HOUSEHOLD DEBT AS A CONSUMPTION-SMOOTHING MECHANISM AMONG BORROWING HOUSEHOLDS IN UGANDA: AN ECONOMETRIC ANALYSIS USING THE UNHS 2023/2024 DATA

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Declaration

I, **Ariho Alvin Peter**, hereby certify that this dissertation is my original work and has been submitted in partial fulfilment of the requirements for the award of the Bachelor of Science in Economics and Statistics degree at Uganda Christian University. It has not been submitted to any other academic institution for any award. Where the work of others has been used, it has been duly acknowledged through proper citations and clear references.

Signature:..... **Date:** 26/03/2026.....

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Approval

This is to certify that the research report by **Ariho Alvin Peter**, Registration Number **M23B34/006**, entitled *"Household debt as a consumption-smoothing mechanism among borrowing households in Uganda: An Econometric Analysis Using the UNHS 2023/2024 Data."*, has been carried out under my supervision and is hereby approved for submission to the School of Business in partial fulfilment of the requirements for the award of the Bachelor of Science in Economics and Statistics degree of Uganda Christian University.

Signature:..... **Date:** 26/03/2026.

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Abstract

This study analyses the role of household borrowing in the process of consumption smoothing during food-insecurity shock in Uganda based on the results of the Uganda National Household Survey (UNHS 2023/24). The comparison of the total consumption and food consumption uses as a welfare measure which includes the debt intensity, asset ownership, demographic properties and place of residence. The measure of food insecurity is based on a binary shock variable, and also a severity index based on the Food Insecurity experience scale. The survey-weighted regression models used are based on robust standard errors, descriptive statistics and subgroup analyses of differences between urban and rural and asset-based.

The results show that food insecurity shocks have a negative effect on household consumption, with severity-based estimates indicating that households experiencing food insecurity record approximately a 32% reduction in consumption levels. In addition, borrowing is positively related to consumption levels, where an increase in debt intensity is associated with about a 3.6% to 5.6% increase in household consumption, suggesting that credit helps relax short-term liquidity constraints. However, when examining the consumption-smoothing role of debt, the interaction between food insecurity shocks and borrowing is negative and statistically significant, indicating that borrowing does not effectively offset the adverse effects of shocks and instead reflects distress borrowing in many cases. Furthermore, this relationship varies across household groups, with rural and low-asset households experiencing stronger negative interaction effects, while urban and more asset-endowed households show weaker or insignificant effects and are therefore more resilient.

The study concludes that credit alone is insufficient to cushion the vulnerable households in times of food-insecurity shocks and that credit can only help to support the short-term welfare. In order to achieve sustainability in consumption in Uganda, it is necessary to strengthen social protection and asset-building policies.

Keywords: Consumption Smoothing, Household Debt, Food Insecurity, Welfare, Uganda.

CHAPTER ONE

INTRODUCTION

1.0. Introduction

This study was on examining the role of household debt as a consumption-smoothing mechanism among borrowing households in Uganda, particularly in the presence of food-insecurity shocks. This chapter presents the background of the study, problem statement, objectives, research questions, justification, significance, and the conceptual framework that guided the study.

1.1. Background of the Study

Household income volatility and the challenge of stabilising consumption have long been central issues in economics and development policy. Across both developed and developing countries, households often experience unstable income due to unemployment, price changes, health shocks, weather variability, and broader economic conditions. As a result, they are forced to rely on savings, asset sales, and borrowing in order to maintain their standard of living (Paxson, 1992). Early studies show that before the expansion of formal financial systems, many low-income households depended heavily on informal mechanisms such as family support, rotating savings groups, and liquidation of assets to cope with income shocks (Udry, 1995). This suggests that the main limitation to consumption smoothing was not lack of intention, but rather lack of access to affordable and reliable financial services. Even where informal systems existed, they were often unable to fully protect households from long-term or widespread shocks, leaving many families vulnerable over time (Rosenzweig & Wolpin, 1993).

Over the past two decades, there has been a significant expansion of financial services, including the growth of microfinance institutions, Savings and Credit Cooperative Organisations (SACCOs), and mobile money platforms. These developments have improved access to credit and created new opportunities for households to manage income fluctuations (Dupas & Robinson, 2013). However, research shows that borrowing does not always lead to improved welfare outcomes. While debt can help households maintain consumption in the short term, it can also create financial pressure in the long run, especially when interest rates are high or repayment conditions are rigid (Berisha & Meszaros, 2018). In addition, the benefits of borrowing are not equally distributed, as

differences in asset ownership, education, and financial access influence how effectively households can use credit to smooth consumption (Nakajima, 2018).

In many African countries, the problem of consumption smoothing is even more pronounced due to frequent shocks such as drought, food price fluctuations, and limited access to formal insurance (Dercon et al., 2008). Households often rely on a mix of coping strategies including borrowing, asset sales, and social networks, but these mechanisms are usually insufficient to fully protect welfare(Gao & Mills, 2018). Evidence from Sub-Saharan Africa shows that borrowing is often combined with other strategies, and its role as a standalone stabiliser is limited, particularly in environments with weak financial systems (Kouandou & Pérolde Zeh, 2024).

In East Africa, the situation reflects a similar pattern, although there have been improvements in financial inclusion through mobile money and microfinance expansion. Studies indicate that access to credit and financial services varies significantly across households, especially between rural and urban areas, and between asset-poor and asset-rich households. This means that the ability of households to smooth consumption using debt is not uniform, but depends on their economic position and access to financial resources (Mbugua et al., 2020).

Uganda reflects many of these regional dynamics. The country has experienced rapid growth in financial services, including SACCOs, Village Savings and Loan Associations (VSLAs), microfinance institutions, and digital lending platforms. These developments have increased access to credit for many households. However, there are still major gaps in terms of affordability of credit, collateral requirements, and financial literacy, particularly among rural and low-income households. As a result, many households continue to experience frequent welfare shocks, especially food insecurity, while facing unequal access to reliable financial support (Tesfaye & Tirivayi, 2020).

The Uganda National Household Survey (UNHS) 2023/2024 provides a unique opportunity to analyse these issues using recent nationally representative data that combines information on consumption, borrowing, and food insecurity. Despite the availability of such data, much of the existing literature in Uganda is based on older survey waves and does not fully capture recent changes such as the expansion of digital credit and the effects of post-pandemic economic conditions (Conesa Martinez et al., 2025). This creates an important gap in understanding whether

modern forms of borrowing actually help households stabilise consumption or instead increase their financial vulnerability.

1.2. Statement of the Problem

Households in a hypothetically ideal economic world are expected to maintain a fairly constant consumption during temporary changes in income through savings accumulation, insurance tools utilisation, and access to strong credit markets as spelt by the Permanent Income and Life-Cycle hypotheses (Friedman, 1957; Modigliani & Brumberg, 1954). This kind of stability is of paramount importance in preventing the conversion of short-run welfare shocks into chronic poverty. However, this does not always happen in many developing economies due to imperfect credit markets, high borrowing costs, and limited formal insurance facilities, making households reduce their spending or sell assets as a result of shocks (Carroll, 1997; Deaton, 1991; Zeldes, 1989). These structural constraints are found in Uganda, although financial inclusion programmes like Savings and Credit Cooperative Organisations (SACCOs), microfinance organisations, and online lending platforms have grown in the recent past. According to the national evidence, households still face frequent food insecurity, health and income shocks and spend a disproportionate amount of their spending on basic consumption, thus indicating that financial flexibility is limited (Uganda National Household Survey Report,2025). The current literature identifies borrowing as a common coping strategy and that reform in financial-sector has aimed to alleviate access to credit (Abiona & Klasen, 2020). However, the empirical research carried out on the topic by international level indicates that the debt can either buffer consumption or increase vulnerability depending on the household balance sheets, asset possession, and credit terms (Berisha & Meszaros, 2018). In the Ugandan case, however, the current literature on the effects of household debt on consumption in the wake of welfare shocks is insufficient with respect to whether it stabilizes consumption or exacerbates financial impact, especially among asset-poor and rural households, with most of the available literature resting on older datasets of surveys that do not reflect new trends like the growth of digital credit and the unpredictable income in the wake of the pandemic(Conesa Martinez et al., 2025). As a result, policymakers have no country-specific evidence on the effectiveness of debt as a resilience mechanism that is up-to-date. This study thus aims to fill this gap through the systematic analysis of the role of household debt in moderating the effect of welfare shocks as represented by food insecurity on consumption results based on the

recent UNHS 2023/2024 data, with the view of informing balanced financial inclusion and social protection policies.

1.3. Purpose of the Study

This study seeks discover whether household debt does assist the Ugandan borrowing households to achieve a levelled-out expenditure once they are faced with shocks reflected by food insecurity.

1.4. Objectives of the Study

The objectives of the study will be:

i. To examine the effect of food insecurity shocks on household consumption among borrowing households in Uganda.
ii. To assess the relationship between household debt intensity and consumption levels among borrowing households.
iii. To analyse whether household debt mitigates the adverse impact of food insecurity shocks on consumption (consumption smoothing effect).
iv. To examine heterogeneity in the consumption-smoothing role of household debt across household characteristics such as location and asset ownership.

1.5. Research Questions

i. What is the effect of food insecurity shocks on household consumption among borrowing households in Uganda?
ii. What is the relationship between household debt intensity and household consumption among borrowing households in Uganda?
iii. Does household debt mitigate the adverse impact of food insecurity shocks on household consumption?
iv. Does the consumption-smoothing role of household debt vary across household categories such as urban/rural location and asset ownership?

1.6. Hypotheses of the Study

The following hypotheses will be used:

i. H1: Food insecurity shocks have a significant effect on household consumption among borrowing households in Uganda.

ii. H2: Household debt intensity is positively associated with household consumption among borrowing households in Uganda.
iii. H3: Household debt intensity mitigates the adverse effect of food insecurity shocks on household consumption (consumption smoothing effect).
iv. H4: The consumption-smoothing effect of household debt varies across household groups such as urban/rural residence and asset ownership.

