



Addressing life cycle consumption deficits within households: The role of inter-household transfers and social protection in Kenya

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Introduction and Context

The Global National Transfer Accounts Project (See Lee and Mason, 2014) has shown that:

- The age group between 35-60 years is sandwiched by the young and the elderly members of the family (dependent ages)
- *Labor-income surplus* is insufficient to fully cover consumption needs of dependent ages
- Households must rely on transfers from *government* and from *other households* plus *asset-based reallocations* to support members who consume more than they produce

Introduction and Context

- In Kenya, inter-household transfers are used to cover medical bills, school fees, food expenses
- Public transfers (in the form of social protection schemes and direct cash payments) support private and public consumption generally
- The pre-independence “*Harambee*” spirit (pooling resources and effort) has been a major force behind private transfers in Kenya
- We use NTA methods to construct age-profiles of inter-household transfers using KIBHS, 2005

Literature

- Inter-household transfers can be substitutes for public transfers (Cox and Jimenez, 1992; Cox et al. 2004; Jensen 2004; Kazianga, 2006)
- Informal transfers are substitutes for missing markets (Townsend 1994, Udry 1994, Jalan and Ravallion 1999, Angelucci et al 2010)
- Knowles and Anker (1974) show that 20-40% of incomes of poor urban households in Kenya and Tanzania came from inter-household transfers
- Becker's (1974) model of altruistic transfers is consistent with the Kenyan 'Harambee spirit' and is adopted as one reason for the inter-household transfers observed in Kenya. [Transfers are non pro quo]
- However, mutual self-help institutions based on reciprocity provide competing or complementary explanations (Mbithi, 1974)

Concepts and Methods

We use the NTA methodology to estimate transfers

LCD = ABR + net public transfers + net private transfers

$$\underbrace{C - Y_l}_{\text{Lifecycle deficit}} = \underbrace{Y_A - S}_{\text{Asset-based reallocations}} + \underbrace{\tau_g^+ - \tau_g^-}_{\text{Net public transfers}} + \underbrace{\tau_f^+ - \tau_f^-}_{\text{Net private transfers}}$$

