Economics Students Association of Kenya (KESA)

Explaining Financial Health in the Semi-Arid and Arid Lands in Kenya

Authors

1. Kefa Simiyu
2. Beatrice Mbinya
3. Vivian Ngumi
4. Moses Muchiri Mwangi

July 29, 2026

Note: This publication was done in response to call for papers by KIPPRA

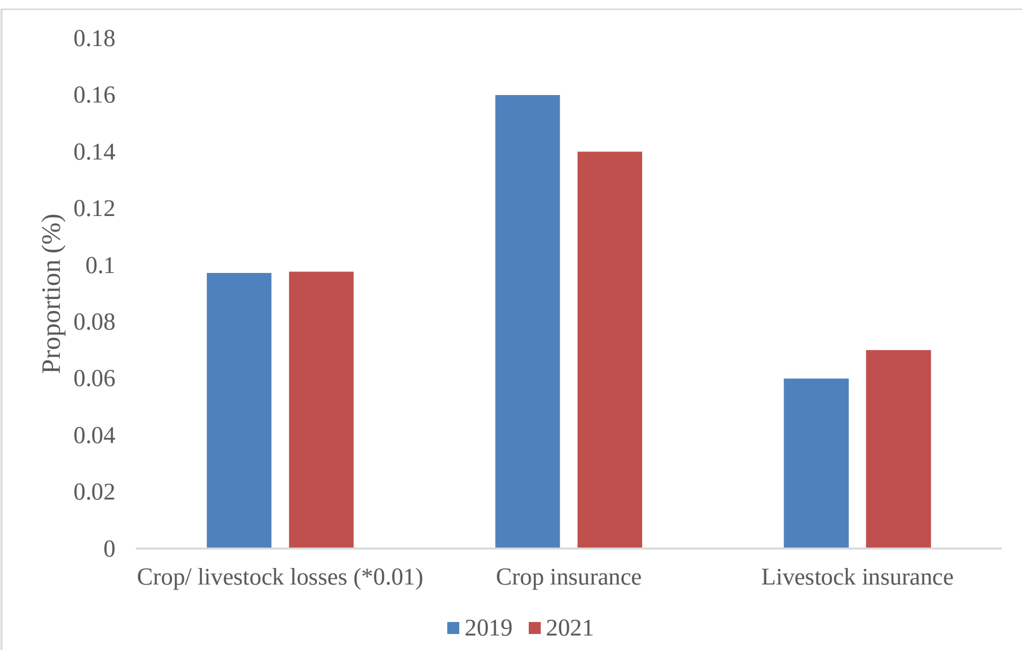
Executive Summary

This policy brief builds on the backdrop that financial health in Kenya has worsened drastically in the 2016-2021 period with the situation being dire in the 29 semi-arid and arid lands (ASALs) (CBK et al, 2021). At the same time, livelihood under-diversification and negative shock episodes within the ASALs continue to ravage livelihoods, widen inequalities, and undermine human capital accumulation with women, women-headed households, the uninsured, and rural residents being on the receiving end (UNDP, 2018; Birch, 2018; Nkonya et al, 2018; Simiyu et al, 2023; Musyoka & Onjala, 2023). Worrisome is that participatory development and savings mobilization within the ASALs is in deficit whereas individual indebtedness stands in the way of blended financing (Shibia, 2020). Particularly disturbing is that coronavirus (COVID)-19 pandemic occasioned not only declines in average incomes but also eroded financial health among those working comparably longer hours (Simiyu et al, 2023; Sinha, 2022). Lastly, non-symbiotic social interactions and parasitic networks raise vulnerability to shocks through debt-dependency while simultaneously offsetting financial ill-health through negative spill over effects.

