



Vrije Universiteit Brussel

Savings, Activity Choices and Conflict: Some Evidence From Rural Burundi

War and Poverty, Peace and Prosperity Conference



Introduction (1)

- Micro-level study of the impact of war on activity choices (at the household-level)
- Hypothesis: War and related insecurity/risk drives households into low-risk, low-return activities; abandoning the more profitable but riskier activities
- Need for panel-data
- However: Cross-Section...



Introduction (2)

- Indirect approach: Test the standard economic risk association between savings and activity choices (safe vs. risky activities)
- During war: assets/savings can be considered risky (will return on this later)
- Theoretical implication of risky assets: households will not reduce allocation to safe activities as asset levels increase when assets are risky (if rational and risk-averse)



Introduction (3)

- Welfare implications of risky assets: If households' activity choices are not responsive to savings when savings are considered risky, households will engage more in safer low-return activities relative to the counterfactual (no risk in assets).



Decrease in household income,
increase in poverty levels



Empirical Setting

- Burundi: Civil war between 1993 and 2006.
- Macro-economic impact of the war: income per capita fell from 210\$ to 110\$ (poorest country); people below poverty line rose from 35% to 68%
- Assets (livestock) very risky during the war



Empirical Strategy (1)

- 1998 cross section; representative household survey; data on 3908 rural households
- We exploit the fact that some regions were more exposed to the war than others ('war regions')
- Evidence...
- Assets particularly risky in the war regions



Empirical strategy (2)

- Savings \approx value of households' livestock holdings
- Low-risk, low-return activities \approx unskilled agricultural wage employment; cultivation of food crops
- Labor allocation to safe activities \approx income share of safe activities
- Specification:

$$P_{ij} = \beta_0 + \beta_1 \text{savings}_i + \beta_2 (\text{savings}_i * \text{CivilWarRegion}_j) + \alpha_j + \varepsilon_{ij}$$



Results

- Impact of savings on allocation to safe activities differs significantly across regions
- Households in the war regions do not reduce allocation to low-risk low-return activities as asset levels increase (precautionary motive)



Consequences

- Massive increase in poverty levels in the war regions during 1993-1998 period (22.4% to 52.5%; World Bank, 2003)
- Can probably in part be explained by fall back into low risk subsistence activities during conflict.