THIS EDITION OF THE CSAE NEWSLETTER PRESENTS research being undertaken as part of the Improving Institutions for Pro-poor Growth (IIG) research programme, funded by the UK Department for International Development. The current phase of the iIG studies the means by which firms and markets can foster growth and development. The programme is organized around a range of empirical research projects. I give a brief overview of some of our recent findings.

A first set of projects revolves around innovation and entrepreneurship. A field experiment was organized in three African countries to study firm creation. It is widely believed that lack of credit constrains firm entry, but hard evidence is rare. From the experiment, we find that winners of an entrepreneurship competition are significantly more likely to start a business than runners-up. The evidence suggests that capital constraints are an important impediment to firm creation by young entrepreneurs. Separate data collected in Ghana indicates that, over a ten-year period, a large proportion of established manufacturing firms exit or contract, and only a small fraction expand. Taken together, the evidence demonstrates that fostering entry by young talented entrepreneurs is key to growth in African manufacturing, and that one way to foster entry is to remove capital constraints to firm creation.

A second set of projects examines how markets can be made to work better. Using a laboratory experiment that mimics the functioning of a labour market, we examine whether Ghanaian subjects sanction underperforming workers by dismissal, wage reduction, reputational sanction, or verbal criticism. Contrary to findings from Europe, we find little evidence that our subjects successfully manage to discipline underperforming workers through the mechanisms put at their disposal. This confirms earlier CSAE research suggesting that labour management is particularly difficult in Africa.

Markets have developed for the circulation of information. To see whether they are needed, we examine whether Indian farmers naturally produce and share valuation information in an efficient manner. To this effect, we run laboratory experiments on information production and information sharing. We find no evidence that individuals put more effort in producing information that is shared with more people, casting some doubt on the ‘model farmer’ agricultural extension strategy. We also find that farmers are unable to form links to efficiently share exogenously provided information. This is true even when forming efficient links is incentive compatible for selfish agents. From this we conclude that there is scope for a market for agricultural information to farmers.

Micro-credit has been heralded as an effective way to foster small enterprise development in poor countries. Micro-loans often bear high effective interest rates, however, and they are not always used for investment purposes. In collaboration with local partners in Pakistan, we investigate the differential take-up of various micro-finance products structured either as credit or savings contract. We find high take-up rates for all contracts, and only limited sensitivity to interest rate and contract terms — i.e., whether savings or credit. This suggests that demand for micro-finance is driven primarily by a desire to accumulate cash for small lumpy expenditures, not so much by an investment motive. Micro-saving may be a better way than micro-credit to help poor households invest in a business.

This and other iIG research will be presented at the conference ‘Growth, Firms, and Markets in Africa’ in March 2015, see the note on the back page. We do hope you will join us.

Marcel Fafchamps is a Senior Fellow at the Freeman Spogli Institute for International Studies, Stanford University, and the Director of the iIG programme.
Expanding financial inclusion to the very poorest – savings and loan associations in rural Malawi

Rachel Cassidy

MICROFINANCE HAS EXPANDED far and evolved rapidly over recent decades. The first generation of formal microfinance focused on joint-liability lending, as introduced by Grameen Bank and replicated all over the developing world. Later, many microfinance institutions (MFIs) shifted towards a ‘second-generation’ model, continuing to emphasise credit but employing individual- rather than joint-liability. By 2012, 46% of lending by major MFIs was individual-liability (de Quidt et al. 2012) and even Grameen Bank no longer uses joint-liability contracts. Yet more recently, academics and practitioners have begun to advocate what might be termed a ‘third-generation’ view, highlighting access to savings and indeed insurance as a key part of promoting financial inclusion in developing countries.

As part of my DPhil research, I have collected novel data from a ‘third-generation’ type of microfinance intervention in rural Malawi, specifically community-based microfinance groups called ‘Village Savings and Loan Associations’ (VSLAs). The VSLA model was first developed by CARE International in Niger in 1991, as a form of member-run microfinance that can be used by the very poor. VSLAs are designed to provide a secure way for members to save and to earn interest on savings, as well as to access loans in villages where formal credit may be non-existent or very expensive (the communities targeted are typically underserved even by MFIs). VSLAs and similar ‘Self-Help Groups’ have experienced rapidly-growing popularity in recent years, and now have over 100 million members worldwide (Greaney et al., 2013).