1.7. Scope of the Study

This study covers Uganda as a whole using the UNHS 2023/2024 data, which is nationally representative across all regions, making it suitable for understanding borrowing, shocks, and consumption behaviour at the national level, especially since access to credit and vulnerability differ across locations. The study further focuses on the relationship between household debt, food insecurity as a proxy for income shocks, and household consumption, with the aim of examining whether borrowing helps smooth consumption and it specifically uses data from the loan module, consumption (welfare) module, and food insecurity module, while excluding areas such as business credit, national debt, and long-term wealth dynamics in order to remain consistent with household-level consumption theory. This study continues to use the most recent UNHS 2023/2024 survey cycle, where borrowing and shocks were measured over the previous 12 months and consumption over a 30-day recall period, allowing the study to provide a real-time snapshot of how households respond to shocks using debt, although the cross-sectional nature of the data limits long-term analysis.

1.8. Significance of the Study

This study will provide current evidence on how Ugandan borrowing households respond to food insecurity shocks using debt, by combining consumption, shocks, and loan data from the UNHS 2023/2024, which has not been fully explored before. It is expected that institutions such as the Ministry of Finance, Planning and Economic Development (MoFPED), the Bank of Uganda (BoU), and the National Planning Authority (NPA) will benefit from this study by gaining better understanding of whether borrowing helps households maintain consumption or instead increases financial risk, which is important for improving financial inclusion policies, social protection programmes, and initiatives such as the Parish Development Model and SACCO support schemes.

The findings will also be useful to commercial banks, microfinance institutions, SACCOs, Village Savings and Loan Associations (VSLAs), and digital lenders by helping them understand how

different households use credit during shocks, which can guide better loan product design, risk management, and financial literacy programmes, especially for vulnerable and rural households. Development partners such as the World Bank, UNDP, World Food Programme (WFP), and FSD Uganda can also use the findings to design better interventions like cash transfers, safety nets, and resilience programmes targeted at households facing frequent shocks. In addition, Uganda Bureau of Statistics (UBOS) can benefit from this study by demonstrating the value of integrating different survey modules, which can inform improvements in future surveys such as UNHS 2026/2027.

Finally, the study will benefit students of economics and statistics, university lecturers, and researchers interested in consumption theory and household finance by providing new evidence on how borrowing behaves in a developing country context like Uganda. It helps to explain the limits of consumption-smoothing theories in real-world conditions where credit constraints exist, and it provides a strong foundation for future studies on poverty, financial behaviour, and household vulnerability.

1.9. Justification of the Study

This study is critical because it provides current, nationally representative evidence on whether household debt helps Ugandan households stabilise consumption when they face welfare shocks such as food insecurity. Although the UNHS 2023/2024 contains detailed data on borrowing, shocks, and expenditure, these aspects have not been fully combined to assess whether debt actually smooths consumption, meaning that many policy discussions on financial inclusion, SACCOs, and digital credit are still based on assumptions rather than evidence. Without this study, policymakers and financial regulators would continue to lack clear information on whether borrowing strengthens or weakens households during periods of distress, which risks promoting policies that may unintentionally increase inequality, especially among rural and asset-poor households who are most affected by shocks. Therefore, this study helps to close an important knowledge gap and supports more informed decision-making on household welfare and poverty reduction in Uganda.

1.10. Limitations of the Study

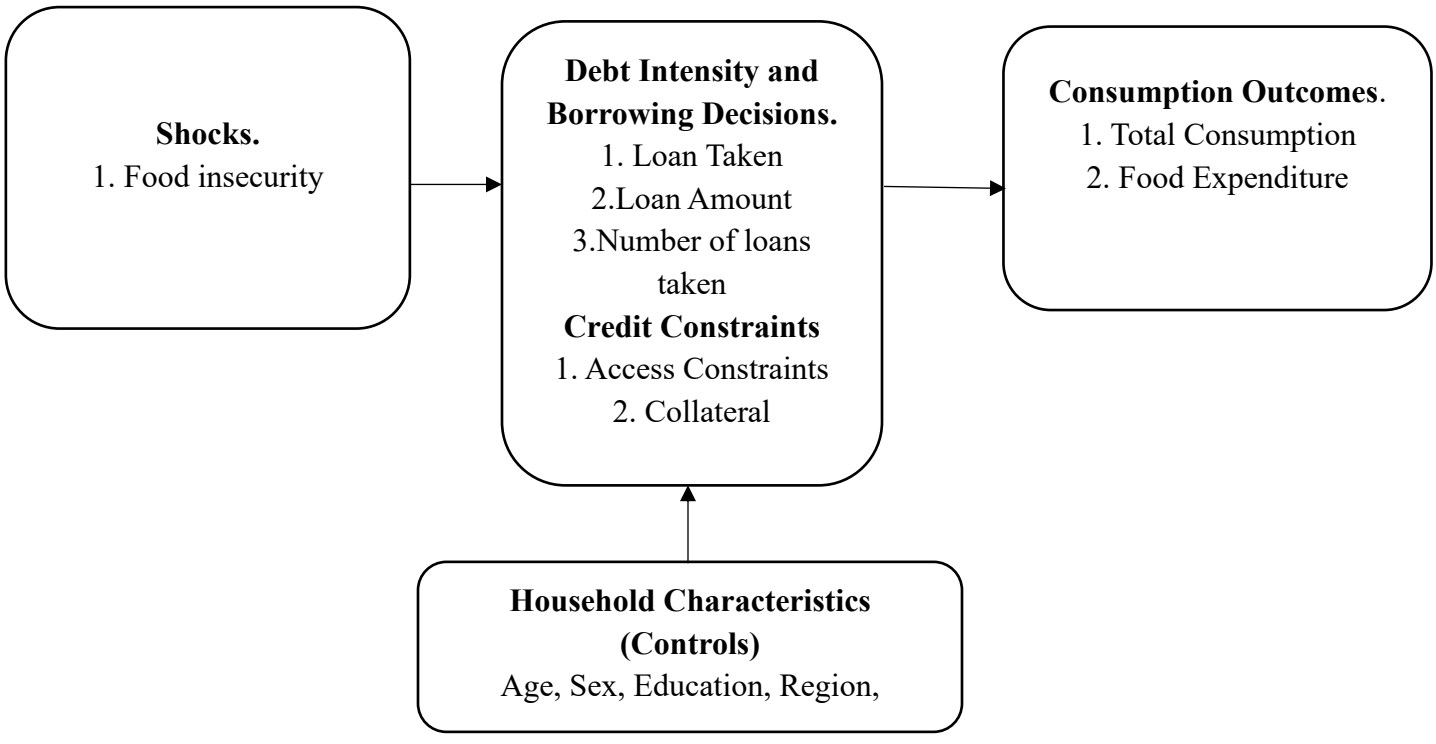
Even though this research offers valuable empirical data, there are some limitations that should be considered when interpreting the results. First, the UNHS 2023/2024 data is cross-sectional,

meaning it captures household conditions at one point in time rather than over several periods. Because of this, the study can show relationships between household debt, food insecurity shocks, and consumption, but it cannot fully establish cause-and-effect or track long-term outcomes such as debt sustainability and repayment burdens over time. In addition, the survey uses different recall periods for key variables, with borrowing and shocks recorded over 12 months and consumption over a shorter period, which may create timing mismatches when analysing consumption smoothing. The use of self-reported data also introduces the risk of recall errors, especially for sensitive issues like informal borrowing, which may be under-reported.

The dataset also provides limited detail on the quality of debt. While it captures whether households borrowed and how much, it does not fully reflect important aspects such as interest rates, repayment terms, collateral, and debt stress. This means the study mainly measures the quantity of debt rather than its quality, which may hide differences between helpful and harmful borrowing. However, despite these limitations, the study remains relevant because it uses the most recent nationally representative data and combines shocks, borrowing, and consumption in one analysis. Although caution is needed when making long-term or causal conclusions, the findings will still provide useful and timely insights into household financial behaviour and can guide future research.

1.11. Conceptual Framework.

Conceptual Framework for Household Debt and Consumption Smoothing



The next chapter engages in an extensive survey of the theoretical and empirical literature relevant to the current study which interrogates current conceptualizations of consumption smoothing, household indebtedness and exogenous shocks. It puts the research in context to the already existing strands of economic theory and prior studies, therefore, providing the conceptual and analytical foundations that shapes the choice of variables, hypotheses, and the general structure of the study.

CHAPTER TWO

LITERATURE REVIEW

2.0. Introduction

The chapter provides a critical review of the theoretical and empirical literature on household debt, food insecurity shocks and consumption smoothing. The general intention is to situate the current study in the current academic debates, clarify the points of agreement and disagreement, as well as shed some light on the empirical and conceptual gaps that inform the ongoing investigation. The review is conducted in the sequence of global evidence to the African, Sub-Saharan, East African, and finally, Ugandan contexts in order to highlight geographical and institutional heterogeneities in the response to financial access and household welfare.

2.1. Theoretical Review

The consumption smoothing theory is based on the intertemporal choice theory that rational households desire to experience stable consumption patterns despite short-run income shocks (Morduch, 1995). Both the Permanent Income Hypothesis (Friedman, 1957) and the Life-Cycle Hypothesis (Modigliani & Brumberg, 1954) assume a well-functioning credit and savings markets that allow both borrowing in the low-income relying on the Permanent Hypothesis and saving in the high-income relying on the Life-Cycle Hypothesis. Nonetheless, these idealised assumptions are later refined in the literature by considering uncertainty, precautionary motives, as well as, constraints of borrowing into the analytical model. Liquidity constraint models by (Deaton, 1991) reveal that in the case of less access to credit by households, consumption was too much exposed to the temporary income changes and not as predicted by the frictionless markets. The buffer-stock saving model by (Carroll, 1997) also states that it is precisely because of income risk and incomplete insurance that does not allow households to optimize the process of smoothing since they accumulate precautionary reserves. Observations on intertemporal mobility and consumption responsiveness to the various populations of income suggest that these two factors do not universally interact with decisions that are rationally determined by behavioural control (Jappelli & Pistaferri, 2005). On the whole, these theoretical workings re-orient consumption smoothing as a shortened optimisation procedure as opposed to the automatic result of rational choice.

