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FINANCING OF SMALL AND MEDIUM ENTERPRISES (SMES):
FACILITATION THROUGH ROTATING CREDIT AND SAVINGS
ASSOCIATIONS (ROSCAS) IN LAHORE

By



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UUM
Universiti Utara Malaysia

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FACILITATION THROUGH ROTATING CREDIT AND SAVINGS
ASSOCIATIONS (ROSCAS) IN LAHORE

By



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Othman Yeop Abdullah Graduate School of Business,
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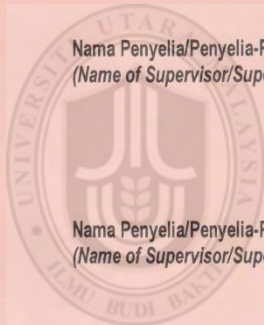
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ABSTRACT

SMEs are the backbone of Pakistan's economy but they have limited access to the formal sources of finance. According to the SME Development Authority (SMEDA) of Pakistan, 90% of start-ups exit within four years. The current research was carried out to discover the extent of the contribution of Rotating Credit and Savings Associations (ROSCAs) to the SME, explore their weaknesses and to develop measures to transform them into a significant source of SME finance. The study was conducted in the city of Lahore. Purposive sampling technique was adopted to collect the data from 433 entrepreneurs and eight informants. Nearly 90% of the respondents resort to ROSCAs-financing. The ROSCAs system finance the 386 sampled SMEs to the tune of Rs468 million every cycle. The average contribution per SME is Rs1.08 million per cycle. Only 9.8% of the sampled population had obtained formal loans during the last five years. The current study does not support the findings of SMEDA which reported that 80 to 90% of the start-up's exit within the first four years. The majority of respondents expressed fear of failure of ROSCAs is due to fraud or mismanagement and felt that management of ROSCAs by banks can assist in preventing mismanagement or fraud. Laws and procedures for managing cases of dishonoured checks are very weak. Since ROSCAs are extra-legal and un-registered, ROSCAs-related disputes have to be settled out of courts. Furthermore, the concept of *Shirkah al-Wujuh* was found to be widely practised in the form of ROSCAs for the interest-free (Islamic) financing of SMEs. The recommendations of the current study can be helpful in fortifying the existing ROSCAs system as well as promoting easy and secure access to finance. Moreover, banks can use these findings to position themselves as guarantor and play effective role in the entrepreneur-driven SME finance market.

Keywords: Musharakah, *Shirkah al-Wujuh*, SME, ROSCAs, Islamic finance

ABSTRAK

Perniagaan Kecil dan Sederhana (PKS) adalah tulang belakang ekonomi Pakistan dengan menyumbang hampir 25% Keluaran Dalam Negara Kasar (KDNK) Pakistan, Mereka mempunyai peluang mendapat kewangan formal yang terhad. Menurut Lembaga Pembangunan PKS Pakistan (SMEDA), 90% daripada penyingkiran kegagalan adalah dalam tempoh empat tahun pertama mereka. Kajian ini dijalankan untuk mengetahui sejauh mana sumbangan Persatuan Kutu (ROSCA) kepada ekonomi PKS, meneroka kelemahan mereka dan untuk membangunkan langkah-langkah untuk mengubahnya sebagai satu sumber kewangan yang penting. Kajian ini telah dijalankan di bandar Lahore. Ia adalah berdasarkan kepada maklum balas daripada 433 usahawan dan laman pelapor-pelapor. Teknik pensampelan bertujuan telah digunakan untuk menghubungi responden. Hampir 90% daripada responden menggunakan kaedah pembiayaan secara Persatuan Kutu (ROSCA) ini. Setiap bulan sistem ROSCA yang membiayai 386 PKS dalam persampelan ini adalah sebanyak Rs468 juta. Purata sumbangan setiap PKS adalah Rs1.08 juta sebulan. Hanya 9.8% daripada populasi persampelan telah mendapat pinjaman formal dalam tempoh lima tahun yang lalu. Kajian ini tidak menyokong hasil dapatan SMEDA bahawa 80 hingga 90% daripada penyingkiran kegagalan adalah dalam tempoh empat tahun pertama. Sebahagian besar responden menyuarakan bahawa ketakutan akibat kegagalan ROSCA ini adalah disebabkan oleh penipuan atau salah urus dan menyarankan bahawa pengurusan ROSCA oleh pihak bank membantu mencegah penipuan atau salah urus. Undang-undang dan prosedur dalam menguruskan kes-kes cek tendang adalah lemah. Disebabkan ROSCA adalah melampaui undang-undang dan tidak berdaftar, pertikaian yang bersangkutan dengan ROSCA terpaksa diselesaikan di luar mahkamah. Di samping itu, konsep *Syirkah al-Wujuh* didapati telah diamalkan secara meluas dalam bentuk ROSCA ini bagi pembiayaan tanpa faedah (Islam) PKS. Menerima cadangan yang dibangunkan dalam kajian ini akan membantu mengukuhkan sistem ROSCA ini disamping meningkatkan peluang mendapatkan pembiayaan yang mudah dan terjamin kepada PKS. Pihak bank boleh menggunakan penemuan ini untuk memainkan peranan yang lebih berkesan dalam pasaran kewangan SME yang berorientasikan usahawan ini.

Kata kunci: *Musyarakah, Syirkah al-Wujuh*, PKS, Persatuan Kutu (ROSCA), kewangan

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List of Abbreviations

BEEPS	Business Environmental and Enterprise Performance Survey
CGS	Credit Guarantee Scheme
EC	European Commission
EFS	Export Finance Scheme
EU	European Union
FFS	Falsification of Financial Statement
FSV	Forced Sale Value
GDP	Gross Domestic Product
IMF	International Monetary Fund
Kmaytee	Translation of ROSCA in to vernacular.
MGA	Mutual Guarantee Association
MGI	Mutual Guarantee Institution
NBP	National Bank of Pakistan
NPL	Non-Performing Loan
OECD	Organization for Economic Cooperation and Development
PLS	Profit and Loss Sharing
PPP	Purchasing Power Parity
QR	Quarterly Review by State Bank of Pakistan
ROSCA	Rotating Savings and Credit Association
SBP	State Bank of Pakistan
SME	Small and Medium Enterprise
SMEDA	Small and Medium Enterprise Development Authority
WB	World Bank

CHAPTER ONE

INTRODUCTION

1.1 Motivation for the Study

The strength of a country, its stature among the community of nations and the quality of life of its citizens, depend in no small measure upon the prosperity of its middle class. Historically, the industriousness of a well-led nation, when coupled with a high productivity, has enabled it to successfully weather many a crisis (Kennedy, 1987). A reliable metric of the productivity of a society and consequently its robustness and its stature, is the strength of its middle class. The strength of its SME sector in turn, is a measure of this (International Monetary Fund [IMF], 2013). A strong, healthy and flourishing SME sector means a strong, healthy and flourishing nation (European Commission [EC], 2012; Small Business Administration [SBA], 2012; Garelli, 2012). SMEs play a crucial role in the Gross Domestic Product (GDP), economic development and employment creation in emerging and in developed economies (Lukács, 2005). They provide a wide spectrum of work openings and play a vital part in decreasing poverty. With a business-savvy ownership, SMEs have a propensity for growth (Ryan, 2009).

SMEs are business enterprises and need finance for gestation, maintenance and for growth. Banks do not favour SMEs as business partners because the latter often cannot provide the collateral or guarantees required for formal financing. Globally, SMEs are known to be financially stressed and a majority of the start-ups are said to fail within their first five years. In Pakistan, a source of finance that does not require material collateral or guarantees is the ROSCA. ROSCAs rely on a member's social

capital to succeed. ROSCAs are known to be flourishing in Pakistan. This study aims to determine how ROSCAs may be invigorated to become significant sources of Sharia-compliant, inexpensive, easy and widely available finance for SMEs. This study investigates the extent of penetration of ROSCAs among SMEs operating in Lahore, their membership size, the rate at which they manage finances, etc. Later, it proceeds to explore their limitations and the measures that must be adopted to enable ROSCAs to complement banks as a Sharia-compliant source of finance.

1.1.1 Pakistan definition of SME

The term SME carries different connotations in different countries. Sometimes, even in the same economy, different meanings can be associated with the terms Small or Medium (US Small Business Administration [SBA] Size Standards, 2013). Some countries further sub-divide the Small size among Small and Micro sizes (Abe, 2009).

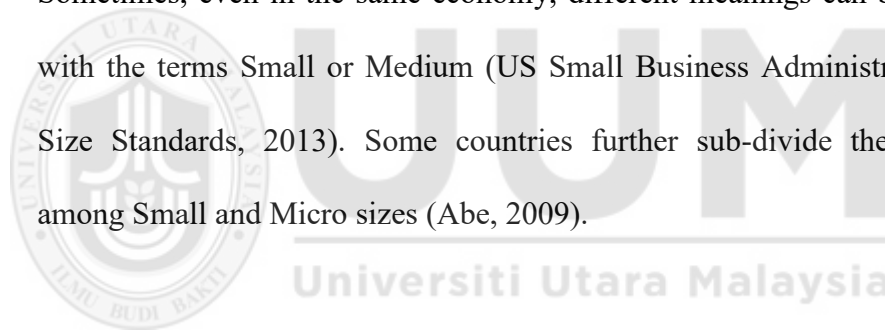


Table 1.1
SME Definition Recommended by SME Policy 2007

Enterprise Category	Employment Size	Paid Up Capital	Annual Sales
Small & Medium Enterprise (SME)	Up to 250	Up to Rs25 Million	Up to Rs250 Million

Source: SME Policy 2007. Definition, page 14 (Definition 2007).

In Pakistan, until the recent past, six agencies and departments dealt with SMEs and each had their own definition (Small and Medium Enterprise Development Authority [SMEDA] Definition, 2013). In its new “SME Policy 2007”, the government of Pakistan has recommended a single definition, reproduced below. The definition does not take notice of the Micro- category.

The definition adopted for this study is the one described in the SME Policy of 2007 and reproduced in Table 1.1. This definition is current and in vogue.

1.1.2 Importance of SMEs to Pakistan

Policymakers around the world are taking cognizance of the substantial positive impact that SMEs have on a wide continuum of the indicators of a nation's economic and social health. These include and are not limited to, an increase in employment opportunities and its resulting social import, value addition, augmentation of national wealth and increase in individual affluence (Organization for Economic Cooperation and Development [OECD], 2011).

As they do in other countries, SMEs make an important contribution to the economy of Pakistan. They provide a significant support to the social and economic fabric of the nation. There are nearly 3.2 Mn SMEs in Pakistan. They comprise almost 99 per cent of all the enterprises in the country. They contributed more than 30 per cent to its GDP in 2009-2010 and more than 40 per cent in 2010-2011. If the agricultural sector is included, they provide employment to around 80 per cent of the workers in rural and urban areas. They produce a wide range of products extending from surgical instruments to sports goods, textiles and leather products as well as agricultural produce. The country's entire production of surgical instruments, sports goods and leather products is made by the SMEs (Ministry of Finance, Government of Pakistan [MoF], 2012). In manufacturing industry, 35 per cent of the value addition is contributed by SMEs. In 2011, SMEs accounted for US\$2.5 Billion or 25 per

cent of Pakistan's export earnings (Qureshi, 2012). SMEs are considered the backbone of Pakistan's economy.

1.1.3 SME-Specific Characteristics That Influence Their Access to Formal Finance

The overwhelming majority of SMEs throughout the world are small, family run and operate in the private sector. For example, 92.2 per cent of all enterprises in the EU are classified as micro, having less than ten employees (European Commission, Enterprise and Industry [EC], 2012).

In Pakistan where state-intervention in the form of subsidies, rebates, taxation, labour welfare measures, etc. is minimal, owners maintain the accounts informally. Written Business Plans also are not deemed necessary and hence are not prepared (Wang, Walker, & Redmond, 2011).

SMEs have limited financial reserves. Many SMEs find it impossible to offer the collateral needed by a bank for an advance. Inability to post the required collateral is the most common reason why formal financing is denied (Government of Canada [GC], 2013; KPMG, 1999).

Because of their smaller size, the financing requirement of smaller enterprises is less than that of larger ones. The cost of processing the small loans by the banks and of registering the collateral is disproportionately high in case of SMEs. Banks prefer to deal with a small number of large volume loans than the other way round (Recklies, 2001).

SMEs' margin of safety between success and failure is narrow and many of them exit in the first year. In Pakistan, 80 per cent of SMEs are said to fail within the first four years (Khawaja & Small and Medium Enterprise Development Authority [SMEDA], 2006).

In order to avoid/evade taxes and to share lesser profits with partners, SME owners often falsify financial statements. SMEs avoid third-party scrutiny of books. This scrutiny is essential in case of Islamic financing. Islamic financing works on the principle of Profit and Loss Sharing (PLS) partnership. This falsification leads to asymmetry of information, moral hazard (Dembe, 2000), and adverse selection (Wilson, 2008).

SMEs are driven by a desire to succeed. Several Fortune 500 and many Fortune 1000 companies started as SMEs. If managed ably, they possess the hallmarks of innovation, entrepreneurship, growth in employment opportunities and in revenue generation (Audretsch, & Thurik, 2001). Governments of economically developed countries encourage this sector by putting in place measures that facilitate their access to formal finance.

1.1.4 SMEs' Sources of Finance

SMEs need financing for operations as well as for growth. Ordinarily, Pakistani SMEs have recourse to three sources of finance. They are, in order, their reserves (retained earnings), informal sources, and formal sources. Informal sources are friends (Sherazi, Iqbal, & Asif, 2013), relatives and moneylenders as well as ROSCAs. Formal sources are banks, both Interest-

bearing (conventional) as well as Islamic (Beck, Demirguc-Kunt, & Peria, 2011). According to the Pecking Order Theory (Donaldson, 1961; Myers, & Majluf, 1984), businesses prefer to use retained earnings in preference to raising debt. Since many SMEs are small and have recourse to smaller reserves, external debt financing becomes necessary in case of a large need. Not all SMEs are fortunate enough to have friends and relatives who are able and willing to advance substantial sums of money. Moneylenders charge extortionate rates of Interest (Hammersmith, 2014). For religious and financial reasons, this option, too, is objectionable to most SMEs. In practice, only two sources of reliable and convenient finance remain available. These are ROSCAs, commercial and Islamic banks. A brief introduction to ROSCAs is given next.

1.1.5 Rotating Savings and Credit Associations (ROSCAs)

A rotating credit association is described by Ardener (1964) 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”. They comprise persons, such as family or associates, businesspersons trading in the same commodity or locality, etc. ROSCAs operate across the globe. They may be small, up to 10 members, or larger than 200 (Hevener, 2006). The fund accumulated at each interval is known as the Pot. The size of the Pot can vary from “small” to “large” (Khan, 2012). Modus operandi of ROSCAs is elaborated in the Literature Review section. Several types of ROSCAs are practiced, the major ones being Random and Bidding. It is sufficient to note here that Random ROSCAs operate without any involvement of Interest (El-

Gamal, El-Komi, Karlan, & Osman, 2014). To this extent Random ROSCAs are Sharia-compliant. They are ideally suited to even semi-literate SME owners since managing small, informal Random ROSCAs does not involve legal formalities (Khan, & Lightfoot, 2012). Only social collateral (capital) is the guarantee required and default rate is low (Klonner, & Rai, 2005). In Pakistan ROSCAs are extra-legal and are deemed to be private arrangements between members Another significant shortcoming of ROSCAs is that the timing of “winning” the Pot cannot be predicted.

1.1.6 Conventional Banks’ Perspective of SME Financing

Banks are the classic sources of formal funding. Section 1.4 enumerated some of the characteristics of SMEs that affect their access to formal finance. These characteristics define banks’ relationship with them.

SMEs in developing countries often do not prepare Business Plan and maintain their accounts informally. This is an impediment to statement-based scoring when the enterprise applies for formal financing (Wang, Walker, & Redmond, 2011; Rocha, Farazi, Khouri, & Pearce, 2011). Banks require collateral to guarantee safety of their capital. The SME may be unable to furnish it. SMEs have a greater likelihood of failure in their early life. Banks might either be reluctant to commit their funds to an enterprise of uncertain future or may impose High-risk premium. This results in an increase in cost of loan (Gray, Saunders & Goregaokar, 2012). The accounts of large enterprises are audited by approved (chartered, registered) accountants. Any Falsification of Financial Statements (FFS) can be detected. This expensive facility is not

afforded by SMEs. In view of the relatively smaller size of SME loans, banks do not require such an audit. Falsification can escape notice and endanger bank's capital later (Nayak, & Greenfield, 1994).

The bank might lack in-house expertise to evaluate the profitability of an enterprise or the value of the collateral. They are unwilling to give a loan to an enterprise whose profitability they cannot assess as it will expose their capital to avoidable risk. Their criterion for acceptance or rejection of an application for loan is the applicant's creditworthiness rather than profitability (Vietnam Financial Review, 2008). Banks consider SMEs as risk-bearing partners (Dietsch, & Petey, 2004).

1.1.7 Islamic Banks' Perspective of SME Financing

Islamic investment instruments differ from conventional instruments. This places additional impediments in the way of accessing formal Islamic finances. The most well understood and accepted instruments for providing funds to a business are Musharakah and Mudarabah. In case of Musharakah the profit and loss, if any, are divided in the same way (Usmani, 2000). In the case of Mudarabah while Profit is divided between both parties in a predefined ratio any loss is borne entirely by the bank (Rammal, 2003). Conventional banks hedge themselves against loss by including collateral or a guarantee in the loan covenant. Islamic banks are not permitted to do so (Bank Negara Resolution [Resolution], 2001). Banks are conservative and risk-averse. They exhibit greater reservation when working with SMEs, or any other business, in

a Shariah-compliant way (Haron & Shanmugam, 1997). This is apparent from the higher rate of premium charged by some Islamic banks (Huda, 2012).

Banks avoid subjecting themselves to risk of loss by not offering capital in the classical Islamic way at all. By December 2010, Musharakah and Mudarabah based transactions accounted for only 21.45 per cent and 12.66 per cent of the total transactions conducted by Indonesian banks (Central Bank of Indonesia, 2011). Islamic banks view SMEs as risky and have not made any noteworthy Islamic financing (Rocha, et al, 2011).

1.1.8 Islamic Micro-finance Institutions

There are a number of other entities that extend Interest-free loans. Principal among them are Akhuwat Foundation, Kashf Foundation, Naymet Trust, Muslim Aid Pakistan, Islamic Relief Pakistan, Kawish Welfare Trust, Esaar Foundation and Sungi Development Foundation. They possess characteristics that render them inappropriate as reliable and significant sources on Interest-free Islamic finance to SMEs. The financing provided by these institutions averages Rs20,000 for each case. While tens of thousands have been able to use this quantum of financing to move up out of the poverty level, it is insufficient to meet the financial needs of SMEs that are already well above this level. Since these institutions do not charge Interest their cash in-flow is limited. Reliance is placed upon donations to sustain their operations. Their sustainability is uncertain. The administrative cost incurred is Rs1,600 per loan. This is higher than in case of conventional banks.

1.1.9 Situation of SME Financing in Pakistan and trends

Table 1.2

SME Financing Profile of Banks, (2013, 2014), Billions of Rupees

Category	Period Ending	
	Dec 2013	Dec2014
Outstanding SME Financing	272.53	287.88
Total Financing	4,181.94	4,599.46
SME Financing as % of Total Financing	6.52%	6.26%

Source: Table 1. State Bank of Pakistan, Quarterly SME Finance Review as of December, 2014.

The depressed state of formal financing of Pakistani SMEs can be perceived by examining data published by the State Bank of Pakistan (SBP)¹. The State of SME financing for the period ending December 2014 can be seen from Table 1.2. It can be seen that the share of SME financing as a percentage of the total loan portfolio of the country was 6.26 per cent.

In order to discern the trend of formal financing of SMEs, the data given for the period December 2014 (Table 1.2) will be compared with the data for the periods ending December 2007 (Table 1.3), June 2011 (Table 1.4) and December 2013 (Table 1.2).

¹ It was originally published in a granular form. It listed the numbers for micro-, small-, medium-, and large-account holders separately. This practice was discontinued after the report for the period ending June 2011 was published. Thereafter SBP publishes data in the aggregated form. It is no longer possible to determine the total perspective of the shares of different classes of account holders.

As on 31 December 2007, 60 per cent of the deposits in the scheduled banks had been made by small and medium account holders. The share of this class of accounts holders in the total loan portfolio was only 32.3 per cent. Also, only 39.9 per cent of their total deposits had been returned to them as loans. On the other hand, only 40 per cent of the deposits belonged to the large account holders. Yet, this class obtained 67.7 per cent share in the total loan portfolio. Additionally, the loans this class obtained were 124.6 per cent of their deposits.

Table 1.3

Deposits and loans, all banks, according to class of depositors on 31 December 2007

Class of depositor (Rs)	Deposits made by class (RsMillions.)	Loans (RsMillions.)	Loans	
			As % of deposits	As % of total loans
Up to 100,000.	634,965.8	163,231.8	25.7	6.25
100,000 - 1,000,000	920,466.2	334,358.6	36.3	12.8
1,000,000 - 10,000,000	560,175.8	347,167.4	61.97	13.3
Total Small medium	2,115,607.8	844,757.8	39.9	32.3
Over 10,000,000	1,418,897.0	1,768,446.9	124.6	67.7
Grand Total	3,534,504.8	2,613,204.7	73.9	100

Source 1: State Bank of Pakistan (SBP), Table 18.3. Advances by class of depositor, as on 31 December 2007.

Source 2: State Bank of Pakistan, Statistical Tables.

Table 1.4

Deposits and loans, all banks, according to class of depositors on 30 June 2011

Class of depositor (Rs)	Deposits made by class (RsMillions.)	Loans (RsMillions.)	Loans	
			As % of Class deposits	As % of total loans
Up to 100,000.	791,683.9	83,006.7	10.48	2.5
100,000 - 1,000,000	1,806,440.0	303,557.6	16.8	9.2
1,000,000 - 10,000,000	967,460.5	344,491.3	35.6	10.4
Total small & medium accounts	3,565,584.4	731,055.6	20.5	22.1(SMEs 11.8) (SBP, 2010)
Over 10,000,000	1,923,730.6	2,579,766.5	134.1	77.9
Grand Total	5,489,315.0	3,310,822.1	60.3	100

Source: State Bank of Pakistan (SBP), Table 18.2. Advances by class of depositor, as on 30 June 2011, and SBP (2010).

At the end of 2008, 70.9 per cent of the Rs383 Billion total outstanding credit in favour of SMEs had been taken for short-term (up to one year) loans. The share of medium-term loans (up to 3 years) was 10.1 per cent (SBP QR, 2008). At the close of Financial Year 2011 - 2012, the total SME exposure reduced even further to Rs247.9 Billion. The loans were for short term only. This indicates increasing wariness on the part of banks to invest in the long-term future of SMEs (SBP QR, 2012).

The situation shown above is not an anomaly. It represents a growing trend of the commercial banks to favour larger account holders (relationship lending) and to deal with smaller account holders with arm's-length relationship. This trend can be confirmed by examining the state of financing at the end of financial year 2011. Table 1.4 refers. The share of small and medium account holders in the total loan portfolio has reduced from 32.3 per cent in 2007 to 22.1 per cent in 2011.

On 30 June 2011 the share of small and medium account holders in the total bank deposits had risen to 66 per cent. Despite this, their share of the loan portfolio reduced from 32.3 per cent in 2007 to 22.1 per cent of the total. (The share of SMEs is 11.8 per cent.) Nearly 78 per cent of the loans were given to the large account holders who were responsible for only 33 per cent of the total deposits.

By 31 December 2013, the share of SMEs in the total loan portfolio had reduced to 6.52 per cent and to 6.26 per cent by 31 December 2014. The situation described in details above is summarised in Table 1.4a, Trends in formal financing of SMEs in Pakistan, share of SME financing in total loan portfolio. The current situation of SME financing is dismal.

Table 1.4a

Trends in formal financing of SMEs in Pakistan, share of SME financing in total loan portfolio

	Period			
	2007	2011	2013	2014
		(per cent)		
Small and medium account holders' share in total deposits	59.8	64.9		
Loans as percentage of class deposits	39.9	20.5		
Loans as percentage of total loans	32.3	22.1 (SMEs 11.8, SBP 2010)	6.52	6.26

It will be instructive to compare these figures with those prevailing in more mature economies. Table 1.5 Share of SME loans as percentage of total business loans, refers.

Table 1.5

Share of SME loans as percentage of total business loans

Country	2007	2011
Hungary	62.4	54.4
Korea	86.8	77.7
Switzerland	81.4	79.0
United States	30.1	26.5
Pakistan	32.3	22.1 (11.8)

Source: Recent trends in SME and Entrepreneurship Finance. OECD. Extract (2013).

The State Bank of Pakistan had set targets for macro-economic growth and employment that were to be achieved by 2012. The targets for formal SME financing was set to Rs1000 Billion by 2012 as a result of the bank having taking cognizance of the vital role SMEs play in the economy and employment generation (SBP, QR, 2010). This target has not been reached.

Beck et al, (2008) in their monumental study of the state of financing of SMEs in 48 countries, have concluded that SMEs with limited financial reserves and those operating in countries where the legal and financial systems had not yet reached a satisfactory state of maturity, tended to rely on informal sources of finance.

1.1.10 Attempts by Government of Pakistan to Boost SME Sector

In 2001, the government of Pakistan set up the SME Bank Limited with the aim of supporting SMEs in Pakistan. It was a 94:6 public-private venture. The bank extended credit of Rs1.7 Billion in 2006 (SME Bank, 2006). NPLs of SME portfolio stand at 20.64 per cent as at September 30, 2009. The initiative has failed and the bank has been earmarked for privatization (Bloomberg, 2014).

Since 2005, the government of Pakistan assists export-oriented enterprises to meet confirmed export orders by guaranteeing bank loans (Export Finance Scheme [EFS], 2005). Banks provide the loan at government-subsidised rate. In all other cases, the SMEs have to raise collateral without government support.

Recently government of Pakistan has initiated a “Youth Business Loan Scheme”. The declared aim of this Rs100 Billion scheme is to provide subsidized-Interest loans to help 100,000 young entrepreneurs launch their own SMEs (Pakistan Information Technology Board [PITB], 2013). The scheme is Interest-based and out of the scope of this study.

1.2 Problem Statement

SMEs are the bedrock of Pakistan’s economy. They may need external resources for start-up seed financing, operation and for growth. Two possible sources of external financing are banks and ROSCAs. Banks demand collateral/guarantee as protection of their capital. Even many high-quality SMEs are not in a position to offer it (KPMG, 1999). There are no Mutual Guarantee Associations in Pakistan to provide the requisite guarantees to the banks. SMEs have characteristics that impede their access to formal finance. These characteristics cause banks to consider investment in SMEs as exposing their capital to risk (Dietsch, & Petey, 2004).

Consequently, the financial system comprising SMEs and commercial banks does not work as smoothly and freely as that composed of financially secure large businesses and banks. This is obvious from the disproportionately larger loans advanced to large account holders as compared to others. This results in SMEs being severely handicapped in their quest for obtaining advances from banks. It will be noted from Table 1.2 that (a) Smaller account holders obtain a smaller fraction (10.48 per cent) of their deposits as advances as compared to large account holders who obtain advances that exceed their deposits (134.1 per cent), (b) the savings of the small accounts are advanced to large accounts and (c) only 2.5 per cent of the total

loan portfolio is availed by the micro-sized account holders. The greater bulk (77.9 per cent) is given to the large account holders.

From the tables it can be seen that banks are increasingly favouring large accounts. It can also be seen that the savings of small account-holders are being used to the advantage of the larger account-holders. It is a classic case of the rich getting richer off the poor. Sixty five per cent of the deposits in Pakistan banks are owned by small account holders. These include the SMEs. The SMEs earn around 25 per cent of the country's export revenue (Qureshi, 2012). Yet they obtain only 11.8 per cent of Pakistan's total formal loan portfolio (SBP, 2010). Islamic banks gave less than 4.1 per cent of their loan portfolio to SMEs (State Bank of Pakistan Islamic Banking Bulletin [IBB], Jan-Mar, 2013). Pakistan banks are awash with liquidity (State Bank of Pakistan Quarterly Performance Review of the banking system [QPR], 2010) but have serious reservations about giving advances to SMEs.

The government of Pakistan does guarantee bank loans but only if they relate to confirmed export orders (Export Finance Scheme). These export finance loans carry time-related Interest charges. SMEs that wish to avoid Interest and avail only Islamic finance cannot make use of them.

The present situation for SMEs is akin to a crisis. According to SMEDA a large number of them are fighting for their existence. Only one of every five is reported to survive beyond four years. Only one in twenty is in existence after 25 years (Khawaja & SMEDA, 2006). Ullah, Shah, Hassan and Zaman (nd) are said to have investigated life expectancy of new SMEs. They are reported to have said that in Pakistan 90 per

cent - 95 per cent exit in the first two years for lack of access to financing. It is seen that as long as SMEs remain incapable of arranging collateral, banks lack ability to screen them for their profitability, and an institution that can provide banks a guarantee for their loans is unavailable, SMEs will continue to be severely handicapped in obtaining formal finance.

The other remaining possible sources of finance, ROSCAs, possess characteristics that lend them to become easy, inexpensive sources of Interest-free (Islamic) finance for SMEs.

ROSCAs are able to provide lump-sum finance to each member (in turn) (Kedir, Disney, & Dasgupta, 2005). The amount of the lump sum can be varied by adjusting the periodic subscription rate.

They are free of Interest (El-Gamal, et al, 2012). Othaimen (2014) and Baz (2014) are eminent Islamic scholars whose webpages are frequently accessed for obtaining fatwas (religious opinions or rulings). They have ruled in fatwas that Random ROSCAs are Sharia-compliant.

Regular bank loans in Pakistan occasionally involve under-hand payments to dishonest credit officers (Hardy, & Di Patti, 2001). ROSCAs are free of this (Rudd, 2000).

Banks require that adequate collateral be included in the loan covenant. Failing this, banks demanded personal or other business' guaranty for repayment. ROSCAs

operate on social capital ingredients such as honesty, reputation, social status, business relations, etc.

They do not require any documentation to operate (Khan, & Lightfoot, 2012). There are no reports of default in Random ROSCAs widely practiced and studied in Africa. The default rate is lower, (1.6 per cent) in Bidding ROSCAs in Bharat (Klonner, & Rai, 2005) as compared to that in the US credit card industry (4.5 per cent) or the general default rate of SMEs in USA (11.9 per cent in 2009) (Huebsch, 2013). The banking industry in Pakistan has an even higher rate (16.2 per cent) (State Bank of Pakistan, QR, 2012). Rate of default in Pakistan ROSCAs is not known because the subject has not received scholarly attention.

The period of ROSCA cycle can be set to any value convenient to members (Shriram, 2014). If the size of the pot of a ROSCA is the same as the amount of a bank loan, and the periods of both are the same, the instalments required for ROSCA repayment are smaller. This is because ROSCAs do not involve Interest payment. ROSCA financing can be considered to be less expensive than comparable sized and duration bank financing.

Membership does impose restrictions. It leaves relatively less flexibility to members as compared to saving on their own or to obtaining a bank loan. This is so because of its periodicity or adherence to rules like determining the sequence of winners (Dagnelie & Lemay-Boucher, 2012).

Other limitations of ROSCAs are the un-predictability of obtaining the Pot and the fact the funds have to be removed from the working capital in order to participate in ROSCAs. The impact of this is particularly severely felt in case of SMEs who obtain the Pot towards the end of the ROSCA cycle.

There is a vast body of literature relating to ROSCAs operation particularly in Africa and in the Far East. The overwhelming majority of these examine their use by individuals and households. The studies do not quantitatively focus on their use to finance SMEs. Questions relating to ROSCAs' vital parameters such as their Pot sizes, membership sizes, default rate and impediments to their growth are not examined. In Pakistan, ROSCAs have not attracted significant scholarly attention. To the best information of this author, there is only one study (Khan, 2012) that reported on the presence of microfinance, banks and ROSCAs in Khan's home town. It, too, is based on interviews of members of household ROSCAs. It does not quantitatively examine ROSCAs' vital parameters. This study was carried out in the town of Dera Ghazi Khan. Khan recommends that another study be carried out in a different, larger city. Another study in Pakistan reported the percentage of urban and rural households (30 and 20 per cent respectively) that practice ROSCA (Carpenter, & Jensen, 2002). This scarcity of scholarly attention has allowed knowledge and empirical gaps to remain in the information about financing of SMEs by ROSCAs in Pakistan.

1.3 Research Questions

So far the study has examined the importance of SMEs to the economy of Pakistan. It was seen that the scheduled banks are extending to them a progressively reducing share in the total loan portfolio as compared to what they extend to the larger account

holders Unless radical and far-reaching changes are introduced in to their financing policies, banks will never be willing and eager sources of SME finance.

Another source of SME finance are the ROSCAs. They have characteristics that lend themselves to assuming a position of significance as compared to commercial banks, for this purpose. If ROSCA operations are supported by the government and their weaknesses are eliminated or at least their virulence is reduced, they can complement the banking sector in financing SMEs. Increased flow of capital to SMEs will result in a stronger SME sector, greater revenue generation and consequently a stronger economy and country.

To the best information of this researcher no study has been carried out so far in Pakistan that quantitatively assesses the extent to which ROSCAs have penetrated the marketplace or discovered the reasons why ROSCAs have failed to effectively compete with banks. This is a gap in knowledge gap which this study undertakes to fill. This study aims to discover the degree to which ROSCAs have presently penetrated the SME finance market and the impediments in the way of ROSCAs assuming a position of major sources of inexpensive, convenient and widely available Sharia-compliant finance. It also examines the measures that need to be adopted in order to enable them to do so. In order to be able to do so, three specific research questions have been developed.

Research Question 1. To what extent are ROSCAs being used by SMEs in the target population as a source of finance as compared to commercial banks?

Research Question 2. What issues have prevented ROSCAS from becoming significant sources of finance for SMEs in the target population, as compared to commercial banks?

Research Question 3. How can ROSCAS be enabled to become significant sources of finance for SMEs in the target population?

1.4 Research Objectives

The objective of the study is to understand and to enable ROSCAS to become a significant source of SME finance. Three specific objectives have been developed to help attain this goal. These objectives are:

Research Objective 1. To understand the extent to which ROSCAS are used by SMEs in the target population as a source of finance as compared to commercial banks.

Research Objective 2. To discover the issues which have prevented ROSCAS from becoming significant sources of finance for SMEs in the target population.

Research Objective 3. To explore measures by which ROSCAS may be enabled to become significant sources of finance for SMEs in the target population.

1.5 Significance of the Study

Governments of advanced economies like Germany, France, Japan, Korea, Italy, USA, etc. recognize the importance of SMEs to their economic health and growth. They facilitate access of SMEs to formal finance by providing guarantees to banks.

The Japanese initiated a public sector guarantee scheme. This scheme has been a massive failure. Those of Germany and USA have produced entirely satisfactory results (Mishkin, 1996; Uesugi et al., 2010). In Italy, SMEs organize themselves into mutual guarantee associations (MGAs) that provide the necessary guarantees to the banks. Only social capital such as sense of honour, social status and reputation are used as collateral. Wilful, premeditated defaults are known to be rare. These associations receive government support (OECD Discussion paper, 2009). These (and other) measures have boosted SMEs to the stage that they have now become significant components of their national economies. Pakistani banks have failed to assume the role of reliable providers of finance for SMEs (Table 1.2 and 1.3). In spite of their great contribution to Pakistan economy, SMEs are said to be struggling to survive. 90 per cent -95 per cent of them are said to exit in the first two years of their life.

ROSCAs closely resemble MGAs. They, too, are associations of private individuals. The collateral used is social capital. Defaults are said to be almost unknown. This research explores the degree to which ROSCAs have penetrated the marketplace and the factors that have prevented ROSCAs from replacing banks as sources of finance. This information will assist policymakers to implement measures that will enable ROSCAs to become significant sources of Islamic finance. It also explored the possibility of using government-sourced Interest-free loans to improve the capability of ROSCAs similar to the manner Italian government's grants assist MGAs there. It is expected that if these measures are adopted, SME access to (Islamic) finance will be substantially facilitated. This will provide a boost to the SME sector and, hopefully, to Pakistan's economy.

There are only 1.53 Mn taxpayers in Pakistan (Federal Board of Revenue [FBR], 2013). These consist of the registered companies, their employees, and employees of the government. Since there are approximately 3.2 Mn SMEs in the country, it is safe to assume that most of them do not pay taxes and are part of the undocumented economy. In 2005, different sources estimated the undocumented economy between US\$29.1 Billion and US\$33.4 Billion (between 54.6 per cent - 62.8 per cent of GDP) (Kemal, 2007). If the SMEs can be brought into the tax net it will represent a great increase in the country's revenue base.

1.6 Scope of the Study

In view of the nearly total absence of any scholarly or in-depth study on the operation of ROSCAs in Pakistan, the present study was intended to be only exploratory in nature. It was designed to measure ROSCAs footprints. This includes the rate of SMEs' participation in ROSCAs, Pot sizes, memberships, default rates et cetera. No attempt was made to discover any variables or their impact on each other. The study was also designed to explore the factors that were impediments to the operation of ROSCAs and to discover the means whereby these impediments could be alleviated. Lahore is one of the largest industrial cities of Pakistan. It is home to the country's main collection of Textile, clothing and garment-related SMEs. Sixty-eight per cent of Pakistan's exports consist of textiles (SMEDA, 2012). Numerous SMEs associated with this as well as other manufacturing and trading sectors are operating in Lahore. These sectors include automobile manufacture and maintenance, construction, food, etc. These SMEs have limited access to formal financing and rely on ROSCAs for this purpose. Lahore is where the study was conducted. The answers to Research Question No. 1 relate closely to this city. Questions No. 2 and 3 are not location- or industry-

specific. It is hoped their answers will be applied to ROSCAs across the country. The respondents were owners of the SMEs operating in several markets across the city of Lahore. In order to improve the generalizability of the research, it was carried out over 39 business sectors. The study focused on SMEs that were involved in sales. These are more numerous than SMEs dealing with manufacture. The goal of this study was to explore the long term SME-ROSCA relationship by obtaining cross-sectional data. Modulation of this relationship with time, such as variation in quantum of sales caused by appearance of new fashion, change in the weather, et cetera, was not to be explored. Time frame was not a constraint. The study was carried out during the period February-May, 2015. The nature of research determines the unit of analysis. This may be either a knowledgeable and responsible individual or the organization through a contact person. This study was intended to explore the parameters of SMEs' involvement in ROSCAs, the impediments encountered during this process and measures that can resolve these impediments. Demographic data reveals that an overwhelming majority (81 per cent) of the enterprises are either sole-proprietorships or family business. These are, by nature and by contemporary cultural norms, managed by one person. The remaining SMEs were partnerships that were managed by a single person, the managing partner. In all cases it was observed that a single person is responsible for taking all important management decision within the SME. He is analogous to a managing director in a limited liability firm. The unit of analysis for this study was the owner or manager of the participating SMEs. Such persons were the respondents during data collection.

1.7 Organization of the Thesis

The thesis has been organized into five chapters. Chapter 1 relates to the problem that has led to the initiation of this study. It briefly describes the contribution of SMEs to the economy of Pakistan, their lack of access to formal financing and the consequences to them and to the national economy of this lack of access. In this chapter two research objectives are initially defined. These are to discover the impediments in the way of obtaining finance by the SMEs from ROSCAs (Objective 2) and the measures that must be adopted in order to alleviate the effect of these impediments (Objective 3). Before these two research objectives can be analyzed and attained it is considered essential to understand the degree of penetration of ROSCAs in the SME economy. For this purpose an additional objective is defined (Objective 1). The purpose of Research Objective 1 is to discover the extent of penetration of ROSCAs in the SME marketplace. Towards its end, the chapter proceeds to examine the significance of the study, justify the study itself, and delimit its scope and the timeframe. The units of study and the types of respondents are also described.

In order to be studied rigorously, a study of this size and nature requires to be decomposed into several subtopics. These subtopics are researched separately in depth in Chapter Two. They include the status of SME formal financing in Pakistan, effect of banking system's health on loan portfolios, collateral, guarantee schemes prevailing around the globe, principles of Islamic financing, and Pakistan government's approach to boosting the SME sector. The chapter then proceeds to examine the literature available on ROSCAs and the conceptual framework relevant to ROSCA financing of SMEs. The chapter then delineates the gap in knowledge regarding ROSCA financing of SMEs. Finally, it closes with a chapter summary.

As its name implies, Chapter 3 covers and discusses the methodology adopted in this study to carry out the research. The research design is first discussed. It is then followed by the justification of the use of the city of Lahore for carrying out research. The sampling frame, and sample sizes for the quantitative as well as qualitative data collection are next discussed. This is followed by a discussion of the manner in which the questionnaire and the protocol were designed and developed. Reliability and validity are also argued here. This is followed by a discussion of the method used for questionnaire and protocol administration. Research framework is also deliberated here. The chapter next discourses on the pilot study, the lessons learnt from it and the changes made in to the questionnaire. Techniques of quantitative as well as qualitative data analysis are considered and are followed by a chapter summary.

In chapter 4, that data is analyzed and the findings are deliberated. Since there are three research objectives, chapter 4 is divided into three sections each dealing with its own research objective.