The standard model for VSLAs is that individuals self-select into groups of 15-25 members. They are then provided by the organising NGO with a cash box and three separate locks, and three different members of the group are elected to act as key-holders (thereby reducing the probability that any funds placed into the box will be subject to theft). The group receives basic training in financial literacy and account-keeping. It then holds weekly meetings at which the group members can purchase up to five ‘shares’ of a fixed, small value. At monthly loan meetings, members can also request to take a loan, to be repaid in monthly instalments at a fixed monthly rate of interest. At the end of a cycle – usually a year – the group’s total funds, including the successfully- recovered loans and loan interest, is ‘shared out’ in proportion to individual members’ savings (hence the term ‘shares’).

Ksoll et al. (2013) use a cluster randomized controlled trial to evaluate the impact of VSLAs on household welfare in northern Malawi. From 2009 to 2011, the Rockwool Foundation and local NGO SOLDEV offered VSLA training to 23 villages in the Karonga district, whilst 23 villages were not offered training until after 2011. The authors find positive and significant effects on households in villages that were offered VSLA training, on the number of meals consumed per day, total household consumption and number of rooms in the dwelling. This effect is
linked to an increase in savings and credit obtained through the VSLAs, which increased agricultural investments.

Building on this, my research seeks to understand how exactly individuals use these kinds of ‘village banks’ and how their design might be improved. Specifically: how efficiently are borrowers and savers able to match into groups? How sustainable are these types of financial institutions in the face of aggregate shocks? And what role does strategic interaction play when members are purchasing shares?

During the summer of 2013 I revisited all 150 VSLA groups trained by SOLDEV and collected unique, individualised account books from their 3,800 participants. This provides data on each member’s weekly savings and loans decisions over the past 1-2 years, and I also recorded basic demographic information for all members. Furthermore, I was later able to introduce a simple theoretical model which highlights how VSLAs might be particularly effective if they can match ‘commitment savers’ with low-risk borrowers. The intuition is that certain kinds of individuals are likely to experience difficulties in saving at home, either because of self-control problems or because of demands from their spouse or relatives to share money. These individuals may therefore join VSLAs as a way to save money safely outside of the household, and to be disciplined into saving by pressure from the group meetings each week. Moreover, they may be willing to pay for this ‘commitment’ and thus may accept a lower interest rate on their savings compared to other kinds of savers. Hence they may be able to offer a low loan interest rate to other group members who want to borrow, which could attract low-risk borrowers into joining a group with them and taking credit. Meanwhile, savers without a need for commitment may use VSLAs purely to save as an interest-bearing investment, and may end up matched with higher-risk borrowers who are willing to pay a higher interest rate.

We test these matching predictions empirically, first employing a dyadic regression framework (Arcand & Fafchamps, 2012) and then by estimating the probability of an individual joining a VSLA conditional on the patience and the riskiness of other individuals in her village. Preliminary results offer support for our model.

To study whether VSLAs are an efficient way to match savers with borrowers, in joint work with Marcel Fafchamps we build on the theoretical model above to explore how VSLAs might be particularly effective if they can match ‘commitment savers’ with low-risk borrowers. The intuition is that certain kinds of individuals are likely to experience difficulties in saving at home, either because of self-control problems or because of demands from their spouse or relatives to share money. These individuals may therefore join VSLAs as a way to save money safely outside of the household, and to be disciplined into saving by pressure from the group meetings each week. Moreover, they may be willing to pay for this ‘commitment’ and thus may accept a lower interest rate on their savings compared to other kinds of savers. Hence they may be able to offer a low loan interest rate to other group members who want to borrow, which could attract low-risk borrowers into joining a group with them and taking credit. Meanwhile, savers without a need for commitment may use VSLAs purely to save as an interest-bearing investment, and may end up matched with higher-risk borrowers who are willing to pay a higher interest rate.

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**TO FIND OUT MORE**

**ABOUT THE RESEARCHERS**

Rachel Cassidy is a DPhil student in economics at the CSAE, studying savings and credit behaviour in Malawi and Pakistan.

Marcel Fafchamps is a Senior Fellow at the Freeman Spogli Institute for International Studies, Stanford University, and the Director of the iG programme.

**ABOUT THE RESEARCH**

Further details for this project can be found at http://www.iig.ox.ac.uk/research/62-savings-in-community-microfinance-malawi.htm

**REFERENCES**


Microcredit and microsavings in Pakistan

Simon Quinn

LAST YEAR, WE RAN A JOINT project in Sargodha, Pakistan, with support from Phase 2 of the iiG Programme. This project was designed to test between competing theories of microcredit demand. The results are surprising – and shed new light on the role of microcredit in poor communities.

Microcredit and microsaving: Two sides of the same coin?