$\underbrace{\hspace{15em}}_{\text{Net transfers}}$

$\underbrace{\hspace{25em}}_{\text{Age reallocations}}$

See Mason et al. (2007) and the NTA website

Methodology

Estimation issues

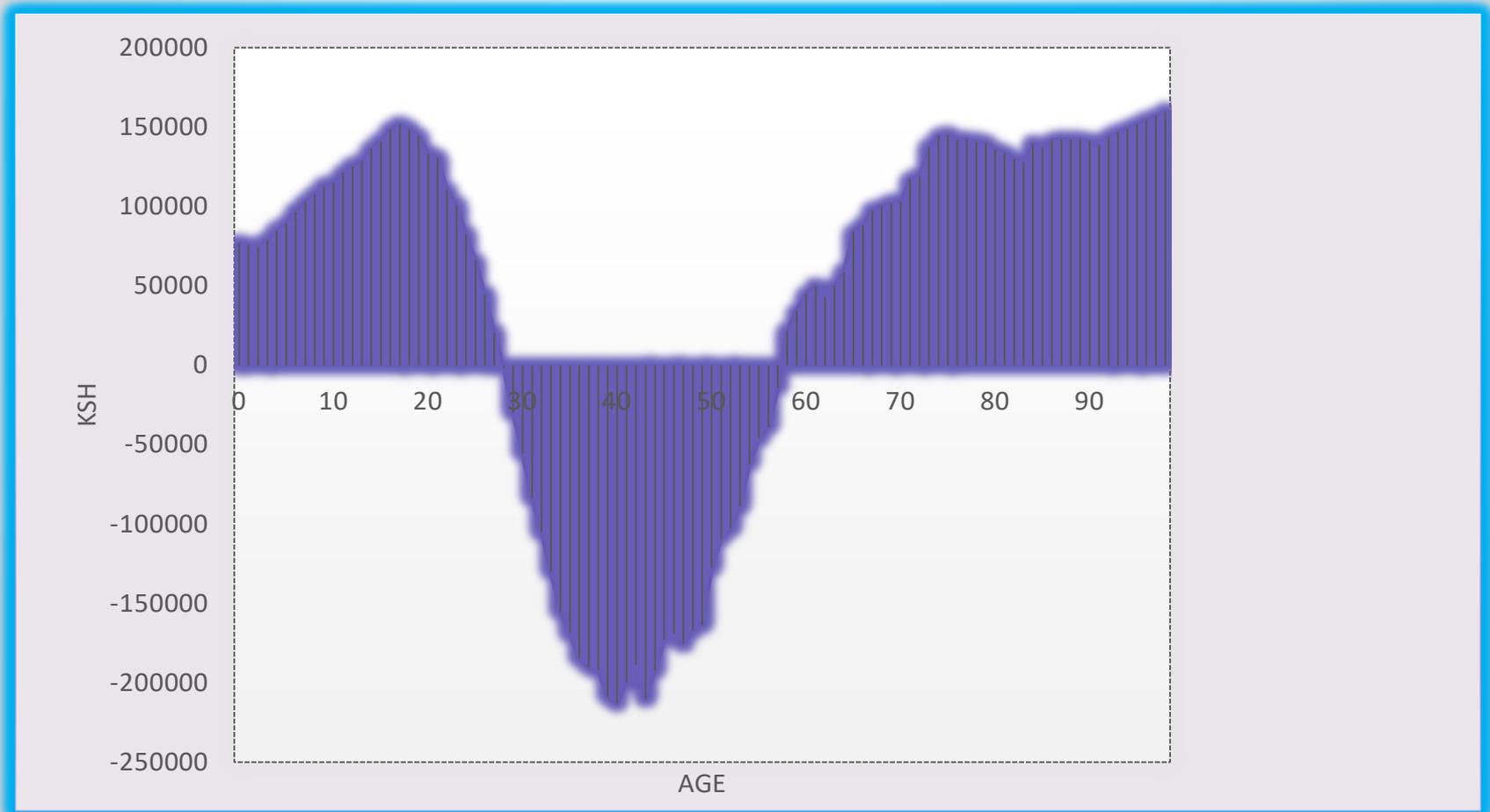
- Inter-household transfers consist of direct transfers between households, transfers mediated by NPISHs, and transfers to and from Rest of the World (ROW)
- Inflows are current economic transfers and gifts received by resident households and by rest of the world (ROW)
- Outflows are economic transfers and gifts given by households to NPISHs and to the ROW
- We assign inter-household transfers to the household head
- The aggregate control for inter-household transfer is the sum of adjusted private transfers assigned to the household head
- The adjustment is carried out by using population data with the survey estimates of per capita inflows and outflows to calculate aggregate estimates of inflows (TFBIs) and outflows (TFBOs)

Methodology

Estimation methods and data

- Four methods are used in estimation to adjust the inflows and outflows to ensure that the difference equals net transfers from the rest of the world TF
- Private inter-household transfers are calculated as private inter-household inflows less outflows for each age
- The methods are available in the NTA manual of the United Nations (<https://www.ntaccounts.org>)
- We use the Kenya Integrated Household survey 2005/2006, available on NTA website

