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# Putting Pieces in Place: Immigrants Use Informal Economy Tools as a Link to Formal Banking and Business

New arrivals to America must navigate ongoing identification of what American norms are and make decisions about which norms to embrace, which to merge into previously held norms, and which to discard as a poor fit. Financial norms hold a special place of importance. Deciding how to manage finances in America is directly related to the ability to provide for the well-being of oneself, one's family, and one's community.

In a series of interviews in the fall of 2019, three Burundian immigrants in southern Maine shared their creative approaches to managing American finances. These newcomers use tools of the informal economy, such as Rotating Savings and Credit Associations<sup>1</sup> (RoSCAs, called *Ikirimba* in Burundi), to bolster their financial standing. *Ikirimbas* are not only a stepping stone to the US formal banking system, but also serve as a needed counterpart to the formal system. In essence, Burundians weave their *Ikirimbas* into formal banking practices in order to create and maintain their long-term financial health.

Using examples from the fall 2019 interviews, this essay explores how immigrant financial practices are creating deep and complex relationships between formal and informal finance, reframing old, unhelpful debates among policy makers and practitioners where Americans were either seen as “banked” or “unbanked.”

## What Does It Mean to Be “Banked” in America?

The FDIC defines a household as “fully banked” if that household has an account at a federally insured financial institution, and if the household exclusively uses financial products or services *inside* of the banking system. They further define house-

<sup>1</sup> Rotating Savings and Credit Associations (RoSCAs) are a form of peer to peer banking wherein a group of individuals agree to meet for a defined period in order to save and borrow together. Each member contributes the same amount at each meeting, and one member takes the whole sum once. As a result, each member is able to access a larger sum of money during the life of the RoSCA, and use it for whatever purpose she or he wishes.

holds as “underbanked” if households have an account with an institution and also use products or services from an alternative financial services (AFS) provider.<sup>2</sup> The FDIC’s underlying assumption in this definition is that being fully banked is the best way for individuals and households to “establish financial stability, resiliency, and economic mobility.”<sup>3</sup> This assumption is further reflected in the FDIC’s explanation of falling rates of unbanked households, wherein newly banked households “can be explained almost entirely by improvements in socio-economic circumstances.”<sup>4</sup>

Conceptualizing a household’s total financial reliance on traditional banking systems as a positive ideal is well aligned with the global financial inclusion agenda. Articulated by the Global Partnership for Financial Inclusion, the working belief is that providing access to and ownership of bank accounts will improve the lives of previously excluded adults and contribute to economic growth objectives.<sup>5</sup>

### Are Burundians in Maine “Underbanked”?

According to the FDIC definitions, Symphore, Zéphyrin, and Thérèse – the three participants in the fall 2019 study – are at best “underbanked.” All three have used or are active in RoSCAs, which are firmly outside of the traditional banking system. According to the definitions above, this should hinder their financial adjustment and general well-being. But that is not the case. All three described their experiences in RoSCAs as financially and socially empowering.

As Thérèse described arriving in Maine, “the America I saw on the TV was not the one I was living. I thought about going back to Burundi,” but her turning point as a new American was when she began building social and financial capital in tandem. “Meeting people and making friends changed my mind... With the Ikirimba, the benefit was that you

get to know more friends. Though I need money from the Ikirimba, the social life it provides is also very important,” she shared.

The strict definition of “banked” doesn’t capture the full experience and value of the RoSCAs. To understand how RoSCAs are used and useful to immigrants, we can instead consider the elements of the Consumer Financial Protection Bureau (CFPB)’s definition of financial well-being, that consumers:

- have control over day-to-day, month-to-month finances;
- have the capability to absorb a financial shock;
- are on track to meet financial goals;
- have the financial freedom to make choices that allow one to enjoy life.<sup>6</sup>

If we accept these as worthy benchmarks for financial health and inclusion, then how are Ikirimbas being used to help Burundians in Maine get there?