Recent empirical results on microlending show that the standard microcredit model, with high interest rates and immediate repayment, seems unable to generate enterprise growth. In contrast, a growing body of empirical evidence suggests that savings products can be valuable for generating income and for reducing poverty. This is a stark contrast to empirical results on microsavings – which suggest that savings products can be valuable for generating income and for reducing poverty. Indeed, a growing literature suggests that part of the attraction of microcredit may be as a mechanism to save — whether to meet short-term liquidity needs, as a commitment device against self-control problems, or to resist social or familial pressure.

This raises an important possibility – maybe, for the poor, saving and borrowing are essentially the same behaviour, directed to the same goal: namely, the receipt of a lump-sum payment to finance a lumpy purchase. Saving and borrowing are often considered to be diametrically different behaviours: the former, a means to defer consumption; the latter, a means to expedite it. This view is widespread in traditional debates on microfinance—in which, for example, microsaving products have been seen as offering something very different to what is provided by microlending products. This distinction collapses, however, under two important conditions that are common in developing countries. First, many in poor communities may struggle to hold savings over time — whether because of external sharing norms or internal lack of self-control. Second, the poor may value ‘lumpy purchases’, of goods that cannot be subdivided (such as a sewing machine).

A novel field experiment

With the support of iiG, we visited Sargodha, Pakistan, in September and October 2013. We worked with female clients of Pakistan’s National Rural Support Programme...
(NRSP), who are currently, or have in the past, been clients of some microfinance products being offered by the NRSP. Those clients were randomly offered one of 12 different types of microfinance contract. These contracts differed in terms of their interest rate. Critically, they also differed in terms of the time of repayment. Some clients were offered a lump-sum payment almost immediately, and then had to repay over the following week: that is, they were offered a credit contract. Other clients were offered a contract requiring regular payments over the week, followed by a lump-sum payment at the end: a savings contract. Each participant received three such offers, randomly drawn each time.

Standard microeconomic models predict that an individual should either demand a credit contract or a savings contract, but not both. Against this, we propose an alternative model, in which individuals want to make lumpy consumption purchases, and cannot effectively hold cash over time. This alternative model provides a much more realistic description of the behaviour we actually observed in Sargodha. In our experiment, 86 women were offered both a credit contract with a positive or zero interest rate, and a savings contract with a positive interest rate. The standard model predicts that none of these women should have accepted both contracts; instead, we found that half of these women accepted both (43 out of 86). Similarly, the standard model predicts that individuals should always refuse savings contracts that pay less than was saved, and should always accept credit contracts that pay more than is required in repayments. In our experiment, 177 women were offered at least one such savings contract with a negative return: of these, 81 accepted at least one (46%). 224 respondents were offered at least one credit contract that paid out more than was paid in: of these, 28 rejected at least one (13%).

**Implications for policy**

Together, our results suggest strongly that saving and borrowing among microfinance clients are substitutes, satisfying the same underlying demand: for a regular schedule of deposits and a lump-sum withdrawal. If this result proves robust, it will have at least two important implications for policy. First, it implies that policymakers should not glorify microlending. Microlending can have serious practical shortcomings – both in terms of high interest charges and in the risk of creating a debt spiral. If microlending meets the same underlying demand as microsaving, then the latter is surely a more attractive option for the poor. Second, it implies that policymakers should support local savings institutions – such as Rotating Savings and Credit Associations (ROSCAs) – that have evolved to meet local financial needs. Indeed, our experimental design is itself inspired by the evolved wisdom of the ROSCA repayment structure.

These issues deserve more attention, and further research. We are currently using our iiG research as a springboard to further fieldwork, funded both by the International Growth Centre (in 2014) and by the DFID-ESRC Growth Programme (in 2015). We look forward to more novel results, and to developing further policy recommendations.
Can farmers create efficient information networks? Experimental evidence from India

Stefano Caria

In a lab-in-the-field experiment in rural India we show that male adult farmers create networks that are inefficient for the diffusion of non-rival goods, such as information. A large literature in development economics argues that information about agricultural innovations diffuses through farmers’ social networks. Our study highlights the possibility that information networks are not efficiently structured to support information diffusion and discusses possible explanations and options for policy.

Imperfect knowledge about new technologies is a commonly cited cause for the low levels of adoption of many profitable agricultural innovations in developing countries. In many cases, the perceived returns of these innovations may not be aligned with the actual returns and incorrect beliefs about their optimal use may be widespread. Further, imperfect knowledge increases the perception of risk associated with technology adoption.

