

Rotating saving and credit association: An alternative informal credit source for wholesale and retail traders in Peshawar, Pakistan

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Abstract

This paper attempts to explore the informal source of fundraising for the wholesale and retail traders in Peshawar, Khyber Pakhtunkhwa, Pakistan. Furthermore, it examines a cost benefit analysis of joining Rotating Saving and Credit Association (ROSCA) from the society point of view. Primary data is collected by filling closed ended personally administered questionnaires from 250 respondents, garnered through the snowball method and selected through purposive sampling. Descriptive statistics, percentage method, is used for data analysis. An empirical example is also used to show cost benefit analysis of the participants of the ROSCA. The study finds that 68 percent of respondents in the study area asserted that ROSCA is the only source of fundraising for them. Cost benefit analysis shows that the first 8 participants, out of a total of 12 participants, are better off in joining ROSCA and the last 4 participants are worse off. The study concluded that in the milieu where formal markets reluctant to cater to the needs of the small scale businesses, ROSCA plays an important role in fundraising for wholesale and retailers in the target area; and that society as a whole better off in joining ROSCA; rather than without it.

Keywords: ROSCA, financial markets, informal financial markets, wholesale traders, retail traders, descriptive statistics, cost benefit analysis.

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1. Introduction

Capital is the lifeblood of every business. Businesses try to get capital at a lower cost in the financial markets, but formal financial institutions are not always ready for the provision of credit to all kinds of businesses. The businesses excluded from formal financial markets then utilize the informal financial market for fundraising. In the developing countries, big firms and industries avail formal financial market services for capital accumulation, while small firms and small-scale businesses use informal financial market services for fundraising. Small scale businesses among other include wholesale and retail traders. These traders utilize their social network to access the informal sources of fundraising (Kamran, 2016). Rotating Saving and Credit Association (ROSCA) is one of the instruments of informal credit market, accessible through social networking. Many studies have been conducted on ROSCA regarding its operation, distribution, and allocation efficiency, uses of ROSCA pot etc, but little has been said about its role in accumulation of fund for small businesses, and the role it plays in the mobilization of saving in the society. This study particularly attempted to depict the role of ROSCA in provision of working capital for wholesale and retail traders in Khyber Pakhtunkhwa Province of Pakistan.

Access to the credit facilities is a big hurdle in the running and development of the businesses to these traders. Lack of credit facility is a major reason for the failure of many wholesale and retail businesses. In a study Cobham (2000) found that in UK and US 50 % small scale businesses fails within their startup due to no access to finance. Needless to say this ratio will be higher for small scale businesses in developing countries including Pakistan. Formal financial institutions reluctant to provide loan to small-scale businesses, their lending policies are not in favour for small scale businesses (Atieno, 2001). These small-scale businesses utilize informal credit market for raising fund (Lightfoot, 2013). One of the easily available and an important alternative informal credit source is Rotating Saving and Credit Associations (ROSCAs), based on pooling resources with a broad group of people either friends, neighbours or working in same place. ROSCA is a locally organized group of participants that meet at regular interval of time; at each meeting participants contribute a fixed amount of money to a pot, that pot are then allocated to one of the participant in rotation (Ardener, 1964). Method of allocating the pot can be random, bidding, or any other mutually agreed method. According to purpose/use of the pot, there are two kind of ROSCA: household ROSCA and Investment/market ROSCA.

Household ROSCAs are usually more popular among women. They join ROSCA in order to purchase consumer durable, ornament or to finance any other household expenditure or to finance life cycle events such as death and wedding ceremony etc. The amount of the pot is not extra ordinary greater and the number of participants is usually larger. Investment ROSCA takes place in market places. This is usually comprised of business persons. The primary aim of joining investment ROSCA is to raise capital for their businesses. The pot winner is selected randomly by lottery method. In the lottery method each participant has equal chance of winning the pot during each draw, with previous winner excluded from the draw. The amount of the pot is usually greater than the household ROSCA and the numbers of participants are between 10 to 18 persons. The payout is then invested in the business.

There are two main objectives of this study, first is to make a comparison between benefits and losses of joining ROSCA for the society as a whole. The second objective is to investigate the major informal source of fundraising for wholesale and retail traders in the target area.

