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## **The impact of the recent food price increases on the poor and vulnerable**

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The diverse but interlinked reasons behind the recent rapid increases in food prices have been well documented in the media, but what is less clear is the potential impact on the most vulnerable in Sri Lanka. In this article we assess the current context and considers how increased food prices may affect two vulnerable groups; the poor and children, particularly those in poor households.

### **The current context**

The increase in food prices is largely perceived to be demand driven. The World Food Programme<sup>1</sup> cites increasing populations and changes in consumption patterns - particularly in the rapidly expanding Chinese and Indian economies - as the cause for increasing demand for food produce. From a supply perspective, rising energy prices have increased the cost of production, and the EU and USA biofuel programmes have diverted land away from agricultural production, thereby contributing to reduced supplies. Many countries (Sri Lanka included) have imposed export bans of key staples to protect domestic supply, but in doing so have contributed themselves to the rising global market price.

In the longer term higher food prices may not be a bad thing - it could act as an incentive for farmers to increase production, and it could also lead to increased farmer incomes. This latter point is potentially very significant in terms of poverty, since in developing nations a large proportion of the poor are employed in agriculture. However, it is not a given that farmers engaged in small-scale production will necessarily reap the rewards from increased prices. It is not yet clear whether the extra income is trickling down to the lowest levels or whether it is siphoned off by intermediaries, or simply eaten up by the increased cost of supply factors such as fertiliser and transport costs.

A recent article by R. M. Desai for The Brookings Institution<sup>2</sup> also highlighted the issue of a lack of cohesive power amongst farmers in developing countries, compared to the power of urban voices protesting against food price increases. This is likely to result in policies directed at improving conditions for urban populations by subsidising and controlling prices, rather than investing in the agricultural sector based on improved returns.

**Table 1: Price increases of selected foods in Colombo city**

1kg of:	In June 2007 cost:	In June 2008 now costs:	Percentage increase (%)
White rice	36 rupees	65 rupees	81
Wheat flour	47 rupees	75 rupees	60
White Sugar	52 rupees	61 rupees	17
Pineapple	57 rupees	79 rupees	39
Red Onion	77 rupees	102 rupees	32
Coconut oil	123 rupees	189 rupees	54

Note: Not adjusted for inflation

Source: Weekly Retail Prices for selected Consumer Items Colombo City, DCS June 2008.

In the short term, price increases are impacting all consumers' pockets. South Asian economies are the largest net importers of commodities compared to other 'developing' regions and trade is important. In Sri Lanka, 25% of food is imported with the major items including wheat, rice, sugar,

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<sup>1</sup> International Food Policy Research Agency: The World Food Situation Report. April 2008 <http://www.ifpri.org/pubs/fpr/pr18.pdf>

<sup>2</sup> [http://www.brookings.edu/opinions/2008/0619\\_food\\_prices\\_desai.aspx?emc=lm&m=217174&l=31&v=1040687](http://www.brookings.edu/opinions/2008/0619_food_prices_desai.aspx?emc=lm&m=217174&l=31&v=1040687)

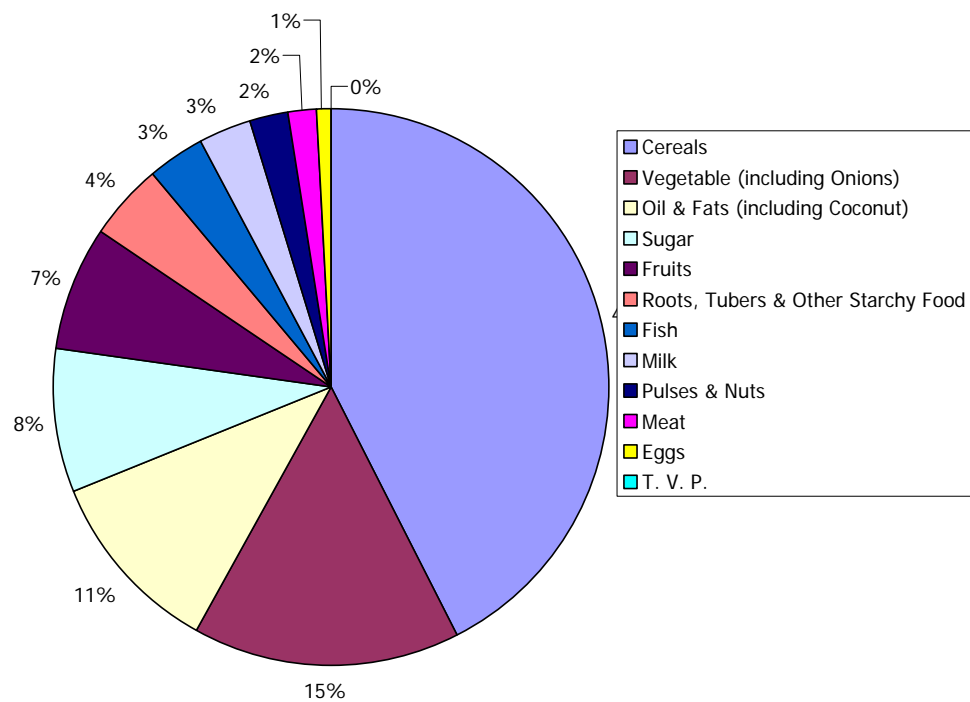
pulses and milk related produce. Further analysis of these figures show that theoretically, Sri Lanka produces enough rice to meet domestic consumption (and this year the Maha harvest is predicted to be sufficient to do so) but for not so for other major cereals crops (table 2) An average Sri Lankan household will consume almost 50% of their diet in cereals (graph 1).

