

Putting the Household Economy Approach into Practice

The Household Economy Approach (HEA) gives a detailed insight into the ways people in different parts of Ethiopia manage their income and expenditure and how they cope with shocks, including drought, market failure and price changes. The methodology supports the Government's early warning system by providing a way to better analyse information. Combining the baseline information compiled through the HEA with existing monitoring tools provides an on-going analysis of emergency needs (see figure 1). It helps to answer the basic emergency response questions: where, who, how much, how many, what, when and how long.

To show how the HEA's baseline information can support day-to-day emergency operations in Ethiopia, we present a scenario analysis of a livelihood zone in Southern Nations Nationalities and Peoples' Region (SNNPR). Although in this case the shock is hypothetical (but realistic), the data and information are derived from the HEA's baseline information and thus reflect the reality.

A possible scenario

SNNPR is a diverse region with 40 different livelihood zones. In some zones people earn a large part of their income through the sale of cash crops and buy their staple food on the market. In other livelihood zones people depend on food crops for the majority of their food needs. In the South of the region, livestock is the main source of cash income.

People in different livelihood zones are vulnerable to different kinds of shocks. One shock, however, is common to almost all of the people in SNNPR: a price increase in staple food. Most people in SNNPR—espe-

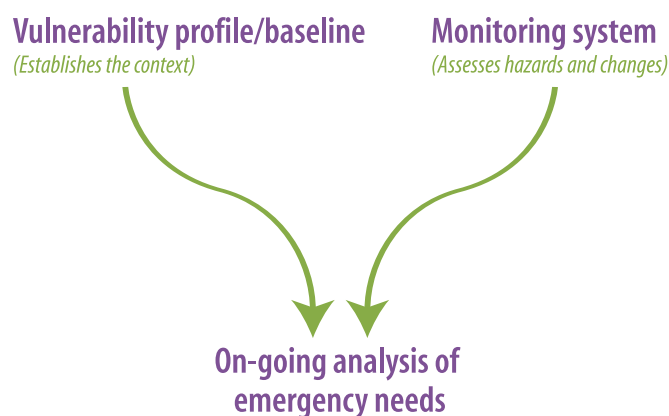


Figure 1. Integrating HEA baseline information with existing systems

cially poor and very poor families—depend on the market for their food needs for some period of each year. An increase in the price of staple food may be good for sellers, but it is bad for the poor and very poor who often depend more heavily than others on the market to meet their food needs.

The livelihood zone baseline picture for this scenario shows that in the reference year poor families purchase roughly half of their food requirement from the market with a cash income derived largely from the sale of cash crops and from engaging in casual employment. Another large portion of their food needs is met by crops they grow themselves and the rest of their food is obtained through livestock production and payment in kind. (see figure 2 overleaf: *The baseline picture: food*). In the current scenario analysis it is assumed that the price of maize, which is the main staple food in the livelihood zone, doubles. The question is: what effect is this likely to have on poor farmers in this livelihood zone?