1.1. An overview of small-scale businesses and ROSCA in Pakistan

According to Pakistan Economic Survey (2017), a small-scale business (trade/service) is any entity, which is not being public limited company, employee no more than 50 persons and has total assets up to Rs 50 million, excluding cost of land and building or net sales not exceeding Rs 300 million. Wholesale and retailers – treated as supplying services- facilitates consumers by providing a selection of goods at their door step with no extra cost (Pakistan Bureau of Statistics, 2020). Whole sale and retailers, on one hand, provide the consumer with a variety of choices of buying goods and services in convenient locations, and on the other hand, reduces transaction cost and time of the consumers. It also promotes economic growth and creates employment opportunities in the economy.

According to Pakistan Economic Survey (2019-20), wholesale and retail trade employed 14.92 percent of the total labour force of Pakistan, and its share in total service sector employment is 33 percent. It contributes 18.74 percent share in overall GDP of 2017-18, and after agriculture and manufacturing sector it is third largest sector in Pakistan (Retail Sector Report, 2012). In Pakistan the wholesale and retail sector is mostly informal, unorganized and out of government tax net. This sector depends upon informal financial markets for raising fund for investment and day to day business operational expenses. In Pakistan only 14% of the people are utilizing formal financial services for getting loan, 46% people are using informal financial services (moneylenders, committee, shopkeepers etc), while 40% people are using neither formal nor informal financial institution. As for as saving is concerned only 8% of the population uses formal financial institutions for saving money, the remaining 92% people saves either in home or informal financial institutions (Nenova *et al.*, 2009)

The formal financial institutions are reluctant to advances of loan to this sector of the economy. Wholesale and retail traders are the prime target of the commercial banks for deposits attraction, but their lending policies are such that it precludes wholesale and retail traders from getting loan from commercial banks (Kamran *et al.*, 2018). The general hurdles associated with getting loans from commercial banks are: cumbersome and lengthy procedure, complicated documentation, high value collateral, lack of awareness about financial instruments, provision of guarantee and low level of income (Nenova *et al.*, 2009). There is a huge gap for investment in the wholesale and retail business sector. This sector has a great potential to steer the economic growth and reduce unemployment in the country. By making this sector formal and organized the government can collect a handsome amount of the revenue in the form of direct and indirect taxes.

The informal financial services are provided, among others, by supplier credit, money lenders, and committee (in local language term Committee or Qistoon used for ROSCA). Supplier credit is a major source of credit for retail traders. Wholesaler provides goods to retailers on credit at higher price than on cash payment on the spot. Retailers pay the credit on weekly instalment or bimonthly or monthly instalment. This method of payment is called “Ograe” in local language. Money lenders provide loan without any collateral security and lengthy documentation. In order to avoid interest involvement, they make a simple transaction. For example, if a person need 4 lack rupees, he goes to the money lender. After consent/approval, the money lender will give him a car or tyres worth of 4 lac rupees on ,say, 6 lac rupees (usually $\geq 50\%$ profit) on monthly instalment with repurchase guarantee. Now the borrower is free to sale it in market on higher price or resale it back to the money lender on Rs 4 lac. The rate is higher, but the procedure is very simple and fast.

Committee (ROSCA) is another important and widely used informal source of saving and credit for poor people in Pakistan (Retail Sector Report, 2012). Almost 88 % Pakistani are familiar with the concept of committee. After saving in home and saving in kind/assets (Gold, Land, livestock), it is the third major source of saving for poor people. Similarly, behind supplier credit and moneylenders, it is the third popular source of loan in informal sector, (Nenova *et al.*, 2009). ROSCA serves two functions of borrowing and lending simultaneously. Those who receive earlier pot are borrowing loan, without interest, from last receivers of the pot (Qadir, 2005).

ROSCA is in compliance with Islamic tenants of financial transaction. Islam discourages idle savings and direct to keep money in circulation. Similarly, Islam has prohibited interest in financial transactions (giving loan on interest). ROSCA serves both these purposes. ROSCA effectively mobilize idle saving into investment and there is no interest on borrowed money. ROSCA essentially provide qard al-hasan fund for its members. Only random ROSCA is in compliance with Islamic finance. The bidding ROSCA, where the pot is allocated on the basis of higher auction is against Islamic principles of finance.

