

## Unlocking the Door from Poverty through Rotating Savings and Credit Associations: A Study of Group Based Savings in Ward 14 of Gutu District, Zimbabwe

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**Abstract:** Formal credit excludes the majority of poor people and often a majority of rural people. Yet the poor can make good use of credit to increase rural incomes which is the key to rural economic growth and food security. There is, therefore, a shift away from formal credit back to community controlled rotating savings and credit associations (ROSCAs). The focus of the study therefore was to assess the contribution of rotating savings and credit associations in improving the livelihoods of rural people in ward 14 of Gutu District. A sample of 30 ROSCA group members was selected using stratified random sampling. The research instruments that were used to gather data include questionnaires, interviews and focus group discussions. The study found that ROSCA members engage in simple or random ROSCAs, consumer durable ROSCAs and bidding or discounting ROSCAs. Participation in ROSCAs has enabled rural households in Gutu district to accumulate assets and starting up new business. However, ROSCA members encounter various problems which include defaulting members and mismanagement of funds. The study therefore recommends that the government should influence financial institutions to offer loans to ROSCA members since they can repay.

**Keywords:** Rural poor, Rotating Savings and Credit Associations, microfinance, increased incomes, sustainable livelihoods

### Background of the Study

Making ends meet for rural dwellers across developing countries is a daily struggle. In Sub-Saharan Africa, rural households typically pursue diverse livelihood portfolios not because they have plenty of economic opportunities but as a response to shocks and seasonality. Most of these rural areas are often in marginal agro-ecological regions for most forms of agriculture. Frequent droughts, infertile soils, a decline in forest resource bases, lack of access to credit facilities, difficulties in accessing vibrant markets for most products and the deplorable state of infrastructure are some of the constraints to achieving a better life. The interaction of all these factors over time has resulted in high incidences of poverty among rural populations.

Rural poverty has been exacerbated by the fact that governments of developing countries have reduced their commitments to rural development activities. As Makumbe (1996) puts it, by the end of the 1980s natural economic hardships had forced governments of developing countries to reduce their commitments to rural development activities and projects. This led to the growth of income generating projects and other microfinance projects among people in rural areas. Sustainable access to microfinance helps alleviate poverty by generating incomes, creating jobs, allowing children to go to school, enabling rural families to obtain healthcare and empowering people to make choices that best suit their needs, as a result improving their livelihoods.

Rotating Saving and Credit Associations (ROSCAs) are one way in which people have tried to save their low income in households. ROSCAs have flourished both in urban and rural settings especially where formal institutions seem to fail to meet the needs of a growing population. ROSCAs are among the oldest and most prevalent savings institutions found in the world. According to Ardener (1964),

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ROSCAs started back in 200BC in China and other developing economies among subgroups who had been traditionally excluded from mainstream financial services as well as among individuals who had reasonable access to banking institutions. ROSCAs have been reported among employees of International Monetary Fund and among bank employees in Bolivia as is put by Adams and Canavesi (1992). In countries such as Taiwan with well functioning credit market as well as Bangladesh and Japan, as much as 50% of people are estimated to belong to ROSCAs (Besley and Coate, 1995).

ROSCAs have also spread to developing countries. Bouman (1995) asserts that estimates suggest that in the 1980s, 50% of the population in Congo belonged to a ROSCA while participation ranged from 50% to 95% in most rural areas in Liberia, Ivory Coast, Togo and Nigeria. In 1992, membership of ROSCAs in Cameroon was estimated at 80% of the population and in several villages of Nigeria membership was found to be 65% of the total population as Bouman (1995) puts it.

In Zimbabwe, several microfinance projects such as ROSCAs and accumulating savings and credit associations (ASCRA) began in the 1980's and gained popularity in the 1990s with a lot of people adopting and engaging in ROSCAs as a livelihood strategy and a form of livelihood diversification. ROSCAs are a local saving mechanism and they are flexible and adapt themselves easily to rural peculiarities as well as existing community patterns of group members. ROSCAs have come up as a result of the bottom-up approach to development in which there is total participation of the rural people and decision making lies with these people. The study sought to assess the contribution of ROSCAs in improving rural livelihoods.

#### **Statement of the Problem**

Many formal credit programmes have largely failed to reach the poor because of the shortcomings in the structure and functioning of formal credit systems. As such there has been a paradigm shift away from bureaucratically managed credit back to locally controlled internal savings and lending schemes. The study therefore assesses the contribution of ROSCAs to the livelihoods of rural people in Ward 14 Gutu district.

