

Income Shocks and Household Coping Mechanisms: Implications for the Welfare of Children in Kenya

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Key Highlights

Internal and external shocks have potential of increasing household members' vulnerabilities. This policy brief focuses on income shocks and the households' coping mechanisms, and their implications on children welfare. Key highlights include:

- (i) Since the onset of COVID-19 pandemic, many households have been buffeted by income shocks of various forms, largely dominated by high cost of living.
- (ii) Majority of households do not have adequate buffers against these shocks; and rural households are more susceptible to high cost of living and health-related shocks.
- (iii) The main coping strategy employed (reduction of basic consumption spending) exposes children to nutritional shocks and potential risks of wasting and stunting. Children from low-income households are already at a higher risk of wasting and stunting due to malnutrition, cutting down on spending exacerbates these risks.
- (iv) Social protection programmes though critical for protection of vulnerable households and their children, are generally limited and households have to rely on unsustainable sources of getting assistance from family and friends.
- (v) Some households are forced to withdraw their children from school. This has negative implications on children's educational outcomes and may affect their future opportunities and quality of life.
- (vi) When shocks are prolonged, some families may deplete their savings or productive assets. Children from such households, may experience nutritional deficiencies, lack of access to education, and poor health conditions due to limited resources for such investments.
- (vii) There is limited use of insurance products by Kenyan households to cope with various income shocks such as catastrophic health spending. Hence, households with no access to insurance products, may be forced to cut back on essential expenditures such as food, healthcare, and education, which can have negative consequences on children.
- (viii) To minimize income shocks, there is need to intensify investment in domestic food production to boost productivity; design targeted nutrition-sensitive programmes for children during periods of crises; designing and implement targeted social protection packages for poor households with children during periods of financial strain; and increase access to formal financial credit to help households cope with various income shocks.

Introduction

Most countries, Kenya included, have been faced with multiple economic turbulence since the onset of Corona Virus Disease 2019 (COVID-19) pandemic. Even before the COVID-19 pandemic could be subdued, the Russian invasion of Ukraine began in March 2022, exposing the world to high food and energy prices. In Kenya, the two crises aggravated a pre-existing situation, from way back in April 2019, where food inflation had surpassed headline inflation. This trend continued all through to June 2023 when food inflation stood at 10.3 per cent. Persistent high food inflation in the country is in part due to poor performance of the agriculture sector which is prone to weather-related shocks due to its heavy reliance on rainfall.

Other than price-related shocks, households also face health-related shocks, job losses, death of leading income earners, climate-related shocks among others. To cope with these shocks, households adopt various strategies depending on the nature of the shock. The commonly used coping strategies expenditure cuts, relying on social networks, and borrowing from informal credit channels. In situations where income shocks persist and are widespread, such coping mechanisms may not be sustainable and may have negative effects on household members, particularly children.

