

Rotating Saving and Credit Associations in Rural East Africa

Abstract:

Theoretical arguments suggest that rotating savings and credit associations (ROSCAs) improve welfare by reducing the utility cost of saving for a consumer durable. Data from two communities in East Africa reveal major differences in the incidence of ROSCAs participation arising, conjecturally, from differences in the relative depths of market penetration and perceptions about the efficacy of alternative strategies for compensating for failures in the financial markets. Participation in ROSCAs in these communities is partly driven by the need to raise school fees, meet medical expenses and buy food. ROSCAs funds are also used to start or promote small businesses and acquire assets, including livestock. Households owning smaller landholdings and those enjoying higher expenditures are more likely to participate in ROSCAs. The number of schemes in which a household participates is closely related to the main uses of ROSCAs funds while contributions and value of receipts are determined by total expenditures and frequency of turns respectively.