

# **Understanding the Impacts of Crisis on Children in Developing Countries**

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# Acknowledgements

This paper is based on analysis of information provided to Young Lives researchers by households in Ethiopia, the State of Andhra Pradesh in India, Peru and Vietnam. Particular thanks are due Patricia Espinoza who provided the data analysis for this paper and to Kirrily Pells, Jessica Espey, Nicola Hypher, Rica Garde and Caroline Knowles for comments.

## About the Author

Paul Dornan is senior policy officer at Young Lives. He has worked particularly around child poverty policy in developing and industrialised countries with a particular focus on social protection measures and previously worked for the Child Poverty Action Group.

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# Executive Summary

This paper is one of two briefings that make use of early data from Round 3 of the Young Lives survey of children growing up in Ethiopia, India (in the state of Andhra Pradesh), Peru and Vietnam. This briefing explores the extent and effects of economic and environmental shocks and adverse events on Young Lives and children and their households. These events include price rises, falls in output prices, drought, flooding and family illness and death. The other briefing (Pells 2010) presents analysis on inequalities, life chances and gender.

This paper begins by considering the recent global context, demonstrating a period of economic growth in Young Lives survey countries before the economic downturn in 2008. We then consider the extent of economic and environmental shocks and family illness or death reported by Young Lives families in two periods (2002–6 and 2006–9). The first of these periods (2002–6) coincides with relatively strong GDP growth in many countries (including in Young Lives countries) before the economic downturn and global food price crisis. Even in the context of strong national economic growth, however, many Young Lives households were reporting experiencing frequent shocks which had the potential to damage their well-being.

Different countries are being affected differently by the economic downturn, with more open economies more likely to be quickly affected by changes in international demand. Similarly, the impacts of global shocks may be experienced differently by different social groups within countries. The Young Lives samples are not nationally representative, as the focus is pro-poor; but by logging what happened to households, we can detect how change over time is affecting children and what similar (or different) processes are going on in each of the Young Lives countries, as well as noting disparities within the samples. Comparing 2006–9 to 2002–6, more Young Lives households reported experiencing economic shocks in Ethiopia, Vietnam and in Andhra Pradesh in the later period. Fewer Young Lives households in Peru reported economic shocks in the 2006–9 periods than in the 2002–6 period. An examination of what caused these economic shocks suggests they were driven by changes in market prices.

The picture that emerges here is one of a concentration of adverse events affecting particular households, and a cyclical pattern of the same households being repeatedly affected. We also consider household reactions to shocks, tracing the likely impacts on children. Responses to shocks included eating less, with obvious consequences for children's health and development. Responses which reduce household assets or increase debt levels were common and therefore shocks are likely to have long-term consequences for households – all the more so given that the same households experience multiple shocks over time.

Shocks are therefore part of the common experience of chronic poverty and their impact on households is likely to reinforce poverty cycles. We demonstrate this by showing a relationship between households being affected by some forms of shock and having an increased chance of either remaining or becoming poor. There are positive indications of how policy can support households either by reducing the extent of shocks (for instance by better environmental resource management or labour protection) or buffering families when these shocks occur (for instance through social protection, insurance or access to affordable credit). These measures can have long-term effects, mitigating the transmission of poverty from one generation to the next.

Shocks existed before the global food price crisis and economic downturn and, though a return to economic growth may be a necessary part of reducing poverty, this on its own will not reduce the vulnerability of many families to these adverse events. Measures to mitigate the effects of shocks are important not only in reducing poverty transmission but also to ensure that all families are able to share the fruits of economic growth and that this is broadly based.

# 1. Introduction

In 2007 international attention was attracted by rapidly rising food prices in many parts of the world. This concern was augmented in 2008 by the economic downturn, which continues to dominate global debates and national policymaking in many countries. Predictions have been made of the severe consequences of these events including trends detrimental to food security, livelihoods and national economic and social development across the world (World Food Programme 2009; Sabarwal et al. 2009). Nor are these events isolated – in 2010 the FAO reported increases in the prices of various staples, most notably wheat (FAO 2010); in Mozambique a 30 per cent increase in the price of bread was followed by riots (Kollewe 2010). Attention has also begun to shift towards the longer-term impacts on social spending (Ortiz et al. 2010; Save the Children 2010).

It has begun to become clear that there have been different macro-economic effects of the crisis. The global downturn touched most countries, but in percentage terms it is the highly industrialised countries which appear to see the most sluggish growth. Aggregate growth figures tell part of a national economic story but do not show the impacts on children in poorer countries, where household financial resources to cope with crisis are fewer and where the scope of social protection systems is limited.

This paper provides preliminary data from Round 3 of the Young Lives survey (collected in 2009) to examine how economic and environmental shocks, such as loss of livelihood, low output prices, drought, flooding or family illness or death, have affected Young Lives children in this turbulent period.<sup>1</sup> To do this we make use of the evidence to look at two groups of key issues:

1. How did economic, environmental and other shocks affect children in the Young Lives sample between 2002 and 2009?
2. How do families cope with shocks, what helps build resilience to / protection against shocks, and what messages are there for policy?

The global crisis provides the background to much of the current debate but we demonstrate here that shocks were commonly experienced before the current crisis began. We explore which households are most at risk of shocks and draw out policy implications for those concerned to mitigate the effects of future shocks on children.

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<sup>1</sup> The question wording is 'Now I am going to ask you about the most important events and changes that have happened (that affected the household economy negatively) since the last time we came to see you.' See Young Lives (2006). The questionnaire and data are available through the UK data archive (2009 data will be archived in 2011). In full the definitions are as follows. Economic shocks include: increase in input prices, decrease in output prices, death of livestock, loss of job / source of income / family enterprise and disputes with neighbours re land / assets. Environmental shocks include: drought, too much rain or flooding, erosion, frosts / hailstorms, pests or diseases affecting crops / livestock, storage losses and crop failures. Family illness and death events include: death of father / mother / other family member and illness of father / mother / other family member.

The combination of heightened awareness of risk faced by households, spurred by the recent crisis, and a growing understanding of the realities of a changing climate ought to focus policy attention on the mechanisms and institutions for managing risk. However, the same events which have highlighted the insecurity have also had effects on the national and global economic climates, with consequences for the resources, or fiscal space, available to construct, develop or maintain the services or institutions necessary to make progress on the Millennium Development Goals (MDGs). It would be a perverse legacy of the global crisis if cuts in social spending undermined precisely the development of institutions needed to help families cope with shocks.

## 2. Background to Young Lives study

Young Lives is a study of 12,000 children growing up in four countries: Ethiopia, India (in the state of Andhra Pradesh), Peru and Vietnam. This first- findings report provides preliminary findings from Round 3 of data gathering, carried out in 2009. Fuller analysis of country data will be presented in mid 2011.

The four Young Lives countries have very different histories and circumstances. In Human Development Index terms, of the 169 countries the UNDP provides data on, Peru ranks at 63rd, Vietnam 113th, India 119th and Ethiopia 157th (UNDP 2010). Whereas Ethiopia is still predominantly a rural society (fewer than one in five Ethiopians live in an urban area), around a third of Vietnamese and Indians live in urban areas, and nearly three-quarters of Peruvians (UNICEF 2009). The countries represent a range of different conditions and pressures facing lower- and middle-income countries. The conclusions drawn here should therefore pose questions as to whether similar processes are going on in other lower- and middle-income countries.