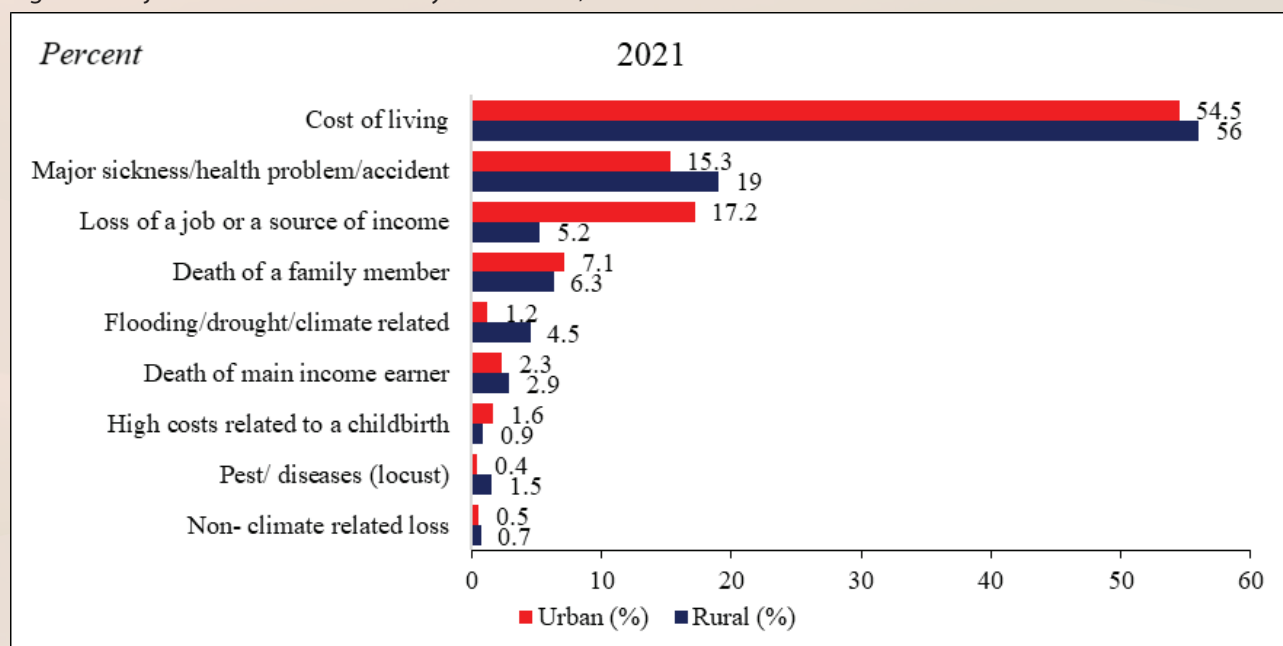
Types of Income Shocks Faced by Households

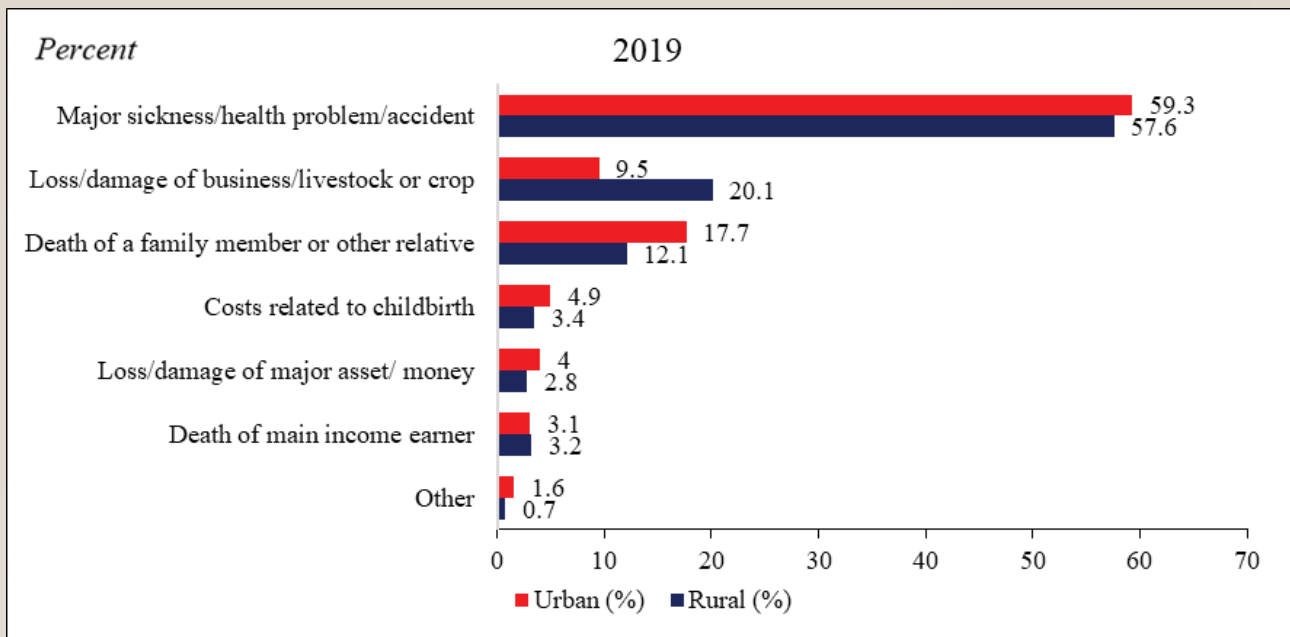
In both 2019 and 2021 Financial Access (FinAccess) surveys, households were asked to mention an event that had the greatest shock on their incomes