In the area studied, 99 % of people are Muslims. They avoid interest rate in lending and borrowing. This is one of the many reasons of self-exclusion from formal financial institutions, in spite of the presence of vast network of formal intermediary institutions, (Moustapha & Bousalam, 2015). Only interest rate cannot be blamed for self-exclusion. The fact is that banking system as a whole is not willing to extend the credit facilities to small traders. Taking for example the car finance scheme of the banks; no interest is involved in car finance transaction, but the stringent rule of the banking systems (lengthy and complicated documentation, high value collateral, high markup amount etc) are such that it automatically excludes the small traders. Our study showed that no one within the survey ever applied for bank loan. All they utilized informal credit markets.

After introduction, the rest of the paper has been structures as: section 2 presents a brief review of literature followed by an empirical example in section 3. Methodology is discussed in section 4, and results are explained in section 5. At the end, conclusions and recommendations are given in section 6.

2. Review of literature

Despite worldwide prevalence of ROSCA, it has got less value, both theoretically and empirically in economic literature. Besley *et al.* (1994) study the allocative efficiency aspect of random and bidding ROSCA, they found that ROSCA do not produce efficient allocations as compared to credit market. However, in certain cases random ROSCA may dominate credit market. In another study, Besley and Levenson (1996) tested the relationship between ROSCA participation and consumer durable goods acquisition, they found positive relationship between them. Many studies investigated the reasons/determinants of why people join ROSCA. For instance, Baland (2002) and Gugerty (2007), argue that ROSCA provide a commitment mechanism that bound participant spending and commits them to savings. They also found evidence against the intra-household conflicts motives. Baland (2002) stated: early pot motive is the main reason of participation in ROSCA for the purchase of consumer durable goods.

Research on ROSCA carried out mostly in developing countries, because it is most prevalent in these countries, but it can also be found in immigrant groups in developed countries like

U.S. Hevener (2006), investigated how immigrant groups in US find capital when they have no access to formal financial institutions. He also investigated and compared the cost and benefits of joining ROSCA with that of banks. He found that ROSCA is the major and cheap source of capital for immigrant groups in United States of America. Abdul-Yakeen (2012) determined the relationship between the years of employment and the number of ROSCA they joined, saving and income relationship of the responded, and the use of the ROSCA pool. Their results showed that people spent the pot amount on food, housing, transportation, education and ceremonial commodities. Furthermore, they concluded that 30 percent, out of total income, is saved for ROSCA. Lasagni and Lollo (2011) argued that social capital positively affect participation in ROSCA. Therefore, it is not only individual characteristics but also the context in which people live that influence their participation in this traditional form of collective action. Furthermore, the study found that ROSCA is neither compliments of nor substitutes for the formal financial institutions.

In the developing countries where the formal financial markets are not well developed, small scale businesses usually depends upon, among other informal credit sources, ROSCA. Rao (2007) studied ROSCA in Indian economy and found that small scale traders extensively participate in ROSCAs for raising fund for their businesses. The fund is used as either working capital, for expansion of business or as emergency funds. Owusu *et al.* (2013) studied ROSCA within the Kumasi Metropolis of Ghana. The study revealed that fund raising is the main objective of the small businesses to join ROSCA. Their study found that ROSCA comprised of 10 members and balloting is the only method for pot disbursement. Lightfoot (2013) studied how small enterprises uses ROSCA as a sustainable and efficient source of income. They concluded that ROSCA is a flexible and simple way of raising fund. These funds do not suffer interest or administrative charges. Yu (2013), found that for small scale businesses random and discount bidding ROSCAs offer welfare improvements over autarky, and some fixed ROSCAs can potentially allocate the fund in an efficient way. Ademola *et al.* (2020), examined the relationship between ROSCA participation and small and medium enterprises performance in Nigeria. The study found significant and positive relationship between the two.

Kedir *et al.* (2011) stated in their study that very poor people do not participate in ROSCA nor they have bank account, because they have no surplus money left after spending. Middle income people retain both ROSCA and bank account, while high income level people directly invests in capital good. Biggart (2001), after analyzing case study concluded that ROSCA exists in all over the world under the same five conditions. It exists in societies where social structure is based on strong communal ties, and obligations are collective. Those members are selected who are socially and economically stable. People who are unemployed, careless with money, or morally corrupted are excluded. Geographical mobility of the participants is also considered. ROSCA is usually formed among people of similar status. Ghebreorgis and Mehreteab (2019), studied the form of balloting and contribution frequency of ROSCA. The researcher suggest that age, educational level, bank account, marital status, and occupation are the influencing factors of for the choice of balloting form.