The Young Lives study design is focused around two cohorts of children, an older and a younger cohort (in each country around 1,000 children born in 1994/5 and 2,000 children born in 2001/2 respectively – aged 15 and 8 years old in 2009). The analysis used here is largely at the household level and combines both cohorts. The survey design follows the same children and young people as they grow up and so can be used to look at how children develop. The data is collected through ‘sentinel sites’, specific communities chosen to reflect a range of different circumstances and which interviewers visit regularly.<sup>2</sup> These communities were intentionally selected to provide a range of circumstances common in the countries.

The focus is pro-poor, meaning we focus particularly on children growing up in poorer populations, rather than being nationally representative. Because the samples are drawn differently, the data should not be used to make comparisons simplistically between the Young Lives countries. The panel data used can, however, be used to highlight the disparities between children and to show how the same children fare over time. Sample differences mean we avoid comparing numbers between Young Lives countries, but it is striking that similar processes are often occurring.

Young Lives data is publically archived in the UK data archive; the 2009 data is expected to be archived in 2011. Detailed reports on each of the Young Lives countries will be produced in 2011.

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<sup>2</sup> Details can be found in technical notes which describe the sample at <http://www.younglives.org.uk/our-publications/technical-notes>.

### 3. Global food price inflation, economic downturn and poverty

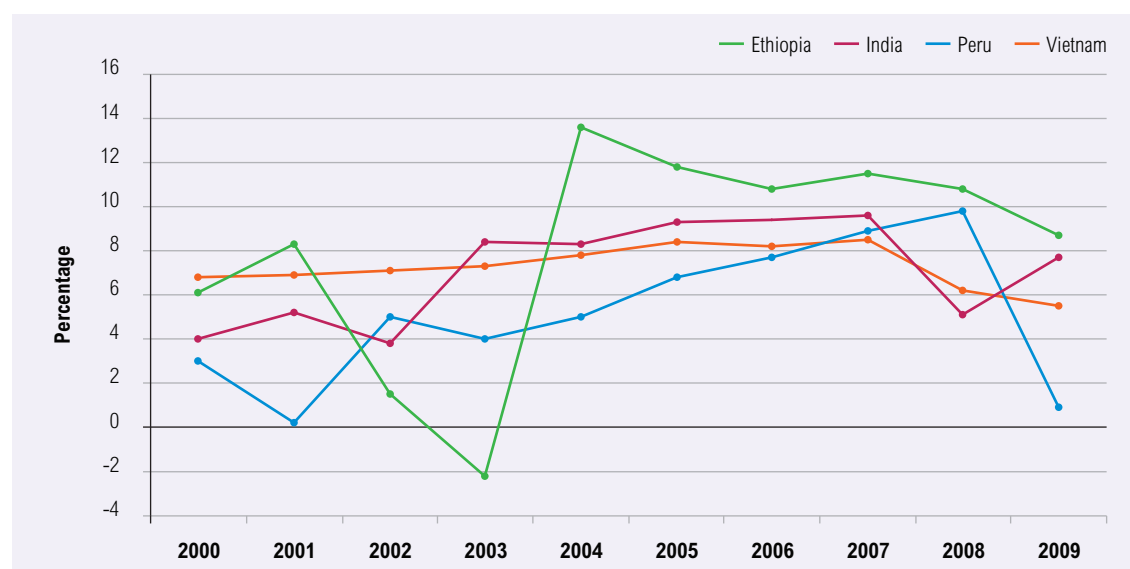
Most of this briefing focuses on household-level evidence of adverse events. However there is a clearly a context of rising food prices and economic downturn. The data used here was collected both before and after this marked turbulence in global markets. This section therefore considers some of the ways in which the global downturn and rapid food price inflation fed into households' experiences of shocks. We use this analysis to make related points about the ways in which global events have been and can be translated into impacts on children:

- The decade before the recent crisis saw strong GDP growth in many countries. National GDP will not necessarily benefit all citizens to the same extent if the proceeds of growth are concentrated in particular regions or sectors, or not spread out through social spending. Economic growth has been associated with falling absolute poverty levels but in the Young Lives data there is a much more mixed picture on relative poverty or inequality, and no consistent evidence of narrowing gaps in consumption levels.
- Just as the proceeds of growth may be distributed differently within economies, so exposure to market changes that could create shocks will affect countries and communities differently. Open economies (including those with large export sectors) are particularly likely to be affected by international price changes.
- Global shocks affect child well-being, through livelihoods, opportunities or food availability, as well as in less direct ways, by affecting the sustainability of the social policies needed to help achieve the MDGs.

The rest of this section elaborates these arguments.

The period after 2000 saw relatively strong GDP growth in many developing countries, which has been associated with rises in consumption and falls in absolute poverty. The overall picture is mirrored in Young Lives countries (see Figure 1) in high pre-crisis growth rates and in the Young Lives households in falling absolute poverty levels (see Figure 2).

**Figure 1. GDP growth rate in Young Lives survey countries, 2000–9 (%)**

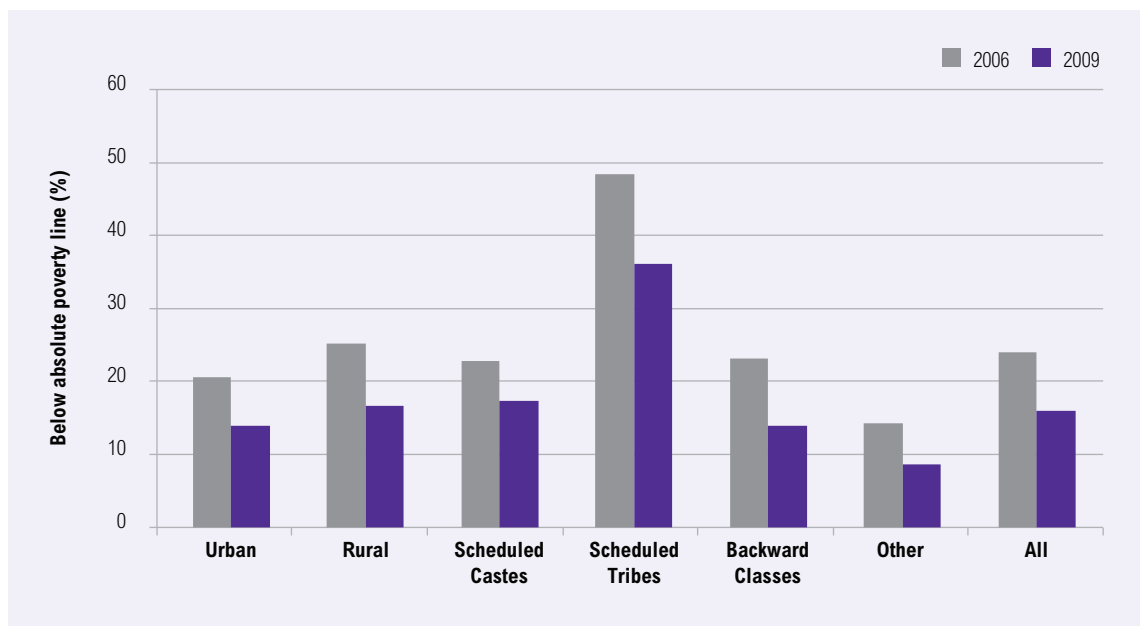


Source: World Bank (<http://data.worldbank.org>)