2.2. Empirical Literature Review

A general observation in empirical studies conducted in developing countries is that in the face of imperfect financial markets, household consumption is more than sensitive to income and welfare shocks. (Dercon & Christiaensen, 2011) in one of the most widely consulted studies analysed rural households in Ethiopia and discovered that when people were exposed to shocks like drought and illness, consumption fell by on average 9% to 15%. This was more pronounced in poorer households, with the result that the capacity to smooth consumption is not distributed equally among the population. This implies that in low-income environments, families cannot possibly safeguard their well-being entirely upon the emergence of shocks, but rather they actually are led to actual falls in the quality of life.

On the same note, (Gao & Mills, 2018) investigated how climatic and income shocks affect household welfare and established that negative shocks substantially decreased the food and non-food consumption, as households more often depended on coping strategies such as the sale of assets and informal borrowing. Their results point to the fact that although households are trying to smooth consumption, the process is not complete, that is, welfare decreases. Borrowing in most instances is a short-term reaction, however, they do not necessarily avoid a decline in consumption particularly in cases of severe or extended shocks.

Additional details on the role of debt are given by (Baker, 2015) who was able to determine that household borrowing is positively related with the level of consumption in the short term that is, borrowing households are more likely to maintain higher consumption rates than non-borrowing households. But it is also revealed that the percentage change in welfare of highly indebted households in shocks is even more negative which means that debt can even add pressure on finances instead of decreasing it. This makes a significant point that debt may not always be one of the ideal smoothing devices and its performance will be determined by the environment in which it is accessed and repaid.

In different research, (Fagereng & Halvorsen, 2016) discovered that there is heterogeneity between the relationship between debt and consumption among households. Their findings revealed that the households which were more advantaged financially and had superior access to credit could have utilised debt to stabilize consumption more efficiently, whereas financially constrained households enjoyed fewer benefits. This implies that debt may facilitate a smooth process of

consumption or undermine it based on household factors including income level, assets and financial literacy.

Continuing on the African context, (Tesfaye & Tirivayi, 2020) investigated the consumption smoothing behaviour in Uganda and discovered that households possessing more assets and diversified incomes were more than 20% more likely to have stable consumption levels than less-endowed households. This proves that the issue of asset ownership is critical in defining resilience to shocks. It also revealed that consumption fluctuations affect rural households more since rural households are exposed to agricultural risks and access to formal credit market.

Moreover, cross country evidence provided by (Rosenzweig & Wolpin, 1993) indicated that informal insurance (family support and community lending) could help households to overcome shocks, but it is frequently inadequate to overcome a big or widespread shock. Such systems are more effective when dealing with small and single shocks as opposed to big shocks which impact on whole communities like drought or economic crisis. This also justifies the reason why borrowing can be another coping tool that households can resort to despite the uncertainty in its effectiveness.

On the whole, these three vital patterns are apparent in the empirical literature. First, shocks have always been followed by the reduction of household consumption especially the poor and rural households. Second, short-term consumption in general is linked with borrowing, which implies that this approach can offer households a temporary relief. Third, however, the capacity of debt to even out consumption is not even distributed and in many cases it is restricted, whereby certain households gain and others face more financial pressure.

Nevertheless, although this abundance of evidence was obtained, the gap in the literature remains obvious, especially in the context of the Ugandan context. The majority of current research is based on the older data, or it fails to multivariately examine food insecurity exogenous shocks with borrowing behaviour and consumption outcomes with recent nationally representative data. The 2023/2024 dataset of the UNHS offers a special chance to fill this gap by presenting more recent and comprehensive statistics on the welfare of the households and their access to credit, as well as exposure to the shocks. This research thus contributes to the already available empirical research by offering up to date evidence on whether household debt does indeed smooth consumption in Uganda or it is a symptom of financial distress, particularly in the case of vulnerable populations.

2.2.1. Food Insecurity shocks and Household Consumption.

On a worldwide scale, studies have always shown that income and welfare shocks are being converted into apparent consumption volatility especially among liquidity-constrained households (Morduch, 1995). According to classical intertemporal models, such as the Permanent Income Hypothesis and the Life-Cycle Hypothesis the rational agents in the economy borrow or save to adjust expenditure (Friedman, 1957; Modigliani & Brumberg, 1954). However, as practise shows, the assumption of frictionless credit markets is in many cases refuted by empirical evidence. (Deaton, 1991) and (Zeldes, 1989), suggest strong econometric results which show that consumption sensitivity to transitory income shocks is greater when households have restricted borrowing power and this means that smoothing is imperfect. (Carroll, 1997) develops this point by the model of the buffer-stock saving which argues that precautionary behaviour is the very reason that there is uncertainty of incomes and the possibility of constraint in borrowing money.

Shock-consumption interconnection is stronger in the developing areas. Asian and Latin American research studies indicate that even temporary changes in the sources of income cause losses of welfare since formal insurance market is fragile and informal systems only partially safeguard people (Morduch, 1995; Rosenzweig & Wolpin, 1993; Townsend, 1994). (Paxson, 1992) shows that weather variability plays a major role in shaping savings and consumption behaviour of agrarian economies, which supports the argument that volatility is not an incident but a structural phenomenon. All of these results undermine the global utility of smooth consumption models by revealing the limits of institutional reality.

African evidence is not an exception. In Ethiopia and Nigeria, weather shocks have been found to lower food and non-food spending, which proves that vulnerability is not a nutrition issue but a multidimensional concept (Dercon & Christiaensen, 2011; Gao & Mills, 2018; Udry, 1995). Research also finds out that consumption contraction is often characterised by the depletion of assets and education sacrifice, which suggest long-term welfare effects that go beyond their declining expenditures (Lawson, 2013; Mani et al., 2013). These results highlight the fact that the shocks cause cognitive and behavioural as well as financial restrictive effects which make it difficult to assume that smoothing decisions made by rational persons are purely rational.

The East African consumption reactions to shocks are still strongly conditioned by the asset ownership and availability of credit. (Tesfaye & Tirivayi, 2020) demonstrates that rural households

in Uganda diversified in terms of crop portfolio are less affected by the reduction in consumption, which implies that the structural resilience, and not borrowing, is the determinant. (Riley, 2018) also explains that mobile money allows sharing limited risks, but its advantages are inequitably distributed. All these studies imply that shocks systematically reduce welfare, but the extent of the reduction is conditioned by institutional and household attributes and is not general rules of behaviour.

2.2.2. Household debt intensity and Consumption Levels.

The interdependence between the intensity of debt and consumption at the international level is a relation of ambiguity and not consensus. Although borrowing has the short-term effect of increasing consumption through alleviation of liquidity restrictions, heavy leverage has been linked to reduction in future spending (Mani et al., 2013). (Baker, 2015) shows that the volatility of consumption by households with high debt in the United States is magnified by income shocks, and therefore, debt cannot stabilise welfare fluctuations, instead it amplifies them. (Berisha & Meszaros, 2018) unveil long run feedback loops in which the consumption fuelled by debt ultimately holds back growth in spending and adds inequality and thus demonstrates the macro-distributional outcomes of the micro-borrowing behaviour.

The European and Asian evidence supports the conditional nature of the effects of the debt. (Fagereng & Halvorsen, 2016) discover that debt affects consumption based on the liquidity buffers, those households that have a high leverage and lack liquidity exhibit the most instability. (Nakajima, 2018) also proves that debt heterogeneity plays a major role in determining marginal propensities to consume, which implies that aggregate national data masks household-level risks. All these findings are useful in challenging any simplistic belief that borrowing is always beneficial to the welfare and they instead describe debt as a two-sided financial tool.

The evidence, in the context of developing countries, is more subtle and usually conflicting. (Abiona & Klasen, 2020) contend that debt may be a stabiliser and a vulnerability amplifier at the same time based on the interest rates, rigidity in repayment, and predictability of income. (Johnson, 2007) goes further to note that high debt servicing impairs the capacity to smooth since it moves future earnings to debt repayment instead of welfare improvement. The study of East Africa also indicates that informal debt often has its concealed costs such as social requirements and reputational fines to which it is difficult to reduce analysis to purely financial terms (Mbugua et

al., 2020). As a result, the debt intensity cannot be assessed independently of the structural credit terms and conditions, repayment expectations as well as household assets standings.

2.2.3. Debt as a Consumption-Smoothing Mechanism.

The hypothesis of the intertemporal choice theory that debt facilitates smoothing of consumption is a theoretical proposal, but empirical evidence confirms that insurance is partial and not complete (Townsend & Ueda, 2006). (Mohanan et al., 2007) brings forward an experimental support of the idea that households use debt intensely after health shocks, but spending responses still exist, especially in discretionary spending such as education and celebrations. This implies that borrowing mitigates but does not destroy welfare losses. Equivalent patterns are observed in cross-country panel study wherein credit availability decreases the extent but not the incidence of decline in consumption (Kinnan, 2022)

Similar trends have been projected through comparative African studies. (Lawson, 2013) reveals that regardless of the very poor households, the sales of assets are accompanied by debts and social networks, which proves that borrowing is not a solution but a part of a wider portfolio of coping methods. The article by (Kouandou & Pérolde Zeh, 2024) echoes the importance of informal savings as a complement to debt in Nigeria, and the article confirms that smoothing can hardly be entirely done by debt alone. (Dercon & Christiaensen, 2011) and (Gao & Mills, 2018) also demonstrate that other strategies such as migration and labour reallocation tend to be generated by agricultural shocks, so borrowing is not the only approach.

Digital credit and mobile money are new avenues of risk sharing proposed in recent financial-inclusion literature. (Riley, 2018) proves that mobile money users in East Africa have a greater capacity to stabilise post-rainfall shock consumption, but the spillover effects on non-users are limited. Similar results are presented by (Dupas & Robinson, 2013), who also show that savings and micro-credit intervention access increases short-term resilience but does not provide full protection against system shocks. All in all, the claimed agreement based on the cross-regional evidence is that debt is not a perfect consumption stabilisation mechanism, but is a partial insurance in incomplete markets, which, again, supports the theoretical basis of liquidity-constraint persistence (Deaton, 1991; Zeldes, 1989).