Introduction

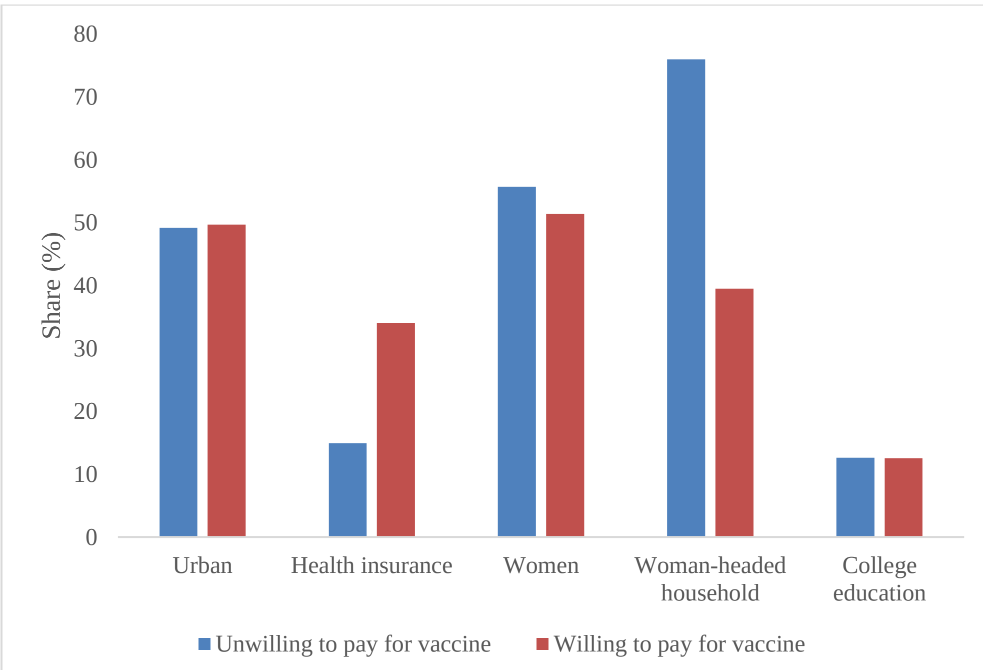
Human capital accumulation agenda within the country and in ASALs particularly faces unique threats that have been brought to the fore by financial health deterioration amid exposure to shocks and almost negligible uptake of crop and livestock insurance (CBK et al, 2021; Simiyu et al, 2023). Livelihood under-diversification not only crippled households' resilience to shocks originating from environmental vagaries and unstable labour market but also jeopardized ASALs households' financial health during COVID-19 pandemic (Simiyu et al, 2023). The resilience struggle remains delicate with the crisis being bigger than ever imagined. On the other hand, livelihood under-diversification presents a dilemma on the labour market especially during crises such as COVID-19 pandemic. Since positive growth of incomes tends to enhance financial health, individuals and households within the ASALs have to work upon income generation.

Figure 1: Crop and livestock insurance in the ASALs



On one hand, low uptake of health insurance in the region stands in opposition to healthcare utilization while fueling health poverty and widening health inequality (CBK et al, 2021; Simiyu et al, 2023). During the pandemic, health insurance coverage among those unwilling to pay for vaccination almost halved the coverage among willing households and individuals within the ASALs with the gory statistics being similar to the lived experiences of women and women-headed households.

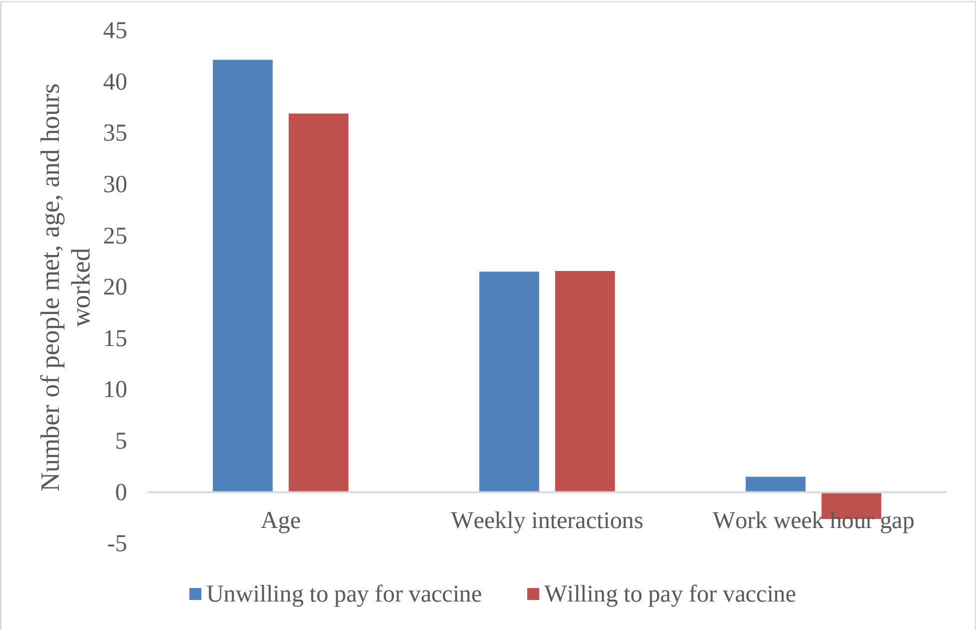
Figure 2: Willingness to pay (WTP) for vaccine



