Essays on the Effects of Informal and Formal Protection Arrangements - Renate Hartwig

Abstract

A feature of the development discourse in the past decade has been the emergence of large scale social safety net programmes in developing countries. In this thesis we look at the effects of different 'safety net' mechanisms, whereby the term 'safety net' is considered in a broader sense. The thesis does not only look at formal safety net programmes that are implemented by the government but also explores the effects of an informal social protection arrangement, i.e. the family, which acts as an important 'safety net' in contexts where formal protection mechanisms are not working or still fully absent.

Chapter 2 of this thesis explores the potential constraints of an informal, family-based 'safety net' mechanism. More specifically we investigate the effect of sharing obligations within the family on investment in small and micro enterprises. The anthropological literature has for a long time suggested that sharing norms, which prevail in many societies, particularly in Sub-Saharan Africa, may imply adverse incentive effects and hamper investment in productive activities. To test this proposition, we develop a theoretical model on the interplay between sharing norms and investment. We then test the main predictions of the model with data from tailors in Burkina Faso. Our empirical results support the main propositions of the theoretical model and we can identify two distinct groups of entrepreneurs. Entrepreneurs that opt for an 'insurance regime' make transfers to the kin, get insurance, but forego future earnings because of lower investment. Entrepreneurs that opt for a 'growth regime' break with the norm and step out of the kinship network. This is associated with a social sanction and the entrepreneurs are no longer insured, but they take undistorted investment decisions. In our model the regime choice, i.e. the decision to comply with sharing norms or not, depends on the pressure for redistribution, the degree of risk-aversion and the return on investment.

In this chapter we do not deny the positive aspects of family and kinship ties, often referred to as social capital. On the contrary, we are well aware of their importance in contexts where market mechanisms are non-existent or fail. Our aim is to highlight the possible trade-off faced by entrepreneurs due to the coexistence of modern economic activities and traditional norms and institutions. Although we do not explicitly address the issue of efficiency, it is likely that the distortive effects of kinship pressure on investment decisions imply opportunities for pareto-improvements, i.e. both the kinship network and the entrepreneur could be better off if the entrepreneur could realise his investment plans and make lump-sum payments to compensate his social network. Prevailing sharing norms and the associated insurance schemes may not (yet) have adapted to the presence of modern economic activities and the related

growth processes that rely on savings and investment. We argue that in a context of such norms and institutions, providing a formal 'safety net' e.g. in the form of health insurance to entrepreneurs and their kin might be an effective means of spurring investment in small and micro enterprises.

Chapter 3 of this thesis explores the effects of health insurance as a formal 'safety net' mechanism. More specifically we investigate the effects of health insurance on childhood health outcomes. It has been widely recognized that uninsured health shocks can have important negative consequences for income, wealth and labour market outcomes in developing countries. The literature has also shown that in a developing country context particularly health shocks that are experienced at very young ages have lasting consequences for health, education and lifetime earnings. The presence of a health insurance scheme however could limit the potential negative consequences and actually contribute to improve childhood health. We test this proposition with data from children between the ages of zero and five in Rwanda. The empirical results point to a high degree of heterogeneity of the effects for children at different ages and from different wealth backgrounds. Furthermore, the empirical estimates suggest only a week positive effect of health insurance on childhood health. Nevertheless, the programme estimates suggest that particularly children below the age of two – which is considered a crucial period in child development – benefit from the programme, i.e. having health insurance contributes to an average improvement in height of the cohort of ca. 0.2cm.

We obtain estimates of a similar magnitude also for children from poorer backgrounds, which points to a positive pro-poor effect of the health insurance programme in Rwanda. However, there seem to be limitations to the effect and the degree of protection provided by the health insurance. The estimated effects of health insurance on infant mortality suggest that the health insurance might not provide sufficient protection to limit the death of infants in poorer household. Thus, while the insurance scheme lowers the financial barriers to health care, obstacles for poor households seem to remain, which need to be identified. If these are primarily of a financial nature, there is a risk of reversal of the pro-poor effect because of amendments in the premium schedule of the health insurance programme, which lead to an increase in the annual per capita premium of the poorest by 100%. While the rise of the insurance premiums improves the financial sustainability of the health insurance scheme, the distributional effects have to be closely monitored.

Chapter 4 of this thesis explores the effects of public works on household welfare in the short-term. Persisting high rates of poverty and underemployment particularly in rural contexts together with the possibility of construct physical infrastructure to promote growth and economic transformation made public works programmes increasingly popular among policy makers again in recent years. While it is widely believed that providing poor households with an income opportunity in form of public works leads to increased consumption and investment and thus also promotes productivity in the long run, there are also concerns that public works programmes may have adverse effects and actually lower consumption and investment due to a reallocation of labour and reduced incentives to safe due to lower income uncertainty. We explore these propositions with data from Rwanda. Double-difference estimates show that households significantly increase food consumption and livestock investment in the short-run. Qualitative evidence however suggests that these improvements are short-lived as households fear to fall back to their initial state after leaving the programme. While the public works programme is targeted at the poorest households, the schemes to attract relatively better-off households. Removing the barriers for participation could enhance the poverty reducing effect of the programme.

In this thesis we highlight the potential positive effects of both formal and informal protection mechanisms but equally also point out the constraints. While there has been a global push to expand formal insurance and social protection schemes in low income countries, in practise these countries are still faced with many problems in setting up nationwide schemes. In light of the potential positive effects of the different schemes and mechanisms however, the question is not if they should be implemented, more focus should rather be devoted on how best to implement formal mechanisms in a sustainable manner given local contexts and constraints.