#### **Aim of the Study**

The study sought to assess the contribution of Rotating Savings and Credit Associations (ROSCAs) in improving rural livelihoods in Ward 14 of Gutu.

#### **OBJECTIVES OF THE STUDY**

- 1 To identify the nature of ROSCAs
- 2 To assess the contribution of ROSCAs in improving rural livelihoods.
- 3 To evaluate the challenges faced by members participating in ROSCAs as a livelihood enhancement strategy.
- 4 To recommend solutions aimed at improving rural livelihoods through engaging in ROSCAs.

#### **Justification of the Study**

The study generates information on why people save, how much they contribute, what they use their savings for and how these savings help them improve their livelihoods. Such information can help Non-governmental Organisations (NGOs) to identify and strengthen the indigenous financial systems. Information such as how much they save can be used by formal banks in assessing the risks of lending money to the rural poor. The total amount of money they contribute is estimated to be a third of their total incomes and such statistical information is also important to banks. The total amount one gets from each cycle help banks and financial institutions to determine the amount of loans they can

facilitate to ROSCA members so as to help them start up businesses or income generating projects. Normally banks offer loans four times more one's monthly income and this will help the bank to determine the exact amount that can be given to the rural people as loans.

### **Methodology**

The research employed both qualitative and quantitative research methodologies. Questionnaires, Focus Group Discussions (FGDs) and in-depth interviews were the data collection techniques utilized in the study. Questionnaires were distributed to 30 ROSCA members selected through the stratified simple random sampling technique. Focus Group Discussions were held with ROSCA group members in Ward 14 Gutu district during ROSCA meetings. In-depth interviews were conducted with officials from the Ministry of Small and Medium Enterprises. Descriptive statistics and summaries of emerging issues concerning the contribution of ROSCAs to rural livelihoods were used to analyse data.

### **Literature review**

#### *The Nature of ROSCAs*

ROSCAs are the poor man's bank where money is not idle for long but change hands rapidly, satisfying both consumptions and production needs. Ardener (1964) described ROSCAs as an association formed upon a core of participants who agree to make regular contributions to a fund which is given in whole or in part to each contributor in rotation. Bouman (1979), goes on to define ROSCAs as a group of individuals who come together and make regular cyclical contributions to a common fund which is then given as a lumpsum to one member in each cycle. A member will lend money to other members through his/her monthly contributions. After having received the lumpsum, when it is his/her turn, he/she then pays back the amount in further monthly contributions and this explains the name for ROSCAs. Depending on the cycle in which a member receives his/her lumpsum, members alternate between lenders and borrowers. There is therefore a mutual give and take involved in ROSCAs.

#### *Membership*

Members participating in a ROSCA are selected based on ethnic lines or geographic limitations. According to Geertz (1963), ROSCAs consist of groups of people between 4-15 who already have a relationship of some sort such as employment in the same organization, same ethnic background, friendship, neighbourhood or business ties.

#### *Contributions*

The amount to be contributed in each cycle is decided based on the number of participating members, the total winning amount that each member can get and other socio-economic factors. Bouman (1979) asserted that contributions can also be in form of shares, thus allowing a member to have more than one share or contribution in a particular cycle, increasing their chances of winning the lumpsum but also increasing the regular contributions to be made.

#### *Cycle Period*

The frequency with which contributions have to be made in each cycle is the cycle period. This can be daily, bi-weekly, monthly and bi-monthly, depending on the amount to be contributed. Usually, the little the amount, the shorter the cycle period.

*Mode of Selecting the Winner*

Bouman (1979) postulated that the basis of selecting the winner of the lumpsum is decided by one of the following:

- (a) By consensus, where by common agreement between members, the amount is given to the member who is in most need of finance.
- (b) By lots, where a lottery determines who gets the lumpsum in a particular way. Members who have received the lumpsum do not participate in subsequent lotteries but continue to make contributions.
- (c) By bidding, where the lumpsum amount is bid for by members during the cycle. Thus the member who wins the bid will receive the lumpsum minus the bid amount, while other members pay their contributions minus their share of the bid amount.

**Types of ROSCAS***Simple or Random ROSCA*

In a simple ROSCA, each individual contributes a predetermined fixed sum to a universal fund and it is given to one member who becomes the first on the cycle. The fund rotates to another participant or member at the next meeting until all members have had a turn at the lumpsum. In a random ROSCA, the contributions are fixed, and everyone contributes the same amount at each meeting and receives the same amount when their turn arrives. By the end of the ROSCA everyone will have received, in lumpsum, the total of their monthly contribution. In that sense, there is no net gain or loss for any participant.

