

The Rationale Behind Informal Finance: A Case Study of ROSCA Groups Among Immigrants in Europe

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INTRODUCTION

The emergence of INFORMAL FINANCE

- In many developing countries poor individuals (especially those who live in rural areas) tend to be excluded from accessing formal banking services.
- The high transaction costs, lack of collateral, asymmetric information and lack of bank branches are some of the barriers that financially excluded people tend to face.
- To make up for the shortcoming of formal financial markets, financially excluded people resort to informal financial schemes such as ROSCA.

What is ROSCA?

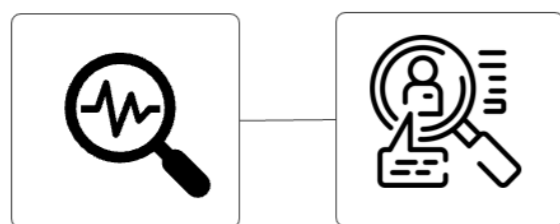
- In **Rotating Savings and Credit Association (ROSCA)** a group of individuals contribute a fixed amount on a monthly basis to common pot, to which one member of the group is granted the funds in each period.
- ROSCA serves as an alternative to banking services, which helps poor individuals who don't have access to external finance to take credit and save money.

Research Question

What are the motives behind immigrant's ROSCA participation in the presence of formal banking services in Europe?

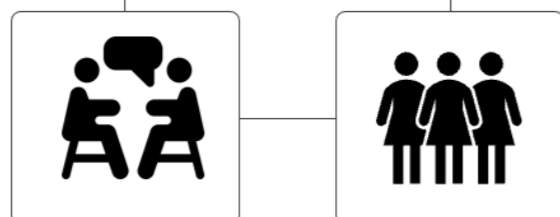
METHODOLOGY

Research method
Interview based qualitative research



Sampling method
- Chain Referral Sampling
- All the respondents were Eritrean women who participate in ROSCAs

Interview method
Face-to-face interview and semi-structured technique



Sample size
N=8

Table 1: Overview of the respondents' backgrounds

Interviewees	Age group	Employment	Place of residence	Year of arrival
1	40-50	Unemployed	Hamburg, Germany	1995
2	20-29	Unemployed (recent high school graduate)		1999 (born in Germany)
3	30-39	Engineer	Stockholm, Sweden	2007
4	40-49	Doctor		1990
5	50-59	Nurse		1990
6	40-49	Unemployed		2001
7	30-39	Engineer	2009	
8	50-59	Freelancer	Münster, Germany	1989

RESULTS

Table 2: Overview of ROSCA participation

Interviewee	Period of participation	Number of participants in the group	Monthly Contribution	Total Lump-sum received	Reasons for joining ROSCA
1	10 years	26	€ 100	€2600	Save money, otherwise if left at home there will be temptation to spend it
2	1 year	26	€ 50	€1300	Needed additional funds to pay for driving lessons.
3	1 year	10	€ 50	€470	Socialization.
4	1 year	10	€ 50	€470	Socialization.
5	25 years	15	€ 50	€705	Socialization.
	7 years	20	€ 200	€3740	To fund the costs of high-scale events.
6	9 years	10	€150	€2000	Save money and help pay for household expenses.
7	2 years	10	€100	€940	To save money and socialize.
8	22 years	10	100€	€1200	Socialization.