Figure 1 also covers the onset of the economic downturn, showing a reduction in the rate of growth in all Young Lives countries and particularly acutely so in Peru (which followed the pattern of many of the higher-income countries in seeing a rapid reduction in the rate of growth). Recent projections suggest some rebounding in growth rates but with this varying between countries. In Peru GDP growth is expected to increase from 0.9 per cent in 2009, to 8.3 per cent in 2010 and then 6 per cent in 2011, in a similar pattern to some other South American countries (IMF 2010c). The growth rate in Vietnam was projected at 6 per cent in 2010 and then 6.5 per cent in 2011, which is rather above the growth rate of neighbouring countries (IMF 2010a). In India the projections suggest a growth rate of 8.8 per cent in 2010 and 8.4 per cent in 2011 (IMF 2010a). Ethiopia is an exception to this pattern, with its growth rate projected to fall further in 2010 (to 7.0 per cent) and then increase to 7.7 per cent in 2011 (IMF 2010b).

Economic growth between 2000 and 2007 was associated with falling absolute poverty rates for Young Lives countries. Figure 2 shows absolute poverty rates for Young Lives households in Andhra Pradesh, India, in 2006 and 2009 (these are produced by applying national poverty lines to Young Lives data<sup>3</sup>). In Andhra Pradesh we saw no evidence of an improvement in relative poverty between Young Lives households over the same period. Economic growth has also been associated with the development of important social infrastructure related to safer water, sanitation, education and health facilities, but not with consistent falls in inequality and with considerable ongoing patterns of disadvantage between households.

**Figure 2. Proportion of Young Lives households below absolute poverty line in Andhra Pradesh, India**



In understanding the experience of Young Lives households, it is worth considering both how prone the countries were to global shocks, and also, within the countries, how vulnerable poorer communities were. Here we consider agriculture and exports. All societies need an adequate amount of affordable food to ensure food security, and a large agricultural sector could profit from rising global prices (if food is being traded internationally – though it is likely there could be linked increases in ‘input’ costs such as seeds or fertilizers). Increases in food prices within that country will have different effects on rural and urban areas.

<sup>3</sup> This would not necessarily produce the same poverty rates shown in nationally representative household surveys since Young Lives only cover households containing children and because the sample is pro-poor. These definitions are not the same as the MDG ‘dollar a day’ definition.



Of the Young Lives countries, Ethiopia has the largest proportion of its GDP derived from agriculture, making up 47 per cent of its GDP in 2009, and Peru has the least (7 per cent),<sup>4</sup> demonstrating the different stages of industrial development of the two countries. A change in the amount or cost of food could affect people in either country, but the economic effects would be likely to be greater in Ethiopia. Secondly the degree of importance of exports in each economy will determine its vulnerability to economic shocks – countries with large numbers of people occupied in export-related activities will be hit harder by reductions in global demand. Vietnam's export sector made up 69 per cent of its GDP in 2009 and between 2008 and 2009 the proportion of Vietnamese GDP coming from export markets fell by 10 percentage points. It is notable that Young Lives households in Vietnam report a high increase in economic shocks over the same period. Countries with stronger domestic markets for the goods produced are likely to be more shielded.

There have been obvious macro-economic effects in reduced national economic growth rates. Care is needed in understanding these, however, since GDP changes do not automatically translate into crises and shocks for the poorest households. There are some clear transmission routes (particularly the loss of livelihoods and price increases) and we find evidence that these were more common when Young Lives households were asked about them in 2009 than in 2006. However just as GDP growth does not necessarily benefit all communities or households, so some will be more exposed to economic shocks (for example if they are connected to export industries).

The high rates of pre-crisis GDP growth have been associated with improvements in infrastructure (though whether these are proportionate to the rate of growth is a separate question). A return to higher growth rates then is an opportunity to provide the social investment needed to meet the MDGs. Nevertheless there are worrying indications that some developing countries are planning reductions in social expenditure as part of fiscal retrenchment (Ortiz et al. 2010; Save the Children 2010). If MDGs reliant on social infrastructure are to be achieved, countries and donors need to protect revenues for social spending. Social investment should not be viewed as a luxury for the good times, but rather as an essential mechanism for ensuring pro-poor growth, including by protecting families from adverse events, which can trap them in chronic poverty.

## 4. The extent of shocks and adverse events affecting Young Lives children

The Young Lives survey asks a set of questions relating to shocks and adverse events. This data is used here to understand which households are affected by these types of shock. We use data collected in 2006 and 2009 (both before and after the global economic downturn). Section 5 examines the impacts on families.

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<sup>4</sup> Data from <http://data.worldbank.org/indicator>, accessed November 2010

## ***Shocks are common in the lives of many children***

Turning first to the extent of shocks affecting Young Lives children, there are two prominent messages from the data: first, shocks are common in the lives of these children, and were before the global downturn. The pattern which emerges is not one of a sudden, large but one-off shock, but rather that some households are at particular risk of experiencing multiple, different effects over time. That shocks are not one-off events also implies that policy responses need to be long term and institutionalised so that they are in place before a crisis hits. Secondly, when we compare shocks reported before and after the downturn began, there is evidence of a marked increase in economic shocks, which, when investigated further, seems to be largely attributable to price changes (see Figure 3). Here the data for Peru is surprising: Peru saw a rapid drop in GDP, yet for Young Lives households in Peru the number of economic shocks reported actually seemed to fall slightly. This requires further analysis but one possible explanation might be that, given that inequality is high in Peru, the decline in the rate of growth affected a relatively small proportion of the population, which, if it is true, suggests that GDP change without considering inequality is a poor indicator of how all households are faring.

