

BANKING ON EACH OTHER: THE SITUATIONAL LOGIC OF ROTATING SAVINGS AND CREDIT ASSOCIATIONS

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ABSTRACT

Poverty stems from many causes and has multiple expressions around the world. Nonetheless, in recent years international development agencies and governments have focused above all on one strategy for poverty alleviation: microlending programs that provide credit to groups of poor people, usually women, for small business activities. While microlending programs such as those developed by the Grameen Bank in Bangladesh are politically and morally attractive, in fact there is little understanding of the social conditions under which these programs are likely to succeed or fail. Using an interpretive comparative case methodology, I analyze a globally widespread and naturally occurring type of group financing organization, the rotating savings and credit association, to identify those social structural characteristics associated with successful peer group lending arrangements. I demonstrate the utility of an economic sociology approach – seeing economic organizations as rooted in social structure – to understanding an important credit institution.

INTRODUCTION

In February, 1997 an extraordinary gathering of 2000 officials and dignitaries from 137 countries declared a commitment to end poverty through the

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extension of credit to 100 million of the world's poorest families by the year 2005. The Microcredit Summit, held in Washington, D.C. attracted five heads of state and four first ladies, including Hillary Rodham Clinton. Numerous parliamentarians and ministers, including U.S. Secretary of the Treasury Robert Rubin, joined activists from the United Nations, international aid agencies, philanthropic foundations, and religious leaders at the meeting. Members of the international banking community, including World Bank President James Wolfensohn, and executives from Citicorp, Wells Fargo Bank, Monsanto Corporation, and many other large financial and commercial institutions participated.

This unprecedented assemblage of governmental, philanthropic, religious and business elites from around the world convened to lend political and financial support to a single solution to the problem of poverty: microcredit. Microcredit is the loan of tiny amounts of money for entrepreneurial business activities to poor women organized in solidarity groups. The groups, typically of 15–20 participants, are organized by paid employees of non-governmental organizations (NGOs). The NGOs lend money to members who must repay the funds on time in order to get further loans. Successful repayment of small loans may lead to more substantial loans. The money in the fund, initially supplied by the NGO, "belongs" to the group and if there are defaults there is less money available to everyone.

An estimated 1.3 billion people live in poverty today, and it is arguably the largest and most intractable social problem in the world. The microcredit movement has gained force as a solution to this problem for at least three reasons. First, microcredit targets women and therefore serves the interests of children who represent many of the world's population of poor people. Second, microcredit promises to be a cost-effective solution that puts most resources directly in the hands of the poor, not development bureaucracies or corrupt governments. Third, the microcredit idea brings together groups that historically have not been allies. Advocates for the poor have found new support from business elites attracted to the concept of self-sufficient enterprise as a tool for poverty reduction, especially since microcredit relies primarily on loans and not grants.

Microcredit joins ideas about financial responsibility and business acumen with beliefs about the effectiveness of peer pressure and assistance to help participants make good business decisions and to repay loans on time. Established microcredit programs, such as the Grameen Bank in Bangladesh, give credibility to the idea of peer group lending as an effective tool for poverty alleviation. However, the rapidity with which microcredit is being spread globally to very different settings suggests that a dispassionate analysis of the

conditions under which microcredit works, or fails to work, is crucial. To date, there has been no such analysis and at least a few researchers suggest that microcredit programs can be difficult to sustain (Bouman, 1994; Taub, 1998).

I believe that an existing type of indigenous peer lending arrangement, the Rotating Savings and Credit Association or "rosca," offers an important opportunity to understand the conditions under which microcredit programs might flourish. Roscas are a globally widespread type of informal organization that brings together social familiars for purposes of saving and lending. While microcredit programs and roscas vary in particulars, they both organize groups of people for the purposes of enforced saving and extension of collateral-free loans, and they both rely on social pressures to make periodic payments. Microcredit is targeted primarily at women (an estimated 80% of participants), and while roscas involve men in some settings, they too are primarily used by women in many locations. The comparability of the two forms has not gone unnoticed and microcredit proponents sometimes refer to the success of "naturally occurring" roscas as evidence that "induced" microcredit arrangements can be efficacious. In this study I use available data on roscas to identify conditions that seem common to successful roscas in a variety of settings, and by extension, to suggest those factors that may be crucial to the success of microcredit arrangements organized by development agencies.

