

**STUDY OF THE IMPACT OF THE POLITICAL CRISIS THROUGH PRICE
ANALYSIS OF GOODS IN URBAN AND RURAL AREASⁱ**

Introduction

Due to a dispute on the outcome of presidential elections, Madagascar has been in the grip of a political crisis since the beginning of the year. General strikes and roadblocks have had a hard impact on the economy of Madagascar and therefore on the welfare of people.

As primary data on the impact of this situation is scarce, the Ilo program, in collaboration with INSTAT and FOFIFA, organized a survey just before the roadblocks were lifted (during the month of June) in 75 communes, 150 schools and 100 health centers in 3 provinces (Fianarantsoa, Mahajanga, and Antananarivo). The stratified sampling frame was set up in such a way to be as representative as possible of the situation in these provinces. During this survey, different data were collected. This policy brief discusses the impact of the crisis through an analysis of the data on the availability and prices of goods in the 75 communes - urban as well as rural - that were sampled.

Transport

a. Compared to the same period last year, transport prices for shipping of goods as well as for personal travel have doubled.

As the regular distribution channels of fuel were disrupted during the political crisis, prices of fuel skyrocketed (as it was only available on the black market). Fuel prices were reported to be as high as six times the prices of the period before the political crisis. This has led to a doubling of transport costs for personal travel as well for shipping of goods (as fuel is only one of the costs in the transport margin) as well as a reduction in the availability of means of transport (Figure 1).

b. Due to the crisis in the transport sector, availability of goods are affected.

Due to this situation, prices of imported goods increased dramatically while some goods that are not made locally in the region are not

available at all anymore. While local substitutes might be found or one could live without some of these basic goods for a short time, some goods are clearly necessary for survival. The most worrisome is the availability of PPN (Produits de Première Nécessité) and health related products. For example, the availability of Sur'Eau dropped from 79% to 68% of the communes this year compared to the same period last year.

Prices of PPN

a. Most of the prices of the PPN have at least doubled, in rural as well as urban areas.

Figure 2 shows how prices of PPN (salt, sugar, vegetable oil, kerosene) have increased since the start of the political crisis. On average, the prices for these products have at least doubled. Average prices for kerosene increased even fourfold.

b. Price increases for PPN are relatively lower in urban areas than in rural areas. The further away from the capital of the province, the higher the price.

As most of the PPN transit through the capital of the province to be shipped to rural areas, prices of PPN - if they are available at all - are significantly higher in these rural areas compared to urban areas. Figure 3 illustrates the case for kerosene. While there was a stable and small margin before the political crisis, this margin increased significantly (7-fold) since the beginning of the political crisis, leading to, relatively, even higher price in rural areas.

Prices of agricultural products

a. The overall price of rice in rural areas has not changed compared to the same period last year. However, the effects differ by province.

Figure 4 shows the price evolution of rice in the three provinces that were sampled. The overall rice price in June was the same as last year (the same is seen for other agricultural products, such as maize). This might seem

surprising at first sight. However, as Madagascar is basically self-sufficient in rice during this period, the increased marketing margin would lead to lower prices in exporting communes and higher prices in importing communes. These changes would off-set each other and would have little effect on the average price.

The different price evolutions between the provinces illustrate this model. While the rice price was almost the same as last year in the province of Fianarantsoa, prices in Antananarivo increased and prices in Mahajanga decreased, leading to more and less hardship respectively for net rice buyers in these provinces.

b. The rice prices in urban areas increased by 10% due to an increased marketing margin. The gap between urban and rural areas increased by 100% compared to the same period last year.

Figure 5 shows how rice prices in rural and urban areas evolved over time. The urban price reached its peak in the period January – March as this period is the lean period for most regions in Madagascar. The average price in urban areas during this period was slightly above 800 Fmg/kapoaka. The incoming harvest in rural areas created downward pressure from April onwards on the urban rice prices. However, due to the increased marketing margin caused by the fuel shortages, prices stayed still around 10% above the level in a normal year.

c. On average, paddy prices declined by 20%. The impact of the decline differs by province.