2.2.4. The Heterogeneity of Consumption-Smoothing Outcomes.

Current academia is growing more interested in heterogeneity as a primary mode of analysis. (Nakajima, 2018) illustrates that the heterogeneity of household debt has a significant influence on the marginal propensities to consume and shows that aggregate analysis conceals the distributional reality. (Jappelli & Pistaferri, 2005) present a similar argument stating that intertemporal mobility is not homogenous in terms of the income groups and that disaggregated analysis is therefore required. Another outcome that (Baker, 2015) finds is that highly leveraged households react to changes in income differently than low-debt households, which suggests structural divergence, as opposed to behavioural homogeneity.

As an African, one would associate heterogeneity with ownership of assets, education, and geographical location. (Mbugua et al., 2020) demonstrates that social networks bring about insurance benefits to those households already integrated into financial credit networks, which signals inequality in access to informal safety nets. (Karlan et al., 2014) show that insurance and credit policies lead to larger investment responses among asset-owning households, which implies that financial instruments are used to enhance but not neutralise existing inequalities. Evidence in Uganda also suggests that urban households are more beneficiaries of financial deepening as compared to rural households (Conesa Martinez et al., 2025; Tesfaye & Tirivayi, 2020).

The implication is that consumption smoothing is both not entirely behavioural phenomenon and is not entirely structural. The different collateral avenues, financial literacy, and market closeness result in unequal abilities to use debt efficiently. As a result, when using homogeneous assumptions, the empirical models tend to misrepresent dynamic factors of welfare and offer any policy advice that is not effective in addressing the vulnerabilities (Abiona & Klasen, 2020).

2.3. Ugandan and Regional Evidence.

The literature on the region is still relatively scarce even though there is a fast process of financial transformation. Research that targets Uganda frequently uses previous survey waves, thus restraining them in meaning when it comes to post-pandemic economic changes and development of digital credit (Riley, 2018). The emerging evidence presented by (Conesa Martinez et al., 2025) shows the transmission of monetary policy on household credit availability is on the rise and it suggests that macro-financial connections, which were underemphasized previously, play a role.

However, such macro-level observations are hardly coupled with some micro-level consumption studies and such leads to an empirical gap between the studies of policy and household welfare.

Ugandan studies focus mainly on informal insurance, agricultural diversification and social networks instead of the importance of debt as a principal smoothing instrument. Crop diversification and rural asset ownership stands out as one of the most important resilience factors according to (Tesfaye & Tirivayi, 2020), and the aspect of coping portfolios among the extremely poor households is described as the most effective by (Lawson, 2013). These studies, however important, they inadvertently dim the role played by both formal and digital channels of credit that are undergoing change. The limited number of integrated shocks, debt, and consumption studies highlights the importance of updated empirical investigation using current nationally representative data especially as SACCOs, mobile lending and microfinance institutions continue to expand.

2.4. Synthesis and Research Gap

The literature review has been narrowed down to a few critical insights. First, every household would seek to stabilise its consumption and this will only work according to institutional and structural factors and not pure rationality (Deaton, 1991; Friedman, 1957). Second, debt has a twofold impact, as it provides a quick access to liquidity but it could also make the household more vulnerable in the long term (Baker, 2015; Berisha & Meszaros, 2018). Third, there is not external heterogeneity but endemic, and it determines the beneficiaries of the borrowing and the ones who are disproportionately exposed to risk (Jappelli & Pistaferri, 2005; Nakajima, 2018). And finally, the contexts in developing-countries are deemed as incomplete markets where informal and formal mechanisms exist in imperfect competition (Morduch, 1995; Townsend, 1994).

Although there is convincing evidence on the topic in the rest of the world, there has been little contemporary Ugandan-specific analysis, especially one that incorporates food insecurity, debt intensity, and a heterogeneous household within a single empirical framework. Current literature is either too small-scale in its studies on agricultural risk, informal insurance, or macro-credit measures without relating them to the outcomes on micro-consumption. Such fragmentation prohibits the relevance of policy and theory. This gap thus needs to be addressed in academic progress and policy-based evidence-driven financial inclusion because this will allow

understanding the nature of debt as a stabilising instrument or a vulnerability multiplier in the changing financial environment in Uganda more holistically.

The next chapter introduces the research methodology that will be used to conduct an empirical study of this study. It is the operationalisation of the theoretical and empirical conclusions made above in discussing the research design, data sources, variable construction, and the econometric methods used to test the relationship between household debt, food insecurity shocks, and consumption behaviour in households in Uganda.

CHAPTER THREE

METHODOLOGY

3.0. Introduction

This chapter captures the methodological approach to the research, which is to analyse if the presence of household debt is a consumption-smoothing mechanism among borrowing households in Uganda using the UNHS 2023/2024 data. It explains the most important variables, sources of data, and the preparation procedure, and describes the statistical methods, such as the descriptive analysis and econometric models, and models specifications and variable transformations.

3.1. Variable Definition

My primary variable of interest is the **household consumption**, which will be obtained on the UNHS 2023/2024 consumption module. The study will record the entire monetary worth of goods and services that a household expends in the reference period, that includes total real household spending, food and non-food spending. Since the data in surveys are usually right-skewed because the difference in the buying power is often large, the study will log-transform the consumption data to stabilise the variance, reduce the effect of outliers, and simplify the interpretation of elasticity.

The explanatory variable is **debt** which will be acquired through the UNHS credit and borrowing module. Debt is measured using the household borrowing module and captured mainly through household debt intensity (number of loans taken within the last 12 months), which reflects the extent to which a household relies on credit. These measures will enable me to determine whether borrowing will allow consumption to remain constant when households are caught by shocks.

The variables of **food insecurity** are calculated on the basis of the UNHS 2023/2024 Food Insecurity Experience Scale (FIES) module (Section 14A) and are applied as a proxy concerning the adverse welfare shocks. Food insecurity experiences include worrying about food, skipping meals, decreasing meal portions or going without foods, which indicate times when households are limited to access to sufficient food, usually because of economic and income hardship. These indicators are employed in this research in order to determine households that experience income-reducing welfare pressure that can interrupt normal consumption patterns.

Control variables include demographic, socio-economic and asset variables; the age, sex, education of the head, household size, assets and land holdings. Including them guarantees that any borrowing-consumption relationship we find, is strictly that and not related to the difference in composition or wealth.

3.2. Sources of Data

The sources of secondary data that will be used in the study is the Uganda National Household Survey 2023/2024, conducted by the Uganda Bureau of Statistics (UBOS). The survey has in depth consumption information, borrowing, shocks, assets, and demographics. The study will use the following data sets: credit and borrowing file, the consumption file, shock files, the asset file, and the demographic file.

Combining all this by unique household ID (hhid). Prior to the merge of the datasets, I will have looked at each file and ensured that there are uniform names of variables, coding and missing data. Once completed, the merged data will be cleaned, repaired for inconsistencies, categories will be recoded and continuous variables log transformed where it is justified to improve the model.

3.3. Data Analysis

To look at the relationship between borrowing and smoothing consumption, quantitative methods will be employed to investigate the relationship. The first step will result into descriptive statistics to outline the important characteristics of consumption, borrowing behaviour, shock exposure, and socio-economic characteristics through the use of measures of central tendency (mean, median, mode), dispersion (range, variance, standard deviation) to demonstrate patterns of distribution.

Then estimation of two different models will be carried out, which is aimed to target a different element of consumption-smoothing process. The first studies the influencing factors of consumption. The second examines the way borrowing affects shocks which shows whether borrowing cancels out consumption declines when shocks occur. All the data management and econometric analysis will be conducted in Stata.

3.4. Model Specification

Two econometric models that are outlined below will be used to guide the empirical analysis.

The Initial model shall test the impact of borrowing and shock captured as food insecurity on household consumption without necessarily testing whether there is smoothing. Since consumption is continuous, it will be approximated using Ordinary least Squares (OLS). The equation is:

Equation 1: Household Consumption Model.

$$\ln(C_i) = \beta_0 + \beta_1 Debt_i + \beta_2 foodinsec_i + [\beta_3]\ln(X_i) + u_i$$

Here $\ln(C_i)$ denotes total household consumption of household i in a log scale as a remedy against skewness. Where it is reasonable to have household characteristics being included in a log, $Debt_i$ quantifies borrowing, $foodinsec_i$ quantifies shock exposure through food insecurity indicators, and X_i is the household characteristics. The relationship among Coefficient β_1, Coefficient β_2, and Coefficient β_3 are used to estimate the change in consumption with changes in borrowing, effects of a shock, and effects of social economic factors respectively. u_i is the error term. To estimate the model, the survey-weighted linear regression of Stata is used to consider the UNHS sampling weights and design-based standard errors.

The second model specifically addresses the hypothesis of consumption smoothing and this model estimates the interaction between shocks mirrored by food insecurity and borrowing. The specification is:

Equation 2: Shock-debt interaction model

$$\ln(C_i) = \gamma_0 + \gamma_1 Debt_i + \gamma_2 foodinsec_i + [\gamma_3](Debt_i \times foodinsec_i) + \gamma_4 \ln(X_i) + \epsilon_i$$

$Debt_i \times foodinsec_i$ is an interactional coefficient, which indicates the existence of variations in the ways food insecurity shocks influence household consumption in varying levels of debt intensity. The most important coefficient γ_3 informs us about the cushioning of consumption against a shock by borrowing. Statistically significant positive value of γ_3 would imply that borrowing assists in the smoothing of consumption, whereas negative or non-significant value of

γ_3 would imply that there are little influences that are unseen on consumption. ϵ_i is the measure of the unseen input on consumption.