**Table 2: Sri Lankan production and Imports of key food groups**

Food	Domestic Production 000 Metric Tons	Imports 000 Metric Tons	Food Net 000 Metric Tons (adjusted for seeds and waste)	Imports as Percentage of Net food available (%)
Cereals	3,396	798	2,800	29
Vegetables	997	130	1,017	13
Oils	1,000	22	722	3
Sugar	59	521	555	94
Fruits	438	40	466	9

Source: Food Balance Sheet 2006, DCS

**Graph 1: Average Sri Lankan household consumption pattern, 2006**



Source: HIES 2006

### Impacts on poor households

In the short term most households will adapt by reallocating income from non essential items, or substituting expensive foods for less expensive ones. In some cases households may chose to increase their incomes through working longer, or short term borrowing. The households who will struggle most with increasing food prices are those who are already poor or who are vulnerable to falling into poverty. In Sri Lanka the number of households clustered close to the poverty line is

high, indicating a high level of vulnerability to falling into poverty which could be severely exacerbated by shocks such as increased food prices.

Calculations show that if the cost of living increases by 10%, the poverty headcount would increase by 6% nationally and by 10% in the estates where more households are clustered near the poverty line (World Bank Sri Lanka Poverty Assessment 2007: 19). The impact on the poverty headcount is much higher if the economic shock affects the poorest households disproportionately, as would be the case with food price rises. By definition the poor have less income to spend, but they also spend a greater proportion of this income on food compared to those who are not poor – 65% as opposed to 48% (Table 3). This reflects lower flexibility of the poor to switch spending from food to non-food items.

**Table 3: Average food share on total average consumption by income and sectors.**

Sector	Non-poor	Poor	All
Urban	39%	63%	40%
Rural	49%	64%	52%
Estate	61%	68%	64%
Total	48%	65%	51%

Source: Compiled by CEPA from the Consumer Finance Survey 2003/4

The poverty line which is used to assess the proportion of households living in consumption poverty can be further broken down into a 'food' component and a 'non-food' component. CEPA conducted this analysis for the year 2003/4, during which time the poverty line was set at Rs.1600 and 19% of the population fell into the poor category. Of this amount Rs.1094, or 68% of this income, was allocated to food items, setting the food poverty line. By this measure, when only food expenditure is considered, 30% of households fell below this food poverty line, 11percentage points higher than the aggregate official poverty line. This is significant as it suggests that a proportion of those households captured as *non-poor* under the head count poverty index appear to be substituting food spending for non-food essentials. A similar pattern where the number of people below the food poverty line substantially exceeds the poverty head count, could be expected to manifest itself in the current context of volatile food prices and potential restrictions on availability.

Sri Lanka does not generally suffer from *acute* food insecurity, but some areas are vulnerable to poor distribution or scarcity of certain food items. There are three main types of food vulnerability which affect food security; conflict-related, market-related and environment-related such as natural disasters. The escalation of food prices could be described as a market-related vulnerability, with access to food restricted by affordability as well as availability due to government restrictions on imports.

A study on community food security carried out by de Silva, Weeratunge and Iburguen in 2002 revealed more about food security in different areas, and how different groups cope with lack of food. The study found that food *availability* and *supply* is not the main problem in most areas, apart from the conflict zone where supply is less predictable. For the most vulnerable families the main issue is purchasing power – if they had the resources they would be able to access food, but purchasing power has decreased in all three zones due to increases in the price of food. This would have become a greater problem since the study was carried out, with high rates of inflation and global price increases pushing up the price of the most basic foodstuffs.

Typically poorer households will react to increasing food prices by reducing the amount they spend on non-food essentials, or reducing the level of food intake. A rapid assessment by the World Food Programme assessed the impact of food price increases on 850 of their beneficiaries in the North and East districts<sup>3</sup>. Of these households 93% had responded by reducing meal sizes, skipping meals or going entire days without eating, buying cheaper foods, borrowing or selling

<sup>3</sup> Initial analysis presented May 2008

assets. All households reduced spending on non-food items such as hygiene and clothing. Rural households also decreased their spending on education which is a serious cause for concern.