Chapter 5 has been included to discuss the findings of the study. These have already been listed at chapter 4. Chapter 5 too is divided into three sections each dealing with its own research objective. The first section reflects upon the findings that relate to Research Objective One. The second section considers the issues that were found to negatively impact ROSCAs operation in the SME marketplace. The third section discusses the recommendations made by the informants regarding these issues. The chapter then proceeds to formulate separate recommendations for ROSCA members, ROSCA residents, and the banks. Chapter 5 (and the thesis) closes with a discussion of the significance, limitations, and recommendations for future research.

CHAPTER TWO

REVIEW OF LITERATURE

2.1 Introduction

This chapter examines the previous studies on the subject of financing of SMEs, particularly through ROSCAs. A number of participants are involved and each will be examined. They include the SMEs themselves, commercial and Islamic banks and their relationship with SME financing, guarantee schemes and ROSCAs. The theories that underpin working of ROSCAs will also be studied. Finally, the gap in knowledge about ROSCA operation will be described.

2.2 Importance of SMEs to Pakistan

By 2008, according to the Pakistan Economic Survey (PES, 2008-09), the SME sector had developed into the principle support of Pakistan's economy. More than 99 per cent of all businesses were SMEs. Fifty three per cent belonged to trading and food sectors while 20 per cent were involved in Manufacturing, Personnel Services, Social and Community related SMEs, comprised the remaining 22 per cent. According to the SBP, the contribution of SME sector to the GDP was 30 per cent in 2009-2010 (40 per cent in 2010-2011). Together with the SMEs operating in the agriculture sector it provided 90 per cent of the total employment opportunities. In the manufacturing industry, SMEs accounted for 35 per cent value addition. They generated US\$2.5 Billion (25 per cent) of the country's exports (SBP, 2009). Table 2.1 shows the contribution of SMEs to the economy of Pakistan, 2014 – 2015.

Table 2.1

Contribution of SMEs in Pakistan in the Economy of Pakistan, 2014 - 2015

Total numbers of Economic Establishments	3.2 Million
Total numbers of SMEs	99 per cent of all enterprises
(Including Agriculture) Contribution to Employment	90 per cent
(Excluding agriculture) Contribution to Employment	78 per cent
Total per cent of Non-Agricultural Workforce (emp. in SMEs)	78 per cent
Average No. of Employees in 99% of SMEs	1-10 persons
Share in Export Earning	25 per cent
Share in Gross Domestic Product (GDP)	30 per cent
Share in Manufacturing Industry	35 per cent

Sources: State Bank of Pakistan (SBP) 2014), Federal Bureau of Statistics FBS (2014) and Pakistan Economic Survey (PES) 2014-15)

A fair idea of the significance of these SMEs to the country's economy can be gauged by examining just one of the segments of this sector, namely, manufacturing and export of sports goods. This sector exports US\$450 Mn worth of goods annually. This production is the result of the cumulative efforts of 200,000 workers, both male and female. Nearly three fourth of all the hand-stitched footballs sold worldwide have been produced by SMEs in Pakistan. This works out to an impressive 40 Mn balls that alone fetch the country US\$210 Million.

If the SME sector grows, its consequence will be growth of employment and increase in general prosperity (Garelli, 2012). In case this sector weakens, the loss of employment will have a serious adverse effect on the state of political stability (Smith, 2011).

A brief mention of the support provided by SMEs to the economy in times of crisis is in order here. In 2010-2011 the country had not quite recovered from the consequences of the global near-meltdown. Pakistan's overall GDP grew by 3.8 per cent in those trying times. On the other hand the SME sector grew by a healthy 7.5 per cent (Ministry of Finance, 2012). This provided a much needed boost to the overall national economic growth. The growth rate has been hovering at between 8.2-8.6 per cent since then (Ministry of Finance, 2015). It is obvious that when the economy is hard pressed the SME sector will be a valuable and reliable support. Thus, it is appropriate to argue that SMEs can significantly sustain and increase business performance even in the times of economic instability and turbulence. Growth and support of this sector is of vital importance to Pakistan.

2.3 Status of SME Formal Financing in Pakistan

The volume of advances given to large, medium, small and micro-sized account holders was given earlier in Tables 1.2 and 1.3. SMEs obtained only 11.8 per cent of the loans that are given out by the banks and only 7 per cent of Pakistan's GDP consists of SME loan portfolio (SBP Special, 2010).

2.3.1 Outstanding Amounts and Trend During the Last 4 - 5 years

In June 2005, at the end of financial year 2004-2005, total SME exposure to all finance, Interest-bearing or Islamic, stood at Rs361 Billion. It has been steadily decreasing and was Rs247.9 Billion on June 2012. The share of SME loans in the total loan portfolio of all banks has reduced from 17.5 per cent on June 2005 to 6.6 per cent on June 2012. This reduction is attributed to a slowing economy and to loan defaults. For two consecutive years 2010 and

2011, floods destroyed a large portion of the SME sector in Sindh and Punjab. With the infrastructure seriously damaged, the SMEs are incapable of raising the collateral to access bank finance. Consequently, the banks also have assumed a risk-averse posture (SBP QR, 2012).

2.3.2 SME Formal Financing and Durations of Loans

At the end of 2008, a sum of Rs383 Billion stood as the total outstanding credit in favour of SME. The greater bulk of the loan (70.9 per cent) had been taken for short-term (up to 1 year). The amount loaned for periods exceeding three years (long term) was 19 per cent while that for up to three years (medium term) was 10.1 per cent (SBP QR, 2008). At the close of Financial Year 2011 - 2012, the total SME exposure reduced even further to Rs247.9 Billion (SBP QR, 2012).

2.3.3 SME-related Non-Performing Loans (NPLs)

At the end of 2007, the total value of NPLs on account of SMEs was Rs41.3 Billion. It had increased to Rs96.2 Billion in June 2011 and to Rs96.4 Billion in June 2012. By the end of 2007, the fraction of SME financing that had turned NPL was 9.5 per cent. By June 2011 it had increased to 32.9 per cent and to 38.9 per cent by June 2012 (SBP QR, 2012).

The growth in NPLs is another impediment to formal financing of SMEs. As can be seen from the table above, total NPLs had increased from Rs30 Billion in 2004 to Rs79.2 Billion in 2009. In the same period SME sectors share of

NPLs of the banking industry has increased from 16.7 per cent to over 18 per cent. Table 2.2, SME financing profile (Amount in RsBillions), refers. The rise in the absolute and per centile value of NPLs is of concern to banks and is reflected by the reduction in the rate of new loans.

Table 2.2
SME financing profile (Amount in RsBillions)

	June04	June05	June7/8	June09	June11	June12
Total SME exposure		361	437/383	348	292.5	247.9
Per cent of total loans		17.5	/11.8	10.2	8.2	6.6
SME NPL (absolute)	30		41.3/	79.2	96.2	96.4
Per cent of SME exposure					32.9	38.9
Per cent of total NPLs	16.7			>18		
No. of SME borrowers					194,110	147,578
Total NPLs to total gross loans (per cent)	11.6	8.3	7.6/10.5	12.6	14.7	16.2

Source1. State Bank of Pakistan, SME growth in Pakistan, Addressing Access to Finance Issue second quarter [SBP Special] 2010.

Source 2.State Bank of Pakistan, Quarterly Review, 2012, p5.

Source 3.Indexmundi, Pakistan NPLs, (2012), for Total NPLs to gross loans.

2.4 Effect of Banking System's Health on Loan Portfolio

Commercial banks (CBs) play a key role in facilitating economic growth. They functions also to satisfy the credit requirement of businesses and households (Kellison, 2011). Rajaraman and Visishtha (2002) conclude that economies grow vigorously when the financial sector in general and the banks in particular, are strong and healthy. If the banks are weak it is prudent to predict the economy and its growth

will also be weak. Savings mobilization and credit flow will reduce thereby adversely affecting the economy (Rajaraman, & Vasishtha, 2002).

2.4.1 Country-wide rate of NPLs

The recession of 2007 – 2009 has been researched to great depth. While a number of causes have been identified, the principal reason has been determined to be NPLs (Abedola, Yusoff, & Dalahan, 2011). They are the most powerful cause of forcing a bank into insolvency (Hou, 2007). Failed banks have always had a high level of NPLs before they collapsed (Barr & Siems, 1994). The banking system of Pakistan endures the same set of impairments as do the banking sectors of other underdeveloped economies. The most significant of these is the colossal aggregate of NPLs accumulated. These are a drag or deadweight on the growth of the country's economy (Masood, 2009). The ratio of NPLs to the total loan portfolio, the Infection ratio, has been proliferating. The NPLs increased to Rs602 Billion in the end of 2013 with an infection ratio of 17.75 per cent (State Bank of Pakistan [NPL], 2013).

2.4.2 Effect of NPLs on Loans for SMEs

NPLs stress the bank by imposing financial and management burden upon it. If the rate of NPLs exceeds the comfort level threshold of the bank, it forces changes to the bank's policy of giving loans. Banks tend to reduce lending to lessen exposure of the capital to risk. (Van Hoose, 2007). SMEs and other small borrowers who experience difficulty in arranging collateral are the ones that are affected the first.

2.4.3 Falsification of Financial Statements (FFS) and Asymmetric Information

Whenever accounts are altered so that the resultant figures do not reveal the true financial situation, falsification of accounts is said to have taken place (Kotsiantis, Koumanakos, Tzelepis, & Tampakas, 2006). The information provided by these falsified accounts is said to be asymmetric. It can lead to Adverse Selection (Wilson, 2008) and Moral Hazard (Dembe, 2000).

According to anecdotal evidence, FFS is widely practiced by SMEs. SMEs resort to FFS for a number of reasons, for example to announce profits that are incorrect, acquire a bank loan, conceal unethical conduct and losses, attract higher bonus by indicating performance that is better than it actually is, to cover any unethical business activity, to overstate assets, and understate liabilities (Beasley, Carcello, & Hermanson, 1999). It is also used to avoid/evade taxes. It is practiced globally.

The (anecdotally reported) practice of FFS by SMEs, especially by those whose accounts are not regularly audited, cause banks to become wary of dealing with SMEs. This wariness is reflected in the disproportionately smaller share of SMEs in the banks' loan portfolios.

2.5 Measures Adopted to Mitigate Impact of NPLs

Credit is extended if the creditor is assured of the safety of his capital. Banks look for at least one of the following options to hedge their principal and Interest against the borrower's inability to make timely payments (default). These are the collateral, any personal or other guarantee for repayment, the borrower's cash flow, and screening.

In situations where the lender lacks the means or the willingness to subject the borrower to thorough screening, collateral is resorted to as a guarantee (Manove, & Padilla, 1999, 2001).

2.6 Collateral

The resource demanded by a bank from the borrower, to securitize the amount of loan, is the collateral. According to the theory of Incomplete Financial Contracts (Aghion, & Bolton, 1992; Hart, 1995), the right to repossess collateral is the threat in the hands of a creditor that ensures the borrower will not create a situation of moral hazard. This opinion is supported by Padilla and Requejo (2000) also.

2.6.1 Importance of collateral

Whenever Asymmetry of Information is known to exist between lenders and borrowers, it will affect not only the decision to use collateral but also the amount of it (Boot, Thakor, & Udell, 1991). The risk profile of the borrower and the strength of the relation between borrower and lender also determine whether or not collateral is integrated into the loan covenant and its size (Sharpe, 1990; Boot, & Thakor, 1994). Competition in the credit market, expertise and preferences of the lender also are factors that define collateral (Besanko, & Thakor, 1987).

Lenders prefer to retain and deal with high-worth borrowers whose ventures are certain of successful completion and who are unlikely to default (too big to fail). An overwhelming majority of the beneficiaries of bank loans are large

businesses (Tables 1.3 and 1.4). When an SME applies for bank finance, there is every likelihood that the business is not known to the bank and the quality of the borrower is uncertain. Lenders will have an incentive to demand collateral to protect themselves against the perceived risk. If the borrower is known to be risky and there is a probability of moral hazard in the transaction, larger collateral is more likely to be included in the contract (Berger, & Udell, 1990; Boot, Thakor, & Udell, 1991).

2.6.2 Collateral in Islamic Financing

Mudarabah and *Musharakah* are two forms of Islamic investment whose compliance with sharia remains unquestioned. These investments are based on the principle of Profit and Loss Sharing (PLS) and on mutual trust. There is no reason for posting collateral in a *Mudarabah* or *Musharakah* venture (Resolution, 2001). The capital is fully exposed to risk in these two forms of financing. Islamic banks are hesitant to invest using these two instruments unless they are very certain of the success of the SME's venture. There are other forms of business which are called Islamic and whose compliance with shariah is questioned in trade and in religious circles. These include *Murabaha* and *Ijara*. Their modus operandi is such that collateral is definitely required to be included in the contract. SMEs desiring to be financed formally and "Islamically" will most likely encounter *Murabaha* or *Ijara* and will be required to post collateral. Since SMEs often find it difficult to afford collateral, it is therefore even more difficult for an SME to obtain a loan from an Islamic bank than it is to obtain one from a conventional Interest-bearing bank. Dusuki (2007) reported that 92 per cent of the Islamic transactions in

South Asia, 80 per cent of those in Mideast and North Africa (MENA) and 70 per cent in East Asia use the *Murabaha* and *Ijarah* models. This is yet one more of the impediments to formal Islamic financing of SMEs.

2.6.3 Difficulty to arrange collateral

Banks use collateral to hedge against the risk of NPLs. In some countries of South East Europe SMEs may be required to post collateral having a value of up to 200 per cent of the underlying loan. EU countries average 120 per cent of the loan value (OECD Discussion paper, 2009). On the average, 23.9 per cent of small enterprises in South East Europe have recognized difficulty to obtain funds as a major constraint to growth as compared to 18.2 per cent of large firms (Business Environmental and Enterprise Performance Survey [BEEPS], 2009). Even profitable SMEs have difficulty to post collateral and to access formal finances.

Before proceeding further it is considered necessary to point out that by end of June 2008, an overwhelming majority of loans to the SMEs (approximately 90 per cent) had been secured with collateral (SBP QR, 2009). The rate of collateralization had risen to 98 per cent by the end of June 2012. The loans were for short term only. This indicates wariness on the part of the banks to investing in the long-term future of SMEs (SBP QR, 2012). SMEs have difficulty arranging adequate collateral (Bugvi, 2014; Olusola & Olusola, 2013; Ejaz & Ramazan, 2012).

2.7 Guarantee Schemes

Banks advance loans if they are assured of the security of their capital and of timely payment of the instalments. If a guarantee to this effect is provided to the bank, the loan can be made. Guarantee may be formal (government-sponsored) or informal (mutually arranged by businesspersons). Both approaches have been adopted by several countries.

2.7.1 Credit Guarantee in lieu of collateral

The first approach is a loan guarantee given through a Credit Guarantee Scheme (CGS). CGSs provide a guarantee to the financial institution that if a borrower defaults, the CGS will make up the amount guaranteed. The CGS absorbs all or part of the risk and there is no (or reduced) risk to the lender. Collateral becomes unnecessary and weaknesses in creditors' rights are taken care of through the guarantee agreement. The borrower may negotiate a lower rate of Interest. With an autonomous guarantee to back its loan application, an SME can obtain a loan that would otherwise be unavailable. The guarantor usually charges the borrower a Risk Premium. It is 2 per cent of the amount of the loan in Canada (GC, 2013) and 1 per cent in Japan (Uesugi, Sakai, & Yamashiro, 2010).

Acting as an intermediary between the financial institution and the SME, a CGS can reduce information asymmetry, facilitate access to formal credit and improve the terms on which the loan is given.

Globally, more than 100 countries have an estimated 2500 CGSs operating. They are organized and operate in several forms each tailored to meet the requirements of a different situation (Green, 2003). In 2000, European CGSs assisted more than 2 Mn SMEs with guarantees worth over €14 Billion (De Gobbi, 2003). There is no such scheme functioning in Pakistan.

2.7.2 Mutual Guarantee Associations (MGAs)

Mutual Guarantee Associations (MGAs) or Mutual Guarantee Institutions (MGIs) are groups of borrowers who assume joint responsibility to ensure that members honour loan covenants. Group members ensure that deliberate and ill-intentioned default carries with it serious social consequences. Mutual Guarantee groups affectively mitigate information asymmetries as group members are usually part of the same local community. In addition to screening membership and determining suitability for obtaining loans, Mutual Guarantee groups can help creditors obtain finances at more favourable terms by pooling several firms' credit needs and increasing their power to negotiate with banks (Columba, et al, 2010). MGIs are quite widespread, particularly in Germany, France, Spain, and, above all, in Italy. According to the European Mutual Guarantee Association, currently there are more than 1.4 Mn SMEs affiliated to one MGI or another. Italian MGIs represent 37 per cent of the total volume of guarantees to SMEs in EU (Columba, et al, 2010).

The World Bank (2008), having surveyed 46 countries and the 76 schemes operating in them, found that high-income countries tend to support mutual guarantee funds. State Intervention is needed in middle and low-income

countries. There are no Mutual Guarantee Associations in Pakistan. This positions SMEs in Pakistan at a disadvantage when applying to banks for financing.

2.8 Islamization of Financing in Pakistan

Islamization of Pakistan's banking system was started in 1979 by the promulgation of a Presidential Ordinance. The new system was called PLS system. In reality the system continued to remain Interest-based. Islamic banking corresponds to the aspirations of Pakistan citizens and is showing growth. The calculated and inferred average annual growths are 116 per cent and 127 per cent respectively. The annual growth in deposits was 121 per cent by 2007 (Hassan, 2008). By the end of 2012, the number of bank branches that offered Islamic instruments exceeded 650 and were present in over eighty cities and towns. Assuming 2001 as the base year the market share of Islamic deposits reached 6 per cent of the total deposits and are expected to double in the next three years (Mansoor, 2012).

2.9 Principles of Islamic Financing

The foundation on which the very edifice of Islamic banking is raised is the prohibition of the use of Interest in any form. Money cannot be rented (Quran, 2:275-281). Prohibition of Interest is considered sacrosanct. Several key principles further elaborate upon this concept. The ones that relate closely to this study are (a) Predetermined and fixed loan-related payments, when the amount expected to be repaid exceeds the amount initially extended, are forbidden, (b) business must be carried out on the principle of profit and loss sharing, and (c) only such contracts as

comply with *Sharia* (Islamic law) are permitted. If usury is factored in to any contractual agreement, in any name or form, the latter is unacceptable.

There can be other conditions when contractual agreements do not include usury but are still unacceptable. One such condition is the existence of the element of uncertainty or deceptive ambiguity (*Gharar*) in the agreement (El-Diwany, 2010; Kamali, 1999, 2000). Trading in risk is included in *Gharar* (El-Gamal, 2001). *Gharar* comes in to effect when there is a doubt that the seller might possibly be unable to deliver. It also comes in to effect if either the seller does not possess the sold items or its quality cannot be specified. Examples of transactions involving *Gharar* including selling fish that have not yet been caught, an unborn calf or fruit that has not yet ripened. *Gharar* is permissible in certain conditions. These include buying a house when the quality of its structure, particularly the foundations is uncertain. It is also permitted when a property is rented for a certain amount per month. In that case, since the month can be of 28, 29, 30 or 31 days, the daily rent is uncertain.

Another condition when *Riba* (Interest) is not present but the contract is not Sharia-compliant occurs when it contains an excessive degree of risk or gamble. A certain degree of risk is present in all business transactions. However, if the element of risk reaches the extent of gambling, the agreement is not allowed (Salomon, 2015). Gambling is known as *Maisir*.

A number of methodologies are adopted by Islamic banks for participating in banking and financing. Those more relevant to this research are discussed below. Some of them are clearly sharia-compliant, while others are springboards for discussion. It is

these methodologies that are considered to be some of the impediments to the adoption of Islam banking.

2.9.1 Mudarabah

This is an agreement between at least two parties, one of whom functions as the manager while others are the investors. The duration and nature of the enterprise are agreed upon and the capital entrusted to the manager. At the end of the period or upon completion of the enterprise, the profit is divided among the partners according to a pre-agreed formula. It cannot be a pre-determined sum. Any financial loss is borne by the investor while manager-entrepreneur loses his time, effort, and reputation. *Mudarabah* was practiced as early as 3700BC in Sumeria (Cooper, 2004). It was in vogue in Arabia long before the appearance of Islam. *Mudarabah* is rated the most authentic form of sharia-compliant PLS business, (Rammal, 2003).

In *Mudarabah*, the capital is exposed to risk. Banks have historically shied away from participating in *Mudarabah* based venture (Iqbal, 1997). It is possible for an Islamic investment bank to manage the funds of depositors. In this situation the bank acts as a *mudarib* and the form of contract is *Mudarabah*. PLS arrangement is used to divide the profits among the investors (El-Qorchi, 2005).

2.9.2 Musharakah

Musharakah works on the principle of partnership and joint stock ownership with an Arabic name. The investors agree to participate in a specific business. The business is managed by one or more of the investors. The ratio in which the profits are to be divided between the partners is negotiated at the commencement of the venture. It need not be the same as the ratios of the capital that each invested. In the event of a loss, the partners share the loss in proportion to their capital (Usmani, 2000). *Musharakah*, too, is a classic case of sharia-compliant (Islamic) financing. It is practiced by partnership-based businesses across the world. In Western countries, diminishing *Musharakah* is used for financing residential property transactions.

2.9.3 Murabaha

In view of its close resemblance to Interest-based financing, *Murabaha* form of contract has acquired great popularity with bankers. It is estimated that the overwhelming majority of all financing in Islamic banks is carried out using *Murabaha* contracts. Dusuki (2007) reported that 92 per cent of all contracts in South Asia, 86 per cent in the Middle East and North Africa, and 70 per cent in East Asia are *Murabaha* and other markup instruments. The *Sharia* compliance of *Murabaha* is debated.

Table 2.3
Islamic financing in Pakistan - Current Status

Industry progress and market share								
(Rupees in Billions and Industry share in per cent)								
	Dec. 03	Dec. 04	Dec. 05	Dec. 06	Dec. 07	Dec. 08	Dec. 09	Mar. 10
Total Assets	13	44	72	119	206	276	366	371
Share in industry	0.5	1.5	2	2.8	4	4.9	5.6	5.8
Growth	-	238.5	63.6	65.3	73.1	34	32.7	33.3
Deposits	8	30	50	84	147	202	283	289
Share in Industry	0.4	1.3	1.8	2.6	3.8	4.8	5.9	6.1
Growth	-	275	66.7	68	75	37.4	39.9	40.2
Net Financing & Investment	10	30	48	73	138	186	226	229
Share in industry	0.5	1.3	1.7	2.3	3.5	4.3	4.5	4.6
Growth	-	200	60	52.1	89	34.8	21.3	25.5
Total Islamic Banking Institutions	4	11	11	16	18	18	19	19
Total No. of branches	17	48	70	150	289	515	651	654

Source: Mansoor (2012).

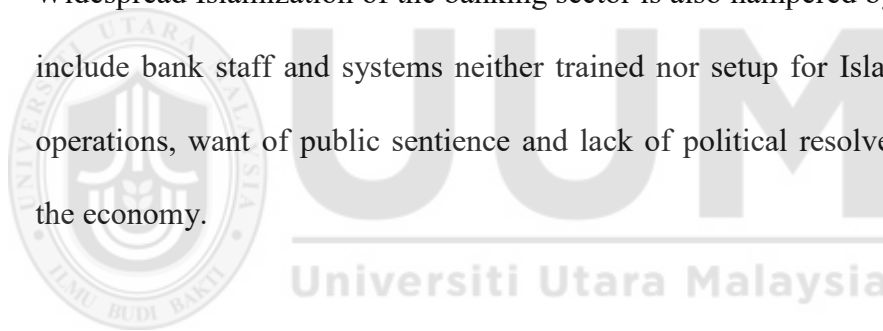
2.9.4 Status of Islamic Financing in Pakistan

Table 2.3 shows the Industry progress and market share in Pakistan over the period Dec '03-March '10. Banks have historically been wary of participating in a *Musharakah* based venture (Haron & Shanmugam, 1997). Islamic banks would prefer to deal with larger and well-known enterprises that are too big to fail. Even there, they hedge their capital against loss by involving collateral in the contract. This precludes Islamic banking working on the principles of *Mudarabah* or *Musharakah* (Resolution, 2001). The latter have not achieved a fraction of the popularity and usage that *Murabaha* and *Ijarawalktina* have (Ariff, 2007). In 2007 in Pakistan, only two per cent of financing was based on *Mudarabah* and *Musharakah* together. Eleven per cent in the Gulf countries,

13 per cent in South Asia, and less than one per cent of transactions in South East Asia were based on these two (Algaoud, & Lewis, 2007).

According to Dusuki (2007) less than 18 per cent of the transactions in South Asia, 20 per cent of those in the Middle East and North Africa and 30 per cent in East Asia use the *Mudarabah* and *Musharakah* models. SMEs, with their characteristics such as inability to raise collateral or proclivity to early exit, are even more handicapped in their effort to access capital (Tables 2.2 and 2.3). The share of Islamic banking in banking industry is shown in Table 2.2.

Widespread Islamization of the banking sector is also hampered by factors that include bank staff and systems neither trained nor setup for Islamic banking operations, want of public sentience and lack of political resolve to Islamize the economy.



2.10 State of SMEs Financing

The fact that this important sector of the economy is financially under-served globally, is recognized (Shinozaki, 2012). SMEs' size often limits their ability to access bond or equity markets. Their inability to access finance usually means inability to acquire bank financing (West, 2010). SMEs in developing countries often encounter obstacles in obtaining financing from banks (OECD, 2006). In Pakistan too, one of the major difficulties in SME growth is understood to be lack of access to formal finance (Bari, Cheema, & Ehasan, 2005).

Pakistani banks consider loans extended to SMEs as risk-bearing and adopt an arms-length method with them. The amount loaned has reduced from Rs361 Billion in 2005 to Rs348 Billion in 2009. The share of SME loans in the total loan portfolio of the country reduced from 17.5 per cent to 10.2 per cent during the same period (SBP SME Review, 2007, 2012).

2.11 Pakistan Government's Approach to Boosting SME Sector, Expansion

Government of Pakistan has experimented with a number of schemes designed to boost the SME sector or to provide employment. None of them has left a lasting impression upon the SME sector, the economy or the society. All of them led to indictments and convictions implemented by the succeeding governments. These schemes seem to have focused on creating or financing enterprises and played no part in improving their competitiveness, efficiency or long life. The schemes included Small Business Finance Corporation, Youth Investment Promotion Society, Provincial Small Industries, Awami Tractor Scheme and Yellow Cab Scheme.

2.11.1 The Small Business Finance Corporation (SBFC)

The Small Business Finance Corporation (SBFC) was set up in 1972. It was intended to help finance SMEs by giving them loans at low Interest rates and without collateral (Tanveer, 2001). By June 1998, it had disbursed Rs12 Billion to 157,162 loan accounts and had become insolvent (Khawaja, & SMEDA, 2006).The Corporation was absorbed by SME Bank Limited on January 1, 2002 (SME Bank 2009).

2.11.2 The Yellow Cab Scheme

The Yellow Cab Scheme was initiated in 1992. Under that scheme, 65,000 Hyundai and Daewoo cars were imported and distributed country-wide. A syndicate of three commercial banks financed the scheme. Including the government's share, a total of Rs14 Billion had been invested. A lack of transparency marred the scheme from the start. Serious financial irregularities were alleged to have been committed by the party. This was one of the charges that led to the dissolution of the government (Nadeem, 2011).

2.11.3 Youth Business Loan Scheme

The government of PM Nawaz Sharif has launched the Youth Business Loan Scheme. This Rs100 Billion (\$1 Billion at November 2013 dollar/rupee parity) is intended to help 100,000 young entrepreneurs launch their own SMEs, with small loans. The loan will range from Rs100,000-2 Million. The two major participating banks are the NBP (investing Rs90 Billion) and the First Women Bank (investing Rs10 Billion). The banks will charge 500 basis points above Karachi Inter Bank Offered Rate (KIBOR). With this rate hovering around 10 per cent, the bank is expected to charge Interest at a rate estimated to be an average of 15 per cent. The borrowers will pay 8 per cent annual Interest rate and the difference (7 per cent today) will be subsidized by the government (NBP, 2013a). Pakistan had a base rate of 14 per cent in 2011. If such a high rate prevails, the cost of subsidizing the loans will become excessive. The present government or a future one can withdraw the subsidy or sovereign guarantee during the 8-year life of the loan. In that case, Clause 8 of the Terms and Conditions of the loan requires that the entire revised Interest rate

determined by the lending bank will have to be borne by the borrower (NBP, 2013b). Seeds of NPLs have been sown. The period of the loan is eight years. It is pointed out here that the term of a government is four years. Maryam Nawaz Sharif, the Prime Minister's daughter was placed in charge of this Rs100 Billion scheme (Haider, 2013).

There are certain aspects of this scheme that merit serious study. First is the un-likelihood of ensuring that all 100,000 applicants possess the entrepreneurship and capability to turn this opportunity into profits and prosperity. A business plan is not required to be submitted with the loan application. SMEDA does offer templates on its website to assist an applicant develop a business plan. However, it also advises the applicants that the PM's Youth Business Loans Scheme does not demand a business plan. It will require a highly skilled and professional credit officer to determine the profitability of the applicants venture in the absence of a business plan.

There is a distinct possibility that part of this Rs100 Billion fund might be entrusted to those who are unable to plan or execute a venture. The scheme is well intentioned but possesses the ingredients of ending with Billions of rupees as toxic debt. The epidemic of sub-prime loans in the US was caused by banks giving large numbers to loans to applicants who would normally not have qualified.

NBP has since advised SBP that it cannot invest Rs90 Billion in the scheme in view of the high risk involved. It has offered to invest Rs15 Billion instead.

The government has commenced negotiations with five other banks to make-up the shortfall of Rs75 Billion (The News, 2013).

2.12 Rotating Savings and Credit Associations (ROSCAs)

From the above it is apparent that SMEs encounter difficulties in acquiring formal finance. The other (informal) source of convenient, Interest-free, and easily available source of finance are the ROSCAs. These will be examined in the subsequent sections.

2.12.1 Introduction to ROSCAs

Ever since Homo sapiens began to live in social groups, they have learned to cooperate with each other for their mutual benefit (Gugerty, 2007). Records are available of people in ancient China who formed informal savings and loans associations for the purpose of benefitting their members (University of Manitoba [Umanitoba], 2011). In literature, these associations are known as Rotating Savings and Credit Associations (ROSCAs).

These associations help individuals save when they would ordinarily find it difficult to do so. This can happen in situations like a forthcoming indivisible expense, pressure from their spouses, temptations and present-biased preferences (Brink, & Chavas, 1997; Handa, & Kirton, 1999). They assist in accumulating capital and are an insurance against an imminent larger expenditure. The funds that are put in the Pot go into circulation as they are spent by the person who gets them. Capital stays in circulation and does not remain idle (Ardener, 1964).

Armendariz and Morduch, (2005) as well as Nugroho (2009) maintained that ROSCAs are the root stock from which group lending designs such as micro-finance evolved. The very early studies on micro-finance were carried out before its long-term effect on the borrowers had matured. Glowing tributes were paid. Micro-finance was recognized as the ultimate tool for female empowerment and emancipation as well as reduction of poverty and social uplift (Littlefield, Morduch, & Hashemi, 2003). More recent studies, carried out after the accumulation of data on long-term effect, indicate that micro-finance might offer not only a zero growth rate but actually have a negative (and reverse) effect on the borrowers' financial situation (Maldonado, & Gonzalez-Vega, 2008; Bateman, 2010). There is now an increasing number of studies indicating that micro-finance is highly exploitative of the poor (Shylendra, 2006; Rai, 2011). Recent studies indicate that microfinance has caused deterioration in the situation of the poor (Karnani, 2011).

Several such microfinance schemes for helping the poor to access capital were launched in Europe. The most well documented examples are the scheme in Ireland of early 18th century and of Germany of late 18th century (Seibel, 2003). These schemes have not attracted as much scholarly attention as have ROSCAs.

2.12.2 Random ROSCAs, Modus Operandi

Random ROSCA is the classic form of ROSCA. All members subscribe a fixed pre-decided sum into the Pot at the start of every period. At the beginning of the first period, lots are drawn to choose the "winner". This

winning member is entitled to the total subscription received in the first period. For the second period, all members, including the winner of the first draw, put in their shares. Lots are drawn again, with the difference that the name of the winner of the earlier draw is not included in the next draw. The process continues with progressively decreasing number of names in the draw, until in the last period when only one person, the last, gets the Pot. At this stage the ROSCA ends or starts all over again, with the same or different members (Sandsor, 2010).

2.12.3 Bidding ROSCAs, Modus Operandi

This method is usually adopted if the members are businesspersons. The members still receive only one payment per cycle (Dagnelie, & Lemay-Boucher, 2012). Members can acquire the Pot in the initial draws if they outbid other members. Since the organizer of the ROSCA is responsible to make up for any default, the inclination to walk away after obtaining the Pot exists. This is especially so if the social capital of the group is inadequate or if the defaulting member is present-biased and intends to default. Besley and Levenson (1996) described the existence of default among Bidding ROSCAs members in Taiwan.

2.12.4 Defaults, Defections from Current ROSCAs

ROSCAs are known to be almost completely free of default. Default rate among Bidding ROSCAs in Chennai Bharat has been calculated to be 1.6 per cent (Klonner, & Rai, 2005). US economy is more mature and the citizenry there are more educated than are the poor of Bharat. It will be instructive to

compare default rates in Bharati ROSCAs quoted above with the 4.5 per cent credit card charge-off rates in USA (Ausubel, 1999). The general default rate of SMEs in USA was 11.9 per cent in 2009 (Huebsch, 2013). The situation is even more dramatic when the ROSCA figures quoted above are compared with the infection ratio of NPLs in formal bank loans in Pakistan. According to State Bank of Pakistan, ([SBPSpecial], 2010) the infection ratio was 11.6 per cent in June 2004 and rose to 16.2 per cent in June 2012.

Defaults and midstream defections by members of ROSCAs have been mentioned sparingly (Ardener, 1964). Members do not enter into formal contracts when they form a ROSCA. Numerous anthropological studies such as those carried out in Ghana (Hart, 1973) and in Bolivia suggested that default in ROSCAs is rare (Geertz; Adams, & Canavesi, cited by Chitiej, 2002).

People will join a community or an association if by doing so they can attain some advantage or prevent some harm (Jex, & Thomas, 2008). The community or association tends to inhibit any misconduct by its members that could jeopardize communal Interest. This is done by the threat of expulsion from the community (Coleman, 1988; Kandori, 1992; Granovetter, 2005).

Anthropologists studying the lack of defections from current ROSCAs attribute it to social pressures and norms present in the ROSCA environment. ROSCA members know each other fairly well. Exclusion resulting from deliberate and ill-intentioned default brings with it serious consequences

(Tipape, 2011). These could be “loss of face” and reputation, stigmatization as well as not being invited to any future ROSCA (Guha, & Gupta, 2005).

In communities where membership of ROSCAs runs as high as 95 per cent of the households, as for example in Gambia, Cameroon, Togo, Liberia etc., ROSCAs are so deeply entrenched in the communal economy and social life that being locked out of them would have serious implications. Ardener, (1964), Kovsted and Lyk-Jensen (1999) mentioned being barred from future ROSCAs as loss of status and honor. In Cameroon, members who prove reliable attain higher priority in the waiting line in future ROSCAs while those who do not, encounter social ostracism and peer pressure (Brink, & Chavas 1997b; Bouman, 1995).

2.12.5 ROSCAs, Penetration and Contribution to Economies

ROSCAs are pervasive in Asia, Latin America, the Caribbean and in Africa (Ardener, & Burman, 1995). The number of people who participate in them and the aggregate of capital mobilized by these associations give a fair idea of their popularity. In Gambia, Cameroon, Togo, Liberia, Ivory Coast, Republic of Congo, and Nigeria, between 50 to 95 per cent of the adult population are members of one or another ROSCA. Nearly 10 per cent of the GDP of Ethiopia is generated by ROSCAs. In Kerala state of India, ROSCAs have attained a high degree of penetration. It is estimated that the volume of savings mobilized in the form of ROSCA is twice that in the formal sector. Radhakrishnan, (1975) studied the working of ROSCAs in the Indian state of Kerala in detail. He reported that ROSCAs are more popular there among the

industrialists and educational institutions than banks are. He further reported that ROSCA membership includes even churches. Approximately 12,500 registered ROSCAs operated in the state in 1967. In Bharat, the operation of ROSCAs is regulated as much as is possible, by the The Chit Funds Act No. 40 of 1982 (Klonner, 2002). In the 1990s, 25 per cent of deposits in Kerala banks were held by regulated ROSCAs (Rao, 2007). In Tamil Nadu, they were 12.5 per cent of bank credit during that period (Eeckhout, & Munshi, 2004). The unregulated ROSCA sector is reputedly larger.

In Cameroon, ROSCAs mop up savings equal to 50 per cent of the national savings (Bouman, 1995). Kimuyu (1999) reported that 45 per cent of the households in Central Kenya are members of ROSCA. Temesgen (2008) studied four equbs (ROSCAs) in Addis Ababa, Ethiopia. He reported that their annual turnover was equal to 0.15 per cent of the total current deposits maintained by all commercial banks in the country, at the time.

Popularity and membership of ROSCAs is not limited to villagers in remote areas or the poor. Even bank employees in Ghana (Brotei- Doku, & Aryeetey, 1995) and others in Bolivia (Adams, & Canavesi, 1989) have been found to be members of ROSCAs. Ardener and Burman (1995) reported ROSCAs among IMF employees. Armendariz and Morduch (2005) reported that of the clientele of Bank Rakyat Indonesia, almost 40 per cent of those who availed the bank's micro-finance services participated in ROSCAs also. A study carried out by Chamlee-Wright (2002) revealed that 76 per cent urban market traders in Harare, Zimbabwe, participate in ROSCAs. About 77 per cent of these traders

also have bank accounts. Basley and Louri (2001) found that 68 per cent to 85 per cent of the population of Taiwan are members of one or another ROSCA. These people are well educated, sophisticated, city-dwelling and productively employed. (Srinivasan, 1995) has cited members of the South Asian community living in Oxford in the United Kingdom who were members of ROSCAs.

2.12.6 Formal ROSCAs

It is a commonly held perception that ROSCAs are informal, that the members know each other, they meet frequently, that they last between one and two years. It is also believed that social capital weakens with increase in membership size (Schreiner, 2000). In certain countries, ROSCAs are formal, the members are unacquainted with each other, they might not come across each other at all, the ROSCAs' durations exceed a year and the social capital does not weaken as size increases.

In Argentina, ROSCAs are run for benefit of car readers by banks. The members are often unacquainted and may never come across each other. There is no social collateral among the members. The members are protected by a well implemented Law. By law, formal ROSCAs are managed by banks. Any default is made up by the bank and automatically converts to an Interest-bearing bank loan. For this reason, Pot sizes can be larger than in informal ROSCAs. The size of membership ranges between 20 and 100 and ROSCA duration ranges between ten months to 7 years ROSCAs are most frequently formed by 60 members who pay \$66.5 a fortnight for 30 months. The size of

the Pot is \$4000 and two of them are paid every month. They do not take Interest on loans but charge US\$600 in fees and insurance premium. They also pay Interest to net savers (Schreiner, 2000).

In Chennai, Bharat, 2.2 Mn subscribers, many of them SMEs, subscribe to Shriram Chits Ltd., to form ROSCAs. The Pot sizes range from Rs10,000 to Rs5,000,000 and the periods range from six to fifty months (Shriram, 2014). This last mentioned Pot size is impressive by any standard. The possibility (and probability) of forming MGAs or for-profit private companies that will lead to strengthening of the Sharia-compliant ROSCA industry in Pakistan, has so far not been examined.

2.12.7 Financing SMEs by ROSCAs

This chapter has reviewed the history of ROSCAs, their global presence, their membership and some of their characteristics such as relative freedom from default (Ardener, 1964). The question of the type of role played by ROSCAs in financing a business will be examined next.

Three stages can be identified in the life of a profitable business. These are the start-up, daily management, and expansion (growth). The need for capital is most intense at start-up (Early-Stage Seed Financing) followed by the need for expansion. The working capital required to meet the needs of daily management is relatively smaller (SBA Research Summary, 2012). US is one of the most documented and researched societies in the world. Data relevant to SMEs is gathered and published by a number of government departments such

as Small Business Administration (SBA). SMEs are setup by Asian and Hispanic immigrants as well as by non-immigrants. ROSCAs are found among both types of immigrants. Immigrants are able to invest a higher level of start-up capital in their businesses than non-immigrants are (Fairlie, & Robb 2008). The start-up capital of immigrant owned businesses exceeded \$50,000 in almost 20 per cent of the studied cases. Non-immigrants were able to exceed this level in only 15.9 per cent. This is in spite of the fact that levels of personal wealth are comparable between Asians and non-Latino whites. Among the immigrants, Asians can mobilize larger start-up capital than Hispanics can. Immigrants and non-immigrants resort to very nearly identical sources of start-up capital. Sixty six per cent made use of personal savings or assistance from family. Credit cards, personal or family assets such as home equity loans and bank loans were also used (SBA Research Summary, 2012).