3. An empirical example

To know why people joins ROSCA for investment/ business purposes – where some degree of risk involves rather than depositing in riskless bank saving account, we make a comparison between the profit from the investment in goods and earning interest in bank saving account. In the study area financial market is undeveloped. There is no much choice with the people to

save or invest in formal financial market due to unawareness and undeveloped financial market. People usually invest in goods and services. For the sake of comparison here we compare the profit from investment in goods and services with the interest payout of bank saving deposit, as this is the most known and familiar concept to the people in general and to the people in study area in particular. All the data of this example is collected from the study area through questionnaire and observations (detail is given in methodology section). Here we used the following modified table for analysis, originally used by Ardener (1964) for bidding ROSCA.

Table-1: Benefit cost analysis

Participants	Pot	Up Front Fee	Net Loan	Term of Loan	Expected Profit @ 20%/year	Bank Interest@ 7%/ year	Benefit-Cost Difference
P1	540,000	45,000	495,000	11/12	90,750	00	90750
P2	540,000	90,000	450,000	10/12	75,000	262.50	74737.5
P3	540,000	135,000	405,000	09/12	60,750	789.03	59960.97
P4	540,000	180,000	360,000	08/12	48,000	1,580.23	46419.77
P5	540,000	225,000	315,000	07/12	36,750	2,640.36	34109.64
P6	540,000	270,000	270,000	06/12	27,000	3,968.26	23031.74
P7	540,000	315,000	225,000	05/12	18,750	5,566.41	13183.59
P8	540,000	360,000	180,000	04/12	12,000	7,436.38	4563.62
P9	540,000	405,000	135,000	03/12	6,750	9,579.78	-2829.78
P10	540,000	450,000	90,000	02/12	3,000	11,998.14	-8998.14
P11	540,000	495,000	45,000	01/12	750	14,693.13	-13943.13
P12	540,000	540,000	00,000	00	00	17,666.33	-17666.33
Grand Total							303319.48

Source: Author's own calculations

In the first column, total number of participants are entered according to the pot winning sequence i.e., P1 is the first winner of the pot (organizer of the ROSCA), P2 the second winner of the pot, and similarly, P12 is the last receiver of the pot. Column 2 shows the amount of Pot – the number of participants (n) multiplied by per cycle contribution (c). In our example the pot amount is Rs 540000, and it is same for all participants. Column 3 is the upfront fee – it is the amount of money paid by the participant to the ROSCA before he won the pot. For example, P5 upfront fee is 225000. This is the amount which the participant could not utilize for the five months. The upfront fee amount is increasing for the late receiver of the pot, and it becomes equal to the pot amount for the last pot winner. Upfront fee can be used to determine the opportunity cost of joining ROSCA, and the same opportunity cost method is used for comparison in this example.

Net loan amount is shown in column 4. This column is created by deducting column 3 from column 2 i.e., Pot amount – upfront fee. This amount is the highest for the organizer and zero for the last participant. This amount shows how much each participant received as a loan from the other members of the ROSCA, and the same will be used to calculate profit from investment in goods and services for each participant. Next column shows the term of loan. It is the time period available for pot winner to utilize the interest free loan for investment. For early winner term of loan is greater and for late winner it is less. It is important in calculating profit and cost of the loan. Higher term of loan means that time for investment and repayment is higher and opportunity cost of joining ROSCA is low, and vice versa. Column 6 shows the expected return of the invested amount obtained through ROSCA. The earlier winners of the pot have high expected profit, because they have higher net loan amount as well as higher term of loan. The

last participant expected profit is zero, as he did not receive any net loan from other members of ROSCA. Following formula is used to determine the expected profit of the net loan amount.

$$\text{Expected Profit} = \text{Net Loan} \times \% \text{ Profit} \times \text{Term of Loan}$$