This attempt is, however, rout with challenges such as crop and livestock losses (Birch, 2018). Besides, the endowed households and individuals are both an asset unto themselves and to the larger community (Zollman & Heyer, 2020; Simiyu et al, 2023). Implicitly, those endowed can be thought of as lenders of first resort among close friends, family members, and neighbors. While such considerations could reinforce social networks, associated indebtedness and loan defaulting undermines social sustainability by eroding trust and reliability (Mohd et al, 2022). This also has the potential of breeding financial ill-health while rendering social interactions as something to be frowned upon. Attractive labour incomes, on their own, could incentivize individuals towards working multiple jobs, exerting greater effort, religiously job-hunting, and working over extended periods of time beyond the legal durations. This is problematic. The COVID-19 Rapid Response Phone Surveys suggest that working longer hours during the pandemic (compared to before March 2020) was positively correlated with financial ill-health as indicated by greater unwillingness to pay for COVID-19 jab.

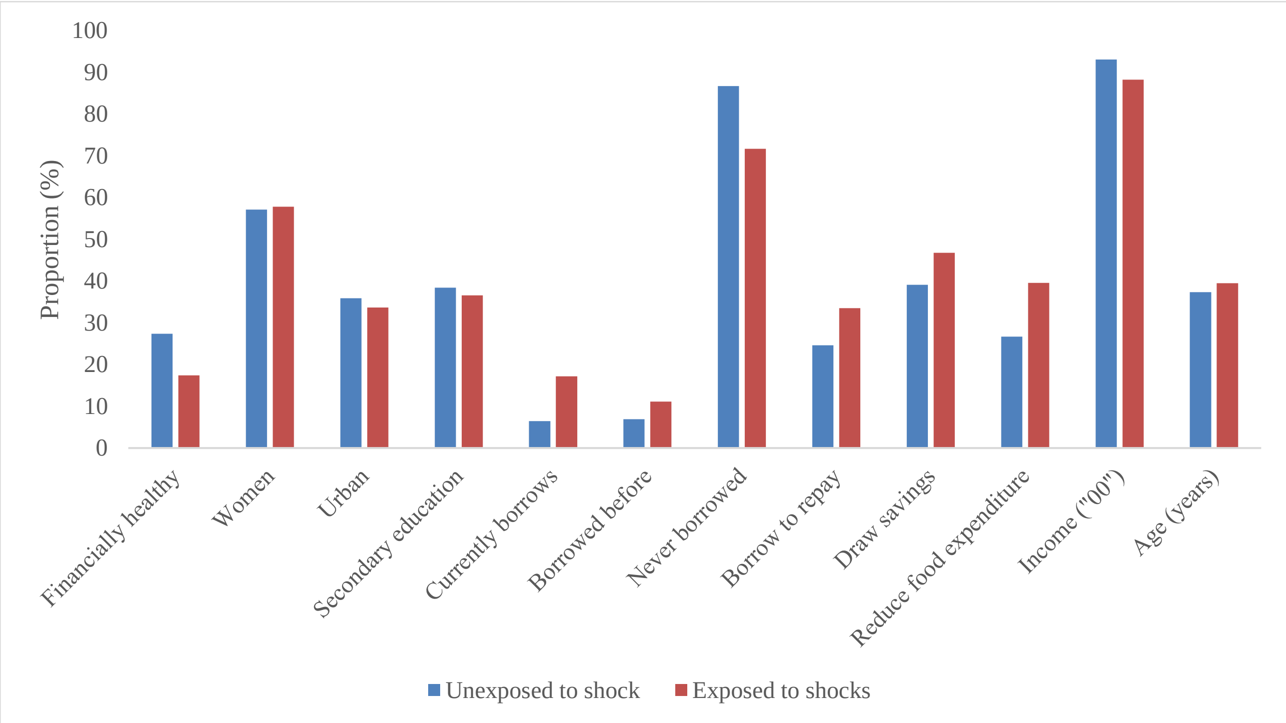
Although financial health revitalizes resilience to shocks while positively feeding into social networks, social interactions within the ASALs appear non-promising.