A question that can arise at this stage refers to the source of the start-up capital mobilized by Asian immigrants. Anecdotal evidence suggests that finances obtained from informal sources, principally ROSCAs, contribute greatly to the ability of Asian immigrants to invest larger sums at the start-up phases of their businesses. While this might be true in case of maintenance expenditure or for small-scale expansion there is no evidence that ROSCAs alone satisfy the need for massive finances needed for start-up. Some studies have indicated that funds obtained from ROSCAs are of crucial importance to the start-up of Asian businesses. Other studies suggest that ROSCAs' role is insignificant (Light, Kwon, & Zhong, 1990; Yoon, 1991; Bates, 1997). There is no direct, reliable, nationwide evidence to support either of these two stances. Peers and

community are not important suppliers of seed capital and majority of finance is provided by financial institutions (Bates, 1996; Centre for Economic Studies, 1996).

Pakistan's economy is less well-researched than that of US. To the best information of this researcher, there is only one study that relates ROSCAs to start-up capital requirements of SMEs. The researcher, Khan (2012), reported that the amount of funds generated by even the largest ROSCA in the city of Dera Ghazi Khan, Pakistan, are barely sufficient to meet working capital requirements.

2.12.8 ROSCAs in Pakistan

Anecdotal evidence suggests ROSCAs are widely practiced across Pakistan. There are several scholarly studies relating to micro financing or bank financing in Pakistan. Only one study appears to have been carried out about the use of ROSCA financing of SMEs. In her Ph.D. thesis, Khan (2012) reported the existence of ROSCAs and micro-finance in her hometown of Dera Ghazi Khan. There appears to be no PhD level study carried out to investigate the order of magnitude of ROSCAs prevailing in larger cities of Pakistan, their membership, the size of the Pot, duration, nature of grouping etc. The opinions of prominent businesspersons as to whether or not they would like to adopt the Italian form of mutual guarantee associations has also not been researched. This study intends to fill part of the gap mentioned above.

2.13 Conceptual Framework

The western Interest-based system of finance has been in vogue since the past several centuries. It rose to eminence with the Industrial Revolution. It received a boost with the advancement of colonialism and the consequential expansion of global trade. This financing system has developed and matured over the centuries that it has functioned for. It has been the subject of numerous scholarly studies. Theories have been developed to explain different aspects of its operation.

2.13.1 Islamic Concept of ROSCAs

Islamic countries have adopted the western finance system since they began trading with European countries having stronger economies. Classic Islamic finance never achieved the volume that Western finance has attained. Although the size of the Islamic finance market is said to have grown to US \$1.8 trillion its share of the global finance market is still small at less than one per cent (Cevik, & Charap, 2015; IMF, 2015; Kammer, Norat, Pinon, Prasad, Towe, & Zeidane, 2015). Islamic financing came to the fore relatively recently with the rise in prosperity brought about by the influx of petrodollars. Although it has attracted scholarly attention, it has not functioned long enough to seed the creation of theories relating to Islamic finances.

Another reason for not developing theories relating to Islamic finance is that Muslim scholars of Islamic commerce and finance (*fuqaha*) consider man-made theories to be fallible and rescindable. The guiding beacons of Islamic financial system therefore are not man-made theories but divine scripture embodied in the Quran. This is augmented by its explanation and clarification

by the Prophet. An explanation or a clarification is preserved in the form of a *hadith* (pl. *ahadith*). The *ahadith* are traditions or reports about the actions and sayings of the Prophet. *Fuqaha* too have analysed and opined upon issues relating to commerce. Instructions emanating directly from scripture are considered to be infallible and irrevocable.

A hierarchical arrangement exists among the texts relating to Islamic finance. This is shown in Figure 2.1 below.

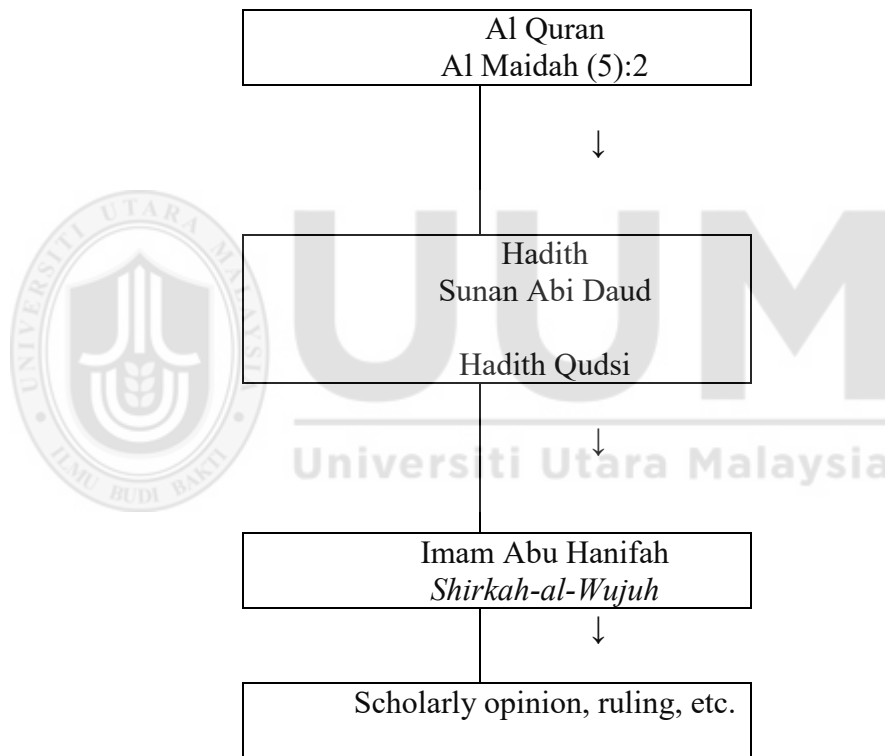


Figure 2.1
Hierarchy among rulings and sequence of development of Islamic concepts of finance

Quranic injunctions are considered to be most inviolable and absolute. They are followed in importance by the *Ahadith*. These are further classified as sacred or regular. Sacred traditions are variously called *ahadith Qudsi*, *ahadith Rabbani* or *ahadith Ilahi*. The regular *ahadiths* are known as *ahadith Nabawi*. The chain of narration of a *hadith Qudsi* does not end with the Prophet but can

be traced back to Allah. Quranic verses retain their wording and meaning but those of *ahadith* may vary from one to the next narration. Quranic verses are recited in ritual prayer, *ahadith* are not. One of the conditions of determining whether or not a *hadith* is valid and is worthy of being considered is that it should not contradict Quranic injunctions. Similarly, rulings by *fuqaha* follow first Quran and then *ahadith* in importance. They are accepted only if they are consonant first with the Quran and then with the *ahadiths*. A selection of guidelines relating to Islamic finance is given next.

Quranic concept of finance is based on the Unity of Allah, on adopting a way of life that is morally correct, and on honesty, fairness and compassion in man's dealings with his fellows. It is Allah alone Who creates. Man is a creation of Allah (Quran, at-Taghabun, 64:2-4). He made man better than most of His other creatures and preferred him over much of whatever else He created. He blessed man with bounties. Man is Allah's vice-regent on Earth (Quran, al-Isra 17:70). As long as man lives, he is expected to believe in the oneness of the Creator (*Tawheed*), (Quran, Ikhlas, 112:1-4), to do good works and to exhort one another to the Truth (Quran, al-Asr, 103:1-3). Upon resurrection men will be called upon to account for their deeds. Those whose good deeds are found to out-weigh their erroneous ones will be blessed with everlasting life in Paradise (Quran, al Qariah, 101:1-11). Believers have also been told that they are the best nation among mankind. Mankind is exhorted to collaborate with each other in performing good deeds but not in sin (Quran, Al e Imran, 3:104). They are exhorted to believe in God, bid each other to do what is correct and to hinder what is wrong (Quran, Al e Imran, 3:110).

Mankind is encouraged to spread out in to the world in order to earn their livelihood from Allah's bounties.

Partnering with others with the intent of doing this is encouraged by Allah. If it is carried out in a way that is profitable for the partners, the society and for mankind, partnership is considered to be a good deed that earns merit for the partners. In such a case, Allah bestows His Grace and bounties upon the partners. Allah urges the partners to abide by their contracts and not to transgress and commit injustice (Quran, al Maida, 5:2). In the same vein, mankind is instructed to encourage and assist each other in performing righteous acts and to prevent from sinning (Quran, al Maida, 5:2).

There are numerous sayings of the Prophet (*hadith*) that relate to commerce. Only such *hadiths* as relate to partnership will be recorded here. In a *Qudsi hadith* narrated by Abu Huraira and reported in *Sunan Abi Daud* the Prophet of Allah said "Allah says: I am the third in a partnership of two as long as one partner does not betray the trust or cheat the other. If any one of them betrays the other I leave the partnership", (*Sunan Abu Daud*, Book of Partnership Chapter 26). Imam Ahmad recorded that *Anas bin Malik* said that the Prophet constantly exhorted the believers to honour their contractual and treaty obligations. Having noted the significance attached in Islam to collaboration or partnership executed fairly in order to earn an honest livelihood, the study will examine the opinions of *fuqaha* regarding types and natures of partnerships.

Fuqaha's opinion on commerce are based first on the guidelines given in the Quran and then by the traditions of the Prophet. Trading partnerships have been practiced among the Arabs since centuries before the advent of Islam. The Prophet has himself been known to have participated in successful trading partnerships. There are records of his companions having participated in them. Some of them later travelled overseas as traders and spread the message of Islam. Trading has been blessed by Allah (Quran, Al-Baqarra, 2:275).

The Arabic term for collaboration or partnership is *sharakah* or *shirkah*. *Musharaka* is the setting up of a collaborative partnership venture. *Shirkah* and *musharaka* are used interchangeably. However perhaps the most comprehensive *shariah* definition is provided by Sheikh Taqiuddin an-Nabhani in *Nidaam ul Iqtisaad* where the company in *Shar'a* is defined as a contract between two or more persons, in which they agree to perform financial work with the intention of making profit. *Musharaka* is a relatively new term introduced by those writing on Islamic financing. It is most often used in conjunction with *Shirkah al-Amwal* and less frequently with *Shirkah al-A'mal*. On the other hand the term *Shirkah* has a wider application and includes all types of collaborations and partnerships.

The parties to the agreement are called *sharik* or *musharik*. A *musharakah* can take any of several forms depending on the nature of the business opportunity. At least two parties are required to form a *shirka*. Depending upon the opportunity, the *shariks* may invest capital, labour and or skills. Partnership may also be based on trade founded on credit. It is a characteristic of

musharakah that while profit is divided among the partners in a specified ratio, the loss is divided in the ratio of their investments. *Fuqaha* identify two fundamental types of partnerships (Usmani, 2010).

The first type of partnership is *Shirkah al Milk* or partnership that is based on joint ownership of a property. *Shirkah al Milk* can have any one of two forms. These are *Ikhtiyariah* (Optional) and *Jabariyah* (Compulsory). *Shirkah ul Milk Ikhtiari* can come about if the partners purchase some equipment. The relationship has come into existence because the partners opted to purchase the equipment jointly. The compulsory *Shirkah ul Milk Jabariyah* is forced upon the partners by circumstances. A case in point is the inheritance of a property by the heirs as a result of the owner's demise (Usmani, 2010).

The second fundamental type of partnership is *Shirkah al Uqud*. It is based on a mutual contract and is in essence a joint commercial enterprise. *Shirkah al Uqud* is analysed by *fuqaha* either on the basis of the types of investments made by the partners or on the basis of the ratios of investment made by them. If it is analysed on the basis of types of investment, it can be decomposed into three categories. These are *Shirkah al Amwal*, *Shirkah al A'mal* and *Shirkah al Wujuh*. If the partnership is analysed on the basis of ratios of investment it can be considered to consist of two different categories of partnerships. These are *Shirkah al Mufawadhah* and *Shirkah al Inan*. These several categories of *Shirkah al Uqud* are described next (Usmani, 2010).

Shirkah al Amwal is a partnership in which each partner invests some capital in a commercial enterprise.

Shirkah al 'Amaal is based on the services the partners render to the business. The profits are divided among the partners in a pre-determined ratio. *Shirkah al A'mal* is also known as *Shirkah al Sinai*, *Shirkah al Taqabbul* and *Shirkah al Abdan*. *Shirkah-al-Sinai* or *Shirkah-al-Taqqabal* is an association of different skills involved in business. Skilled persons like manager, accountants and labourers provide their skill while capitalists provide their capital. All these people join together to start the business. The profit is distributed among them according to terms of agreement (Usmani, 2008).

Shirkah al Wujuh will be described later.

In *Shirkah-Al-Mufavadha* (unlimited company) partnership, each partner provides equal capital. Each partner has equal share in the profit and loss. Every partner is helper and agent of the other partner. All the partners have an equal status. There is a written agreement of association. It can be formed between free-men and not between slaves. In this partnership each partner has the right to negotiate or enter into any business contract on behalf of the other partners. Some of the conditions for this type of partnership to be valid are a). The partners must invest equal capital. The profit or loss that accrues must be equal. b). Every partner has the right to buy/sell on the others' behalf. Each partner represents all others in negotiating any transaction. c). Every partner is a liable to the debts incurred by any other partner (Faraz, 2012).

Shirkah al Inan (limited company) is a form of partnership involving capital, management skills and liability. However, the share of the partners may be equal in one case of any one of these ingredients but not in another. For example, the partners may be investing different amounts of labour or special skills but obtaining equal share in the profits. In this partnership the partners may contribute their share in cash. Contribution of capital may be un-equal. The profit or loss is also divided on the basis of capital invested. The liability of each partner is limited to his invested capital. This type of partnership can be formed between any two parties (Women, Children, Muslims, Non-Muslims). Generally one partner provides the major source of finance. A partner has no right to lend anything out of joint assets of the firm. In *Shirkah al Inan* the rights and obligations of the partners are clearly defined in a contract (Usmani, 2010).

These partnerships, be they based on finance, labour or credit, can be set up as unlimited, free or equal partnership (*Mufawadah*) or as a limited *Shirkah al Inan* partnership. There is complete consensus of opinion of Sunni *fuqahah* on *Shirkah al Inan* only. Hannafi school of thought agrees upon all three types of *Shirkah al Uqud*. They maintain that long distance trade using credit was being practiced since the earliest days of Islam and hence is acceptable. There is a difference in price of an article that is being sold in cash as compared to that being sold on credit, the latter being the higher. In their opinion the higher price is not formally or legally a type of Interest. It is a compensation to the creditor for the risk to his capital and a compensation for its absence.

Shirkah al Wujuh is the third and last type of *Shirkah al Uqud*. It involves neither capital nor services. It is based on social capital. In this form of partnership, the partners obtain a loan based on their goodwill or social capital, purchase commodities on credit and distribute the profits using a pre-agreed formula.

Among the different types of partnerships that are recognized in Islam, *Shirkah al Wujuh* is the one that most closely resembles the operations of ROSCAs.

The relationship between SMEs, banks and ROSCAs will now be examined. Businesspersons can obtain credit from banks. This involves two factors that militate against SMEs' obtaining formal credit. These are the involvement of collateral and the inclusion of Interest in the loan covenant. Being small, many SMEs are often not in a position to provide adequate collateral. They are thus denied access to formal finance. Dealing with Interest in any form or under any name (e.g. mark-up, profit, service charge, retention fee) is abhorred by Muslim-owned SMEs (Quran, *Al-Baqarah*, 2: 275-6, 278; *Al e Imran*, 3: 130; *an Nisa*, 4:161; *ar Rom*, 30:39). SMEs are known globally to be denied access to bank financing. ROSCAs are informal associations of businessperson formed to enable the partners to obtain informal credit. ROSCAs do not involve Interest. Also, they do not require collateral for their functioning. Instead, they use the members' social capital. This includes the person's social status, his reputation of honesty in his dealings with others and his sense of

self-respect or self-esteem. These elements are often known collectively as the person's "face".

2.13.2 Secular Conceptual Framework

ROSCAs are complex operations that result from the interplay of several determinants. These include the need to obtain financing, the significance of collateral, the value and importance of social capital, trust among total strangers, etc. Secular theories have been developed to explain the operation of each of these. The theory that underpins the edifice of *Shirkah-ul-Wujuh* (ROSCA) is the Social Capital Theory. It is supported to a significant extent by the Swift Trust and the Collective Action theories. These theories are explained in the subsequent sections. There are several others that are generic to financing. They relate to collateral, the need to save, etc. and merit a brief mention. They include the Pecking Order Theory, Theory of Incomplete Financial Contracts and Temptation Theory. According to the Pecking Order Theory (Donaldson, 1961), businesses prefer to use their reserves rather than muster collateral and approach banks for loans, or resort to equity financing. The Theory of Incomplete Financial Contracts (Aghion, & Bolton 1992; Hart, 1995) postulated that the right to repossess collateral is the threat in the hands of a creditor that ensures the borrower will not create a situation of moral hazard. The Temptation Theory of Gul and Pesendorfer (2001 and 2004) stated that individuals, whose long-term self-Interest conflicts with their short term temptations, expend resources to eliminate short term temptations. The desire to avoid short term temptations generates a preference for long-term commitment so as to limit or eliminate the distracting options available.

2.13.3 Social Capital Theory

This theory maintains that the risk and vulnerability of people to temptation is reduced and their ability to absorb shocks is increased by their social capital (Woolcock, & Narayan, 2000). Social capital includes such ingredients as the individual's reputation in the marketplace, his sense of honor, his social status, etc. The theory combines the concepts of associating households' capital, bonding, solidarity and enforceable trust as well as reciprocity. It also discusses the constructive (and destructive), attributes of social capital. Portes and Sensenbrenner (1998) maintain that social capital enhances family support, network mediated benefits and encourages observance of social norms. Freedom of action of individuals is also restricted. They cannot take steps that will lead to a diminution of their social capital.

Social Capital Theory can be considered a secular interpretation of *Shirkah al Wujuh*. It is the theory that underpins the edifice of ROSCAs.

2.13.4 Swift Trust Theory

This theory explains how people can trust others who are near total strangers. Conventionally, trust has been associated with long-term relationships. It is assumed to be based on the history of a group and the manner of member interaction. A peculiarity of *Shirkah-ul-Wujuh* (ROSCA) is that the members associate only for the duration of ROSCA. Upon completion of the *Shirkah-ul-Wujuh* (ROSCA) cycle, the association can melt away or reform with same or different members. The members need not have prior long-term relationships

but are expected to remain trustworthy for the duration. This swift development of the trust is explained by Swift Trust Theory (Debra, Meyerson, 1996). The theory applies to temporary organizational structures that include quick starting groups that are set up temporarily for a certain task and will be dissolved upon completion. According to this theory, the group commences operations with a certain level of initial cognitive confidence as if members trusted each other completely. This level of trust is later adjusted according to experience. Time dependent trust is conventionally analysed using two models. Deterrence-based trust occurs when an individual behaves as expected fearing punishment in case she acts differently. Knowledge-based trust exists when the trustor can predict the trustee's responses because of the special knowledge she has about the trustee. Swift Trust Theory is not without its detractors. The theory is fragile and needs subsequent communication to sustain it. Jarvenpaa and Leidner (1998) maintained that communication of trustworthiness is a required though not sufficient condition for the theory to hold. Some scholars maintain that the basic Swift Trust Theory is merely a substitution of trust and not a true form of it. Some have even opined that it is a risk management strategy only. Others have suggested that it prevents the formation of real trust developing between the concerned parties (Kohler, Cortina, Salas, & Garven, 2011).

Swift Trust Theory is an application of Quran (al Maida 5:2) in which Allah exhorts the believers to honour their contracts and treaty obligations. It is also an explanation of the hadith attributed to the Prophet (narrated by Anas bin Malik and reported by Imam Ahmad) where Allah says He is the third person

in a partnership of two wherein the partners deal honestly with each other. Swift Trust Theory plays a supporting role to Social Capital Theory.

2.13.5 Collective Action Theory

This theory was propounded by Olson (1965). Olson theorizes that individuals with common Interests, group together to further those common Interests. Participation in a *Shirkah-ul-Wujuh* (ROSCA) is a collective action. In addition to the Pot, there are other benefits that motivate members to participate (Hardin, 1982). Several empirical studies indicate that members of collective-action organizations opt to get involved because of a variety of benefits they perceive they will obtain (Knoke, 1988; Olson, & Olson, 2009). These include social capital benefits (De Wever, Martens, & Vandembemt, 2005; Moran, 2005). Membership helps monitor and promote members' activities (Ostrom, 2000). A degree of social interaction takes place every time *Shirkah-ul-Wujuh* (ROSCA) members collect. Members can meet potential business partners and set up a rapport among peers and other members (Sakakibara, 2002). This increases chances of developing new business partnerships (Ahuja, 2000). Collective Action Theory suggested that the availability of resources determines firms' participation in collective action (Oliver, Marwell, & Teixeira, 1985).

Collective Action Theory is a secular theory but retains a noticeable degree of similitude to verses of Quran wherein Allah exhorts believers to encourage each other to practice good and prevent evil (Quran, Al e Imran, 3:104, 110). It, too, plays a supporting role.

Secular ROSCA-related theories converge with *Shirkah-ul-Wujuh*.

2.14 Research gap

Review of literature has brought to light a number of factors relating to ROSCAs. ROSCAs have been studied widely. This is apparent from the vast body of literature that is available on this topic. ROSCA operation in Africa has attracted added scholarly attention. ROSCAs are found to be widely prevalent there and a large proportion of the adult population is reported to participate (Hart, 1973). In Bharat, ROSCAs have been formalized under the Chit Funds Act No. 40 of 1982 (Rao, 2007). They are fully documented and a body of literature is available to the researcher. An overwhelming majority of available studies are only qualitative in nature, are based on interviews and reflect the opinions of the informants. The informants are citizens at large and not only SME owners. The studies are neither focussed on the use of ROSCAs to finance SMEs nor do they provide quantitative data regarding vital ROSCA parameters.

In contrast to this, the operation of ROSCAs in Pakistan has not attracted any widespread scholarly attention. Of the (only) two studies available, the most significant is that by Khan. In her ground-breaking research, Khan (2012) qualitatively reported the existence of ROSCAs, micro-finance and of banks in the town of Dera Ghazi Khan. The study focuses on the use of ROSCAs by households and salaried persons. ROSCAs' critical operating parameters such as Pot sizes, membership sizes, default rates, etc. were not reported. Most respondents appear to have been housewives as certain contradictory opinions were recorded. An informant declared that the pot sizes were insufficient to meet the working capital requirements

of even the smallest enterprises. Another informant reported that in that town ROSCAs with “very large” size pots were operated by wealthy jewellers. In their study, Carpenter & Jensen (2002) reported that 30 per cent of the urban and 20 per cent of the rural households in Pakistan practice ROSCA.

There is no study that rigorously and quantitatively examines the operation of ROSCAs in Pakistan particularly from the point of view of financing of SMEs. There is anecdotal evidence suggesting ROSCAs are widely practiced across the country to finance household expenditures. They are said to finance running operation costs of SMEs in the larger cities. No researcher has quantitatively examined ROSCAs and reported upon the orders of magnitude, their membership sizes, criteria for choosing members, sizes of the Pots etc. Durations and default rates as well as reasons for any default have also not been studied or reported. The reasons why ROSCAs had been unable to become significant sources of finance for SMEs remain to be investigated. Consequently, no study has been carried out to explore the steps and measures which if implemented, will enable ROSCAs to become significant sources of finance for SMEs.

Review of the literature indicates the presence of gaps in the knowledge of financing of SMEs by ROSCAs in Pakistan. Lack of any quantitative study also indicates the presence of an empirical gap. This study was designed to fill these gaps. It has done so by exploring the degree to which ROSCAs have permeated the financial marketplace, the determinants which have prevented them from becoming significant sources of SME financing and recommending practices which if implemented, will eliminate or significantly diminish the virulence of these determinants.

2.15 Chapter Summary

SMEs play an important role in the economic wellbeing of any country (Altman & Sabato, 2005; OECD, Harvie, & Lee, 2005; Uysal, 2011). SME sector is the economic backbone of Pakistan. SMEs generated more than 40 per cent of Pakistan's GDP in 2010-2011. They accounted for US \$2.5 Billion or 25 per cent, of Pakistan's export earnings in 2011. Approximately 80 per cent of the adult workforce is provided employment by SMEs. This sector contributes 35 per cent of the value addition to the manufacturing industry (Qureshi, 2012). In 2010-2011, while the overall GDP managed to grow at the rate of 3.8 per cent, the SME sector achieved a healthy 7.5 per cent (MoF, 2011). For the sake of the economic well-being of Pakistan and for maintaining political and social stability, it is essential the SME sector be strengthened.

Being commercial enterprises, SMEs require finances for start-up, maintenance and for growth. Sources of finance usually available to them include commercial banks and ROSCAs. Banks need to avoid NPLs to assure security of their capital (Abedola, Yusoff, & Dalahan, 2011). They demand inclusion of either collateral or a guarantee in the loan covenant. SMEs, being small, experience difficulty in arranging either of the two (KPMG, 1999). In several developed countries, Mutual Guarantee Associations (MGAs) or the government provide the guarantee (Columba, et al, 2010). No such facility is available to SMEs in Pakistan. As a consequence, the share of SMEs in bank loan portfolio is disproportionately small and is reducing year-by-year (SBP, 2010, 2014). This situation is not expected to improve in favour of SMEs because banks continue to need protection of their capital and SMEs continue to be unable to provide the collateral or arrange guarantees.

Classic Islamic financing operates on the principle of profit and loss sharing. Banks' capital is exposed to risk of loss. Banks being risk-averse tend to avoid profit and loss sharing investment with businesses that may fail. Consequently, the share of Islamic financing in the total loan portfolio of the country is small.

Successive governments of Pakistan have tried a number of approaches to boost the SME sector. One of these approaches was to provide easy bank loans (Tanveer, 2001). The second approach was to expand the SME sector (Nadeem, 2011). No attempt has been made to address the spectrum of operational difficulties SMEs experience. Both approaches have either failed or appear likely to.

The other sources of financing available to SMEs are ROSCAs. ROSCAs have certain characteristics that have caused them to be used widely around the world. They operate on social capital and on the participants' sense of honour and social status (Rudd, 2000). Little or no documentation is involved (Khan, & Lightfoot, 2012). ROSCAs are free of interest. Default rate from ROSCAs is very low as compared to NPL rates of SMEs in Pakistan (Klonner, & Rai, 2005). In spite of these characteristics, ROSCAs appear to have failed to make a mark as reliable sources of SME finance. The latter continue to approach banks for financing needs.

ROSCAs, particularly those operating in Africa, have attracted considerable scholarly attention. These studies apply primarily to ROSCAs used to finance household expenditures. Only passing mention is made of their use for financing SMEs. ROSCAs in Pakistan remain an unstudied field. Khan (2012) reported the widespread prevalence of micro-finance and ROSCAs in a small city of Pakistan. The operating

determinants of ROSCAs, such as numbers of members, duration, Pot size and default rate have not been investigated. The study makes no mention of any steps or measures that might be implemented to improve ROSCA operation.

This chapter examined the extant ROSCA-related literature. It pointed out the knowledge and empirical gaps which this study was designed to fill.



CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction to Chapter Three

The purpose of this chapter is to describe the methodology adopted in order to obtain answers to the three research questions developed in Chapter 1. Section 3.2 of this chapter discusses the research paradigm that was used to conduct this research. The choice of paradigm for each question is justified. In Section 3.3, the reasons for focusing on the city of Lahore and the SME population there is deliberated upon. Section 3.4 describes the sampling frame. The approach adopted to select the respondents, sample size and stratification is described in Section 3.5. The rationale behind the development of the Questionnaires and the Protocol are outlined in Section 3.6. Section 3.7 touches briefly the issues of Validity and Reliability. Section 8 describes the methods used for Questionnaire/Protocol administration and for data collection. The Activity-Flowchart/Research Framework is shown in Section 3.9. It is intended to indicate in a simple pictorial way the timing, sequence and relationships between the activities carried out in order to perform this research. A Pilot Study was carried out prior to launching the actual study. The modus operandi and implications of the Pilot Study are described in Section 3.10. A brief mention of the response rate is made in Section 3.11. The study relates to some financial details of the enterprise operations. These are confidential information. The entrepreneurs had to be assured of the confidentiality of this information. The aspects of ethics are discussed in Section 3.12. Section 3.13 describes the techniques of analysing the data, both quantitative and qualitative.

3.2 Population and Sampling

The use of ROSCAs among households is widespread across Pakistan, map at Appendix F, (Carpenter, & Jensen, 2002). According to anecdotal evidence, ROSCAs are pervasive among commercial enterprises also. It is possible to carry out the study in a provincial city as was done by Khan (2012) or in any one of the metropolises of the country, such as Lahore, Karachi or Faisalabad. In any of the latter, it is possible to research SMEs which operate in any of numerous business sectors such as textile, pharmaceutical, automotive, food, etc. The researcher had considered several factors that have a bearing on the decision to choose the target population. These include the appropriateness, achievability, willingness of respondents, and degree of access to them (Hamersley, & Atkinson, 2007). For these reasons the population of this study was decided to be SMEs of Lahore. A preliminary visit to the city had shown that numerous ROSCAs operate there. All scheduled banks also have branches operating here. This population is, therefore, ideally positioned for the study. The detailed reasons for selecting the city of Lahore will be expounded next.

3.2.1 City of Lahore

At the start of the data collection process it was proposed that the study would be restricted to the textile and garment sector. Textiles and garments industry provides 57 per cent of Pakistan's exports earnings. It also provides employment to nearly 80% of manufacturing sector workers. It can therefore be deduced that a larger number of SMEs in the country operate in the textile and garment sector than they do in any other. It was felt that a study carried out within this sector would have a higher degree of generalizability than for example a study carried out in the automobile or pharmaceuticals manufacturing

sectors. The government has designated three Garment Cities, Lahore, Karachi and Faisalabad. These cities are constellations of sewing and stitching units aggregated together to enable SMEs to rapidly adjust to fast changing fashion and design requirements in the export market. These cities are potentially suitable sites for the study. It was later decided to include other sectors in the study also as doing so would improve the generalizability even more. While Faisalabad can arguably be considered to have a textile larger manufacturing base than Lahore has, for a number of reasons there are few trading SMEs there. Faisalabad also does not have as many non-garment industry SMEs as the two other cities. It was therefore decided to exclude this city as a possible venue for the research. Karachi has a manufacturing and trading base that is normally indisputably larger than the one at Lahore. However due to the deteriorated law and order situation there, many of the SMEs have closed down. It was therefore decided to consider Lahore as the venue for this research. Lahore is the second largest city in Pakistan. It is the capital of the Punjab province. It is located in the southern tip of the industrial belt that stretches from Sialkot in the North, through Gujranwala, to Faisalabad in the West. The products manufactured and traded here include automobiles and their subassemblies, pharmaceuticals, electrical and electronic devices as well as garments. It is a road, rail and airline communication hub. It has its own international airport and a dry port. A significant fraction of the textiles produced in the province are transported to Lahore from where wholesalers move them across the country or to overseas destinations (Lahore Industry, 2014). At the end of 2008, Lahore achieved a gross domestic product Purchasing Power Parity (PPP) (GDP) of approximately \$40 Billion. Its GDP

PPP at the end of 2025 is projected at \$102 Billion. This works out to an estimated growth rate of 5.6 per cent (Global Citizen, 2010). Lahore contributes approximately 13.2 per cent to the national economy. There are over 2400 registered enterprises that manufacture garments of all kinds in Lahore (Lahore Industry, 2014). The study was carried out in the city of Lahore.

3.3 Sampling Frame

In Pakistan, the names and certain particulars of all the businesses operating in a given market are entered into a nominal role (list). These lists are available with elected bodies of merchants called Market Committees and are available on request. For example, there are 4 of these committees in Lahore that deal with agricultural products alone (Pakissan, 2014). Some are also available with the Lahore Chamber of Commerce. They list members of the target population. They are updated periodically and are complete and accurate. SMEDA Bank is also known to retain such lists although their comprehensiveness and their currency is uncertain. Members are listed once only (Hague and Harris, 1993). These frames do not provide the data to enable sample stratification.

The target populations of this study were the cloth wholesalers doing business in Azam Cloth Market, the electrical, electronic and computer wholesalers at Faisal, Siddique, Hall Road and Hafeez Center markets, the machinery wholesalers at Bull Road and the retailers across Lahore. The main reason behind choosing Azam Cloth Market was that it is ranked among the largest in Asia for wholesale of cloth. Textiles are exported from here to destinations in Afghanistan, Bharat, China and Iran.

According to the President of Azam Cloth Market Traders' Association, between 12,000 and 13000 SMEs are said to operate in this market. ROSCAs are known to flourish here. Most scheduled banks also operate branches in the vicinity. This market is more than 50 years old and its operating procedures have matured. The electrical, electronic and computer wholesalers represent manufacturers both inland and overseas. They distribute their goods to retail markets in all of Central and North Pakistan. The machinery markets at Bull Road and other locations are known for their high-value sales and for paying taxes. These markets, too, are 40 – 50 years old. Having practiced ROSCA and also used conventional banking for more than half a century, businesspersons in the market are quite aware of their relative advantages and limitations. It was expected they will have suggestions for improving ROSCAs that are based on years of relevant experience. It was believed that all issues relevant to this study will be encountered in these markets. SMEs operating in these markets were examined for their relationship with ROSCAs and commercial banks.

3.4 Selection of Respondents

This study was conducted in two distinct stages. Each stage required a different genre of respondents. Firstly, it examined the situations of the respondents vis-à-vis their involvement with ROSCAs and with non-ROSCA financing (RQ No. 1). In general, the larger the size of this sample, the greater will be the generalizability of the findings. Secondly, the study also interviewed respondents for their opinions and recommendations regarding limitations of and measures for improving ROSCAs (RQs No. 2 & 3). This second genre of respondents was selected on the basis of their knowledge, experience with ROSCAs, and analytical ability to appreciate the strengths and weaknesses of ROSCAs. This group of respondents was not as large as

the first. Further details of the sample selection process will be given in subsequent paragraphs.

3.4.1 Sample size for quantitative data collection

Determining the sample size needed careful deliberation. The size of samples required for qualitative research were different from that required for quantitative research. In the latter case it is a compromise between the requirements of precision, accuracy and of cost. It is affected by the degree of variability in the population as well as by the question of cost versus benefit (Sekaran, 2006). Sample size is conventionally considered to have a positive relationship with population size, although Alreck and Settle (1995), oppose this view. Martin and Bateson (1986) maintained the opinion that, within reasonable limits, statistical accuracy improves when sample size is increased. For this study, the effectiveness of using a large sample size had to be measured against the resources spent to acquire the data. This is so because additional data may contribute only insignificantly to conclusions that can be drawn from less resource-intensive data. Sekaran (2006) suggested a minimum sample size of 359. The size of the sample for the quantitative component of this study was 500 SMEs. Sixty seven of their responses were found to have been carelessly and incompletely filled. These were discarded. Finally, responses from 433 SMEs were included in the study.

This researcher takes cognizance of the fact that businesses operating in Lahore occupy a wide spectrum of financial worth. While some may be small father-and-son sized enterprises, others may be much larger, employing

several salespersons and having a much larger turnover. Still others may be ranked between these two. The ability to arrange collateral or guarantee for bank financing will be different for each of these categories. This will be reflected, for example, in the numbers and volumes of loans obtained by them and the qualities of their relationships with the banks. Detecting differences between different SMEs will not be possible if the entire sample is aggregated. The higher parameters of one category would neutralize (cancel) those of another and many problems may remain undetected (Sekaran, 2006). Modified, stratified, random sampling was used to preclude the likelihood of missing important parameters. However, instead of separating the population into three mutually exclusive categories according to their turnover, the SMEs were separated into five groups according to their years in business. The first age group was fixed at 4 years or less. This was carried out to test the opinion of authorities such as SMEDA that 80-90 per cent of SMEs exit within the first year of their life. Stratification based on turn-over would have been impractical. Estimating the turnover would have required access to enterprise's financial data. This is confidential and any attempts to access it would result in termination of the process. Enterprises conceal their turnover so as to avoid attracting tax attention. The respondents were selected at random and separated in to categories according to the ages of their enterprises. This technique was adopted to help maintain generalizability also.

3.4.2 Sample Size for Qualitative Data Collection

The remaining two research questions (Nos. 2 and 3) are less probing in nature and were designed to solicit opinions and experiences. The subjects were those who were well-situated to offer the desired information. Purposive Sampling was resorted to select the informants. Respondents were chosen deliberately. This was done partly from examining the responses of the quantitatively sampled population, and partly by deliberations with SME owners who had longer experience in the market and were most aware of the prevailing methods of financing. In addition to being served the questionnaires at Appendices A and B, these respondents were served the protocol of Appendix D in a semi-structured, face-to-face interview. Generally, selection of the respondents was carried out by mutual discussion between the interviewer and the referee so as to exercise prudent judgment (Judgment Sampling) (Sekaran, 2006).

The number of respondents who were actually interviewed depended on the numbers required to reach “saturation”. Saturation was considered to have been reached when no new theme appeared in three or four consecutive interviews (Charmaz, 2006). Saturation was found to have been reached in four-five interviews. Four additional interviews were conducted to ensure all themes had been discovered.

3.5 Questionnaire and Protocol, Design and Development

Protocol-based surveys are the method of choice when the subject or topic area is not reasonably well understood (Monroe, 2014). Protocol-based (Qualitative) method of research is more apposite in a situation like the present where there is scant prior knowledge to work on (Rattray, 2007). Protocols are the universally accepted method for data collection in qualitative research (Rattray, Johnston, & Wildsmith, 2004). Protocols enable the collection of data in a standardised form from a representative sample of the population being surveyed. After it is appropriately processed, the results can be inferred to the population at large.

The protocol that was used in this study opens with questions that are neither threatening nor difficult or embarrassing to answer (Dillman, 1978; Sudman, & Bradburn, 2004). Difficult questions were served near the end of the protocol.

Only 18 per cent of Pakistan's citizen have received high school education and most of them cannot understand English very well (UNESCO Institute for Statistics [UIS], 2011). The questionnaire and the protocol were translated in to Urdu, the vernacular language. Survey questions included in Appendices A (SME Financing Needs) and B (ROSCA Penetration) involve finances.

The questionnaire at Appendices A, B and C, and protocol at Appendix C were designed to fulfil these requirements, to be economical to administer, easy to complete and lend themselves to swift analysis (Bowling, 1997). In order for them to be answered easily and correctly, without reducing depth of response or quality of

data collected, many of the questions that relate to Research Question No. 1 were of the closed type (Bowling, 1997). These were scrutinized for cogency and soundness.

The questionnaires used with this study were developed with the aim of achieving the Research Objective 1 and assisting in achieving Research Objectives 2 and 3. Efforts were made to ensure they were indeed useful for exploring exactly the objectives they were designed to study and were not refracting to others.

3.5.1 Structure and Content of Appendix A (SME Financing)

Till such time as ROSCAs assume a position of significance, SMEs will continue to obtain a part of their financing requirements from non-ROSCA sources. These include banks and money lenders. The financing requirements depend upon a number of determinants and vary from enterprise to enterprise and opportunity to opportunity. Questionnaire at Appendix A had been designed to obtain this demographic information. It was divided into three sections. Section A dealt with the enterprise while sections B and C related to its financing obtained from banks and money lenders respectively. Data obtained by this questionnaire indicated the extent to which non-ROSCA sources have penetrated SME financing market and hence, the potential for growth available to ROSCAs. Pilot study revealed that moneylenders did not have a noticeable footprint. Section C, relating to moneylenders was removed.

Certain questions, such as the sizes of the Pots and the numbers of ROSCAs participated in, relate to confidential financial information. It was felt the respondents may be inclined to provide an incorrect answer if a point-blank

question was asked. It was decided to soften the impact by asking the respondent to specify merely the range of values in which his answer lay. This necessitated the development and deployment of a questionnaire where the expected range in which the answers were expected was decomposed in to four sub-ranges. A fifth option was retained for respondents who may volunteer the exact numbers.

3.5.2 Structure and Content of Appendix B (ROSCA Penetration)

Questionnaire regarding ROSCA Penetration has been attached at Appendix B. The questions have been designed to elicit information regarding the specifics of each of the one or more ROSCAs the respondent may be participating in. Data obtained from this questionnaire indicated the pot size, number, amount of instalment and default rate, etc. These figures, when compared with those obtained from questionnaire at Appendix A, provide a clear comparison between bank financing and ROSCA financing. They also provide an estimate of the numbers of ROSCAs operating in the market, the finances mobilized by them and their contribution to the economy.

It was observed that several subscribers sometimes pool their resources and acquire one position in a ROSCA. The pot is divided between them in a pre-decided ratio. This methodology is employed when subscribers are unable to afford the subscription individually. This can well be considered as a classic case of *Musharaka* in Islamic, Interest-free financing. This question was also investigated.

The process of deciding on the content of Appendix B was subject to yet another consideration. Research Objective No.1 is quantitative and relates to numbers. It was supposed to be achieved by serving the Questionnaires at Appendices A and B to several hundred respondents. Their responses were to be used to achieve Research Question No.1 (only). Research Objectives Nos.2 and 3 were to be achieved by interviewing a far smaller number of individuals, probably less than ten. Their collective ROSCA-related experience may amount to 120 – 160 years. The collective ROSCA-related experience of over 400 SME owners who had been participating in ROSCAs for an average of 15 years each aggregates to 6,000 years. This is a valuable asset that needs to be utilized for the benefit of this research. A question arose at this stage: How can the experiences and opinions of the several hundred other SME owners be utilized to achieve a more generalizable result? It was decided to modify Appendix B by including questions that solicit the opinions of the respondents in a quantitative form. The responses to these questions were quantified by a 5-point scale. Questions 58 – 79 at the end of Appendix B were added for this purpose. These additional 433 opinions were found to be congruent to and supplemented those offered by the experienced informants.