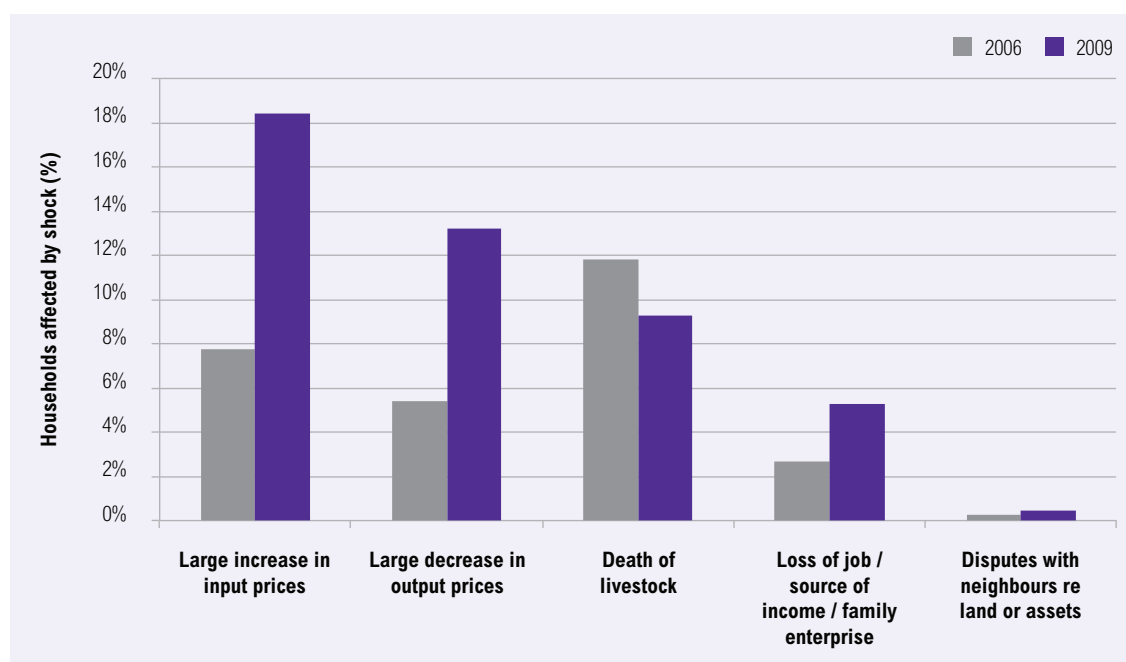
The rest of this section unpicks these messages. Table 1 shows summary data on shocks in each Young Lives country. As stated earlier the sample design is slightly different in each country. The intent here is not to compare simplistically between countries but rather to get a sense of scale of how many Young Lives households are affected. In terms of the extent of change, even without the global downturn, it is likely there would be some variability in the level of shocks, so small changes either way should be discounted. In summary however:

- Perhaps the most important message of this table is not the relative changes, but how common shocks were before the crisis. Shocks are particularly frequently reported in the Ethiopian sample, where economic shocks affected between half and two-thirds of children over the period, environmental shocks about half the children and family illness or death between two-fifths and half the children.
- In most countries (all but Peru), Young Lives households reported more economic shocks in the period covering the global downturn (2006–9) than before it (2002–6). The increase is sometimes large: Ethiopian households saw the risk go up by about 20 per cent, Vietnam by 39 per cent;
- The evidence on other shock types is much more mixed. Given the different contexts, it is not surprising that environmental shocks vary: in Ethiopia more Young Lives households were affected by these shocks in 2006–9 than in 2002–6. In Andhra Pradesh fewer households were affected.
- Shocks from family illness or death also showed different patterns in the countries – rising in Ethiopia, but falling in Andhra Pradesh, Peru and Vietnam.

**Table 1. Young Lives children in households affected by shocks (%)**

		Economic shock	Environmental shock	Family illness or death
Ethiopia	2002–6	51	47	43
	2006–9	61	52	48
India (Andhra Pradesh)	2002–6	17	39	23
	2006–9	21	28	19
Peru	2002–6	16	22	19
	2006–9	13	25	15
Vietnam	2002–6	23	34	28
	2006–9	32	34	26

We find reasonably consistent evidence of some increase in economic shocks, at least in Ethiopia and Vietnam. To understand what may be driving this, Figure 3 disaggregates the economic shock group to its component elements.

**Figure 3. Young Lives children in households affected by particular types of economic shock, Vietnam (%)**

The message from this chart is that what seems to be driving the wider changes is increases in input and decreases in output prices (i.e. market price changes). Though the number of households reporting loss of livelihoods is small in Vietnam, it saw a sharp increase between survey rounds. The pattern of how economic shocks changed in the Ethiopian data is a little different, but the rise observed was again principally attributable to large reported increases in input prices.

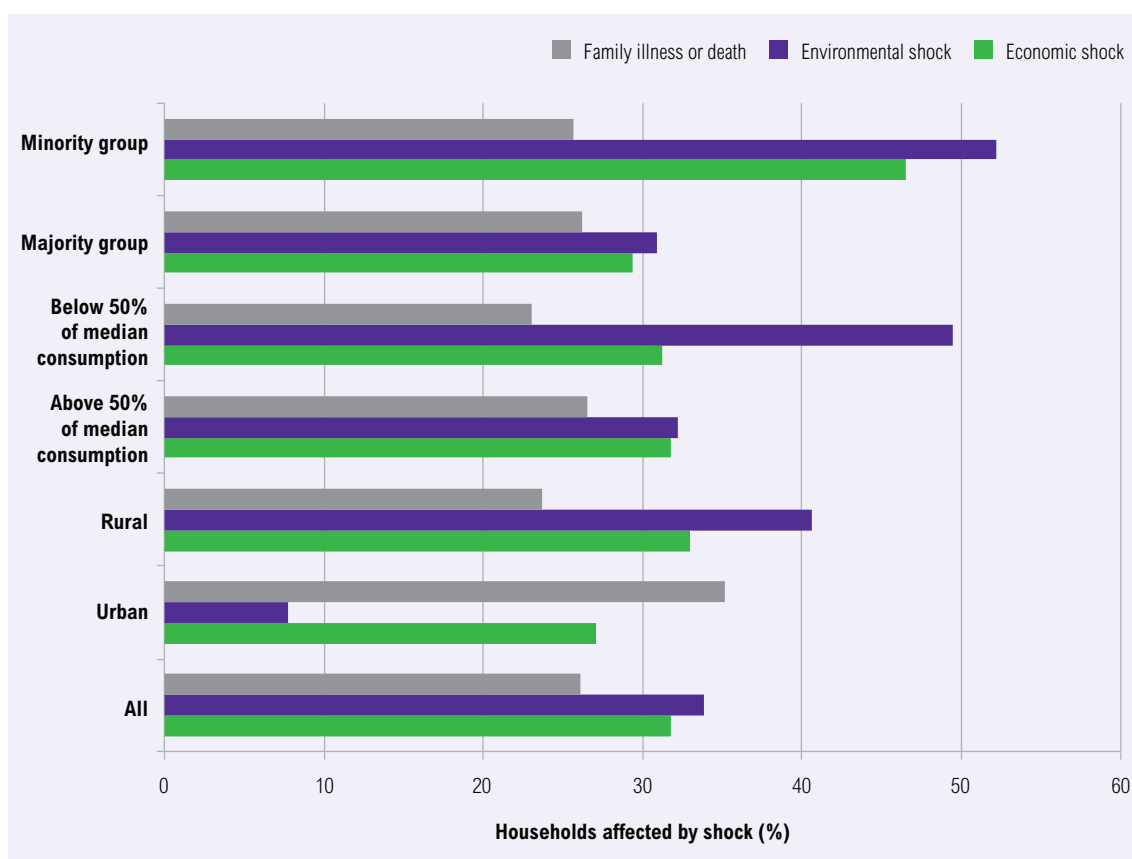
In 2009 data was collected with a question explicitly asking about food price rises (this question was asked in Ethiopia, India and Vietnam). Since we do not have this food price data for 2002–2006 it is excluded from the analysis which compares the periods to 2009 and 2006. However it is worth noting that very large proportions of households report that food prices had increased since the household was last surveyed. Of children in the younger cohort, one in three children in Vietnam (32.2%); nearly four in five in India (77.3%) and nearly nine in ten in Ethiopia (88.3%) were in households which reported food price rises since 2006.