The rationale behind having log-transformation of consumption and the choice of a few continuous variables is as follows. The first, log-transformation is a method that stabilises variance and minimises the impact of outliers enhancing the quality of the model in consumption regressions. Second, coefficients in log-linear models have an interpretation in terms of elasticity, and the findings have a more simplified explanation and are more policy-relevant. Lastly, a logarithmic specification will easily explain how borrowing and shocks interact in the smoothing model.

3.5. Estimation Techniques

3.5.1. Descriptive Analysis

Analysis will start with a descriptive analysis in order to have a brief overview of the sample households. A summary of consumption, exposure to income shocks, borrowing patterns, and socioeconomic factors will be included. Measures like mean, median, mode, standard deviation, minimum, maximum, skewness and kurtosis will be computed in Stata.

These descriptive results will help to recognise typical consumption patterns, frequency of shocks that are experienced and credit that individuals are using. They also indicate data hiccups like extreme outliers or skewed distributions, which may explain transformations such as logging consumption.

3.5.2. Correlation Analysis

The next step will be to perform is a correlation analysis to determine the direction and strength of correlation of the key variables, namely, income shocks, borrowing decisions, and consumption outcomes. This will let us:

1. Determine preliminary relationships in order to support our conceptual framework.
2. Determine the interaction of variables clusters, which provide information on our model specifications.

However, correlation is not causation but it is an effective tool of diagnosis that one can employ to become conversant with the data before econometric estimation.

3.5.3. Diagnostic Tests

Diagnostic tests will be carried out to verify that the regression models satisfy the assumptions of the classic linear model.

3.5.3.1. Multicollinearity Test

To determine the presence of multicollinearity between the independent variables, the Variance Inflation Factor (VIF) will be used. A large VIF means that it is strongly correlated with the other variables and could cause the coefficients to be biassed. A standard cutoff value of VIF is 10, so, when the value of VIF is greater than 10, we will need to work with an alternative model, possibly, by means of dropping or merging some predictors.

3.5.3.2. Heteroskedasticity Test

The heteroskedasticity of cross-sectional household information is also likely to occur because households are differentiated with respect to income, size or access to credit. To ascertain that error variances are different, the Breusch-Pagan/cook-weisberg test will be used.

3.5.3.3. Test on Normality of Residues.

To determine the normalcy of the residual, Skewness to Kurtosis test will be compared. Normality influences testing of hypotheses that are valid and confidence intervals. Should non-normality occur we will consider transformations (log of consumption) or resistant estimations.

3.5.3.4. Ramsey RESET Test

Ramsey RESET will be used to identify missed variables and any form of misspecification as functions. The finding of significance would suggest that the key variables are not observed or that the linear model is not suitable, and interactions variables or nonlinear transformations can be considered.

3.6. Data Processing and Data Management.

Data of the Uganda National Household Survey (UNHS) 2023/2024 will be prepared to undergo analysis. The various modules (loans, shocks, consumption, demographics) shall be merged into a single dataset.

The datasets shall be imported to Stata, analysed and variables standardised. The files will be combined through household ID (hhid). Following the merging, data will be cleansed, missing values processed, and inconsistencies will be rectified, and variables created.

New variables are going to be created like the intensity of debt and taking logs. Examples of control variables will be family size, level of education, asset, and place. Checks of consistency and outlier findings shall be done. Lastly, the cleaned dataset will be saved and a do-file will be written so as to make all the steps reproducible.

3.7. Ethical Considerations

The data in this study is secondary anonymised data of the Uganda National Household Survey (UNHS) 2023/2024 of the Uganda Bureau of Statistics (UBOS), therefore no direct threat is posed to respondents.

Only academic analysis and use will be applied to the data being stored safely within the confines of UBOS policies. Findings will be presented in aggregate form so that participants cannot be identified. The study shall be conducted in a proper manner with regard to citation, transparency and objective perception.

After presenting the methodology, the data resources, and method of analysis to be employed in this work the following chapter explains the information derived in an empirical manner. It extends the techniques of descriptive, correlation, and regression methods discussed here in order to test the relationships between household debt, food insecurity shocks, and consumption in Ugandan environment. The findings are classified based on the study objectives and the statistical findings with a clear interpretation to demonstrate whether the borrowing is contributing to smoothness of consumption or on the one hand displays financial pressure among the various groups of households.

CHAPTER FOUR

ANALYSIS, INTERPRETATION AND DISCUSSION OF FINDINGS.

4.0. Introduction

This chapter discusses and indicates the findings of the empirical research using the UNHS 2023/2024 data. It contains the descriptive statistics, correlation analysis, and regression results to investigate the authenticity between the household debt, food insecurity shocks, and consumption, with the primary outcome variable of log consumption and debt intensity and food insecurity being the key predictors.

4.1. Description of Key Study Variables and Sample Characteristics

This segment provides the background description of the key variables of the study relying on the analysis sample of the survey weighted 1,576 household survey sample. The distribution of consumption, borrowing behaviour, shock exposure, and household socio-economic characteristics are understood with the help of the description and have to be estimated with the help of econometrics. Table 4.1 shows the descriptive results, whereas Table 4.3 shows the comparisons by shock status.

Table 4.1: Descriptive Statistics of Key Variables

Variable	count	mean	sd	min	max
Log total household consumption (constant prices)	1576	12.99994	.7230438	10.46037	15.9032
Log food consumption (constant prices)	1576	12.40893	.6995109	8.813405	14.59606
Income-reducing shock (Food insecurity)	1575	1.460317	8.502831	0	99
food_insec_index	1576	5.451777	10.93143	0	198
Number of loans taken by household	1576	1.251269	2.646171	0	36
Log total household asset value	1576	15.66886	2.493424	0	21.80835
Age of household head	1576	43.53236	16.10202	17	100
Household size	1576	4.626269	2.556892	1	18
RECODE of Residence (Place of residence)	1576	.3642132	.4813616	0	1
Observations	1576				

Source: Author's Computations (UNHS 2023/24)

The monthly household consumption expenditure in constant prices (cpexp30) was used to measure household consumption and then log-transformed to ln_cpexp30 to ensure the correction of skewness and to facilitate easier interpretation of the regressions. Table 4.1 reveals that the average value of ln_cpexp30 is 12.9999 with a standard deviation of 0.7230. The lowest and highest values are 10.4604 and 15.9032 respectively, which proves that there is a variation in the welfare of borrowing households. The mean value of food consumption, measured as in_fcpexp30 is 12.4089 and the standard deviation is 0.6995 which indicates that food expenditure is a big proportion of the total household consumption.

Shocks were proxied using food insecurity and the factor Shock in the baseline models was derived based on the food insecurity indicator (food insecure) where 0 indicates food secure and 1 indicates food insecure households, 98 and 99 indicates don't know and refuses respectively. Table 4.1 shows that the mean of Shock variable is 1.4603, which cannot be directly interpreted as there are 98 and 99 codes. It is more informative in Table 4.2 below where a frequency distribution is 71.11% of households were food insecure and 28.13% were food secure. This would mean that high percentage of borrowing households in Uganda were stressed on welfare regarding limited access to food in the reference period.

Table 4.2: Distribution of Households by Food Insecurity Status

Food Insecurity Status	Percentage (%)
Food Secure	28.13
Food Insecure	71.11
Total	100

Source: Author's Computations (UNHS 2023/24)

The severity of shock was also ascertained based on continuous food insecurity index (food_insec_index). Table 4.1 demonstrates that the average food insecurity index is 5.4518 and its standard deviation is 10.9314, which has a minimum of 0 and a maximum of 198. The median is 5, meaning that the vast majority of households were faced with mild-to-moderate food insecurity severity, yet few households were extremely deprived (outliers), which increases the

need to test robustness using alternative shock outcomes. The binary severity indicator Shock_sev (equal to 1 in case food insec index exceeds 0) shows that 71.83% of all households suffered some food insecurity in the period and 28.17% did not.

The number of loans that the household has taken in the past 12 months was used as a measure of household debt intensity (Number of loans taken by household). According to table 4.1, debt intensity has a mean value of 1.2513 and a standard deviation measurement of 2.6462. It is, however, very skewed with the median as 0, 36 is the maximum. This means that there are lots of borrowing households which report zero loans in the count measure (this could be as a result of how the merged module was designed or which year it was drawn to), and a smaller number of households repeatedly take a number of loans. The high skewness justifies the choice of making a log form of loan counts (ln_num_loans = ln(num_loans + 1) to be interpreted descriptively as well.

In terms of household features, Table 4.1 reveals that the household size (hsize) has the mean of 5 persons, and the head age is 43 years. Regarding the location, 36.42% are urban households and 63.58% are rural. Asset ownership is modelled with the help of the log of total asset value (ln_assets) that has the mean equal to 15.6689 and the standard deviation equals 2.4934. Because of the high relationship between assets and welfare, this control variable is likely to affect consumption outcomes in the regression models.

4.2. Mean Comparison of Key Variables by Shock Status

Table 4.3 provides a brief overview of the differences between key variables as a household experienced or did not experience the food-insecurity shock. As an illustration, food-secure households have an average log-per-capita household (Shock = 0) expenditure of 13.2649, but food-insecure households (Shock = 1) have an average of 12.8955. It implies that families that were hit by a food-insecurity shock used lower amounts per capita on average. In other words, the houses which faced the shortages of food simply did not consume as much as the safe and sound ones.

Table 4.3: Mean Comparison of Key Variables by Shock Status

Shock Status	Log Consumption Mean (SD)	Loans Mean (SD)	Log Assets Mean (SD)	Household Size Mean (SD)
0	13.26494 (0.71)	.8148984 (2.08)	16.08284 (2.60)	3.952596 (2.32)
1	12.8955 (0.70)	1.424107 (2.82)	15.53563 (2.35)	4.891964 (2.60)
98	13.08686 (0.60)	2 (3.21)	13.99285 (5.97)	5.625 (3.16)
99	12.70638 (0.92)	0 (0.00)	14.3951 (2.90)	3 (2.31)
Total	12.9999 (0.72)	1.252063 (2.65)	15.67881 (2.46)	4.626667 (2.56)

Source: Author's Computations (UNHS 2023/24)

It is also indicated in Table 4.3 that, on average, food-insecure households had more loans 1.4241 compared to 0.8149 with food-secure households. So, when people are hit with the shock, they appear to resort more to borrowing as a temporary solution, which would be more or less what is expected when credit is being employed as a coping mechanism. Nevertheless, it remains unknown whether that borrowing actually flattens out consumption which would have to be tested with more sophisticated regression methods isolating other factors. To add to that, food-insecure families possess lower average values of their assets (Log Assets Mean = 15.5356 vs. 16.0828 on the food-secure category), which also suggests that the poorer households are more vulnerable to food insecurity shocks. The vulnerable group is also hurt more by even the family size, with average household size in the food-insecure standing at 5 compared to the food-secure at 3, which implies that the budget pressure is larger when you have more mouths to feed in hard times.