*The Consumer Durable ROSCA*

This is mostly popular among women and has a slight variation on the random ROSCA. As in random ROSCA, the leader organizes the group who contribute a fixed amount to the fund. Instead of rotating a lumpsum of funds, however participants receive a physical good such as an asset, for example a car that the group has agreed upon at the beginning of the ROSCA (Shepherd, 1998). The organiser usually obtains a discounted price for the goods in exchange for the guaranteed purchase of a certain number of goods in the coming months. Thus participants in consume durable ROSCAs can attain the purchasing power necessary to negotiate goods at a lower price.

*Discounting or Bidding ROSCAs*

These use bidding as a means of determining the order by which participants receive the pot. As in the random ROSCA, the organiser in exchange for assembling the participants receives the pot first. To determine the order in which the participant would receive the pot, a system of bidding is introduced in the rounds. At the beginning of each rotation, the organiser contacts the participants who have not yet received the pot in order to forgo in exchange for early receipt of the pot. The person, who submits the highest bid for the rotation, therefore translates into a discount for some of the participants (Dzingira, 2000).

ROSCAs require very little record keeping. But it is always safe to keep the record of the amounts collected, attendance at each meeting and who receives the lumpsum on which date. In case there is a conflict between members regarding the procedure or if the group decides to continue its activities and begun another cycle, such records help everyone remember what was decided and agreed on the meetings.

## **Characteristics of ROSCAs**

### *Social Capital*

ROSCAs, like banks, make the decision to originate a loan to a borrower based on certain information. Banks arrive at a credit decision by assessing the borrower's credit history, current income and available collateral. This process is highly efficient and allows financial institutions on a larger scale to assess the credit worthiness of individuals with whom they have not had previous relationships. In contrast, ROSCAs rely on a person's social capital to assess a participants' credit worthiness. Social capital, a concept carried by Loury (1977), represents the consequences of social position in facilitating individual acquisition of the standard human capital characteristics. In regard to ROSCAs, a person's social capital is the basis of his/her creditworthiness and grants him/her access to capital. ROSCA members are personally acquainted with each other and are generally part of the same community. As a result, a participant's current and previous economic status as well as commitment to meet financial obligations will be known. ROSCA participants depend on social capital to assess financial risk and viability, to promote forced savings, networking and information gathering and to create group pressure that will guarantee continued commitment.

### *Assessing financial risk*

In most ROSCAs organisers employ social capital to recruit individuals from their own social network whom they can depend on to meet financial commitments. Participants on the other hand, will agree to join ROSCAs as long as they view the organiser as credible and trustworthy. This credibility must extend to the organiser's ability to choose equally honest and reliable individuals to join the ROSCAs and to perform the administrative tasks associated with collecting funds and ensuring payment, even if it means assuming the payments of a defaulting member. Participants must also trust that the organiser will not disappear with the funds after the first rotation. In some case, ROSCAs will allow new members of the community to join. However, membership will be granted on references or at the recommendation of an existing member. In other ROSCAs, new members must first demonstrate their credit worthiness to the community for example new members might receive the pot towards the last round and move up in the pecking order once they have shown their credit worthiness (Bouman and Hartevelde, 1976).

### *Forced Savings, networking and information gathering*

Some participants regard ROSCAs' emphasis on social capital as a means of self discipline where savings are concerned. Because maintaining one's social capital is necessary to obtain future access to credits, participants join ROSCAs as a way to compel themselves to make monthly payments hence to save. Many participants point to the ease with which a person could discontinue making payments to financial institutions because of lack of social consequences. In contrast, not only would a defaulting ROSCA member endanger his future access to credit, participants also understand that their default would directly correlate with other members not being able to obtain the funds necessary for some transaction.

Participants also rate altruistic motivations for joining ROSCAs particularly random ROSCAs. Participants feel that their contributions assist members of their own community who may be in need of a lumpsum to pay college tuition, to make a large purchase such as furniture for a home, wedding or building a house. ROSCAs facilitate social networking and information exchange. Many ROSCA meetings involve ritualistic practices and social observances. According to Bouman and Hartevelde (1976), ROSCA meetings provide opportunities for feasting, drinking and networking as is the case of West Cameroon where participants exchange greetings and share kola nuts while reserving drinking until after the day's business affairs have been settled.

