

An aerial photograph of a village in Kyrgyzstan, showing a dense cluster of small, simple houses with corrugated metal roofs. In the background, there are rolling green hills and a range of mountains with snow-capped peaks under a blue sky with light clouds. The text is overlaid on the upper half of the image.

Trust and informal financial institutions in Central Asia: the case of Kyrgyzstan

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Photo by Ilias Mamadiarov

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Informality and its importance in Central Asia

- Informality is a complex phenomenon
 - Relationship between informal and formal behavioral regularity is complex and reciprocal (Weber, 1921)
 - Shift in conceptualization of informal relations and rules from market centered analysis to more institutional approach (Chavance, 2008)
 - Informal constraints shape everyday human interaction (norms of behavior, codes of conduct, conventions) (North, 1990).
 - E.g. adaptive informal institutions in China (Tsai, 2007)
- Informality is pervasive in post-Soviet Central Asia
 - Common labels: corruption, mafia business, patron-client system, black market etc. (Borozc, 2000)
 - More than 25-40% of informal sector in the region (UZ, TJ, KG) (Abdih & Medina, 2013)
 - Kyrgyzstan, informal employment constitutes 59% of total employment market (Dubashov, B., Mbowe, A., Ismailakhunova, S., & Zorya, S., 2019)

The science of “trust”

- A myriad of studies on the subject of trust:
 - F. Fukuyama, R. Putnam, J. Coleman, E. Ostrom, R. Hardin etc.
- Economy of conventions – A. Orléan, M. Aglietta (“La monnaie souveraine”, 1998)
 - Methodical trust
 - Ethical trust
 - Hierarchical trust

Sherine/Chernaya kassa (ROSCA) in Kyrgyzstan

- Sherine (шерине)/Chernaya kassa (черная касса) - Rotating Savings and Credit Association (ROSCA).
- Widely quoted definition: “An association formed upon a core of participants who agree to make a regular contributions to a fund which is given, in whole or in part, to each contributor in rotation” (Ardener, 1964).

General characteristics of ROSCA

- Widely spread in developing economies, some instances of developed ones are present too, e.g. Taiwan (Levenson, A. R., & Besley, T. , 1996)
- No formal binding rules (written contracts, conventions).
- Strong element of trust (low chances of default) (Putnam, 1993)
- Membership is constituted predominantly of women.
- Efficient savings institutions: self-discipline, group saving (Gugerty, 2007)
- Two broad types: bidding and random (Besley, 1993).

Preliminary ROSCA case study results

Based on 2017 field work data (50 households, two villages: Ming-Bulak & Tchat-Bazar, Talas oblast, Kyrgyzstan)

Common patterns :

- Exists since Soviet period
- Reluctance/fear to face bureaucracy of formal financial services
- Strong trust among members
- Almost zero cases of default due to powerful social sanctions



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Preliminary ROSCA case study results

- Groups according to kinship & social affiliations (neighbors, school classmates, co-workers)
- Important networking mechanism (Kuehnast & Dudwick., 2004).
- Precise number of savings groups is uncertain
- Savings are spent often on durable consumption goods
- Possible instances of microcredit loans to pay ROSCA dues.

Note: The findings corroborate the existing studies on the subject (Kapalova 2015; Pelkmans 2003;)



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Conclusion

- Informal financial structures are pervasive across Central Asia. It is an important economic actor which must not be ignored when attempting to understand the socioeconomic landscape of the region today.
- With regards to Kyrgyzstan, the fact that Sherine/Chernaya kassa (ROSCAs) in rural settings can, among other things, exert influence on the work of formal microcredit institutions raises multiple concerns that require a thorough study.

THANK YOU

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