### ***Some households face a particularly high burden of risk***

A closer look at the data used in Table 1 shows that shocks are deeply patterned – with some groups being particularly likely to be affected, and also to be affected by different types of shocks and over a longer period of time. This section looks at which households are most likely to experience particular shocks. There is also a relationship between being in a marginalised group and the chances of experiencing a shock.

To begin this analysis Figure 4 demonstrates the variation in shocks reported in 2009.

**Figure 4. Young Lives households experiencing shocks, Vietnam, 2006-2009 (type of household)**



The chart demonstrates broad patterns that are fairly consistent across data from other Young Lives countries.

Children in rural areas face a much greater risk of experiencing environmental shocks than children in urban areas. (this may be particularly linked with agricultural livelihoods – though environmental shocks will impact on urban populations through food prices.) Linked with this urban/rural difference, there are also differences in exposure to risk by ethnic background (probably explained by minority groups being more likely to live in rural areas) and with consumption levels.

There are some similarities in the patterns of environmental and economic shocks with, for example, minority groups reporting more economic shocks than majority groups. Perhaps the most important difference highlighted here is that, unlike environmental shocks, economic shocks affect many children in households in urban environments. This is relevant to policy, given that social protection measures often focus primarily on rural areas.

While environmental shocks affect poorer Young Lives households particularly, this analysis suggests economic shocks are more evenly spread. This second findings is worth further investigation however, since other ways of looking at affluence suggest different results. For

example separate analysis on Young Lives data for 2006 disaggregates it by wealth<sup>5</sup> rather than consumption levels. This analysis shows that poorer households typically faced more risk than richer households: in Vietnam the poorest fifth of households experienced around three times the number of shocks as the richest fifth of households (see Dornan 2010: 23, Table 12). The difference could be attributable to the different measure used (wealth levels rather than consumption), or the pattern may be different in 2006 and 2009, if an increased rate of shocks was driven by a slightly more affluent part of the population being more affected by crisis.

In Vietnam, family illness and death are much more spread across the population sampled than for the other possible shocks (here, for example, slightly fewer poorer households report illness and death than richer ones and there is little difference by ethnicity). This finding is, however, different in other countries (in Ethiopia, for instance, poorer households are more likely to report family illness or death than richer ones). Further analysis is needed to examine how families in different circumstances are differently affected by health shocks (including the loss of earning capacity and additional health costs) and how healthcare systems can most effectively support families.

### **Shocks are often interrelated**

In order to explore and clarify the patterns shown in Figure 4, we can also look at the extent to which households experience multiple adverse events. In the Young Lives country samples, the concentration of risk is particularly high in Ethiopia (i.e. the extent to which shocks are affecting the same households). These show that, of Young Lives children in Ethiopia reporting shocks 2009:

- two-thirds (67.2 per cent) of those reporting an economic shock also reported experiencing an environmental shock;
- half (53.9 per cent) of those reporting an economic shock also reported experiencing a family illness or death;
- half (52.6 per cent) of those reporting an environmental shock also reported experiencing a family illness or death.

Though these patterns differ in extent in the other Young Lives countries, there is a fairly consistent pattern that households reporting one type of shock are at greater risk of experiencing other shocks or adverse events. A further way of exploring this concentration of risk is to look at how many households report the same shocks over time. Table 2 presents this analysis:

**Table 2. Households reporting shocks in 2002-2006 and 2006-2009, Ethiopia (%)**

Shocks reported in 2006	Same shock 2006–09	
	Yes	No
Economic shock	70.6	29.4
Environmental shock	80.9	19.1
Family illness or death	57.9	42.2

Table 2 shows that households reporting a shock in 2006 are more than likely to report being affected by the same type of shock in 2009, especially environmental and economic shocks. Seven in ten households affected by an economic shock by 2006 were also affected by an economic shock by 2009 and four in five of the households affected by an environmental

<sup>5</sup> Measured through consumer durables, service access and housing conditions.

shock by 2006 were also affected by an environmental shock by 2009. Three in five households affected by family illness or death by 2006 were also affected by family illness or death by 2009.

To summarise these linked messages, this section shows that some households are at a particular risk of being affected by shocks. Though the precise patterns and levels are nationally specific (relating to the nature of livelihoods and environmental factors), there are some consistent messages.

- First, children living in rural areas are particularly exposed to environmental shocks (including drought or flooding). It is likely this exposure is related both to where they live and to the agricultural livelihoods on which their households rely.
- Secondly, though environmental risk is mostly experienced in rural areas, this is not the case for family illness and death or economic shocks. Social policies that focus only on rural areas will therefore fail to support children in urban areas who are affected by other types of shocks.
- Thirdly, some households have a much higher burden of risk, and may well experience multiple types of risk at the same time and over time. Given the probable impacts of serious crisis on household resources, these shocks are part of the common experience of chronic poverty and are likely to be a factor which reinforces the transmission of poverty from one generation to the next.

## 5. How do shocks affect Young Lives households and how do families cope?

The previous sections explored which households are most at risk of experiencing shocks and demonstrated that shocks are not usually isolated incidents, but rather form a pattern whereby some households face a greater number of risks. This section examines some of the likely impacts on children. There is good reason to be concerned, given that adverse events reduce children's nutritional intake and perhaps damage their health. This section argues that, as well as these direct consequences for children's well-being, shocks also play an important part in explaining why poverty persists in the context of growth. Despite the context of overall growth and falling rates of absolute poverty, it is clear that big gaps remain and that inequality persists between the poorest and most disadvantaged households and the rest. The analysis in this first-findings paper points to a vicious circle where some of the poorest households are caught in a trap of poverty and repeated crisis, likely to leave them vulnerable to debt traps and to the depletion of household assets.