3.5.3 Structure and Content of Appendix C, Banks' Perspective

Research Question No.1 involves exploring the degree of penetration of ROSCAs in to the SME financing market. This involves finding out the numbers of SMEs that participate in ROSCAs as well as aggregate of the Pots. This Question also involves making a comparison between this determinant

for ROSCAs as well as for banks. The degree of penetration of ROSCAs can be evaluated by surveying the SME owners who participate in them. As far as comparison with banks is concerned, it is considered necessary to involve them too into the research. By the process of sampling, it is possible to estimate the number of SMEs that have interacted with banks over a period of time. Only banks can provide the exact numbers that have done so. An estimate of the ROSCA economy can be made by surveying the sampled population. An estimate of the number and amount of bank loans can also be made by surveying the sampled population. However, the exact numbers and amounts can be found by obtaining the data from the banks themselves.

Research Question Number 2 involves exploring the impediments that have prevented ROSCAs from competing with the banks. collateral and guarantee are well-known in scholarship to be the chief obstacles in the way of formal financing of SMEs. These are the characteristics of the banking system that dissuade SMEs from obtaining bank loans. Their absence from the ROSCA system is one of the latter's strengths. Whether or not other obstacles exist and the relative intensities of each can be obtained by surveying the SMEs. While survey can assist in obtaining SMEs' perspective of the obstacles, it is felt that by involving the banks into the research better and more meaningful results can be obtained.

Commercial banks operating in the market are also a party to the financing of SMEs. In order to increase the usefulness of data obtained by Appendices A and B, it was considered necessary to examine the issue of SME financing

from the banks' perspective also. Appendix C, Banks' Perspective, was designed to help fulfil these requirements.

The data obtained from this questionnaire provided information regarding the exact number of SMEs that maintained accounts with banks, the exact numbers of loans given by the banks, range of values of the loans, the number of instalments in which they have to be returned and the sizes of instalments. This information is used to help make a direct comparison with ROSCA-related financing. It helped to critique the opinion that banks loans are more expensive than ROSCA financing of the same amount and duration. It also assisted in discovering and studying such other determinants of ROSCAs as solicit being developed.

Eight commercial banks maintain their branches in Shah Alam Market and Azam Cloth Markets. These are the areas with the largest concentration of SMEs. It is also the area where this researcher applied the greatest effort. These branches are controlled by the "Hub" branches that are located centrally on Circular Road. These hub branches were served the Questionnaire at Appendix C.

3.5.4 Structure and Content of the Protocol

The protocol has been developed by keeping in mind the factors listed earlier. It consists of three significant components. These are, civil pleasantries exchanged about interesting social subjects at the commencement of the interview, simpler and non-probing questions regarding the research at hand,

and finally, the more probing ones were asked towards the end. In addition non-probing questions regarding the research at hand are included in it. In the interview, leading questions were not asked. The informants were encouraged to easily and freely give vent to their ideas. Some informants launched in to lengthy diatribes. They needed to be coaxed gently back towards the subject of ROSCAs. The appendix does not include many questions that were actually asked during the interview. Topics of civil pleasantries have also not been mentioned in the Appendix.

3.5.5 Reliability

The requirements of validity and reliability have guided the evolution of the questionnaire through all stages of development (Rattray et al, 2004). The term reliability refers to the degree to which the results of the research are considered as error free or it can be said that the measure is free from errors. Answers that relate to ROSCAs will be validated by posing the same questions to other respondents who are part of the same ROSCA, and then comparing the answers. If the results of research are reliable then the research will yield consistent results.

3.5.6 Validation

Efforts have been made to ensure the questions and the resultant collected information are relevant to the subject. Efforts have also been made to ensure they are acceptable to the target group. Two sectors of the study solicit validation. The first are the measuring instruments (questionnaires) and the second is the data collected. The choice of mode has such significant

implications on research methodology that the correctness of policies evolved from their evidence can be questioned if the results are deemed to have been compromised and may be invalid (Bowling, 2005). The choice of mode of survey has significant impact on the quality of data gathered and responses obtained. This phenomenon has attracted considerable scholarly attention (Baker et al, 2010).

A very basic form of assurance is the Face Validity test. This was carried out by examining the instrument and deciding whether, and how well, it appeared to achieve the objectives, on the face of it. Questionnaires generated and reproduced at the Appendices were examined by several practitioners and Professors in January - February 2015. They were modified to become more relevant to the study. A second and more elaborate test is that of Content Validity. This test ascertains whether the instrument contains a sufficient number of questions that cover all relevant aspects of the concept. This test was also executed by a number of senior faculty and practitioners skilled in the field (Sekaran, 2006).

Some of the responses obtained during the actual full-scale study were business specific and did not lend themselves to validation. These included the number of years the respondent has been in business and the number of loans he might have obtained from the bank in the previous years.

3.6 Nature of Research

The option of choosing from among three approaches was open to this researcher. These options were quantitative approach, Qualitative approach and Mixed-mode approach (Creswell, 2013; Morgan, 2007). The approach actually selected depended on the nature of each of the three Research Questions. To limit this study to only quantitative or qualitative methods would have denied this study the opportunity to make a fuller contribution to social and human sciences (Creswell, 2013). Prior to proceeding with justification of the approach adopted it is considered necessary to briefly re-examine the nature of the Research Questions.

The definitive objective of the study is to propose measures that will empower ROSCAs to assume position as key sources of finance for SMEs. This objective is best achieved in two logical steps. The first is to discover the limitations that impede ROSCAs. The second step is to explore the measures by adoption of which these limitations may be eliminated or enfeebled. These steps have been defined as Research Objectives 2 and 3 respectively.

Although there is ample anecdotal evidence of the prevalence of ROSCAs in Pakistan, there is a scarcity of studies on the subject. To the best information of this researcher, no prior study has been carried out in Pakistan regarding their role as sources of finance for SMEs. The factors that have impeded ROSCA operation are not (formally) known and have not been analysed. The possible remedies have also not received any scholarly attention.

Research Questions 2 and 3 are therefore exploratory in nature. The most appropriate methodology in such a case is exploratory. Qualitative research, frequently known as exploratory research, is considered a method of choice when the problem has received scant prior scholarly attention or none at all (Monroe, 2014). This design can be easily adapted to research questions such as “what”, “why”, and “how”. Its ability to determine “how many” and “how often” is restricted. It helps make research problems more relevant. Exploratory research has certain limitations. Results are, at best, tentative. Additionally, data gathering and its analysis do not conform to rigorous standards of scholarship (Lynn, 2013).

This approach was adopted for Research Questions 2 and 3. It assisted in the identification of fundamental issues and important variables (Harvard, 2014) and to obtain insight into the core determinants of the problems. It was carried out by obtaining opinions of experienced practitioners through un-structured interviews. It is expected to facilitate subsequent studies that will be more rigorous (Shields, & Rangarajan, 2013).

Before attempting to explore measures that may improve ROSCA operation it is essential to know the existing status of ROSCAs in the target population. To what extent are ROSCAs being practiced? What is the degree to which they have penetrated the marketplace? How many SMEs participate in ROSCAs? What are the Pot sizes? Perhaps the most important are the size of the total ROSCA economy in the sampled population and the extent of penetration of commercial banks in the SME finance market.

Research Question No 1 has been designed to answer these questions. It is pointed out here that the topic of ROSCAs per se is well understood globally. What was explored by this study was the actual numbers that relate to ROSCAs' defining parameters stated above. To be able to determine the size of the ROSCA economy, numeric values of parameters such as the sizes of the Pots, numbers of members who participate in a ROSCA, periodic subscription, etc. have to be determined. Unstructured interviews generally yield responses like "many, a lot, quite a few," etc. quantitative, questionnaire-based approach is preferred when the determinants lend themselves to be quantified, that is, they are numeric. It is also used for analyzing the relationships between important and identified variables in a population (Monroe, 2014). Research Question No 1, therefore, is quantitative and descriptive in nature. It quantitatively describes the existing ROSCA economy. Data for Research Objective 1 was obtained using a questionnaire.

3.7 Methods Available for Questionnaire/Protocol Administration

Three methods of administering the questionnaire are generally available to researchers. These are the mailed-questionnaire, telephonic survey and face-to-face administration. Mailed Questionnaire is the least expensive and responses are free of interviewer bias (Shaughnessy, Zechmeister, & Jeanne, 2011) but the response rate is usually low. Anonymity of the respondent, a key ethical concept, is maintained. There can be a substantial time-lapse, 4 to 6 weeks, between sending out the questionnaire and receiving the responses. In Pakistan it is difficult to acquire mailing lists that are correct, complete and updated.

Telephone surveys are less expensive than face-to-face especially if the respondents are located in different cities. The probability of interviewer-caused bias is low. It is possible for the respondent to mistake a telephone survey for telemarketing. A higher response rate can be obtained than is possible with the other two types of surveys (University of Guelph, 2014).

Populations that do not have telephones or are disinclined to discuss confidential matters on the telephone can be accessed by this method. The interviewer can adjust the format, the length and the complexity of the questionnaire and the protocol. It is possible for the interviewer to read the body language of the respondents better than in the other two methods. Skill is required on the part of the surveyor/interviewer to prevent introducing bias and to prevent the session from becoming protracted. Since the target population is concentrated in small areas, face-to-face sessions are most cost-effective. Face-to-face interviews are deemed to be the gold standard for surveys (McCoyd, & Kerson, 2006). This study used the face-to-face method of serving the questionnaires and interview.

3.7.1 Administering Questionnaire for Research Question No. 1

Prior to proceeding with discovery of the limitations of ROSCAs and development of measures to fortify them, it was considered necessary to explore the two issues that form the cornerstones of this study. These are, firstly, the extent of the need for and sources of finances and, secondly, the extent of involvement of ROSCAs in SME financing. Both these issues are addressed by Research Question No. 1. The answer to the first issue, the extent of need and source of SME financing, was obtained by administering

questionnaire at Appendix A to a relatively larger number of respondents, 500 in all. Answers to the second issue, extent of ROSCAs' involvement in SME financing, were obtained by simultaneously administering the questionnaire at Appendix B to the same group of respondents. Both the questionnaires were researcher-administered and needed only to be translated by the researcher. Clarifications were occasionally sought by the respondents. Since the question involved numbers and quantities, a quantitative approach was adopted to process it. Ordinarily, the quantitative approach is adopted in situations where the subject matter has received prior and intensive scholarly attention, the independent variables have been well defined and one or more hypotheses are to be tested with a view to generalizing the results (Simon, 2006). In the present study, although a quantitative approach was used, no theories or hypotheses were tested. The research was exploratory.

The respondents being businesspersons did not take a friendly view of being asked probing finance-related questions by a total stranger. It was necessary to contact them by the judgment sampling system using intermediaries who were known to and trusted by both, the respondents and the researcher.

The aim of these questionnaires was to obtain SME financing data that can be generalized to, and be representative of, the financing environment prevailing in the markets. Both these questionnaires were served to every respondent. Selection of respondents was not based on convenience only (Convenience Sampling). Care was be taken to ensure freedom from bias when selecting

respondents. Very occasionally, if the situation solicited, focused snowball sampling was also adopted (Patton, 2001).

It is pointed out here that Appendix B contained questions at its end that were designed to obtain respondents' opinions and present them in a quantitative fashion. The detailed reasoning for this has been provided earlier in section Structure and Content of Appendix B (ROSCA Penetration).

3.7.2 Conducting interview for Research Questions No. 2 and 3

Having obtained data relevant to Research Question No. 1, the study proceeded to explore the difficulties and impediments experienced by SMEs in using ROSCAs as sources of financing. This exploration was carried out by using ROSCAs as sources of financing. This exploration was carried out by semi-structured, face-to-face, recorded interviews (Creswell, 2005). Protocol given at Appendix D was used as a guideline. This technique was used because the study aims to explore opinions and views of individuals and to clarify themes that may emerge during the interviews (Creswell, 2005). Interactions between variables were not the object of this study. The findings of a case study have limited representativeness and generalizability in spite of its great detail and depth (Zelditch, 1971; Walton, 1973). The generalizability of the study was enhanced by interviewing multiple firms (Hakin, 1997; Bryman, 1998). This view is supported by Sudman (1982). Yin, Gan and Qiu (2013) maintain that a study based on evidence that has been derived from multiple cases is more robust. With this in mind, attempt was made to gather data from as many reliable respondents from different locales as was necessary to reach saturation.

3.7.3 Interview Guide

The interview was conducted strictly in compliance with the norms of locally accepted interview etiquette. It commenced with the usual Islamic greeting, introduction by the mutual associate followed by polite civil conversation about business and other matters of Interest. The respondent was informed of the purpose of the interview and was told that the researcher was not connected or associated with the income tax or any other government department. The researcher-administered questionnaires at Appendices A and B were served at the start of the session. They were served to every respondent. After completion, the respondent was requested to sign a separate certificate that the researcher had visited the business and had carried out the survey. They were also requested to affix the SME's stamp and staple their visiting card to the certificate. In several markets the procedure had to be modified. Some SME owners would ask a salesperson to sign the certificate.

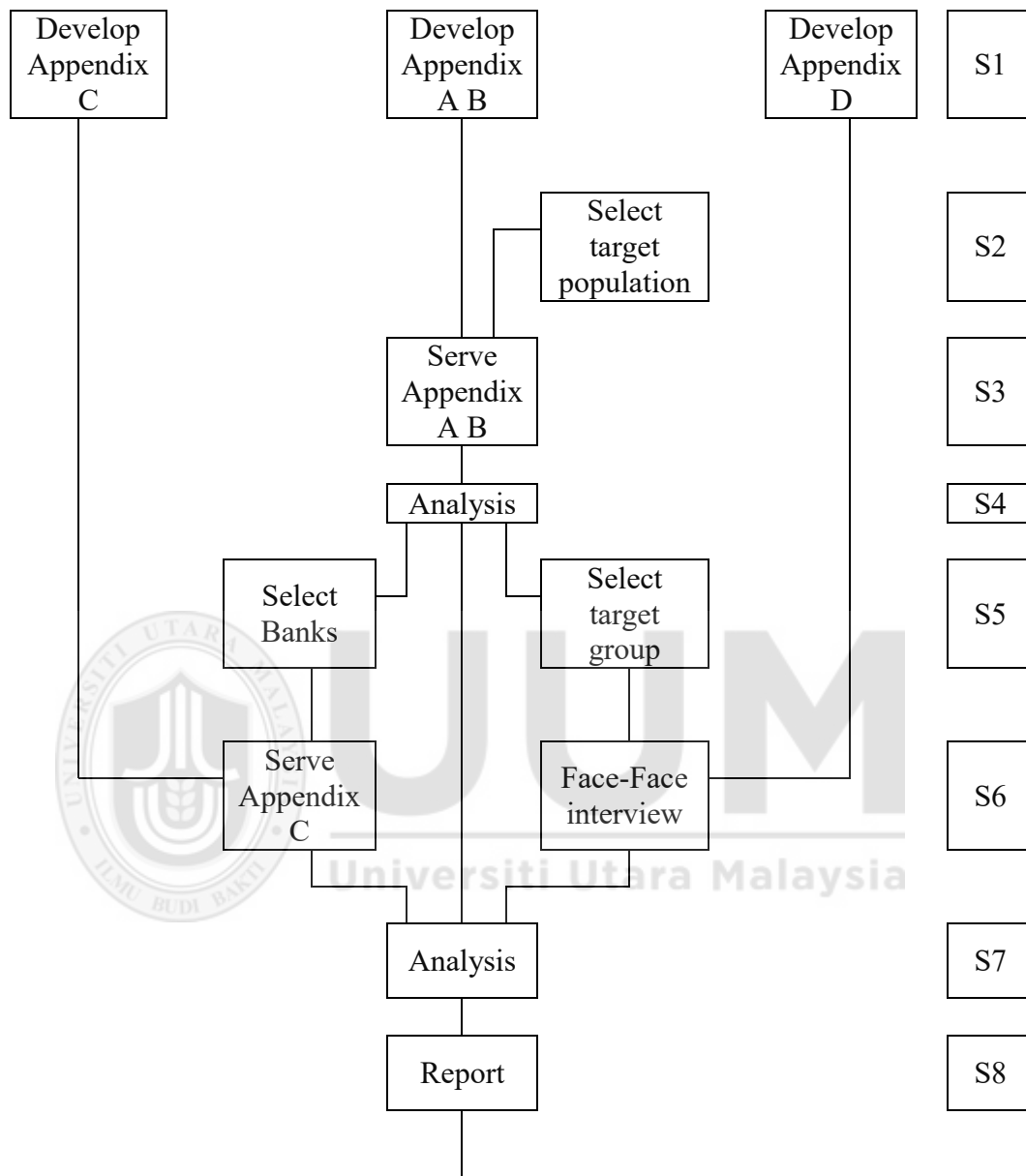
3.7.4 Some Ethical Considerations

The formal recorded interview commenced after completion of the questionnaire portion. Respondents had been identified by the process given earlier. Each of them was informed of how the interview was to be conducted, that it will be recorded, transcribed and translated (Hamersley, & Atkinson, 2007). The respondent were assured of the confidentiality of the financial data that is provided by them and any opinion that is expressed by them regarding associated businesspersons, their trustworthiness as ROSCA partners etc. (Wiles et al, 2006). Once their own anonymity and confidentiality of their responses had been assured and their informal consent had been obtained, the

protocol given at Annexure D was served. Respondents were encouraged to give vent to their feelings and the conversation will not be led or directed in any direction by the interviewer. All interviews were recorded by a voice recorder for post-interview analysis. Confidentiality was binding for the researcher who had to navigate ethics, and local confidentiality norms about sharing information (Boruch, & Cecil, 1979).



3.8 Research Design/Activity Flowchart



This study was a research project that consisted of several activities. The activities (steps) and their timings have been described earlier in Chapter 3. Some of these activities run in parallel while others are sequential. Research Question No. 1 requires quantitative research while Research Questions No. 2 and 3 require qualitative research. The target population for the qualitative research questions was selected

partly from the analysis of data obtained from the respondents selected for quantitative research (Research Question No. 1). This assemblage of parallel and sequential activities as well as their mutual relationship can be presented as an activity flow-chart. It is shown at Figure 3.1. The study was completed in eight stages. These have been shown in the figure and are explained below.

S1, Design

The questionnaires/protocol that were used to guide the study are given at Appendices A, B, C, and D. They were developed using the guidelines given earlier. All four are designed in parallel.

S2, Select Population 1

The first group of respondents was selected. They helped develop answers to Research Question 1. They were arranged in categories, the relatively new SMEs of ages four years or less, those aged 5 – 10 years, 11 – 15, 16 – 20 and those exceeding 20 years.

S3, Serve Appendices A, B and Collect data, 1

These respondents were served questionnaires at Appendices A and B. The questionnaires are researcher- administered.

S4, Analysis 1

Data obtained from these respondents was processed later, before commencement of Select 2 activity (S5). An intuitive analysis that helps to select respondents for Select 2 activity was carried out in-situ.

S5, Select Population 2 and Banks

The data obtained from the Analysis 1 activity was used also to help select respondents for face-to-face interviews.

S6, Face-to-face interview, serve Appendix C to Banks, Collect Data, 2

Banks were served questionnaire at Appendix C. In all cases the bank managers filled up the questionnaires themselves without assistance of the researcher. Faisal Bank (FSL) declined to participate in the research quoting reasons of confidentiality of banking information. The respondents selected for face-to-face interviews were interviewed using Appendix D Protocol as a guideline.

S7, Analysis 2

Data obtained from Collect Data, 2 activity was analysed. The input to this activity was the data obtained from Analysis 1, the responses of the banks as well as the face-to-face interviews. This analysis was computer-intensive and productive.

Conclude

Data gathered from Analysis 1 and 2 was used to prepare and report the findings.

3.9 The Pilot study

A Pilot Study was the last major activity carried out before launching the actual process of data collection. It was used to refine the Questionnaire and the data collection process. The lessons learnt from this study enabled the investigator to refine the questionnaire as well as the methodology of obtaining the responses.

Common metrics of administration such as the ease of access and convenience were the criteria that helped select the minutiae of the study (Yin, 2014). The *raison d'être* of the pilot study was to examine the feasibility of the research undertaking. It helped minimise the likelihood of encountering difficulties that are commonly faced in full scale trials. These include the inability to access an appropriate sample size and a resultant reduction in statistical power, and the necessity of having to amend the questionnaire midway during the research (Leon et al, 2011). The sample size was intended to exceed the recommended number that will generate useful conclusions. Sekaran (2006) suggests 355 to be the minimum acceptable size. The number used was 433. The data obtained is not considered to be “thin.” Development of a theory is not an aim of this pilot study. Rather, it is the refinement of strategies involved in data collection. “Thinness” of the gathered data was not expected to be a significant issue (Morse et al, 2008).

3.9.1 Pilot study respondents

The drafts of the questionnaire and the protocol were offered to academicians and experienced ROSCA participants for their critique. Some of their comments were adopted. To the best information of this researcher, this is the first time such a research has been carried out in Pakistan. It was therefore decided to carry out a Pilot study prior to launching the survey. In order to ensure the relevance of the results of the pilot study to the entire research, it was carried out among SMEs selected at random in (Bradburn et al, 2004).

3.9.2 Financing patterns

Initial attempts to communicate with the SME owners by adopting the walk-in routine turned out to be unproductive. Judgement sampling system was then adopted. This was found to be successful. Most SME owners responded to the questionnaire. Sixty two respondents were subjected to the Pilot study. Well before 50 SMEs had been surveyed, some patterns were clearly discernible in the responses. These patterns were fully confirmed by the time the survey was completed, in all surveyed markets. Sixty two respondents were questioned regarding the amount of bank financing they had obtained during the last five years. None of the SME owners had resorted to banks for financing their businesses. They were queried about the reasons for this. Four owners stated they believed their application would be rejected anyway. Two replied they felt no need for external financing because they had sufficient retained earnings of their own. Fifty five respondents stated that they did not obtain credit from a bank because of the inclusion of Interest in bank financing. One had never applied because he felt the documentation was too difficult for him. On the other hand, 53 out of these 62 SME owners (83.9 per cent) were members of ROSCAs. Most took part in a single ROSCA while others participated in more. At least one was a member of five.

3.9.3 Excerpts from Data obtained during Pilot study

Table 4.7 refers. It indicates the aggregated responses of the sampled population in Bazaar 1 (Textile wholesale market) obtained during the Pilot study.

Table 4.7

SMEs and number of ROSCAs financed by, textile wholesale market, Pilot study

	Member of (how many) ROSCAs					Total	Nil
	One	Two	Three	Four	Five		
No of SME respondents who are	38	9	2	3	1	53	10
Total ROSCAs they are member of	38	18	6	12	5	79	
Grand total	79 (max possible no. of ROSCAs)						
÷20, members per ROSCA	4 (min possible no. of ROSCAs)						
ROSCAs per respondent SME	$= 79 \div 53$ ≈ 1.5						

Source 1: Worksheet 1, Q.1 (1. Are you a member or organizer of any Kmaytee?).

Source 2: Worksheet 1, Q.2 (2. The number of Kmaytees that you are a member of, is).

Source 3 for columns Five: Questionnaire hardcopies, Q.2, (The number of Kmaytees that you are a member of is).

3.9.4 ROSCA Pot sizes

Three different sizes of ROSCAs were detected in this market. The largest, according to the Pot size, ranged from Rs2 Mn to Rs15 Million. They were sponsored by SME owners. The next smaller size ranged between Pot sizes of Rs50,000 to Rs100,000. They were managed by salespersons. This second size of ROSCAs was much more numerous than the largest ones. The third type was the smallest in terms of Pot size. It was used mostly by labourers, beverage and food item sellers and etc. Its Pots ranged between Rs10,000 to Rs20,000. ROSCAs of the two smaller sizes were too numerous to be counted. In all cases the draws takes place once a month. Every month, each of the larger ROSCAs financed one of its member SMEs to an amount ranging between Rs2 Million-Rs15 Million. These SMEs appeared to be flourishing even though few had any access to formal bank financing.

3.9.5 Bank financing of SMEs

Another pattern noticed was the almost total absence of any indication of money-lenders for any financing. This was said to be due to the inclusion of Interest in money-lenders' dealing and the widespread abhorrence to it.

3.9.6 Concealment and under-reporting of Data

Yet another pattern was also evident in the responses obtained in all localities and throughout the survey. ROSCA subscriptions and Pot sizes were grossly underreported, often to one fifth of the estimated actual size. The reason for this underreporting was to avoid attracting attention of Income Tax department, competitors and others who may solicit a loan from winners of Pots.

3.9.7 Pilot study-inspired changes to questionnaire

A number of changes were made to the questionnaire as a result of experience gained in the Pilot study. It was decided that questions relating to moneylenders financing would be eliminated from the questionnaire. This study relates to the ROSCAs that are used to finance SMEs and not to other ROSCAs. It was decided to restrict the respondents to SME owners only. Salespersons, labourers, food stall owners and etc., whose ROSCAs outnumber those of SME owners, were not included in this survey. In the case of only one ROSCA it was found the draws were held every day. All others carried out the draws once a month. The question related to frequency of draw was eliminated. Also eliminated was the question that related to the duration

of the ROSCA. Since draws are held once a month, and every SME owner gets a chance, it is obvious this cycle duration equals the number of members in the ROSCA. This question too was eliminated.

3.10 Response Rate

A high rate of response ensures that the results are accurate, useful, and representative (University of Texas, 2011). Prior research has indicated that the mode of administering the questionnaire can have a bearing on its results (Tourangeou, Rips, & Rasinski, 2000). Face-to-face method of administration was used to ensure a higher response rate. Initially, some seventy or so printed questionnaires were distributed to SME owners. It was agreed that they would be completed by the SME owners themselves and returned within a week. When they were collected, it was found they were not fit to be included in the study. It was therefore decided that in future the researcher would personally administer and fill them. A total of a little more than 500 SMEs were visited. Responses from 433 have been included in the report.

3.11 Techniques of Data Analysis

Data analysis for this study was conducted in a sequence of events. These included exploration of a core phenomenon, the accumulation of relevant data and processing it to a form that is useful (Creswell, 2005). During the process of gathering data, the respondents were kept free of the influence of the interviewer even though the direction and nature of questions may have changed (Creswell, 2005).

3.11.1 Statistical Descriptive Analysis

Two types of data were collected. One type was generated as responses mainly to Research Question No. 1 and to a lesser extent to Research Question No. 2. This data was simple quantities and numbers reflecting the numbers of ROSCAs operating, sizes of membership, Pot size etc. Opinions of respondents were solicited at the end of Appendix B. They were entered in a 5-point scale format. They were also processed as quantitative data. This was basically numeric-descriptive data and required statistical descriptive analysis. Simple SPSS22 analysis was carried out as the purpose of the study is to describe the situation. Microsoft Excel alone was also found to be capable of analysing the collected data satisfactorily.

3.11.2 Content Analysis of Qualitative Data

Details are given below.

3.11.3 Emergence of Themes

The qualitative data analysis was carried out by the constant comparative method as described Merriam (2009). Basically, the data was analysed in six stages: (a) it was consolidated and organized according to the topic, (b) was reviewed, (c) was coded for analysis, (d) it was described, (e) themes that emerged were identified, and (f) linked together in a logical sequence (Creswell, 2003). After transcribing the first two interviews, the data segments that were found to be useful for answering the research questions were identified and coded. These segments were subject to a process of filtration

where those that were unnecessary, duplicate and etc. were eliminated. The remaining segments were organized in to categories. The finished list was examined for themes relevant to the research. Later interviews underwent the same process. Once it was observed that no new themes were required to be created to accommodate segments of later interviews, saturation was understood to have occurred. After this, four additional practitioners were interviewed to ensure all themes had been recorded. Further details of transcription, the segments, codes, categories and themes are provided at Appendix G.

3.6 Chapter Summary

This chapter explains the methodology that was adopted in order to find answers to the three Research Questions developed in Chapter 1. The rationale behind choosing the target population and the questionnaires as well as the methodology of administering them has been explained above. The chapter includes a description of the procedure that was used to analyse the data obtained. Results of a Pilot study have been shown. The changes incorporated in to the Instrument have been explained. Processing of the recorded interviews from transcription to thematic analysis is shown at Appendix G.

CHAPTER FOUR

DATA ANALYSES AND DISCUSSION

4.1 Introduction to Chapter Four

The study was carried out with the aim of exploring the extent of penetration of ROSCAs in the SME-finance marketplace, discovering the impediments in the way of Islamic financing of SMEs and for determining measures for facilitating it through ROSCAs. Three research objectives had been defined. It was felt that the aim of the study could be realized if these objectives were attained. Chapter 4 has been organized in to three sections. Each of these is associated with a separate Research Objective.

The chapter opens with a brief description of the types of data collected and the methodologies adopted to acquire and process it.

4.2 Types of data, its acquisition and analysis

Two types of data were collected. The first type was the one generated mainly for Research Question No. 1 and to a lesser extent for the others. This dataset was numerical and was based on primary collection. Predominantly, it represented quantities such as ROSCA membership, sizes of Pots, bank loans etc., (Appendices A and B). It also represented respondents' opinions about aspects of ROSCA operation that had been quantified to a 5-point scale (Appendix B, questions 58 – 79). The purpose of this data was to describe ROSCAs and the overall environment in which they operated. It also described the SME-finance market. The data-set was numeric-

descriptive and required descriptive analysis. This was satisfactorily carried out by IBM SPSS22 and Microsoft Excel.

The second type of data was generated as a result of responses for Research Questions No. 2 and No. 3. This data included the impressions, opinions, feelings, etc. of the informants (and respondents). Some of it was quantitative while the rest was qualitative in nature. This dataset was also entirely primary. The quantitative component was obtained as answers to Appendix B questions 58 – 79 and to the interviews. It was analysed using IBM SPSS22 and Microsoft Excel. In order to ensure adequate construct validity, multiple data collection methods and sources of evidence were employed. A questionnaire composed of Appendices A and B was served to every respondent. The respondents were owners of SMEs in the target population. Similarly, a separate questionnaire (Appendix C) was served to managers of banks' hub branches operating in or near the surveyed localities. Additionally, interviews were conducted with senior and experienced ROSCA users. The informants were asked open-ended questions. Effort was made to ensure reliability of the data. All the interviews were conducted identically. The informants were asked exactly the same questions that were based on a protocol, Appendix D. They were asked to speak, at length, on eight different topics relevant to this study. Some tended to refract to popular topics such as politics, morality, economy, etc. and needed to be prodded back to the subject. The durations of the interviews were approximately one hour each. The speeches were recorded on a hand-held digital recorder. They were then transcribed in to English text and processed for thematic analysis.

When analysing this qualitative data the constant comparative method was followed (Merriam, 2009). After transcribing the first two interviews, the data was consolidated. The segments were subjected to a process of filtration where those that were unnecessary, duplicate and etc. were eliminated. The data segments that were found to be useful for answering the research questions were identified and coded. It was reviewed. Themes that emerged were identified and linked together in a logical sequence (Creswell, 2003).

Later interviews underwent the same process. New themes were created for segments that could not be accommodated in existing ones. Saturation was understood to have occurred at interview number four when no new themes were discovered. Four additional interviews were conducted to ensure all relevant themes had been discovered. At this stage the interview process was terminated. A total of nine recorded interviews were carried out. The last was considered superfluous and was discarded.

4.3 Status of ROSCAs in Pakistan

In Pakistan, the status of ROSCAs is that of extra-legal private arrangements between citizens. They are not recognized by the government and are not registered by it (Category 6 Weaknesses of ROSCAs, segment 68 “ROSCAs are extra-legal private arrangements. Recourse to law is difficult”. There are no lists or nominal rolls, even in bazaar union offices, that may retain data such as names of sponsor (ROSCA holder) and members, size of memberships, dates of starting and completion, Pot size, any dispute and its resolution, etc. It is therefore not possible to accurately determine these parameters. Data relating to Pot sizes and membership sizes can be estimated

reasonably accurately by questioning SME owners who are either ROSCA members or are fully cognizant of the scale and details of ROSCAs operating in their neighbourhood. Data relevant to the number of ROSCAs current in a market can be obtained only as opinions, albeit accurate, of skilled and experienced ROSCA operators. This opinion was supported by most informants as presented in Table 4.1.

Table 4.1

ROSCAs are extra-legal private arrangements. Recourse to law is difficult

1. Courts do not recognize ROSCAs.
 2. ROSCAs are extra-legal.
 3. ROSCAs have no legal standing.
 4. He expressed no opinion.
 5. ROSCAs extra-legal.
 6. He expressed no opinion.
 7. ROSCAs are not recognized by law.
 8. ROSCAs cannot be pursued in a court of law.
-

Source: Theme 6 Weaknesses of ROSCAs, segment 68. "ROSCAs are extra-legal private arrangements. Recourse to law is difficult".

4.4 Stages in determining the extent of penetration and usage

The extent to which ROSCAs have penetrated the marketplace and are being used by SMEs in the target population as a source of finance will be examined next. A comparison of their performance with that of commercial banks will also be made. These objectives will be realized in eight stages.

Firstly, the extent of diffusion of ROSCAs in the target population will be assessed. This will be done by estimating the numbers of ROSCAs operating there. Data obtained from Survey Questionnaire and interviews will be used and displayed separately. Secondly, the numbers of SMEs drawing investment benefit from these ROSCAs will be estimated. Thirdly, the fractional contribution of ROSCAs to

finances needed for SMEs' start-up, running and growth phases will be examined. Fourthly, the volumetric contribution of ROSCAs to SMEs will be assessed. Impacts made on SMEs financing by their membership of one and more ROSCAs will be determined separately. Fifthly, adaptability of ROSCAs to variations in marketplace parameters will be examined. Sixthly, responses provided by the banks operating in the markets surveyed will be used to make an estimate of the number of SMEs that obtain banking services. Seventhly, the volume of the formal (bank) economy in terms of the investment provided to the SMEs will be examined. Lastly, a comparison will be made between bank and ROSCA financing of the sampled SMEs. Another characteristic of ROSCAs will be examined at this stage: Have they penetrated uniformly among the SMEs or do they have a predilection for nascent, middle-aged or mature businesses?

4.5 Demographic Data of Respondents

The study was conducted over a period ranging from February to May 2015. The total number of SMEs surveyed was 500. Out of these, 67 reports were passed over. Four hundred and thirty three survey reports have been used to prepare this paper. Thirty eight different types of business sectors were visited. These include but are not limited to, textile retail, textile wholesale, garments, electrical, electronics, computers, chemicals, crockery, automobile showrooms, garages, etc. The type of information collected about the respondents includes their ages, years in business, education levels, type of ownership, and their experiences as well as opinions regarding the economy as well as their exposure, if any, to banks. Tables 4.2 to 4.6 indicate the data for some of these variables.

4.5.1 Business sector-wise distribution of respondents

Table 4.2
Number of Samples collected business sector wise

Respondents' categories	(N=433)	Percentage
	Frequencies	(per cent)
	n	
Electrical	83	19.17
Textile retail, garments	65	15.01
Textile wholesale	62	14.32
Car dealers	39	9.01
Construction	21	4.85
Machinery	18	4.16
Food	16	3.70
Crockery	13	3.00
Jewellers	13	3.00
Paper	12	2.77
General merchants	11	2.54
Remaining 27 categories	80	18.47
Total	433	100

Source: Worksheet 1.

Table 4.2 shown the number of samples collected business sector wise. The General merchants are visibly the most numerous type of enterprises in the marketplace. They were the least communicative of all the businesses visited. They provide a negligible fraction of the survey database (only 2.54 per cent). Enterprises dealing with electrical sector were easily the most communicative group and generated 83 per cent of the survey responses. Enterprises dealing with textile retail and garments were the next most communicative. They generated 65 responses. Textile wholesalers were initially totally uncommunicative when approached by the walk-in manner. However, after implementing the referral-snowball method of survey, they did provide 62 responses. The above-mentioned three sectors together provided 48.5 per cent of the survey dataset. A total of 39 business sectors were surveyed.

4.5.2 Age distribution of respondents

Table 4.3
Respondents' ages

Respondents' age (Years)	(N=433) Frequencies n	Percentage (per cent)
Up to 30	91	21.00
31 - 40	115	26.6
41 – 50	79	18.2
51 – 60	38	8.8
Greater than 60	12	2.8
Not responded	98	22.6
Minimum age	19 years	
Maximum age	75 years	
Average age	38.8 years	

Source: Worksheet 23.

The respondents' age is showed in Table 4.3. The SME owners in the 31 – 40 years age group are more numerous than those of the youngest age group (less than 30 years old). This indicates that with the passage of time, the youngest age group moves into the next higher without experiencing attrition. Had the youngest age group experienced noticeable attrition, the size of the next higher age group (31 – 40) would have been smaller than it is.

4.5.3 Enterprises' years in business

Table 4.4
Enterprises' years in business

Years in business	(N=433) Frequencies	Percentage (per cent)
Less than 5	81	18.7
5 – 10	98	22.6
11 – 15	94	21.7
16 – 20	127	29.4
More than 20	33	7.6

Source: Worksheets 15, 16, 17, 18 and 19.

Table 4.4 refers to the enterprises' years in business. The number of SMEs that are younger than 5 years is smaller than the numbers that are aged between 5 – 10 years. This indicates that the younger businesses survive the first five years and move on to become parts of the older (5 – 10 years old) group without depletion in their numbers. Had the youngest SMEs been larger in number than the next older group, this would indicate that many of them do not survive to become older. Youngest SMEs are thriving. This finding does not support the opinions held globally that SMEs exit early due to lack of access to formal finance.

A comparison of the figures provided in Table 4.3 (Respondents' ages) with those in Table 4.4 (SMEs' years in business) show that the situations are identical. SMEs that have been in business for 5 – 10 years are more numerous than those younger than 5 years. Had the reverse been observed, this would have indicated that the number of SMEs diminishes with age. This too confirms that SMEs appear to be surviving the first five years and are moving on into the 5 – 10 age group without diminution in their numbers. SMEDA's findings are not supported.

4.5.4 Respondents' level of education

Table 4.5
Education levels of respondents

Education level	(N=433) Frequencies	Percentage (per cent)
Two years of college	143	33.00
Graduate	113	26.10
High school	90	20.79
Middle school or less	66	15.24
No response (Primary school)	11	2.54
Postgraduate	10	2.31

Source: Worksheet 1.

Table 4.5 shows the respondents' level of education. The largest block of SME owners, 143 (33 per cent of 433), has received two years of college education. The next largest block of SME owners 113 (26.1 per cent of 433) are college graduates. The highest level of education encountered was Masters Only 11 SME owners out of the 433 surveyed (2.54 per cent) had received less than 4 years of schooling. SME owners of Lahore, as a class, are more educated than the average Pakistani citizen. As a class, SME owners can be considered to be well educated citizens.

4.5.5 Respondents' type of ownership

Table 4.6
Respondents' type of ownership

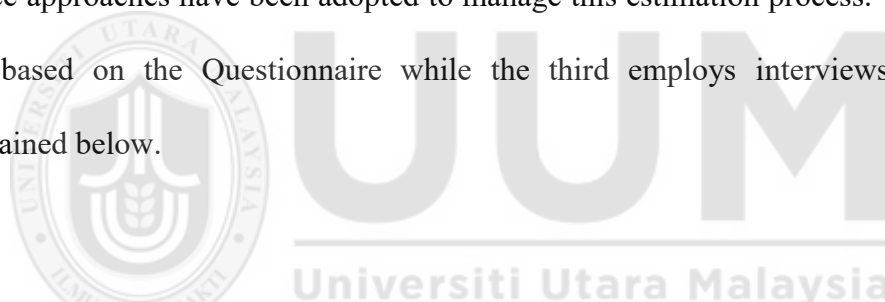
Type	(N=433) Frequencies	Percentage (per cent)
Sole proprietorship	247	57.0
Family business	107	24.7
Partnership (non-family)	72	16.7
Limited liability company	4	0.9
Special arrangement	3	0.7

Source: Worksheet 1.

Respondents' type of ownership is shown in Table 4.6. A majority of the SMEs 247 (57 per cent of 433) are sole proprietorships. The next most abundant type are family businesses, 107 (24.7 per cent of 433). Non-family partnerships are relatively fewer at 72 (16.7 per cent of 533). Less than 1 per cent of the surveyed SMEs are limited liability companies. The culture of non-family partnerships has not yet permeated through the surveyed SMEs. The vast majority of them (81.7 per cent) are sole proprietorships or family businesses. Outsider participation is relatively rare (17.6 per cent).

4.6 Prevalence of ROSCAs, quantitative analysis

Three approaches have been adopted to manage this estimation process. Two of these are based on the Questionnaire while the third employs interviews. These are explained below.



4.6.1 Approach No. 1 Enumerating membership in ROSCAs

Table 4.8
Participation in multiple ROSCAs and number of ROSCAs, sampled population

	Member of (how many) ROSCAs							Total	Nil
	one	two	three	four	five	six			
No of SME respondents who are	234	94	33	20	3	2	386	47	
Total ROSCAs they are member of	234	188	99	80	15	12	628		
Grand total	628 (max possible no. of ROSCAs)								
÷20, members per ROSCA	32 (min possible no. of ROSCAs)								
ROSCAs per respondent	= 628 ÷ 386 ≈ 1.6								

Source 1: Worksheet 1, Q.1 (1. Are you a member or organizer of any Kmaytee?).