Secondarily, this study substantiates the utility of an interpretive economic sociology perspective to understand the economic logic of a widespread, socially embedded credit institution. Economic theory has long accepted that credit granting is a matter of converting the uncertainty of repayment into a calculable risk (Knight, [1921] 1964, [1935] 1976). The presumption is that the most efficient way to allocate credit is to match large numbers of savers with large numbers of borrowers through the brokerage of intermediary institutions that assess the credit worthiness of applicants – the "efficient market" hypothesis. Institutions such as banks perform ex-ante screening of borrowers for their ability and willingness to repay by assessing past debt repayment, the likely future income stream, and the value of assets that may be used for collateral should a borrower fail to repay. Intermediaries exercise post-ante sanctions in the case of default, for example the seizure of assets, garnishing of wages, and reporting default to credit information agencies. Banks and other intermediaries that do not have rich information about borrowing strangers, whom they match with depositors, spread risk over large numbers of transactions. Trust in individual borrowers is made irrelevant; it is only necessary that the class of borrowers as a whole return a sufficient spread between the costs of paying interest to savers and the costs of lending.

Roscas do not utilize unknown intermediaries, do not involve large numbers of borrowers and lenders, and do not demand collateral. However, the structure of roscas has a clear economic logic that employs both *ex ante* screening and the threat of *post ante* sanctions. As will be shown below, they have an economic logic rooted in social structure and social relations.

ROTATING SAVINGS AND CREDIT ASSOCIATIONS

Roscas have a number of variations but typically are "an association formed upon a core of participants who agree to make regular contributions to a fund which is given, in whole or part, to each contributor in rotation" (Ardener, 1964: 201). For example, eleven acquaintances might agree to contribute \$10 to a fund once each month for eleven months. Once during that period each contributor would take the monthly \$100 "pot" of contributions. This arrangement allows people who find it difficult to raise money to periodically have access to relatively substantial amounts of capital useful for business purposes, consumption or income smoothing. Roscas often involve very small amounts of money, but can be rolled over to buy more substantial purchases such as real estate and business inventories. In some locations people will belong to more than one rosca.

Roscas are important in many developing countries in Africa, South America, and Asia, and have been researched extensively by anthropologists, sociologists and economists (e.g. Bouman, 1979, 1990; Castells & Portes, 1989; Cubitt, 1995; DeLancey, 1977; Freidrich, 1965; Kerry, 1976). Researchers have noted rosca use among Jamaican migrants to British cities (Sterling, 1995), Japanese villagers (Embree, 1939), Bolivian office-workers (Adams & Canavesi, 1989), Nigerian farmers (Nwabughuogu, 1984), rural Indians (Anderson, 1966), and diasporic Chinese (Wu, 1974). For the most part, research on roscas consists of case studies that examine the operation of rosca arrangements in neighborhoods, or communities. These studies provide detailed understanding of the economic and social role roscas play in local settings and offer important insight into the interplay of economic and social relations.

Recently, development scholars have attempted to move beyond localized case analyses and create more general understanding of roscas. For example, Bouman (1995) extrapolated features from known roscas in various settings to discuss two important savings and lending forms and hybrid variations. Development economists have often attempted to apply neoclassical principles to informal economic activity generally (cf. Feige, 1990; Hoff & Stiglitz, 1990) and have even created econometric models of the financial conditions under

which roscas are economically rational and sustainable (Besley, Coate & Loury 1993, 1994). Economic studies of roscas have also tended to focus on the role of informal credit markets in regional economic development, often in comparison with regulated markets (e.g. Chu, 1995; van den Brink & Chavas, 1997).

I believe that the voluminous material on roscas also offers the opportunity to do a comparative analysis of the social conditions under which peer lending arrangements are successful. Thus, in the present study I analyze a large cross-section of case studies of roscas in Sub-Saharan Africa, Latin America, the Indian subcontinent, East Asia, and diasporic communities in North America and Europe to deduce the conditions under which diverse peoples use peer lending arrangements. My analysis seeks to answer the question, "Under what social circumstances will people pool their money successfully for personal or mutual gain?"

FIVE COMMON CIRCUMSTANCES

Roscas are widespread and are found in very different types of societies. They appear in patrilineal and caste-based social orders, in cities (Adams & Canavesi, 1989) and in rural settings (Bouman, 1984). They are used for purposes of consumption (Mayoux & Anand, 1995), commerce (Little, 1972), and income-smoothing (Sethi, 1995). They exist among Hindus (Sethi, 1995), Christians (Mayoux & Anand, 1995), Moslems (Bouman & Moll, 1992; Srinivasan, 1995), and Confucians (Wu, 1974). There is no clear set of structural, occupational, geographic, cultural, or religious factors that are associated with roscas, and there is no evidence that this financial form diffused from one society to another. They do not, however, exist everywhere. I argue instead that roscas exist under a set of conditions where they satisfy a *situational logic*.

Situational logics are constellations of factors that together lead actors to view certain courses of action as efficacious and sensible. For example, Hobsbawm (1981) analyzed the conditions under which banditry, found in societies as diverse as China, Peru, Sicily, the Ukraine and Indonesia, occurs. Banditry is "one of the most universal social phenomena known to history, and one of the most amazingly uniform," but its "uniformity is not the consequence of cultural diffusion, but the reflection of similar situations" (1981: 18). Hobsbawm's interpretive analysis of diverse case materials demonstrated that banditry occurs as a form of retributive justice in societies transitioning between monarchic kinship and market societies, forming what Walton calls a "universal case" (1992: 128).