### Gaining Control Over Day-to-Day, Month-to-Month Finances

Immigrants coming from Burundi face unique financial challenges in learning about daily finances and financial products in America. Zéphyrin explained his financial transition as an immigrant:

“There isn’t a culture or expectation around savings in Burundi... A bank was a place to hold the money for a little while, not to save it long term. But here in America you need to know about saving money... Yes, life is like that here – you have to always be thinking about money. To get a job you need a car, to get a car you need a bank to give you a loan, to get a loan you need to show the bank you have savings, and then once you get the loan, you start paying interest. In Burundi, you don’t have to manage money in the same way, because nobody has that kind of money! Learning

2 The FDIC defines AFS providers as three transactional products (money orders, check cashing, and remittances) and five credit products (payday loans, pawn shop, refund anticipation loans, rent-to-own services, and auto title loans). While this list does not explicitly include RoSCAs, the inclusion of international remittances among the list of otherwise predatory financing options suggests anything out of the formal banking system is considered risky by the FDIC. It is the author’s opinion that according to this definition, the FDIC would consider ROSCA members to be unbanked or underbanked.

3 2017 FDIC National Survey of Unbanked and Underbanked Households, economicinclusion.gov, October 2018. <https://www.fdic.gov/householdsurvey/2017/2017exec-summ.pdf>

4 FDIC, 2018. According to the FDIC definition, there were still 8.4 million unbanked American households in 2017, or about 14.1 million adults.

5 Global Partnership for Financial Inclusion (GPFI). (2016). *Why Financial Inclusion*. <http://www.gpfi.org/about/why-financial-inclusion>

6 Consumer Financial Protection Bureau (2016) *Financial education programs serving immigrant populations*. [https://files.consumerfinance.gov/f/documents/20160714\\_cfpb\\_report\\_fined\\_immigrant\\_May\\_20\\_2016\\_FINAL.pdf](https://files.consumerfinance.gov/f/documents/20160714_cfpb_report_fined_immigrant_May_20_2016_FINAL.pdf)

about this new way of doing things, understanding we needed to support one another, that is what led us to start our first savings group in Maine. Ikirimba woke us up to how to have a better relationship with money... The goal for our group is to change our mindset away from the temptation of the credit card.”

Zéphyrin is describing a common experience of a new arrival grappling with the possibilities and responsibilities of American credit and debt. This sentiment is echoed by Symphore and Thérèse. With Ikirimba, all three felt better equipped to manage recurring costs that keep life moving, like rent, car payments, and remittances to family still in Burundi.<sup>7</sup>

Symphore, Zéphyrin, and Thérèse’s experiences gaining control over daily and monthly finances lean heavily on the “informal” Ikirimba, but do not exclude formal finances. Zéphyrin used his bank account to send and receive direct transfers between Ikirimba members to make their monthly contributions. Symphore used Ikirimba to help pay off personal loans from a local bank. Thérèse used Ikirimba to make a dedicated space in her limited finances for her monthly car payments. In each case, Ikirimba is being used to access or manage relationships with formal financial institutions. Ikirimba may even be the reason for having an account with a formal institution, as Zéphyrin uses his bank account to make or receive a transfer of value: “Three out of the five people in my group have separate bank accounts solely for Ikirimba, me included.”

### Absorbing Financial Shocks

In addition to getting a hold of anticipated costs, new arrivals must also deal with unanticipated costs, which might include births, deaths, accidents, or changes in employment. In a traditional banking scenario, such shocks dip into one’s liquidity, and financial resilience results from saving and using accounts to store value. New arrivals, who are working hard to get up to speed, likely do not have a lot of liquidity. This is not a problem unique to immigrants, as many Americans struggle to meet

financial shocks. What immigrants must also deal with is their lack of a credit history, or worse, a poor credit history. Damaged credit may also be a problem for immigrants who obtained a loan without fully understanding the specifics of their obligations. Without substantial savings, and lacking the credit history needed to access to new loans, immigrants struggle to manage financial shocks.

In these circumstances, the value of Ikirimba and other community savings schemes becomes clear. Symphore shared details of how Burundian communities in Canada and Maine are creating informal groups to help each other provide forms of mutual insurance against shocks:

“Someone here, last week, he lost his brother. He needed money to bring the body back home. He messaged the Burundian WhatsApp group and asked for contributions. They collected \$4,000 to assist him. Inspired by this, we – me and some colleagues – are thinking about something bigger. A group of ten of us would make a monthly contribution, but the assistance is only when you need it. Not the same as a RoSCA, but also useful. They will be used for different things.”