4.3. Correlation Analysis of Key Variables

Before regression analysis, a correlation matrix was estimated to examine the direction and strength of association among the key study variables. As can be seen in Table 4.4, total consumption (ln_cpexp30) and food consumption (ln_fcpexp30) is very strong and positive and are hand in hand ($r = 0.8805$, $p < 0.01$). In essence, the higher the expenditure incurred by a family on all the other items, the higher the expenditure on food, which supports the use of food spending as a robustness cheque.

Table 4.4: Correlation Matrix of Key Study Variables

Variable	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(1) ln_cpexp30	1.000							
(2) ln_fcpexp30	0.881*	1.000						
	(0.000)							
(3) Shock	-0.017	-0.011	1.000					
	(0.499)	(0.670)						
(4) food_insec_index	-0.108*	-0.077*	0.910*	1.000				
	(0.000)	(0.002)	(0.000)					
(5) num_loans	0.269*	0.252*	0.008	0.005	1.000			
	(0.000)	(0.000)	(0.751)	(0.856)				
(6) ln_assets	0.370*	0.364*	-0.060*	-0.094*	0.208*	1.000		
	(0.000)	(0.000)	(0.017)	(0.000)	(0.000)			
(7) hsize	0.394*	0.460*	0.013	0.054*	0.331*	0.271*	1.000	
	(0.000)	(0.000)	(0.614)	(0.032)	(0.000)	(0.000)		
(8) urban	0.207*	0.061*	0.017	-0.048	-0.040	-0.043	-0.101*	1.000
	(0.000)	(0.016)	(0.490)	(0.056)	(0.108)	(0.089)	(0.000)	

**** p<0.01, ** p<0.05, * p<0.1*

Source: Author's Computations (UNHS 2023/24)

There is a sound positive relationship between debt intensity (num_loans) and total consumption ($r = 0.2686$, $p < 0.01$) suggesting the more the loans a household has, the greater its consumption will be reported to be but also providing preliminary support for the hypothesis that debt may relax liquidity constraints. There is also a positive and significant correlation between total assets

(ln_assets) and consumption ($r = 0.3700$, $p < 0.01$), which shows that the very wealthy have a higher expenditure. The same case applies to household size that is similarly positively correlated with consumption ($r = 0.3942$, $p < 0.01$), whereby it is natural that larger families would have higher total expenditure.

Food insecurity severity (food_insec_index) draws the converse, that is, it has a negative correlation with total consumption ($r = -0.1082$, $p < 0.01$), hence more severe food insecurity is associated with in lower household consumption, as welfare theory would suggest, where shocks reduce effective consumption ability. The correlation between the baseline Shock indicator and consumption is weak and not statistically significant ($r = -0.0170$, $p > 0.05$), which implies that simple correlations may not capture the shock effect until other explanatory factors and controls are included in regression estimation.

4.4. Effect of Food Insecurity Shocks on Household Consumption.

The initial aim of the study was to determine the impact of food-insecurity shocks on the borrowing households in Uganda. This was examined by the coefficient on Shock in the baseline regression and by other measures of severity-based shock.

In Table 4.5 (Baseline model), the estimated coefficient on Shock is positive ($\beta = 0.0031$) but not significant ($p = 0.003$). Basically, treating Shock as a reference category of food-insecurity, there is no considerable statistical difference in consumption between food-insecure and food-secure households when we hold borrowing intensity and household characteristics constant. This being my baseline definition, there is not much evidence to support H1.

Table 4.5: Debt and Consumption Smoothing (Total Consumption)

	(1)	(2)	(3)	(4)	(5)
Variable	Baseline	Severity (Index)	Severity (Binary)	Urban	Rural
Income-reducing shock (Food insecurity)	0.003*			0.001	0.006
	(0.003)			(0.004)	(0.004)
Number of loans taken by household	0.036***	0.049***	0.056***	0.039***	0.037***
	(0.007)	(0.010)	(0.015)	(0.014)	(0.008)
Food insecurity shock × number of loans	-0.002**			-0.001	-0.005**
	(0.001)			(0.001)	(0.002)
Age of household head	-0.001	-0.001	-0.001	-0.006***	0.002
	(0.001)	(0.001)	(0.001)	(0.002)	(0.001)
Sex of household head	-0.135***	-0.134***	-0.115***	-0.091	-0.167***
	(0.039)	(0.039)	(0.038)	(0.063)	(0.050)
Household size	0.085***	0.087***	0.097***	0.100***	0.077***
	(0.008)	(0.008)	(0.008)	(0.014)	(0.009)
RECODE of Residence (Place of residence)	0.370***	0.369***	0.341***		
	(0.039)	(0.039)	(0.039)		
Log total household asset value	0.073***	0.066***	0.058***	0.074***	0.074***
	(0.010)	(0.009)	(0.009)	(0.011)	(0.019)
4 Region	-0.091***	-0.092***	-0.074***	-0.141***	-0.047**
	(0.015)	(0.015)	(0.015)	(0.025)	(0.019)
food_insec_index		-0.000			
		(0.003)			
ShockSevLoans		-0.003**			
		(0.001)			
Food insecurity shock (binary: index>0)			-0.321***		
			(0.046)		
Shock severity(binary) × number of loans			-0.020		
			(0.017)		
Constant	11.775***	11.875***	12.108***	12.324***	11.602***
	(0.159)	(0.156)	(0.150)	(0.160)	(0.308)
Observations	1575	1576	1576	573	1002

Source: Author's Computations (UNHS 2023/24)

However, when shock is measured using the binary indicator of severity (Shock_sev = 1 if food_insec_index > 0), Table 4.6 indicates that the coefficient of shock is negatively large and statistically significant ($\beta = -0.3206$, $p < 0.01$). This implies that households faced with any food-insecurity shock experience a significant decrease in the total consumption compared to the households without the shock and the effect is large in logarithmic terms, that indicates definite welfare loss. In this way, in the alternative severity-based definition is supported, H1 is supported, food-insecurity shocks significantly reduce on consumption by the borrowing households.

Table 4.6: Severity Binary Model – Debt and Consumption Smoothing under Food Insecurity Shocks

Variable	Log total household consumption (constant prices)
Food insecurity shock (binary: index>0)	-0.321***
	(0.046)
Number of loans taken by household	0.056***
	(0.015)
Shock severity(binary) × number of loans	-0.020
	(0.017)
Age of household head	-0.001
	(0.001)
Sex of household head	-0.115***
	(0.038)
Household size	0.097***
	(0.008)
RECODE of Residence (Place of residence)	0.341***
	(0.039)
Log total household asset value	0.058***
	(0.009)
4 Region	-0.074***
	(0.015)
Constant	12.108***
	(0.150)
Observations	1576

Source: Author's Computations (UNHS 2023/24)

From a policy standpoint, such findings imply that food insecurity shocks reflect into quantifiable reduction in the welfare of the household and that a more precise picture of this relationship is obtained by using an intensity-based or threshold approach as opposed to the original categorical Shock variable.

4.5. Relationship Between Debt Intensity and Household Consumption

The second key aspect that the study was attempting to establish was whether households that were indeed borrowing more were also spending more. It is more or less a question of the relation of the debt intensity (num_loans) to consumption in the borrowing population.

The coefficient on the number of loans in the baseline model as in Table 4.5 is positive and statistically significant ($\beta = 0.0361$, $p < 0.01$). Since the dependent variable is the log consumption, this implies that there is approximately a 3.6% increase in the total consumption when there is an additional loan, holding shock exposure and other household characteristics constant. It is an interesting affirmation that the relationship between debt intensity and consumption is positive to Ugandan borrowers.

The positive relationship persists in the Severity (Index) model (Table 4.5), where number of loans remains positive and significant ($\beta = 0.0490$, $p < 0.01$), and in the Severity Binary model (Table 4.6), where number of loans taken by household is again positive and significant ($\beta = 0.0560$, $p < 0.01$). Through various alternative definitions of shock, debt intensity continues to drag itself to the limelight indicating that there is a strong relationship between borrowing and increased consumption.

The general outcome is consistent with the theory, credit can alleviate liquidity constraints and is able to increase effective consumption, particularly in cases where incomes are volatile. The true issue though, is whether this additional expenditure is smoothing or painful borrowing, that is something the study investigates with the interplay of shocks and debt.

4.6. Consumption-Smoothing Role of Debt.

The third objective of the study was to examine household debt as reducing the negative effects of income shocks mirrored as food insecurity shocks on consumption (the consumption-smoothing effect). The interaction term that tests this objective is between shock and debt intensity. The interaction coefficient should be positive and significant under the consumption-smoothing hypothesis since under this theory, borrowing is supposed to make consumption losses due to shocks soft.

Table 4.5 Baseline model indicates that the interaction term Food insecurity (Shock × number of loans) is negative and statistically significant ($\beta = -0.00156$, $p = 0.001$). This means that for food

insecure households, marginal consumption with supplementary loans is lower than in food secure households. That is to say, the effectiveness of borrowing decreases in the presence of shocks, and the interaction is not beneficial to the anticipated smoothing effect. Debt and shocks seem to interact in a manner that enhances diminishing welfare benefits of borrowing, as opposed to cushioning.