Source 2: Worksheet 1, Q.2 (2. The number of Kmaytees that you are a member of).

Source 3 for columns Five and Six: Questionnaire hardcopies, Q.2, (The number of Kmaytees that you are a member of, is).

The participation in multiple ROSCAs and number of ROSCAs, sampled population is showed in Table 4.8. This method is based upon analysing data extracted from responses to Questions 1 and 2, Appendix B. Question 1 (Are you a member or organizer of any K'maytee?) was inserted to count the number of SMEs that subscribe to ROSCAs. It had been seen during the Pilot survey that several businesspersons retained membership in multiple (up to six) ROSCAs simultaneously. In the post-Pilot Questionnaire, Question 2 (The number of Kmaytees that you are a member of is) was inserted to determine the exact number of ROSCAs these SMEs subscribe to. The responses were entered in Worksheet 1. Later, this data was filtered. Responses of such SMEs as stated they were members of only one ROSCA were saved separately (worksheet no. 5). Similarly, worksheets no. 6, 7 and 8 contain filtered data relevant to SMEs that are members of only 2, 3 and 4 ROSCAs respectively. Data regarding SMEs that subscribed to 5 or 6 ROSCAs was not entered in Worksheet No. 1. It is available and has been extracted from the hard copy questionnaires. If all types of SMEs are included, the number of types of memberships is seven (0, 1, 2, up to 6). Five point scale was deemed appropriate enough for this study. It was decided to ignore the few SMEs that had memberships in 5 and 6 ROSCAs. These SMEs are only 5 in number.

4.6.2 Accuracy

At the start of the survey, 381 respondents (88 per cent of 433 sampled) asserted they were members of ROSCAs (Worksheet 1, Q.1a). The remaining 52 respondents announced they were not the members of any ROSCA (Worksheet 1, Q.1b). When the Survey progressed, 5 of these 52 provided details of their ROSCA membership. Only 47 (≈ 11 per cent of 433 sampled) continued to assert they were not members of any ROSCA. The column for Nil membership (Q.2b) registers 52. If the responses of the 3 SMEs that are members of 5 ROSCAs and the 2 that are members of 6 are factored in, the number of SMEs that are not members of any ROSCA reduces to 47. This more accurate situation is reflected in Table 4.9.

4.6.3 Difficulty in estimating numbers of ROSCAs

The estimation process encounters an obstacle at this stage. This is best clarified by an example. Assume that 20 respondents stated that they were members of one ROSCA each. The sum total of their instances of memberships equals 20. If they are members of the same ROSCA, the sum must be divided by average ROSCA membership (20) to arrive at the correct answer, viz. 1. If however all these respondents were members of different ROSCAs, the correct answer to the number of ROSCAs is 20. In real life situation the number of ROSCAs can be guessed to range between these two limits. The minimum number of ROSCAs is the aggregate of total number of instances of ROSCA memberships the respondents are members of, divided by the average ROSCA membership. The maximum number of ROSCAs is

simply the sum of the number of ROSCAs they are members of. The number of members, like the size of the Pot, is a significant parameter of a ROSCA.

Of the 433 respondents questioned, 386 (89.1 per cent of the sampled population) replied they were members of one or more ROSCAs. The sum total of their memberships (instances) amounts to 628. This works very approximately to an average of 1.6 ROSCAs per respondent. If each of the respondents was to be a member of a different ROSCA, the maximum theoretical possible number of ROSCAs is 628. If all are not members of different ROSCAs and the average membership of a ROSCA is assumed to be 20, the number of ROSCAs is approximately 32 ($628 \div 20$).

By adopting Method No. 1, the total number of ROSCAs operating in the sampled population can be estimated to lie in the range 628 and 32. It can also be seen that each respondent SME is a member of an average of 1.6 ROSCAs.

4.6.4 Approach No. 2 Membership sizes, order

This method is based on initially classifying ROSCAs according to their membership sizes. The ROSCAs are further classified according to whether or not they are the 1st, 2d, 3d, 4th, 5th or the 6th that the SMEs participate in.

In the Pilot study, a question had been asked (Q.7 Indicate the number of members in the Kmaytee) to determine membership size. In the post-Pilot Questionnaire, the question was modified to “Indicate the number of members in the Kmaytee no. w, x, y, z”, w, x, y and z standing 1, 2, 3 or 4. Questions

no. 7, 20, 33 and 46 were inserted to obtain information about ROSCAs No. 1, 2, 3 and 4 respectively.

If no SMEs claim to be members of ROSCAs of a certain membership size, e.g. 30-50, it can be assumed with a degree of certainty such a ROSCA does not exist. If the largest number of SMEs claim membership in ROSCAs of another membership size e.g. 16-20, it can be assumed this class of ROSCAs is most abundant. Only relative rate of occurrence can be estimated. It is still impossible to determine the exact numbers of ROSCAs.

Out of the 386 SMEs that are members of one or more ROSCAs, the overwhelming majority 381, (98.7 per cent of 386) maintained simultaneous membership in up to four ROSCAs. Only three were members of 5 and only two were members of six ROSCAs. In order to be able to use the 5-point scale it was decided to retain complete records of only such SMEs as had membership in four ROSCAs. The data obtained from these questions has been tabulated in Table 4.9.

The data provided in Table 4.9 is aggregated and needs to be decomposed before it can be used to extract the numbers of ROSCAs. To clarify this concept, the row at serial 6 will be explained. The two columns carrying numbers for 5th and 6th ROSCAs will be disregarded for the moment. This step is of minor consequence since only 5 SMEs out of 433 sampled are affected. The 53 SMEs at column 3d (Q33) include not only the 3d ROSCA of the $(53-20=33)$ SMEs who have membership in 3 ROSCAs, but also the 3d of

20 SMEs who are members of 4 ROSCAs. If the 20 SMEs are subtracted, the result is 33, the number of SMEs who are members of three ROSCAs. The corrections are reflected in Table 4.10 Clarification Table 4.9. The figures in Row 6a are identical to those in Table 4.8.

From Table 4.10, and assuming each SME is a member of 1.6 ROSCAs, the number of ROSCAs is 618 (386 x 1.6 = 618).

Table 4.9
ROSCAs and number of financed SMEs, sampled population

Sl no.	Membership size	1st Q.7	2d Q.20	3d Q.33	4th Q.46	5th	6th	Total
1	0-10	57	12	6	2	0	0	77
2	11-15	96	30	9	1	0	0	136
3	16-20	94	46	13	6	1	0	160
4	21-25	91	36	12	7	1	1	148
5	>25	44	24	13	4	3	1	89
6	Total memberships	382	148	53	20	5	2	610

Source 1: Worksheet 1, Qs. 7, 20, 33, 46, (Indicate the number of members in Kmaytee No.)

Source 2: Hardcopy records No. 22, 23, 58, 70 and 310 for columns 5th and 6th. Records of SMEs having membership in up to four ROSCAs were entered in the database. Records for the fifth and sixth ROSCAs are available in the hard copies.

Table 4.10
Clarification of Table 4.9

Sl. No.	Membership size	1st	2d	3d	4th	5th	6th	Total
6	Uncorrected	382	148	53	20	5	2	610
6a	Reconciled SME membership	234	95	33	20	3	2	386

A larger number of SME owners participate in smaller number of ROSCAs than they do in larger numbers (row serial no.6). Three hundred and eighty two SMEs are members of at least a first ROSCA. Five SMEs have at least a 5th ROSCA. Two of these are shared by the 2 others who are members of 6

ROSCAs. These two have two fifth ROSCAs and two sixth ROSCAs. The total number of memberships from this mode of evaluation is 610. The most frequently encountered size is between 16 and 20 members (160 SMEs). The next most abundant sizes of ROSCAs are 21 – 25 (148 ROSCAs), 11 – 15 (136 ROSCAs and >25 (89 ROSCAs).

The least occurring membership size is 10 or less (77 ROSCAs). The number of ROSCAs can be considered to range between 61 ($610 \div 10$) and 20 ($610 \div 30$) with 31 ($610 \div 20$) being most likely. The average number of ROSCAs an SME is a member of is 1.6. The same figure was derived from Table 4.7 also. These figures, though not precise, provide an idea of the numbers of ROSCAs operating and hence of their popularity as compared to banks.

4.7 Prevalence of ROSCAs, Qualitative analysis

Table 4.11
Number of ROSCAs, from interviews

Opinion of Practitioner No.	Bazaar No.	Sizes of Pots (Million. Rs)	Total No of ROSCAs
2	1	Rs10,000 – 5Mn.	25
6	1	2.5 - 5	25
7	1	1, 3, 5, 5, 15	5
8	1	3 - 5	10
4	2	10 – 20	15
5	3	3 – 5	25
		8 - 10	5
Total ROSCAs 110 maximum, 70 minimum			

4.7.1 Approach No. 3, opinions of informants

Table 4.11 shows the number of ROSCAs, from interviews. The third approach to estimating the prevalence of ROSCAs operating in the target population is to use the assessments provided by senior ROSCA practitioners

during their interviews. These individuals were selected on the basis of the sizes of their businesses, their education, the social capital they had accumulated, their experience with managing ROSCAs, etc. These informants were not asked to reveal their own ROSCA-related financial details. Instead, they were asked to render their opinions about the general ROSCA environment prevailing in the neighborhood. It can therefore be expected that the figures they provided were closer to real values as compared to those provided by SME owners. One of the several topics they were invited to opine about was the number of ROSCAs prevailing in the immediate vicinity of their businesses, and their Pot sizes. Informants No. 2, 6, 7 and 8 conduct businesses in different streets of just one block (Punjab block) among several at Bazaar No.1. Informants No. 4 and 5 carry out their businesses in their own separate markets that were well beyond Bazaar No.1.

4.7.2 The Informants

Some of the SME owners who were selected to be interviewed and the opinions they rendered are described below.

Table 4.12a
The Informants

Serial No.	Qualification	Opinions about numbers of ROSCAs and their Pots
1	He has a bachelor's degree in Humanities. Operates his own SME.	Stated simply that dozens of ROSCAs with "high" value Pots operate in his marketplace.
2	President and Secretary of the Traders' Union of the same Bazaar (No. 1). He has acquired High School education.	Twenty five ROSCAs operating in his street. Their Pot values were in the range Rs10,000 - Rs5 Million.

Table 4.11a continued

3	He has Master's degree in Business Administration. Operates flourishing business in a distant market. Participates in Bazaar 1 ROSCA.	Participates in a ROSCA with a Pot of Rs20 Million. Other members of this ROSCA had declared the Pot to be Rs5 Mn or less. He had no information of numbers of other ROSCAs or their Pot sizes.
4	He is the President of the Association of Traders in his Bazaar (No. 2). He has a graduate's degree in economics.	Fifteen ROSCAs in the range of Rs10 Mn to Rs20 Mn operate in his market.
5	He is the President of the Traders Association in a high end market (Bazaar No. 3). He has a Bachelor's degree in Humanities.	He reports the existence of 25 ROSCAs whose Pots ranged Rs3 Mn to Rs5 Million. He says there are five other ROSCAs whose Pots range between Rs8 Mn to Rs10 Mn in his vicinity. According to him there are many more that were being managed by salespersons. These were numerous and he had never counted them.
6	He is the proprietor of a flourishing business in Bazaar (No. 1). He has a Bachelor's degree in Business Administration from Lahore University of Management Sciences (LUMS). He is articulate and can express himself well.	Between 20 and 25 ROSCAs having Pot values between Rs2.5 Million-Rs5 Mn operate in his neighbourhood. There were many more that were being managed by salespersons, food stall operators etc.
7	He manages a flourishing business in a part of Bazaar No. 1. He holds a graduate's degree in Economics.	He manages a ROSCA whose Pot he declared to be worth Rs15 Million. He said four other ROSCAs of Pot values Rs1 Million, Rs3 Mn and two ROSCAs of Rs5 Mn each were operating in his neighbourhood. One of the members of his Rs15 Mn ROSCA (Informant No.3) confided that its size was actually Rs20 Million.
8	He is the Finance Secretary of the same Bazaar (No. 1). He operates a flourishing business.	Ten ROSCAs ranging in value from Rs3 Mn to Rs5 Mn function in his street. There were numerous other ROSCAs that are managed for the benefit of salespersons, food stall owners, labourers and others, in his street.

The data obtained from the interviews is presented in Table 4.11. It can be seen that there are 65 ROSCAs operating in just one block (Bazaar No.1) of one market. This assumes that any ROSCA has been counted once only by the

informants. Otherwise the number can be as low as 25. The total number of ROSCAs operating in only three markets is 110 or 70 in case they have been count by more than one informant. Multiple more markets were the subject of the Survey.

4.8 Estimated number of ROSCAs operating in the surveyed markets

Two approaches were adopted to estimate the number of ROSCAs from the Questionnaire.

4.8.1 Quantitative estimate

According to the first method the respondents were asked the number of ROSCAs they were a member (or organizer) of. By this method the number of ROSCAs prevailing in the sampled population is found to range between 32 and 628. The data from which this was obtained has been given in Table 4.8.

In the second method, ROSCAs were classified first according to their membership size and then according their order. By this method it was found that the number of ROSCAs prevailing in the sampled population ranges between 20 and 61, with 31 being most likely. Table 4.9 exhibits the data on which this estimate was based.

4.8.2 Qualitative estimate

The third approach adopted to estimate the number of ROSCAs operating in the sampled population was Qualitative in nature and was obtained by interviewing practitioners. The numbers of ROSCAs obtained from interviews relate only to the ROSCAs prevailing in the markets or bazaars commented on by the informants and not the entire sampled population. There are 65 ROSCAs operating in Bazaar No.1, 15 operating in Bazaar No.2 and 30 in Bazaar No. 3. The total number of ROSCAs operating in the 3 bazaars is estimated to be 110. The area covered by the survey is several times larger than Bazaars 1, 2 and 3.

4.9 Number of SMEs financed by ROSCAs in the sampled population

Two methods were employed to estimate the number of ROSCA-financed SMEs. These methods were based upon the survey and upon the interviews.

4.9.1 Number of ROSCA-financed SMEs, from survey

Table 4.8 indicates that out of the 433 SMEs surveyed 386 (89 per cent of 433 sampled population) received ROSCA financing. Had the SMEs been a member of only one ROSCA each, the memberships would total 386. It is a measure of the popularity and hence the degree of penetration of ROSCAs in the SME finance market, that the total number (instances) of memberships is 628 instead. Survey has revealed that while 234 (60 per cent of 386 that used ROSCA financing) retained membership in one ROSCA only, 152 (39 per cent of 386) retained membership in multiple ROSCAs. Table 4.8 shows the

distribution of SMEs according to the number of ROSCAs they retain membership in.

4.9.2 Number of ROSCA-financed SMEs, from interviews

Table 4.11 indicates that 25-65 different ROSCAs are operating in Punjab Block alone in the textile wholesale market. Assuming the larger of these numbers to be the correct one and that each ROSCA is composed of 20 SMEs, this indicates 1300 (65×20) SMEs are being financed by these ROSCAs. A correction needs to be applied to this figure. According to Table 4.8 above, the average SME owner is a member of 1.6 ROSCAs. This would mean that 813 SMEs ($65 \times 20 \div 1.6$) in one block alone are being financed by ROSCAs (and not banks). If the lower figure of 25 ROSACAs is assumed to be correct, the number of ROSCA-financed SMEs is 312 ($25 \times 20 \div 1.6$).

Extending this analysis to other bazaars, it is estimated that 15 ROSCAs operating in Bazaar No.2 are financing 188 SMEs ($15 \times 20 \div 1.6$). Three hundred and seventy five SMEs of Bazaar No.3 are benefiting from the 30 ROSCAs operating there ($30 \times 20 \div 1.6$).

Between 70-110 ROSCAs are operating in these three bazaaRs They are financing between 875 ($70 \times 20 \div 1.6$) and 1375 SMEs ($110 \times 20 \div 1.6$). These numbers are large. They indicate clearly that ROSCAs have made a significant penetration in the SME marketplace.

4.10 Contribution of ROSCAs to finances needed for SME start-up, running and growth

There are three important stages in the life of a running enterprise. These are start-up (seeding), running and growth. Financial needs and sourcing are different in each stage. Contribution of ROSCAs for each of these is given below.

4.10.1 Start-up capital requirement

Table 4.12 refers Start-up is the phase that requires the largest investment in terms of financing and social effort. SME owners were asked to indicate the sources of their start-up capital they were also asked to assign percentage values to the shares of the finances obtained from the different sources.

Consolidated data for start-up financing is given at Table 4.12.

Table 4.13
Number of SMEs and fraction of start-up financing from sources

Source	SMEs that received fraction of start-up financing from source, (up to %)					SMEs (No. used)
	Nil	25%	50%	75%	100%	
Personal	108	54	69	98	104	325
Family, etc.	175	42	64	44	108	258
ROSCA	222	92	89	25	5	211
Bank	374	34	21	4	Nil	59

Source. Questions 16, 17, 18 and 19 Appendix A.

It is found that the order of preference of using different sources for start-up financing is Personal, Family, ROSCA and, lastly, banks. Banks are the least popular source of financing a start-up. Only 59 (13.6 per cent of surveyed SMEs) resorted to bank for financing. Out of the 433 surveyed SMEs, 222 (51.3 per cent) said ROSCAs had not made any contribution to their needs for start-up finance. The remaining 211 (48.7 per cent) had used ROSCAs to

finance their start-up needs to an extent ranging from up to 25 per cent to a higher percentage. Five per cent of the respondents had relied entirely on ROSCAs to help finance their start up. Since the total of the numbers given in the SME number column exceeds 433, it is apparent that SMEs have used multiple sources for financing their start-up needs.

4.10.2 Working capital requirement

The financial needs for maintaining operation of an enterprise are of a different order and magnitude than they are for starting it. This is indicated by a change in the fractions to which different sources contribute to it. The data is indicated in Table 4.13.

Table 4.14
Number of SMEs and fraction of running financing from sources

Source	SMEs who received fraction of running financing from source (up to %)					SMEs (number used)
	Nil	25%	50%	75%	100%	
Personal	13	46	54	108	212	420
Family, etc.	299	72	46	11	5	134
ROSCA	189	136	97	9	2	244
Bank	400	19	11	3	0	33

Source: Questions 20, 21, 22 and 23, Appendix A.

It is found that once the enterprise has started functioning and enters into a steady-state operating equilibrium, the most frequently resorted-to source of financing are internal retained earnings. ROSCAs are elevated and assume position as the second most frequently resorted source of running finance (working capital). They replace family as a source. Out of the 433 surveyed SMEs, 244 (56.4 per cent) rely on ROSCAs for providing for their running

finance requirements. In these cases, ROSCAs provide from 25 per cent up to (in 2 cases) 100 per cent of their running finance requirements. Once an enterprise enters in to the phase of steady-state operations reliance on families as a source of running finance reduces. Banks are the least frequently resorted source of running finance. Only 7.6 per cent (33 out of 433) of the surveyed SMEs have used banks as a source of running finance. This compares unfavourably with 56.4 per cent of SMEs that have relied on ROSCA-derived finances.

4.10.3 SME age-wise application of ROSCA-derived finances

Table 4.15
SMEs' age-wise application of ROSCA-derived finances

SME Age (yRs)	numbers	Instances	Application of ROSCA-derived finances				
			Running	Inventory	Growth	Merge	Social
<5	81	166	29	34	69	25	9
5-10	98	196	29	47	86	26	8
11-15	94	180	30	38	79	20	13
16-19	127	220	46	35	97	22	20
≥20	33	69	8	9	38	3	11

Table 4.14 is showing SMEs' age-wise application of ROSCA-derived finances. The contributions of ROSCAs to cater to financial needs of SMEs for start-up and running have been reviewed earlier. The data was aggregated for the entire SME sector and their multiple ROSCAs. SMEs of all ages had been grouped together. It is considered productive to review the contribution of ROSCAs to SMEs' requirements for growth as well as other objectives, but decomposed for different age groups. This will indicate whether or not SMEs

of different ages carry out business in different settings and there are differences in the ways they apply their financial assets.

Table 4.15 presents the data from Table 4.14 as percentages of instances within their own age group. This has been done for ease of comparison between age groups.

Table 4.16
Application of ROSCA-derived finances, as percentage of instances within their own age group

SME Age (yRs)	Application of ROSCA-derived finances (percentages of instances within their own age group)					Total
	Running	Inventory	Growth	Merge	Social	
<5	17.5	20.5	41.6	15.2	5.2	100
5-10	14.8	23.9	43.9	13.2	4.2	100
11-15	16.7	21.1	43.9	11.1	7.2	100
16-19	20.9	15.9	44.10	10	9.1	100
≥20	11.6	13.0	55.0	4.4	16.0	100

The table indicates that nearly half the SMEs within all age groups use the Pots to help growth. Acquisition of inventory is the next most frequent use of the Pot. SMEs apparently eschew withdrawing funds from their enterprise for social purposes such as marriages etc. Many privately said the decision is left to their spouses. The situation reverses noticeably for SMEs that have been in business longest. There is a marked increase in use of Pots for social reasons by SMEs older than 20 years. Several operators and members of very-high-value-Pot ROSCAs confided they invest the Pots in real estate. Rapid urbanization and migration to city has led to a trend of rapid increase in real-estate prices. Pot winners acquire plots and dispose them for a windfall when necessary.

4.10.4 Applications of multiple-ROSCA-derived finances

Pilot survey revealed that there were five principal types of applications of Pots. Respondents were asked in the post-Pilot Questionnaire to specify the uses to which ROSCA-derived finances were to be applied. Their responses are given in Table 4.16.

Table 4.17
Uses which SMEs put ROSCA-derived finances to

ROSCA	Uses which SMEs put ROSCA-derived finances to (Number of SMEs)					
	Running Expenses	Inventory	Growth	Merge Pot	Social	Total
ROSCA 1	103	81	116	56	25	381
ROSCA 2	31	66	228	35	17	377
ROSCA 3	5	9	21	4	14	53
ROSCA 4	3	7	4	1	5	20
Total	142	163	369	96	61	831
Per cent of 831	17.09	19.61	44.4	11.55	7.35	100

Source: Qs. 6, 19, 32 and 45 Appendix B.

Nearly half of the SME owners (44.4 per cent) stated they intended to use the Pot towards enabling growth of the enterprise. The second most frequent (19.61 per cent) use to which Pot-derived funds were to be used was procurement of inventory. This was followed closely (17.09 per cent) with providing for running expenses of the enterprise. A significant number of SME owners (11.55 per cent) were members of multiple ROSCAs. Some stated they had sufficient retained reserves and intended to achieve greater savings through ROSCAs. Others stated they wanted to improve the probability of obtaining an early Pot. It is pointed out here that a Pot obtained early in the ROSCA cycle resembles a loan whereas a later Pot resembles

savings. The smallest number (7.35 per cent) of the SME owners stated they intended to use the Pot for “Social” reasons. These usually included savings for forthcoming marriages, building of or repairing homes, etc. The reason is somewhat different in case of very high-value (Rs10 Mn or more) Pots. In such cases, owners said they invest the Pot in real estate. This is sold off when needed. Because of the trend of rising prices of real estate, the owners expect to reap a windfall profit in the transaction.

4.11 Volume of economy managed by ROSCAs (from survey)

ROSCAs contribute to SME economy by mobilising resources and distributing them, once a month. This study will now proceed to examine the quantum of finances processed by them. This estimation will be carried out partly by data obtained from the survey as well as from information obtained from the interviews. A majority of the respondents (60 per cent) participate in a single ROSCA only. The remaining participate in up to six, in decreasing numbers. This study takes note of participation in up to four ROSCAs. The contribution to economy by each of these categories will be analysed separately.

4.11.1 Volume of ROSCA economy, multiple ROSCAs

Table 4.18

Pot sizes, and number of SMEs participating in them, from Survey

Pot size (Rs)	ROSCA No.1 (Q.No.10)		ROSCA No.2 (Q.No.23)		ROSCA No.3 (Q.No.36)		ROSCA No.4 (Q.No.49)	
	Nos.	Amount (Rs)	Nos.	Amount (Rs)	Nos.	Amount (Rs)	Nos.	Amount (Rs)
20000	11	220000	7	140000	2	40000	1	20000
50000	56	2800000	14	700000	5	250000	5	250000
100000	65	6500000	25	2500000	9	900000	1	100000
500000	159	79500000	66	33000000	22	11000000	8	4000000
Higher	85	193016000	35	81471000	15	41866000	5	9750000
Average (Higher)	=193016000÷85 =2270776		2327743		2791076		1950000	
Total	376	282036000	147	117811000	53	54056000	20	14120000
Grand Total Rs468,023,000 (Approx. Rs468Mn.)								

Note 1. The figures calculated above relate to ROSCAs that operate in markets spread across Lahore city.

Source: Worksheet 1, Qs. No. 10, 23, 36 and 49 (What is the size of the Pot in Kmaytee No. w, x, y, z).

This section will examine Pot sizes, and number of SMEs participating in them, from Survey which referred to Table 4.17. Earlier, this study estimated the numbers of SMEs that are financed by ROSCAs and by banks. Its attention will now turn to estimating the size of ROSCA economy. Responses to Qs 10, 23, 36 and 49 (What is the size of the Pot in Kmaytee w, x, y, z?) have been used to estimate the volume of ROSCA economy prevailing in the sampled population. Each of these Questions had five sub-sections. These related to five different Pot sizes recognized in this study. These sizes are Pots of up to Rs20,000, 50,000, 100,000, 500,000 and those exceeding 500,000.

ROSCAs with the smallest Pot size are the least popular. Only 21 SMEs having Pots of this size were encountered. SMEs using even the two smallest Pot sizes do participate in up to four ROSCAs. This indicates that participation

in multiple ROSCAs is not a quality only of SMEs with greater volume of retained earnings. SMEs, including financially smaller-sized ones, will participate in an additional ROSCA if an opportunity presents itself. Membership in four SMEs appears to be the cut-off point. Only three SMEs were found to be members of five ROSCAs while only two were members of six. No SME was found to have membership in seven or more ROSCAs. Participation in multiple (three or more) ROSCAs is more pronounced in SMEs that participate in ROSCAs with Pots exceeding Rs500000. The average Pot sizes in “Higher” row for SMEs participating in one, two, three and four ROSCAs are respectively, Rs2,270,776, 2,327,743, 2,791,076 and 1,950,000 respectively. The greatest investment is made in the first ROSCA. It reduces progressively with higher order ROSCAs. Every month, ROSCAs operating in the sampled population, finance their member SMEs to the extent of approximately Rs468,023,000. When spread over the 381 SMEs that are ROSCA members, this translates to an average investment of Rs1,228,407 per SME per month in to the ROSCA system.

4.11.2 Motives for participation in multiple ROSCAs

It was observed that many SME owners participate in multiple ROSCAs (Tables 4.7 and 4.8). This strategy is adopted for a number of reasons. For example, 96 SME owners said they had implemented this methodology partly to increase the size of their total savings. This figure has been obtained from the sums of answers to subsection d of questions 6, 19, 32 and 45, Appendix B, “Indicate how you plan to spend this Pot”. Others said they used this approach to increase the probability of obtaining an early Pot. Some SME

owners attempt to increase the likelihood of attaining a net loan by participating in several ROSCAs. Some anticipate that their wins may be spread out over time. This will help smooth their cash flow and some of the Pots might produce a net loan. This study estimated the size of the ROSCA economy in the preceding section. It will now examine the effect of each of these first, second etc., ROSCAs on this economy.

4.11.3 SMEs having membership in (only) one ROSCA

The 386 SME owners who are ROSCA members were queried about the parameters of their ROSCAs. The largest fraction of these, 234, subscribe to only one ROSCA each. The records of these 234 respondents were filtered out of Worksheet 1 and have been saved in Worksheet 5. They are shown in Table 4.18.

Table 4.19
Pot sizes, numbers of members and finances provided, SMEs participating in one ROSCA only

Pot size (Rs)	SMEs (nos.)	Amount (Rs)
20,000	8	160,000
50,000	37	1,850,000
100,000	40	4,000,000
500,000	99	49,500,000
>500,000	50	120,390,000
	2 NRs*	
Total	234	175,900,000

Source: Worksheet 5, Q. 10 “What is the size of the Pot?”.

*NR represents No Response.

Two hundred and thirty four SMEs subscribe to one ROSCA only. This is 54 per cent of 433 sampled population and 61 per cent of the 386 that are ROSCA members Eight SMEs said their Pots were worth up to Rs20,000 (Q.10 a). Out

of these 8, 2 had been in business longer than 15 years, 3 had been in business for between 11-15 years, one had operated for 5-10 years while 2 had been in business for less than 5 years. In this case SMEs' age has no correlation with size of Pot (financial strength of the enterprise). Thirty seven said their Pots were worth Rs50,000 (Q.10 b). Forty respondents said their Pots were worth up to Rs100,000 (Q.10 c). Ninety nine said their Pots were worth Rs500,000 each (Q.10 d). These four classes total 184 SMEs. The volume of finances managed through their ROSCA is Rs55510000. The average value of the Pots of these 184 SMEs is Rs301,685. The aggregated value of the Pots for the remaining 50 respondents (234 – 184) totals to Rs120,390,000 (Q.10 e). The average Pot size for this fifth class of 50 SMEs is approximately Rs2,407,800 each. The amount of money that is managed by ROSCAs for the 234 SMEs who participate in one ROSCA only is Rs175,900,000. The greater share of the ROSCA financing is borne by the relatively fewer SMEs (50 out of 234) who afford large sized Pots. For SMEs that participate in only a single ROSCA, the most popular Pot size is Rs500,000 (99 SMEs). There is a positive relationship between the Pot size and number of ROSCAs. The numbers of ROSCAs increases with Pot size. There is a discontinuity at Pot size of Rs500,000. This is so because the size of the increment between this and the adjacent Pot sizes. Every month ROSCAs operating in the sampled population, and whose member SMEs participate in a single ROSCA only, finance their member SMEs to the extent of Rs175,900,000. The average Pot-size for this category of 234 SMEs is Rs751,710.

4.11.4 SMEs having membership in (only) two ROSCAs

Table 4.19 refers to this section

Table 4.20

Pot sizes, numbers of members and finances provided, SMEs participating in two ROSCA only

Pot size (Rs)	ROSCA 1 (nos.)	Amount (Rs)	ROSCA 2 (nos.)	Amount (Rs)	Total (Rs)
20,000	3	60,000	4	80,000	140,000
50,000	14	700,000	6	300,000	1,000,000
100,000	21	2,100,000	20	2,000,000	4,100,000
500,000	36	18,000,000	42	21,000,000	39,000,000
>500,000	18 2 NRs	26,286,000	22	46,391,000	72,677,000
Total	94	47,146,000	94	69,771,000	116,917,000
Grand Total	188	116,917,000			

Source 1: Worksheet 6, Q. 10 (What is the size of the Pot in Kmaytee No.1?)

Source 2: Worksheet 6, Q. 23 (What is the size of the Pot in Kmaytee 2?)

Worksheet 6 contains data relevant to the 94 SMEs that are members of (only) two ROSCAs. Questions No. 10 and 23 on the worksheet relate to the first and second ROSCAs respectively.

Ninety four SMEs subscribe to (only) two ROSCAs each. This is 22 per cent of 433 sampled population and 24 per cent of the 386 that are ROSCA members. Seven ROSCAs had Pots worth Rs20,000 (Q.10 a and 23 a). Twenty ROSCAs had Pots worth Rs50,000 (Q.10 b and 23 b). Forty one ROSCAs had Pots worth Rs100,000 (Q.10 c and 23 c). Seventy eight ROSCAs had Pots worth Rs500,000 each (Q.10 d and 23 d). The above-mentioned four classes total 146 ROSCAs. The volume of finances they manage is Rs44,240,000. The average value of Pots for these 146 SMEs is Rs303,014. The aggregated value of the Pots for the remaining 42 ROSCAs (2x94 – 146) totals Rs72,677,000 (Q.10 e and 23 e). The average Pot size for this fifth class of 42 ROSCAs is

approximately Rs1,730,400 each. The amount of finances managed by ROSCAs for the 94 SMEs who participate in two ROSCAs only is Rs116,917,000. The greater share of this, Rs72,677,000 (62 per cent of 116,917,000) is borne by the relatively fewer ROSCAs (42 out of 188) who offer large sized Pots. The average size of Pot for this category of 94 SMEs is Rs621,900. For any one Pot sized ROSCAs, the number of SMEs that participate in it as first ROSCA is not the same as the number that participate in it as the second. Apparently much deliberation is involved in selecting a ROSCA with more suitable parameters. The SME owner can choose a second ROSCA with a larger or smaller Pot size.

4.11.5 SMEs having membership in (only) three ROSCAs

Table 4.20 refers to this section

Table 4.21

Pot sizes, numbers of members and finances provided, SMEs participating in three ROSCAs only. (Rupees in thousands)

Pot size (Rs)	ROSCA 1 (nos.)	ROSCA 2 (nos.)	ROSCA 3 (nos.)	Total memberships	Total
20,000	0	1	0	1	20
50,000	1	4	1	6	300
100,000	4	3	7	14	1,400
500,000	16	16	14	46	23,000
>500,000	12	9	11	32	74,286
	(20,490)	(22,000)	(31,796)	(74,286)	
Total	33	33	33	99	99,006
Grand Total	33 SMEs, 99 memberships		Rs99 Mn are disbursed every month		

Source 1: Worksheet 7, Q. 10 (What is the size of the Pot in Kmaytee 1?)

Source 2: Worksheet 7, Q. 23 (What is the size of the Pot in Kmaytee 2?)

Source 3: Worksheet 7, Q. 36 (What is the size of the Pot in Kmaytee 3?)

Worksheet 7 contains data relevant to those 33 SMEs that are members of (only) three ROSCAs. Thirty three SMEs were found to participate in three ROSCAs. Questions No 10, 23 and 36 on the worksheet relate to the first, second and third ROSCAs respectively.

Thirty three SMEs subscribe to (only) three ROSCAs each. This is 8 per cent of 433 sampled population and 9 per cent of the 386 that are ROSCA members. There is one instance (membership) of a Pot worth up to Rs20,000 (Q.10a, 23a and 36a). There are 6 instance (memberships) of Pots worth Rs50,000 (Q.10 b, 23 b and 36b). There are 14 instance (memberships) of Pots worth Rs100,000 (Q.10 c, 23 c and 36c). There are 46 instances (memberships) of Pots worth Rs500,000 each (Q.10 d, 23 d and 36d). The above-mentioned four classes total 67 instance (memberships). The volume of finances their ROSCAs manage is Rs24.72 Mn. The aggregated value of the Pots for the remaining 32 instance (memberships) ($3 \times 33 - 67$) totals Rs74.286 Mn (Q.10 e, 23 e and 36e). The average Pot size Pot size for this fifth class of 32 instance (memberships) is approximately Rs2.321 Mn each. The amount of finances managed by ROSCAs for the 33 SMEs who participate in three (only) ROSCAs each is Rs99.006 Mn. The greater share of this, Rs74.286 Mn (75 per cent of 99.006 Mn) is borne by the SMEs who offer largest sized Pots. The average value of Pot for these 33 SMEs is Rs1 Mn. For any one Pot sized ROSCAs, the number of SMEs that participate in it as first ROSCA is not the same as the number that participate in it as the second. Apparently much deliberation is involved in selecting a ROSCA with more suitable parameters. The SME owner can choose a 2d ROSCA with a Pot that is smaller than his

needs but which has satisfactory and reliable SME members He can wait for the opportunity to invest his remaining capital in a ROSCA with different parameters.

4.11.6 SMEs having membership in (only) four ROSCAs

Table 4.21 refers to this section

Table 4.22

Pot sizes, numbers of members and finances provided, SMEs participating in four ROSCAs only. (Rupees in thousands)

Pot size (Rs)	ROSCA1	ROSCA2	ROSCA3	ROSCA4	Memberships	Total (Th.Rs)
20,000	0	2	2	1	5	100
50,000	4	4	4	5	17	850
100,000	0	2	2	1	5	500
500,000	8	8	8	8	32	16,000
>500,000	8	4	4	5	21	17,450
	25,850	13,080	10,070	9,750		58,750
	20	20	20	20	80	
						76,200

Source 1: Worksheet 8, Q. 10 (What is the size of the Pot in Kmaytee 1?)

Source 2: Worksheet 8, Q. 23 (What is the size of the Pot in Kmaytee 2?)

Source 3: Worksheet 8, Q. 36 (What is the size of the Pot in Kmaytee 3?)

Source 4: Worksheet 8, Q. 49 (What is the size of the Pot in Kmaytee 4?)

Worksheet 8 contains data relevant to those SMEs that are members of (only) four ROSCAs. Twenty SMEs are involved. Questions No. 10, 23, 36 and 49 on the worksheet, relate to the first, second and third ROSCAs respectively.

Twenty SMEs subscribe to (only) four ROSCAs each. This is 4.6 per cent of 433 sampled population and 5.2 per cent of the 386 that are ROSCA members. Five memberships had Pots worth up to Rs20,000 (Q.10 a, 23 a, 36a and 49a). Seventeen had Pots worth Rs50,000 (Q.10 b, 23 b, 36b and 49b). Five had Pots worth Rs100,000 (Q.10 c, 23 c, 36c and 49c). Thirty two had Pots worth

Rs500,000 each (Q.10 d, 23 d, 36d and 49d). The above-mentioned four classes total 59 memberships. The volume of finances their ROSCAs manage is Rs17.45 Mn. The aggregated value of the Pots for the remaining 21 memberships (4x20 – 59) totals Rs58.75 Mn (Q.10e, 23e, 36e and 49e). The average Pot size Pot size for this fifth class of 32 SMEs is approximately Rs2.321 Mn each. The amount of finances managed by ROSCAs for the 20 .SMEs who participate in four (only) ROSCAs each is Rs76.2 Mn. The greater share of this, Rs74.286 Mn (75 per cent of 99,006,000) is borne by the 32 memberships (out of 80) who offer large sized Pots. The average Pot size for these 20 SMEs (80 instances) is Rs952,500. For any one Pot sized ROSCAs, the number of SMEs that participate in it as 1st ROSCA is not the same as the number that participate in it as the 2d. Apparently much deliberation is involved in selecting a ROSCA with more suitable parameters. The SME owner can choose a 2d ROSCA with a Pot that is smaller than his needs but which has satisfactory and reliable SME members He can wait for the opportunity to invest his remaining capital in a ROSCA with different parameters.

4.11.7 Relative impacts on economy of memberships in multiple ROSCA

Table 4.22 refers to this section

Table 4.23

Impacts on economy of first, second, third and fourth ROSCAs (others parenthesised)

Membership in ROSCAs	One	Two	Three	Four	Five	Six	Total
No. of SMEs	234	94	33	20	3	2	381
Finances handled (Rs Mn .)	175.9	116.917	99.006	76.200	(8.67)	(6)	468.023 (482.693)
Finances handled as % of total ROSCA economy	37.6	25	21.2	16.2	(1.8)	(1.2)	

Note. The numbers within parenthesis indicate the situation if the 5 SMEs that hold memberships in 5 and 6 ROSCAs are factored in.

In the preceding sections, some financial details of SMEs participating severally in one, two or more ROSCAs were seen.

SMEs that invest in only a single ROSCA have the largest share (37.6 per cent) in total ROSCA economy. The shares in ROSCA economy of SMEs that participate in increasing numbers of ROSCAs progressively reduces with the number of ROSCAs participated in. The fifth and sixth ROSCAs contribute Rs8.67 Mn and Rs6 Mn respectively. If the 5 SMEs that participate in five and six ROSCAs are disregarded, the total ROSCA economy (of the sampled population) handles finances worth Rs468.023 Mn every month. If these five SMEs are taken into account, the value of this ROSCA economy increases to Rs482.693 Mn.

4.12 Volume of ROSCA economy (from interviews)

The financial impact of ROSCAs on the SME economy using data obtained from the survey has been given above. The study will now turn its attention on the impact using information obtained from the interviews.

4.12.1 ROSCAs operating in informants' markets

Informants were asked to render their opinions on the numbers of ROSCAs prevailing in their neighbourhoods and the sizes of the Pots. Their responses have been tabulated in Table 4.23, Number and size of ROSCA economy from interviews

Table 4.24
Number and size of ROSCA economy from interviews

Informant No.	Market no.	Range of values (Rs Mn .)	Average Pot size (Rs Mn .)	No. of ROSCAs	Monthly transaction (Rs Mn .)
2	1	10K – 5Mn	3	25	75
6	1	2.5 - 5	4	25	100
7	1	1,3,5,5,15	6	5	30
8	1	3 - 5	4	10	40
4	2		15	15	225
5	3		4	25	100
			9	5	45
Total				110	615

Source: Interviews, segment numbers:

22. What are the lowest and the highest limits of pots in your market?
23. What are the ordinary limits of lowest and highest pots in your market?
24. What is the range in which most of the pots lie?
25. What are the limits of the numbers of members in ROSCAs?
27. Approximately how many ROSCAs are operating in your market?

4.12.2 Volume of ROSCA economy, from interview, market-wise

The data provided in Table 4.23 has been re-organized to show marketwise distribution of ROSCA numbers and Pot sizes. The re-organized data is shown in Table 4.24 Marketwise distribution of ROSCA numbers and sizes.