In this example the pot winner, earn 20 percent profit per year by investing in wholesale and retail trade. In this study 20 percent return from the investment is considered. The reasons for taking this rate are many: The 20 percent profit is the average or mid value of the respondent's reply to the question: how much you expect to earn by investing the pot amount in your business? This rate must be higher than riskless bank saving deposit i.e. 7%. If the profit rate keeps low people would prefer keeping in riskless bank saving account rather than investing in risky business (risk might be less in some businesses). During survey the researcher observed that businesses can happily accept fund (from those who can save, but cannot invest by themselves) for giving 10 percent biannual return. The importer usually earn 10 -15 percent profit per trip, and they usually have two trips per year. The businesses engaged in seasonal goods usually have greater margin of profit. Those participants who receive, by chance, early pot are advantageous over those who receive it late. For example, P2, participant who earn 2nd pot, by investing net loan of Rs 450000 for ten months can earn Rs 75000.

$$P2 \text{ Expected Profit} = 450000 \times 20\% \times \frac{10}{12} = 75000$$

P₁₀ receive net loan of Rs 90000 for two months from the ROSCA members, by investing it he can earn Rs 3000.

$$P10 \text{ Expected Profit} = 90000 \times 20\% \times \frac{2}{10} = 3000$$

How much they would have earned each month, this is shown in column 7, if the participant instead of joining ROSCA had deposited their monthly income in bank saving account. This column, on one hand, shows the compound interest amount and on the other hand, it is the opportunity cost of upfront fee amount. This opportunity cost is low for earlier winners and high for last receivers. The following simple future value of annuity formula is used to calculate the values of this column.

$$\text{Interest amount} = PMC \left[\frac{(1+r)^n - 1}{r} \right] - upf$$

Where PMC is per month contribution, "r" is annual interest rate compounded monthly i.e., r/12, "n" is the number of months for which money is deposited in banks. When n = 5 it means the money is deposited in bank on monthly basis for five months. UPF is the upfront fee amount. It must be deducted so that we could get just earned interest amount. This interest amount will be higher for last receivers of the pot and lower for earlier winners. For P1 (organizer), this amount is zero, because no interest paid for the first month in annuity. For P11 (2nd to the last winner of the pot) this amount is higher.

$$\text{Interest amount} = 45000 \left[\left\{ \left(1 + \frac{0.07}{12} \right)^{11} - 1 \right\} / (0.07 \div 12) \right] - 4950000 = 14693$$

A 7 percent is the prevailing interest rate in the commercial banks saving account in Pakistan.

It is the safest and riskless way of earning profit. It is important to determine the opportunity cost of upfront fee amount for each participant. This will give us clear picture of how many participant are better off and how many are worse off by joining ROSCA instead of using bank saving account. By comparing column 6 and column 7 one can easily conclude that first 8 participants, out of total 12 participant, are better off in joining ROSCA and last 4 participants have foregone interest amount, which they could have earned in saving account. The earliest one receives his pot, the most advantageous he is. Net loan amount and repayment time period is greater for earlier winner and vice versa.

The last column shows the cost benefit analysis of ROSCA for the society as a whole. Majority of people are engage in ROSCA for saving and investment purposes in the study area. The grand total of the difference between benefits and costs is positive, which indicate that society as a whole better off in joining ROSCA rather than saving and investment under autarkic situation. In this example, the situation is pareto optimal, some people gains at the cost of other people, but the society as a whole gains from joining ROSCA. From this example it is clear that in a society where there is undeveloped financial market, and where people are more sensitive to interest rate on religious basis ROSCA plays an important role in the fulfilment of saving and investment requirement of small scale businesses. Society will be better off in participating ROSCA rather than pooling their saving in home for investment.

4. Research Methodology

This study used qualitative survey, personally administered questionnaires and personal observations for the collection of data in the field. Simple percentage method is used for data analysis. The aim of the collection of the data is to find why wholesale and retail traders join ROSCA when they have access to the banking system. The data is collected in January, 2020 in Peshawar, Khyber Pakhtunkhwa, Pakistan. Five markets were selected throughout Peshawar city through stratified random sampling method. These markets were: (a) Kharkhano Market; (b) Shoba and Khyber Bazar; (c) Sadder Bazar; (d) Ring Road; and (e) Firdos and Ashnagar. In each market 50 respondents were garnered through the snowball method and selected through purposive sampling method. In each market first meeting was aimed to establish rapport and create contacts with respondents and broadly discussed the ROSCA topic with them. In second meeting full- fledged closed ended personally administered questionnaires (annexure 1) were filled from them in isolation and key points were noted on the questionnaire page. The researcher tried to interview the maximum numbers of organizer in each market. On average 40 minutes took in filling the questionnaire from one person, while filling questionnaires, the researcher carefully observed their behaviour regarding financial markets and tried to probe for maximum information. Interaction with the respondents took place in native language and then transformed to English upon completion.