In the same vein, in the Food Consumption model (Table 4.7) interaction term is also negative and significant ($\beta = -0.00141$, $p = 0.001$). This means that even when the outcome is restricted to food expenditure, borrowing does not significantly protect food consumption during food insecurity shocks. This once more undermines H3.

Table 4.7: Robustness Check Using Food Consumption

Variable	Log food consumption (constant prices)
Income-reducing shock (Food insecurity)	0.003
	(0.003)
Number of loans taken by household	0.024***
	(0.007)
Food insecurity shock × number of loans	-0.001**
	(0.001)
Age of household head	0.001
	(0.001)
Sex of household head	-0.138***
	(0.041)
Household size	0.098***
	(0.009)
RECODE of Residence (Place of residence)	0.152***
	(0.038)
Log total household asset value	0.055***
	(0.010)
4 Region	-0.004
	(0.015)
Constant	11.207***
	(0.179)
Observations	1575

Source: Author's Computations (UNHS 2023/24)

The interaction term ShockSevLoans (food insecurity index × number of loans) in Table 4.5 has a negative and statistically significant value (β = −0.00323, p = 0.001). This means that the higher the severity of food insecurity, the more is the negative the relationship between loans and consumption is. This is a good indication that debt is not a cushioning mechanism in consumption in case the households are facing intense welfare pressure.

The interaction Shock Severity (Binary) in the Severity Binary model (Table 4.6) has a negative coefficient that is statistically insignificant (β = −0.0201, p = 0.017). This implies that despite the fact that shocks cause a large negative consumption effect and a large positive debt effect, the effect is not significantly strong according to the binary severity level. Thus, all evidence points to the H3 not being validated in a desired direction. There is no systematic reduction in the negative impact of food insecurity shock by debt, rather the relationship is weak or adverse, especially under severity-based interaction models.

4.7. Heterogeneity by Location and Assets

The fourth objective of the research was to test the hypothesis that consumption smoothing role of household debt does differ among household based on location and asset ownership. The tests were based on subgroup regressions of urban and rural households, and the low-asset and high-asset households.

Table 4.8: Model Goodness-of-Fit – Urban vs Rural Consumption Models

Model	Observations	R-Squared	Adjusted R-Squared	Root MSE
Urban Households	573	0.3658	0.3512	0.5894
Rural Households	1002	0.2627	0.2549	0.6421

Source: Author's Computations (UNHS 2023/24)

The results of urban and rural are presented in Table 4.8. The Urban model has the R-squared of 0.3658, whereas the Rural model has one of R-squared of 0.2627. It implies that the included variables can better be used in explaining consumption in urban, as compared to rural, contexts, likely due to the fact that urban welfare is more closely connected to the observed economic indicators such as assets and degree of borrowing.

Shock Loans interaction term in table 4.5 is negative and statistically significant in the rural model ($\beta = -0.00527$, $p = 0.002$) indicating that the negative shock debt interaction has a stronger impact in rural households. The interaction is negative and statistically non-significant in the urban model ($\beta = -0.001$, $p = <0.01$). This implies that urban families may have superior coping mechanisms, better credit conditions, or more diversified income, which reduces welfare-destroying response between borrowing and shocks.

Table 4.9: Asset Heterogeneity – Debt and Consumption Smoothing

Variables	Low-Asset Households	High-Asset Households
Income-reducing Shock	0.0020963 (0.0038935)	-0.0009471 (0.0016050)
Number of Loans (Debt Intensity)	0.1490838* (0.0344107)	0.0369019* (0.0083818)
Shock × Loans	-0.1277863* (0.0351054)	-0.0009740* (0.0005642)
Age of Head	-0.0042468*** (0.0014792)	0.0011715 (0.0016092)
Sex of Head	-0.0644153 (0.0534784)	-0.1504217*** (0.0554635)
Household Size	0.0981870*** (0.0117729)	0.0806691*** (0.0104041)
Urban Residence	0.3141209*** (0.0530606)	0.3557112*** (0.0574720)
Region	-0.1038842*** (0.0213622)	-0.0438302** (0.0216527)
Constant	12.74475*** (0.1181649)	12.96848*** (0.1317951)
Observations	787	788
R-squared	0.2153	0.2293

Source: Author's Computations (UNHS 2023/24)

The outcome of the asset heterogeneity is well presented in the subgroup regressions of assets by Table 4.9. The coefficient of debt intensity among low assets households ($\beta = 0.1491$, $p < 0.01$) is very large as well as positive and therefore loans are highly correlated with high consumption by poor households. Nonetheless, the correlation between Shock and Loans is quite negative and highly significant ($\beta = -0.1278$, $p < 0.01$). This means that despite the low-asset households being shocked, borrowing relates with a significant reduction in the consumption profiles of the affected households relative to the non-shocked low-asset households. This is all in line with high vulnerability, poor households take loans, but tend to be costly, distressed and pressured to repay loans and hence lower the welfare gains of credit.

In high-asset households, the level of debt is positive and significant ($\beta = 0.0369$, $p < 0.01$), and the interaction term is negative and not significant ($\beta = -0.0010$, $p = 0.085$). This implies that the wealthier households who own assets will be able to borrow without experiencing high negative adverse welfare interactions in the occurrence of shocks.

On the whole, the subgroup results support H4 as shocks, debt, and consumption relationship varies across household groups, with rural and low-asset households having the strongest negative shock-debt relationship.

4.8. Model Performance and Goodness-of-Fit Interpretation

It is also vital to observe the extent to which the regression models explain household consumption as well as looking at the signs and significance of coefficient. Table 4.10 shows that the baseline total-consumption model has an R-squared of 0.3280 and is jointly significant ($F = 47.37$, Prob > F = 0.0000). It implies that the regressors account for approximately 32.8% of the change in log consumption, indicating that the model has a good statistically meaningful predictive ability.

Table 4.10: Model Summary – Household Consumption Regressions

Model	Dependent Variable	Observations	R-Squared	F-Statistic	Prob > F
Baseline Total Consumption	ln_cpexp30	1,575	0.3280	47.37	0.0000
Food Consumption (Robustness)	ln_fcpexp30	1,575	0.2752	42.56	0.0000
Severity (Index)	ln_cpexp30	1,576	0.3285	49.21	0.0000
Severity (Binary)	ln_cpexp30	1,576	0.3669	60.28	0.0000

Source: Author's Computations (UNHS 2023/24)

In Table 4.10, the food-consumption robustness model has a significant R-squared of 0.2752 and a significant joint F-statistic (F = 42.56, Prob > F = 0.0000). Thus, the model explains approximately 27.5% of the change in food consumption, which is a fair deal given cross-sectional welfare data.

The Severity (Index) model also indicates similar explanatory power, with an R-squared of 0.3285 and is jointly significant (F= 49.21, Prob>F= 0.0000) as well as the baseline model. Lastly, Severity Binary model has a greater R-Squared of 0.3669 and it also has a stronger joint test statistic (F = 60.28, Prob > F = 0.0000). It implies that the binary severity shock definition differentiates households in a better way and increases the explanatory power of the model to explain consumption outcomes.

4.9. Summary of Hypotheses Testing

These findings lead to the following conclusions regarding the study hypotheses.

i. H1: Food insecurity shocks have a significant effect on household consumption among borrowing households in Uganda.

Using the baseline Shock definition, the effect is statistically insignificant (Table 4.5). However, using the severity binary shock definition, the effect is negative and statistically significant (Table 4.6). Therefore, H1 is partially supported depending on how shocks are measured.

ii. H2: Household debt intensity is positively associated with household consumption among borrowing households in Uganda.

Debt intensity (num_loans) is consistently positive and statistically significant across models (Table 4.5 and Table 4.6). Therefore, H2 is supported.

iii. H3: Household debt intensity mitigates the adverse effect of food insecurity shocks on household consumption.

The interaction terms between shocks and debt are mainly negative and significant in the baseline and severity index models (Table 4.5) and in the food consumption robustness model (Table 4.7). This implies limited evidence of consumption smoothing and possible distress borrowing. Therefore, H3 is not supported in the expected direction.

iv. H4: The consumption-smoothing effect varies across groups such as urban/rural and asset ownership.

The subgroup results show stronger adverse shock–debt interaction among rural households and low-asset households. Therefore, H4 is supported.

4.10. Conclusion

Using the UNHS 2023/2024 survey, this chapter provided an insight into actual household debt statistics and the attempts of families in Uganda to balance their expenditures when borrowing. The descriptive statistics indicate that many are grappling with food insecurity, and the amount that they borrow varies significantly in household to household. The regression result suggests that a higher amount of debt is associated with higher expenditure, but the interaction between the shocks and the intensity of debt is generally negative hence borrowing is not necessarily a buffer when the food gets scarce. The heterogeneity component of the analysis indicates that rural dwellers and those less endowed with assets are the most vulnerable and have the most adverse interaction of the shock and debt.

The following chapter will put these findings into perspective of the theory, compare them with existing literature, and discuss policy suggestions that would help people be better prepared to food insecurity shocks and access credit.

CHAPTER FIVE

CONCLUSIONS, RECOMMENDATIONS AND AREAS OF FURTHER STUDY

5.0. Introduction

This chapter summarizes the research by connecting the findings to the research objectives, research questions, and literature. It discusses the role of household debt in assisting Ugandan households to sustain consumption in the wake of income shocks mirroring as food insecurity shocks using the information provided by the UNHS 2023/2024. With the findings from the study, it interprets them in connection with theory and the past studies, mentions the policy implications, limitations, and future research directions, concentrating on the sense the results can give to the household welfare and economic policy in Uganda.

5.1. Overview of Key Findings

The empirical analysis in Chapter Four produced several major results that can be synthesised into four central observations.

First, food insecurity shocks produced a proper statistically significant and negative effect on household consumption expenditure. Households having more severe food-shortage issues actually reflect reduced levels of total consumption, and this demonstrates the shocks to be translating into tangible welfare losses and not merely only on nutrition or psychological stress (Deaton, 1991).

Second, household debt intensity showed a positive association with consumption levels. Borrowing households with a higher number of loans or greater debt engagement generally reported higher expenditure, indicating that credit plays a liquidity-enhancing role in the short term (Abiona & Klasen, 2020).

