

## **PROJECT UPDATE**

### **Report Type**

*Mid Term Award Report – August 2022*

### **Full Name**

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### **Faculty/Department**

*Faculty of Economics*

### **Project Title**

*Roscas and formal credit markets: theory and evidence*

#### **Project Abstract**

*Rotating savings and credit associations (Roscas) have been the most prominent informal financial arrangements in developing countries despite the recent expansion and development of financial systems. Using a large microcredit reform which improves access to formal credits for rural households, we provide the first empirical evidence on how Roscas interact with the development of formal credit markets. An economic behavioral model is used to understand the economic incentives underlying participation in Roscas. From the model we can evaluate the value of a micro-finance program under different informal financial arrangements and inform policy makers of the optimal design of micro-finance programs.*

#### **Activities and Achievement**

*The goal of this paper is to provide both a theoretical and empirical analysis regarding the economic incentives of Roscas and how they interact with the development of formal credit markets. The traditional view of Roscas is that they exist because of a lack of access to formal credits. However, in societies with a well-established formal credit market, Rosca membership remains common. Using a large microcredit reform which improves access to formal credits for rural households, our empirical analysis provides the first causal relationship between access to formal credits and participation in Roscas. In order to understand the mechanisms driving these relationships, we then build and estimate a structural model of Roscas participation where individuals face income uncertainty and also have access to savings and potentially formal credit markets. From the model we can conduct welfare and policy analysis, where we emphasize how the presence of informal credit institutions may affect policy makers' valuation of formal credit arrangements such as micro finance program.*

*Over the past few months since the project started, I have made a decent progress in terms of data collection and cleaning the household data required for the empirical analysis part as well as establishing how they can be applied in conjunction with the micro-finance reform to study the interplay between rosca and formal credit markets. After reviewing relevant*

*literature and empirical research design, I have now started preliminary empirical analysis of the potential impact of the formal credit reform on rosca participations.*

**Key Research Findings to date**

*I have obtained preliminary results of the potential impact of the reform on Roscas. Please see the form.*

**Dissemination**

*As the project is still in the initial stage, I do not have a written paper that is ready for dissemination yet.*

**Outputs**

*While I am making progress and hitting milestones in the early stage of the project, this research however has not yet produced any relevant outputs, but details of any future publications will be submitted to the CERF database as soon as they become available.*

**Web Links**

*At this stage, there are none.*

**Additional Information**

*I would really appreciate it if this attached file and details are not publicized just yet.*