Figure 1: Reasons Eritrean immigrants prefer ROSCA over formal banking services

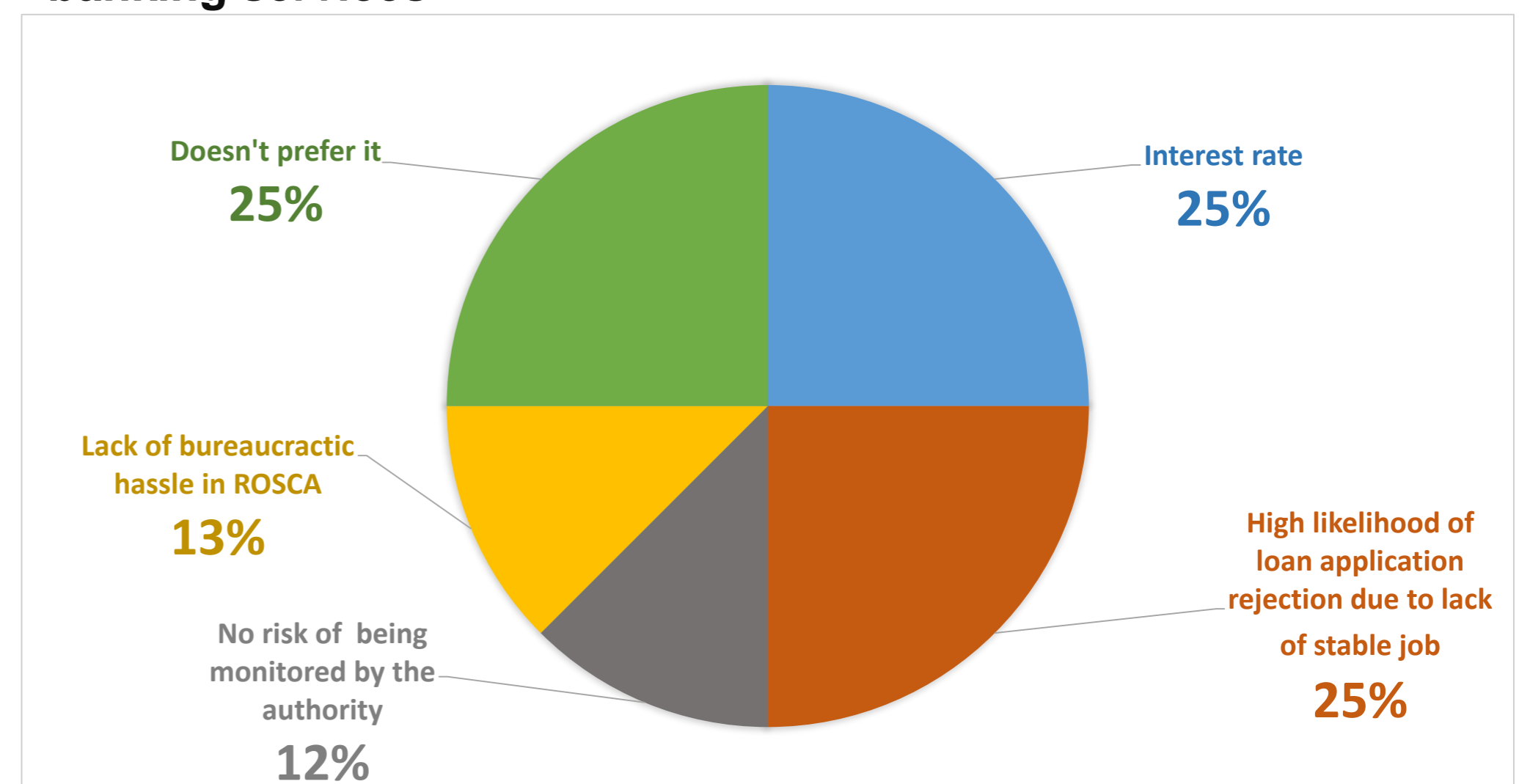
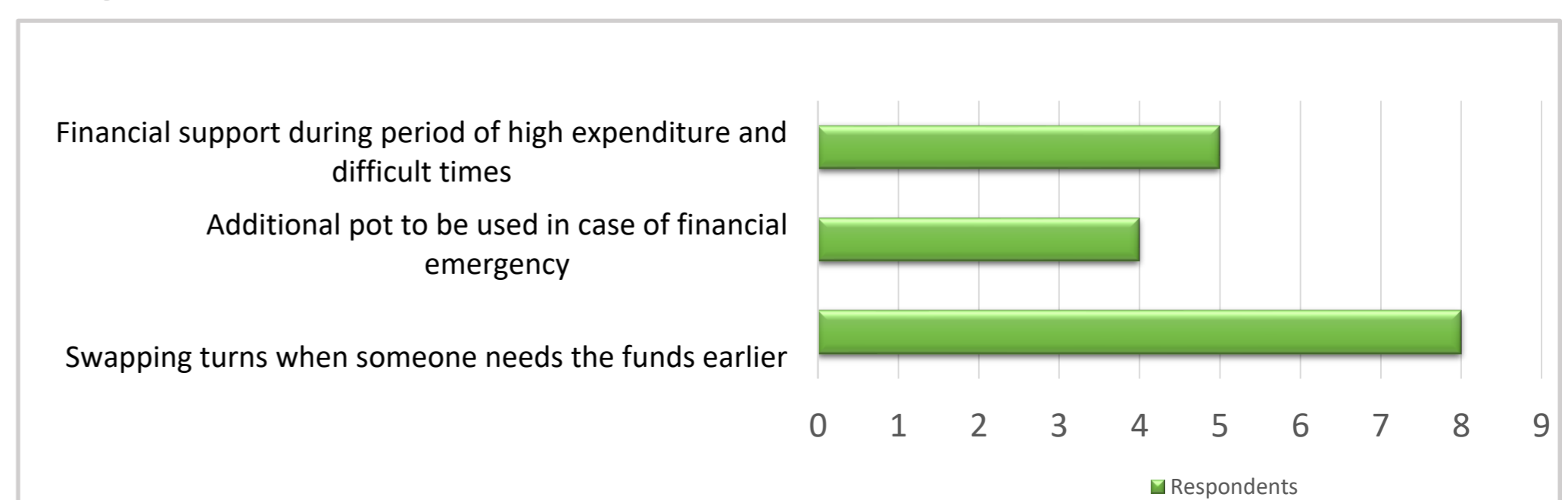


Figure 2: Additional benefits derived from ROSCA participation



CONCLUSION

- Nearly **62%** of the respondents stated ROSCA groups were formed primarily for economic reasons.
- Motives behind ROSCA participation among Eritrean immigrants in Germany and Sweden varied based on the respondent's economic background:
 - Lower income – the need to save and pay for expenses as the primary reason
 - Higher income - only interested to socialize, except for 2 respondents who were interested in both social and saving elements of ROSCA.
- ROSCA also serves as a **social support** tool and helps group members cope with risk by providing **financial support** during emergencies and high-scale events.

References

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