in the 12 months to the survey. In 2021, more than half of rural and urban households indicated having experienced a high cost of living as the main income shock (Figure 1). High cost of living lowers real income and consequently the purchasing power of households. Other major income shocks experienced include health-related issues, job losses, and death of a family member. In 2019, health related shocks dominated both rural and urban settings, with nearly 60 per cent of households affected. This implies that health related shocks are recurring, and in the absence of high cost of living shocks, it dominates. A study by Morris et al. (2015) links households' income instability to weaker educational and behavioural outcomes for children. Furthermore, Solantaus et al. (2004) found strong evidence linking household economic instability to adverse child health outcomes.

A sizeable number of households battle food insecurity. Households were asked to state the most important goals in their lives. From the findings, 1 in every 3 households had the main goal of putting food on the table. Out of these, majority are from the rural areas (68.1%) and mostly the male-headed households (56.5%) (Figure 2A). When further asked to state how often they had gone without food to eat, with responses categorized as 'often', 'sometimes' and 'never', nearly 2 in every 3 households had often or sometimes 2 gone without food (Figure 2B). the level of food insecurity is relatively higher among the rural and female-headed households. Increased food insecurity could weigh on child nutrition and educational attainment and have adverse lasting effects on poverty (Baptista et al., 2022).

Figure 1: Major income shocks faced by households, 2019 and 2021

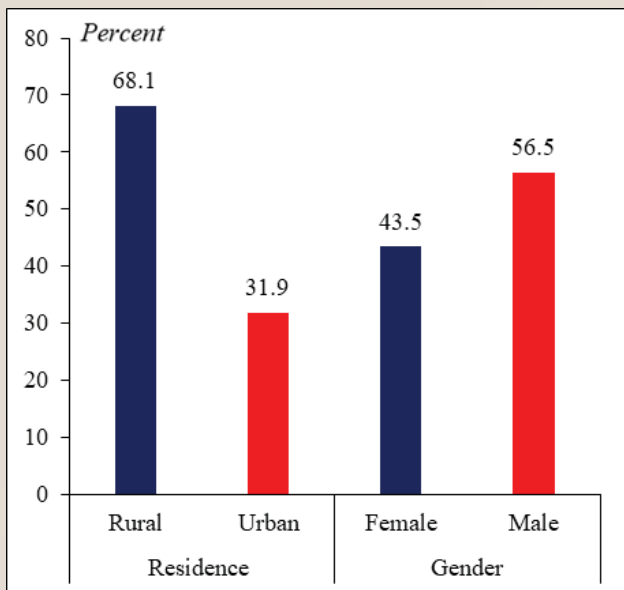




Data Source: FinAccess Survey 2019 and 2021

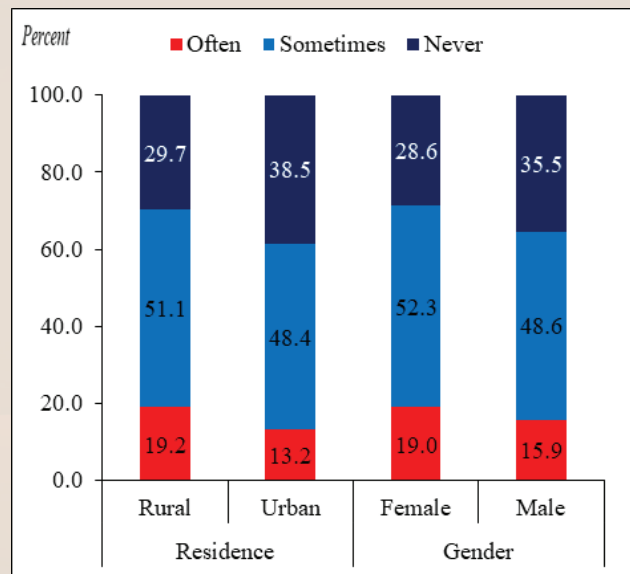
Figure 2: Households vulnerability to food insecurity