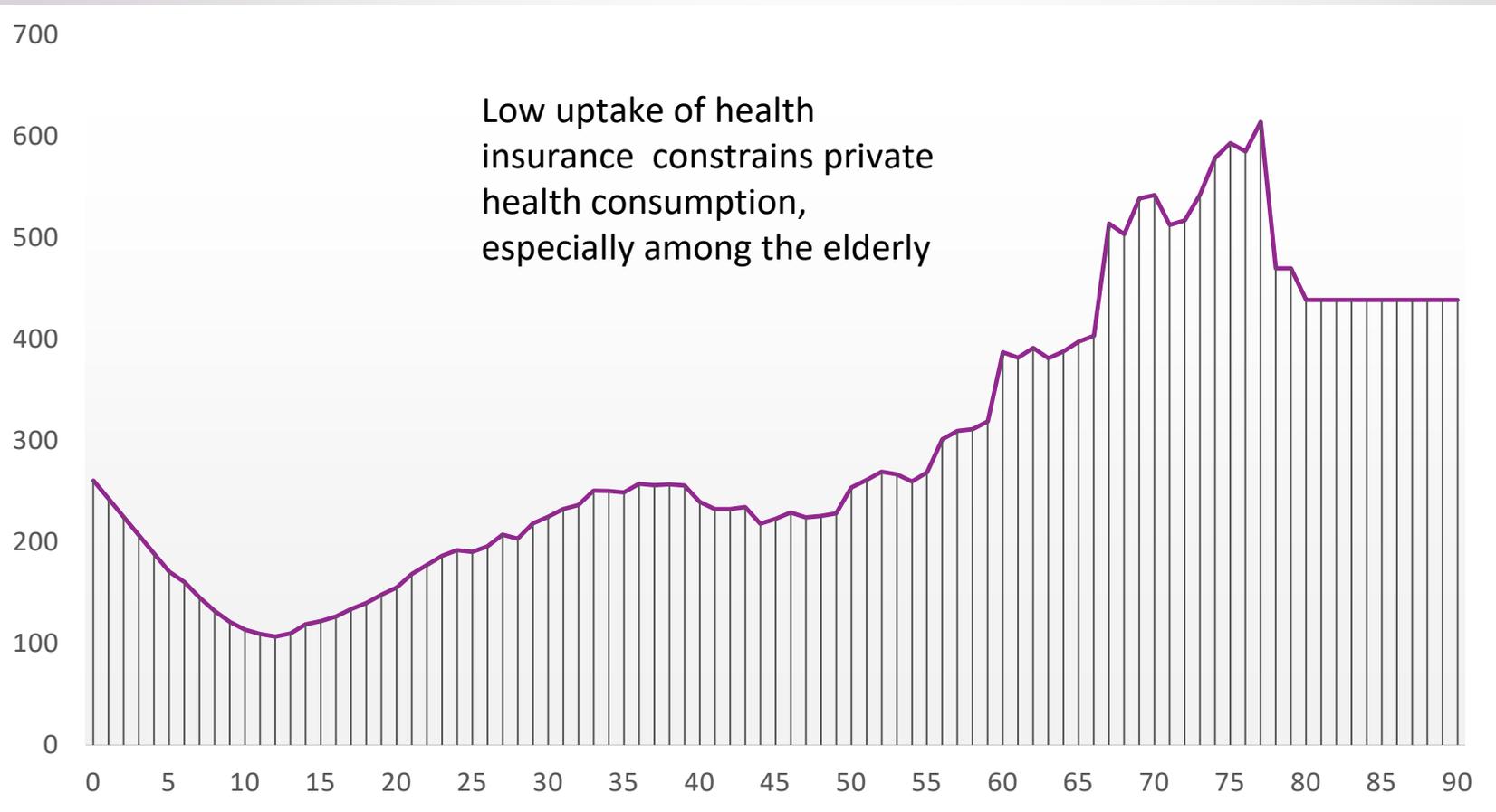
Findings (1): Kenya LCD, 2005



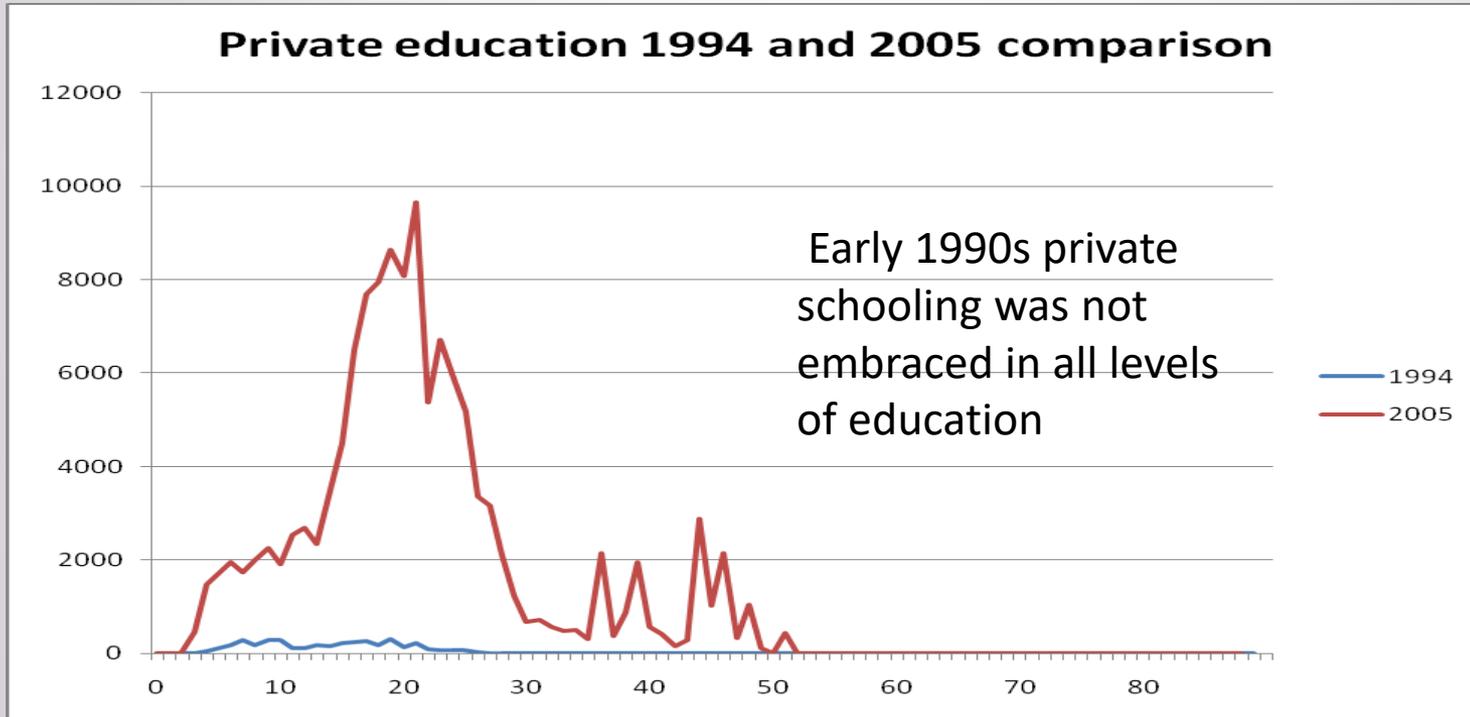
Findings (1)

- Evidence of a sandwich generation (at around age 30-60) [Should vary across the 48 Kenyan counties and by survey year]
- Total deficit is much larger than surplus [Should also vary across counties]
- Kenyan dependency ages are below age 28 and above age 58 [Hard to identify these groups without NTA tools]