This describes a nimble mechanism which can adjust quickly to financial changes. An example from Zéphyrin’s Ikirimba:

“There is flexibility in our system. You don’t get that from the bank! Never! A bank only wants interest. If I have an emergency, I can ask to switch places with someone and move to the front of the line [to receive the payout]. We keep in touch and stay organized on a WhatsApp group. If it is my round to receive the payout, and someone has an emergency, they can contact me directly and we can make an arrangement. If during my round someone is not able to pay me, then I will not pay them on their next round, and voila, we are even. It can be managed privately between the two members so that not the whole group knows when you aren’t able to pay. We have flexibility, but members do not take advantage; putting off a payment is not something you can do twice and not be noticed.”

<sup>7</sup> To illustrate how Ikirimba works, Zéphyrin’s Ikirimba has five members. Each member contributes \$1,000 every two weeks. The person receiving a payout in the current round will move to last place in the next round. All of the members are employed, so they can pay on time, and everyone pays the same amount. Members are allowed to drop out after a round finishes, though if they leave they are encouraged to find a replacement. If a member has a compelling reason, they can go temporarily and then come back. The group relationship is managed almost exclusively online. Individual member deposits go directly into the receiving member’s bank account. Any discussion is conducted via the WhatsApp messaging platform.

Furthermore, whereas banks, credit cards, and formal loans require initial capital and ongoing guarantees, community initiatives provide more space to change priorities in the face of changing circumstances. If one can't continue making payments to a credit card or insurance plan, not only does that service lapse, but getting it again becomes much more difficult. Consider that against Thérèse's experience when she had her most recent child:

"[When] my daughter was born, I stopped working, it [became] too much to keep paying the Ikirimba. Although joining requires making a commitment to stay, I explained to them that I couldn't keep contributing. Because it was a group of my close friends, they were more lenient. Someday, when I have the ability to save again, they will let me back in the group... When my first daughter was born, my Ikirimba group threw me three baby showers. That wasn't about saving, that was just about supporting friends."

### Meeting Financial Goals

Ikirimbas work hand-in-hand with formal banking to help Burundian immigrants manage their daily finances. Ikirimbas fill the gaps in what formal banking offers by providing flexibility to respond to financial shocks. For meeting financial goals, entrepreneurial immigrants make Ikirimba and formal banking work together.

According to the Small Business Administration, immigrants have higher business ownership and formation rates than nonimmigrants. Approximately one in ten immigrant workers owns a business. However, lack of access to credit can present barriers to starting and expanding these businesses. Bank accounts provide the opportunity to access credit. This may include using a bank account to make repayments, or as an instrument to access credit directly from the bank. But to access that credit requires having capital to start with. Ikirimbas and community savings can provide the initial mechanism to build capital, which are then used to demonstrate "credit-worthiness" to a formal institution.

Symphore's goal is to start his own business. He currently works in group homes, facilities where mentally and physically disabled adults receive care.<sup>8</sup> He and his partners have each taken out personal loans from banks and compiled them together to get the space and equipment necessary for their business. Those loans were made possible by their involvement in Ikirimba, which helped them save and manage the daily finances necessary to build "credit-worthiness." They have a license approved by the state, and, during our interviews, were visited by the Department of Health and Human Services for a review. They have been advised by a local bank on setting up their payroll and hired a certified public accountant to train them on their financial responsibilities under the law.

In Symphore's example, we can see that engaging in informality did not hinder his respect for obligations to formal institutions like business licensing and payroll. Instead, those informal mechanisms helped him get to a place where he could successfully engage in a formal system that would otherwise be quite foreign.

Another version of mixing formal and informal tools to achieve financial goals comes from Thérèse. For Thérèse, starting a business was not just a financial proposition, but a social one. Her goal was for her and her friends to be more pro-active in their lives, to use some of their latent skills, and to create opportunities for themselves to work. From this perspective, their goals were different from a traditional business plan. It was equally as important that their business benchmarks were *inclusive* as it was that they were fiscally sound. Thérèse describes how,

"[When we started our business planning] only two of us were working at the time. Our primary goal was just to create an opportunity for ourselves to work. With that goal as the focus, there wasn't a strict requirement of amounts for everyone to [contribute to the business start-up capital]. Instead, we set goals with three-month timelines to achieve them. For example, if we knew we needed \$1,000 to buy materials, we would make a timeline wherein everyone could contribute their portion at any point during that three-month period."