Table 4.25

Marketwise distribution of ROSCA numbers and sizes

Market No. 1	
No. of ROSCAs	65
Monthly transactions	Rs245Mn.
Average Pot size	Rs4.25Mn.
Market No. 2	
No. of ROSCAs	15
Monthly transactions	Rs225Mn.
Average Pot size	Rs15Mn.
Market No. 3	
No. of ROSCAs	30
Monthly transactions	Rs145Mn.
Average Pot size	Rs6.5Mn.
Grand total monthly ROSCA transactions	
	Rs615Mn.

Source: Informants No. , 6, 7, 8, 4 and 5.

4.13 Adaptability of ROSCAs to variations in marketplace parameters

Every ROSCA operates under a system of constraints that delimit its operation. These include the form of subscription, the places where it is paid and where the draws are held, as well as the form in which the Pot is paid to the winner. The most important of the operating parameters, however, are the membership numbers and the Pot sizes. This section will examine the differences in these two parameters for ROSCAs operating in markets that have different business environments.

4.13.1 Average membership size in sampled population

SMEs were questioned regarding the number of members in their ROSCA(s). Questions 7, 20, 33 and 46 “Indicate the number of members in your ROSCA w, x, y, z”, w, x, y and z standing for 1, 2, 3 or 4. Their responses are tabulated in Table 4.9. The most popular membership size is 16-20 (160 ROSCAs). The least popular is 10 or less (77 ROSCAs).

4.13.2 Average membership size in select bazaars

Whereas retailers are spread throughout the city, wholesalers tend to concentrate in specific localities. For example, textile wholesalers concentrate in Azam Cloth Market, electrical goods wholesalers concentrate in and around Siddique, Faisal, Khyber Bara etc., markets. Electronics goods wholesalers are found in Hall Road area while computers and accessories are found in Hafeez Centre. Retailers are also found in the respective wholesale markets. This section will examine ROSCAs prevailing in certain markets according to their membership sizes. The choice of the markets to be displayed has been made randomly.

Table 4.26

Average membership size, Textile wholesale, Azam Cloth Market, wholesalers

Sl. no.	Membership Size	1st Q.7	2d Q.20	3d Q.33	4th Q.46	Total (Own)	% of Own total
1	Up to 10	1	1	1	1	4	6 (4÷71)
2	11-15	17	4	2	0	23	32 (23÷71)
3	16-20	5	2	1	2	10	14
4	21-25	16	3	0	0	19	27
5	>25	10	4	1	0	15	21
	Total	49	14	5	3	71	100

Table 4.25 shows the distribution of ROSCAs of different membership sizes operating in the textile wholesale market. This data has been further

decomposed to show distribution of each membership size in to different positions (order of ROSCAs). The most abundantly populated positions are in the first ROSCAs. The most popular membership size is 20-25, followed by sizes greater than 25. The least popular size is 10 or less members

Table 4.27

Average membership size, Electrical wholesale, Siddique, Faisal, Khyber Bara etc., markets.

Sl. no.	Membership Size	1st Q.7	2d Q.20	3d Q.33	4th Q.46	Total (Own)	% of Own total
1	Up to 10	2	0	0	0	2	3 (2÷78)
2	11-15	7	3	1	0	11	14 (11÷78)
3	16-20	10	6	2	0	18	23
4	21-25	13	4	2	0	19	24
5	>25	14	8	6	0	28	36
	Total	46	21	11		78	100

Table 4.27 shows similar data for the electrical wholesale markets. The distribution of the sizes is also shown as a percentage of total of type of wholesale business. The most popular membership size is now larger than 25. The smallest two sizes are much fewer than in the textile wholesale market.

4.13.3 Average membership size in select sectors

Tables 4.28 and 4.29 show distribution of different membership-sized ROSCAs operating in the aggregated electrical sectors, wholesale and retail as well as the textile wholesale and retail sectors. The distribution of the sizes is also shown as a percentage of total of type of sector business.

Table 4.28

ROSCA membership sizes, electrical, electronic and computer sector

Sl. no.	Membership Size	1st Q.7	2d Q.20	3d Q.33	4th Q.46	Total (Own)	% of (Own) total
1	Up to 10	7	0	0	0	7	7
2	11-15	17	4	1	0	22	21
3	16-20	16	7	2	0	25	23
4	21-25	17	5	2	0	24	23
5	>25	14	8	6	0	28	26
	Total	71	24	11		106	100

Table 4.28 shows the distribution of ROSCAs of different membership sizes operating in the electrical, electronic and computer sector. This data has been further decomposed to show distribution of each membership size in to different positions. The most abundantly populated positions are in the first ROSCAs.

Table 4.29

ROSCA membership sizes, clothing including textile wholesale, retail, garments, etc.

Sl. no.	Membership Size	1st Q.7	2d Q.20	3d Q.33	4th Q.46	Total (Own)	% of (Own) total
1	Up to 10	26	8	4	2	40	23
2	11-15	26	8	3	1	38	22
3	16-20	25	5	2	3	35	20
4	21-25	21	11	1	2	35	20
5	>25	13	9	3	1	26	15
	Total	111	41	13	9	174	100

Table 4.29 shows the same data for the clothing including textile wholesale, retail, garments, and etc. sectors. The ROSCAs are more or less uniformly divided in membership sizes. The very least populated ROSCA, less than 10 SMEs, is most frequent. The first ROSCAs are most frequent.

Among wholesale markets ROSCAs with smaller membership sizes are comparatively rarer in electrical market than they are in textile market. Retail traders in the garment sector tend to operate far apart. Their membership sizes are noticeably smaller. There is a larger number of ROSCAs with membership of ten or less. Similarly, the number of ROSCAs with membership greater than 25 is noticeably fewer.

4.13.4 Relative prevalence of different ROSCA sizes

Table 4.30 aggregates the data from Tables 4.23, 24, .25, 26, 27, and 4.28 for convenient comparison. The following deductions can be made from this table.

Table 4.30
Numbers of membership sizes of ROSCAs, sampled population

Sl no.	Membership size	Sampled	% of Own total
1	0-10	77	13 (77÷610)
2	11-15	136	22
3	16-20	160	26
4	21-25	148	24
5	>25	89	15
6	Total SME memberships	610	100

Electrical wholesale market has the relatively fewest ROSCAs of the smallest membership size. Textile wholesale market has the largest number of small-membership ROSCAs. In the entire sampled population, the most popular membership size is 16-20 (26 per cent of all ROSCAs). In the textile wholesale it 11-15 (32 per cent of own class), In the electrical wholesale the most popular size is 26 or more (36 per cent of own class). In the mixed textile, it is 0-10 (23 per cent of own class). In the mixed electrical sector, the most popular sized is 26 or more (26 per cent of own class).

In the textile wholesale sector, the least popular membership size is the smallest (0 to 10). The frequency of this size increases to 23 per cent in the aggregated textile sector due to the factoring in of retail enterprises. Retail textile enterprises, such as textile retailers, ready-made garment sellers, tailors operating in poorer localities, can coalesce in smaller clusters only. In the electrical wholesale sector enterprises prefer to coalesce into larger clusters of greater than 25 members. Enterprises in the electrical retail sector tend to cluster into several different sizes. This causes the aggregated Electrical mixed sector to show uniform preference for all membership sizes except the very smallest (0 to 10).

Table 4.30 lists numbers of ROSCAs of different sizes in the sampled population.

Table 4.31 compares the numbers of ROSCAs of different membership sizes in the entire sampled population and in select bazaars.

Table 4.31

Numbers of membership sizes, sampled population and select bazaars

Sl no.	Membership size	Sampled	Textile Wholesale	Electrical Wholesale	Textile mixed	Electrical mixed
1	0-10	13	6	3	23	7
2	11-15	22	32	14	22	21
3	16-20	26	14	23	20	23
4	21-25	24	27	24	20	23
5	>25	15	21	36	15	26
6	Memberships % of own class	100	100	100	100	100

4.13.5 Variations in Pot sizes across sectors

ROSCAs operate over a wide spectrum of enterprises. These include businesses such as tailors, household electricians etc. all the way up to textile and electrical wholesalers. This variation is adequately represented in the predictable variation in the sizes of the Pots in these sectors of different degrees of affluence. Table 4.32 shows this variation among different sectors.

Table 4.32

Variation in Pot sizes across business sectors

Sector (No. of SMEs)	Pot size, Up to (Rs Thousands)					Average of >500 (Rs)
	20	50	100	500	>500	
Textile (76, 2 NR)	2	18	8	32	14	1,247,143
Electrical (40)	8	0	5	18	10	1,680,000
Transport (45)	0	4	14	25	2	625,000

Businesses in the Electrical sector participate in the highest value ROSCAs having an average value of Rs1.68 Mn. Enterprises related to the Transport sector included road-side garages, six-seat motorcycle cabs and new car dealerships. This business sector used ROSCAs with the smaller Pot sizes. Only 2 high-Pot-value ROSCAs were found here. ROSCAs with Pots of Rs500,000 appear to have the highest frequency of occurrence. ROSCAs with Pots of Rs20,000 - 50,000 appear to have the lowest frequency of occurrence. ROSCAs of Rs20,000 Pots were participated by small enterprises working in poorer neighbourhoods.

4.13.6 Partiality of ROSCAs to SMEs' ages

Khawaja and SMEDA (2006) assert that SMEs, particularly those in their first four years are financially stressed to the extent that up to 90 per cent exit. A question that arose during the Survey was whether or not ROSCAs possessed any partiality for SMEs of different ages. Survey responses of SMEs were filtered according to SMEs' ages (years in business) and then aggregated. The results are shown in Table 4.33 Partiality of ROSCAs for SMEs of different groups, (Rupees in Millions).

Table 4.33

Partiality of ROSCAs for SMEs of different groups, (Rupees in Millions)

SME Age (yrs)	SMEs Nos.	ROSCA Yes?	Pot sizes for ROSCAs No.				Total Pot	Average (Age-group wise)
			1	2	3	4		
<5	81	75	42.376	16.410	4.720	3.120	66.626	0.888
5-10	98	90	44.180	12.800	5.360	0.300	62.616	0.696
11-15	94	83	63.660	28.176	26.89	1.550	120.276	1.450
16-20	127	102	102.930	41.975	11.31	8.300	164.515	1.613
>20	33	31	28.890	18.450	6.200	0.950	54.490	1.758
	433	381	283.036	119.811	57.08	18.22	468.123	1.223

Even fledgling SMEs, those younger than five years, possess the means and the willingness to participate in up to four ROSCAs.

This indicates the pronounced popularity and easy access to ROSCAs. The investment provided by the first ROSCA (Rs283.036 Mn) is larger than those provided by the second and other ROSCAs. ROSCA investment to the group younger than five years (Rs66.226 Mn) is larger than the investment provided to the next older group (5-10 years). This finding does not support those of SMEDA and others. Investment in ROSCAs increases proportionately to age

of enterprise. Most mature firms, those older than 20 years, have a per capita investment that is nearly three times that made by the youngest. This indicates that reliance on or the ability to use ROSCAs increases with firm age.

4.14 Role of banks in servicing SMEs

Branches of commercial banks in Lahore are organized in a system of hubs and their associated branches. Hubs and branches provide banking services to SMEs that lie in a geographical area that is multiple times larger than the area of Bazaar No.1. Several of these hubs are located close together on the Circular Road. For example, Askari Bank Limited (ASK) has a hub branch on the Circular Road. This hub controls the ASK branches that operate in a number of markets. Two of these markets (Electrical and Textile, both wholesale) are included in this survey. These hubs were served questionnaires (Appendix C). Their responses have been tabulated in Tables 4.34, 4.35 and 4.36.

4.14.1 Number of SMEs maintaining bank accounts

The Table 4.34 shows the number of SME accounts being maintained by the hub branches at Circular Road. The aggregate of the numbers is a mere 4355. This is only a third of the number of SMEs operating in Azam Cloth Market alone. The business district served by these banks is multiple times larger than Azam Cloth Market.

Table 4.34
Number of SME accounts in Circular Road banks

Bank	Number of accounts, by class			
ASK	1000	500	200	50
JS	200	500	200	100
NIB	200	100	15	-
MZN	4000	300	25	20
HBL	1000	200	50	20
Total, excluding MZN	2400	1300	465	190
Total	4,355			

4.14.2 Number of SMEs that applied for bank loans, last 12 months

During the last 12 months only 39 out of the 433 sampled SMEs (9 per cent of 433) had applied for a bank loan. (Source: Appendix A Q.24 “Did you apply for a bank loan within the last 12 month?”)

4.15 Bank financing of SMEs

Survey revealed that 386 enterprises (89 per cent of the 433 total enterprises surveyed) were ROSCA members. If this figure is representative of the Azam Cloth Market, 11570 SMEs there will be beneficiaries of ROSCA financing (89 per cent of 13,000). It would be prudent to assume that the number of SMEs operating in the business district served by the Circular Road hubs and associated branches will be correspondingly larger. If a significant fraction of these were to receive formal (bank) financing this should be reflected in a large number of SMEs maintaining accounts with them as well as being financed by them. This is not so in reality. The number of SME accounts has been given earlier. The study will now broach upon the volume of SME financing.

4.15.1 Volume of formal SME financing

Table 4.35 refers to this section. The banks were asked a series of questions relating to the number and volume of SME loans. These questions are as follow: a. (Q.2) State the number of loans made out to SMEs during the year ending 31 December 2014, b. (Q.7) State the number of fresh loans sanctioned during the calendar year 2014, c. (Q.64) List the number of SME loans sanctioned during the last 5 years, d. (Q.65) State the number of these loans that were for amount up to Rs100,000, e. (Q.66) State the number of these loans that were for amount up to Rs500,000, f. (Q.67) State the number of these loans that were for amount up to Rs1 Million, g. (Q.68) State the number of these loans that were for amount up to Rs2 Million, h. (Q.69) State the number of these loans that were for amount up to Rs5 Mn. (Q.70) State the number of these loans that were for amount exceeding Rs5 Mn.

The responses to these questions are given at Table 4.35 and 4.36.

Table 4.35
Numbers of SME loans sanctioned during last five years and their amounts

Banks	Loans (Nos.)	No. of loans for amounts up to Rs(Millions)					
		0.1	0.5	1.0	2.0	5.0	5.0+
ASK	48	20	10	-	-	2	16
JS		-	-	2	2	3	70
NIB	187	40	70	10	12	50	5
MZN	21	-	-	-	2	9	10
HBL	2	-	-	-	2	-	-
FBL		No response					
Total Nos.	258	60	80	12	18	64	101
Total Vol.	Rs919	6	40	12	36	320	505

Source: Q.s 64, 65, 66, 67, 68, 69 and 70, Appendix D.

With the exception of ASK and NIB banks, other banks have not made any low-level financing. The majority of their loans appear to have been made to

higher end clientele. Banks demand collateral whose Forced Sale Value (FSV) is at least twice the value of the loan. This would indicate that loans of Rs5 Mn and above are beyond the reach of the smaller SMEs that form the bulk of the target population. This indicates that loans of Rs2.0 Mn and lesser had been made to small enterprises while others have been made to medium or larger ones.

Table 4.36

Numbers of SME loans sanctioned during year ending 31 December 2014

Banks	Loans sanctioned
ASK	20
JS	50-60
NIB	22
MZN	7
HBL	4
FBL	No response
Total	103-113

Source: Q.s 64, 65, 66, 67, 68, 69 and 70, Appendix D.

During the last five years these five banks together released 170 loans of Rs2 Mn or less to small enterprises (Table 4.35). These total Rs94 Mn. The average value of these loans is Rs553,000. This compares unfavourably with the average ROSCA financing of Rs1.2 Mn ($468 \text{ Mn} \div 386$) per SME.

4.16 Comparison of ROSCA and bank performances

The study will now proceed to compare banks with ROSCAs as sources of finance. Any direct comparison will be totally correct. The banks surveyed cover an area all of whose SMEs could not be surveyed. Similarly, the target population were located in an area that had its own banks. These were not part of the surveyed banks.

4.16.1 Financing

Table 4.37

SME financing by Bank hubs on Circular Road

Bank	Volume of loans to class of accounts (Million Rs)		
	Micro Up to 0.1 Mn	Small 0.5 – 1.0 Mn	Medium Up to 2.0 Mn
ASK	2	5	-
JS	-	2	4
NIB	4	45	24
MZN	-	-	4
FSL	Did not respond to Questionnaire		
HBL	-	-	4
Total	6	52	36
SME financing	Rs90Mn. (Excluding MZN Bank)		
	Rs94Mn. (Including MZN Bank)		
Total financing	Rs919Mn (Table 4.35)		

A direct comparison between the financing made by the banks and ROSCAs included in the study will be flawed. The surveyed SMEs are sited in a wide area across Lahore city. The area is served by many more bank branches than are located on McLeod Road only. The former are certain to have provided financing that has not been recorded in this study. This study is restricted to branches located on McLeod Road. These were served the Questionnaire (Annex D). An extract of the banks' responses is given at Table 4.37. The table indicates the aggregate of the loans (finances) made by the hub and its branches to different classes of accounts. Faisal Bank (FSL) chose not to

respond to the questionnaire. Some of the data provided by Meezan Bank (MZN) appeared to relate to the entire MZN banking system than to the hub. The total of the (SME-related) investments made by these banks, Rs90 Mn (excluding MZN Bank) or Rs94Mn (including MZN Bank) merits comparison with the grand total of ROSCA financing of Rs615 Mn, obtained from interviewing senior ROSCA practitioners, (Tables 4.23, 24 above). It also merits comparison with the figure of Rs468 Mn as the total ROSCA financing of the 386 SMEs that participate in ROSCAs in the sampled population of 433 (Table 4.40).

4.16.2 Penetration (size of clientele)

McLeod Road branches serve businesses that operate in the Azam Cloth Market. There are 13,000 enterprises operating in the latter market. Of these, almost 90 per cent (11,700) are financed by ROSCAs. The banks that cover a business district that is multiple times larger than Azam Cloth Market. Yet, the number of SMEs maintaining accounts in these branches is less than 5,000. There is a large potential market waiting to be tapped by banks.

4.16.3 Popularity of ROSCAs as a source of SME finance

Respondents were queried as to the source of finance they would prefer to access in case of any future need. Their responses are enumerated in Table 4.93. Seventy five per cent of the respondents stated they would prefer to use ROSCAs. Only 20 entrepreneurs said they would use banks in the future. This is 50 per cent of the number (40) that had experienced bank financing in the past.

Table 4.93 Table 4.37a

If you need financing to realize your growth ambitions, state the type of financing you would prefer most?

	Internal	Bank	Family, Friends	Money-lender	ROSCA
Total	36	20	49	1	327
Per cent of 433	8.31	4.62	11.32	0.23	75.52

4.17 Significance of lack of access to formal finance as a problem

It is widely reported in literature that SMEs suffer consequences of lack of access to formal finance (GC, 2013; KPMG, 1999). It is also stated that SMEs have a tendency to exit early due to this (Khawaja & SMEDA, 2006). This study examined the perceptions of youngest as well as more mature SMEs towards the significance to their businesses of lack of access to formal finance as compared to other adverse factors.

4.17.1 Perception of youngest SMEs

Table 4.38 and Table 4.39 refer to this section. Had this point of view been supported by situation existing on the ground, the younger surveyed SMEs would have reported as such. Survey revealed that among the youngest SMEs, those having less than five years in business, 32.1 per cent reported Competition and 23.5 per cent reported the adverse effects of Load-shedding to be more deleterious to their operations than lack of access to formal finance (22.2 per cent). For this group, lack of access to formal finance was only the third-most injurious factor, after competition and load-shedding.

4.17.2 Perceptions of older SMEs

Table 4.38

SMEs' perception of most pressing problems, (numbers)

SME age (YRs)	Total No. of SMEs	Most pressing problem reported				
		Customers	Competition	Access to Finance	Tax Dept.	Load shedding
<5	81	14	26	18	4	19
5-10	98	26	33	17	1	21
11-15	96	24	34	14	5	19
16-20	125	32	39	19	6	29
>20	33	11	4	6	4	8
	433	107	136	74	20	96

Table 4.38 and Table 4.39 refer to this section. For the next older age group, those between 5 – 10 years of age, lack of access to formal finance assumes a position of even lesser significance. Only 17.3 per cent of respondents reported it to be serious problem as compared to Competition (33 per cent), Customers (26 per cent) and Load shedding (19 per cent). This relative distribution of factors that are injurious to SMEs is maintained for other age groups as well.

“Lack of access to finance” ranks at only 4th in 5 places among the most pressing problems encountered collectively by the SMEs. It is preceded in importance by Competition (31.4 per cent of 433 SMEs sampled), Customers (25 per cent of 433 SMEs sampled) and Load shedding (22.2 per cent of 433 SMEs sampled). Among the youngest group of SMEs, those younger than 5 years, Access to finance ranks only at No. 3. It is preceded by Competition (32.1 per cent of 81 SMEs in the group) and by Load shedding (23.5 per cent of 81 SMEs in the group). This finding does not support those by SMEDA and others.

Table 4.39

Relative frequency of most pressing problems, expressed as percentages of Total of age group

SME age (YRs)	Total No. of SMEs	Most pressing problem reported (% of Row total)				
		Customers	Competition	Access to Finance	Tax Dept.	Load shedding
<5	81	17.3	32.1	22.2	5.0	23.5
5-10	98	26.5	33.7	17.3	1.0	21.4
11-15	96	25.5	36	14.9	5.3	20.2
16-20	125	25.2	30.7	14.5	4.7	22.8
>20	33	33.3	12.1	18.2	1.2	24.2
	433	25	31.4	17.1	4.6	22.2

4.17.3 SME financing from ROSCAs, by age groups

Table 4.40

ROSCA economy by SME age groups and Pot sizes

SME Age group	Investments in ROSCAs by Pots of sizes					Total
	20	50	100	500	>500	
	(Rupees in thousands)					
<5	180	1,050	2,700	29,000	33,696	66,626
5 – 10	20	1,750	2,900	28,500	28,996	62,166
11 – 15	120	450	1,900	26,000	91,856	120,326
16 – 19	60	750	2,300	35,500	125,905	164,515
>19	40	100	100	8,500	45,650	54,390
	420	4,100	9,900	127,500	32,6103	468,023

Source: Worksheets 15, 16, 17, 18 and 19. Qs. 10, 23, 36 and 49.

Table 4.40 refers to this section. The total investment made in or obtained through ROSCAs by the youngest age group (SMEs less than 5 years in business) exceeds that by the next older group (5–10 years in business). It even exceeds that made by the age group older than 19 years in business. ROSCA-derived investments obtained by the youngest group of entrepreneurs with access to fewest financial resources, (from ROSCAs of Rs20,000), exceed that made in the same Pot size ROSCAs by all other age groups. In ROSCAs of larger Pot sizes too, those up to Rs500,000, the youngest SMEs

compete favourably with SMEs of next older age groups. This finding also does not support those of SMEDA and others.

4.17.4 Per capita involvement in ROSCAs, by age groups

Table 4.41
SME financing by ROSCAs, age-wise, per capita

SME age	Frequency (N=433)	Pot size (Rs)	
		Group total	Per capita
Less than 5	75	66626000	888346
5-10	90	62166000	690733
11-15	83	120326000	1449710
16-19	102	164515000	1612892
20 or more	31	54390000	1754516

The preceding section compared the performances of SMEs grouped into different age groups. *As a group*, the youngest SMEs appear to be faring better than more mature ones. The per capita investment of individual SMEs will be examined next, Table 4.41.

The youngest SMEs invest more in ROSCAs of larger Pot size than those who have between 5-10 years in business. The smallest ROSCA involvement is by SMEs of between 5-10 years in business. Older SMEs accumulate larger retained earning reserves and invest increasing amounts in ROSCAs.

4.17.5 Bank loan applied for, SMEs of ages

Table 4.42

Bank loans, applied and obtained, SME age-wise (%age of group)

SME age	(N=433) Frequency	Applied within last 12 months		Obtained loan within last 5 years	
		Yes	No	Yes	No
Less than 5	81	9 (11)	72	7 (8.5)	74
5-10	98	12 (12)	86	11 (11)	87
11-15	96	8 (8)	88	11 (11)	85
16-19	125	9 (7.2)	116	9 (7.2)	116
20 or more	33	1 (3)	32	2 (6)	31

Source: Worksheets 15, 16, 17, 18 and 19, Qs. 24 and 26.

Table 4.42 refers to this section. Access to bank loans reduces with increasing age of SMEs. On average, 90 per cent of SMEs do not use bank financing. Aggregated over the preceding five years, SMEs in age group less than 5 years had the lowest rate of obtaining bank loans (8.5 per cent) as compared to other age groups. This finding confirms those of SMEDA and others.

4.18 Summary of Section A Tables 4.42a and 4.42b below refer.

This study led to a number of findings relevant to Research Objective No.1. These are given below.

4.18.1 ROSCAs' status

ROSCAs are extra-legal and private financial arrangements between citizens. They are not recognized by law. No ROSCA-related, publically accessible documentation is available with market committees or similar associations. It is impossible to determine with absolute accuracy the number of ROSCAs prevailing in a market, their membership sizes, the size of the Pot and etc.

These figures were estimated by questioning ROSCA members and by interviewing senior ROSCA practitioners.

4.18.2 Demographic data

Owners of 433 SMEs encompassing 39 market segments were questioned. Most of these were young men, 21.6 per cent per cent were aged 30 years or less while 26.6 per cent of them were between 31 and 40 years old. The enterprises were uniformly divided in ages between less than five years and up to 20 years in business. Fifty-nine per cent of the respondents had received two or four years of college education. Ten of them had received a master's degree. Very few of the respondents (2.54 per cent) were totally illiterate. Most of the businesses (81.7 per cent) were either sole proprietorships or family owned.

4.18.3 Number of ROSCAs, quantitatively estimated (survey)

From Survey, ROSCA membership (composition) sizes ranged between 10 and 30 SMEs per ROSCA. Membership size of 16-20 has the highest frequency (160 memberships). The total number of memberships (participations) was between 628 and 610. The average ROSCA participation rate was 1.6 ROSCAs per SME. With a total participation of 628 and composition ranging between 10-30, the number of ROSCAs can be considered to fall between 63 and 21. Assuming a total participation of 610, the number ranges between 61 and 20. The most likely range is between 31 and 39, for the most frequent composition sizes of 16 - 20.

4.18.4 Number of ROSCAs, qualitative estimated

From interviews revealed that between 70-110 ROSCAs operated in the informants' neighbourhoods alone. The area covered by the Survey was multiple times larger than this neighbourhood. It can be deduced that there are ROSCAs operating in the surveyed markets also. The total number of ROSCAs that are financing SMEs is multiple times larger than 70-110.

4.18.5 Number of ROSCA-financed SMEs, quantitatively estimated (survey)

From Survey Three hundred and eighty-six SME owners (89.1 per cent of the sampled population) were found to be members of ROSCAs. While the majority of them, (234, 60.6 per cent) were found to be members of only one, the remaining 152 (39 per cent of 386) were found to be members of multiple ROSCAs. Membership in up to 4 ROSCAs appears to be the cut-off point. Only three were members of five and two were members of six. Membership in seven or more was not detected.

4.18.6 Number of ROSCA-financed SMEs, qualitatively estimated

From interviews Between 70 – 110 ROSCAs operate only in the informants' neighbourhood. Assuming that each ROSCA has a membership of 20 SMEs and that each SME participates in 1.6 ROSCAs, the number of SMEs these ROSCAs finance lies between 875 and 1375 SMEs.

4.18.7 Contribution of ROSCAs to SME financial needs during start-up, running, growth

Start-up capital requirement ROSCAs are only the third most popular source of start-up capital after Personal and Family. A little more than half the surveyed SMEs (51.3 per cent) reported that ROSCAs had not made any contribution to their start-up needs. The remaining used ROSCA-financing to at least 25 per cent. ROSCAs provided 100 per cent of the entire start-up need for 5 per cent of the SMEs.

Working capital requirement ROSCAs assume position as the second most frequently resorted source of running finance. They generate from 25-100 per cent of the running finance needs for 56.4 per cent of the sampled SMEs.

Capital needed for growth nearly half of the SME owners (44.4 per cent) stated they intended to use the Pot towards enabling growth of the enterprise.

4.18.8 Applications of ROSCA-derived finances

The largest fraction of use of Pots (44.4 per cent) is towards assisting growth of the enterprise. This is followed by procurement of inventory (19.61 per cent) and for providing for running finances (17.09 per cent). Multiple ROSCAs are maintained by 11.5 per cent for increasing the probability of obtaining an early Pot, achieving greater savings and etc. A few (7.35 per cent) of the ROSCA participants use Pots for “social” (non-enterprise related) purposes. The most significant among them was speculation in real-estate by winners of very high value Pots.

4.18.9 Volume of economy managed by ROSCAs (from survey)

Depending upon the needs and the opportunity, SME owners invest in ROSCAs that have sizes ranging from Rs20,000 to (well over) Rs500,000. ROSCAs having the smallest Pot size are relatively infrequent. Only 21 samples were detected. The most frequent size is Rs500,000 (255 participations). They also invest in multiple ROSCAs. Participation in three or more ROSCAs is more frequent among ROSCAs with pots exceeding Rs500,000.

4.18.10 Finances processed by ROSCAs of Pot sizes

The total disbursement made every month by ROSCAs of Rs20,000 Pots is Rs420,000. ROSCAs of Rs50,000 handle Rs4.00 Mn, those of Rs100,000 manage Rs10 Mn while those of Rs500,000 Pots manage Rs127.5 Mn every cycle. ROSCAs of Pot sizes larger than Rs500,000 disburse Rs326.103 Mn every cycle.

4.18.11 Finances processed by different order ROSCAs

Barring some exceptions SMEs invest in up to four ROSCAs. The investment in each of these is not the same and depends upon the opportunity. SMEs were found to have made an (aggregated) investment of Rs282.036 Mn in the first ROSCA. In a second ROSCAs an investment of Rs117.811 Mn was made. The amount of Rs54.056 Mn was invested in the third ROSCAs while an aggregate of Rs14.12 Mn was invested in the fourth ROSCAs. The investment is greatest in the first and reduces progressively with higher order ROSCAs.

4.18.12 SMEs participating in different numbers of ROSCAs

The total amount invested by SMEs who participate in one ROSCA only is Rs175.9 Mn. Those that participate in (only) two, three or four ROSCAs invest (aggregated) Rs116.917 Mn, Rs99.006 Mn and Rs76.2 Mn respectively. The largest investment is made by SMEs who participate in only one ROSCA. The investment reduces with the number of ROSCAs participated in.

4.18.13 Volume of the ROSCA system Financing provided by the ROSCA system

Every month, the ROSCAs operating in the sampled population collect and distribute finances to the extent of Rs468.023 Mn among participating SMEs. This translates to an average investment of Rs1,228,407 per SME per month in to the ROSCA system.

4.18.14 Volume of ROSCA economy (from interviews)

Between 25 and 65 ROSCAs operate in Bazaar No.1. The number 65 will be the basis of this discussion for the moment. The ROSCAs system collects and distributes Rs245 Mn every month. The average pot size here is Rs4.25 Million. There are 15 ROSCAs operating in Bazaar No.2. Their monthly transaction is Rs225 Mn and the average pot size is Rs15 Million. The number of ROSCAs operating in Bazaar No.3 is 30. Their monthly transaction is Rs145 Mn and the average pot size is Rs6.5 Million. The Grand Total of the transactions in these three bazaars aggregates to Rs615 Million.

4.18.15 Adaptability of ROSCAs to variations in marketplace parameters

One of the advantageous characteristics of ROSCAs is their ability to adjust their operating parameters to marketplace demands. These parameters include Pot size and membership size. The study discovered that ROSCAs are capable of adjusting to localities and to business sectors.

4.18.16 ROSCA composition in sampled population

ROSCA composition varies upon a number of factors including proximity of other SMEs. The least frequent composition size was found to be 10 (77 instances) while the most frequent was 16-20 members (160 instances).

4.18.17 ROSCA composition in select markets

In the textile wholesale market of Azam Cloth Market, the most frequently encountered ROSCAs were composed of 11-15 SMEs (23 instances). In the electrical equipment wholesale markets of Faisal, Siddique, etc., the most frequently encountered ROSCAs are composed of more than 25 SMEs.

4.18.18 ROSCA composition in select sectors

In the Electrical sector (trading in electrical, computer and electronic devices,) the larger size ROSCAs such as those with membership 21-25 and greater are more frequent. In the textile and garment sector, the most frequently encountered ROSCAs are those with a composition of 10 or less SMEs.

4.18.19 Variations in Pot sizes across sectors

In the Electrical sector, the most popular ROSCAs were those of Pots of Rs500,000. The average value of the Pots that exceeded this amount was Rs1.68 Mn. In the Transport sector, the most frequently encountered Pot size was still Rs500,000. The average size of the Pots greater than this was only Rs625,000.

4.18.20 Partiality of ROSCAs to SMEs' ages

SMEs were segregated into five age groups according to their number of years in business. These groups were; less than 5 years, 5-10 years, 11-15 years, 16-20 and greater than 20 years. This was done to test the beliefs that SMEs lack easy access to formal finance and that this causes more than 80 per cent of them to fail within the first four years (SMEDA, 2006). It was found that 94 per cent of those less than 5 years in business had participated in ROSCAs, many of them in up to four. It was also found that the average Pot size of SMEs in this group was Rs883,000. The comparable figures for the next older group, 5-10 years, are a participation rate of 91.8 per cent and group average Pot size of Rs696,000. The numbers of SMEs in the higher age groups progressively increases. This indicates that there is little or no attrition in their numbers. The numbers in the higher age groups would get progressively lesser in case attrition took place in an age group. Involvement of ROSCAs with enterprises increases with their age. Most businesses that are 20 years or older invest up to nearly three times more in ROSCA than the youngest.

4.18.21 Role of banks in financing SMEs

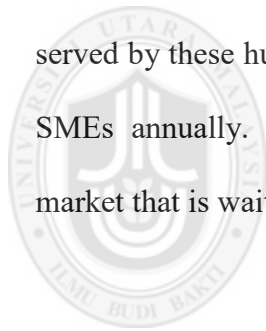
Commercial banks have branches located strategically in marketplaces. These branches are managed by “Hub” branches. Some of the hub branches were served with a questionnaire (Annex C). The responses were used to prepare this report. These branches control the smaller branches that provide banking services to some of the business districts and markets covered by this survey. Eighty nine per cent of the surveyed SMEs participate in at least one ROSCA. Azam Cloth Market consists of almost 13,000 SMEs. There are several thousand more in the other larger markets in the area. The total number of bank accounts maintained by the five hub branches that responded is 4,355. Assuming that each branch has one smaller branch in the markets included in this survey and that the number of accounts in the smaller branches is equal to that in the larger hub branch, the total number of SMEs that maintaining bank accounts is 8,710. This is less than 60 per cent of the SMEs operating only in Azam Cloth Market. Apparently SMEs prefer to deal in cash. With the exception of Askari Bank and NIB Bank, the bank loans were made to larger enterprises.

4.18.22 Bank financing of SMEs

Financing of SMEs is a critical issue. The World Bank, SMEDA and others maintain the position that SMEs have limited access to formal finance. They further maintain that SMEs are financially stressed and that a high percentage of the start-ups exit early. The study will now proceed to examine the roles of commercial banks operating in Lahore in the field of SME finance.

4.18.23 Number of bank-financed SMEs

During the year ending 31 December 2014, the five hub branches had sanctioned only 20, 50-60, 22, 7 and 4 loans respectively. This totals to approximately 100 loans. These branches provide formal financing services to SMEs operating in Bazaar No.1, the Electrical wholesale market and others in the much larger remaining commercially area not covered in this survey. Only in Bazaar No.1 there are an estimated 25-65 ROSCAs operating. ROSCA draws are held once a month. It can be assumed with a degree of certainty that only in this Bazaar 25-65 SMEs obtain informal financing every month. This is at least three times the rate of financing provided by all five respondent banks combined. There are many other ROSCAs operating in the markets served by these hub and smaller branches. Each of these ROSCAs finances 12 SMEs annually. These figures indicate the presence of a huge financing market that is waiting to be tapped by banks.



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4.18.24 Volume of formal SME financing

During the last five years the five hub branches together made 170 loans of size Rs0.2Mn or less, each, to small enterprises. These total Rs94 Mn. The average value of these loans is Rs553,000. The average value of ROSCA financing is Rs1.2 Mn ($468\text{Mn} \div 386$) per SME.

4.18.25 Comparison of ROSCA financing with bank financing

Any direct comparison between volumes of ROSCA and bank financing from data accumulated in this study will be flawed. A comparison between their

orders of magnitude will give a prudent reader an idea of their relative penetration in the SME finance markets. The loans outstanding at the hub branches by 31 December 2014 were Rs250 Mn (Rs357 Mn including MZN Bank). The ROSCAs, on the other hand, distribute Rs468 Mn among member SMEs every month. According to the opinions of the informants, the ROSCAs in their neighbourhoods distribute Rs615 Mn every cycle.

4.18.26 Exclusion of banks from SME economy

Nearly 90 per cent of the 12000-13000 SMEs in Azam Cloth Market are members of one or more ROSCAs. The hub branches provide banking services to enterprises located in a far larger geographical area. Yet, the number of accounts managed by them is less than 5000.

4.18.27 Popularity of bank financing

The surveyed SMEs were asked to indicate their choice of a source of finance if they were to need external financing for their growth ambition. Three out of every four respondents said it would be ROSCAs. Only 20 (5 per cent of 386) said they would access a bank for this purpose. This is only half the number of SMEs that had obtained a bank loan within the last 5 years.

4.18.28 Significance of lack of access to formal finance as a problem

Lack of access to formal finance, of a significant extent, will leave marks on an enterprise. These could include an early exit, an inability to invest in ROSCAs, or a statement by the SME owner that lack of finance was a

significant issue. The study will now examine these marks to evaluate the actual fiscal situation of SMEs.

4.18.29 Perception of youngest SMEs

The youngest SMEs did not agree with the opinion offered by SMEDA and others that lack of access to formal finance was a serious problem. Instead, they reported that Competition and Load-shedding were more serious. Many participated in up to four ROSCAs.

4.18.30 Perceptions of older SMEs

In case of more mature enterprises (between 5 – 10 years old), lack of access to formal finance was even less significant. It now occupied the fourth position after Competition, Customers and Load-shedding.

4.18.31 SME financing from ROSCAs, by age groups

The youngest SMEs (those in the age group 5 years or less) collectively invest Rs66.626 Mn in the ROSCA system. This exceeds the amount invested by the next higher age group 5 – 10 years (Rs62.166 Mn). It even exceeds the Rs54.39 Mn collectively invested by SMEs aged more than 19 years. The investment made by the youngest SMEs exceeds those of nearly all others in ROSCAs of Rs500,000 or less.

4.18.32 Per capita involvement in ROSCAs, by age groups

Per capita investment of youngest SMEs (Rs0.888Million) exceeds that of the next older group (Rs0.690). With the exception of SMEs of age group 5-10 years, SMEs investments in ROSCAs increase with increasing business age.

Table 4.42a
Degree of penetration.

Parameter	ROSCA	Bank
Used as source of SME financing (per cent of sampled population)	90 per cent	10 per cent
SMEs' preferred source for future finance (per cent of sampled population)	76 per cent	4.5 per cent
Contribution to SME economy (Rs Millions), per month Banks Rs90Mn over 18 months	Rs468Mn per month	Rs5Mn.
Average monthly ROSCA subscription, per SME.	Rs1.22Mn	
Default rate. Difficult to quantize because ROSCAs are not registered. Anecdotal for ROSCAs.	Almost negligible	21 per cent.

Table 4.42b
Indicators of SME sector health, age group-wise

Age group	SMA Number	ROSCA members	ROSCA Investment (RsMillions)	Avg investment age group-wise (RsMillions)	Rank of financial stress as a problem
<5	81	75	66.6	0.9	3
5-10	98	90	62.6	0.7	4
11-15	94	83	120.3	1.5	4
16-20	127	102	164.5	1.6	4
>20	33	31	54.5	1.8	4
	433	381	468.5	1.2	

4.19 Introduction to Section B Research Objective 2

The previous section examined the extent of penetration of ROSCAs in to the SME economy and the number of SMEs that benefited from them. Estimates of the volume of the ROSCA economy were also made using data obtained from the survey as well as from interviews. This section will examine the issues that have prevented ROSCAs

from penetrating the SME finance market even further. A number of issues were identified during the survey and the later interviews. These are analysed below.

4.20 Defaults

Banks in Pakistan have clienteles ranging from tens to hundreds of thousands each. Default by a few clients does not automatically lead to a collapse of the bank. Banks retain sufficient statutory reserves and loans are usually secured by adequate collateral. This makes the likelihood of collapse an improbability. In spite of all the protective measures adopted, Pakistan's banking sector has an insufferably high default infection ratio brought about by a high number of NPLs.

4.20.1 ROSCAs' vulnerability to default

Unlike in the case of banks, only social capital of ROSCA members is used to collateralize the Pot. ROSCAs are usually composed of 10-30 members only. A default by a single member is capable of causing a severe setback to it. A default by two or more members or by the President himself can cause a ROSCA to fail.

The respondents were offered an opinion "ROSCAs are reliable as they cannot be demolished by a single default" (Appendix B, Q. 62.). The results are given in Table 4.43.