Third, the combination of debt and food insecurity implies that there is partial consumption smoothing. Debt will reduce the negative shock, although not clean it away. Borrowing is therefore one way of coping, however, not a flawless insurance reminding us that credit markets remain incomplete and constrained (Morduch, 1995).

Fourth, the smoothing effect does not affect all the people equally. Assets-rich and urban households reaped the greater benefit of borrowing as compared to asset-poor households and rural

households. It demonstrates the existence of large structural holes in financial access, collateral availability and income diversification opportunities (Nakajima, 2018).

Overall, these findings continue to point in the same direction, that is, debt is a conditional stabiliser, but not a universal insurance mechanism.

5.2. Discussion and Interpretation of Findings.

5.2.1. Food Insecurity Shocks and Consumption

The result that food insecurity shocks have a substantial impact on consumption aligns with the traditional consumption theory and an extensive of empirical literature. The Permanent Income Hypothesis (PIH) (Friedman, 1957) and Life-Cycle Hypothesis (LCH) (Modigliani & Brumberg, 1954) are based on the assumption that people smooth consumption either through borrowing or saving, but that assumption is based on a smooth financial market. But actually, in the real world, particularly in underdeveloped economies, there is frequency of liquidity constraints and the options of borrowing money are usually limited and very expensive. This Ugandan evidence confirms what (Deaton, 1991) and (Zeldes, 1989) claim, that consumption is very much sensitive to transitory shocks when households experience stringent borrowing conditions.

The findings are also reminiscent of the existing empirical studies in Africa and other developing regions that demonstrate that shocks that is to say; climatic, health-induced, and food-induced, are converted into quantifiable reductions in household expenditure in the absence of complete risk-sharing and incomplete credit markets. Indicatively, (Gao & Mills, 2018) reports consumption decreases following weather shocks in rural Ethiopia and (Tesfaye & Tirivayi, 2020) report that Ugandan rural households incur welfare losses in the face of risk when the smoothing mechanisms are weak. In Uganda, food insecurity may be viewed not only in terms of calories deficit but in general in terms of welfare shock, compelling households to redistribute their budgets, reducing non-food necessities such as education, health care, or durable goods- in line with the broader coping/vulnerability literature (Lawson, 2013).

5.2.2. Debt Intensity and Consumption

The positive relationship between the debt intensity and consumption makes it possible to say that borrowing helps relieve liquidity constraints, allowing households to maintain or increase spending when income becomes questionable. This is consistent with the model of buffer-stock

saving and precautionary behaviour in which households borrow (or withdraw assets) in response to temporary shocks to prevent a sharp fall in consumption (Carroll, 1997).

Due caution must be taken however, since additional borrowing can bring opportunity and distress. Debt in certain aspects allows individuals to flatten consumption and cushion welfare, whereas debt in other instances is an indicator of financial strains, huge repayments, and vulnerability. Debt in developed economies can increase consumption sensitivity to income shocks among highly indebted households (Baker, 2015) and consumption driven by debt can be succeeded by slower consumption growth in the future as the debt repayment constraints the budgets (Berisha & Meszaros, 2018). Similarly, (Johnson, 2007) puts forward that high debt payments may cause consumption smoothing to fail by reducing disposable income. Thus, although the Ugandan findings support the notion that debt assists households to spend more in the short term, there is a also the realisation of the intensive policy so as not to become over-indebted and stressed by debt repayment.

5.2.3. Debt as a Consumption-Smoothing Mechanism

One of the most significant contributions of this study is the interaction effect that exhibits partial smoothing. It ascertains that debt cushions consumption falls but does not provide ideal insurance. This is in line with the evidence that households tend to use debt when faced with a crisis, but nevertheless, experience consumption adjustments. Indicatively, (Mohanan et al., 2007) discovered that debt is a key adjustment method following exogenous health shocks, but still households reduce some of their expenditure while (Lawson, 2013) demonstrates that even the ultra-poor employ a variety of coping mechanisms in the face of crisis at the time of declining welfare, but borrowing is not the sole strategy.

Theoretically, this supports the incomplete markets (Morduch, 1995). In the absence of formal insurance and limited informal risk-sharing, households seek to self-insure by borrowing, selling assets and adjusting labour supply. However, borrowing may be rationed, costly, and unequally distributed. So, debt functions as a partial insurance; it has the effect of mitigating the shock, but does not remove it. This partial nature is appropriate to the characteristics of structural credit markets in Uganda that has a high number of households who are credit wary, credit is short term, little collateral and high interest rates.

5.2.4. Heterogeneity Across Household Characteristics

The greater level of smoothing in asset-rich and urban households is due to the disparity in the availability of collateral, the financial infrastructure, and diversification of income. The households in urban areas tend to have greater access to formal lenders, a variety of work options, and quicker access to emergency credit whereas rural areas have limited access to financial services, seasonal earnings and more expensive borrowing costs. The ownership of assets offers direct buffering (liquidation or savings) and indirect credit (collateral and social credibility), enhancing the capability to smooth consumption.

The outcome extends work by (Abiona & Klasen, 2020), who emphasises that the outcomes of household debt are dependent on the socio-economic conditions and institutional environment. It is also connected to (Nakajima, 2018), who emphasises the idea of the heterogeneity of debts in the analysis of consumption behaviour, the same level of debt might imply various welfare results depending on household balance sheets and risk exposure. Lastly, the heterogeneity evidence is consistent with more general behavioural and welfare studies which propose that poverty and insecurity accommodate cognitive and decision-making demands that could constrain effective financial coping (Mani et al., 2013). Overall, the study narrows down the consumption-smoothing analysis to focus on the distributional and structural aspects, smoothing ability is not uniform but varies, based on assets, location, and constraints.

5.3. Implications

5.3.1. Theoretical Implication

In the view of a student, this study takes the consumption and credit theory to its ultimate limit by demonstrating how debt is in fact more like partial insurance rather than perfect smoothing, particularly in the context of developing nations. It refines the PIH and LCH models (Friedman, 1957; Modigliani & Brumberg, 1954) by indicating that only when borrowing constraints and heterogeneity of households coincide, can smoothing occur. Here we can see that liquidity-constraint models (Deaton, 1991; Zeldes, 1989) receive an added stimulus as food insecurity is transformed into a real welfare shock, and the debt shock-linkage becomes a matter of household characteristics.

5.3.2. Practical and Policy Implications

The policy-wise, this is quite obvious; there must be balanced financial inclusion. We run the risk of over-indebting by merely issuing more credit with no substantial consumer guarantees, we cut the resilience down to a core with excessive narrowing of the credit. Policy makers ought to incorporate financial inclusion with financial literacy, transparent pricing, and mechanisms of protecting the borrowers. It is crucial especially where informal borrowings are the case and the terms of such loans can be unkind.

The powerful negative influence of the food insecurity shocks also informs us that social protection programmes such as cash transfers, emergency food aid, and scaled shock vulnerable safety nets continue to have to play a leading role in addition to credit markets. In cases where the shocks are far-reaching and repayment ability is questionable, credit cannot replace social protection (Lawson, 2013). Strengthening rural financial infrastructure, asset-building of rural areas, and diversification of incomes can also help to increase resilience, particularly among the most vulnerable groups. Reforms to enhance credit access and lending terms in Uganda such as enhanced credit market operations and registries should be helpful, but need to be connected to expanded welfare and resilience strategies (Conesa Martinez et al., 2025).

5.3.3. Methodological and Societal Implications

The data presented by nationally representative household surveys represents how the micro-level analysis can shed light on the macro-level welfare relationships and vulnerability. Socially, the study sheds light on the fact that debt is a stabilising factor and a possible source of vulnerability. The bigger takeaway is that strengthening household welfare requires building an ecosystem in which responsible credit, social protection as well as livelihood opportunities combine in a manner that enhances resilience to shocks.

5.4. Recommendations for Future Research

Future studies should build directly on the study limitations and the unanswered questions raised by the results.

To begin with, panel or longitudinal data would allow researchers to, in fact trace the only way debt and consumption unfold over time i.e. watch how households recover in the immediate aftermath of a shock and whether or not borrowing ultimately subjects them to debt or actually

makes their lives better in the long run. Future work could explore, when repeated shocks are considered as well, we may find how debt growth interacts with the shocks, which is relevant in those locations in which shocks occur repeatedly.

Inclusively, future research must actually decant formal and informal sources of credit since the type of lender inverts interest rates, enforcement and lending thresholds. The picture would also be cleared by breaking down debt by purpose, consumption loans versus productive or investment loans.

Additionally, inclusion of loan conditions like interest rates, repayment plans, collateral would provide us with a better picture of when in fact, the debt will smooth consumption, and when it becomes an actual burden.

Furthermore, the future research should include the behavioural dimensions of borrowing such as stress, mental load, and decision quality under scarcity. It may be due to those aspects that individuals employ debt in hard situations.

Lastly, the cross-East Africa comparison would assist us in understanding whether the trends in Uganda's debt are either specific or general and would allow us to evaluate how the differences in institutions affect the role of debt in the process of consumption smoothing.

5.5. Overall Conclusions

The study aimed to know whether household debt serves as a consumption-smoothing mechanism among borrowing households in Uganda facing food insecurity shocks. The findings reveal that debt does provide some form of cushion and thus such households are able to continue spending higher than they would have in difficult times. The cushioning however is of course not perfect; it is highly dependent on where the household lives and what assets the household possesses and that reflects actual structural inequalities in the financial resilience the household has.

Concisely, the Uganda household debt is rather a conditional welfare stabiliser than a complete safety net. It is most effective when some assets are already owned by a household, the access of credit is good, and the prospects of good incomes exist, but all this falls apart when larger structural obstacles persist.

The lesson is that it requires more than just reinforcing credit to increase household welfare. There is also a need to develop social security, to educate on financial literacy and to develop inclusive ways to earn a living. To the question of so what, the research confirms that it requires good financial systems that are supported by conducive public policy to create households that could withstand unavoidable economic shocks.

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