ROSCAs also provide opportunities for participants to network, to support each other in economic endeavours and to congratulate each other in attaining a financial goal. As a result, participation in a ROSCA has been compared with membership in a weight weathers program where group pressure and support make progress possible (Light 1996). Light (1996), goes onto describe ROSCAs as educational institutions because they support information sharing. It is not uncommon for participants to discuss what they intend to do with their lumpsum and other participants to offer on where best to purchase a particular good or service. In this way, ROSCAs offer most of the services those financial advisors in banking institutions provide.

#### *Group Pressure*

Organisers and group members rely on social capital to ensure continuous monthly payments throughout the life of a ROSCA, even after a member has had his/her turn at the pot. Normally participants meet their contribution for fear of the social consequence. Sometimes however, members need coercing. Often the organiser or any group member may visit the home of the defaulting member and make it clear that he or she must pay his/her obligation (Bonnet, 1981). When that fails, the organiser may proceed to announce to all members what the defaulting member had done.

#### *Savings Mechanisms*

ROSCAs serve as a vehicle for saving in households where there are conflicting preferences over immediate consumption versus saving among household members. Anderson and Baland (2002) are of the view that ROSCAs are regarded as a sourcing commitment device whereby people can save their money for future use by contributing in ROSCAs. Members save for buying durables in the long run (Besley, Coate and Lounsbury, 1993).

#### *Security or Insurance Function*

ROSCAs provide insurance to its participants even in the presence of formal credit markets by providing an additional instrument for its participants to share shocks among them. ROSCAs insure members against the consequences of illness, accidents or death. According to Kaseke (1998) most people in Zimbabwean rural areas especially farmers engage in ROSCAs as they provide a social security function and protects them against contingencies such as sickness and death. In the event of such problems many often use the money from ROSCAs to cover the expenses incurred. According to Anderson and Baland (2002), in Kenyan rural areas formal markets for insurance are virtually non-existent. When funds are distributed via an auction mechanism ROSCAs can serve as insurance mechanisms because participants may access money when they need it.

#### *Lower Transaction Costs*

Since ROSCAs are performed by assembling participants of a closely knit community who are aware of each others' credit worthiness, costs associated with bank lending such as running a credit history, requiring collateral and performing pre-loan and post-loan monitoring are not experienced. According to Chami and Fischer (1995), lower transaction costs are passed on along to ROSCA members which may result in lower cost loans or higher yielding service plan.

#### *Accessibility and Flexibility*

Fewer transaction costs also enable ROSCA members to receive loans quickly. While borrowers with as little or no credit history may experience some difficulty or delay in accessing funds from financial institutions, ROSCA members may have funds in as little as a day. Additionally, many meetings are routinely held at a member's home making it convenient for members to meet without incurring costs

(Bouman and Haeteveld, 1976). Furthermore, ROSCA meetings are social gatherings where members share a common language and culture. For individuals unfamiliar with financial institutions and the banking concepts associated with them, being able to access funds generated by the community can prove to be less intimidating. According to Chami and Fischer, (1995), ROSCAs exhibit a certain degree of flexibility with characteristics such as loan amount, duration, regularity of meetings and rotational decisions depend upon the members' discretion. ROSCAs have been cited as a good source of obtaining small loans which banks are normally reluctant to give to someone with little credit history.

#### *Source of Start-Up Capital*

ROSCAs are used for many different reasons such as start-up capital of small businesses. In Asia Small business capitalization has been attributed to the existence of ROSCAs which save as a source of start up capital. In essence, ROSCAs serve economic more than social reasons. According to Light, (1972) surveys suggest that the Japanese ROSCA (Tanomoshi), Korean ROSCA (KYE), West Indian ROSCA (susu) are used more for business enterprises. This therefore shows that ROSCAs help people start up businesses at the same time improving their livelihoods as the business owners will be able to divert funds to engage in other activities. They can also finance other activities such as sending children to school, acquiring assets, access to health care facilities and many others.

#### *Acquisition of Assets*

ROSCAs can also be used by other people to acquire assets such as livestock and heavy farming machinery which according to the Sustainable Livelihood Framework help them increase their physical asset base. This consequently helps improve their livelihoods.

#### **Problems Associated with ROSCAs**

ROSCAs pose a number of problems to both the leader and the members and such problems may result in the dissolution of the ROSCA. These problems shall be discussed in detail below.

Defaulting is one major problem associated with ROSCAs. Some members may default and this will result in uncertainty that can stem from the possibility of a low payout from the ROSCA arising from the depletion of members. Sometimes, the member who gets the pot first or second is most likely to default and this will inconvenience other members who are last on the cycle.

