving their children from private schools to public schools, increasing pressure on the government budget.

■ What are the ongoing responses?

The Government has a broad safety-net system, which includes a targeted cash transfer programme (Livelihood Empowerment Against Poverty, or LEAP), national health insurance, an education allowance, school feeding and a national youth-employment programme. These interventions could be scaled up if necessary. The Government has also created a working group on social protection, which is coordinating interventions to monitor and respond to the effects of the economic crisis.



Nicaragua

Nicaragua is a small Central American country consisting of extensive Atlantic coastal plains rising to central interior mountains, and a narrow Pacific coastal plain interrupted by volcanoes. The country is home to 5.6 million people, with 59 percent living in urban areas and most of the population concentrated in the Pacific lowlands. Maize (21 percent of total calories) and rice (16 percent) are the leading sources of dietary energy. Nicaragua is a low-income open economy with limited capacity to absorb financial shocks.

■ Macroeconomic impacts

Remittances as a proportion of GDP have tripled over the past ten years (Figure 20). The IMF rates Nicaragua as highly vulnerable to a decline in remittances, which are the country's second-largest source of capital inflow after agricultural exports. In 2008, the central bank estimated remittances at US\$818 million (excluding unofficial remittances).³² This represents about 13 percent of GDP, but the figure is projected to decrease to 12 percent in 2009 as remittances from the United States of America, as

well as from neighbouring Costa Rica and El Salvador, decline.

The share of exports and imports in GDP has also increased sharply over the past three decades (Figure 21). The country's economy is highly dependent on the United States of America, not only for remittances but also for FDI and exports (especially relating to *maquila* manufacturing for garments and car equipment, as well as coffee and seafood). The slowdown of the United States economy is expected to affect employment and output of United States-owned companies operating in Nicaragua (around 100 companies in total). Employment in the *maquila* sector (companies in this sector import materials, tariff-free, for assembly or manufacturing, and then re-export the finished product, usually back to the originating country) is expected to diminish, especially in the garment industry, as a result of reduced demand by United States customers. An estimated 19 000 *maquila* workers were laid off in early 2009, and there was also a decrease in employment in the construction sector.

Given these trends, the balance of trade is expected to worsen and GDP growth is projected to decrease from 3 percent in 2008 to 1.5 percent in 2009. Foreign direct investment may also decrease slightly (from 7.1 percent of GDP in 2008 to 6.1 percent in 2009), while official aid should remain about the same (11 percent of GDP).

■ Effects on food security and livelihoods

An assessment conducted in selected areas among vulnerable population groups in March 2009 confirmed the negative effects expected for the economy, employment, agriculture and remittances. The households most likely to be affected include those for which a significant share of income is derived from remittances or wages from employment in export-oriented activities, or from sales of handicraft. Household survey data from FAO's RIGA database show that the share of remittances in total income is similar across the different income groups (quintiles), although the wealthiest quintile receives a larger share from remittances than does the poorest quintile. However, even remittances that accrue directly to the wealthiest quintile can benefit the poor through multiplier effects such as hiring of construction labour to build housing.

Households receiving remittances reported that these were instrumental in paying for agricultural inputs, investing in land and animals, covering education costs, and carrying out housing repairs and improvement. Participants in the assessment confirmed that remittance flows had decreased as a result of fewer employment opportunities abroad.

Household food insecurity in Nicaragua is essentially a problem of economic access to food, although food availability can be an issue in some isolated rural areas and at some periods of the year because of large distances to markets and poor roads and transportation facilities.

The households surveyed noted changes in their food consumption patterns – particularly less consumption of meat and dairy products – and attributed this change to higher prices. Data from FAO's GIEWS price database show that domestic maize and tortilla prices were not substantially affected by the global food crisis, but domestic rice prices in 2008 were 29 percent above those in 2007 in real terms. The diminished economic access to food because of higher prices was compounded by lower incomes resulting from decreased employment opportunities abroad (meaning reduced remittances) and locally (including for agricultural labourers, mine workers and workers in export-oriented factories). Lower earnings from handicrafts, because of reduced demand and higher raw material costs, also contributed to food insecurity for some livelihood groups. Damage from Hurricane Felix and flooding in late 2007 and early 2008 also contributed to reduced incomes and higher food prices.

