

Economics 172
Issues in African Economic Development

Professor Ted Miguel
Department of Economics
University of California, Berkeley

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Issues in African Economic Development

Lecture 13 – February 27, 2007

What can public policy do about HIV/AIDS?

- (1) Testing people, inform them of their HIV status
- (2) Condom distribution
- (3) Public health information campaigns (e.g., Uganda)
- (4) Regulate prostitution
- (5) Subsidize treatment for anti-retroviral medical treatment (ARVs). (Compliance and institutional capacity? Profits / smuggling?)

(6) Development of an HIV vaccine

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- (7) Reduce transmission through circumcision
- (8) Others?

Key questions in the study of HIV/AIDS

- (0) Measuring the extent of the problem (today)
- (1) What impact does HIV/AIDS have on economic development in Africa?
- (2) Why does HIV/AIDS continue to spread in Africa?
- (3) What can / should public policy do about HIV/AIDS?**

Outline:

(1) Udry (1990) on credit in Northern Nigeria

Formal banking in Sub-Saharan Africa

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Formal banking in Sub-Saharan Africa

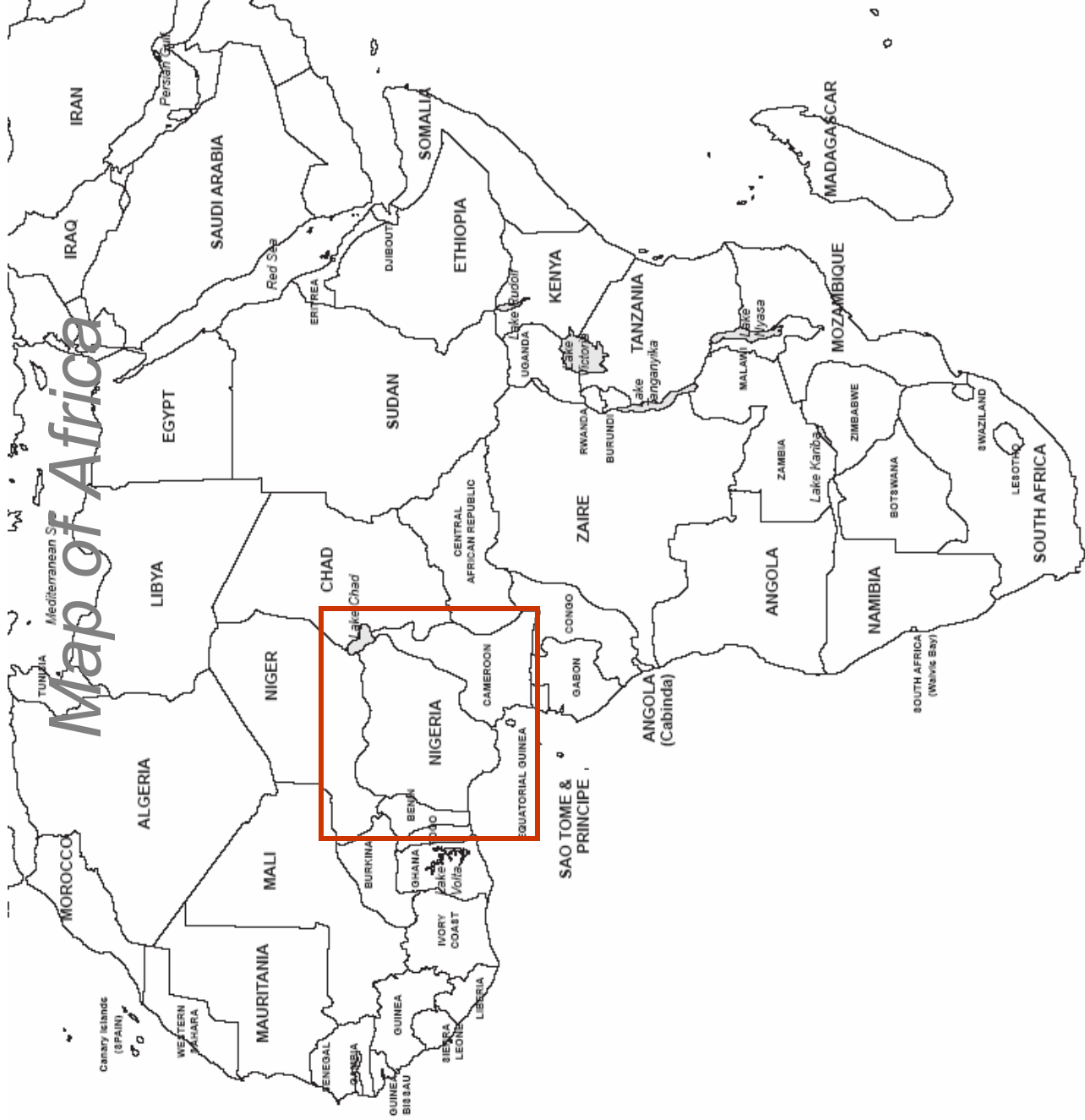
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- Political corruption is a common explanation

Udry (1990) on credit in northern Nigeria

- An alternative to formal sector lending (from banks) is informal lending
- Options include loans among individuals, or group financial schemes (e.g., Rotating Credit and Saving Associations – ROSCAs, joint liability microfinance)

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- Options include loans among individuals, or group financial schemes (e.g., Rotating Credit and Saving Associations – ROSCAs, joint liability microfinance)
- Udry studies informal lending patterns in four villages in northern Nigeria. Most people in rural Nigeria (and in rural Africa more broadly) do not live close to any formal financial institution.



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- But only 7.5% of total credit received was from formal sources, either banks or firms (e.g., tobacco buyers)
- These informal loans are large: on average individuals borrow the equivalent of 50 days of (average) wages per year, or 1000 Nigerian naira
- Most loans are made at the start of the planting season and are used for farm inputs (seed, fertilizer), and are paid back after the harvest

Enforcing credit contracts

- Credit agreements are not legal contracts:
 - *“[T]hese deals are often extreme in their informality. They generally occur in private, with no witnesses and no written record. They are almost always made and repaid in cash.”*

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- Why do borrowers repay lenders in this setting? Why not just run off with the money?

Contracts in village economies

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- In a setting where people rely on others for loans, trade, labor assistance on their farm, friendship, etc., social sanctions by the community are very costly

Combined credit / insurance contracts

- Udry (1990) finds that informal credit deals are more sophisticated than bank transactions, especially at dealing with negative agricultural and health “shocks”:

Koran 2:280: “And if the debtor is in difficulty, then there should be postponement to a time of ease.”

Combined credit / insurance contracts

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	<u>Monthly interest</u>	<u>Repayment period</u>
<i>Borrower:</i>		
<i>Negative shock</i>	<i>-4.0 percent</i>	<i>72 days</i>
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<i>Lender:</i>		
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 - (3) With poor information about borrower circumstances, they cannot offer flexible credit / insurance contracts
 - (4) They cannot call upon local enforcement mechanisms or social sanctions for repayment – and formal legal channels (courts) may be slow and unreliable

- For next time: continue the Week 8 readings on “economic shocks and rural households”

Whiteboard #1

Whiteboard #2

Whiteboard #3

Whiteboard #4

Whiteboard #5