There is always a last person in the rotation to benefit from the fund and this person could have saved as an individual with the same result. Similarly, people who take their turn towards the end of the rotation and have been saving all along do not receive any interest. Early winners get interest free loans while late winners borrow an amount which is almost worthless than earlier loans. According to Shepherd (1998) this may not matter if the period over which the money saved is short, that is a matter of days or weeks but does matter if it is longer and if inflation rates are fluctuating.

The ROSCA fund may be used for other purposes other than the intended use. According to World Bank (1986), there are possibilities that the ROSCA disbursement, whenever it occurs may not be sufficient to realize the planned investment opportunity, apart from the possibility that the venture itself may be stressful or unstressful. This is normally popular with consumer durable ROSCAs whereby members plan on buying a durable. In the event that it has become more expensive than anticipated, members may end up opting for the cheapest commodity.

Timing of the receipt of funds by a member may not necessarily coincide with his/her need for finance. Sometimes a member gets the lumpsum on the first or second round then later he/she encounters a problem that requires finance when he/she already has had a chance.

ROSCAs are informal savings mechanisms and are therefore not directly linked to the banking system and hence they are unlikely to benefit from additional bank loans since they are not organized as a legal entity. If a member defaults, there cannot be any legal action against such member since ROSCAs are not registered.

Risk of mismanagement, fraud or bankruptcy by the leader or organiser of the ROSCAs where he can abscond with the accumulated contributions. Since there is no constitution or legal paperwork that governs ROSCAs, the leaders may misuse the funds for their personal use and no one can ask them. As a result, this may affect the sustainability of the life of a ROSCA.

ROSCAs have a limited impact since most people in the villages may not participate in ROSCAs. Only a few are economically active and are thus able to engage in ROSCAs. The rest, who include children and the elderly are not economically active but sometimes are the household heads. This therefore shows that not all people engage in ROSCAs.

The cyclical timing of contributions also affects savings. If a member by chance gets surplus funds he/she cannot increase his/her ROSCA contribution but has to wait for the agreed amount and the time. This therefore shows that someone cannot save extra cash in ROSCAs but has to adhere to set rules.

### **Possible Solutions**

For members that default from contributions, Ardener (1964) asserts that the member who defaults in one ROSCA may not only be sanctioned socially but can also be prevented from further participation in any other ROSCA. The member may suffer to such an extent that he/she may not be accepted as a member of any other. In West Cameroon, the ROSCA credit institution has been so rooted in the economic and social system that would be a serious deprivation. The issue of social pressure, reflected in the selection of ROSCA members from among relatives, friends or work colleagues will also reduce risk of default as members do not wish to let their relatives down. As a result, members will not default contributions because of fear of exclusion and are afraid to disappoint their friends and relatives.

Modifications can be made to rectify the problem of a member not getting a loan at the time they urgently need it. Interest rates can be charged such that earlier receivers pay more for their loans and late receivers are compensated with higher bonus payments. According to Bauman (1995), auctions can also be held so that those who need cash urgently may bid for it, with the successful bid being distributed among those who did not win the bid. Another way of solving this problem could be that the last receivers of the pot become first receivers in the next round.

If the economic situation of the country is unstable, that is high and fluctuating inflationary rates it is better for ROSCA members to agree to contribute an amount which is equivalent to an agreed amount in foreign currency so that the money will not lose its value. This happened in Zimbabwe during the 2008-2009 period where people would contribute amounts in South African rands or United States dollars so that the last person in the cycle would get money that is just as valuable as was the first person.

**Research Findings**

**Nature of ROSCAs in Ward 14 Gutu District**

*Types of ROSCAs conducted*

ROSCA members choose a type of ROSCA that suits them and their needs.

**Table 1: Type of ROSCAs Conducted by Members**

Types ROSCA	Member of Respondents
Simple/Random	18
Consumer durable	8
Bidding/Discounting	4
Total	30

Source: Survey Data 2012

Most members in ward 14 of Gutu district engage in the simple/random ROSCA as shown in Table 1 above. From a focus group discussion, respondents highlighted that they prefer to use simple or random ROSCA because it gives members the choice to decide to use whatever they want with their money. In an interview, one respondent highlighted that members who engage in consumer durables ROSCAs, are women. In this ROSCA instead of the winner or recipient receiving money, they receive a physical good such as an asset or groceries. Members in bid or discounting ROSCAs commented that they prefer bid ROSCAs because they are in business and thus require money frequently. As such a bid ROSCA enables those who need money urgently to bid for it.

*Membership in ROSCAs*

ROSCA members decide on the number of participants they want and most respondents highlighted that they belong to a class of 4-6 as shown in Table 2 below.

