Essays on financial access in developing countries

by

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Abstract

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For poor people in developing countries, managing low and irregular incomes requires actively and efficiently using an array of financial instruments, formal and informal, in order to smooth consumption, gather lump sums, and deal with risk.

Microinsurance is being developed to create a better alternative to informal risk-management tools, and it should in theory be in high demand since households are rarely well protected against risk. Yet take-up of microinsurance remains low. Chapter 2 of this dissertation provides evidence that price and information type can be used to help individuals decide whether and how much life microinsurance coverage to purchase. In particular, potential clients of different ages react differently to emotional or financial information about the product.

Other factors play an important role in the value of financial instruments to, and their use by, poor households. In Chapter 3 I show that the convenience of signing up for life microinsurance is a strong determinant of take-up, even when this convenience comes at a cost. Forcing clients to pay the premium in a slightly less convenient way, even though this payment modality is 12 percent cheaper than the more convenient alternative, led to a decrease in insurance take-up by 47 percent.

Chapter 4 (co-authored with Jonathan Morduch and Shamika Ravi) presents results from a randomized trial of an innovative anti-poverty program in India. Instead of a safety net, the program provides “ultra-poor” households with inputs to create a new livelihood based on self-employment, attain economic independence, and access formal financial services. We find no statistically significant evidence of lasting net impact on consumption, income, asset accumulation, or access to microfinance. While the program achieved what it set out to do, gains among households who participated in the program were matched by control group households’

gains through increased local labor wages. The result highlights how the existence of alternative economic options shapes net impacts and external validity.