A large body of evidence in development economics suggests, on the other hand, that farmers in developing countries learn from each other about the returns and optimal use of agricultural innovations. In one study from rural India, for example, more than 50 percent of farmers report discussing with peers about crop prices, weather predictions, crops to plant, cultivation practices and inputs (Fafchamps and Minten, 2012).

Why is information sharing not sufficient to eliminate informational barriers to technology adoption? One possibility is that networks are inefficiently structured to diffuse non-rival goods, so that information travels slowly and may not reach all individuals. We explore this possibility with a simple network formation experiment, which we run with farmers in rural India.

Our experiment is played by groups of six male, adult farmers, selected through random door-to-door sampling. Each farmer can create a link to another farmer in the group. Farmers play sequentially, after observing the choices of those who have already played. At the end of the game, one player in the group is randomly selected to receive a monetary prize. Farmers who in the network are connected directly or indirectly to the winner of the random draw, receive a monetary prize of the same value. In this simple game, a farmer maximizes the number of indirect connections he has if he links to the player with the highest number of indirect connections at that point in the game. If farmers follow this simple link formation rule, which we call ‘rule 1’, the network structure (almost always) converges to the cycle within two turns of the game. In the cycle, as Figure 1 illustrates, every farmer is connected to every other farmer and hence all farmers win the monetary prize with certainty. In our experiment, the cycle is the efficient network structure for the diffusion of the non-rival prize.

Our central finding is that the number of indirect connections in farmers’ experimental networks is significantly lower than the number of indirect connections in the cycle network.
While many farmers in the experiment choose according to the link formation ‘rule 1’ we have described above, other strategies are also popular. In particular, large efficiency losses come about because some farmers link with the most ‘popular’ farmer in the network (‘rule 5’). Links to isolated players (‘rule 3’) are also frequent. Simulation analysis reported in Figure 3 (below) shows that rule 3 has only minor impacts on the efficiency of network structure.

Farmers create networks where, on average, they have 35 percent less indirect connections than in the cycle network. We define the ratio between a network’s average number of indirect connections and the average number of indirect connections in the cycle as the ‘efficiency’ of that network. In Figure 2 above we plot the histogram of the efficiency of the networks in our experiment and of those in a simulated link formation game where every player plays according to rule 1.

... continued
Can farmers create efficient information networks? - continued

Our results suggest that, in a simple network formation game, many farmers adopt heuristics that lead to a network structure that limits the diffusion of the non-rival prize. If inappropriate heuristics are also applied in the formation of real networks, the structure of these networks will be inefficient for the diffusion of valuable information about new technologies. This will limit their adoption, creating a rationale for policy intervention.

In a scenario where social diffusion is incomplete, programmes that promote innovation adoption can choose to bypass social structures altogether and rely instead on modern technologies. Recent trials show that agronomic information transmitted via SMS, phone lines, and voice messages can be effective at increasing yields, and discouraging the use of inefficient pesticides (Cole and Fernando, 2012, Casaburi et al., 2014). Alternatively, interventions can try to strengthen peer-to-peer transmission by incentivising farmers to share information or by fostering the creation of new links.

Ghana: Manufacturing firms in a changing economy

Elwyn Davies

THE GHANAIAN ECONOMY HAS been growing fast: according to World Bank figures, the average growth percentage between 2003 and 2012 was 7.5 percent. In the meantime, the composition of the economy has changed: in 1990, services accounted for 38.1 percent of value added in the economy, and in 2012 this share rose to 50.0 percent. The share of manufacturing in national output has dropped, despite an annual growth of 3.3 percent in this sector. However, this growth is lower than other sectors in the economy and also lower than the growth of household and government consumption. What does it mean to be a manufacturing firm in such a rapidly changing environment?

As part of the iiG project ‘Firm growth and performance over time’ we revisited 1000 firms in four Ghanaian cities (Accra, Kumasi, Cape Coast and Takoradi), selected from the 2003 National Industrial Census. The goal of our study is to answer two basic questions: what determines whether a firm survives or fails, and what determines whether a firm grows or shrinks. The initial results from the iiG project shed some light on these questions. Of each of these 1000 firms, we established whether the firm was still in existence and performed a brief firm survey if the firm was still operating. This survey was set up in such a way that it allowed for comparison with data from the 2003 census, and asked about employment, production processes, and firm performance. Of our group of 1000 firms we found that almost sixty percent were still operating.

In the case of the firms that were no longer operating, we tried to find a representative of the firm or somebody else (e.g. a family member...
or neighbour) who could tell us something about the fate of the firm and any reasons as to why the firm had closed. For twenty percent of the firms we were able to confirm that they were no longer operating. We were not able to find any information about the existence or disappearance of a further twenty percent of firms.