5. Results and discussion

After analysing the collected data and personal observations it is found that committee is mostly drawn after every month (65 %), even though contribution could be collected on daily, weekly or monthly basis. Committee drawn after every 10 days (16 %) or 15 days (19 %) is also found by the researcher, see Question (Q) 1 in table 2. In the study area, the lottery method is the only method for selecting the pot winner i.e., 100 percent, see Q.2 of table 2. The researcher did not found any other method of the pot disbursement in the study area which literature cited. There are many reasons for that one reason may be that small-scale businesses

are under capital. So, in this case every participant needs the pay-out in the beginning, making it difficult for the organizer to decide who deserve the first pot, so need based method of allocating the pot has not been observed. Bidding method is considered forbidden (haram) in Islam, because this method involves interest rate. Majority of the people in the study area are Muslims, so they avoid bidding method.

Majority of the respondents (67%) replied that optimum size of the committee is less than 12 members (see Q.3 in table 2). They are of the view that at least one time in a year one must add capital to the business. Similarly, one cannot constantly withdraw cash from the business for a long period of time say 20 or 30 months consecutively. 19% respondents favoured 13 to 18 members committee, while 14 percent says the optimum size is between 19-24. According to these respondents, by this way they can easily increase the pot size and a large amount of money would be available for investment in the business. Majority of the ROSCA participant wish for earlier pot in all kind of ROSCA, but it is especially in business ROSCA that participants want to get the pot as early as possible so that to invest it and to earn the maximum profit. It is clear from the table 2 Q.4 that 74 % respondent opt for earlier pot, while 14 percent and 10 percent favoured middle and last pot, respectively. Two percent respondents were indifferent to the time of winning the pot. According to last 10 percent respondents, after one get the pot amount, it become burdensome to make contribution to the ROSCA. The fact is that as earlier they invest the pot amount the more profit they can earn. The opportunity cost of their contribution is nominal at earlier period, and it increases as one get the pot at later period.

In response to the question of where you will use/used the pot amount, 72 percent replied that they will use/used the amount in their business development, see Q.5 in table 2. Majority of them are of the view that at least one time in a year they must invest in their business. 21 percent replied that they joined ROSCA in order to keep a side some money for purchasing consumer durable especially car. Few respondent replied that withdrawing a lump sum amount of money from circulation have bad impact on business, it is therefore, a convenient way to get money out of circulation over a long period of time, and its impact cannot be realized. Seven percent of the respondents joined ROSCA to repay their loan. In response to the question of sources of fundraising, table 2 Q.6, majority 68 percent responded committee fund is the only source of fundraising for them. Even though it is their own money but receiving it in lump sum amount is very beneficial for them. Family and friends also provide loan in time of dire needs on reciprocity basis, but it is usually for a short period of time. 22% respondents cited that they use family and friends as a source of fundraising. Only 10 percent said they utilized loan from money lenders for business operation. They charge high rate of interest for advancing loan.

Bank facility is available to the businesses at their door step. These businesses are constantly utilizing bank facilities in their day-to-day transactions. Q.7 in table 2, Majority of respondents, 71 percent, have bank account, while 31 percent do not have bank account, because either they do not have NIC or they are Afghan refugees. Q.8 in table 2 indicate that 57percent of these businesses keeps their saving in banks. It is to be noted that all these traders have only current account in banks, and also keeps their saving in current account. While 38 and 5 percent keeps saving in their home and with money lenders, respectively. These businesses are the prime target of the banks for their deposit attraction, but do not willing to offer loans to these businesses. Q.9 in table-2 shows that no businesses ever availed bank loan for the development of their business. This is really shocking on the part of banking system of the country that they are not willing even to share a small portion of the benefit, they incurred from these retailers and wholesale traders, with them.