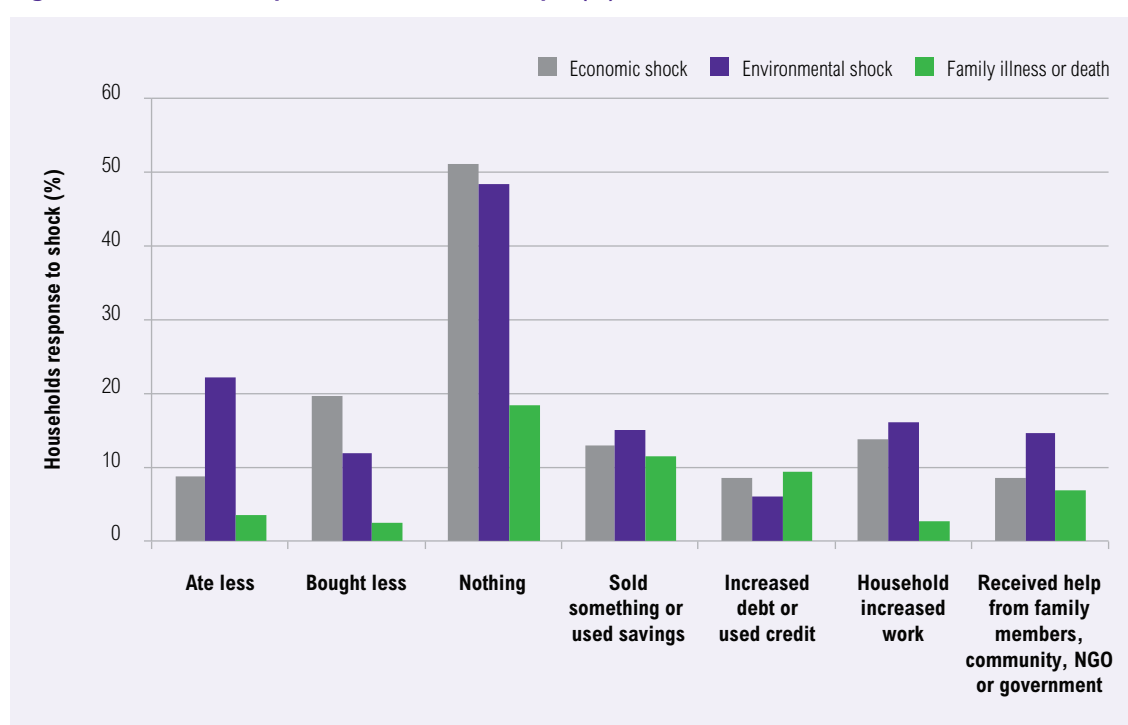
### ***Households' responses to shocks***

When households report shocks, the survey team also ask how they cope with such events; some of these results are reported in Figure 5, which presents this data for Young Lives households in Ethiopia affected by different types of shocks.

The most commonly stated response (by some way) for all types of shock was that nothing was done. This is preliminary analysis only and more investigation is needed to interpret this finding. It could be that household members felt more comfortable giving this answer rather than another response, that the shock was not of a severity that required action or equally that households lacked the ability to respond (but could have been detrimentally affected none the less).

Some of the other responses suggest much more straightforward implications; commonly reported strategies were eating less, working more, running down assets, receiving help from others and getting into debt. If a shock results in children eating less or poorer-quality food (especially in the early years), or if pregnant women eat less, this is likely to have serious impacts on children's later development. With that in mind intra-household dynamics of how food or other resources are shared within households (and how policy can affect these dynamics) are particularly important. Other Young Lives analysis has associated stunting, often caused by inadequate nutrition in the early years, with poorer vocabulary acquisition by 5 year-olds and with children being more likely to report shame or embarrassment (reported in Dornan 2010: 8). Shocks can also have wider impacts on the household asset base, removing important assets or triggering debt traps, both of which are likely to increase the possibility of families being caught in poverty and exacerbate both poverty persistence over time and transmission between generations.

**Figure 5. Household responses to shocks, Ethiopia (%)**



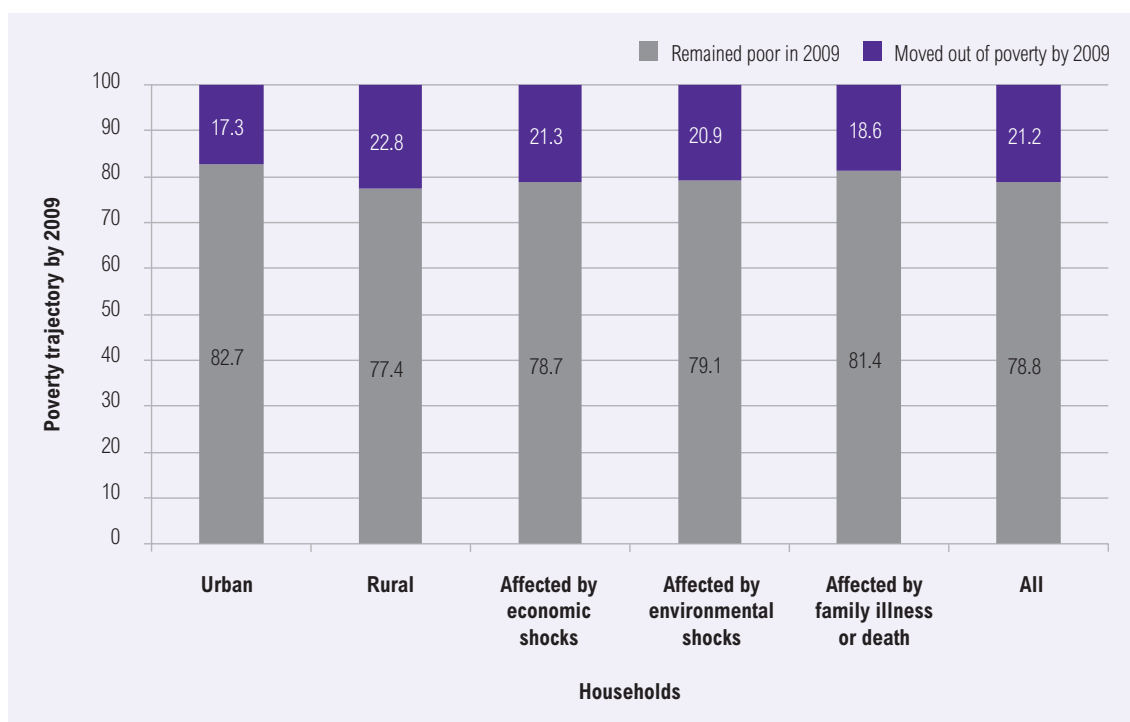
### ***Shocks reduce the chances of escaping poverty***

Previous sections have shown that some households are particularly likely to experience shocks, and that households often experience a pattern of multiple adverse events. These events are also likely to form a poverty trap, resulting in the depletion of household resources or damage to children's opportunities. We find both a high degree of overall poverty persistence among poor households and that non-poor households which are affected by shocks are more likely than other households to become poor.

This section develops this by examining evidence for Young Lives households in Ethiopia on which households stayed poor, escaped poverty, became poor or were not poor over this period. In overall terms the 2006 survey found that 72 per cent of households were poor and 28 per cent were not poor; by 2009 the poverty rate had fallen a little and 68 per cent of households were counted as poor and 32 per cent were not poor.<sup>6</sup> This shows that overall there has been a slight reduction in the number of households experiencing absolute poverty. However, disaggregating this data shows that there is proportionally much more movement into poverty than out of it.

Figure 6 shows what proportion of the households that were poor in 2006 have stayed poor or have moved out of poverty by 2009. Figure 7 shows what proportion of households who were not poor in 2006 have either stayed not poor or have become poor by 2009.