The types of dietary changes reported (away from meat and dairy products) may translate into higher chronic malnutrition rates among children under five years of age (stunting already affects one out of five children) and worsen energy and micronutrient deficiencies among other vulnerable groups such as pregnant and lactating women, the elderly and the chronically sick. Decreased household spending on health will delay treatment of illness or use of preventive services such as vaccination, with further negative effects on the nutritional status of vulnerable individuals. At the same time, the economic crisis will limit the Government's capacity to expand the coverage of water and sanitation services and improve the quality of health care.

A depressed local economy also means that small businesses will close and local shopkeepers will tighten credit conditions, further limiting access to food by poor households. Those who do not benefit from remittances and are not trusted to repay their debts will be particularly hard hit.

Apart from coping with the crisis through dietary changes, many households indicated their intention to increase out-migration to try to secure jobs and additional income, even though they acknowledge reduced work opportunities abroad. A return to subsistence (instead of cash-oriented) agriculture and engagement in informal, low-earning activities (e.g. petty trade) were also frequently mentioned as coping mechanisms. Some households are also adopting negative or environmentally damaging strategies, such as accumulating more debt, selling livestock and domestic assets, and collecting fuelwood for sale. Depending on the length of the crisis, reduced household investment in child education may impair future livelihood opportunities and contribute to the intergenerational cycle of poverty, given the close association between education levels and poverty rates in Nicaragua.

■ What are the ongoing responses?

Expansion of responses to the earlier food and fuel crisis by the Government and a number of donors and UN agencies could help address the current economic crisis. These include the Integral School Nutrition Programme (supported by the World Bank and WFP), the Agro-Seeds and Productive Food Programmes (supported by the World Bank and FAO), and opening fair-price shops for basic foods in poor urban neighbourhoods.

It is clear that the global economic crisis will aggravate a pre-crisis situation of widespread chronic poverty, food insecurity and malnutrition. These conditions are themselves related to basic agro-ecological and socio-economic factors

compounded by the high vulnerability of Nicaragua to natural disasters. Consequently, responses to the economic crisis should not only aim to mitigate the immediate effects on specific population groups (small-scale agricultural producers, the landless rural poor, the newly unemployed in urban areas and children in poor households) but also continue to tackle the basic causes of poverty and food insecurity. Thus, it will be important to improve services (e.g. health, water, sanitation and education), infrastructure (e.g. roads and electricity), agricultural productivity and access to credit. With no clear sense of the length and depth of the crisis, contingency planning and enhanced monitoring of the evolving economic, fiscal and household food-security situations is also critical.



Zambia

Zambia is a landlocked country in southern Africa with a population of about 12 million people. Overall poverty rates in Zambia declined from 70 percent in 1996 to 64 percent in 2006. Despite this progress, half of the population is still considered extremely poor, with 14 percent classified as moderately poor. The staple food is white maize.

Foreign remittances are of minor importance (Figure 19), but the IMF rates Zambia as highly vulnerable to the economic crisis because of several interlinked factors: a sharp decline in the price of the primary export commodity, copper; devaluation of Zambia's currency, the kwacha; a reduction in foreign direct investment; continued high food inflation and a decline in tourism.

■ Macroeconomic impacts

Zambia needs a sustained economic growth rate of about 7 percent if it is to meet the MDGs by 2015, but as a result of the global economic crisis, projections for economic growth have been revised downward from 6 percent to 4 percent for 2009. In addition, FDI fell from US\$1 323.9 million in 2007 to US\$938.6 million in 2008 (a 29 percent drop). Foreign portfolio investment (investment by foreign individuals or companies in bonds and shares as opposed to factories, mines and land) showed an outflow of US\$6.1 million in 2008 compared with an inflow of US\$41.8 million in 2007. These trends are expected to continue in 2009.

Zambia is particularly vulnerable to the economic crisis because it relies so heavily on mining, particularly of copper.

The mining sector accounted for about 8 percent of GDP in 2008, but 74 percent of total export earnings. Expectations of slower economic growth, coupled with political uncertainty and a fall in international copper prices, caused the kwacha to lose one-third of its value against the US dollar between March 2008 and March 2009.

Inflation, particularly of food prices, is on the rise in Zambia. In April 2009, overall inflation was 14.3 percent compared with 10.1 percent in April 2008 and 13.1 percent in March 2009. Food inflation rose sharply to 15.9 percent in April 2009 from 10.1 percent in April 2008 and 13.9 percent in March 2009. As bad as this price inflation is, the increases in the price of maize, the main source of calories for the poor, have been even higher. Data from FAO's GIEWS database show that white maize prices in 2008 were 24 percent higher in real terms than they were in 2007.