Table-2: Responses of the participants

No.	Description	Options	No. of Respondents	Percentage
1	Cycle/time period	10 days	40	16
		15 days	47	19
		20 days	00	00
		1 month	163	65
		Total	250	100
2	Method of selecting Pot Winner	Lottery	250	100
		Need based	00	00
		Bidding	00	00
		Pre-determined	00	00
		Total	250	100
3	Best Size/membership of ROSCA members	07 – 12	168	67
		13 – 18	47	19
		19 – 24	35	14
		25 – 30	00	00
		Total	250	100
4	Preferred Time of Pot Winning	Earlier	185	74
		Middle	35	14
		Last	25	10
		Any one	05	02
		Total	250	100
5	Use of ROSCA Pot	Business	180	72
		Consumer durable	53	21
		Repay Loan	17	07
		Saving	00	00
		Total	250	100
6	Sources of Fund Raising	Bank Loan	00	00
		Family and Friends	56	22
		Money Lenders	25	10
		Committee	169	68
		Total	250	100
7	Do you have Bank Account?	Yes	178	71
		No	72	29
		Total	250	100
8	Where you keep your Saving?	Bank	142	57
		Home	95	38
		Money lender	13	5
		Total	250	100
9	Have you ever received bank loan?	Yes	00	00
		No	250	100
		Total	250	100
10	Reasons for not applying for bank loan	Lengthy procedure	35	14
		Involve interest	185	74
		Lack of collateral	25	10
		Any other reason	05	02
		Total	250	100
11	The impact of participation in ROSCA on business growth	Positive impact	173	69
		Negative impact	77	31
		Total	250	100

In response to the question: have you ever applied for bank loan? majority of the respondents replied that they have never applied for bank loan. They cited different reasons for example; 74 percent responded that interest rate involved in bank loan, so on religious ground they did not applied for it; other 14 and 10 percent participants quoted complicated and lengthy procedure and high rate of interest along with lack of collateral in reasons for not applying for the bank loan. While discussing with few bank managers I deduced that banks loan policies are not in favour of small-scale businesses. In response to the question whether participation in ROSCA have positive or negative impact on your business growth, 69 percent respondents replied in affirmative, while 31 percent told that it had had negative impact on their business, see Q.11 in table-2. The reason for this was clear from their statement in table-5 because they did not utilize the pot amount wisely. They used the pot amount either in repayment of the debt or somewhere else out of business.

6. Conclusions

Despite worldwide prevalence of ROSCA, it has got less value, both theoretically and empirically, in economics literature. ROSCA plays an important role in raising fund for small scale businesses, especially in the countries where mainstream financial institutions are either not well developed or reluctant to provide loan to small and medium enterprises. Pakistan is also one of those countries where mainstream financial institutions are not willing to advance loan to wholesale and retail businesses. Their loan policies are not in favour of these businesses. This study determined the importance of ROSCA for raising fund for retail and wholesale traders in Peshawar city of Pakistan. This study concluded that in the study area business committee is comprised of twelve or less member. They make contribution on weekly basis, and disburse the payout on monthly basis. Furthermore, this study found that lottery method is the only way of selecting the pot winner, the other methods of disbursement of pot like bidding method, need based method etc have not been observed in the study areas, and majority of the member opt for early pot, so that they can invest it in their businesses. These findings are consistent with the study of Owusu *et al.* (2013).

In the study area bank facility is available at their door step, and majority of the committee members (71 %) are also the bank customers. But retail and wholesale traders are not the prime target of banking system for advancing loan. Therefore, traders depend upon the informal sources, including committee, for financing their business. This study found that in the study area no respondent did ever apply for bank loan. Different reasons were cited by the respondent for not applying for bank loan, including involvement of interest rate, lengthy and complicated documentation, and lack of collateral. During interview, a bank manager stated that their loan policy is so strict that these traders cannot fulfil it. Wholesale and retail traders of the area mainly depend upon the informal financial markets for fundraising. Almost 60 percent of the respondent asserted that committee is the only source of their fundraising. This is the major reason that these traders cannot develop their business on modern line of businesses.

Committee plays a pivotal role in mobilizing small saving of the poor people, who are considered by the formal financial institutions as not bankable. If these people had not contributed to the committee, the amount would have remained idle under autarkic saving for a long period of time until it become large enough to be invested. In the milieu where formal markets reluctant to cater to the needs of the small scale businesses and people reluctant to keep their saving with banks, society as a whole is better off in the existence of ROSCA rather than without it. Majority of the people benefitted from it at the cost of small number of people.