Figure 2a: Main goal is putting food on the table



Data Source: FinAccess Survey 2021

Figure 2b: Frequency of going without food



Households' Coping Strategies

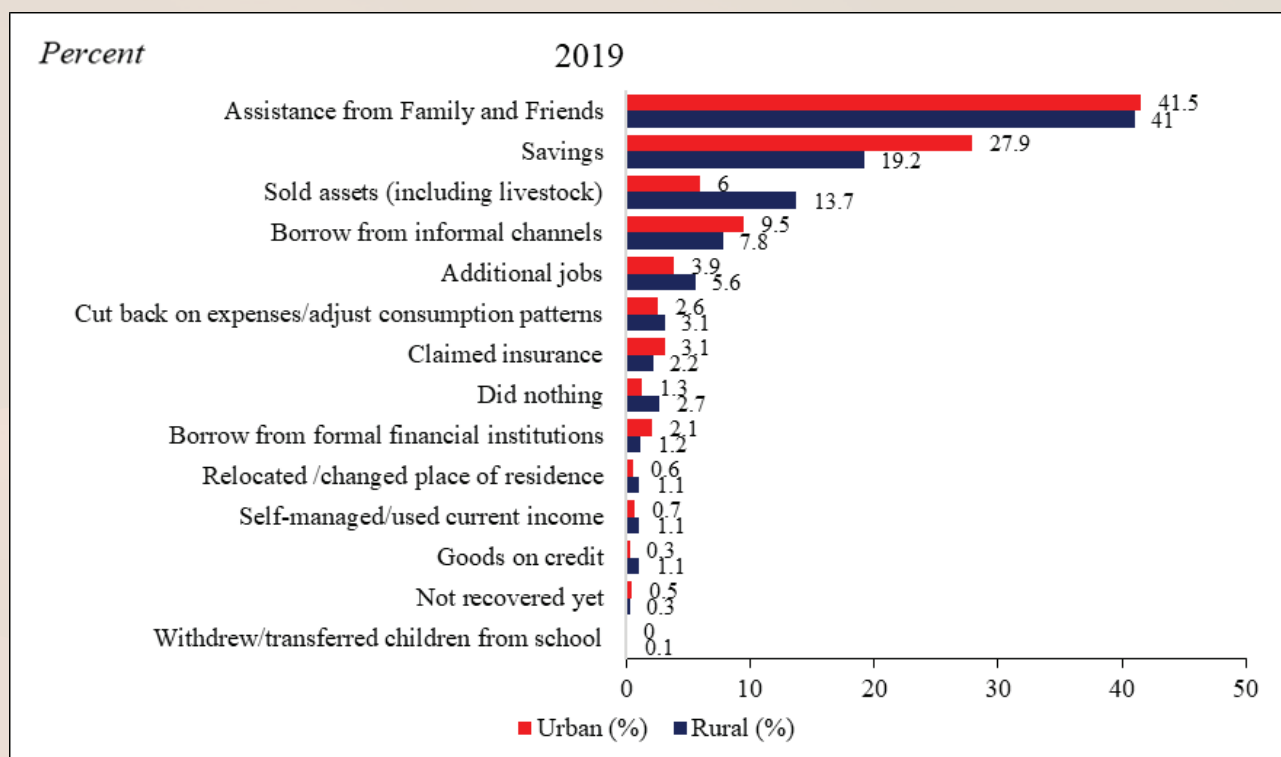
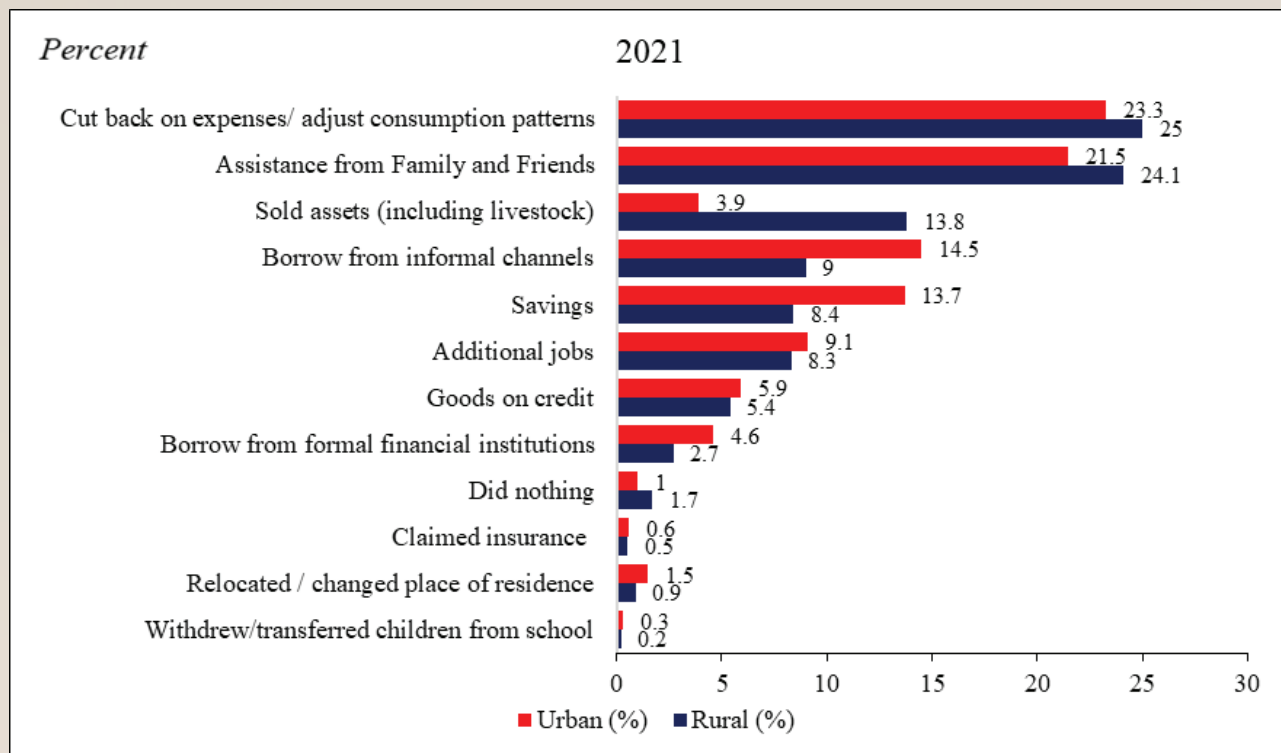
Households were then asked to mention how they responded to various shocks presented in Figure 1. The findings reveal that households employ various strategies depending on the nature of the shock. The most used strategies are described as follows:

