Shocks and coping strategies in rural Ethiopia: a policy brief

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Rural households in Ethiopia are regularly confronted with a variety of risks and shocks that leave them vulnerable to economic deprivation. Conventional wisdom argues that by drawing on informal risk-sharing networks, households are more successful at insuring themselves against household-specific shocks, such as illness, compared to the common shocks that also affect other members of a village or region. Based on a 2011 survey of 1632 households in four Ethiopian regions – Tigray, Amhara, Oromiya and SNNPR – and event-history interviews, this *Infosheet* provides details of a multi-shock analysis and an examination of the coping responses triggered by different types of shocks.

The various shocks experienced by households can be classified in to four main categories: health-related events, natural events, economic events and crime/conflict-related events. Coping, which is defined as actions undertaken by a household to accommodate the effect of a shock, is categorized into six groups and there is also the additional option that the household does not adopt any active coping response. These six categories include: the use of savings, reducing food consumption, selling assets, borrowing (from relatives, formal sources, neighbours, money lenders and funeral and credit associations), receiving gifts (in cash or in kind from informal groups, neighbours or the government) and labour supply-based strategies (increasing one's own labour input, hiring in, sending family members outside the *kebele*, working off-farm).

The four regions studied in the research programme in rural Ethiopia

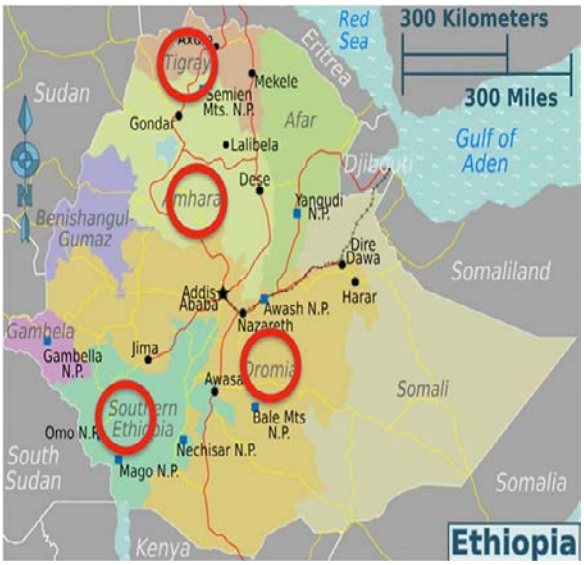


Photo 1 Intra-household labour substitution: Children at work in Fogera, Amhara region

(Photo: Zelalem Yilma)

Figure 1 presents the frequency of shocks experienced by households. Not unexpectedly, we find that shocks are an important part of the life of rural households in Ethiopia. Almost three quarters of our sampled households have faced at least one type of shock in the past 12 months. Many of these households have experienced multiple shocks (Figure 2). While, a third of the sample reported just one shock, 21 and 11 per cent of households have faced two and three shocks, respectively. A small percentage of households have faced at least five shocks (4 per cent).

Figure 1 Number of shocks experienced (per cent of households)

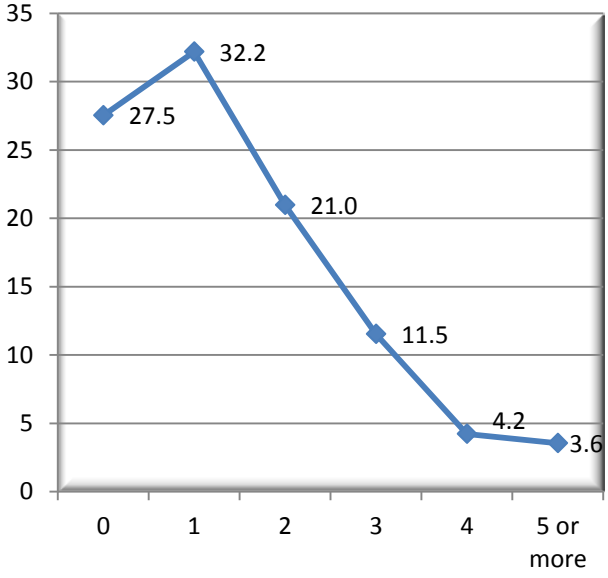
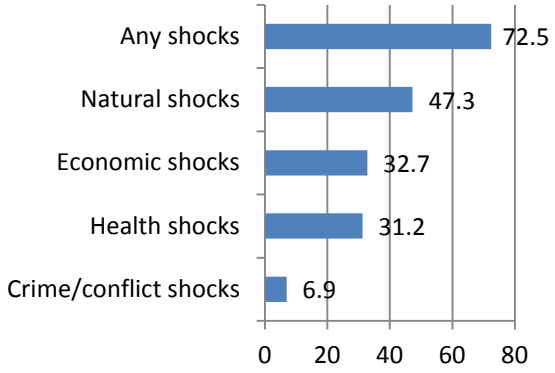


Figure 2 illustrates that natural shocks were found to predominate and had affected almost half of all the households sampled in the 12 months prior to the interviews, while economic and health shocks each affected about a third of all households. Crime/conflict-related shocks were rare and had been experienced only by 7% of households. In terms of scope, natural and economic shocks may be characterized as covariate/common as their effects tend to be widespread and can affect multiple households simultaneously, as opposed to health and crime/conflict shocks that are relatively idiosyncratic and household-specific.

