



POLICY NOTE

## SUPPORTING RURAL LIVELIHOODS AMID RISING GLOBAL FRAGILITY

### *LEARNING FROM THE EFFECTS OF THE UKRAINE CONFLICT IN THE SOUTHERN AFRICAN DEVELOPMENT COMMUNITY*

This is a joint policy note from the Monitoring and Analysing Food and Agricultural Policies (MAFAP) unit based in the Food and Agriculture Organization of the United Nations (FAO), and the International Fund for Agricultural Development (IFAD), in collaboration with the Bureau for Food and Agricultural Policy (BFAP)

In a context of rising global fragility, effective policies for building resilient rural livelihoods are becoming increasingly important. In countries of the Southern African Development Community (SADC), as elsewhere, the inflationary effects of the Ukraine conflict for rural people is combined with several other environmental, economic and institutional challenges. Drawing upon Governments' experiences since the conflict began, this note shares lessons for mitigating the effects of the current and future crises for rural livelihoods in the region.

The impacts of the conflict in Ukraine on rural livelihoods in developing countries have been well documented.<sup>1</sup> Since the conflict began in February 2022, rural people have faced restricted supply of food (wheat, barley, maize, and sunflower seed amongst others), fertiliser and fuel, causing limited availability and higher prices. In early 2023, there were signs that the worst effects were abating, including a return of food prices to pre-conflict levels thanks in part to the signing of the Black Sea Grain Initiative in August 2022. But Russia's recent withdrawal from the Initiative in July 2023 has raised concerns that inflationary pressures on food may accelerate again, to the detriment of rural people globally. It is estimated that the conflict's impacts could push up to 27.2 million people into poverty, and 22.3 million into hunger.<sup>2</sup>

To collect insights on effective ways to mitigate the risks from this and future crises in the region, we interviewed over 30 key policy stakeholders from Lesotho, Malawi, Mozambique, Zambia and Zimbabwe, including key Government decision makers, civil society, donors, private sector and academia. The interviews focused on perceived effectiveness of measures taken so far to respond to the Ukraine crisis, and on potential short- and medium-term policy options. To inform the discussions, the MAFAP, IFAD and BFAP team conducted trend and projection-based analysis for food, fertiliser and fuel using secondary data on commodity prices, trade flows, crop yields and land use. We then disseminated and discussed the findings and recommendations with the same stakeholders through focus groups (see the attachment for the results and recommendations presented in these discussions).

<sup>1</sup> For an extensive summary, see Glauber and Laborde, 2023. *The Russia-Ukraine Conflict and Global Food Security*. Washington, DC: International Food Policy Research Institute

<sup>2</sup> See Arndt, C. et al. (2023). The Ukraine war and rising commodity prices: Implications for developing countries. *Global Food Security*, 36(100680).

## *What are the impacts for rural livelihoods in the SADC region?*

Based on our own analysis, country consultations and existing literature, the following are the main channels through which the Ukraine conflict is affecting rural livelihoods in the region.

**Fertiliser prices:** The rise in fertiliser prices has seemingly been the main impact channel for rural livelihoods in the region. With some variation, most SADC countries have avoided the worst effects on food supply, due to low reliance on imports from the Black Sea Region, as well as low reliance on wheat and edible oil for their diets. Their high reliance on fertiliser imports, however, has meant that smallholders' production costs have spiked, thus reducing their production margins. With fertiliser prices set to remain above pre-COVID-19 levels for the foreseeable future, fertiliser application rates are projected to decrease in the coming years, hampering yields and local food supply. Moreover, Governments are limited in reverting to local fertiliser production to solve the issue. Potash and phosphate, two of the main fertiliser macro nutrients, are mined from ore deposits, which are limited in the region, or require significant energy inputs at inflationary prices to be extracted and processed. This also applies to nitrogen-based fertiliser, which is also highly energy intensive.

**Fuel prices:** As with fertiliser prices, global fuel prices are showing minimal signs of returning to pre-conflict levels. For rural livelihoods, fuel price inflation has raised the cost of food transportation and machinery use—although the latter has mostly affected commercial farmers. There is scope to increase energy self-sufficiency in SADC countries, but it is limited: most SADC countries do not produce oil and must import it to keep their agri-food value chains running. This represents a long-term policy problem for rural people in the region, with petroleum still accounting for 99% of transport energy in the region, leaving food systems perennially exposed to global energy price shocks.

**Compounding shocks:** Interviews revealed that policymakers do not perceive the Ukraine crisis as a singular shock calling for a specific response. Their response plans instead focus on solving multiple interlinked issues, including the ongoing recovery of food systems from COVID-19; country-specific issues (such as the terrorism threat in Mozambique); and increasingly frequent and extreme weather events, which particularly affect rural livelihoods. Regarding the latter, in the first three months of 2023 alone, the region was severely affected by cyclone Freddy and storm Cheneso in Malawi, Madagascar and Mozambique; and a series of storms and torrential rains in Zambia.