Cutting down spending

Majority of households resort to cutting down expenditures when faced with income shocks. In

2021, 25 per cent of rural households and 23.3 per cent of urban households indicated cutting down spending to respond to income shocks (Figure 3). However, in 2019, only 3.1% and 2.6% of the rural and urban households respectively adjusted their consumption patterns in response to various shocks. This indicate that the coping strategy adopted is largely influenced by the nature of the shock. Unlike in 2019 where the dominant shock was health-related, in 2021, the main shock was high cost of living, implying that most households would easily

Figure 3: Households' coping with general income shocks, 2019 and 2021



Data Source: FinAccess Survey 2019 and 2021

resort to expenditure cuts when faced with high cost of living.

Cutting down spending as the main coping strategy may expose children to nutritional shocks. In a country where most households spend more than half of their income on food, income shocks such as high cost of living erodes their purchasing power, resulting in food-related expenditure cuts. Estimates from Kenya Integrated Household Budget Survey (KIHBS) 2015/16 indicate that at the national level 54.3 per cent of households' income is spent on food, the number is even higher for the rural and peri-urban households at 64.7 per cent and 58 per cent respectively. Poor households are more likely to cut expenditures on food when faced with a considerable income shock (Yeung and Hofferth, 1998). Reduced consumption expenditure implies insufficient daily intake of healthy food and limited varieties of nutritional food consumed, consequently exposing children to nutritional shocks. Nutritional shocks in children have short- and long-term negative implications on their welfare. For instance, children who are malnourished are more likely to have poor health and educational outcomes due to poor cognitive development. Such expenditure cuts may also affect other household members more so the breastfeeding mothers, further worsening the nutritional shocks to the breastfeeding/weaning children. Previous studies have established a strong association between the nutritional status of children and maternal nutrition. Adjustment of spending patterns may also affect essential spending on healthcare. Consequently, some children may miss-out on basic treatments and vaccinations and delay seeking medical attention when they fall sick, resulting to increased risks of diseases and illnesses. Moreover, if some of the income shocks such as high cost of living persists, some households may be pushed back to poverty. Without proper measures to protect poor households and their children, the negative impact of such economic shocks could be passed on to future generations.

Reliance on social networks

Getting assistance from family and friends is another popular strategy employed by households to cope with shocks but is often unsustainable. In 2021, both rural (24.1%) and urban (21.5%) households sought support from family and friends to cope with various shocks. In 2019, this was the dominant coping strategy, with 2 in every 5 households getting assistance from family and friends when confronted with income shocks. In 2021, it was the second most prevalent coping strategy, with 1 in 4 households relying on assistance from family and friends. While reliance on social networks can temporarily help to protect children's well-being, it poses a significant challenge in regions where most households

are impoverished and income shocks persist for prolonged periods, as everyone is impacted equally, rendering this approach unpredictable and unsustainable. Hence, in such circumstances, some households resort to other coping strategies such as reducing food consumption and sale of assets which have negative implications on the welfare of children. This underlines the need for more sustainable approaches such as targeted formal social protection programmes to support the vulnerable households and protect their children's wellbeing.

Withdrawing children from school

Some households would go to the extent of withdrawing children from school to cope with income shocks, risking their education, exposing them to harmful labour, hindering social development, and increasing the likelihood of negative behaviours. About 0.2 and 0.3 per cent of rural and urban households respectively indicated that they withdrew children from school when faced with income shocks in 2021. In 2019, the numbers were relatively lower, approximately 0.1 per cent of rural households withdrew children from school to manage income shocks. Such unpopular coping strategies may make some children completely drop out of school, exposing them to human capital risks. This is because, firstly, withdrawing children from school disrupts their education and they may be forced to totally drop out of school. Secondly, when children are out of school, they may be forced to engage in child labour to contribute to household income. This may expose them to physical and emotional abuse, exploitation, and hazardous working conditions, which can negatively impact their health, well-being, and development. Thirdly, when children are out of school, they miss out on the opportunity to interact with their peers and develop social skills, which can lead to feelings of isolation and loneliness. Lastly, when children are not in school, they may be at a higher risk of engaging in risky behaviours such as drug abuse, early sexual activity, and crime. Hence, withdrawal of children as a coping strategy has severe negative impacts on children's welfare.

Drawing down on savings and selling assets

While some households resort to using savings or selling assets to cope with income shocks, rural households tend to sell their valuable livestock assets, potentially leading to a vicious cycle of poverty and deprivation for their children in the long run. The findings reveal that, on one hand, urban households are more likely to use savings to cope with income shocks compared to the rural households. On the other hand, in the event of shocks, the rural households are more likely to dispose their assets (mainly livestock) compared

to their urban counterparts. For majority of rural households, livestock is an asset used as a source of food and for income generation. When families sell their livestock, they may lose their source of income. This can lead to a vicious cycle of poverty and deprivation for their children. Therefore, as much as sale of assets may provide short-term relief, it may lead to negative long-term consequences on a household's economic well-being due to decreased productivity, further exacerbating their inability to provide basic needs for their children.