We find that the reasons for exit were very much dependent on the size of the firm. In the case of small and medium-sized firms, personal circumstances, such as the death of the owner or the moving of the owner, as well as the loss of building, land or equipment were often given as the main reason why they stopped operating. This seemed to be less of a reason in large firms (more than 75 employees): here, increased operating costs was given as the main reason in more than a fifth of the cases. Surprisingly, few companies report that increased competition from imports was the main reason for exit, even though this might still have been a factor in some cases.

We find striking regional differences. Firms in Accra were more likely to exit, compared to Kumasi and the other cities, but the firms surviving in Accra were more likely to grow compared to other cities. Selection effects could play a role over here: in Accra more opportunities to switch to another sector might be available, which would make exiting and setting up a new business more likely when things were not going well. The firms in Cape Coast were almost stagnant; only one out of the 27 firms reported an increase in its workforce in the last decade.

We also find stark differences between sectors. The metal and machinery industry is the best performing industry: exit rates are low and employment growth rates are higher than in other industries, such as beverages and food or textiles. Size matters: larger firms are less likely to exit than small or medium sized firms, even when controlling for other factors, such as location. This is in line with earlier studies done in both developed as well as developing countries.

Employment by manufacturing firms seems to have dropped drastically. We estimate that manufacturing firms in the four surveyed cities employed around 135,000 people in 2003. Based on our exit figures and our data on firm growth and decline, we estimate that the firms that were operating in 2003 only employ around 66,000 people now. This figure excludes employment by firms that were founded after 2003, but it is unlikely that the employment by these new firms will bring back the employment figures to their 2003 level. Surviving firms employed around 90,000 workers in 2003, so aggregate employment in surviving firms decreased by 27%.

Overall, we find that there is little reason for optimism about the prospects of manufacturing firms in Ghana. The poor performance that was documented between 2000 and 2003 in previous research done by Francis Teal and co-authors (2006), seems to have continued and worsened in some cases. Given the changing dynamics of the Ghanaian economy, targeting this situation through policy changes is difficult. However, our study of the causes of exit points out two that could be targeted by policy: losses of building and land, and increasing costs. The former mainly affects small and medium-sized enterprises, and could be caused by insecure and informal property rights. The increase in costs, mainly the costs of inputs, affected predominantly larger enterprises. Policies aimed at reducing costs of inputs, for example lowering trade barriers for these products, could help the manufacturing industry.

The initial results from these firm surveys have already given us a wealth of information about manufacturing firms in Ghana. We hope that with further analysis and further comparisons of past and present firm performance we can understand more about the fundamental questions about how firms operate and develop in developing countries. As part of the project we also revisited firms that were tracked annually between 1991 and 2003, and ran experiments with firm managers and business school students to gain a better understanding of how managers make decisions, especially when it comes to trade and employment. The (forthcoming) results from these projects could be very important for other developing countries that try to focus on how to develop their manufacturing firms.

TO FIND OUT MORE

ABOUT THE RESEARCHERS
Elwyn Davies is a DPhil student at the Department of Economics, University of Oxford, and affiliated to CSAE. His research focuses on firms in developing countries and relational contracting in trading relationships.

Andrew Kerr is a Senior Research Officer at DataFirst at the University of Cape Town and a former DPhil student with CSAE. His broad area of focus is labour markets in Africa using firm and household survey data.

ABOUT THE RESEARCH
More information about the project ‘Firm growth and performance over time’ can be found on the iIG project website: http://www.iig.ox.ac.uk/research/59 Firm-growth-and-performance-over-time.htm

REFERENCES
Transfers in informal risk-sharing groups when formal insurance is offered

Karlijn Morsink

LOW-INCOME FARMERS’ ABILITY to insure against risk is limited, especially in the case of aggregate shocks such as natural disasters and droughts which affect the welfare of at least two-thirds of low-income households in developing countries. In anticipation of shocks farmers may forego opportunities to invest in higher risk but higher return production technologies. Ex-post, shocks cause serious losses in consumption, often with severe consequences for long-term welfare due to the forced sale of productive assets, or negative consequences for health and education. In a recent survey conducted in 2009 in Ethiopia, more than 40% of farmers reported to have experienced substantial losses in consumption due to drought and floods in the past four years.