Methodologically similar to Hobsbawm's approach, my interpretation of the position of diverse actors allows me to reconstruct the situational logic of rotating savings and credit associations. A reading of a wide variety of cases of roscas around the world shows that amazingly similar sets of circumstances are common to most, if not all, and represent the "universal case" of a situational logic. While not all roscas in all places and times share exactly the same features and conditions, the differences are very much variations on a discernible theme, as indicated in Table 1.

Indeed, at least five common social conditions are associated with roscas in the cases I examined. These conditions are not clearly separable in practice – in fact, they are overlapping and mutually reinforcing. However, I separate them for analytical purposes in order to isolate the role each plays in contributing to a situational logic in which pooling money with others makes sense.

Roscas, as informal and unregulated financial institutions, cannot rely on legal and state controls to assure enforcement of payment agreements made by participants. Roscas seldom maintain written records, much less formal contracts, and do not have collateral agreements to materially mitigate against default. Moreover, every member in the rosca rotation except the last, who is simply getting back contributions already made, has an opportunistic financial incentive to take the pot and not continue to pay into the fund. Nonetheless, roscas are widely reported to have very low default rates (e.g. Angel, deGoede & Sevilla, 1978; Bonnett, 1981; Burman & Lambete, 1995; Kennedy, 1973; Wu, 1974). Both the character of the social setting and attributes of the participants involved help explain the presence and sustainability of roscas. Case analyses indicate that five of the most basic of these are: (1) a communally-based social order, (2) obligations that are held to be collective in nature, (3) social and economic stability, (4) social and economic isolation, and (5) similarity among rosca members in social status.

Communally-Based Social Order

Although roscas are found in many differently organized societies, they only exist where social structure is built on strong communal ties. Roscas are found in societies organized by kinship networks, clan membership, and common identification with a native place or place of cohabitation (Roberts, 1994). In communal social orders, the group is both a social and financial resource and a powerful socializing and coercive agent. When actors perceive that social or economic advancement is defined and controlled by the group, subordination to group practice makes sense as independent action cannot lead to success.

Table 1. Regional and Social Structural Comparison of Rotating Savings and Credit Associations.

	AFRICA & WEST INDIES	EAST ASIA & PACIFIC RIM	MEXICO & LATIN AMERICA	INDIA & CENTRAL ASIA
Communally Based Social Order	The historical emphasis on tribal and familial obligations remains crucial in urban and rural settings. Tribal members in both settings are expected to assist one another socially and economically, and failure to do so is seen as placing both the family reputation and the tribe's future at risk. Nwabughuogu, 1984; Soan & DeCamaramond, 1972.	Kinship ties and tribal or clan affiliations, especially among certain groups of Pacific Islanders, remain central components of social organization. Extended family members and clansmen are expected to assist members in need, and failure to do so results in social ostracism. Geertz, 1962; Kulp, 1925; Light, 1972; Miyanaga, 1995.	Urbanization and industrialization have not significantly decreased the communal basis of social organization and similar attitudes within the community increase membership homogeneity. Cope & Kurtz, 1980; Keefe, Padilla & Carlos, 1979; Keefe & Padilla, 1987; Lewis, 1959; Lomnitz, 1977; Véléz-Ibañez, 1983.	Social ties between individuals with similar class (caste) and religious backgrounds, as well as a strong emphasis on kinship ties, continue to fortify social cohesion and mutual responsibility. Ahuja, 1993; Betelle, 1995; Desai, 1982; Fancslo, 1995; Mayer, 1960.

Table 1. Continued.

	AFRICA & WEST INDIES	EAST ASIA & PACIFIC RIM	MEXICO & LATIN AMERICA	INDIA & CENTRAL ASIA
Social/Geographic Isolation	Both poor rural and urban dwellers are excluded from formal banking institutions. Migrants to cities duplicate traditional village structures and create informal banking systems based around tribal and familial structures. In immigrant and migrant communities, social ties serve as a resource for capital accumulation. Bortei-Doku & Aryeetey, 1995; Burman & Lambete, 1995; Bouman & Harteveld, 1975; Soan & DeCamaramond, 1972.	Poor rural residents are almost entirely excluded from formal banking institutions, as are poor urban dwellers and recent urban migrants. Kin and clan groups in rural areas create their own informal finance systems which are then duplicated by migrants to cities. For many recent urban migrants, ROSCA participation is an important way of becoming integrated into urban communities Skeldon, 1980 Chhetri, 1995; Hospes, 1995; Morton, 1978; Sexton, 1982; Skeldon, 1980; Wu, 1974.	Kinship support is not significantly damaged by geographic inaccessibility. Among socially marginalized communities, there is a mistrust of formal financial institutions combined with a frequent lack of direct access. Carlos & Sellers 1972; Keefe, Padilla & Carlos, 1979; Kurtz, 1973; Lewis, 1959, 1961.	Formal financial institutions primarily address the needs of the wealthy. Socially and economically disadvantaged populations are suspicious of formal banking institutions. Chhetri, 1995; Mayoux & Anand, 1995; Nayar, 1973; Sethi, 1995.