In our empirical example the first 8 members, out of a total of 12 members were benefitted from committee and only the last 4 members have forgone the profit they could earn by investing their money. During survey nominal/ negligible default ratio is observed by the researcher. It shows that these traders are willing and able to repay their obligations.

The government should formulate a conducive and broad finance policy that will enable wholesale and retail trader to get fund from mainstream financial institutions for development of their businesses. There is need to introduce Islamic compliance credit instruments. The state bank of Pakistan should make it mandatory for commercial banks to provide certain minimum amount of money to these wholesale and retail traders. It will help in creating jobs, increasing GDP of the country, and these businesses can be brought into the tax net, which can boost the tax revenue for the government exchequer.

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Annexure 1: Questionnaire

1. How many years you spent in this business?
 - a) 01 – 10
 - b) 11 – 20
 - c) 21 – 30
 - d) Above 30
2. How many times you participated in the ROSCA?
 - a) 1 – 3
 - b) 4 – 6
 - c) 7 – 10
 - d) Above 10
3. How many members/participants are there in present ROSCA?
 - a) 07 – 12
 - b) 13 – 18
 - c) 19 – 24
 - d) 25 – 30
4. How much contribution (in rupees) you made per cycle/period?
 - a) 1000 – 30000
 - b) 31000 – 60000
 - c) 61000 - 90000
 - d) Above 90000
5. What is the cycle period of the ROSCA?
 - a) 10 days
 - b) 15 days
 - c) 20 days
 - d) 30 days
6. What is the mode of selecting the pot winner?
 - a) Lottery
 - b) Need Based
 - c) Bidding
 - d) Pre-determined
7. What is the total amount of pot per cycle?
 - a) Rs100000 – Rs500000
 - b) Rs600000 – Rs100000
 - c) Rs110000 – Rs1500000
 - d) Rs1600000 and above
8. What you think is the best size of members in a ROSCA?
 - a) 7 – 12
 - b) 19 – 24
 - c) 13 – 18
 - d) 25 – 30
9. What is your preferred time of pot winning?
 - a) Earlier
 - b) Middle
 - c) Last
 - d) Any one
10. Where you used/plan to use ROSCA pot?
 - a) Business
 - b) Purchase Consumer Durable goods
 - c) Repay Loan
 - d) Saving
11. What factor motivate you to participate in ROSCA?
 - a) Need to invest in business
 - b) To save Money
 - c) Friends
 - d) Any other
12. What are the major sources of capital accumulation for your business?
 - a) Bank Loan
 - b) Family and Friends
 - c) Money Lenders
 - d) Committee (ROSCA)
13. Do you have a bank account?
 - a) Yes
 - b) No
14. Where you keep your savings?
 - a) Bank
 - b) Home
 - c) Money Lenders
 - d) Any other place
15. Have you ever applied for bank loan?
 - a) Yes
 - b) No
16. If yes, did you get a loan from Bank?
 - a) Yes
 - b) No
17. If No, what are the reasons?
 - a) Lengthy procedure
 - b) Interest involvement
 - c) Lack of Collateral
 - d) Any other reason
18. What is the impact of your participation in ROSCA on your business growth?
 - a) Positive impact
 - b) Negative impact
19. What are the advantages of ROSCA fund over the other sources of fund raising?
 - a) No documentation required
 - b) Interest free loan
 - c) Collateral not required
 - d) Any other advantage
20. Any suggestion for the improvement of ROSCA system?
 - a) _____
 - b) _____

Annexure 2: Demographic characteristics of the survey participants

No.	Description	Options	No. of Respondents	Percentage
1	Age	15 – 25	33	13
		26 – 35	90	36
		36 – 45	70	28
		Above 45	57	23
		Total	250	100
2	Marital Status	Yes	229	92
		No	21	08
		Total	250	100
3	Qualification	Up to Matric	93	37
		Intermediate	85	34
		Graduate	59	24
		Post Graduate	13	05
		Total	250	100
4	No. of years spent in this business	01 – 03	20	08
		04 – 06	35	14
		07 – 09	55	22
		Above 10	140	56
		Total	250	100
5	No. of times participated in the ROSCA	01 – 03	20	08
		04 – 06	60	24
		07 – 09	77	31
		Above 10	93	37
		Total	250	100