<sup>8</sup> In Maine, a state where almost one out of every five residents is currently elderly, healthcare is a major economic sector. In Maine immigrants make up 13.8 percent of workers in home healthcare. Symphore and Zéphyrin were both interviewed at their places of work, group-home facilities. In both locations all of the staff were East African.

Here, Thérèse is describing an arrangement purposefully built with a long timeline. Everyone agrees to contribute what they can when they can, and the flexible payment dates (anytime in the three-month window) allows members to determine whenever their individual financial schedules allow them best to fulfill each contribution.

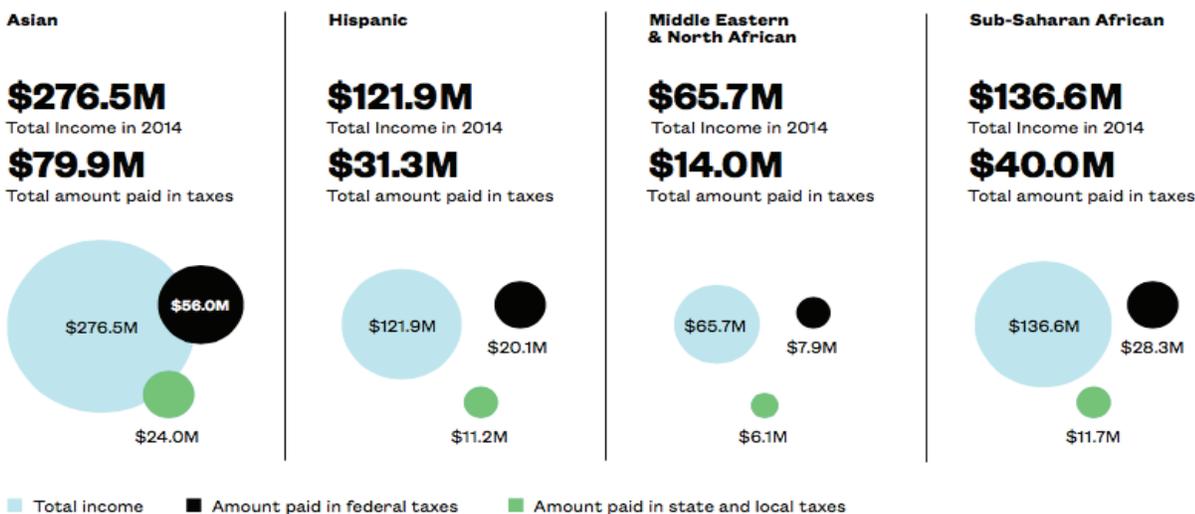
Similar to the discussion on financial shocks, here we can see how community savings introduce flexibility not available in the formal banking sector. That flexibility allows space for immigrants to prioritize what is most important to them. Symphore used Ikirimba to build a credit history that allowed him to access formal loans, whereas Thérèse and her business partners have been saving together, but have not yet gone to get a loan. Thérèse's business is also registered and paying taxes, again demonstrating how informal and formal mechanisms are brought together.<sup>9</sup>

## Financial Freedom

Financial freedom may be understood as the ability to make financial choices that allow one to enjoy life. This is not to suggest that people with more limitations on their financial situation do not enjoy their lives, but to recognize that households under different financial pressures weigh financial decisions differently. Our three participants are under a myriad of financial pressures, some common to many families in America and some unique to new arrivals. As they navigate these pressures and work toward their own visions of financial freedom, one thing seems relatively certain: they will continue to mingle informal and formal financial tools. As of October 2019, while Symphore worked to kick off his new business, his wife was starting an Ikirimba of her own. Any person or organization interested in the financial inclusion of new Americans would do well to recognize the value of community savings as complementary equals to formal financial institutions, mutually supporting immigrants' financial health.

### Annex 1. Graphic taken from *The Contributions of New Americans in Maine*<sup>10</sup>

#### INCOME AND TAX CONTRIBUTIONS OF KEY GROUPS WITHIN MAINE'S IMMIGRANT POPULATION, 2014



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<sup>9</sup> For more information on the income and tax contribution of Maine's immigrant population, please see Annex 1.

<sup>10</sup> New American Economy. *The Contributions of New Americans in Maine*. 2016. <http://research.newamericaneconomy.org/wp-content/uploads/2017/02/nae-me-report.pdf>

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