Figure 3: WTP- Extended



In particular, borrowing from close friends, family, or neighbours as well as loan repayment using savings, borrowing, or reductions on food expenditures positively correlate with vulnerability to shocks.

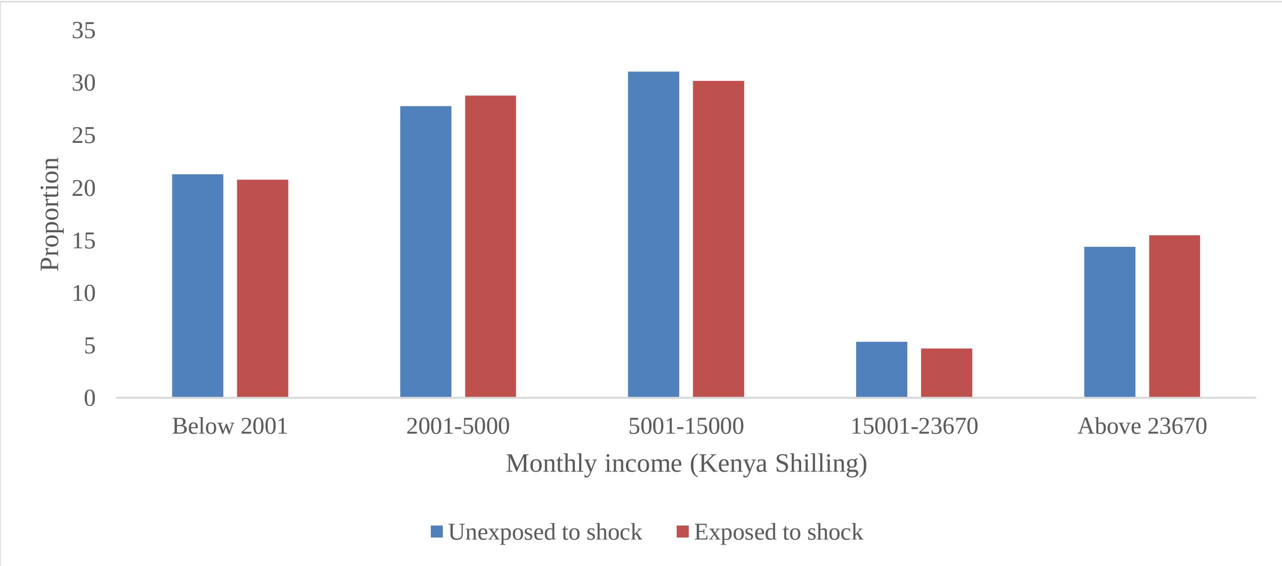
Figure 4: Shock experience



With fewer than 16% of ASALs residents earning above Kenya Shilling 23670, and hence; being non-low-income earners, there is need to rethink income generation and livelihood diversification. In any case, the proportion of those exposed to shocks in the ASALs for non-low-income earners was comparably higher than their unexposed counterparts. Nevertheless, income-generation in the region is at a crisis with over 84% of residents taking home an income less than Kenya Shilling 15001 in a month yet shocks do not care whether or not an individual is in work poverty.