Offering indemnity insurance to farmers in developing countries has proven difficult due to moral hazard and adverse selection problems. Recently an alternative has been offered which is particularly designed to provide protection against aggregate shocks: index-insurance. This type of insurance provides payouts based on independently verifiable indices (such as rainfall measurements), attempting to provide protection against aggregate shocks while leaving informal risk-sharing for idiosyncratic shocks intact. Despite the need for protection against aggregate shocks, demand by low-income farmers for these products is low, and this is often attributed to basis risk. Basis risk occurs because the cover against aggregate shocks does not provide full protection against idiosyncratic losses. It is thus possible that a farmer purchases insurance, experiences crop losses but does not receive claim payments because there was no aggregate shock to trigger claim payments.

To overcome low demand, index insurance is increasingly offered to groups who are members of informal risk-sharing arrangements especially because the informal risk-sharing provides protection against basis risk. Index insurance and informal risk-sharing are therefore assumed to be complementary. Crowding out, which is a problem for indemnity insurance as it may substitute the risk coverage that is provided by informal risk-sharing, appears to be of no concern.

Recent evidence shows that transfers in informal risk-sharing arrangements in developing countries are not only made to provide insurance but may also be motivated by aversion to inequality or are used to punish perceived unfair behaviour of transfer recipients. Such motivations for transfers may increase or decrease the amount that is transferred to a partner in an informal risk-sharing network. These changes may deviate from sharing norms and may challenge the assumed complementarity or substitution of formal insurance and informal risk-sharing. In this study I investigate motivations for transfers in informal risk-sharing networks.
Explaining index insurance to members of an informal risk-sharing group. Photo: Karlijn Morsink.

3 administrative regions in Tigray. Transfer motives were investigated by making use of existing social preference models in which it is assumed that farmers care about the welfare of the other person and may punish perceived unfair behaviour.

I find that more than 92% of farmers do make substantial transfers to the other farmer in case the other farmer experiences an idiosyncratic shock, even though these transfers are made in an anonymous setting and cannot be reciprocated in the games. This is a clear indication that farmers make transfers based on motives other than self-interest. 37% of these farmers seem to base their transfers on a weighting not only of their own welfare outcomes but also the welfare outcomes of the other farmer. Their transfers reflect a motive to minimize inequalities in outcomes between themselves and the other farmer.

Out of the 37% of farmers who try to minimize inequalities 40% also punish the other farmer by reducing the transfer if the other farmer fails to take up formal insurance. This suggests that not taking up formal insurance is perceived as unfair behaviour. Punishment in case the other farmer doesn’t take up insurance is significantly more likely in the case of indemnity insurance than it is for index insurance. This can be explained by the fact that take up of indemnity insurance is more likely to be perceived as fair because it reduces the variance of potential outcomes, while the take up of index insurance increases it due to basis risk.

From these results it can be concluded that transfers in informal risk-sharing arrangements are, next to motives to share risk, also motivated by other considerations. Farmers transfer to reduce the inequality in outcomes between themselves and the other farmer and also punish other farmers when they receive an offer to take up formal insurance but fail to do so. This challenges traditional results about complementarity and substitution of formal insurance and informal risk-sharing, especially because small changes in deviations from sharing norms can significantly change individuals’ willingness to share future risk.

The policy implications of these findings are substantial. If it is unclear whether the take-up of insurance is perceived as fair or unfair, this implies that farmers may reduce transfers relative to the sharing norm to punish other farmers. This is especially important when farmers take up index insurance which may be perceived as unfair as it carries basis risk and may thus increase variance of consumption. This implies that index insurance and informal risk-sharing may not necessarily be complements and that the potential of crowding out, when index insurance is offered to low-income farmers from pre-existing informal risk-sharing arrangements, should be taken into account and carefully empirically investigated.

TO FIND OUT MORE

ABOUT THE RESEARCHER

Karlijn Morsink is a British Academy postdoctoral fellow in economics at the CSAE.

ABOUT THE RESEARCH

Further details for this project can be found at:
http://www.iig.ox.ac.uk/research/61-explaining-insurance-demand-Ethiopia.htm

risk-sharing arrangements when index insurance and indemnity insurance are offered.

