

Why do the Beninese poor save by joining rotating and savings credit associations (rosca)?

As they do not have access to formal financial institutions in countries where the financial markets are incomplete, the poor have to be imaginative and create the institutions they need, for instance the rosca, an informal saving group.

The basic principle of these groups is quite simple. People regularly meet and contribute a fixed amount of money to a common pot, which is then allocated to one member of the group. The latter is then excluded from the pot reception while he and all the other members have to contribute until the end of the cycle, when everyone of them has received the collective savings.

From a macroeconomic perspective, given the link between savings, investment and growth, a better understanding of these institutions can only be beneficial to the economic development of the developing countries where the roscas are pervasive. From a microeconomic point of view and for policy making, it seems essential to have a deep knowledge of the needs of the poor in order to offer them adapted financial products and improve their living conditions.

Olivier Dagnelie and Philippe Lemay-Boucher conducted a household survey, in Cotonou, Benin, in 2004, during which they collected data about 497 households, 1179 individuals older than 15, of which 222 participating in 183 roscas. Their investigations aiming at discovering the motives underlying rosca participation show that most people join those informal groups to discipline themselves to save.

From the literature, several motives are known to drive the participation to roscas. As everyone except the last in the cycle receives her savings before she would, had she saved on her own, quickly financing indivisible expenses could explain participation. However, it does not comply with the Beninese case as 60% of the members of the group prefer to receive the pot at the end of the cycle.

Neither, is it an insurance motive as, in many cases, the time of reception is fixed or does not depend of the needs of the members. Moreover, the poor rather turn to another informal institution, indemnity funds, which is more appropriate to deal with those insurance issues.

In Benin, husband and wife do not share a common budget, still expenses have to be made for the household. Hence spouses try to show themselves poorer than they really are to force their partner to take care of more of these expenses. Hiding one's income by joining such an association is one strategy in that respect. Nevertheless, only 15% of the rosca members in couple use their participation to hide part of their income from their partner.

It appears that, in Cotonou, people suffer from the same problems as in many parts of the world and therefore value commitment device allowing themselves not to give in to temptations. Some of them indeed know that they would have a higher welfare by saving more but cannot manage to do it. They have however

little if any possibilities offered by the market to solve these problems. In the US, on the contrary, the well-known 401k savings plan allows workers to automatically put out of reach part of their salary, which is saved for their old days. In most developed countries, the financial markets offer many similar opportunities whereas many poor in the developing countries have to turn to informal institutions to secure their savings.

By comparing the share of frivolous expenses, of individual savings and of given transfers in the total money uses between members and non members of rosca, Dagnelie and Lemay-Boucher show that members save almost twice as much as non members, spend between 15 and 25% percent less in frivolous expenses but do not give less transfers. Facts therefore confirm the answer given by 89% of the members to the question regarding the motive for their participation; they indeed take part in roscas to discipline themselves to save.

'Rosca Participation in Benin: a Commitment Issue' by Olivier Dagnelie and Philippe Lemay-Boucher is to be presented at the Royal Economic Society's 2008 annual conference at the University of Warwick, 17-19 April.

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