

# 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



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

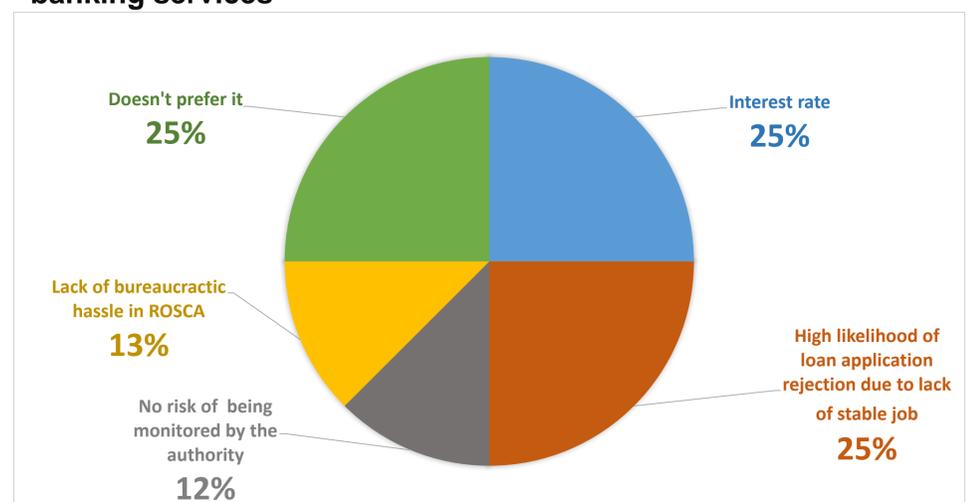
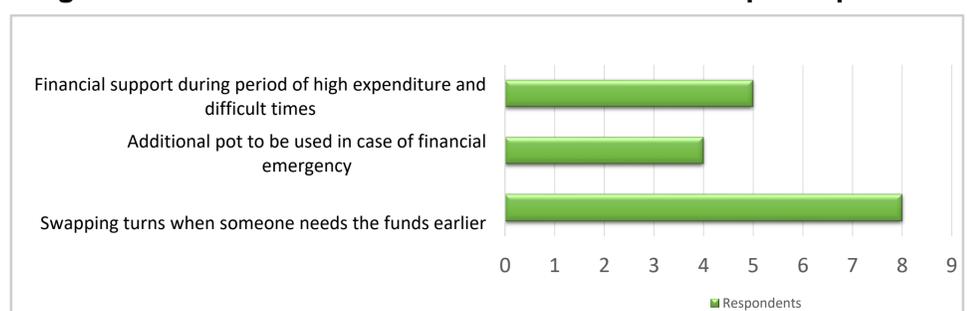


Figure 2: Additional benefits derived from ROSCA participation



## 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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