To do this I conducted artefactual field experiments in the form of one-shot, two-person, informal risk-sharing games with farmers from pre-existing informal risk-sharing groups in Ethiopia. Two farmers from the same pre-existing group were anonymously teamed up. In the benchmark treatment (T1) one of the subjects (j) was randomly selected to receive an idiosyncratic shock while the other subject (i) is asked to make a transfer in case the other farmer experiences an idiosyncratic shock to their income. In the indemnity insurance treatment (T2), before a shock occurs, j gets an offer to take up indemnity insurance to protect herself against the idiosyncratic shock. In the index insurance treatment (T3), before the shock occurs, j gets an offer to take up index insurance to protect herself against the aggregate shock. Farmer i is then asked to decide how much she wants to transfer to farmer j. The games were played with 1152 Ethiopian farmers from 16 iddirs from

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Explaining index insurance to members of an informal risk-sharing group. Photo: Karlijn Morsink.
Innovative thinking about the economics of HIV
Richard Manning

It’s shocking to recall that just fifteen years ago, it was the common view that treatment for HIV was an unaffordable luxury in Africa. Since then, prices of antiretrovirals have fallen; aid has increased, both from the United States President’s Emergency Program for AIDS Relief (PEPFAR) and from the multi-donor Global Fund for AIDS, TB and Malaria; local contributions have grown rapidly; and coverage of Africans infected by HIV has increased to some 8 million people, even though this is still well short of the numbers who would benefit from treatment.

Africa now has a very substantial number of citizens who will need continued treatment for their life-span. Aid is typically committed for only 3-5 years at most. Some African countries, like South Africa or Botswana, already finance a very large share of the cost of antiretroviral therapy (ART); others like Malawi depend on aid for over 90% of spending on ART. In Swaziland, one of the countries most affected by HIV, the present value of the stock of future liabilities to its citizens likely to be in need of ART is a multiple of its gross national income (GNI). All countries with medium to high levels of HIV prevalence face in effect very considerable fiscal burdens over an extended period in tackling the long-term costs of HIV. Their policy choices on prevention and treatment will be crucial in managing the impact of this pernicious disease on their economies.

The Rush Foundation was founded in September 2010 to help breathe new thinking into HIV policy and on-the-ground interventions in sub-Saharan Africa. Against the background described above, a key
The requirement is to provide research that is of direct relevance to the needs of African decision-makers, including those responsible for the allocation of resources. With that in mind, the Foundation approached Paul Collier to help design a programme of policy-oriented research. They also developed a network with other key institutions such as Imperial College, the London School of Hygiene and Tropical Medicine, and Harvard University.

At Paul’s suggestion, the Oxford team was conceived as a joint venture between CSAE with its strong reputation for research and the Blavatnik School of Government (BSG) with its ability to convene policy-makers. Reflecting this, the Oxford team will span both institutions under Paul’s overall guidance. Olivier Sterck was appointed to CSAE in 2013 as a post doc and the first team member. Professor Mthuli Ncube, until very recently the Chief Economist of the African Development Bank, joined the Blavatnik School in August 2014 as team leader and as the leader of the whole inter-institutional network. A second post-doc, Judith Kabajulizi, from Uganda, joined BSG from the London School in October, completing the team. Richard Manning also provides some input particularly on aid-related issues.

Paul and Olivier have already put together a thought-provoking paper on ‘The New Morality of HIV’, which is at an advanced stage. Mthuli has convened a high-level event for 26 November, involving several African ex-Presidents such as former President Mogae of Botswana, which will both enable the research network to benefit from the political wisdom of such leaders and open the way to further discussion with their peers still in office.

The Rush-funded programme is explicitly designed to break new ground in addressing the challenges of the long-term nature of countries’ ‘liabilities’ for continuing ART for their citizens. It also breaks new ground in Oxford in bringing together the skills and assets of CSAE and BSG to address common issues – something that the arrival next year of a new Professorial Chair in Development Economics straddling both institutions will surely further encourage. And by bringing in a top-level African researcher as team leader the programme underlines how African researchers are increasingly in a position to set and manage an African research agenda.

TO FIND OUT MORE

The Rush Foundation
http://www.rushfoundation.org

Blavatnik School of Government
http://www.bsg.ox.ac.uk
The Oxford Development Economics Workshop: A new initiative creating new opportunities

IN OCTOBER, CSAE AND THE University of Oxford Department of Economics jointly hosted an exciting new initiative for junior researchers in development economics. The Oxford Development Economics Workshop brought doctoral and post-doctoral researchers from nine institutions, to present new research results across a wide range of topics.

We were privileged to host junior researchers from Cambridge, the Institute for International Economic Studies, the London School of Economics, Namur, Nottingham, the Paris School of Economics, University College London, and Warwick. Together, these researchers presented 24 new papers and 10 posters. Research covered a very wide range of themes in development economics: on institutions, governance, firms, networks, households, health, conflict and on the foundations of development. CSAE was represented by Karlijn Morsink (discussing lab experiments on mutual insurance in rural Ethiopia), Simon Franklin (presenting high-frequency data on job search and transport subsidies in Addis Ababa), and Clément Imbert (on labour mobility and India’s National Rural Employment Guarantee Scheme); Daniela Scur and Elwyn Davies presented posters (on firm ownership and on labour market norms).