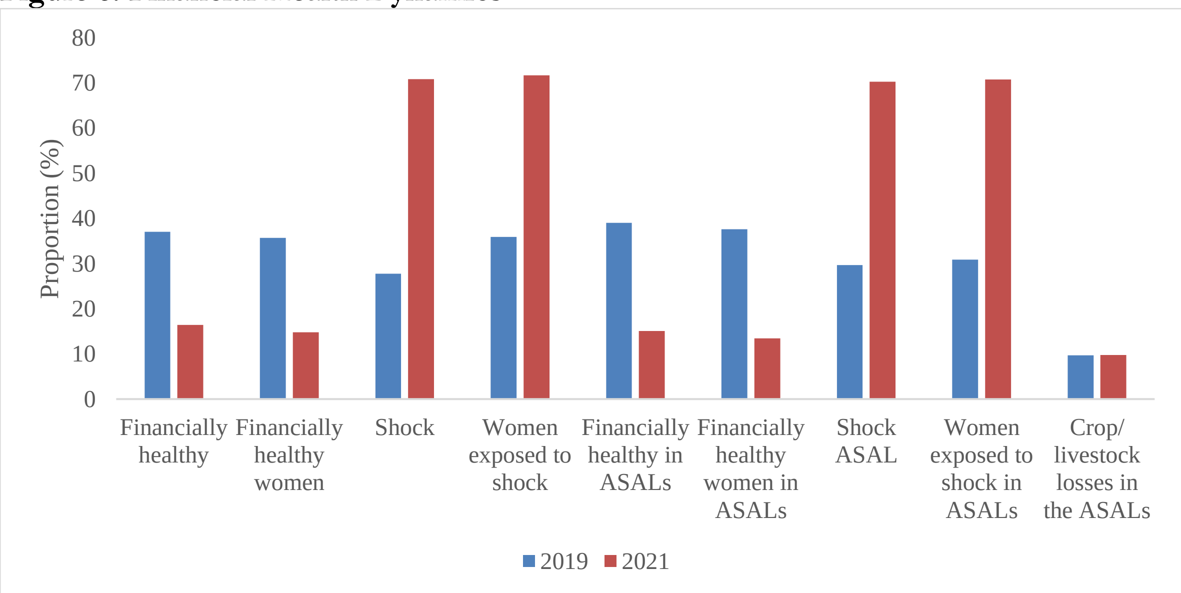
To contextualize the problem at hand, a cross-sectional dive is warranted. At the national level, the proportion of financially healthy Kenyans is getting smaller and smaller by the day with Financial Access Households Surveys indicating that the situation is much worse among women. Similarly, shock episodes have increased with the proportion of Kenyans exposed to shocks almost trebling between 2019 and 2021.

Figure 5: Shock experience across income groups



The situation is not any better within the ASALs. If anything, then it calls for tears. The chances of one being financially healthy within the ASALs are low relative to the rest of the country with the likelihood being much slimmer for women. Even then, there is an iota of hope as evident in ASALs residents being marginally (0.61%) less likely to be exposed to shocks in comparison to residents from non-ASALs.

Figure 6: Financial Health Dynamics



This policy brief, therefore, presents:

i. An analysis of how financial health in Kenya's ASALs is shaped by social health insurance, crop insurance, and livestock insurance uptake.

ii. An analysis of how indebtedness, social networks, and other socio-demographic characteristics affect households' financial health.

Summary of Policy Issues

Health Insurance

Uptake of health insurance both reduced households' vulnerability to shocks and raised financial health. In particular, having health insurance was associated with greater willingness to pay for vaccination.

Vulnerability to Shocks

Within the ASALs, vulnerability to shocks was pronounced among debtors, older persons, and in falling incomes as well as among those repaying loans through reductions in food expenditure or running down savings. Vulnerable persons were less likely to be financially healthy compared to their unexposed counterparts.

The Gender Question

ASALs women and women-headed households are less likely to be financially healthy in comparison to men and men-households. Evidence in support for gendered differences in shock exposure within the ASALs is, however, insufficient.

Education and Gaming

During the pandemic, we find no sufficient evidence to believe that college education significantly affected individuals' willingness to pay for vaccine. Gamers, on their part, were likely to be financially healthy in comparison to non-gamers. Caution must, however, be exercised when considering the implications of these findings on policy action.

Socialisation, Social Finance and Networks

Compared to non-debtors, individuals borrowing from neighbours, friends, and family are less likely to be financially healthy. Similarly, meeting a greater number of people outside one's household is associated with financial ill-health during the pandemic.

Livelihoods and the Labour Market

Although financial health rises significantly in income, working longer periods (especially during the pandemic) is associated with financial health deterioration.

Rural Development and Urbanisation

Rural residents are less financially healthy and more likely to experience shocks in comparison to their urban counterparts.