Table 1. Continued.

Collective Obligations	The possession of debt and a commitment to lend to others is a valued characteristic and signify a commitment to the community. While ROSCA members are not necessarily known to each other, ROSCA leaders must earn community respect, and leading or participating in a ROSCA reflects favorably on the individuals involved. Failure to repay debt can result in serious sanctions against not just the individuals involved, but also against whole families. Ajisafe, 1924; Bascom, 1952; Bonnett, 1981; Bortei-Doku & Aryeetey, 1995; Burman & Lambete, 1995; DeLancey, 1978; Nwabughuogu, 1984; Ottenberg, 1968; Rowlands, 1995; Soan & DeCamaramond, 1972.	Mutual aid is a cornerstone of social organization, and timely repayment of debt is paramount to earning and maintaining respect in the community. Those who do not participate in community-oriented activities, including ROSCAs, may face isolation or ostracism. Dishonor follows those who fail to make good on debts, or who fail to participate in community activities. Geertz, 1962; Miyanaga, 1995; Morton, 1978; Sexton, 1982; Skeldon, 1980; Wu, 1974.	A sense of collective obligation deters against the individualism necessary for capital formation, particularly among the poor. Mutual aid is provided by extended family and relations of fictive kinship through the institution of compadrazgo. "Social capital is generated by individual members' disciplined compliance with group expectations" (Portes & Sensenbrenner 1993: 1325). Carlos & Sellers, 1972; Keefe, Padilla & Carlos, 1979; Kurtz, 1973; Kurtz & Showman, 1978; Lomnitz, 1977; March & Taqui, 1986; Portes & Sensenbrenner, 1993; Véléz-Ibañez, 1983.	Attitudes towards ROSCA participation and debt repayment echo long-standing traditions of community participation and sharing within village, class or religious groups. Reputation often hinges on debt repayment and failure to repay desecrates not only the individual's name, but also the family name. Angel de Goede & Sevilla, 1978; Ardener, 1964; Krishnan, 1959; Mayoux & Anand, 1995; Nayar, 1973; Sethi, 1995; Srinivisan, 1995.

Table 1. Continued.

	AFRICA & WEST INDIES	EAST ASIA & PACIFIC RIM	MEXICO & LATIN AMERICA	INDIA & CENTRAL ASIA
Social/Economic Stability	<p>ROSCA leaders are chosen for their stability and trustworthiness. Likewise, members are chosen based on stability within the community, the definition of which varies across regions but generally includes family and occupational stability and position within the community.</p> <p>Bortei-Doku & Aryeetey, 1995; Burman & Lambete, 1995; Nwabughuogu, 1984; Ottenberg, 1968.</p>	<p>The stability of ROSCA members is primarily assessed based on familial and financial stability. Those with long-standing ties family ties to the community and steady income are preferred ROSCA leaders and members. In migratory situations, wage laborers are often preferred.</p> <p>Miyanga, 1995; Morton, 1978; Skeldon, 1980.</p>	<p>Boundaries are based on patterns of behavior, cultural expectations and the presence of confianza. Uncertainty is reduced by privileging membership qualities that socially anchor the individual in the community (shared language, similarity of values, class, marriage stability).</p> <p>Cope & Kurtz, 1980; Lomnitz, 1977; Véléz-Ibañez, 1983.</p>	<p>Organizers and members are expected to have extensive ties to the community, particularly through family obligations. Stability is largely defined by family ties, and, for those who are employed or whose spouses are employed, by job stability. New members are selected largely based on their family's reputation.</p> <p>Bouman, 1984; Nayar, 1973; Sethi, 1995.</p>

Table 1. Continued.