Table 4.43

ROSCA reliability against a single member-default

ROSCAs are reliable as they cannot be demolished by a single default				
Strongly agreed	Agreed	Neutral	Disagreed	Strongly disagreed
127	241	2	52	11

Source: Appendix B Q. No. 62.

Three hundred and sixty eight respondents (85 per cent of 433) agreed or strongly agreed with this opinion. Sixty three respondents disagreed. Respondents' opinions about the reliability of ROSCAs are mixed. The majority believes ROSCAs are invulnerable to default by a single member. A noticeable number disagrees. Responses obtained during interviews are given next in Table 4.44.

Table 4.44

Fear of default is ever present.

1. Fear of default.
2. Fear of default.
3. Fear of default.
4. Fear of default.
5. Fear of default.
6. Did not express an opinion.
7. No fear of default.
8. Fear of default.

Source: Theme 1 Defaults, (Category 6 Weaknesses of ROSCAs), segment 66. "Fear of default is ever present".

A majority of the informants agreed that that the fear of default always exists. Their opinions on this issue are consolidated and expressed in Table 4.44 above.

4.20.2 Rate of occurrence of defaults

Table 4.45 refers to this section.

Table 4.45
ROSCA failure in sampled population, encountered or heard of

Number of failed ROSCAs	None	One or more
No. of ROSCA failures you personally encountered	242	191
No. of ROSCA failures you only heard about	257	176

Source: Appendix B Question 3 “The number of defaults you personally encountered during the last five years is”.

An opinion commonly held by scholars and financial authorities is that ROSCAs are freer of default than are banks. Default rate among Bidding ROSCAs in Chennai Bharat has been calculated to be 1.6 per cent (Klonner, & Rai, 2005). This belief was put to the test in the survey. SME owners were asked to indicate the number of ROSCA failures they had *personally encountered* during the last five years. Of these, 242 (55.8 per cent of 433) said they had never encountered any. One hundred and ninety one, (44.2 per cent of 433), said they had personally encountered at least one. This is an unexplainably high rate of default. SME owners were also asked to indicate the number of ROSCA failures they had *only heard of* during the last five years (The number of defaults you have only heard of during the last five years is”). Of the respondents, 257 (59.3 per cent of 433) said they had never heard of any failure. The remaining 176, (40.7 per cent), said they had heard of at least one. This also is an unexplainably high rate.

This finding contrasts with the position maintained in literature that ROSCAs are almost free of default. It also diverges from the opinion held by the informants who were senior SME owners and also were senior ROSCA

practitioners. This latter group unanimously subscribed to the view that ROSCAs are very free of default. Only one informant, No. 3, had personally faced a default five years or so ago. It was due to his own mismanagement. He has nearly completed paying off his obligations since then.

The informants were asked to comment on the numbers of random ROSCAs they had seen or heard of during the last five years. Their replies are consolidated and listed in Table 4.46. According to them the rate of failure among random ROSCAs is nearly zero per year.

Table 4.46

“How many random ROSCA failures have you seen or heard of during the last five years?”

-
1. Very few.
 2. Two.
 3. One.
 4. Very few.
 5. A few.
 6. None.
 7. One or two.
 8. None.

Source: Theme 1 Defaults, (Category 4 Defaults), segment 42. “How many random ROSCA failures have you seen or heard of during the last five years?”

Informant No.2 said he had heard of only two defaults during his tenure of 20 years. According to him one of the defaulters (a ROSCA President) was still paying off his obligation. Informant No.5 said he had only heard of three or four failed Random ROSCAs during the last five years.

This researcher is of the opinion that any future survey should word and administer survey questions No. 3 and 4 at Appendix B, differently. Some of

the respondents were trying to appear cooperative. It is possible they had exaggerated in order to drive the point that they were better informed and erudite about ROSCAs and their failures than others were.

In Bharat ROSCAs have been formalized. They are documented. ROSCA-related offences attract attention of the legal system as well as of the news media. Consequently failure rate is low there. In Pakistan ROSCAs are undocumented, extra-legal, and private arrangements. ROSCA-related offences are often settled out-of-court and not reported by the Press. This may explain why many SME owners claim to have experienced failure or heard about it while others have not.

4.20.3 Causes of default

Three causes of default were identified during the Pilot survey. These are fraud or mismanagement caused by a ROSCA President (colloquially referred to as holder, organizer) or a default caused by a ROSCA member. These will be analysed next.

4.20.4 Fraud by ROSCA organizer

Table 4.47 refers to this section.

Table 4.47

View that fraud by the ROSCA President is a strong possibility

Opinion	Agreeing (percentage of 433)	Disagreeing (percentage of 433)
Fraud by the ROSCA President is a strong possibility	320 (73.9)	112 (25.9)

Source: (Appendix B, Q. 63. “Fraud by the ROSCA organizer is a strong possibility”).

The respondents were offered the opinion (“Fraud by the ROSCA organizer is a strong possibility”). A vast majority of the respondents, 320, (74 per cent of 433) agreed with it. Relatively fewer, 112, (26 per cent of 433) disagreed. These few felt that fraud by the ROSCA organizer is NOT a strong possibility.

This view regarding possibility of fraud by ROSCA organizer is widespread and merits serious consideration. The large number of respondents who subscribe to this view indicates a significant concern in the minds of the ROSCA participants.

4.20.5 Mismanagement by ROSCA organizer

Table 4.48

View that mismanagement by the ROSCA President is a strong possibility

Opinion	Agreeing (percentage of 433)	Disagreeing (percentage of 433)
Mismanagement by the ROSCA President is a strong possibility	319 (73.7)	114 (26.3)

Source: (Appendix B, Q. 64. “Mismanagement by the ROSCA organizer is a strong possibility”).

Pilot survey had revealed that deliberate fraud by the organizer is not the only device by which a ROSCA can be disabled. It was found that even mismanagement by the ROSCA’s organizer can damage it. An opinion was therefore offered to the respondents “Mismanagement by a ROSCA organizer is a strong possibility”. Three hundred nineteen respondents (73.7 per cent of 433) agreed (some strongly) with this opinion. During the survey, this researcher discussed the matter with two SME owners who had been ROSCA organizers. Their mismanagement had led to the demise of their ROSCAs. Both regretted their error of judgment that had led to the demise. They said

they had been trying hard to undo the damage they have caused. Neighbouring SME owners when consulted privately expressed agreement with these statements.

The belief that a ROSCA can be brought down by mismanagement on the part of the President is widespread among ROSCA members

4.20.6 Default by ROSCA organizer (President)

Table 4.49

What were the causes of the failures?

1. Mismanagement.
 2. Fraud.
 3. Mismanagement.
 4. Mismanagement.
 5. Mismanagement.
 6. Mismanagement
 7. Fraud.
 8. Fraud-free.
-

Source: Theme 1 Default, (Category 4 Defaults) segment 43, “What were the causes of the failures?”

Table 4.49 refers to default by the organizer. The Pot represents a significant fraction of a member’s savings. Its loss will have serious adverse consequences for the financial wellbeing of the loser. The greatest risk of default by a member occurs when one wins an early Pot and is unable to pay subsequent subscriptions. The informants were asked to render their opinions about default. These are reproduced in Table 4.49. It is apparent mismanagement is a more frequent cause of failure than fraud.

Discussion and interviews with SME owners revealed that in case of low Pot value ROSCAs some Presidents rely only on peer pressure to ensure Pot winners continue to pay their subscriptions. In case of Pots of Rs5 Mn or more, the winner is usually required to submit a signed and dated cheque to cover each future payment, before collecting the Pot. The reliability of this method depends on the effectiveness of the systems, procedures and laws relating to processing cases of dishonoured cheques. Collateral in the form of property, gold etc. is not incorporated in ROSCA operation.

4.20.7 Prevention of defaults

Table 4.50 refers to this section.

Table 4.50

What measures do you adopt to prevent default?

1. Careful selection.
2. Careful selection.
3. Care.
4. Careful selection.
5. Careful selection.
6. Careful selection.
7. Careful selection.
8. Careful selection.

Source: Theme 1 Defaults (Category 3 ROSCA management), segment 47 “What measures do you adopt to prevent default?”

Opinions of informants about measures adopted to prevent default are listed in Table 4.50. Participants exercise care and select ROSCAs that have Presidents and members who have accumulated considerable social capital and are deemed to be unlikely to default. Winners of Pots are sometimes required to give a signed cheque for every instalment that will fall due till the end of the

cycle. Participants ensure that their own reputation is not sullied by a default on their part. In case of an unforeseen accidental default other ROSCA members support the defaulter. Informants believed that ROSCAs have a far lower rate of failure than bank loans. This position is not held by ROSCA members.

4.20.8 Influence of peer pressure on defaults

The following tables refer to this section: Tables 4.51 and 4.52.

Table 4.51

Is the social pressure of peers sufficient to prevent default?

1. Maybe.
2. Yes.
3. Yes.
4. Yes.
5. Yes.
6. Maybe.
7. No.
8. No.

Source: Theme 1 Defaults (Category 4 Defaults) segment 48. "Is the social pressure of peers sufficient to prevent default?"

Collateral is not used in ROSCAs. Instead, social capital ingredients such as personal value system, family honour, and etc. and externals such as reputation in the marketplace, business relations and peer pressure are made use of.

The informants expressed their thoughts regarding peer pressure being sufficient to deter default. Their opinions are consolidated in Table 4.51. The informants believed that peer pressure is a powerful motivator to prevent default. In some cases it definitely helps to prevent default. It is not an

infallible mechanism. Some informants held the opinion that it does not help at all.

Survey respondents too were asked to render their opinions about the effectiveness of peer pressure in preventing ROSCA default. Their responses are presented in Table 4.52.

Table 4.52
Opinions about SME Peer pressure and default

Opinions	Agree (% of 433)	Disagree (% of 433)
Peer pressure is sufficient to prevent default	275 (63.5%)	154 (35.6%)
Peer pressure is not sufficient to prevent default. Formal, legal support is necessary	355 (82%)	76 (18%)

Sources: Appendix B Qs 62, 63, 64 65 and 66.

Two differing opinions were offered to the respondents. “Peer pressure is sufficient to prevent default” (Q 65) was first presented. Two hundred and seventy-five respondents (63.5 per cent of 433) agreed with this opinion. One hundred and fifty-four respondents (35.6 per cent of 433) disagreed. An opposing opinion was also offered the respondents. “Peer pressure is not sufficient to prevent default. Formal, legal support is necessary”(Q. 66). A greater number of respondents, 355, (82 per cent of 433) agreed with this opinion. Only 76 respondents (18 per cent of 433) disagreed with this opinion.

A number of conclusions can be drawn from the preceding:

ROSCAs are considered intrinsically safe to the extent that default by a single member cannot bring them down. This positive view is retained by a majority (85 per cent) of the respondents (Q. 62 “Kmaytees are reliable as they cannot be demolished by a single default”).

In spite of the fact that a larger number of respondents are financed by ROSCAs (89 per cent of the sampled population), than by banks (9.2 per cent of the sampled population, Q. 26 “Did you obtain a loan within the last five years?”), there is a widespread lurking fear among the respondents about the insecurity of ROSCAs.

Three out of every four respondents have expressed fear that fraud by the ROSCA organizer is a strong possibility (Q. 63 “Fraud by the Kmaytee organizer is a strong possibility”).

Three out of every four respondents have also expressed a fear that mismanagement by the ROSCA organizer is also a strong possibility (Q. 64).

Two hundred and seventy-five (63.5 per cent) of the respondents expressed satisfaction that peer pressure is sufficient to prevent default (Q. 65).

Three hundred and fifty-five (82 per cent) of them felt that formal legal support is necessary to reduce the risk of fraud, mismanagement and default

even further (Q .66 “Peer pressure is not sufficient to prevent default. Formal, legal support is necessary”).

In concluding it may safely be said that opinions of informants and respondents regarding ability of peer pressure to prevent defaults were mixed. Many believed that while peer pressure may help prevent defaults it is not fully capable of doing so. Formal legal support of some type would make it more robust.

4.21 Dishonoured cheques, effect of, and recovery from

The following tables refer to this section: Table 4.53, Table 4.54, Table 4.55, Table 4.56, Table 4.57 and Table 4.58.

Table 4.53

In what form are the subscriptions paid?

1. Cash, cheque.
 2. Cash, cheque.
 3. Cheque.
 4. Cash, cheque.
 5. Cash.
 6. Cash, cheque.
 7. Cash, cheque.
 8. Cash, cheque.
-

Source: Theme 1 Defaults, (Category 3 Management) segment 32. “In what form are the subscriptions paid?”

Table 4.53 shows that in the ROSCA industry cheques are assumed to be identical to cash. In addition to paying their subscriptions in the form of cash or commodity such as gold, ROSCA members use cheques also. Frequently, the cheques they have received from customers are passed onto the ROSCA President. If these cheques are later not honoured, the result is disarray. Before the government of President

Musharraf assumed office, passing an uncovered cheque was not considered a cognizable offence. Such cheques were harmful and caused a hindrance to trade. The government passed laws that made passing of such cheques an offence (bailable). Habitual criminals still pass bad cheques, and when arrested, obtain bail and continue operating. Convictions are rare and out of court settlements are resorted to. The situation has improved since new laws were promulgated but enough such cheques continue to circulate in the market as to cause noticeable disturbance to smooth flow of trade.

Survey of the SME owners revealed that misuse of cheques has become a serious problem in the marketplace. The respondents were asked to “State the most pressing problem your firm is currently facing”. Their responses are given in Table 4.54, (also see Tables 4.38 and 4.39.).

Table 4.54
Relative frequency of most pressing problems

Total No. of SMEs	Most pressing problem reported				
	Customers (cheques)	Competition	Access to Finance	Tax Dept.	Load shedding
433	25	31.4	17.1	4.6	22.2
Rank	2	1	4	5	3

Source: Appendix B, Q.15 “State the most pressing problem your firm is currently facing”.

A significant number, 107 (25 per cent of 433) responded that it was Customers (who pass dishonoured cheques). Only Competition was considered a greater problem (136 SMEs 31.4 per cent of 433). Load-shedding, access to finance and the tax department ranked lower, in that order.

Informants held similar views regarding use of cheques as instruments that facilitate trade. Most felt that laws and procedures for managing dishonoured cheques were non-functional. Their opinions about recovery from bounced cheques when discussing bank loans are given at Table 4.55.

Table 4.55

To what extent is the recovery of funds possible if a cheque is dishonoured?

1. Very difficult.
 2. Very difficult.
 3. Very difficult.
 4. Difficult.
 5. Very difficult.
 6. Very difficult.
 7. Difficult.
 8. Very difficult.
-

Source: Themes 2 Dishonoured cheques, (Category 1 Relationship with banks), segment 16. "To what extent is the recovery of funds possible if a cheque is dishonoured?"

While discussing recovery from dishonoured cheques the informants retained opinions identical to those held by the respondents. The informants were asked again about the possibility of making recoveries from dishonoured cheques. Their responses are given at Table 4.56.

Table 4.56

How far is it possible to make recovery of funds from dishonoured cheques?

1. Very difficult.
 2. Very difficult.
 3. Very difficult.
 4. Did not express an opinion.
 5. Difficult.
 6. Difficult.
 7. Difficult.
 8. Very difficult.
-

Source: Theme 2, Dishonoured cheques, (Category 4, Defaults), segment 50, "How far is it possible to make recovery of funds from dishonoured cheques?"

When discussing why recovery from dishonoured cheques was difficult or impossible, the informants pointed out the weaknesses in the Police and Court systems. Their opinions are given in Table 4.57.

Table 4.57

Cheques may bounce. Recovery is almost impossible as police and courts are busy.

1. Very true.
2. Very true.
3. Very true.
4. Did not speak about it.
5. True.
6. Did not speak about it.
7. True.
8. Very true.

Source: Category 6 Weaknesses of ROSCAs Segment 71 “Cheques may bounce. Recovery is almost impossible as police and courts are busy.”

Informants were asked to render their opinions about procedural difficulties they encountered when managing dishonoured cheques. The informants expressed similar opinions about dishonoured cheques again. According to a majority of them the laws and procedures were weak. Table 4.58 refers.

Table 4.58

Laws and procedures relating to dishonoured cheques are weak

1. Weak laws procedures.
2. Weak laws procedures.
3. Weak laws procedures.
4. Did not speak about it.
5. Weak laws procedures.
6. Did not speak about it initially.
7. Weak laws, procedures.
8. Weak laws procedures.

Source: Theme 2 Dishonoured cheques (Category 7 Important weaknesses of ROSCAs), Segment 72 “Laws and procedures relating to dishonoured cheques are weak”.)

Informant No.6, while discussing legislation of ROSCAs, spontaneously reverted to the matter of bad cheques. His opinion indicates the seriousness with which bad cheques are viewed. It is reproduced below.

6. Investor confidence is very low because of the prevalence of bounced cheques. Individuals who issue bounced cheques exceeding a certain level of tolerance are playing havoc with the economy. Their accounts should be closed and they should not be permitted to operate anymore. This is an extreme and an aggressive remedy but I guess it is only by extreme and aggressive remedies that you can fix a sick society. This measure is highly recommended to be adopted.

The frequency and the emotional intensity with which the informants expressed their opinions about dishonoured cheques indicate how seriously the problem is viewed.

4.22 Legality of ROSCAs

Table 4.1 above refers to this section. In Pakistan, only scheduled banks and certain cooperative societies that have been expressly permitted to do so may collect funds. ROSCAs are not recognized by law. Their operation can at best be termed extra-legal. Complaint of a ROSCA holder against a defaulting member or of one or more members against the holder can at best be admitted as a private dispute between citizens over an extra-legal issue. ROSCA-related disputes take inordinately long to settle. Resolution is usually managed out of court. On the other hand, Pakistan has a system of courts that are dedicated to resolving bank-related disputes. Banking courts arrive at a judgment within three hearings.

This situation is in stark contrast to that prevailing in Bharat. ROSCAs have been legalized in that country by an act of Parliament (The Chit Funds Act No. 40 of 1982).

ROSCA disputes are resolved by banking courts. ROSCA-related convictions attract chastisement in Bharat.

Views of informants about legality of ROSCAs have been already been tabulated in Table 4.1 above. There is unanimity of opinion about legality of ROSCAs.

4.23 Timing of winning the Pot

Timing of winning the Pot is one of the more significant issues affecting ROSCA operation. It has adversely impacted ROSCAs' ability to penetrate SME financing market more than they already have. Some of the factors that relate to timing are examined below.

4.23.1 Time taken to obtain a bank loan or a Pot

Table 4.59 refers to this section

Table 4.59

The time taken between applying to the bank and the sanction was up to (months)

	Time taken (months)				
	1	2	3	4	More than 4
Number of SMEs	4	17	15	4	Nil

Source: Appendix A, Q. 38, "The time taken between applying to the bank and the sanction was up to months").

Table 4.59 shows that out of the 40 respondents who had obtained bank loans within the last five years, 32 (80 per cent) replied that their loans had been sanctioned within 2 to 3 months of application.

This waiting period compares favourably with that involved in winning the Pot in ROSCAs. Most ROSCAs have a membership size ranging between 16 and 20 members, with a membership of 20 being most commonly encountered. The relative abundance of different membership sizes among the ROSCAs is indicated in Table 4.60.

Table 4.60
Relative abundance of different membership sizes

Order of ROSCA	Membership sizes				
	Up to 10	11-15	16-20	21-25	>25
First	57	96	94	91	44
Second	12	30	46	36	24
Third	6	9	13	12	13
Fourth	2	1	6	7	4

Source: Appendix B, Q. 7, 20, 33, 46, "Indicate the number of members in ROSCA No."

ROSCAs draws are customarily held once a month. The first Pot routinely goes to the ROSCAs organizer (Q. 78 "In any Kmaytee the organizer gets the first Pot"). The second and subsequent Pots are given to the members. This means that the first winning member has to wait at least one month before he can win his Pot. The second member will have to wait two months before he can win his. The waiting period for the first three winners (only) is the same as for a bank loan (3 months). The cycle proceeds till the last member obtains his Pot after waiting 20 months. The earlier winners will have paid fewer instalments before they win the Pot while the relatively last winners will have paid nearly 20 instalments before they can get theirs. This means that the earlier winners had obtained a net loan while the later "winners" had obtained a net savings. In either case it can be seen that all but the first three winners of the Pot, have to wait longer than three months before obtaining their finance.

Others may have to wait 18 or more months before they can get theirs. The length of the waiting period is positively related to the number of members in the ROSCA. When compared to bank financing, it is obvious that (except for the first two or three winners) it generally takes longer to obtain a loan from a ROSCA than it does to obtain one from a bank. Furthermore, the timing of the win cannot be predicted.

The informants too spoke about the effect of late “winning” of the Pot and unpredictability of its timing. Their opinions are the same as those stated above. They are tabulated in Table 4.61.

Table 4.61
Pots may not be obtained exactly when the funds are needed

-
1. Timing.
 2. Timing.
 3. Timing.
 4. Did not offer an opinion.
 5. Timing.
 6. Did not offer an opinion.
 7. Timing.
 8. Timing.
-

Source: Theme 4 Timing of winning the Pot, (Category 6, Weaknesses of ROSCA segment 64. “Pots may not be obtained exactly when the funds are needed”).

Most informants held to the opinion that unpredictably of the timing of winning the Pot and its greater length as compared to the waiting period for a formal loan were significant disadvantages of ROSCAs.

4.24 Multiple ROSCAs and positions

Table 4.62 refers to this section

Table 4.62

Probability of obtaining an early pot can be increased by acquiring several positions.

1. Agreed.
2. Did not offer an opinion.
3. Agreed.
4. Agreed.
5. Agreed.
6. Agreed.
7. Agreed.
8. Agreed.

Source: Theme 4 Timing of winning the Pot, (Category 5 Advantages of ROSCAs), segment 62. “Probability of obtaining an early pot can be increased by acquiring several positions”.

Table 4.62 tabulates the opinions of the informants. In order to preclude this shortcoming, SME owners who can afford to, obtain multiple positions in the same ROSCA or participate in multiple ROSCAs. Most informants held that by acquiring several positions the probability of winning an early Pot increases and their cash flow smoothens. It also functions as a hedge against total loss of subscription in case of a ROSCA failure.

4.25 Modifications to ROSCA

A number of modifications have been made to the basic Random ROSCA model. The more well-known of the modified ROSCAs are called Bidding, Need-based and Decision type ROSCAs.

4.25.1 Bidding ROSCAs

The following tables refer to this section: Tables 4.63, 4.64 and 4.65.

Table 4.63

Why are bidding ROSCAs infamous and unpopular?

1. Exploitive.
 2. Exploitive.
 3. Un-Islamic.
 4. Un-Islamic.
 5. Exploitative.
 6. Un-Islamic, exploitative.
 7. Un-Islamic, exploitive.
 8. Un-Islamic, exploitive.
-

Source: Category 3 ROSCA management segment 41 “Why are bidding ROSCAs infamous and unpopular?”

SME owners, who are prepared to pay a premium in order to obtain the Pot when they need it, participate in Bidding ROSCAs. In such a ROSCA the Pot is awarded to the member who bids the highest amount. Anecdotal evidence suggests that Pots are sometimes obtained by needy members who over-bid. Such businesspersons may not be able to recover the premium if the business suffers a setback. The researcher was made aware of the widespread repugnance to Bidding ROSCAs. The informants expressed their unanimous opinions about the immorality and unsocial nature of Bidding ROSCAs.

In Bharat a cap of 30 per cent of the Pot value has been placed on the bid amount. ROSCAs in Pakistan have not been formalized and remain unregulated. No such cap is placed on them in Pakistan. Bidding ROSCAs are anecdotally exposed to a high failure rate. This was also the unanimous

opinion of the informants. Statements of the informants are listed in Table 4.64 and in Table 4.65.

Table 4.64

Bidding ROSCAs have a high failure rate.

1. Infrequent failure.
 2. Dis-interested in Bidding ROSCAs.
 3. Infrequent failure.
 4. Did not express any opinion.
 5. Dis-interested.
 6. Frequent failure.
 7. Frequent failure.
 8. Frequent failure.
-

Source: Category 4 Defaults Segment 44 “Bidding ROSCAs have a high failure rate.”).

Table 4.64 indicates that Bidding ROSCAs are rare. Some informants did not have any information about them.

Table 4.65

What were the causes of the failures of Bidding ROSCAs?

1. Exploitive.
 2. Did not express any opinion.
 3. No information.
 4. Did not express any opinion.
 5. Exploitive.
 6. Un-Islamic, exploitive.
 7. Un-Islamic, exploitive.
 8. Un-Islamic, exploitive.
-

Source: Category 4 Defaults, segment 45 “What were the causes of the failures of Bidding ROSCAs?”

Table 4.65 tabulates the reasons why Bidding ROSCAs fail so frequently. During the interviews most informants spoke passionately when talking about Bidding ROSCAs. Only two had no opinions on the matter. The remaining

categorically and vociferously declared Bidding ROSCAs to be Un-Islamic, exploitive and prone to failures.

4.25.2 Need-based ROSCAs

The Table 4.66 refer to this section. In case of Need-based ROSCAs, the Pot is delivered to the winner who may be persuaded to pass it on to a member whose need is most urgent. Such ROSCAs are termed Need-based. If the sequence of winners is decided before commencing the ROSCA cycle, the arrangement is termed Decision-based ROSCA. The relative frequencies of the occurrences of these ROSCAs are given at Table 4.66.

Table 4.66
Frequencies of types of ROSCAs

Order of ROSCA	Types of ROSCAs				Total
	Random	Bidding	Need based	Decision	
First	271	42	65	2	380
Second	93	21	29	-	143
Third	39	4	4	-	47
Fourth	14	2	1	-	17
Total occurrences	417	69	99	2	587

Source: Worksheet 1, Qs. 17, 30, 43 and 56 Appendix B, “Indicate the type of ROSCA”).

4.26 Depletion of working capital

The Table 4.67 refer to this section

Table 4.67

Capital of later winners remains out of business for long causing reduced profits

1. Capital depletion.
 2. Capital.
 3. Capital depletion.
 4. Did not offer an opinion.
 5. Capital depletion.
 6. Capital depletion.
 7. Capital depletion.
 8. Capital depletion.
-

Source: Category 6 Weaknesses of ROSCA segment 70 “Capital of later winners remains out of business for long causing reduced profits”).

Table 4.67 tabulates the informants’ responses of their opinions about a weakness of ROSCAs. According to them later winners of the Pot are exposed to an additional handicap. This is caused by extracting the value of the monthly subscription from the operating capital, for a protracted period.

Diverting funds from the operating capital without any substantial consequential benefit can impose a financial strain on the enterprise. Depletion of capital is felt more intensely by those who receive net savings (late winners of the Pot) as compared to those who obtain a net loan (early winners). This aspect was highlighted by all informants.

Bank financing of an amount equal to the Pot and having same repayment period as the ROSCA cycle initially appears more expensive than ROSCA financing due to the inclusion of Interest and bank charges. However, the bank loan can be obtained within

three months. It can be added to the operating capital and be expected to generate profit greater than the cost of obtaining it.

It usually takes far longer to obtain a loan from a ROSCA than it does to obtain one from a bank. The consequence of withdrawing capital is felt more acutely by ROSCA participants.

During the survey and the interviews, a majority of the practitioners opined that ROSCAs ought to be considered a mechanism of compulsory saving that might generate a bonus loan.

4.27 ROSCA membership by non-property owners

Tables 4.68 and 4.69 refer to this section.

Table 4.68

Traders operating in a rented premise may have difficulty joining a ROSCA.

1. Property preferred.
 2. Property preferred.
 3. Reputation preferred.
 4. Reputation and property..
 5. Reputation, but property helps
 6. Did not express an opinion.
 7. Reputation preferred..
 8. Reputation preferred.
-

Source: Category 6 Difficulties of ROSCAs segment 65. "Traders operating in a rented premise may have difficulty joining a ROSCA."

Tables 4.68 and 4.69 tabulate responses of informants regarding necessity of an SME owner's ownership of property as a pre-condition for ROSCA membership.

Strong laws and effective procedures for managing wilful and premeditated defaults

in a ROSCA are affectively absent in Pakistan. Involvement with the police is expensive and is usually a counter-productive hassle, Table 4.43 refers. ROSCA holders and members take steps to ensure defaults do not occur. One possible way a defaulting ROSCA member may avoid his obligations is to dispose of his business premises (if he owns it) and escape without leaving a trace of his future whereabouts. To preclude against this it is a practice that a premises in a commercial market cannot be transferred to another unless the President of the market traders' union certifies there are no obligations outstanding against the seller. It is not possible for a businessperson who owns property in the market and has defaulted, to dispose of his property and abscond.

A trader operating out of a rented premises and who is unable or unwilling to meet his ROSCA obligations may be inclined to dispose of his inventory and leave without notice. To avoid such a situation some ROSCAs simply do not admit renting traders as members. Opinions of informants regarding admitting renting traders to ROSCAs are listed in Table 4.68.

Exclusion of renting traders from most ROSCAs is taken so seriously by most informants that it was mentioned again when they discussed the weaknesses of ROSCAs. This precaution causes law-abiding renting SME owners to be placed at a position of disadvantage. ROSCAs become unavailable to them. Stated otherwise, it prevents ROSCAs from expanding to reach renting traders. Informants' opinions regarding the weaknesses of ROSCAs and the difficulty of being accessed by traders who operate out of rented premises are listed in Table 4.69.

Table 4.69

Traders who do not own property have difficulty being admitted into a ROSCA

1. Property preferred.
 2. Property preferred.
 3. Reputation preferred.
 4. Did not offer an opinion.
 5. Property and reputation.
 6. Did not offer an opinion.
 7. Property preferred.
 8. Reputation preferred.
-

Source: Category 7 Important weaknesses, Segment 77 “Traders who do not own property have difficulty being admitted into a ROSCA.”).

Table 4.69 reveals that only such renting businesses as have accumulated ample social capital over time, are admitted. Whereas other terms and conditions of ROSCA membership are convenient, the question of property ownership is sometimes daunting to small, young enterprises.

4.28 Summary of Section B (Table 4.69a below refers)

The survey and the interviews led to discovery of a number of reasons ROSCAs have not penetrated the SME finance market any more than they have already done. They are summarized below.

Defaults caused by mismanagement or by fraud on the part of the ROSCA President cause a ROSCA to fail. This leads to the loss of savings of all members who had not yet won the Pot. Survey reported an unexplainably high default rate. Fear of default was expressed by nearly three out of every four respondents.

Laws and procedures relating to dishonoured cheques are ineffective. ROSCA members pass on the cheques they receive as payment from customers to the ROSCA President as subscription. If these cheques are not honoured it leads to problems. Bad cheques are the second most severe problem faced by SMEs after Competition.

ROSCAs are extra-legal in Pakistan. They do not attract the same quality of attention as do bank-related or cooperative society-related disputes in a banking court. The Police are corrupt and the courts are overburdened. Disputes have to be settled out of court. Being extra-legal limits their popularity.

The members who win the Pot early in the cycle do so after having paid less than the maximum number of instalments. They can be considered to have obtained a loan. This loan can be re-invested in the business to obtain additional profit. Because the timing of the win is not certain in a Random ROSCA, the Pot cannot be factored in to business plans. For the remaining members, especially the ones who win near the very end, the Pot is merely their savings. A bank loan is usually sanctioned within three months. Since its timing is known with a reasonable degree of certainty, it can be factored in to business plans. Uncertainty of the time of winning the Pot is a significant weakness of ROSCAs.

The funds paid in to ROSCA as subscriptions have to be withdrawn from the working capital. They remain out of circulation till such time as a Pot is obtained or the ROSCA cycle comes to an end. For later winners, they represent a form of compulsory saving. Had these funds not been withdrawn from circulation it is

reasonable to expect they could help towards earning additional profit. This prolonged withdrawal of funds is another significant weakness of ROSCAs.

For reasons of prevention of fraud, non-property owners are not readily admitted in to ROSCAs. Not all traders operate out of their own properties. Stated differently, it means ROSCAs are unable to penetrate a large market that is populated by renting tradeRs

Table 4.69a
Impediments identified by respondents and informants.

Possibility of default

Dishonoured cheque management

Legality of ROSCAs

Timing of winning of Pot

Depletion of working capital

Membership by non-property owners

4.29 Introduction to Section C Research Objective 3

Section A examined the extent to which ROSCAs are being used by SMEs in the target population as a source of finance as compared to commercial banks. Estimates of the volume of the ROSCA economy were made using data obtained principally from the survey and to a lesser extent from the interviews. It was found that almost 90 per cent of the SMEs in the sampled population retained membership in at least one ROSCA. Not all these SMEs maintained accounts in banks. The volume of finances managed through the ROSCA system was also found to be substantial.

In section B the issues that have prevented ROSCAs from penetrating the SME finance market even further were examined. A number of issues were identified during the survey and the later interviews.

In this section, the measures that are recommended to be implemented in order to enable ROSCAs to become even more significant sources of SME finance will be developed. These recommendations are a logical derivation of the limitations discovered in section B. The limitations had been found to be the fear of default, laws relating to dishonoured cheques, absence of legal cover to ROSCAs, timing of winning the Pot, depletion of working capital in order to pay for subscriptions and difficulty of non-property owners to participate in large-Pot ROSCAs. ROSCAs have advantages and strengths that have already enabled them to assume a position of some eminence. It is essential the recommendations made in this section address the weaknesses and do not prejudice these advantages. Before proceeding with the recommendations, a few of the prominent advantages of ROSCAs will be briefly reviewed.

4.30 Advantages of ROSCAs as compared to banks

Prior to laying down the measures discovered for fortifying ROSCAs, it is considered prudent to recapitulate their characteristics briefly.

4.30.1 Adequate confidentiality

Table 4.70

Confidentiality in ROSCAs

1. Very confidential.
 2. Suitably confidential.
 3. Suitably confidential.
 4. Suitably confidential.
 5. Very confidential.
 6. Suitably confidential.
 7. Suitably confidential.
 8. Did not express an opinion.
-

Source: Category 5 Advantages of ROSCAs, segment 53 “Confidentiality”.

The question of confidentiality was taken up by the informants. Their opinions are tabulated in Table 4.70 Confidentiality in ROSCAs. Certain government departments are authorized to examine bank accounts and their money transactions. This helps in estimating the taxes to be levied upon the account holder. ROSCAs are private arrangements. Tax departments cannot pry in to ROSCA records. The degree of confidentiality in a ROSCA is decided by the members. Some SME owners ask that their names not be announced during draws. This helps insulate them from others who might solicit private loans from them, and from competition. Others deliberately ask that their names be announced. This is to help build and proclaim their social capital. ROSCA transactions are as secure and private as the members want them to be.

4.30.2 Freedom from collateral

The following tables refer to this section: Tables 4.71 and 4.72

Table 4.71

Collateral or guarantees are not required. Good reputation is enough

1. Reputation is sufficient.
 2. Reputation is sufficient
 3. Reputation is sufficient.
 4. Did not express an opinion.
 5. Reputation is sufficient.
 6. Reputation usually sufficient.
 7. Reputation is sufficient.
 8. Reputation is sufficient.
-

Source: Category 5 Advantages of ROSCAs, segment 54 “Collateral or guarantees are not required. Good reputation is enough”.

Informants agreed on this characteristic of ROSCAs. Their opinions are listed in Table 4.71 above. Banks hedge their capital against NPL with collateral. One of the reasons SMEs cannot avail formal finances is their inability to muster adequate collateral. ROSCAs on the other hand require only social capital.

Respondents were offered the opinion “Collateral is not required and social capital is enough for participation”. Of the respondents 416 (96 per cent) agreed with this opinion (217 strongly). Only 16 disagreed. Their responses are listed in Table 4.72.

Table 4.72

Collateral or social capital in ROSCAs

Collateral is not required and social capital is enough for participation				
Strongly Agreed	Agreed	Neutral	Disagreed	Strongly disagreed
217	199	1	14	2

Source: Appendix B, Q. No.70. “Collateral is not required and social capital is enough for participation”.

4.30.3 Freedom from Interest (Riba)

Tables 4.73a and 4.74 refer.

Table 4.73a

Reasons for not applying for a bank loan

Why did you not apply for a bank loan within last five years?				
Fear of rejection	Have sufficient retained reserves	Involvement of Interest	Complicated documentation	No. of SMEs that did not apply for bank loan
17	49	314	24	404

Source: Appendix A, Q.25 “Why did you not apply for a bank loan?”

Table 4.73

Reasons for not obtaining a bank loan within the last 12 months

Why did you not obtain a bank loan within the last 12 months?				
Lacked Collateral	Difficult Documentation	Unfavourable Terms	Lacked Guarantee	Interest
5	25	25	10	333

Source: Appendix A, Q.28 “Why did you not obtain a bank loan within the last 12 months?”

The reasons why some SME owners did not apply for bank loan (during last 5 years) merit attention. Table 4.73a aggregates the reasons. A total of 404 SMEs did not apply for a bank loan during last five years. Of these, 314 (73 per cent of 404) said the reason was inclusion of Interest in loan covenants. During the last 12 months 333 (82.4 per cent of 404) had not applied quoting Interest as the reason. Intensity of religion-driven abhorrence of Interest-related financing has increased. Involvement of Interest in bank transactions prevents SMEs from accessing formal financing. Random ROSCAs are

Interest free and are attractive for this reason. This was confirmed by the informants. Their individual opinions are tabulated in Table 4.74. All reiterated that no Interest in any form is included in funds obtained from a ROSCA.

Table 4.74

No interest in any form is included in funds obtained from a ROSCA

1. Interest free.
 2. Interest free.
 3. Interest free.
 4. Interest free.
 5. Interest free.
 6. Interest free.
 7. Interest free.
 8. Interest free.
-

Source: Category 5 Advantages of ROSCAs, segment 60 (“No interest in any form is included in funds obtained from a ROSCA”.)

4.30.4 Low Cost of financing

Tables 4.75, 4.76 and 4.77 refer.

Table 4.75

Funds obtained from a ROSCA are cheaper than bank loan of similar amount and duration

1. ROSCAs are savings.
 2. ROSCAs are savings.
 3. No.
 4. No.
 5. ROSCAs are cheaper.
 6. No.
 7. ROSCAs are cheaper.
 8. ROSCAs are cheaper.
-

Source: Category 5 Advantages of ROSCAs, segment 58 “Funds obtained from a ROSCA are cheaper than bank loan of similar amount and duration”.)

The informants rendered their opinions on whether or not a Pot is less expensive than a bank loan of same amount and equal period. This may

possibly be so because Pots do not involve payment of Interest. Their opinions were mixed and are listed in Table 4.75.

Some of them held the view that Pots were less expensive than bank loans. Some others subscribed to the position that late winners of the Pot have to extract the value of the Pot from the working capital to pay for the instalments. This is a form of forced saving. Had this capital remained in circulation it would have resulted in a higher profit.

The respondents were offered the opinion “If the length of a ROSCA cycle is equal to that of a bank loan, ROSCA financing is less expensive than an equal bank loan”. (Annex B, Q. 71.) Their responses are aggregated in Table 4.76.

Table 4.76

If the length of a ROSCA cycle is equal to that of a bank loan, ROSCA financing is less expensive than an equal bank loan

Strongly Agree	Agree	Neutral	Disagree	Strongly disagree
229	191		11	2

Source: Appendix B, Q.71 “If the length of a ROSCA cycle is equal to that of a bank loan, ROSCA financing is less expensive than an equal bank loan”.

Of the 433 respondents, 420 agreed (229 of them strongly). Only 13 disagreed (2 of them strongly). An overwhelmingly majority of the respondents believe that, considering all arguments in favour or against, ROSCA financing is less expensive than bank financing.

Another factor impacting the cost of financing is punitive surcharges.

ROSCAs do not attract penalty in case of unforeseen delays in paying

subscription. This opinion was supported by 396 respondents. It was obtained as a result of the respondents being offered the opinion “Unforeseen delays in paying subscription do not attract penalty” (Annex B, Q. 69). The responses have been aggregated in Table 4.77.

Table 4.77

Unforeseen delays in paying subscription do not attract penalty

Strongly Agree	Agree	Neutral	Disagree	Strongly disagree
174	222	4	26	7

Source: Appendix B, Q.69 “Unforeseen delays in paying subscription do not attract penalty.”

4.30.5 Multiple or fractional memberships

The following tables refer to this section: Tables 4.78, 4.79 and 4.80.

Table 4.78

More affluent traders can acquire several positions to increase the pots

- | | |
|----|------------------------------|
| 1. | Multiple positions frequent. |
| 2. | Multiple positions frequent. |
| 3. | Multiple positions possible. |
| 4. | Multiple positions possible. |
| 5. | Multiple positions possible. |
| 6. | Multiple positions frequent. |
| 7. | Multiple positions possible. |
| 8. | Multiple positions possible. |

Source: Category 5 Advantages of ROSCAs, Segment 61. More affluent traders can acquire several positions to increase the pots.

The opinions expressed by the informants regarding acquiring multiple positions in the same or different ROSCAs are given in Table 4.78. There is a consensus of opinions. An SME owner who has the means and the preference can participate in multiple ROSCAs or obtain multiple positions in one. This helps increase savings and gives access to greater capital.

Acquiring multiple positions increases the probability of obtaining an early Pot (loan) as well as smoothing the cash flow. This point was brought out by the informants. Table 4.79 shows opinions of the informants. The unanimity of their opinions is noticeable.

