

## **Effects of the financial crisis on vulnerable households**

### **Findings from five case studies**

#### **Background**

WFP developed an Economic Shock and Hunger Index (ESHI) to better understand which countries are likely to become more vulnerable to food insecurity due to the global financial and economic crisis. The ESHI analysis considered key financial and economic factors as well as broader food security indicators to understand the food security implications on 126 lower and middle income countries. ESHI analysis was followed by case studies in five countries —Armenia, Bangladesh, Ghana, Nicaragua and Zambia. The purpose of these studies was to assess “on the ground” effects of the financial crisis on the household food security. The case study countries were selected to observe specific channels through which different countries could be impacted—remittances, exports, currency depreciations, foreign direct investments or official development assistance etc. This implies that while case studies were under-taken in only five countries, their findings could be generalized to other countries exhibiting similar socio-economic setups and vulnerabilities.

#### **Key findings:**

- The effects of the global financial crisis are clearly being transmitted to these countries and seriously deteriorating household food security. The fact that many countries and communities are still reeling from the food and fuel crisis, which peaked last year, has further exacerbated the effects of this crisis. Armenia, Bangladesh, Nicaragua and Zambia are particularly vulnerable while Ghana is affected but not to the same degree given the stable demand and relatively higher prices for gold and cocoa exports.
- All the five countries have experienced a decline in exports leading to job losses. In Zambia, the workforce in the copper mining industry has retrenched by about 25 percent. In Bangladesh, reduced exports of jute and garments have already caused 300,000 job losses. Armenia, over the last two quarters alone, registered 15,000 newly unemployed since its exports have fallen by about half. Nicaraguan exports have also declined by about 20 percent which in part caused 20,000 workers to be laid-off. In Ghana, falling timber exports is the main cause of unemployment and decline in internal remittances.
- The most substantial declines in remittances were observed in Armenia, Bangladesh and Ghana. In Armenia remittances dropped by a third within a year notwithstanding that it is a main source of income for a quarter of the population. In Bangladesh, only within a month (February 2009) remittances declined by 9 percent and large numbers of migrant workers continue to be deported, mostly from the Gulf States. Ghana has seen a 16 percent decline in remittances over the last year.
- Currencies of these countries have significantly depreciated against major world currencies. Within a year Zambian Kwacha has lost a third of its value while Armenian Dram and Ghanaian Sidi have depreciated by about a fourth against the USD. Indeed this has led to inflation, and high food, fuel and fertiliser prices, especially for Zambia where food inflation stands at about 15 percent. In Nicaragua and Armenia, chances are that the availability of food will decrease in the coming months as farmers are facing higher costs for agricultural inputs coupled with lower producer prices and demand for exports.
- Overall, the most affected population groups are the unskilled workers in the urban areas, families who rely on remittances, retrenched workers from the export sectors, miners and tourism sector workers and poor households, but not necessarily the poorest that are generally supported by social services.
- Household coping mechanisms include: diversify income sources; withdraw children from school; delay or reduce expenditures on health care; reduce the number of meals eaten per day or eat less nutritious but cheaper foods. This is potentially leading to higher malnutrition among children. For instance, in Bangladesh, severe chronic malnutrition now stands at 20 percent. Women are now working longer hours and therefore spending less time taking care of their children while child labour is also an issue. The loss of health care benefits for retrenched miners in Zambia is of particular concern given the high incidence of HIV/AIDS.

#### **Recommendations**

- Advocate for the protection of budgetary allocations and spending for social safety-net programs;
- Assist governments in enhancing national social safety net programs, including large public works projects;
- Expand school feeding to ensure that children could get at least one nutritious meal per day;
- Consider new/expanded WFP food assistance interventions in areas like, Copperbelt, Zambia and Sylhet, Bangladesh, where government safety nets are not yet reaching, due to emerging vulnerabilities; and
- Implement light and flexible monitoring systems that can reliably track changes in the household food security situation and provide real time actionable information and analysis.