### Impacts on child malnutrition

When identifying those most vulnerable to food security issues, one cannot ignore the potential impact on one child malnutrition, which continues to be a major problem in Sri Lanka. According to the latest Demographic and Health Survey (2007), 18% of children under the age of five are stunted (too short for their age) and 21.6% are wasted (underweight for their age). This means that one in five children suffers from chronic or acute malnutrition. Malnutrition rates are lower than other South Asian countries, but high when compared to other countries with similar rates of per capita income.

**Table 4: Child malnutrition rates by age and sex, 2000**

Age in months	Height for age		Weight for age	
	% below -3	% below -2	% below -3	% below -2
	SD	SD	SD	SD
<6	2.5	9.7	2.8	12.1
6-8	2.2	9.5	1.9	12.0
9-11	4.5	15.6	4.7	15.6
12-17	5.0	18.6	2.3	18.5
18-23	5.3	22.7	4.2	22.9
24-35	5.1	21.9	4.2	23.4
36-47	3.8	19.8	4.0	24.9
48-59	3.6	15.7	4.3	25.3
All	4.2	18.0	3.8	21.6

Note: Each of the indices is expressed in standard deviation units (SD) from the median of the WHO Child Growth Standards adopted in 2006.

Source: Demographic & Health Survey 2006/7: 20

Unfortunately the current DHS statistics cannot be compared with the last DHS in 2000 since the WHO standards upon which the indices are based have changed. However, one trend is perhaps worth highlighting. While previous statistics showed that wasting was a substantially more serious issue than stunting, according to the latest data, the difference between the incidence of stunting and wasting has decreased, and both are now equally serious issues in Sri Lanka. This is of concern since stunting indicates chronic malnourishment over an extended period of time, whereas wasting could be an indication of short-term acute malnourishment which may be exacerbated by seasonal food availability, recent illness or a sudden external income/consumption shocks.

Research has shown that intra-household distribution of food tends to favour children. Elders will often skip meals to give food to their children, and therefore the immediate risk to children's health in poor households is somewhat diminished. However, other coping mechanisms such as food substitution for potentially less nutritious foods, and spending less money on other factors such as education or sanitation are likely to also have an impact on children's health. Overall, there is a clear correlation between poverty, poor living conditions, and malnourishment. If vulnerable households are pushed below the poverty line, access to good housing, clean water and adequate sanitation may be reduced, all of which contribute to the likelihood of catching infections, which also leads to malnutrition. A period of poor nutrition in a child's life can have repercussions throughout their life, affecting educational prospects in the medium term and their potential employment productivity over the longer term.

### What can be done?

The government's short term solution to increasing food prices has been to impose export taxes to keep foodstuffs in the domestic market. A longer term plan to improve productivity and build up stores of food stuffs has been launched through the 'Api Wawamu Rata Nagamu' programme, at

an estimated cost of Rs.122M. and the 'Gama Neguma' programme which is encouraging the cultivation of 23 food crops which are currently imported. These measures will go some way to reducing the effects of the food crisis but as their impact will be over the longer term, they will not address short-term needs.

In the short term it is the formal 'safety net' programmes such as Samurdhi that need to address the poor and vulnerable through redistribution programmes, with cash handouts, food stamps, cash/food for work etc. However, the government has not announced any specific such welfare programmes to address the food price increases, and the vulnerable must continue to rely on existing resources.

The government's action plan on nutrition (Ministry of Healthcare and Nutrition 2007) stresses that efforts in the past to combat malnutrition have not been adequately designed or coordinated to have maximum impact. Interventions such as the Thriposha supplementary food programme for pregnant mothers and undernourished children, and subsidy or food stamp programmes have often failed to target those most in need with resources going to groups who are not poor or necessarily at risk. In the current context it is even more important that benefits are targeted more accurately to ensure that limited resources are directed at the most needy. The new Samurdhi beneficiary targeting system which is currently being piloted offers may improve distribution of benefits over the medium term.

Some school feeding programmes are in place in vulnerable areas, but these programmes are also affected by price increases which have reduced their purchasing power. In addition there is a risk of poor co-ordination since these programmes are run by a variety of different government and non-governmental agencies. Effective alliances between government and non-governmental agencies need to be coordinated to be mutually reinforcing rather than working independently as is often currently the case.

While redistribution and subsidies may offer short-term solutions to the most vulnerable, and considered investment in food production may offer some long-term relief, serious underlying economic problems in the country also need to be tackled in order to address the issue of rising food prices, such as high inflation which is eroding confidence and exacerbating the increase in food prices.

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