**Table 2: Membership in ROSCAs**

Type of ROSCA	Membership in ROSCAs				Total
	0-3	4-6	7-9	10-12	
Simple/Random	2	6	10	2	18
Consumer durable	1	7			8
Bidding/Discounting		4			4
Total	3	17	10	2	30

Source: Survey Data

Most ROSCAs maintain a small group. Respondents indicated during focus group discussions that they prefer a group of less people because they want the cycle period to end before the money is eroded by inflation. Group organizers also argued that small numbers of people are easier to manage than ROSCAs with a lot of people.

*Mode of selecting winner*

There are different ways of choosing the winner (the person who receives the lumpsum money). 50% of the respondents reported that they selected the winner by way of lots as shown in Table 3 below.

**Table 3: Mode of Selecting the Winner of the Lumpsum**

Type of ROSCA	Mode of selecting the winner of the lumpsum			
	By consensus	By lots	By bidding	Total
Simple/Random	7	11		18
Consumer durable	3	5		8
Bidding/Discounting			4	4
Total	10	15	4	30

Source: Survey Data

In interviews ROSCA organisers explained how the various modes of selecting the winner of the lumpsum operate.

*Selecting by Lots*

When selecting by lots they write numbers and put them in a box then they pick the papers randomly and the number of the paper is their ranking in receiving the lumpsum. This method as they call it 'pick a box' is fair in that everyone has an equal chance of being the first.

*Selecting by consensus*

Some ROSCA members preferred selecting by consensus. Members with an urgent need of money present their cases at monthly or weekly meetings. Members who are in emergencies are normally prioritised.

*Selecting by bidding*

This mode of selection is particularly carried out in bidding/discounting ROSCAs. A group organiser from a ROSCA with four members using the adding method to select the winner highlighted that they meet once a month and their monthly contribution is \$50 each. The grant total per month is \$200 and members who are in urgent need of the lumpsum offer bids. The highest bidder will take the lumpsum minus the amount offered. In a bid record book a table showing how the bid ROSCA was being carried out was extracted (Table 4). Table 4 illustrate that the lumpsum was first taken by D who offered \$10 for it. This means that he took a lumpsum amount of \$190 (\$200-\$10=\$190). The price \$10 was kept as an income earned for the group and was shared at the end of the cycle when all members had received the lumpsum once. At the end of the second meeting, A paid \$20 to get the lumpsum. He took \$180 (\$200-\$20=\$180). Since B was the last she received full \$200. At the end of the cycle members equally share the money collected from the lumpsum sale. Since the group has accumulated a total of \$50 from the lumpsum sales, each member then receives \$12, 50 at the end of the cycle.

**Table 4: Table to show Bidding/Discounting ROSCA**

Date	Member	Paid	Accumulating group interest	Received
January	Mr A	\$50		0
	Mr B	\$50	5	25
	Mr C	\$50		
	Mr D	\$50	10	190
	Total	\$200	10	
February	Mr A	\$50	20	180
	Mr B	\$50		
	Mr C	\$50		
	Mr D	\$50		

	Total	\$200	30	
March	Mr A	\$50		0
	Mr B	\$50		0
	Mr C	\$50	20	180
	Mr D	\$50		
	Total	\$200	50	
April	Mr A	\$50		
	Mr B	\$50		200
	Mr C	\$50		
	Mr D	\$50		
	Total	200	50	

NB. Names are not real  
Source: ROSCA record book

*Amount contributed in ROSCAs*

ROSCA group members contribute different amounts of money depending on what they agree on as a group. Most respondents contribute between \$21-\$30 as shown in Table 5 below:

**Table 5: Contributions in ROSCA**

Type of ROSCA	Amount contributed in ROSCA					Total
	\$1-\$10	\$11-\$20	\$21-\$30	\$31-\$40	\$41-\$50	
Simple/Random	5	3	8	2		18
Consumer durable			5	1	2	8
Bidding/Discounting					4	4
Total	5	3	13	3	6	30

Source: Survey Data

In a focus group discussion it was highlighted that ROSCA members opted to start with little amounts so that it can be afforded by most members even those that do not engage in business endeavours. Other respondents remarked that they engage in ROSCAs contributing more than \$40 as they are traders and thus require a large capital base.

*Cycle period of conducting ROSCAs*

ROSCA members highlighted that they contribute either weekly or monthly as shown in Table 6.