Paddy prices are rather stable in the province of Fianarantsoa compared to last year (Figure 6). This seems to be this way because this region is almost self-sufficient in rice and suffers therefore less from the roadblocks that hinder trade with other provinces. The paddy price declined dramatically in Mahajanga (a decline of 35%) as this province normally exports paddy to the province of Antananarivo (especially the rice plains of Marovoay and Bealanana) and was less able to do so because of the roadblocks. As the rural areas of Antananarivo suffer less from competition from the province of Toamasina (the Lac Aloatra region) and of Mahajanga, paddy prices increased compared to last year. The paddy price in this region is, on average, 22% higher than during the same period last year.

d. The gap between rice and paddy prices has increased by two and a half, compared to the same period last year.

While rice prices stayed the same on average, paddy prices decreased by 20% indicating a dramatic increase in the margin between the two products (Figure 7). Different reasons might explain this. First, transformation margins increased as milling is often done through mills that use fuel. As the price of fuel increased, milling costs increased. Second, due to the drop in demand in urban centers for meat and the overall decrease of the price of meat (as meat shows a high income elasticity and will therefore be the first to be cut in times of declining revenues), the value of the byproducts of the milling process (“son”) - often used for pig feed - dropped consequently in value and decreased therefore the value for the paddy product as a whole. Third, demand for paddy relative to rice decreased as the higher transport costs increased the demand for a higher value product.

Agricultural wages

Agricultural wages show a slight decline, especially in the province of Mahajanga.

Agricultural wages show the same trend as the one in paddy prices but to a lesser degree (Figure 8). Agricultural wages have gone up in Antananarivo as agricultural production has become relatively more profitable while, due to the lack of trade with other regions, Mahajanga noticed a reduction in the level of agricultural wages (the relatively high wages in this province compared to the other ones explain the inflow of seasonal agricultural labor in normal years). As there is less agricultural trade between Fianarantsoa and other provinces and as agricultural activities are geared relatively more towards self-sufficiency, the level of wages has not been affected.

Value of assets

a. Overall, livestock prices are slightly lower than last year (-2%). However, the effects differ by province. While prices declined by 10% in Mahajanga and in Fianarantsoa, they increased, in contrast, by 10% in Antananarivo.

Because of the declining export, paddy prices, and wages, the province of Mahajanga is hit hardest and shows the biggest drop in the value of assets. Compared to the same period last year, the price of livestock has declined by 10% (Figure 9). The same type of drop is seen in the province of Fianarantsoa. As the province of Antananarivo is doing relatively better than the other provinces because trade with the nation’s capital has increased, livestock prices have increased by as much as 10%. Another reason for the increase in

livestock prices in Antananarivo (even when overall revenues declined), is the increase in demand for meat due the lack of supply of fish products from coastal areas. Fish serves in normal times as an alternative source of proteins in the city of Antananarivo.

b. Land prices do not change

A last question was asked on the evolution of the price of a well irrigated rice field in the commune. No changes were noticed in any of the provinces. Therefore, there is no evidence yet on nominal deflation for these assets in rural areas.

Conclusion

The results of the price monitoring in rural and urban areas of the provinces of Fianarantsoa, Mahajanga, and Antananarivo show that, due to the crisis, rural areas suffer because of higher prices of PPN and urban areas because of higher prices of food (as would have been expected). The data presented in this analysis show the magnitude of these effects.

Of the three provinces, the rural areas in Mahajanga seem to have suffered most from the crisis as as a traditional agricultural export province, it was unable to do less so this year. This shows up in declining rice prices, lower agricultural wages, and declining asset values. The rural area of Antananarivo seems to have suffered less. However, it seems that even during the political crisis, the province of Fianarantsoa, which started off as the poorest province (Razafindravonona et al., 2001), stayed so as shown through its relatively low agricultural wages and the declining livestock prices.

References

Razafindravonona, J., Stifel, D., Paternostro, S., Evolution de la Pauvreté à Madagascar: 1993-1999, INSTAT

ⁱ This program is funded by USAID, Project 'Improved economic analysis for decision-making in Madagascar', Cornell University, Cooperative Agreement No. 687-00-00-00093-00. This policy note is part of a study on the 'The political crisis : economic and social impacts and implications for policy'. For more information, suggestions or access to data, contact the Ilo program. This note was prepared by Bart Minten (Cornell University)





