



## Shocks and Coping in Sub-Saharan Africa

By Rasmus Heltberg

Despite the fact that economic shocks are widely perceived to be important facets of life for many households in sub-Saharan Africa, with important implications for well-being and poverty, data on the prevalence of shocks and the strategies by which households cope are lacking. By including shocks modules in its household questionnaires, the LSMS-ISA project fills this gap by collecting comparable data on shocks across a national sample of urban and rural households in five African countries.

Data from surveys in Malawi, Niger, Nigeria, Tanzania, and Uganda, paint a picture of the shocks that households experience, and how the responses to these shocks can entail negative consequences such as asset loss, reduced nutrition, and impacts on human capital. The data shows that protection against risk remains inadequate, and coping with shocks relies almost exclusively on informal mechanisms.

### Most Common Risks

Natural hazards, health shocks and price changes are the dominant sources of risk in Africa's rural areas, with high prevalence in urban areas as well. Price changes are the most common shocks reported: in four of five countries, between one quarter to one third of all households reported such shocks. Natural hazards and health crises are a close second, and in some cases even more common than price changes.

**Prices.** Price shocks encompass several domains. In Tanzania, a large rise in food prices is reported as a negative shock by 17% of rural households, while input price increases are reported as a

shock by 8% and a large fall in crop sales prices by 11% of rural households. In Nigeria, price shocks are the most frequently occurring shock type in both urban and rural areas, reported by almost 19% of rural households and over 22% of urban ones. The corresponding figures for Malawi are 40% and 38% respectively. Given the global food price crisis during the survey period, the perception of high food price risk is unsurprising, although the extent to which it seems to impact rural households in some African countries is worth noting.

**Natural hazards.** Within the range of natural hazards, drought is the most common, followed by flooding and crop disease.

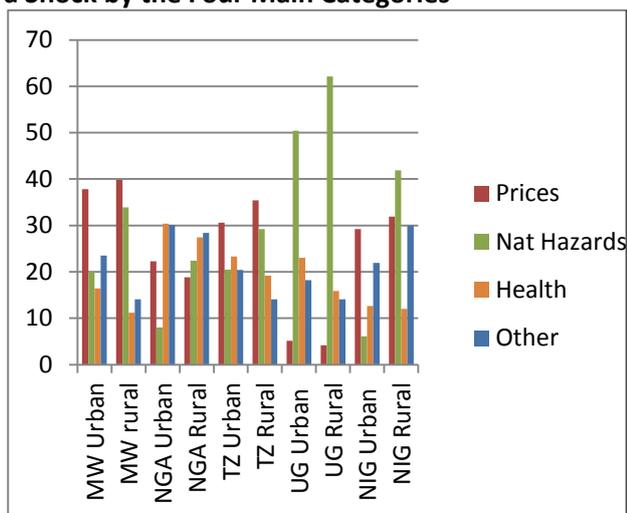
**Poor health.** Health shocks (death, illness and accidents) rank high in all countries with shock data. Death and illness of breadwinners and other household members is another risk category. In Tanzania, roughly 20% of rural households report a death or illness shock in the five years prior to the survey. Deaths and illnesses are the most common shocks in both rural and urban Nigeria, at 27% and 30% respectively. In Uganda, health shocks (23% in urban areas and 16% in rural areas) are second only to natural hazards. By comparison, Malawi and Niger had lower rates of health shocks, about 12 percent nationally. The Malawi, Nigeria and Tanzania surveys asked for rankings of shocks by severity; results suggest that deaths and illnesses have the most severe impacts.

**Other factors driving shocks.** Relatively few households report loss of employment as a major shock, reflecting the fact that little wage/salary employment exists, and most household income comes from farming and very small household enterprises. Crime and violence is important in specific countries: Uganda had the highest rates of reporting (13% of urban households and 10% of rural). In other countries,

rates were under 10 percent, and as low as 3 percent in Niger.

As expected, some shocks affect the poor more than others. Serious illnesses or accidents to household members occur thrice as often for the poorest quintile in Malawi (at 10%) as they do for the richest quintile (at 3%). In places like rural Uganda, droughts are a serious concern across all quintiles, as the difference between the richest (53%) and poorest (64%) quintiles is not very large. Other shocks such as theft seem to affect richer quintiles more, where the richest households in rural Uganda report four times as many incidences of theft (at 18%) as the poorest quintile (at 4%). Despite some notions that urban and rural households experience very different shocks, food price shocks and rainfall shocks affect both rural and urban areas. This provides nuance to the view held by some that food price shocks are mostly an urban concern and climate shocks a rural concern.

**Figure 1: Percentage of Households Reporting a Shock by the Four Main Categories**



Note: Recall period was 12 months for Malawi, Niger & Uganda, and 5 years for Nigeria and Tanzania.

## How Do Households Cope?

Coping with shocks relies almost exclusively on informal mechanisms. Reducing consumption, selling assets, and seeking assistance or loans from family and friends are the most common responses to shocks, with very limited reliance on formal credit, insurance and social protection. In Nigeria's rural areas, for example, the three most common coping responses are assistance from family and friends, sale of livestock, and reduced food consumption, in that order. Informal credit and assistance from family and friends was also very common in Niger, with one-fifth of all

households with a shock reporting this strategy. In rural Malawi and Uganda, in contrast, reliance on savings is the single most common response (20% and 22% of shocks, respectively). While reliance on own savings is universally used by households, other strategies are employed depending on the type of shock faced. For example, urban households in Malawi are more likely to reduce their food consumption in response to droughts and food price shocks compared to other shocks; perhaps because these shocks change the value of food.

Some of these coping responses may have adverse consequences for households and for economic growth, although the surveys do not appear to directly shed light on this. Nutrition, assets, and human capital may be lost when households cope with shocks.

In some surveys, respondents were asked about the nature of loss associated with shocks (e.g., if the shock resulted in a loss of assets, income, or both (some surveys add more categories)). Loss of income emerges as the most common consequence following most shocks. For example, in rural Malawi, 80% of people who experienced a shock report income loss, 71% report loss of food stocks, 70% report impacts on food production, 43% report impacts on food purchases, and 38% report loss of assets. Generally, loss of income following shocks is far more prevalent than loss of assets.

While these data offer new insights, they are not able to answer some important questions about the impact of risk, including the costs of risk (ex ante through preparation against shocks and ex post through coping mechanisms employed) and the effectiveness of risk reduction and social protection programs.

This brief is based on: Heltberg, Rasmus, Faiyaz Talukdar and Ana Maria Oviedo (2013). Shocks and coping in sub-Saharan Africa. Background paper for the World Development Report 2014. Washington, D.C., The World Bank.

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