**Figure 6. Poor households in 2006 by whether or not they were still poor in 2009, Ethiopia (%)**



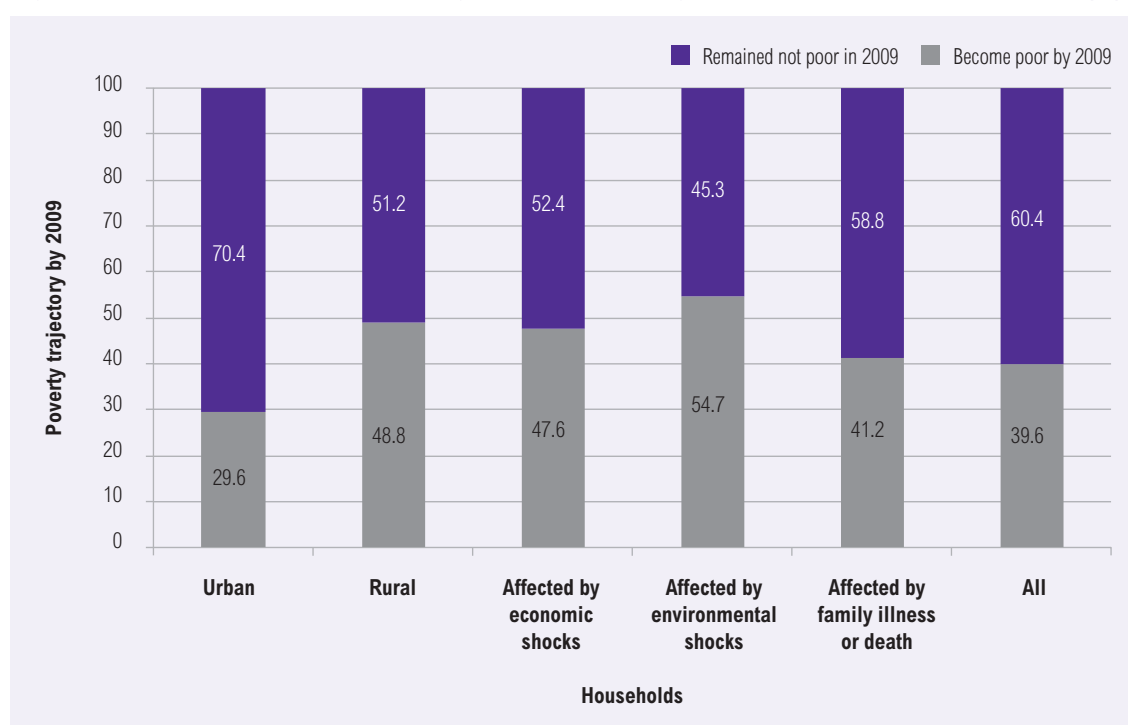
Overall, four in five households (78.8 per cent) who were poor in 2006 were also poor in 2009. Urban households are slightly more likely to remain poor than rural ones<sup>7</sup> (the difference is about five percentage points).

Figure 7 presents similar analysis but for those children in households that were not poor in 2006.

<sup>6</sup> This is done by applying the national poverty line to Young Lives data. The proportion of the Young Lives sample who are counted as poor on this measure is not the same as an overall poverty rate in Ethiopia since the Young Lives data is different, not nationally representative and only from households with children.

<sup>7</sup> This refers to households in rural or urban areas in 2006, a minority of whom had moved by 2009.



**Figure 7. Non-poor households in 2006 by whether or not they had become poor in 2009, Ethiopia (%)**

Overall, two in five (39.7 per cent) of those households that were not poor in 2006 had become poor by 2009.<sup>8</sup> That such a large proportion of non-poor households in 2006 are poor by 2009 suggests perhaps that many non-poor households are close to the poverty line, and that households escaping poverty have a high chance of falling back into poverty.

Figure 6 shows important differences between urban and rural areas, which are consistent with Figure 7. Households that were not poor in 2006 were less likely to become poor in urban than in rural areas (in urban areas the chances of becoming poor were a little less than one in three, in rural areas they were around half). This could imply either that non-poor households in rural areas are in a more precarious position or perhaps that they are often not far above the absolute poverty line (and that there may be greater inequality in towns).

Turning to households affected by shocks, Figure 7 demonstrates that households which were affected by a shock were more likely to become poor than the average for all households. This is particularly clear in the case of environmental shocks where – compared to an average of two in five households (39.7 per cent) – 54.7 per cent of equivalent households affected by an environmental shock were poor by 2009 (which is also a higher proportion than for those in rural areas).

### ***Well-designed social protection can protect households from shocks***

There are a variety of ways in which policy can support those affected by adverse events. Informal networks (including family) will be very important, with additional potential support from insurance, affordable credit (including through community organisations) or more formal social protection schemes. The number of social protection schemes operating in low- and middle-income countries has been increasing rapidly in recent years (Hanlon, Barrientos and Hulme 2010). Young Lives countries follow this pattern, with new or altered employment schemes in India (e.g. the National Rural Employment Guarantee Scheme) and Ethiopia (the

<sup>8</sup> Most households were counted as poor in 2006 and therefore, though a greater proportion of non-poor households are becoming poor (on Figure 7) than poor households are moving out of poverty (on Figure 6), overall more households moved out of poverty than became poor over this period.

Productive Safety Net Programme), a new health insurance programme in Vietnam and a cash conditional transfer programme in Peru (*Juntos*).

This section considers two of these schemes, the National Rural Employment Guarantee Scheme (NREGS) and the Productive Safety Net Programme (PSNP) and examines the proportions of households affected by shocks who report access to them. Both the NREGS and PSNP are cash for work schemes (cash and/or food in Ethiopia) though the design and function differ (see Porter with Dornan 2010 for about these schemes). Both schemes target rural areas and so will not provide support to those in urban areas affected by shocks.

Tables 3 and 4 cross-tabulate the proportions of Young Lives households reporting access to the NREGS and PSNP respectively with whether or not households are also affected by shocks. The question asked here is whether or not households have access to the given scheme, rather than if they used it (for example whether it is provided close to the communities in which households live). These are indicative findings about coverage only – we leave other research to explore the difference being made.

**Table 3. Households affected by shocks; access to the NREGS, Andhra Pradesh, India, 2009 (%)**

Type of shock		No access to the NREGS	Access to the NREGS
Economic shock	No	46.4	53.6
	Yes	21.3	78.7
Environmental shock	No	51.1	48.9
	Yes	15.7	84.3
Family illness or death	No	42.4	57.6
	Yes	36.3	63.8
All		41.2	58.8

Note: Rows, rather than columns add up to 100%

Of Young Lives children in Andhra Pradesh, around three-fifths (58.8 per cent) were in households reporting access to the NREGS. In each case households reporting that they had been affected by a shock were more likely to report having access to the NREGS than households not affected by shocks. The overlap (between being affected by a shock and reporting access to the scheme) is highest for those affected by an environmental shock (84.3 per cent). However there are also important minorities who report being affected by a shock and who did not have access to the NREGS – from 15.7 per cent for those affected by an environmental shock, to a fifth of those experiencing an economic shock (21.3 per cent) and more than a third (36.3 per cent) of those affected by family illness or death.