**Table 6: Cycle Period of ROSCAs**

Type of ROSCA	Cycle period of ROSCA				Total
	Weekly	Bi-weekly	Monthly	Bi-monthly	
Simple/Random	5		13		18
Consumer durable			8		8
Bidding/Discounting	1		3		4
Total	6		24		30

Source: Survey Data 2012

More than half of the respondents indicated that they contribute once a month. From an interview with a chairperson of one ROSCA it was revealed that most members get income from trading and others from remittances and therefore prefer to contribute once a month. From focus group discussions, 4 business people who contribute weekly revealed that one of them owns a butchery, the other one a

bottle store and the other two rent a salon at Utsinda business centre and therefore require cash constantly and that is why they contribute weekly.

### **Contributions of ROSCAs to the Livelihoods of Rural People**

ROSCAs play an important role to the livelihoods of people in rural areas. These include asset accumulation, security function, sending children to school, expanding business and starting up new business.

#### *Accumulation of Assets*

A large number (73%) of ROSCA members have accumulated assets. When they collect the lumpsum, the member who is the recipient buys assets such as cattle, electrical gadgets, solar panels or even machinery. From a focus group discussion, respondents commented that engaging in ROSCAs is important in their lives as they are investing in assets using ROSCA money. As a result ROSCA members live a better life and do not live in poverty.

#### *Security Function*

Most people join ROSCAs because they believe that they invest their money so that they use it when they encounter problems such as death or illness in the family.

*“ROSCAs helped me very much when my daughter was sick and was admitted at Gutu Mission Hospital. I used the ROSCA money and my husband was very surprised because I managed to pay the bills and buy medication”, said one women in a focus group discussion*

A total 67% of all the respondents saw ROSCAs as a form of insurance whereby they can bank their money and collect it when they really need it in case of an emergency. Thus ROSCAs act as an instrument for ROSCA members to share shocks among themselves.

#### *Sending children to school*

More than half of the respondents use the ROSCAs money to send their children to school.

*“My children will never be sent back home as long as I conduct ROSCAs. I can manage to pay school fee. My children are now at university and I am paying for them using ROSCA money”, said one women during a focus group discussion*

Thus ROSCA members do not face financial problems when it comes to payment of school fees because they take the money from the ROSCA pot and pay fees.

#### *Expanding Business*

Amongst the ROSCA members in ward 14, 17% of them stated expanding business as a contribution to their livelihoods.

*“I operate a salon at Utsinda Business Centre and ROSCA money has assisted me so much as I have managed to use the money to buy chemicals and equipment that I use and thus hope that my business will continue”, said one respondent in a focus group discussion.*

Through capital injection from the ROSCA money, small businesses in rural areas will always continue and they are less likely to be bankrupt.

*Starting up new businesses*

Some (13%) ROSCA members indicated that they use the lumpsum to start new businesses. From a focus group discussion, one ROSCA member highlighted that she started a tuckshop using ROSCA money where she sells basic commodities such as sugar, soap, cooking oil, inter alia. Another respondent revealed that he has since been saving his ROSCA lumpsum for 2 years and has invested the money and soon wants to buy and install a grinding mill at Utsinda Business Centre so that people will not walk long distances to Mupandawana Growth Point. This therefore shows how ROSCAs have made an improvement in the economic development of Ward 14 Gutu district.

**Challenges faced by ROSCAs**

ROSCAs face a number of problems.

*Defaulting members*

About 73% of the respondents highlighted defaulting of members as a problem encountered by ROSCAs. It was revealed that those members who usually ask to receive the pot first tend to default payments and thus threatening the life of the ROSCA.

*Mismanagement of funds*

When members contribute their monthly contributions the money is given to the organiser who then gives it to the winner or the recipient or waits to buy assets after everyone has contributed. It is at this point that most organisers use the money with the hope of replacing it but then fail to replace it and this causes problems as they fail to account for the money. In a focus group discussion it was revealed that some organisers in the past have disappeared with the lumpsum and this result in the dissolution of the ROSCA.

*Lack of finance to contribute regularly*

Most ROSCA members start contributing with others on a good note but later on run short of money to continue contributing as highlighted by 60% of the respondents. From a focus group discussion, one respondent highlighted that the reason why some members lack finance is that some members only rely on remittances and they do not have small business of their own so when their children fail to send money or if they send less money then they fail to contribute. As a result the life of the ROSCA is threatened.

*Late Payments*

Late payment is another challenge faced by ROSCAs. One respondent revealed that they agreed to contribute on the last day of the month and the latest on the first of the next month. However, other members contribute as late as the 7<sup>th</sup> of the next month or even after 2 weeks. This therefore poses a number of problems in that the recipient or the winner of the lumpsum sometimes would have want to use the money all at once and this may inconvenience them especially if they engage in consumer durable ROSCA.