The workshop was opened by the CSAE Director, Professor Sir Paul Collier. In his opening remarks, Paul discussed the exciting potential for new research methods to tackle old development challenges, and urged participants to ensure that their research results were communicated effectively to the policy community. Paul also emphasised the relevance of the new workshop for some of CSAE’s longstanding objectives: to support junior researchers, to build new research networks, and to encourage creative thinking on the challenges of development. This is an exciting new initiative, and one that we hope to repeat next year.

NEUDC 2014

THE NORTHEAST UNIVERSITIES Development Consortium Conference (NEUDC) is one of the largest development economics conferences held each year. This year, NEUDC was hosted by Boston University. We were very pleased to be represented by a large contingent at the conference: Professor Doug Gollin presented on the plenary panel (on "Migration, Urbanization and Development"), and papers were presented by Sam Asher, Stefano Caria, Cornelius Christian, Elwyn Davies, Simon Franklin, Clément Imbert, Simon Quinn, Chris Roth and Abhijeet Singh. Several very recent CSAE alumni also presented on work done while in Oxford: congratulations to Matt Collin, Martina Kirchberger and Nicolas Van de Sijpe. Oxford researchers Jacobus Cilliers and Clare Leaver also had a paper at the conference, presented by a co-author: CSAE Research Associate Andrew Zeitlin, now at Georgetown University.

We were particularly appreciative of the time and support of senior researchers, who chaired sessions and provided comments and suggestions to the presenters; in particular, we thank Abigail Barr (Nottingham), Catherine Guirkinger (Namur), Anke Hoeffler (Oxford), Pramila Krishnan (Cambridge), Jean-Philippe Platteau (Namur), Imran Rasul (UCL), and Chris Woodruff (Warwick).
focus on current efforts to engineer a radical transformation of the economy, the centerpiece of which is a substantial shift in the role of the state through the privatization of the monolithic nationalized mining consortium, ZCCM. Significant reforms – in mining, in trade policy and macroeconomics – have already been put in place, but many others remain elusive. Aspects of the management and taxation of natural resource revenues still need to be resolved; property rights and land tenure in agriculture remain contested while revenue mobilization and public service delivery remain poor; and policies, in the spheres of trade and industrial policy designed to encourage investment and employment in the non-copper economy still require revision and re-design. It is this policy agenda that defines the scope for this edited collection.

THIS BOOK IS THE SECOND volume in the Policies for Prosperity series, following the inaugural volume on Kenya, published by Oxford University Press (OUP) in 2011. It brings together top scholars from the international research community and from Zambia to produce a collection of essays dealing with the foremost economic issues facing policymakers in Zambia today.

The chapters cover a wide range of economic policy issues, from monetary, fiscal and trade policy, through questions of agriculture to issues in public finance, service delivery in health and education and infrastructure. All the chapters are anchored in the central economic challenge facing Zambia today, namely how to transform the vast sub-soil wealth of the country into sustained and equitable improvements in the lives and livelihoods of all Zambians. This has been Zambia’s principal economic challenge for the whole of the half century since Independence in 1964.

What makes the book’s chapters so germane is less their diagnosis of past problems – although some of the lessons from this diagnosis are highly relevant for today – but rather their much across individuals and countries. In Part Two, the focus is on techniques to address a number of topics in development, including how firms invest, how households decide how much to spend on their children’s education, whether microcredit helps the poor, whether food aid works, who gets private schooling and whether property rights enhance investment.

CSAE RESEARCHERS HAVE written a new textbook on the use of quantitative methods for studying poverty. Empirical Development Economics is written by Måns Söderbom (in Oxford from 2000 to 2007) and Francis Teal (Oxford 1991-2012), together with Markus Eberhardt (Oxford 2004-2011), Simon Quinn (Oxford 2005-present) and Andrew Zeitlin (Oxford 2002-2012). The text was inspired by the authors’ teaching on the Quantitative Methods course for the M.Sc in Economics for Development, and has been designed as a hands-on teaching tool to investigate the causes of poverty. Each section uses data to illustrate key policy issues.

Part One focuses on the basics of understanding the role of education, technology and institutions in determining why incomes differ so

TO FIND OUT MORE

TO FIND OUT MORE
The book’s website: http://www.empiricalde.com/
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The Centre for the Study of African Economies carries out economic research with a particular focus on Africa. Its aim is to improve economic and social conditions in the poorest societies.

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