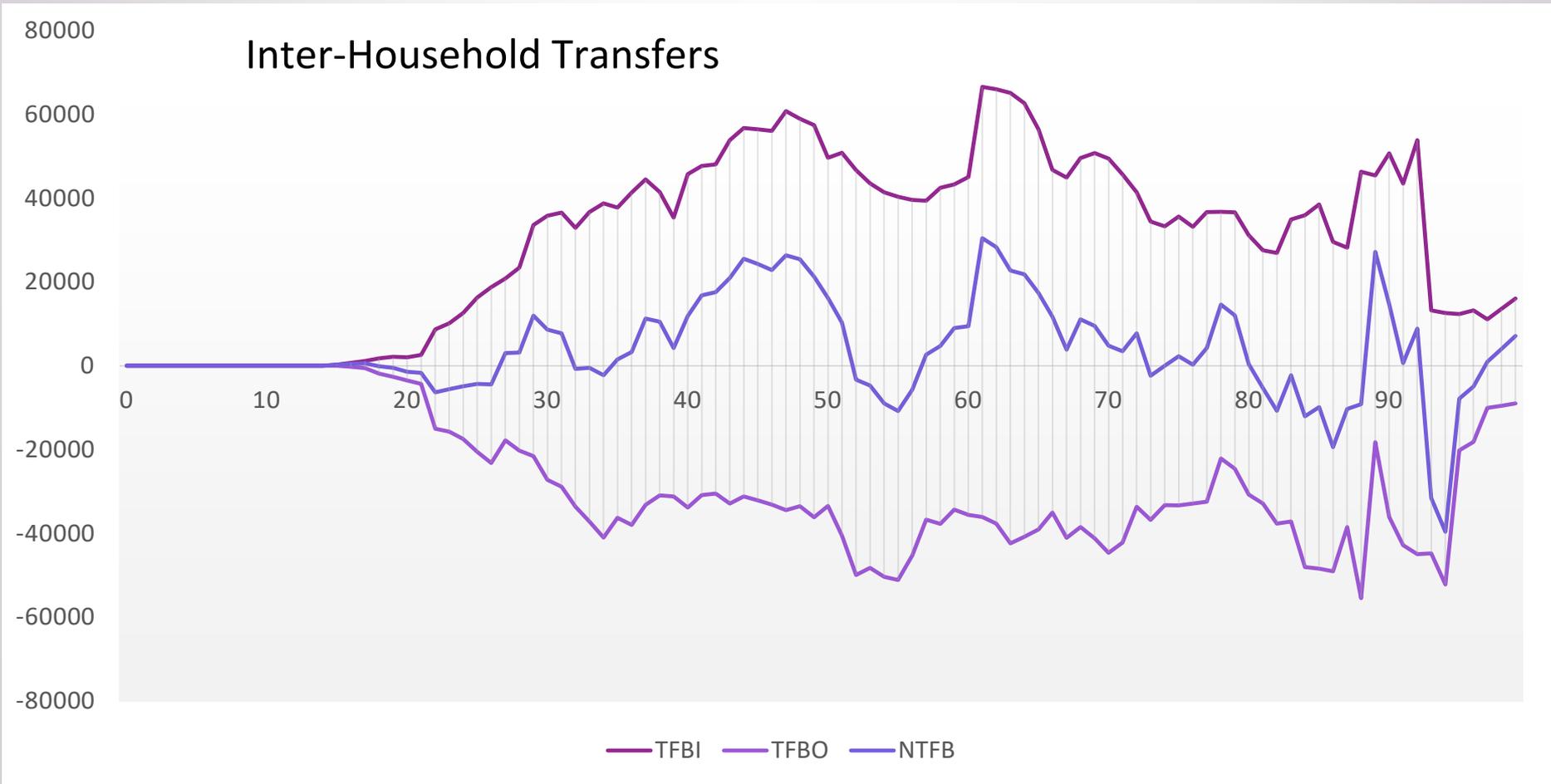
Findings (2): Per Capita Private Health Consumption, 2005



Findings (3): Private Education Consumption, 1994 and 2005



Findings (4): Inter-Household Transfers, 2005



Summary and Conclusion

- Evidence of increases in inflows to the sandwiched households at age 58-60
- The inter-household outflows, although minimal in scale, have the potential to lower saving and prevent or delay realization of the second demographic dividend
- The magnitude of inter-household transfers peaks at age 60 after which they decline
- After age 70, they drop precipitously
- Findings point to a need for a diversified and comprehensive social protection policy
- The social protection policy should be designed in a way that gives private sector incentives (e.g., via tax regimes) to support vulnerable individuals

- THANK YOU VERY MUCH