Figure 2 Incidence of shocks (per cent of households)



Responses to shocks

Households have multiple responses to deal with the effects of shocks, but at the same time a substantial proportion of households (between 13 and 37%) do not resort to an active response when facing a shock (Table 1). As expected, clear differences were noted in terms of coping strategies in response to different type of shocks. The two relatively covariate shocks – economic and natural shocks – are more likely to trigger the use of savings and a reduction in food consumption while sales of assets and borrowing are relatively less likely responses. Health shocks, which typically trigger a need for cash, were met by reductions in savings, asset sales and a greater reliance on borrowing from informal sources compared to other shocks.

Are households able to deal with health shocks?

Reducing food consumption, which is a prominent response in the case of covariate shocks, was notable for its absence in the case of health shocks. Although this may suggest that households are better able to insure themselves against health shocks, as suggested in existing literature, this is perhaps misleading. A more insightful interpretation on the lack of reliance on such an approach is consistent with the need for cash to deal with the consequences of health shocks, f.e. to seek health care. Such cash needs cannot be readily met by reducing food consumption. Alternatively, households sell assets or borrow money to finance health care, and thus postpone any potential adverse effects on food consumption.

Table 1 Coping responses and shocks: Descriptive statistics

	Per cent of households using a specific coping response conditional on experiencing a shock				
Coping response	All shocks (N=1183)	Health (N=509)	Natural (N=771)	Crime/conflict/ family (N=113)	Economic (N=534)
Dissaved	39	15.72	40.86	16.81	37.08
Reduced food consumption	50	19.06	58.24	18.58	38.20
Sold assets (incl. food stocks)	35	29.86	28.66	27.43	21.72
Borrowed	16	18.47	8.17	1.77	11.61
Received support	4	4.72	2.46	3.54	2.25
Labor supply based strategy	7	4.72	5.19	4.42	3.93
No coping response	30	21.41	13.36	30.09	37.08

Although relying on informal networks for borrowing and support is far more likely in the case of health shocks, a notable feature for all the shock types together is that households do not tend to rely to a very great extent on borrowing, support from family and friends or on enhancing their labour supply as approaches for coping.

Analysis of the event-history interviews led the researchers to conclude that households prefer not to rely on their networks for gifts and when they do borrow from family and neighbours, it is as a last resort and an intermediate strategy as households attempt to repay anything they borrow as soon as possible by selling their assets. Respondents also indicated they were reluctant to borrow as they have to pay interest on loans unless it is for a short period, and because borrowing is associated with a loss of pride.

Photo 2 Event-history data collection with respondents in Kuyu Woreda, Oromiya

(Photo: Addis Abera)

Overall, the analysis clearly shows that informal safety nets and reliance on friends and family for support, at least in the form of gifts, is virtually non-existent.

Informal borrowing to deal with idiosyncratic shocks does appear to provide some help but it is often shunned. These patterns suggest a potentially important role for formal protection systems. In particular, the community-based health-insurance scheme launched by the government in 2011 can be expected to play a role in providing financial protection and mitigating the impoverishing effects of health shocks. Ongoing studies in this project (see below) will shed light on the impact of this potentially important intervention.

Photo 3 Announcement board of an health insurance office in Fogera Woreda.

(photo: Zelalem Yilma)

Project Details: Impact Evaluation of Community Based Health Insurance in Ethiopia.
Funded by: The Netherlands Organisation for Scientific Research (NWO/WOTRO).

This infosheet is based on data collected for an impact evaluation on the Community Based Health Insurance (CBHI) scheme that has been implemented in Ethiopia since April 2011. The CBHI scheme is being implemented on a pilot basis in four major regional states and in 13 districts/woredas. The overall objective of CBHI is to remove financial barriers and increase health service utilization rate; improve quality of care by increasing resources for health facilities and mobilize additional resources for the health sector.

The research project conducted household survey in 2011, 2012 and 2013 (baseline and two follow up) and facility level survey (only one has been completed in 2011, another is planned for 2014). Qualitative data has also been collected using key informant interviews, focus group discussions and event history analysis.

For more information on the project and the project team:
http://www.ossrea.net/index.php?option=com_content&view=article&id=764&Itemid=177

This infosheet is based on a paper entitled "Coping with Shocks in Rural Ethiopia" that is forthcoming in the Journal of Development Studies.

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Other publications from this project are:

Mebratie, A.D., Sparrow, R., Yilma, Z., Abebaw, D., Alemu, G. and Bedi, A. (2013) "Impact of Ethiopian Pilot community based health insurance scheme on health care utilization: A household panel data analysis" The Lancet , 381: S92 (published abstract; not peer-reviewed)

Mebratie, A.D., van de Poel, E., Yilma, Z., Abebaw, D., Alemu, G., Bedi, A.S. (2014) "Healthcare-seeking behaviour in rural Ethiopia: evidence from clinical vignettes" BMJ Open, 4: 1-12