**Table 4. Households affected by shocks; access to the PSNP, Ethiopia, 2009 (%)**

Type of shock		No access to the PSNP	Access to the PSNP
Economic shock	No	82.3	17.7
	Yes	68.8	31.2
Environmental shock	No	88.2	11.8
	Yes	61.1	38.9
Family illness or death shock	No	70.9	29.1
	Yes	77.3	22.7
All		74.0	26.0

Note: Rows, rather than columns add up to 100%

Table 4 repeats this analysis for the PSNP. Notably the proportion of the Young Lives sample in Ethiopia reporting access to the PSNP (around a quarter, 26 per cent) is lower than the proportion of Young Lives households reporting access to the NREGS. In consequence large numbers of shock-affected households do not have access to the PSNP – ranging from 77.3 per cent of households affected by family illness or death to 61.1 per cent of those affected by an environmental shock. Households affected by economic and environmental shocks were more likely than the average to report access to the PSNP, and (perhaps surprisingly) slightly more families unaffected by family illness or death report access to the scheme than those who were affected by family illness or death.

The analysis in Tables 3 and 4 does not comprehensively measure the impact of these schemes, or indeed overall coverage (given the sample is pro-poor). However it is included here to illustrate that though there are major programmes operating in Young Lives countries, with the potential to buffer families against risk, there are a large number households which have experienced shocks and are not covered by formal schemes. It is also important for policymakers to consider the reach of social protection, or other programmes – for example concerns have been raised that micro-finance measures may be most likely to benefit those who have the capacity to take advantage of schemes, and so more emphasis is needed on considering how to reach the poorest communities (Hashemi and Anand 2010: 243–52).

The tables demonstrate that in each case the overlap between scheme coverage and likelihood of being affected by a shock is highest for environmental shocks, which suggests (particularly in the case of Andhra Pradesh) that area-based schemes can be used to target households at risk of environmental shocks (to achieve this schemes need to be widely available in shock-prone areas). However such rural schemes are much less good at supporting households affected by family illness or death or by economic shocks, which do not happen only in the countryside. Given processes of urbanisation going on in many counties, accompanied by the possible widening of inequality within towns, this vulnerability to economic and other shocks in towns is of considerable importance to policymakers.

## Conclusion

The onset of the global downturn was swift and dramatic and has provoked heated commentary. The crisis has, at least temporarily, disrupted a long period of growth in many countries (even if growth rates are beginning to pick up in many countries). Behind this picture of pre-crisis GDP growth, however, was a considerably less benign history of ongoing inequalities between groups and frequent price rises and other shocks. With growing populations, pressure on food supplies seems set to intensify. Severe shocks are detrimental to child development in a variety of ways including through worse nutrition, depleted household asset levels or increased household debts. Alongside the effects on children and households, there are consequences for policy too. UNICEF and other NGOs have highlighted that a number of lower- and middle- income countries are cutting social spending in the wake of the crisis (Ortiz et al. 2010; Save the Children 2010).

Concerns over livelihoods and rising hunger rates in developing countries have been augmented by emerging findings of greater than expected resilience within many low- or middle-income country economies (at least in terms of overall growth rates). However, since our analysis shows how common shocks were for Young Lives children before the crisis, there

is little reason to assume that growth rebounding will banish the vulnerability and poverty persistence that repeated adverse events create. If growth is genuinely inclusive, by delivering improvements for all and narrowing gaps between groups, it can reduce vulnerability, but to obtain this outcome requires a strong social infrastructure which protects against risk.

This paper has used preliminary and largely descriptive analysis of the latest data from the Young Lives study to examine how children and their families experience adverse events. This concluding section summarises key points and draws out some policy implications.

- Firstly, shocks were commonly experienced in Young Lives households in both the last two periods for which data was gathered (2002–6 and 2006–9), the first of which was before the global economic crisis. Typical coping responses from households include eating less and running down assets – both of which may compromise child development (especially eating less or poorer-quality food) or impair long-term life chances. There is also evidence suggesting a link between poverty dynamics and the experience of adverse events. Against a background of overall reductions in absolute poverty, those affected by shocks seem more likely to be trapped in poverty.
- Secondly, we provide indicative evidence on some of the ways in which global shocks can translate into household experiences. The relationship between global shocks and household consequences is not necessarily straightforward since not all of the population will be equally affected by shocks. Changes in the market price of food or other commodities are particularly important transmission routes of these shocks. By definition, more open economies are likely to be most quickly affected by global changes in prices or demand for goods. (Vietnam, in particular, has a high proportion of its GDP deriving from the export market.)
- Thirdly, though the pattern varies by country, shocks are highly patterned. Environmental shocks tend to affect those in rural areas, reliant on agricultural livelihoods and who tend to be poorer. Economic shocks and family illness or death are more spread across populations, but it remains the case that those with the fewest resources to cope with shocks are often affected the most.
- Fourthly, the evidence in this paper shows that affected households often experience multiple shocks. Since each type of shock is likely to reinforce poverty transmission, policymakers concerned to unlock poverty traps need to consider how policies can mitigate the different types of risks that may affect the same households over time. This finding points to the need for integrated social policies, such as the provision of accessible and affordable healthcare to go with mechanisms to protect families from rapid price increases or environmental disaster. It is worth noting that the households affected by the shocks identified in this first-findings briefing are often the poorer ones and those with access to fewer or worse-quality services (see Pells 2010).
- Fifthly, since shocks were common in the period preceding the global downturn, international events are only one explanation as to why households are vulnerable to shocks. Policy responses need to recognise that these shocks are not one-off events. The evidence on the concentration of risk should pose obvious questions for policymakers – rural social protection programmes with wide coverage are likely to be quite successful in targeting households at risk of environmental shocks, but they exclude those in towns who are exposed to other forms of economic shock or other risks. The fast growth of towns and cities, fuelled by migration, is likely to create greater urban inequality and means this is a serious gap if policy focus is predominantly on rural-based schemes.

- Finally, the long-term impact of the crisis has yet to be seen. Individual and household-level impacts will persist as lower access to nutrition affects children's health and success in their later lives. Alongside these direct effects on individuals are less direct effects on families – if reduced growth or deficits leads to a weakening of the services or the social safety nets, this will have negative consequences for those at risk of shocks and adverse events.

Policy can mitigate the effects of shocks in a number of ways – by reducing the burden of risk in the first place and by putting in place the mechanisms to buffer households from the worst impacts of shocks when they do occur. Strategies which reduce risk would include measures such as more inclusive growth, better livelihood and labour security or measures to reduce environmental risk (including, for example, crop protection or better environmental resource management). Formal social protection, insurance and credit (including through affordable, community-based organisations) and measures to support those suffering ill health all offer significant potential here (see Yablonski 2007).

Given that the burden of risk is higher for poorer households (for instance in rural areas), it seems unlikely that the private sector would provide insurance or affordable credit without a role for governments. Protecting families in both of these ways is needed not only to safeguard health and well-being but also to reduce the risks of families being caught in precisely the sorts of debt traps that reinforce chronic poverty.

Though the economic landscape obviously constrains policymakers around the world, there are still choices to be made. It is worrying that some governments cut social spending in the wake of the crisis and have put in peril precisely the institutions on which achieving the MDGs depend. However, clear recognition of the vulnerability of some households should lead to greater effort to create the sorts of long-term institutions that help households mitigate risk, and which then contribute to long-term, inclusive growth and reduced poverty.

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