Policy Recommendations

i. The national government and county governments should roll out cash transfer initiatives that enable ASALs households to set up small businesses. This will contribute towards income source diversification, build resilience to shocks, and enhance households' financial health.

ii. Public-private partnerships will be essential in promoting private sector development and further contribute towards diversification and catalyse the ASALs development process.

iii. The Ministry of Agriculture as well as the Ministry of ASALs must work together in promoting the uptake of crop and livestock insurance as mitigative towards shocks arising from crop/ livestock losses.

iv. The Ministry of Health has to bolster efforts towards greater penetration and uptake of health insurance.

v. The Ministry of Gender, Youth, and Sports must work jointly with the National Treasury in promoting the development and sustainability of self-help groups that mobilize savings.

vi. The National Treasury and the Ministry of Education must work towards enhanced financial education as a step towards preventing over-indebtedness and loan defaulting.

vii. Nyumba Kumi elders must embrace social sustainability as a means towards mitigating negative spillovers from social interactions.

Attribution

This policy brief utilised the computations in our paper (Simiyu et al, 2023) that relied on the COVID-19 Rapid Response Phone Surveys (Figure *2* and Figure *3*) by the World Bank jointly with the Kenya National Bureau of Statistics and a pooled cross-section drawn from the 2019 and 2021 Financial Access Households Survey (Figure *1*, Figure *4*, Figure *5*, and Figure 6) by the Financial Sector Deepening- Kenya and partners.

References

Birch, Izzy. "Economic Growth in the Arid and Semi-Arid Lands of Kenya." *K4D*, 2018.
CBK, KNBS, and fsd-Kenya. '2021 Financial Access Household Survey.' (December 2021). https://finaccess.knbs.or.ke/.

Mohd Hassan, Nor Zam Azihan, Mohd Shaiful Jefri Mohd Noor Sham Kunusagaran, Nur Amalina Zaimi, Farhana Aminuddin, Fathullah Iqbal Ab Rahim, Suhana Jawahir, and Zulkefly Abdul Karim. "The Inequalities and Determinants of Households' Distress Financing on Out-off-Pocket Health Expenditure in Malaysia." *BMC Public Health* 22, no. 1 (March 7, 2022): 449. https://doi.org/10.1186/s12889-022-12834-5.

Musyoka, Philip K., and Joseph Onjala. "Livelihood Diversification and Household Vulnerability to Climate Shocks in Rural Kenya." *International Journal of Economics Development Research (IJEDR)* 4, no. 1 (January 25, 2023): 27–47. https://doi.org/10.37385/ijedr.v4i1.785.

Nkonya, Ephraim, Minnick, Aaron, Ng'ang'a, Eric, and Woelcke, Johannes. "Land and natural resources degradation in the Arid and Semi-Arid Lands, Kenya." Technical Report for the World Bank. (October, 2018). https://documents1.worldbank.org/curated/en/461701571216895387/pdf/Land-and-Natural-Resource-Degradation-in-Arid-and-Semi-Arid-Lands-in-Kenya.pdf.

Shibia, Adan Guyo. "Households Coping Mechanisms and Resilience to the Impacts of Droughts and Floods in Kenya," 2020.

Simiyu, K., Mbinya, B., Ngumi, V., and Muchiri, M. "Explaining Financial Health in the Semi-Arid and Arid Lands in Kenya." (May 2023).

UNDP. "Unlocking the Potential of Arid and Semi-Arid Lands of Kenya | United Nations Development Programme." UNDP, 2018. https://www.undp.org/kenya/press-releases/unlocking-potential-arid-and-semi-arid-lands-kenya.

Zollmann, Julie, and Amrik Heyer. "Debts in Distress: How Ordinary People Are Finding the Liquidity They Need to Survive COVID." *Financial Sector Deepening Kenya* (blog), September 6, 2020. https://www.fsdkenya.org/blogs-publications/blog/debts-in-distress-how-ordinary-people-are-finding-the-liquidity-they-need-to-survive-covid/.

Acknowledgement

This policy brief was produced by Kefa Simiyu, Beatrice Mbinya, Vivian Ngumi, and Moses Muchiri. The corresponding author is Kefa Simiyu who is reachable via keffasimiyu@gmail.com or +254711454732.

KESA Research Family

kesa.research@outlook.com

admin@kesakenya.org

Blog site: https://www.kesakenya.org/public/blo/display

Publication site: https://www.kesakenya.org/public/publication/display