Utilization of insurance to cushion income shock

The use of insurance, though ideal for coping with various shocks such as health-related issues, is relatively low. In 2021, 0.5 per cent of households who claimed insurance were from the rural areas while 0.6 per cent were from the urban areas. In 2019, 2.2 per cent of those who used insurance were from the rural areas while 3.1 per cent were from the urban areas. Again, this points to the nature of the shocks experienced and the coping strategy employed. Nearly all insurance related coping strategy are used to manage health-related shocks. As such, when households lack access to health insurance for example, they may not afford medical treatment for their children in the event of illness or injury. This can lead to delayed or inadequate treatment, which can have long-term consequences on the health and well-being of children. In addition, death of family members and relatives is another shock that was mentioned by a reasonable number of households, pointing to lack of life-insurance schemes. Households with no access to life insurance, may be unable to provide for their children in the event of the death of a breadwinner.

Seeking additional jobs

Supplying more hours of labour during income shocks may reduce parental time with children, impacting their physical and mental development. Getting additional jobs or supplying more labour is another strategy adopted by a significant number of households, both in the rural and urban areas. In 2021, approximately, 9 per cent of households got additional jobs to cope with income shocks compared to about 5 per cent in 2019. Getting additional jobs or working for longer hours would imply less parental time spent with children. Parental time spent with children is important for physical and mental development of children. Li and Guo (2022) found a strong association between parental time spent with children and children's well-being in China.

Borrowing

Heavy reliance on informal borrowing indicates significant borrowing constraints, which can adversely impact children's educational outcomes and perpetuate poverty. Some households resort to borrowing to cushion themselves from different shocks, however, most of the borrowing is largely skewed towards the informal sources. Borrowing from the main credit channels remains limited, portraying serious constraints in access to formal credit by majority of households. Approximately 11 per cent of the households borrowed from informal sources to cope with income shocks in 2021 compared to around 3 per cent from the formal channels. Similar scenario was witnessed in 2019. Borrowing constraints may negatively affect educational attainment and perpetuate a vicious cycle of poverty. Previous evidence negatively links borrowing constraints to child educational outcomes due to reduced educational investment (Wongmonta, 2021).

Do nothing

Certain households are incapable of effectively managing income shocks. The findings reveal that some households are simply unable to cope with income shocks and would simply 'do nothing'. On average, in both 2019 and 2021, about 2 per cent of the households were simply unable to cope with various shocks they faced. The numbers were relatively higher among the rural households compared to urban households.

Recommendations on Managing Income Shocks during a Pandemic

Under situations of multiple negative income shocks, households, particularly the poor, are likely to employ varied coping strategies that exert pressure on the

overall well-being and development of children. Specifically, if faced with intense negative income shocks, food and other basic expenditure such as healthcare are likely to face pressure, leading to reduced spending. Reduced food consumption, not forgetting fewer nutritional varieties, is more likely to have negative effect on children compared to other household members. Proposed policy interventions follow.

- i) To minimize income shocks resulting from high cost of living, there is need to intensify investment in domestic food production to boost productivity and resilience to shocks emanating from seasonal factors or climate change.

- ii) To cushion children against malnutrition, it will be important to design targeted nutrition-sensitive programmes for children during periods of crises. Furthermore, there is need to elevate nutrition departments at national and county level and increase funding for child-related nutrition programmes.
- iii) Designing targeted social protection packages for poor households with children during periods of financial strain and multiple income shocks remain crucial in safeguarding the welfare of children.
- iv) Increase access to formal financial credit to help households cope with various income shocks and enhance investment in education. Deepening the financial sector to offer various products that can enhance households' long-term resilience is paramount.
- v) Expansion of existing health insurance schemes and fast-tracking transition to Universal Health Coverage would help households cope with health-related shocks. Additionally, prioritise livestock and crop insurance initiatives to build the resilience of rural households who are heavily reliant on agriculture.
- vi) Commercial banks and other financial institutions need to redesign their loans to offer products that are more accessible and responsive to challenges encountered by households during periods of financial strain.

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