



Executive Brief - Nicaragua

Effects of the Financial Crisis on Vulnerable Households

Follow-up study February- March 2010

Background: This brief is part of a series of case studies on the impact of the global financial and economic crisis on households' food security¹. These studies were carried out a year after initial assessments of the crisis's impact in the same countries in order to show trends in vulnerability and responses.

Overview

- ✓ Nicaragua is a Central American country with a population of 5.6 million inhabitants, of which 59% live in urban areas. The majority of the population is concentrated in the Pacific low lands. The country is classified as Low Income Food Deficit. In 2009, it ranks 124th out of 185 countries on the Human Development Index of the UNDP, reflecting poor living conditions and unequal repartition of socio-economic resources among the population.
- ✓ The country's economy is highly dependent on the United States of America (US) for its exports (32% of the total). The main exports are coffee, groundnuts, livestock, meat and dairy products, sugar, beans, bananas, tobacco and derivatives, lobster, shellfish, fish and gold. External migrant remittances, mainly from the US and Costa Rica, are about US\$800 million, representing approximately 15% of GDP. The main imports are food, fuel and energy, capital goods and agricultural inputs. For these reasons, the country is particularly vulnerable to the effects of the slowdown of the US economy and the decrease of demand of its export products.

Update on the macro-economic impact on the country

- ✓ A previous study carried out in March 2009 did not show major effects of the crisis at macroeconomic level, with the exception of a decrease of exports and remittances. These trends have accelerated during 2009, resulting in a major slowdown of exports as well as a decrease by about 6% of the remittances flow from migrants in the US and Costa Rica.
- ✓ The Monthly Economic Activity Index registered a decrease of 2.5% during the period January-November 2009, with a decline of all productive activities, especially in the manufacturing industry and mines as well as trade (-2.8 percentage points for these sectors combined). The effects on the economy are particularly severe given that these activities contribute respectively to 16, 8% and to 20.5% of the GDP. Some 25,000 jobs have been lost in the manufacturing sector ('*maquila*') in 2009, of which about 80% were occupied by women.
- ✓ The trade deficit continued to grow in 2009, reaching more than US\$1,812 million- a 16% increase compared to 2008. Despite these negative economic results, the Economic Commission for Latin America and the Caribbean (ECLAC) estimates that the economy will grow by 2% in 2010 largely due to the recovery of the external demand. Inflation is anticipated to remain at about 5%. The sustainability of this economic revival will largely depend on the recovery of the US economy and the opening of new commercial channels.

Update of the impact at household level

- ✓ The follow-up study realised in February/March 2010 indicated that the main effects of the crisis are a reduction of remittances and loss of jobs in the agro-exportation and '*maquila*' (textile essentially) sectors. They affect mostly households with little assets and result in a decrease of cash income and purchasing power.
- ✓ **In urban areas**, the most affected are casual labourers in '*maquilas*', as the decline of job opportunities, affects *income earnings and in turn affects their economic access to food and other basic necessities*.
- ✓ **In rural areas**, the most affected are landless households who depend on agricultural wage labour, due to sticky high food prices. Other affected households are those who depend on non-agricultural wage labour, due to the contraction of trade and construction activities.
- ✓ The crisis also affects small and medium-size traders selling basic commodities (food, clothing, and agricultural inputs) due to the reduction of demand of these items. They have also less access to formal bank credit or to credit provided by other traders to procure their supplies.
- ✓ The reduction of remittances flow is another factor that compounds the decline of income for all groups of the population affected by the crisis. Reduced income and remittances translate into a decrease of expenditures on basic necessities including food, health and education
- ✓ Household food insecurity in Nicaragua is essentially a problem of economic access to food. Continuously high food prices combined with lower incomes result in a loss of purchasing power, which has led to a change in food consumption patterns, particularly a decrease in consumption of meat and dairy products which are substituted for basic staples such as maize and beans.

¹ Analysis has been undertaken in Armenia, Bangladesh, Ghana, Nicaragua and Zambia.

✓ In addition to the reduction of the amount and quality of food consumed, the first option taken by households to cope with the situation and increasing indebtedness is to intensify external migration, especially to Costa Rica. The burden of debts also leads to changes in the pattern of basic expenditures (health, education).

Outlook

- ✓ Increased cost of the minimum food basket will increase the risk of already poor households to fall into extreme poverty. According to the National Living Conditions Survey of 2005, food expenditures represent 50% of total expenditures of poor households and 60% of total expenditures of the extreme poor.
- ✓ The production of food by vulnerable rural households is reduced due to the high cost of agricultural inputs, low prices of produce that are sold, and decrease of exports. This will worsen households' food access.
- ✓ Changes in the diet can translate into higher rates of chronic malnutrition of children below 5 years of age, considering that stunting already affects one out of 5 children. The nutritional value of the diet (energy and micronutrient supply) is likely to be compromised, especially for vulnerable individuals such as pregnant and lactating women, the elderly and the chronically ill.
- ✓ The decrease of health expenditures will also have negative effects on the nutritional status of vulnerable individuals. The limited capacity of the government to expand public expenses due to the economic crisis will continue to affect the quality of health care and the coverage with public services such as water and sanitation.
- ✓ The limited investment of households in education on the longer term will contribute to the inter-generational transmission of poverty.
- ✓ Concerns on a possible increase of civil violence and insecurity remain, due to the higher rates of unemployment which affect not only urban areas but also rural areas.

Recommended priority actions

- ✓ In response to the global financial crisis, the Government maintained austerity measures to control public expenses and to protect regular programmes such as Zero Hunger and Zero Usury which transfer productive resources and cash to the target groups to increase their level of income and access to food. However, they are insufficient to reach all the people in need, whose number has increased as a result of the crisis.
- ✓ Interventions to respond to the crisis must not only mitigate the immediate effects on specific population groups (such as the poor rural landless households, the newly unemployed in urban areas, or children in poor households), but also the basic causes of poverty and food insecurity, including improvement of basic services (health, water, sanitation, education), infrastructure, agricultural productivity and access to credit.
- ✓ Recommendations for WFP are, depending on resources availability, to:
 - expand its regular programmes for vulnerable groups including fortified food distribution, school feeding and food-for-asset activities;
 - provide capacity building of national authorities to identify and target food insecure households and to design responses accordingly, building on existing assessments and studies;
 - support the implementation of transfer programmes (food and cash) for households and individuals affected by the crisis (for example migrants, current unemployed) and for the poorest in the most food insecure areas which could not be assisted so far due to lack of funding;
 - provide food and/or cash to avoid excess migration, indebtedness and bankruptcy of small traders, so as to improve food access and consumption and stabilise income.

For more information, please contact: William Hart, WFP Country Director in Nicaragua: william.hart@wfp.org
Agnès Dhur, Food Security Analysis Service (ODXF) in Rome: agnes.dhur@wfp.org

How was the study done? The follow-up study combined a review of secondary data on macroeconomic indicators and a rapid qualitative assessment of household food security in 19 locations (10 rural and 9 urban), selected on the basis of vulnerability of livelihoods to the economic crisis. Interviews were conducted with 144 households and 20 Key Informants, and discussions were held with 20 Focus Groups.