Similarity of Social Status	<p>ROSCA members are usually drawn from similar labor fields and share a similar position within the occupational hierarchy. Gender and ethnicity/tribal affiliation also determine participation in certain ROSCAs. Risk of default is reduced by limiting membership to those who are known in the community and who share certain traits (type and length of employment, family stability, position within the community).</p> <p>Bortei-Doku & Aryeetey, 1995; Burman & Lambete, 1995; Brana-Shute, 1976; Nelson, 1995.</p>	<p>Social status is often classified at various levels in the formation of ROSCAs. For example, Hospes' work on Indonesian arisans finds that there are three types of arisans: the arisans of economic peers, of neighborhoods, and of religious groups. The degree of use of these three types varies across regions, and in some areas these elements of stability may also be combined.</p> <p>Geertz, 1962; Hospes, 1995; Sexton, 1980.</p>	<p>Cultural patterns and local ideologies of confianza and reciprocal obligation are reproduced within the institutionally variable contexts (family, business, politics). Networks of social relations among people of similar status (class, gender, ethnicity) operates as a vital market and non-market economic resource.</p> <p>Adams & Canavesi, 1989; Lomnitz & Melnick, 1991; Kurtz & Showman, 1978; Pérez-Lizuar, 1997; Véléz-Ibañez, 1982; Wilson, 1993.</p>	<p>Class (or caste) position is the most significant determinant of ROSCA membership. ROSCA members are often drawn from either real or fictive kinship networks and from workplaces. Group homogeneity is further reinforced by comparable income levels, geographic proximity, shared religious and language practices and similar status within the community.</p> <p>Bouman, 1984; Mayoux & Anand, 1995; Nayar, 1973; Sethi, 1995.</p>
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Conversely, *roscas* are not found in societies where individualism is strong, where people are only weakly tied to each other, and where actors believe that financial and occupational mobility can be achieved by personal efforts.

Roscas are widespread in Asian countries and enclaves, including Chinese (Kulp, 1925; Lee, 1990; Weber, 1951; Wu, 1974), Korean (Light & Zhong, 1995), and Indonesian (Hospes, 1995; Partadireja, 1974) societies (and historically in Japan; Izumida, 1992), where the dominant form of social structure is the patrilineal or patrimonial network (Hamilton & Biggart, 1988). In such societies, personal identity is closely bound with family ties, and behaviors that dishonor the family are both strongly sanctioned and self-limiting. In traditional Chinese *roscas*, known as *hui*, family members were morally obligated to pay off any delinquent debts incurred by the default of a family member (Bonnett, 1981; Geertz, 1962). Some Asian societies, for example Korea and Taiwan, utilize ancestral native places as a basis of social formation; people who trace ancestry to a common locale feel a kinship that may be the basis of trust in *roasca* formation. To the extent that ties with people back in these locales are still active, they form a type of reputational insurance against default. Light (1972) argues that regional and kinship ties are essential components upon which *roscas* have operated in both Chinese and Japanese communities.

Roscas are also widely present in Africa (Amogu, 1956; DeLancey, 1992; Little, 1951; Miracle, Miracle & Cohen, 1980; Mrack, 1989; Nadel, 1942) and go by various names including *tontines* in Francophone West Africa (Bouman, 1994), *esusu* in Anglophone West Africa (Bascom, 1952; Bouman, 1994; Maynard, 1996), and *stokvel* in South Africa (Bonnett, 1981; Burman & Lambete, 1995). Among Cameroon women, where access to formal credit institutions is limited, interest rates high and economic confidence weak, the *njangi* is used to pool funds for saving and lending to group members. In at least some cases, a woman is only permitted to join a *njangi* if sponsored by another member (Niger-Thomas, 1995). Among the Bamileke men of southwestern Cameroon, *roasca* default is rare: not only is it frowned upon socially, but normative sanctions are accompanied by fines imposed on delinquent members. Bouman (1994) has noted that the *tontine* of Senegal, based on traditional village communal relations, also exists among Senegalese urban migrants.

Among Latino families, large networks of extended family have strong reciprocal obligations to other relatives (Carlos, 1973; Lewis, 1965a, b; Nutini, 1976). Mexican-American migrants are likely to live in towns or areas where other family members also live and with whom mutual aid is exchanged

(Keefe, Padilla & Carlos, 1979). Kurtz (1973) suggests that shared impoverishment is an important criterion for *roasca* participation, where *roscas* can serve to reduce the uncertainty associated with poverty. Mexican *roasca* formation depends on reciprocal obligation (Lomnitz, 1977; Véléz-Ibañez, 1983). According to Véléz-Ibañez, "In all informally organized [*roscas*] the cultural 'glue' of *confianza* is the means by which bonds of mutual trust are maintained" (1983: 2).

The poor in Mexican and Mexican-American communities often distrust formal financial institutions (Kurtz, 1973; Kurtz & Showman, 1978; Véléz-Ibañez, 1983). Because personalism is valued in Mexican culture, the formality and impersonal distance of market relations deters many from using banks. Moreover, the poor generally cannot afford the high interest rates charged by banks. While banks demand material collateral, *roscas* operate on the social collateral of reputation and network ties which Mexicans view as placing stronger demands than the arms-length obligations represented by bank loans. Indeed, *roscas* which do not involve profit-making are called "*tandas vivas*" (live *tandas*) while those organized for self-serving economic purposes are referred to as "*tandas muertas*" (dead *tandas*). What makes a *tanda* "live" is reciprocal social obligations based on mutual trust. When profit is achieved at the expense of the other members it represents a lack of mutual trust, is devalued, and is closer to market relations where social obligation is not as strong (Véléz-Ibañez, 1983).