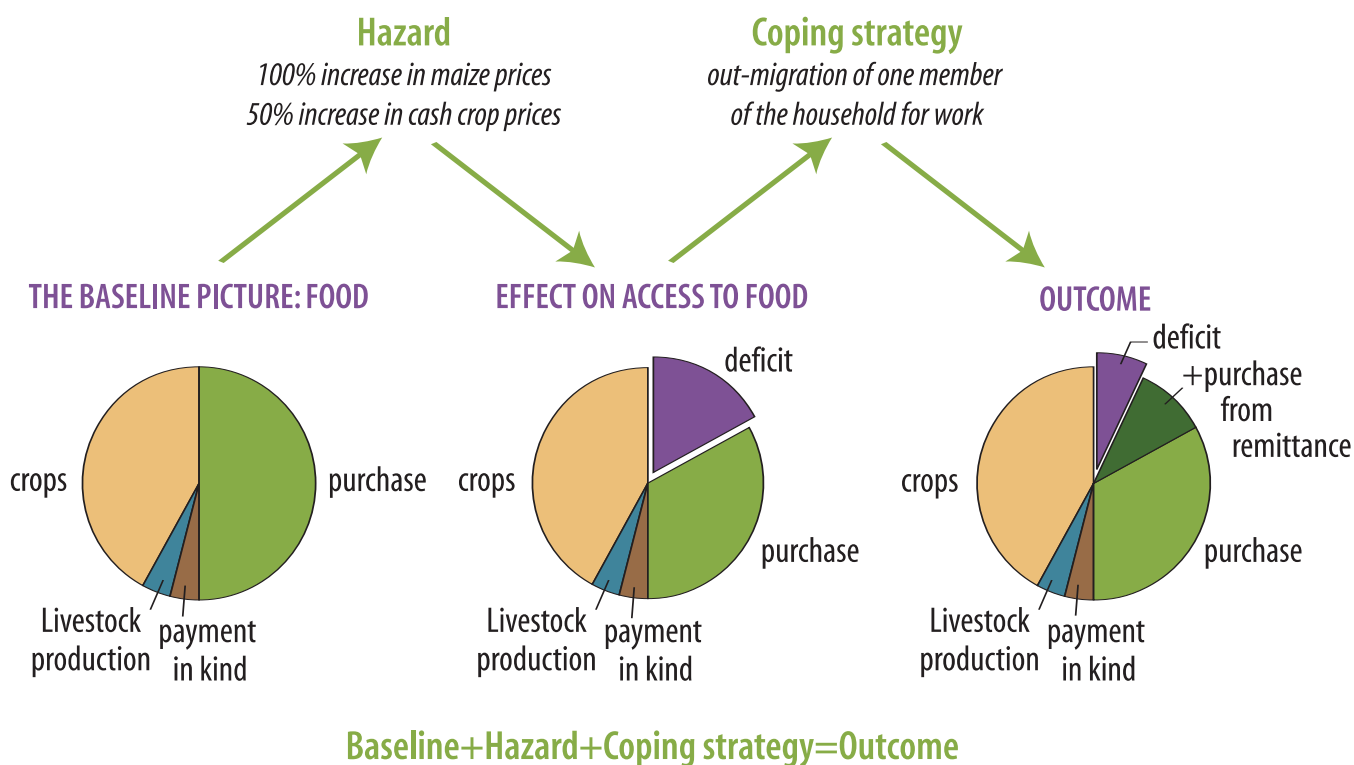


Figure 2. Combining shocks with coping strategies to assess food deficits—an example

An answer to this question requires that we take more information into account. Besides an increase in maize prices, the Household Economy Approach highlights a number of other factors that need to be considered. Poor households in the livelihood zone are not only affected by a price increase in their staple food, but also by:

- **Food crop harvests:** The harvests of food crops in the livelihood zone tends to be the same as the harvests in the reference or baseline year.
- **Cash crops harvests:** Households in the livelihood zone grow cash crops and harvests are expected to be as good as the harvests in the baseline or reference year.
- **Cash crops prices:** Prices for cash crops are favourable; it is expected that people will get around 50% more for them than they did in the baseline or reference year.
- **Livestock prices:** No remarkable changes are expected in the price of livestock.
- **Local opportunities for casual work and wages:** Poor households obtain much of their cash income from casual employment. In this scenario analysis opportunities and wages are similar to those in the baseline or reference year.

Bearing all of this in mind, the question becomes: For the poor, does the positive trend in cash crop prices out-

weigh the negative consequences of the maize price increase?

The HEA's baseline information provides an answer. It shows that, because of the maize price increase, poor families in the livelihood zone will face a decline in their purchasing power of around 50%, and therefore will be able to buy approximately 25% less than they would normally purchase. However, their deficit will be reduced by around 8% because of the higher prices they receive for their cash crops. The combined result of these two trends shows that there will be an initial deficit of roughly 17%, or 25% minus 8% (see figure 2 above: *Effect on access to food*).

The HEA's baseline information also makes possible a further level of analysis. By combining the effects of food and cash income on households' access to food with the expected coping strategies, an outcome can be predicted (see figure 2 above: *Outcome*). In this livelihood zone poor households tend to migrate to other areas in search of casual employment. With the remittances from the labour migrants, families can make up approximately 10% of their food deficit. As a result poor families in the livelihood zone are left with a deficit of roughly 7%, which is about the same as one full month of food.