■ Effects on food security and livelihoods

Copperbelt Province: the mining sector

The mining sector in Copperbelt Province directly employed an estimated 30 000 individuals in 2008. Approximately 8 000 have already been retrenched and this figure was predicted to reach 10 000 by June 2009. In terms of overall unemployment, this is an underestimate as it does not account for retrenchments by contractors, suppliers and service providers for the mining companies. In essence, towns in Copperbelt Province are built around the needs of

the mining companies and the majority of jobs are either directly or indirectly linked to the sector.

Until mid-2008, mining-sector jobs were considered the most secure and lucrative not only because of the relatively higher salaries but also because of the fringe benefits, including severance pay, free medical care, and allowances for education, housing and meals. The perceived job security in the sector meant that many people took out loans from commercial banks, which, in turn, felt comfortable lending to mine workers. However, when declining global demand for copper forced mining companies to lay off employees, the banks also called in their loans. In many cases, severance pay – two months of base salary for each year worked – went directly to the banks.

The loss of health benefits has been difficult for many people, particularly those on anti-retroviral medication for HIV/AIDS, which is a major problem in Zambia. The private clinics and hospitals established by the mining companies were not only providing drugs but also the necessary high-protein diets. Now, many retrenched workers depend on public health systems that do not necessarily have the capacity to absorb the additional caseload. Thus, already weak public health facilities are becoming further strained, resulting in both reduced quality of care and poor coverage for all. This is a critical issue for a country that has one of the world's highest HIV/AIDS prevalence rates.

Most of the retrenched miners are still residing within the mining communities in the expectation that the situation will soon improve and they will be re-employed. However, their prospects are poor because the mining companies have used the lower copper prices as an opportunity to minimize production costs by shifting from labour-intensive operations to the more capital-intensive technologies (e.g. increased mechanization) required to stay competitive in the current economic environment. Some retrenched workers want to practice agriculture but find themselves ill-prepared and ill-equipped, with neither the skills nor the resources to acquire land and pay for the inputs.

Households in the Copperbelt are employing several coping mechanisms to deal with the economic slowdown. People in the towns have moved their children from private schools to public schools and now rely more on the public health-care system. Some households have reduced the number of meals they consume or are eating less-nutritious but cheaper food. In the province's rural areas, sales of charcoal and livestock have increased.

Because Copperbelt Province has been one of Zambia's more prosperous provinces, there are few UN or other international agencies present to provide humanitarian assistance. WFP is currently absent from the area, but may need to establish a presence given the current and emerging vulnerabilities.

Southern Province: the tourism sector

The main source of livelihood in the district around Southern Province's capital of Livingstone is tourism. The area boasts a range of tourist attractions, including the Victoria Falls, national parks, museums, rafting and boating, and game parks. Most people either work directly for tourism service providers (e.g. lodges) or rely on the industry indirectly as suppliers, transporters and sellers of small handicrafts.

The decline in international tourism triggered by the economic crisis, coupled with extensive flooding along the Zambezi River, has hurt the economic well-being of most communities. It is estimated that as many as three-quarters of the people working for the hospitality and tourism sector have either been retrenched or are working fewer hours.

Business was significantly down during the early period of the 2009 peak tourism season (which begins in April). Managers of quality hotels do not foresee a substantial improvement in the business environment until mid-2010 and were expecting occupancy rates of only about 50 percent during the 2009 high season.

Remittances from Copperbelt and Northwestern Provinces are an important income source for about 23 percent of the households in the Livingstone district. However, both the amount and frequency of the remittances have declined given retrenchments in the copper industry. Around 44 percent of the migrants have already returned home.

The affected households are employing a range of coping mechanisms to mitigate the economic slowdown. Some are venturing into farming, but poor soils, lack of capital for inputs and threats from wild animals are hampering progress. Others are relying on extended family support, but this is unlikely to be sustainable. Many see no option but to reduce expenses by cutting the number of meals, consuming less-nutritious but cheaper food, or spending less on health care and schooling. Focus group interviews with communities suggested that negative coping strategies such as theft and prostitution are also on the rise.

Communities worry that it might take more than two years for the situation to improve, and they are unsure about how they will survive until things do turn around. Their main priorities for weathering the crisis are employment, credit and improved access to food.

What are the ongoing responses?

The Government has not allocated any funds specifically to the crisis, but it has increased spending on agriculture, health and education. These expenditures are aimed at a range of programmes, including increased fertilizer use in agriculture, enhanced treatment of HIV/AIDS and malaria, hiring of new teachers and construction of new schools.