Roscas in India go by a variety of names, most notably *chits*, *kamatis*, and *kuries* (Nayar, 1973; Radhakrishnan, 1975; Sethi, 1995; Srinivisan, 1995). Some suggest that Indian associations date to ancient times when rice was pooled among village women on a rotational basis (Krishnan, 1959; Nayar, 1973; Radhakrishnan, 1975). The variety of Indian *roscas* is astounding and their rotational form often complex, but their logic is similar to that of Chinese, Mexican, and African funds.

Today, large commercially organized *chit* fund companies coexist with small interpersonal *roscas* in India. Commercial *chit* fund groups can be very large and composed of strangers. Consequently, rates of default are higher than they are among small *roscas* (Sethi, 1995). Other evidence suggests that in small Indian *roscas*, organized mainly by women well known to each other, community pressure and fear of ostracism are deterrents against default (Mayoux & Anand, 1995).

Although both men and women participate in *roscas*, in societies with strong gender divisions women's communal obligations are often oriented toward other women and center around activities traditionally seen as women's work. Sexton (1982), for example, found that women in Papua were expected to assist

each other, whether they were real or fictive kin, during times of need by providing meals, cleaning, and performing child care. Sexton argues that *wok meri*, local roscas, build upon traditional patterns of cooperation while incorporating modern ideas about financial assistance. Similarly, recently divorced women in South Africa help each other with child care and emotional support, but also aid each other financially through roscas (Burman & Lambete, 1995). Market women in Ghana share a strong norm of solidarity and often do not permit men to join their roscas, which are typically used for business capital (Bortei-Doku & Aryeetey, 1995).

Obligations are Collective

Embedding the rosca in existing social networks assures that participants have a common understanding of institutional rules regarding reciprocity, as well as reputational collateral (Vogel & Burkett, 1986a, b). As Granovetter argued, "The widespread preference for transacting with individuals of known reputation implies that few are actually content to rely on either generalized morality or institutional arrangements to guard against trouble" (1985: 490).

Granovetter's insight can extend beyond the individual to collectivities, however, as more than individual reputations are often at stake in roscas. In many communally-based social orders, families feel an obligation to pay off a family member's failed debt rather than besmirch the family name. For example, default on a rosca debt in Taiwan is likely to be made up by family members who fear tarnishing the family name. Under such circumstances, obligations tend to be collective. Reputation is an important source of social collateral and all members of a dishonored family are damaged by the default of any one member. In communal settings, then, obligations tend to be diffuse and not limited by contract, either real or implied. Familial reputation, as much as individual reputation, can serve as assurance against malfeasance, although in some settings, the organizer takes on the financial guarantee personally in the event of default (Bascom, 1952), and it is the organizer's responsibility to find members who are "sincere, solvent, and known."

In some parts of Africa, debt is not a vice. Instead, it is believed to be closely related to mutual aid and trust, which in turn are interpreted as being the keys to financial and political success. According to Rowlands, in the Cameroon Grassfields, "Since debts have primordial values, not only can they not be discharged, they must constantly be extended with the transmission of substances of all kinds in exchange (blood, semen, witchcraft, substance, money)" (1995: 117). Even in the *esusu* described by Ajisafe (1924) and Bascom (1952) where the members may not necessarily be well known to each

other, there is a shared sense of collective obligation. An "individual's credits and debits in an *esusu* group are inherited as part of his estate" (Bascom, 1952: 66). Thus, even the living have strong collective obligations to the dead that are not easily dismissed. Bonnet notes that roscas are used by detribalized immigrants "as a mechanism to increase their sociability and strengthen the bonds of solidarity now weakened by exposure to an impersonal urban cultural milieu" (1981: 19).

In some areas, women's sense of collective obligation may be stronger than men's because of gender ideologies that stress women's honesty and purity. As moral overseers of households, women's obligations to pay can be stronger than their husbands'. Bortei-Dokhu and Aryeetey (1995) indicate that men had higher rates of default than women; women would go so far as to borrow money rather than face the humiliation of default. According to Burman and Lambete, South African women were "bemused when asked what would happen if someone did not pay her contribution: it was clearly unthinkable" (1995: 38). Among women Asian migrants to an English enclave "The question 'What if someone does not pay?' gets little response, as non-payment is practically unheard of . . ." (Srinivasan, 1995: 203).