*Diverting of funds*

Diversion of funds is another problem faced by ROSCAs. One respondent in a focus group discussion highlighted that from the onset as they join ROSCAs, members plan to do something with the lumpsum money but once they get hold of the money something always comes up such as illness, the need to buy an asset, buying inputs and chemicals in times of rainy seasons. Consequently, the funds are diverted and their plans do not take place and they have to wait for their turn again when the round has been finished.

## Conclusions

There are various types of ROSCAs in Ward 14 Gutu district. These include simple/random ROSCAs, bidding/discounting ROSCAs and consumer durable ROSCAs. These have an immense contribution to rural livelihoods. Such contributions include managing to send children to school, starting up businesses or expanding existing ones, accumulation of assets and using the lumpsum money as security or insurance against shocks. These contributions in a way have improved the livelihoods of rural people in that they manage to attain human capital through educating their children, physical capital through accumulation of assets and financial capital through starting up businesses or expanding existing ones. Through attaining these capitals their lives are better off in that they are no longer susceptible to poverty. Despite these contributions, ROSCAs face a myriad of challenges. Problems such as members defaulting, lack and inconsistent payment, mismanagement of funds and fraud and also lack of finance to contribute regularly were encountered by ROSCA members. These problems were threatening the life of the ROSCAs. The government should be able to influence other partners in microfinance such as NGOs and financial institution to intervene in areas where ROSCAs are conducted. Local NGOs and the government through the Ministry of Small and Medium Enterprises and other financial institutions should work together to provide loans so that rural people can become financially independent and as a result improve their livelihoods.

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Recent papers in Rotating Savings and Credit Associations (ROSCA). Papers. People. Fringe Banking in Canada: A Study of Rotating Savings and Credit Associations (ROSCAs) in Toronto's Inner Suburbs. Rotating savings and credit associations (ROSCAs) are regarded as a time-honoured tradition practiced by many people around the world. Save to Library. Download. In uswahilini districts, mutual help practices are especially popular due to the lack of sufficient support of the citizens from the state, difficult living conditions, the lack of "official" work etc. in the course of interviews we noticed that almost all our respondents mentioned that they had heard that in some group some of its members has stolen the whole mutual aid fund. The Rotating Savings and Credit Association - An Economic, Social and Cultural Institution. Astrid Marie Jorde Sands. During this journey, I have had the privilege of studying economics at three different universities in three separate countries. I spent my 3rd and 4th semester at the University of Dauphine, Paris in France and my 8th semester at the University of Namur in Belgium. This can either be through a strong sense of group mentality, or through mechanisms of enforcement so that the social and/or economic punishment of non-participation is large enough to encourage participation. Commitment for reciprocity groups will be discussed in section 2.2. Section 5 discusses enforcement and sustainability in the ROSCA in particular. The public goods game is often used to describe the difficulty of group cooperation. However, there are other structures of institutions to maintain group cooperation such as Rotating savings and credit associations (ROSCAs). ROSCAs are informal financial institutions that exist worldwide, in which all participants contribute to a common fund and take turns to receive a return. ROSCAs are common in developing countries and among migrant groups in developed countries. There are various types of ROSCAs, and they share a crucial problem in that participants whose turn to receive a return has passed

35. To avoid high fees for loans, a person should not borrow from a A) credit union. B) savings and loan association. C) pawnshop. D) commercial bank. E) mutual savings bank. C) pawnshop. 52. Comparison of earnings for different savings plans can best be accomplished using the A) discounted present value. B) compounded rate of return. C) net present value. 62. Based on the following information, what amount would be SUBTRACTED from the BANK BALANCE side of a checking account reconciliation? Service charge \$12, Outstanding checks \$145, Interest \$3.50, Deposit in transit \$80 A) \$145 B) \$12 C) \$157 D) \$148. 50 E) \$80. The Accumulated Savings and Credit Associations (ASCAs) offer flexible savings and credit options to its members, but require more record keeping than ROSCAs. Fanta, Extending Group Based Financial Services to Rural Communities in Extreme Poverty, Nuru International, October 2013 J. Ndjeunga, Rotating Savings and Credit Associations in Cameroon: Contractual Arrangements between Members, PhDs Dissertation, University of Illinois at Urbana-Champaign, 1996 C Benda, Community Rotating Savings and Credit Associations as an agent of well-being: A Case Study from Northern Rwanda, Community Development Journal, Vol.48 State: A Study of Rotating Savings and Credit Associations (ROSCAs), J. Soc.