As well as directly hindering on- and off-farm activities, respondents highlighted the severe effects of these long-running “polycrises” on macroeconomic stability. Deteriorating exchange rates and foreign exchange scarcity are affecting SADC Governments' and private sector capacity to import and sell food, fuel, and fertiliser at affordable prices. Exchange controls also affect the private sector's incentives to export. In Malawi, there is a mandatory 30% of formal export income that needs to be sold to the reserve bank at the official exchange rate. If one considers the black market exchange rate (which is main exchange rate used) the exporter will lose around 12%. Further, limited fiscal space, tumbling terms of trade, and a growing debt burden hampers SADC Governments' abilities to implement social protection support or invest in infrastructure to promote domestic production. Linking back to the fertiliser issue, in this context input subsidy programs are becoming increasingly expensive to Governments.

Interviews also highlighted issues with low investment in risk preparedness capacities. This includes collecting systematic data on food system vulnerabilities to different shocks, poor integration between food security and market information warning systems, limited linkages between warning systems and policy action, and absence of anticipatory and stable funding for crisis response systems (e.g., food reserves). As such, social protection and disaster management programs remain largely ad hoc in the region, tied to donor-funded humanitarian interventions with bounded objectives and lifespans.

### *What are the lessons and policy options for the current and future crises?*

#### **1. Increase the cost-effectiveness of fertiliser subsidies and diversify approaches to productivity growth**

Fertiliser subsidies can alleviate the burden of high prices in the short-term and support local production, but our consultations and analysis highlight that Governments must make these programmes more sustainable amid tightening fiscal space. The fiscal constraints SADC Governments face can be used as an opportunity to do this, and some Governments have already begun to do so. Options for this include improved procurement and distribution processes that better involve the private sector, as well as use of digital technologies (e.g. e-vouchers) to reduce leakages and ensure better tailoring of input packages to the needs of farmers. They also imply tightened targeting criteria. Malawi for instance are using “model farmers” to identify the most suitable recipients. To maximise benefits, targeting should focus on farmers for whom the subsidy can push the cost-benefit ratio for fertiliser above the adoption threshold, while poorer farmers can be supported by targeted social safety nets.

In the long run, options to build resilience to fertiliser supply shocks include (i) lowering the costs of fertiliser at the farm through investing in infrastructure (e.g. roads, marketplaces); (ii) improving the business environment for importing companies and agro-dealers; and (iii) repurposing some fertiliser subsidies towards research and advisory services for less fertiliser-intensive production practices and technologies. While promoting local fertiliser production is another option, as mentioned above, this should be considered against the significant costs of doing so and should be seen as one of several instruments to bring more resilience to productivity growth strategies.

#### **2. Improve anticipatory and adaptive social protection and disaster management programmes**

Recognising the reduced fiscal space in SADC countries, our consultations highlighted the importance of applying a more adaptive approach to these programmes to allow for coverage to be increased when shocks hit. For instance, in Kenya the National Drought Management Authority (NDMA) offers emergency payments to beneficiaries not included in its Hunger Safety Net Program when the remote-sensing Vegetation Condition Index drops below a certain threshold.<sup>3</sup> In terms of cash and food transfers, SADC Governments have mobilized existing food reserves and safety net programs to alleviate the effect of price inflation. These instruments are essential to safeguard food security and household assets, but they have broader

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<sup>3</sup> See Hirvonen, K. (2023). Social Protection. Adaptive Safety Nets for Crisis Recovery. In *Global Food Policy Report 2023. Rethinking Food Crisis Responses*. (pp. 52–61). Washington D.C: IFPRI

resilience benefits including income diversification, conflict prevention, increased trust in local governments, and encouragement of savings and investment. For donors, they have a key role to play in supporting these programmes while SADC economies transition towards an economic status that allows them to fund these programs sustainably.

### **3. Continue to diversify domestic and external sources of food, fuel, and fertiliser**

SADC countries have been fortunate that the small range of crops on which they rely for production and consumption have been less affected by the Ukraine conflict, but they remain highly vulnerable. For instance, if a similar shock were to affect maize markets and prices instead of wheat, the consequences would be dire, with 25-50% of caloric intake coming from maize in the five countries analysed.<sup>4</sup> Measures to increase diversification can include greater regional trade integration to enhance food system resilience while boosting growth among SADC countries. Investing in trade corridor infrastructure, as well as lowering tariffs and non-tariff trade measures between SADC countries, is critical to facilitate food flows from surplus to deficit areas. This can alleviate pressure on, and volatility of food prices whenever domestic shocks hit, and support cheaper movement of fuel and fertiliser across the region. More regional trade can also increase market access and growth opportunities for smallholder farmers and foster greater investment in agri-food value chains, ultimately strengthening domestic food system productivity and resilience.

Governments can also promote dietary diversification away from a limited number of staples to reduce consumer vulnerability to price and supply shocks for specific commodities. Governments can encourage this through consumer awareness campaigns and support to private sector investment into production, processing, and sale of non-staple foods. This support includes investments in enabling infrastructure (e.g., cold storage for perishables), regulatory and tax incentives (e.g., for foreign direct investment), but also investment and marketing advice to agri-food Small and Medium Enterprises (SMEs).

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<sup>4</sup> See FAO (2023). Crops and livestock products. Retrieved from <https://www.fao.org/faostat/en/#data/QCL>