In addition to reputational capital and collective obligations, roscas often use structural techniques to mitigate against default until the newcomer is known and integrated into the group. For example, they may place newcomers at the end of the rotation where they are merely getting funds returned to them (Niger-Thomas, 1995). In some instances the organizer takes the first payment as a form of insurance against having to pay a defaulting borrower's turn (Bascom, 1952; Kulp, 1925; Light, 1972). The recruitment process may screen for similar life attitudes, social values, class standing, and a commitment to remaining in the same community, all of which contribute to greater membership homogeneity and presumed bases for solidarity (Cope & Kurtz, 1980). Members know, too, that if they fail to pay, their reputation will be damaged and they may not be invited to participate in the future (Ardener, 1995).

Social and Economic Stability of Individuals

Even in settings where roscas are common, not all people are allowed to participate. Rosca members, often through the agency of an organizer, exclude people who do not demonstrate social or economic stability. In the close communities in which roscas typically form, participants have rich, direct information both on the economic condition of actors, and on their moral standing. People who are unemployed, who are careless with money, or who

have made questionable choices in the past are excluded. Morally suspect actors, however that is locally defined, are also passed over.

Along these lines, Cope and Kurtz analyzed the characteristics of participants in *tandas*, a type of rosca common among Mexicans. Their study demonstrated clearly that people with certain social attributes are disproportionately involved in *tandas*. These characteristics are those associated with "stability or permanence of the individual in the community" (1980: 229). For example, people voluntarily separated or divorced were excluded from *tandas*, whereas widowed people were participants. "[D]ivorce or separation, as well as not being socially acceptable, also demonstrates one's irresponsibility and also may increase the possibility of one [sic] relocating" (1980: 229).

Other characteristics that people view as indicators of stability, for example having children, were also associated with rosca participation in Mexico. Organizers appear to choose for attributes likely to predispose financial responsibility and maintain information networks about the morality of potential members, their financial situation, and the likelihood of family members stepping in, in the case of default.

Social and Geographic Isolation

Roscas are commonly found in settings of social or geographical isolation. In some instances, geographic segregation for ethnic and racial reasons serves to coerce responsible financial behavior. Roscas are widely found, for example, in Hispanic, West Indian, and Asian enclaves among immigrant populations in the U.S. (Bonnett, 1981; Laguerre, 1998; Light, 1972; Light, Kwoun & Zhong, 1990; Light & Zhong, 1995; Maynard, 1996). Low rates of geographic mobility make reputational maintenance an important factor – people who perceive no alternative than local residence must sustain their reputation. Anderson, writing about an Indian chit fund describes the situation: "the extensive network of mutual interrelationships weaves such a tight net that no villager can hope to survive in the village if he does not fulfill his obligations" (1966: 338).

In Nepal, indigenous roscas known as the *dhikuri* are prevalent in many urban and rural areas (Chhetri, 1995; Messerschmidt, 1978; Vinding, 1984). Rotation is generally determined by competitive bidding with the deductions of imputed interest divided between members who have not received their turn. Contributions in *dhikuris* can be either monetary or non-monetary, such as grain or livestock. Unlike many roscas, *dhikuri* membership can often span significant distances and ethnic boundaries. However, because of the risk of default and lack of intimate knowledge about the social and economic stability of some other members, the poor and geographically fixed are unlikely to

"participate in interregional and inter-community *Dhikuris*. [Rather] they prefer to be involved in *Dhikuri* with smaller shares and fewer members from their own village" (Chhetri, 1995: 450). In the event that a member defaults, the organizer bears the financial responsibility. Consequently, fees are paid to the organizer for bearing the risk and running the *dhikuri*. Membership is based on mutual trust and each member of the association must take turns hosting a dinner for the other members. Because 90% of Nepali people live in rural areas without convenient access to urban banks, which may be days away, roscas serve as a viable alternative for saving money and acquiring loans.

Even in areas where low-income men may have access to some forms of formal banking, women are often excluded. In Ghana, for example, women are rarely able to participate in formal banking institutions, both because of gender discrimination and because women are less likely to engage in formal economic activity or cash crop farming. Likewise, in India, poor women have a harder time obtaining credit than their male counterparts "because of lack of resources, prejudice in the lending agencies, and power relations in the family" (Mayoux & Anand, 1995: 187). Consequently, Indian women are far more likely than men to participate in roscas (Bortei-Doku & Aryeetey, 1995). Likewise, in Papua New Guinea, women have little economic control in the household or beyond; roscas are one of few ways they can generate large sums of money without the interference of their husbands (Sexton, 1982). In Tanzania, where women have traditionally pooled clothing or food, female entrepreneurs now participate in cash roscas so that they do not have to ask their husbands for money (Tripp, 1997).

Similarity of Social Status

Roscas are seldom formed among people of unequal social status, as a markedly more powerful member would be difficult to control through the informal means available to the other rosca members. The presumption is that a powerful person would be able to extract funds from the other members or renege on promises to social lessers with impunity. However, sometimes a person of higher status who is connected to the group, for example a relatively well-off relative, acts as an informal guarantor in case someone has difficulty making a payment; this person would arrange repayment with the cash-short individual so that the rosca could proceed uninterrupted.

