

ABSTRACT

Risk Management And Social Insurance – A Closer Look At Credit Transactions, Social Networks And Welfare In Ghana

by

Jacqueline Vandepile-Orgle

Risk management is critical for the survival of the poor. Credit has been identified in the literature as a means of insurance. It is used primarily for consumption smoothing as well as for investments and hence income-smoothing. However, the existing studies were undertaken at the household level, with the implicit assumption of a unitary household model. There is ample evidence in the literature rejecting this model.

The present study seeks to reexamine credit as a means of social insurance. This study departs from the extant literature by using the individual as the unit of analysis. It focuses on credit transactions within social networks as well as factors determining such endogenous group formation. This study would thus contribute to the literature on village economies, by helping to understand the design of credit and risk management institutions in low income countries and providing grounds for theories of contracting with imperfect information and limited enforcement.

The likely exclusion of the poorest of the poor – the vulnerable in society, from credit transactions spells a role for the public sector. The study will also examine the relationship between the formal and informal financial sectors. Hence, it will provide empirical backing for policies aimed at efficient complementary activities between the public sector and indigenous credit markets, with an increased likelihood of reaching the most vulnerable in society.

Working with the Institute of Statistical, Social and Economic Research (ISSER), a SISERA member institution in Ghana, I will build on a two period panel data collected by Christopher Udry and Markus Goldstein in the south-eastern part of Ghana. The survey area involves farmers who are moving from the cultivation of maize-cassava intercrop for domestic production to pineapple cultivation for export. This transition not only involves a significant amount of risk by way of the attendant new agricultural practices as well as exposure to global price fluctuations, but also a significant amount of capital investment and hence the need for credit. The sample, thus, lends itself to the study.

University: Cornell University, Department of Policy Analysis and Management
Hosting Institution: Institute of Statistical, Social and Economic Research (ISSER), Ghana.