Other forms of informal finance among unequal parties are found alongside roscas, however. For example, there are reports of various informal financing arrangements between landlords and tenants, employers and employees, and vendors and buyers (Mayer, 1960). Roscas, however, appear to only occur

among people of like status and often similar and overlapping social attributes. Shipton described the situation in Gambian roscas, known as *osusu*, as "overlying ties of neighborhood, gender, age, kinship, and ethnicity [which] all seemed to give the groups the capacity for peer-group pressure . . ." (1992: 33).

ECONOMIC SOCIOLOGY AND THE SITUATIONAL LOGIC OF ROSCAS

The five conditions that I have identified are, of course, part of an experiential whole for participants, a social world of a particular kind. The group is an emotional, social and economic resource. It is a source of identity and affirmation, and it is difficult to conceive of oneself apart from the community. The group defines success, and in any case, access to alternative paths to success is limited if even imaginable. Actors in this world, especially poor ones with little or no access to banks or other regulated financial institutions, come to see roscas as a natural and efficacious strategy for capital accumulation and lending.

Although the group can exert meaningful pressures on actors to participate as promised, the group can also use its intimate knowledge of each other's lives to limit participation to those with the social and moral capital necessary to repay as agreed. If circumstances or miscalculation lead an actor to fail to pay at her turn, or worse, to run off with the pot, then relatives can be pressured to make good on the debt. Failure to meet the kin's obligation can lead to social ostracism or to exclusion from rosca membership, a real hardship where roscas play an important economic and social role in the community. Gender, poverty, and social and geographic isolation make the community the only realistic place in which to construct a life.

The possibility of default, while typically low, is always present. Members know the incentive for appropriation is the greatest for those who receive the hand early in the rotation, when one is a net borrower, diminishing to nothing for the last person who merely receives back contributions, a net lender. Therefore, placing the most unknown, riskiest, and least experienced rosca members near the end of the rotation limits incentives to flee. It also provides an opportunity to socialize and observe new members without much risk. Several researchers who have studied rotating savings and credit associations note that they are frequently accompanied by regular social events, such as feasting at the beginning of the cycle or meeting over lunch during each rotation. These events, which while pleasant, also serve to reinforce solidarity

and give an opportunity to gather intimate information (Morton, 1978; Sethi, 1995).

Roscas, unlike formal financial institutions that intermediate between unknown borrowers and lenders, are typically formed among people who know each other well and anticipate knowing each other into some unknown future. The probability of future relations with each other is an important pressure to maintain obligations in any given round. In fact, the pressure is often used by members to discipline *themselves* to save – much like voluntary entry into twelve-step programs, such as Alcoholics Anonymous, or behavioral modification groups such as Weight Watchers. Participants speak of self-imposed social coercion in order to achieve financial objectives. For this reason, development specialists have sometimes argued that the element of social coercion can be an important factor in a successful aid policy (Shipton, 1992).

Roscas do not approach the conditions economists usually assume necessary for an efficient credit market given that they are composed of a small numbers of participants who usually know each other well. They do, however, reveal an economic logic rooted in a belief in the efficacy of social structural factors as both *ex ante* screen for credit worthiness, and as *ex post* sanctions in the case of default. Rosca participants around the world, even the impoverished and financially unsophisticated, show keen understandings of the traits likely to yield trustworthy co-borrowers and of the recourses they can initiate in the event of default.

IMPLICATIONS FOR MICROCREDIT ARRANGEMENTS

Roscas and microcredit lending arrangements have important similarities. They both organize poor people, mostly women, into groups for mutual assistance and particularly for savings and lending. Both involve periodic payment by members into a communal fund, and both depend on peer pressure to sustain participation and prevent default. For this reason, microcredit arrangements are likely to work well in environments that emulate in important ways the situational logic of rosca settings. In social worlds where groups are important organizers of experience and activity, where obligations are collective, and where alternative sources of identity and mobility are absent or constrained, microcredit offers an important tool for poverty alleviation.

Matching these social-setting characteristics is not enough, however. It is equally critical to recruit individuals who are of like social status, who are organized with others with whom they have (or come to have) a social bond and basis of mutual obligation, and who have faith in the practical and moral credibility of fellow peer group members. This poses a difficult challenge to

those committed to microcredit. NGO organizers of peer lending groups may not have detailed and nuanced knowledge of participants, even if they employ women organizers from the region or community. Indeed, the research of Taub (1998) on the Good Faith Fund, a microcredit institution in Arkansas modeled after the Grameen Bank in Bangladesh, suggests that the difficulties the Fund has encountered have much to do with the geographic and social integration of participants into a world greater than their community. Nonetheless, microcredit is an important and promising vehicle for poverty alleviation in places as different as Cameroon and Vietnam, but as in roscas, the social bases of economic activity are crucial.

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