Table 4.79

Probability of obtaining an early pot can be increased by acquiring several positions

1. Multiple positions smoothen cash flow.
 2. Did not express an opinion.
 3. Multiple positions enhance likelihood of early Pot.
 4. Multiple positions enhance likelihood of early Pots.
 5. Multiple positions enhance likelihood of early Pots.
 6. Multiple positions enhance likelihood of early Pots.
 7. Multiple positions enhance likelihood of early Pots.
 8. Multiple positions enhance likelihood of early Pots.
-

Source: Category 5 Advantages of ROSCAs Segment 62 “Probability of obtaining an early pot can be increased by acquiring several positions”.

Alternately, multiple SME owners who lack the ability to participate in a high-quality large-Pot ROSCA by themselves can pool their resources and acquire one position in it. The Pot is shared among them in a pre-determined ratio. Banks ordinarily do not provide such a facility. The informants offered their opinions about this aspect also. Table 4.80 refers.

Table 4.80

Several smaller traders can acquire one position in a high pot-value ROSCA

1. Fractional positions improve access to high value Pots.
 2. Fractional positions improve access to high value Pots.
 3. Fractional positions improve access to high value Pots.
 4. Fractional positions improve access to high value Pots.
 5. Fractional positions improve access to high value Pots.
 6. Fractional positions improve access to high value Pots.
 7. Fractional positions improve access to high value Pots.
 8. Fractional positions improve access to high value Pots.
-

Source: Source: Category 5 Advantages of ROSCAs, Segment 56. “Several smaller traders can acquire one position in a high pot-value ROSCA.”

4.31 Recommendations to overcome the limitations

Recommendations discovered as a result of the survey and interviews are discussed below and tabulated at Table 4.92a.

4.32 Interest-free management of ROSCAs by banks

Although considerable care is exercised in selecting the President and the members, either or both of them can fail and cause a default. If ROSCAs can be managed by institutions that are dependable it is possible that defaults can be eliminated or reduced to an acceptable threshold. This will eliminate or reduce a stress in the minds of ROSCA members about loss of their capital brought about by fraud or mismanagement. This point came up repeatedly during the survey, the interviews and during informal, casual discussions.

Six informants suggested this was a workable idea and its implementation would introduce reform. Informant 4 had no thoughts on the subject. Informant 8 thought that since the proposal will not generate Interest earnings, it will not be attractive to a bank. Their opinions are given in Table 4.81 Banks should also operate Interest-free random ROSCAs.

Table 4.81

Banks should also operate Interest-free random ROSCAs

1. Bank sponsored ROSCAs are preferred.
2. Bank sponsored ROSCAs are preferred.
3. Bank sponsored ROSCAs are preferred.
4. Did not express an opinion.
5. Bank sponsored ROSCAs are preferred.
6. Bank sponsored ROSCAs are preferred.
7. Bank sponsored ROSCAs are preferred.
8. Bank sponsored ROSCAs are preferred.

Source: Theme 7 Recommended reforms, (Category 8 Recommended reforms), Segment 87, “Banks should also operate Interest-free random ROSCAs”.

The respondents too were asked their opinion on this subject “Sponsorship of an Interest-free ROSCA by a bank can greatly help reduce risk of default”. The aggregate of their responses is given in Table 4.82 below.

Out of the 433 respondents surveyed, 210 (48.5 per cent) strongly favoured the idea, while 165 (38 per cent) favoured it. Only 39 (nine per cent) disagreed while 19 (4.4 per cent) did so strongly. The remaining 46 (11 per cent) had no opinion. Most of these were SME owners who did not participate in ROSCAs.

Table 4.82

Sponsorship of an Interest-free ROSCA by a bank can greatly help reduce risk of default

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
210	165	46	39	19

Source: Appendix B, Q. 67 “Sponsorship of an Interest-free ROSCA by a bank can greatly help reduce risk of default”.

The Economist (2015) opined that if banks were to manage ROSCAs, they would provide the guarantee that members will pay their subscriptions on time. A defaulter’s subscription would be paid by the bank. The defaulter would become a debtor to the bank and would have to pay Interest and other charges to it.

A controlled experiment was conducted in Egypt to evaluate the usefulness of bank-insured ROSCAs with that of a microfinance scheme (El-Gamal, 2014). It was found that the 91 per cent rate of uptake of ROSCA was higher than the 75 per cent rate of (Interest-bearing) microfinance. In case of ROSCA, 82 per cent of the loans were paid back on time. In case of microfinance only 63 per cent of the loans were paid back.

It is recommended that banks be encouraged to conduct Interest-free ROSCAs. Interest-free sponsorship of ROSCAs by banks appears at first sight to run contrary to the very *raison d'être* of a bank. Examination of the *modus operandi* reveals that a bank can earn substantial profits. Banks will need to consider the aspect of confidentiality when designing formal ROSCAs. Confidentiality has been successfully built in to Pakistan's Prize Bond Scheme. Citizens can purchase prize bonds of any value without attracting the attention of income tax authorities.

4.33 Laws relating to dishonoured cheques

Cheques that are not adequately covered are the second most serious problem, after competition that afflicts sampled SMEs. They disrupt not only the smooth operation of ROSCAs but also of trade. Passing a bad cheque is considered only a misdemeanour by Pakistani law. The offender may be arrested but can be released from Police custody by obtaining bail. The offender can then open an account in a different bank, acquire a cheque-book at Rs5 per cheque and continue with his activity. The magnitude of the problem created by bad cheques and the seriousness it is viewed by the respondents and informants has been discussed at length in Chapter Four, Section Two. The informants discussed possible solutions to this problem. The suggestions offered by them are given next. Table 4.83 Essential details of a

dishonoured cheque should be posted on a publicly accessible database by the defaulter's bank, refer.

Table 4.83

Essential details of a dishonoured cheque should be posted on a publicly accessible database by the defaulter's bank

1. Banks should publish details of dishonoured cheques.
 2. Banks should publish details of dishonoured cheques.
 3. Banks should publish details of dishonoured cheques.
 4. Did not express an opinion.
 5. Improve management of dishonoured cheques
 6. Did not express an opinion at first. He spoke about this matter later. His opinion is given after this table.
 7. Banks should publish details of dishonoured cheques.
 8. Banks should publish details of dishonoured cheques.
-

Source: Theme 7 Recommended Reforms, (Category 8 Recommended Reforms) Segment 79 "Essential details of a dishonoured cheque should be posted on a publicly accessible database by the defaulter's bank".

Opinion of Informant 6 is reproduced. *If the number of bad cheques passed by a person exceeds a threshold level in a certain time, all his business-related bank accounts should be frozen. The offender should be allowed a grace period in which he can clear his outstanding obligations. This period can be determined according to the nature of the case. For example, a salaried person may be allowed a period of two or three salary cycles. Failure to honour his obligations should cause the offender's bank accounts to be closed. His name, National Identity Card number and details of the cheque should be placed on a publically-accessible database. For the benefit of SME owners who find it inconvenient to access the Internet every time a cheque is offered to them, lists of defaulters should be printed and be available to the general public for a price.*

The recommended solution is a combination of two similar procedures currently practiced by Pakistani banks. This practice of adding a loan defaulter's name to a central database is already being practiced by Pakistani banks. An applicant for a bank loan whose name appears on the list is denied loan by all banks in Pakistan. This facility of awareness of a person's past should be made available to businesspersons also. Publishing lists for a price is currently being followed by the State Bank of Pakistan in case of winning numbers of prize bonds.

4.34 Legality of ROSCAs

Table 4.84 refers to this section

Table 4.84

ROSCAs should be legally permitted to collect deposits

ROSCA Should be legalised.

ROSCA Should be legalised.

ROSCA Should be legalised.

Did not offer an opinion.

ROSCA Should be legalised.

ROSCA Should be legalised.

ROSCA Should be legalised.

ROSCA Should be legalised.

Source: Theme 7 Recommended Reforms (Category 8 Recommended Reforms) Segment 82 "ROSCAs should be legally permitted to collect deposits".

Opinions of informants about legality of ROSCAs have been presented earlier in Table 4.1. The lack of a legal cover imposes limitations on ROSCA operation. For example only banks and specifically authorized societies are allowed to take in deposits. ROSCAs have not been authorized to do so. Their operation is quasi-legal. This setback imposes several disadvantages on ROSCA operation. These include dispute resolution in a court of law. The informants were of the opinion that affording

legitimacy to ROSCAs by an act of parliament will have a significant positive impact on its operation.

It is therefore recommended to the government to enact legislation similar to Bharat's Chit Funds Act 40 of 1982.

4.35 Timing of winning the Pot

The following tables refer to this section: Tables 4.85(See also Table 4.8) and 4.86.

Table 4.85

Participation in multiple ROSCAs and number of ROSCAs, sampled population

	Member of (how many) ROSCAs						Total	Nil
	one	two	three	four	five	six		
No of SME respondents who are	234	94	33	20	3	2	386	47

Source 1: Worksheet 1, Q.1 (1. Are you a member or organizer of any Kmaytee?).

Source 2: Worksheet 1, Q.2 (2. The number of Kmaytees that you are a member of).

Source 3 for columns Five and Six: Questionnaire hardcopies, Q.2, (The number of Kmaytees that you are a member of, is).

In Random ROSCAs, especially those with a large membership base, the waiting period for winning a Pot can extend to 20 months or even more. Furthermore, the timing becomes progressively unpredictable in case of increasing membership sizes. Its effect can be alleviated by participating in multiple ROSCAs. However, not all SME owners consider participating in multiple ROSCAs a practical solution. Research has revealed that 234 (60.6 per cent of the 386 SMEs who participated in ROSCAs), take part in only one. Only 39 per cent rely on the methodology of membership in multiple ROSCAs.

The informants discussed this situation at length. They also discussed earlier measures the Central and Provincial governments had adopted to promote business and trade. These measures, such as the Yellow Sab scheme or the Youth Investment scheme have resulted in the loss of Billions of rupees. All informants converged to a single opinion. The government should place a fund of an appropriate size at the disposal of a committee of businesspersons selected on predetermined bases. These include the amount of tax paid, prior history of participation in ROSCAs, record of convictions, and etc. This fund should be used to provide enhancement to registered, Random, Interest-free ROSCAs that meet certain conditions. Members, who have deposited in a predetermined number of subscriptions, 25-30 per cent was suggested, can be paid the Pot from this fund after the “winner” deposits a signed cheque for every subscription that will be due. Table 4.86 shows opinions of informants regarding management of this fund. To prevent this scheme from meeting the fate of earlier schemes the laws and procedures for managing dishonoured cheques mentioned earlier must be enforced.

Table 4.86

Government should set aside a fund to boost registered Interest-free ROSCAs. This fund should be managed by the Chamber or by qualified trader.s

-
1. Public fund to boost ROSCAs.
 2. Public fund to boost ROSCAs.
 3. Public fund to boost ROSCAs.
 4. Banks to sponsor ROSCAs. Strengthen dishonoured cheque management. Publish details of dishonoured cheques.
 5. Public fund to boost ROSCAs.
 6. Public fund to boost ROSCAs.
 7. Public fund to boost ROSCAs.
 8. Public fund to boost ROSCAs.
-

Source: Theme 7 Recommended Reforms (Category 8 Recommended Reforms) Segment 89.

Money will be withdrawn from the fund and recouped over time. At the end of the cycle, the entire fund would have been recouped and all members would have obtained a Pot (Interest-free loan). The informants felt that if properly implemented this scheme will provide a great boost to Interest-free economy. The government should select a marketplace for implementing this scheme. One of the factors to be considered for selection is the amount of tax collected from the traders in it.

The informants recommended additional measures which, if implemented, could bring about improvement in the existing ROSCA methodology. These included the following.

4.36 Registration of ROSCAs

Table 4.87 refers to this section

Table 4.87
ROSCAs that exceed a certain Pot size, should be registered with the Chamber, bazaar committee or trade union

-
1. Register high-Pot ROSCAs.
 2. Register high-Pot ROSCAs.
 3. Did not express an opinion.
 4. Strengthen dishonoured cheque management procedure.
 5. Register high-Pot ROSCAs.
 6. Register high-Pot ROSCAs.
 7. Register high-Pot ROSCAs.
 8. Register high-Pot ROSCAs.
-

Source: Theme 7 Recommended Reforms (Category 8 Recommended Reforms), Segment 83. ROSCAs that exceed a certain Pot size, should be registered with the Chamber, bazaar committee or trade union.

Table 4.87 contains opinions of Informants regarding registration of ROSCAs. All ROSCAs that exceed a certain Pot size must be registered with the Chamber of

Commerce, Bazaar Committee or the Trade Union. This will help in data-collection which in turn will lead to improvement in developing policy measures.

Bidding ROSCAs must not be accepted as part of this scheme and must not be registered. Bidding ROSCAs are considered evil, exploitative of the needy and are widely abhorred. There was unanimity in the opinions of informants that this form of ROSCAs must not be encouraged. The opinions of the informants regarding Bidding ROSCAs are listed in Table 4.88.

Table 4.88
Bidding ROSCAs must not be registered

-
1. Ban Bidding ROSCAs.
 2. Ban Bidding ROSCAs.
 3. Ban Bidding ROSCAs.
 4. Did not express an opinion.
 5. Ban Bidding ROSCAs.
 6. Ban Bidding ROSCAs.
 7. Ban Bidding ROSCAs.
 8. Ban Bidding ROSCAs.
-

Source: Theme 7 Recommended Reforms (Category 8 Recommended Reforms) Segment 85. Bidding ROSCAs must not be registered.

4.37 ROSCA management

Table 4.89 refers to this section.

Table 4.89
Registered ROSCAs should be managed only by banks or traders who fulfil certain conditions

-
1. Regulate ROSCA management.
 2. Regulate ROSCA management.
 3. Regulate ROSCA management.
 4. Did not express an opinion.
 5. Regulate ROSCA management.
-

-
6. Did not express an opinion.
 7. Regulate ROSCA management.
 8. Regulate ROSCA management.
-

Source: Theme 7 Recommended Reforms (Category 8 Recommended Reforms) Segment 86 “Registered ROSCAs should be managed only by banks or traders who fulfil certain conditions”.

Fear of default is one the most frequently expressed opinions of the respondents and informants. It is a significant impediment in the way of development of ROSCAs. If Government sponsored registered ROSCAs are managed by individuals, committees of individuals or by institutions that have substantial experience in accumulating and distributing finances, fear of default can be reduced or even eliminated. The institutions (e.g. banks) or traders must satisfy terms and conditions determined by consultations between Bazaar Committees, Trade Unions, the Chamber. Banks and cooperative societies. A substantial majority of respondents and informants expressed the opinion that registered ROSCAs must be managed only by banks or traders who fulfil these conditions.

4.38 Legalization of ROSCAs

Table 4.90 refers to this section.

Table 4.90

ROSCAs should be legally permitted to collect deposits

1. Registered ROSCAs may collect funds.
 2. Registered ROSCAs may collect funds.
 3. Registered ROSCAs may collect funds.
 4. Did not express an opinion.
 5. Register high-Pot ROSCAs.
 6. Strengthen bounced cheque procedures
 7. Registered ROSCAs may collect funds.
 8. Registered ROSCAs may collect funds.
-

Source: Theme 7 Recommended Reforms (Category 8 Recommended Reforms) Segment 82, “ROSCAs should be legally permitted to collect deposits”.

ROSCAs should be given legal recognition by enacting legislation that will validate them. They should also be permitted to collect subscription. The fact that ROSCAs in Pakistan lack legislative support renders them extra-legal business matters. This leads to limitations such as inadmissibility before a court of law. It was felt that legalizing them would bring them into the orbit of law, remove a major impediment in the way of growth and assist in bringing ROSCAs into the folds of documented economy.

4.39 Registered-ROSCA-related disputes to be settled in banking courts

Table 4.91 refers to this section.

Table 4. 91 <i>Default in a registered ROSCAs should be considered a cognizable offense and a report by the ROSCA member should be admissible as evidence in a court of law</i>	
1.	Registered ROSCAs to have legal protection.
2.	Registered ROSCAs to have legal protection.
3.	Did not express an opinion.
4.	Did not express an opinion.
5.	Registered ROSCAs to have legal protection.
Table 4.92 continued.	
6.	Did not express an opinion.
7.	Registered ROSCAs to have legal protection.
8.	Registered ROSCAs to have legal protection.

Source: Theme 7 Recommended Reforms (Category 8 Recommended Reforms) Segment 84 “Default in a registered ROSCAs should be considered a cognizable offense and a report by the ROSCA member should be admissible as evidence in a court of law”.

ROSCA-related disputes are currently being settled out of court because it takes inordinately long to resolve a dispute in a civil court. A default in a ROSCA should be deemed to be a cognizable and bailable offense. Evidence of a President or a member

should be admissible in a court of law. This reform will help in speedy and fair dispute resolution in case of litigation as it does in case of bank-related disputes.

4.40 Depletion of working capital

Periodic instalments paid to ROSCAs result in depletion of working capital. This adversely affects late winners more than it does earlier ones. It is accentuated if the time taken to win the Pot is long. The ill effects of capital depletion can be reduced or even eliminated if delay in winning a Pot is reduced or removed. The methodology suggested above for improving timing is expected to reduce or eliminate the cause of depletion of capital.

4.41 ROSCA membership by non-property owners

Non-property owners encounter resistance in obtaining membership particularly in large-Pot ROSCAs. This is due to fear they might escape leaving behind obligations. If Pot winners are obliged to deposit signed cheques for each due instalment and if the laws and procedures for managing dishonoured cheques are rigorously enforced, it will remove the inclination in any member's mind to abandon a ROSCA after winning a Pot. This will enable non-property owning SME owners to obtain finance thereby contributing to general prosperity.

4.42 Insurance of the Pot

Table 4.92 refers to this section.

Pakistan's economy is predominantly agricultural. Sometimes crops are damaged due to inclement weather. Crop insurance is gradually becoming acceptable as a means to protect farmers against loss. The informants expressed the hope insurance industry would one day participate in ROSCAs. The relatively greater influence wielded by insurance companies will help prevent default, bringing defaulters to justice and protecting SME owners. This will provide strengthening of ROSCAs.

Table 4.92

The Pot should be insured

1. Insure Pots.
2. Confidentiality will be compromised.
3. Insure Pots.
4. Did not express an opinion.
5. Insure Pots.
6. Publicise dishonoured cheques details.
7. Insure Pots.
8. Insure Pots.

Source: Theme 7 Recommended Reforms (Category 8 Recommended Reforms) Segment 80 "The Pot should be insured".

Table 4.92a

Impediments and suggested remedial methods.

Impediment	Remedial measures
Possibility of default	<ul style="list-style-type: none"> • Banks to sponsor Interest-free ROSCAs. • ROSCA management only by qualified individuals or institutions.
Dishonoured cheque management	<ul style="list-style-type: none"> • Insure Pots. • Block bank accounts of habitual defaulters. • Publicize particulars of defaulters. • Resolve ROSCA disputes in banking courts.
Legality of ROSCAs	<ul style="list-style-type: none"> • ROSCAs should be legalized. • Register large-Pot ROSCAs. • Permit ROSCAs to collect funds.

Table 4.92a continued

Timing of winning of Pot	• Public fund for early payment to members
Depletion of working capital	• Public fund for early payment to members
Membership by non-property owners	• Improve dishonoured cheque management.

4.43 Summary of Chapter 4

Chapter 4 examined the findings obtained as a result of researching the three Research Questions. Findings relevant to Research Question 1 reveal that ROSCAs have penetrated the SME finance sector deeply and intensely. Commercial banks have been all but replaced by them as sources of finance. Additional findings reveal that the SMEs do not exhibit any signs of financial distress due to their limited access to formal finance. This lack of access ranks at only number three among five different impediments to trade encountered by the youngest SMEs. It drops to the fourth place among the impediments for the remaining age groups. Summary of Section A carries a tabulated summary of some salient points at Tables 4.42a and 4.42b.

Chapter 4 also examines the findings relating to impediments in the management of ROSCAs that were discovered as a result of interviewing senior ROSCA practitioners. These are compared with findings discovered from (quantitative) survey of 433 respondents. A summary of the impediments is tabulated in Table 4.69a.

Interviews of informants and to some extent responses to the Questionnaire helped develop measures which, if adopted, could help improve ROSCA operation. These recommended measures are a logical development of the Impediments. They have been tabulated in Table 4.92a.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATION

5.1 Introduction to Chapter

Chapter 5 commences by briefly reviewing the impediments to ROSCA operation pointed out by the informants and the respondents. It then offers suggestions for improving the role of ROSCAs. Recommendations are later addressed separately to the different stakeholders. After describing the policy and practical implications, it concludes the study by specifying its contribution to knowledge, its limitations and by offering recommendations to future researchers of ROSCA financing of SMEs.

5.2 Impediments in the way of improving ROSCAs operations

Prior to expounding upon the recommendations it is considered prudent to briefly recapitulate the impediments that have been detected in the ROSCA system. The research led to the discovery of a number of issues that have been found to limit further penetration by ROSCAs in to the SME finance market. These are discussed briefly below.

5.2.1 Defaults

Prominent among the impediments is the fear of defaults. During the survey nearly half of the respondents stated they had *heard* of at least one ROSCA failure. Another half said they had personally experienced at least one ROSCA failure. These figures represent an unexplainably high rate of failure. On the other hand the informants mentioned default rates that were negligible. Several respondents expressed the opinion that fraud or mismanagement by the

ROSCA organizer was a strong possibility. Some held the opinion that while peer pressure was a useful instrument in preventing default by members, it was not sufficient and that a formal legal mechanism was necessary. The opinion that ROSCAs retain a far lower default rate than bank loans appears frequently and categorically in literature. This study has revealed that this opinion needs revisiting.

5.2.2 Laws relating to dishonoured cheques

A sizeable portion of the wholesale trade is carried out by the use of bank cheques. Cheques received from customers are often passed on to ROSCAs towards payment of subscription. If such a cheque is not honoured it causes disarray. The laws and procedures for dealing with bounced cheques are weak. All informants said recovery from a dishonoured cheque is uncertain if it was a deliberate attempt to defraud. The courts are busy. The Police are corrupt.

5.2.3 Legality of ROSCAs

In Pakistan ROSCAs are not recognized by law. ROSCA-related disputes are considered private matters regarding an extra-legal affair. They take long to be resolved by a court of law and are mostly settled out of court. In contrast, banking courts resolve bank-related disputes within three hearings. Inability to achieve early resolution of disputes is an impediment in the way of growth of the ROSCA system.

5.2.4 Timing of winning the Pot

Random ROSCAs are the most popular form. The most commonly encountered membership size is 20 SMEs per ROSCA. This means some members may have to wait from between 2 to up to 20 months before they can win their Pot. The waiting period is random and uncertain. Business plans cannot be based on the funds invested in the ROSCA and obtained through the Pot.

5.2.5 Depletion of the working capital

Funds required to periodically subscribe to the ROSCA are extracted from the business' working capital. For a late winner, the removal of these funds for 20 or so months, without obtaining a consequential monetary benefit, is a handicap. The extracted funds are useful to the business only if they are re-invested, preferably through an early win.

5.2.6 ROSCA membership by non-property owners

Renting SME owners are not admitted to high value ROSCAs especially if they are new and have not yet built adequate social capital. They can obtain membership in low value ROSCAs only.

5.2.7 Loss of capital in case of collapse of a ROSCA

In the case of a collapse the capital invested in the ROSCA till the point of collapse is lost. Its recovery has been stated by the respondents and the informants to be highly uncertain. If the Pot is ensured, total loss of capital can be avoided albeit at a premium.

5.3 Recommendations by Informants and Respondents

This section carries recommendations offered by the informants and the respondents for removing the impediments that have prevented ROSCAs from assuming a position of greater eminence as sources of finance for SMEs. They are based on their experience and judgment. They are logical derivations of the factors listed at section 5.2 Issues that impede ROSCAs. The measures or steps have been derived in Chapter 4 Section C Research Objective 3. They are consolidated and re-stated here briefly.

5.3.1 Management of ROSCAs by banks

A view commonly expressed in literature is that (Random) ROSCAs are notably free of default. The reason ascribed to this is the fact that the system of ROSCAs relies on members' accumulated social capital i.e. their sense of honour, social position, commercial relations, etc. to resist default. This view is subscribed to by the informants of this study also. The view expressed by a large number of respondent SME owners is different. An unexplainably high number of them expressed a strong fear that the ROSCA President could commit a deliberate fraud or mismanagement. This would jeopardize their savings. A large number of them also said they had heard of or personally experienced defaults in ROSCAs. Banks in Pakistan have a history of freedom from insolvency. ROSCAs may be considered a form of informal saving in which a bonus Pot can be obtained. The fear of default either inhibits SMEs from participating in a ROSCA or they split their savings and participate in several ROSCAs. The fear of the possibility of default is an impediment in the freer acceptance of the ROSCA system. It was widely proposed by the informants and the respondents that banks should be permitted and encouraged

to manage ROSCAs. It was also stressed that the element of confidentiality or anonymity of members must be incorporated in the package.

5.3.2 Laws relating to dishonoured cheques

Cheques are a convenient instrument for handling funds. They are often used towards payment of ROSCA subscription. If a cheque is later dishonoured it can cause disorder. The laws and procedures for managing offenses related to dishonoured cheques have not yet been developed adequately. On the other hand, mature and sturdy procedures are invoked if an uncovered cheque is made to meet the demands of a bank. The offender's particulars appear on an online list that is accessible to all banks. He is allowed access to bank facilities only when he clears his outstanding dues. It was proposed that similar procedures be put in place for managing cases of dishonoured cheques. After a grace period, the offender's name should be uploaded to the Internet and be publically accessible. Hard copies of these lists should available on reasonable payment to citizens. The name will be taken off the list once all outstanding obligations have been met. From discussions, interviews and the survey it appears that inability to make recovery from a dishonoured cheque is the single greatest obstacle to smooth day-to-day trading.

5.3.3 Legality of ROSCAs

In Bharat ROSCAs have been legislated in to recognition. All ROSCAs with Pots exceeding a threshold amount have to be registered. ROSCA-related disputes are resolved in banking courts. Wilful fraud or mismanagement attracts police and judicial attention. In Pakistan, Random ROSCAs should be

regularized by legislation and registered. This will help reduce rate of defaults and help bring ROSCA operation in to the sphere of documented economy. Data gathering is relatively easier in Bharat than it is in Pakistan. The ROSCA industry has progressed more in there than it has done in Pakistan.

5.3.4 Timing of winning the Pot

Because the timing of winning a Pot cannot be predicted, it cannot be incorporated in to business plans. It is possible to remedy the situation if a fund is used make early payments. The detailed modus operandi was explained earlier in Ch.4 Section C Research Objective 3.

5.3.5 Depletion of working capital

If the fund proposed above for improving timing of winning the Pot is put in place it is expected the adversity caused to SMEs on account of depletion of working capital will be considerably reduced. At least two options are available to SME owners for managing their retained earnings. They can re-invest them in business and earn additional profits. They can also save them by investing them in ROSCA(s). In the latter case the subscription has to be removed from the operating capital without accruing any consequential benefit. An (early) Pot is a bonus loan but its timing cannot be predicted accurately. The timing of obtaining a bank loan can be predicted. It usually materializes within three months. A bank loan is a lump sum which, if fortuitously invested, can result in greater profits. At first sight a bank loan appears to be more expensive than a ROSCA of the same amount and period.

However, Pots obtained later in the cycle are incapable of generating as much profit as a bank loan.

5.3.6 ROSCA memberships by non-property owners

Renting SME owners encounter resistance when seeking membership in ROSCAs. This is due to a precautionary measure adopted by ROSCA Presidents to prevent disappearance of a ROSCA member leaving behind outstanding obligations. If a renting trader wishes to participate in a ROSCA a default can be forestalled if cheques for remaining instalments are retained as a security at the start of the cycle. This precaution becomes affective if productive procedures for managing cases of dishonoured cheques are put in place.

5.3.7 Insurance of the Pot

Operating without insuring the Pot is a feature of ROSCAs in Pakistan. If the Pot is insured at an affordable cost, the fear of loss of savings as a result of default will be reduced. Additionally because of their greater influence, insurance companies can pursue and bring the defaulting culprit to justice. This will ensure that potential defaulters will take notice of the possible consequences of any misdemeanour.

5.4 Remedies suggested by the Author

ROSCAs are providing inexpensive, easy, hassle- and Interest-free finance to SMEs at a scale that appears to exceed that of the banks. ROSCA operation and prospects for expansion are handicapped by a number of impediments. The opinions of the

author, assembled from those of the informants and respondents, in the way of improving ROSCA operation, are given below. It will be observed that the most significant of the impediments is the constant threat of default. A default can result in irrecoverable loss of savings. The fear of defaults would be eliminated if the suggestions given below are adopted.

5.4.1 Insurance cover to ROSCAs

In Pakistan ROSCAs operate without the protection of formal insurance. A default causes the irrecoverable loss of the victim's saving. Recourse to the law or the Police does not lead to conviction. If the Pot is formally insured the victim can be compensated. Additionally because of their greater influence, the insurance companies can pursue and bring the culprit to justice. This will ensure that potential defaulters will take notice of the possible consequences of any misdemeanour.

5.4.2 Dishonoured cheques

The law and procedures relating to dishonoured cheques are recommended to be strengthened to effectively meet today's market requirements. Banks should exchange the information of every dishonoured cheque. If a person issues more than a certain number of dishonoured cheques within a predetermined time, his account(s) should be freezed. The "culprit" may himself have been the victim of dishonoured cheques. He should be given a reasonable grace period to correct the situation. If he still does not, his name, National Identity Card number, cheque numbers, dates, bank name, amounts and etc., should be uploaded to a publically accessible website. It should be removed from the

Internet once the obligations have been met. Printed copies of this information should be available for purchase. Traders who are offered cheques as payment can satisfy themselves before proceeding further with the transaction.

5.4.3 Legislative cover

ROSCA operation should be legislated and regulated by an Act of Parliament. This will “regularize” them. ROSCA-related offences can be settled expeditiously in banking courts.

5.4.4 Registration

All ROSCAs with Pots that exceed a certain amount should be registered with the Chamber, bazaar committee or trade union. Registered ROSCAs should be permitted to take in deposits and distribute the Pot.

5.4.5 ROSCA-related disputes

Disputes involving registered ROSCAs should be adjudicated in a banking court. Deposition by or against ROSCA members should be admissible as evidence in a court of law.

5.4.6 Management of ROSCAs

Registered ROSCAs should be managed only by such persons or organizations as meet certain criteria. These criteria can be set by Chambers, bazaar committees, trade unions, commercial banks, and etc.

5.4.7 Bidding ROSCAs

Bidding ROSCAs are highly exploitive. Unreasonably high bid rates lead to exploitation and default. They have been capped at 30 per cent in Bharat. They must not be registered.

5.5 Recommendations to stakeholders

Discussions with the informants and respondents revealed a number of precautions that, if observed, will go a long way in protecting individual ROSCA members

5.5.1 ROSCA members

At present ROSCAs are operating without any support from the government. Members need to protect themselves against misuse. SME owners must exercise care and participate only in those ROSCAs whose President and members have accumulated ample social capital and are known to be financially secure. They should review their capacity to pay subscriptions and invest only as much as they can afford to without exceeding their payment capability or jeopardizing the ROSCA. If the situation permits, SME owners should invest in multiple ROSCAs. This will increase their likelihood of obtaining an early Pot. It will also protect the rest of their capital in case one ROSCA fails.

5.5.2 ROSCA Presidents

ROSCA Presidents should organize ROSCAs of only such Pot values as the marketplace can bear. Large-Pot ROSCAs operating in markets where the retained earnings are less than adequate for sustaining large Pots are likely to

fail. In case of large-Pot ROSCAs, a signed cheque for each subscription that will fall due must be obtained before transferring the Pot, from every winner. This will ensure to an extent the winner will pay the remaining instalments. Newcomers may be admitted but their turn to win must be placed at the end of the ROSCA cycle. They should be allowed to obtain earlier wins in later ROSCAs. This will help evaluate their payment capability as well as to gradually help them build social capital. The President must “win” the first Pot. This amount will help tide over any delay caused by late payment or a missed payment by a member. The President must ensure the Pot is paid out without any delay. He must not invest the accumulated funds in a transaction involving speculation or one from which a windfall may be expected.

5.5.3 Banks

There is a large demand in the marketplace for an organization that can operate ROSCAs without the possibility of default. Pakistani banks have a reputation of stability. They also have free access to banking courts where a defaulter can be brought to justice within three months. Banks are excellently placed for stepping in to the largely vacant ROSCA market. Banks can earn a profit from this venture by adopting a number of strategies. For example, banks can retain the first two Pots for themselves. Banks can also apply a surcharge for the service in which the value of money is not linked to time. This will ensure the element of Interest is not involved. The earnings in every ROSCA cycle will doubtlessly be small. This will be an inducement for the banks to increase efficiency in this operation. However, where 90 per cent of the SMEs participate in ROSCAs and there are tens of thousands of them, the profits will

be generated by an economy of scale. Banks must coordinate their database to include information about account holders who issue cheques that are not covered. The culprit should be given a period during which he can rectify his record. Failing, his accounts in all banks must be frozen. His name can be uploaded to a publically accessible website. Printed lists of defaulters may be available to the public.

5.6 Policy implications

SMEs have provided support to the economy by growing at 7.5 per cent when the rest of the business sector barely managed to achieve a 3.5 per cent rate of growth. They are labour-intensive and provide employment to 80 per cent of the labour force. SMEs are the foundation of Pakistan's economy. Being enterprises, they need finances for starting-up, running, and for growth. Conventional (Interest-bearing) and Islamic banks prefer to finance larger enterprises. SMEs do not receive any significant formal financial support. This study has revealed that in spite of having no access to formal finance, SMEs are flourishing because ROSCAs provide them the much needed financial backing. ROSCAs are performance a laudable service to the country's economy by providing easy, inexpensive and widely accessed final services. ROSCAs have replaced banks as a source of financing for SMEs.

ROSCAs possess a number of shortcomings that impede their operations and growth. These have been discussed at length earlier. They include the possibility of fraud or mismanagement by the President, default by a member, suffering from cheques that are not covered, lack of legislative cover to ROSCAs, unpredictability of timing of winning a Pot, depletion of working capital of later winners and resistance to

admitting renting SME owners to higher value ROSCAs. A number of remedial steps have been suggested earlier in this chapter. The government should enact a law that grants recognition to ROSCAs as well regularizes their operations. A fund should be set up to strengthen ROSCAs' operations. Random ROSCAs of Pots that are above a certain size should be registered. Bidding ROSCAs must not be registered. ROSCA related disputes must be resolved in banking courts. Laws and Police procedures dealing with dishonoured cheques must be made to satisfy the marketplace needs.

An additional recommendation relates to the definition of SME adopted by SMEDA and SBP. The current definition relates only to the medium class of enterprises. The definition of the small class is missing. The micro- class has not been recognized at all. In EC the micro- class comprises more than 99 per cent of the enterprises. In the absence of a census, it may be assumed that micro- class in Pakistan too comprises 99 per cent or thereabouts of the SME population. It is recommended that the micro- and small- classes be included in the definition of SMEs.

These recommendations have been arrived at after discussions with respondents as well as senior practitioners. The most important of them is the recommendation to improve the management of dishonoured cheques that have been passed with malafide intentions.

SIGNIFICANCE, LIMITATIONS, RECOMMENDATIONS

5.7 Significance of the study

SMEs are providing a commendable contribution to Pakistan's economy. They are assisted in their operation by ROSCAs. Pakistan's strength and wellbeing of its citizens is linked to the strength and prosperity of its economy through its SME sector. Since this sector is being sustained by ROSCAs it is fair to say that any strengthening of ROSCAs will be reflected in the strength of Pakistan society. ROSCAs are a major factor in that nearly 90 per cent of the country's SMEs participate in them. They need to be studied in depth. Only two previous studies on the operation of SMEs in Pakistan are known to this author. The first (Carpenter, & Jensen, 2002) reported that ROSCAs are widespread among Pakistan's households. According to them, 30 per cent of urban and 20 per cent of rural households participate in ROSCAs. They do not report on the use of ROSCAs by SMEs. The latest study is the doctoral dissertation by Khan (2012). Khan studied the participation in ROSCAs by individuals, families and SMEs. Khan also reported on the existence of micro-finance and banks in the city of Dera Ghazi Khan. Her research was qualitative. To the best knowledge of this researcher no prior study has examined ROSCA operation specifically related to SMEs at this scale and in this depth. In the present study (quantitative) data relevant to numbers of SMEs, numbers of ROSCAs, the sizes of Pots, numbers of SMEs who applied to banks for loans and numbers who obtained them, reasons for not applying to banks for loans, and etc. have been collected. The obstacles to the escalation in penetration by ROSCAs have been analysed and reported. In addition, the researcher interviewed a number of senior and experienced SME owners and obtained their opinions about the methodology to be

adopted in order to strengthen ROSCAs even further. These have been presented as recommendations to policy makers to help them formulate policies that will ultimately to the wellbeing of the country's citizens.

5.8 Limitations of the study

Responses of SME owners to Questions like “What is the size of the Pot?”) reveal the respondents' personal disposable income. In view of the confidential nature of this information it may be assumed with a degree of certainty that the figures have been underreported. The grand total obtained from these Questions can therefore be expected to be lower than the actual amount. Cross-checking between members of the same ROSCA revealed that many members under-reported the amounts of the Pots and the periodic subscriptions by as much as a factor of five. The figures obtained during interviews with senior practitioners do not indicate the practitioners' own earnings but are their opinions about the prevailing ROSCA environments in their neighbourhood. It can be assumed with a degree of certainty that these figures are closer to the actually prevailing amounts. This underreporting was done to avoid attracting attention of Income Tax department, competitors and others who may solicit a loan from winners of Pots.

The size of the ROSCA economy appearing in Table 4.23 (Rs615 Mn) relate to Bazaars 1, 2 and 3. The size of formal (Bank) economy appearing in Table 4.35 relates not only to Banks' branches operating in Bazaars 1 and 2 but also to other neighbouring markets. They do not include figures relevant to Bazaar 3. The figures given in Tables 4.16 (468 Mn) and 4.35 (Rs357 Mn) cannot be compared directly. They relate to different though overlapping markets.

Another difficulty experienced during the study was that respondents sometimes denied being members of ROSCA outright. They also conveyed sizes of the periodic subscription and the Pots that were only a fraction of the actual values.

Research Objective 2 was achieved mostly by processing qualitative data obtained from interviews. A small fraction of the data was obtained through opinions of respondents reduced to 5-point scale. Research Objective 3 was achieved solely through the use of qualitative data. The generalizability of data obtained through the qualitative method is limited.

5.9 Recommendations for future research

At this stage of the study, additional questions arose and solicited resolution. Are these results representative of SMEs operating in other markets also? Do SMEs operating in other markets in Lahore out of premises that have floor area identical to that of SMEs in Bazaar No.1, also subscribe to ROSCAs having Pots of Rs2 Mn – Rs30 Million? What are the parameters such as Pot sizes, memberships, default rates, etc. of ROSCAs operating in other markets? To what extent have banks been able to finance SMEs elsewhere? Scholars worldwide and SMEDA in Pakistan assert that SMEs are financially stressed. They state also that SMEs, particularly start-ups, exit at a high rate. The findings of the study do not support these assertions. Why does the ground reality among SMEs in the target population appear to be quite the opposite of that predicted by international monetary authorities and by SMEDA? Why are these SMEs not approaching banks for financing? Is involvement of Interest the real reason as reported by SME owners? Will they approach banks if the Interest rate is to below a threshold level? Why is the lack of access to formal financing not causing these

SMEs to exit the market early? Are the opinions of these international financial authorities regarding difficulties caused by a lack of access to formal finance irrelevant in the Pakistani business environment? To what sector of Pakistani SMEs do the predictions of these monetary authorities apply? Globally, ROSCAs are considered to be free of default. This view is supported by the informants also. A noticeably large number of respondents declared they had either seen or personally experienced ROSCA failure. What factors have led to this divergence of views? It is recommended future research include some or all of these questions. This researcher is of the opinion that any future survey should word and administer survey questions No. 3 and 4 at Appendix B, differently.

In this study, investment made by certain banks was compared with ROSCA finances in Bazaars 1, 2 and 3. The banks were those whose hubs were located at Circular Road. These banks finance SMEs operating in Bazaars 1 and 2 and other bazaars not covered by this study. The areas covered by the banks and by the study were different and overlapping. In order to make a more accurate comparison it is recommended that a future study be restricted to ROSCAs and SMEs that operates only in such markets and bazaars that are served by specific bank branches

It is also recommend that future researchers should develop a theoretical framework based on results of this study. This framework should be also tested using quantitative data.

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Appendix A
SME FINANCING NEEDS

Demographic Information

1. Your name.
2. The name of your business.
3. Are you the founder of this business?
a. Yes. b. No.
4. Your age.
5. The highest level of your education.
a. Middle or less. b. High. c. Intermediate. d. Graduate. e. Specify.
6. Indicate the segment in which your firm operates e.g. textile, garments, machinery, import, etc.

Business background

7. Indicate how long your firm has been in business.
a. Less than 5 years b. 5-10 years c. 11-15 years d. More than 15 years e. Specify._____.
8. Specify the form of ownership of your business.
a. Sole proprietorship. b. Partnership. c. Family business. d. Specify_____. e. Limited Liability Company.
9. State the number of persons working in your business when it started, full time or part time.
a. 1-3. b. 4-6. c. 7-9. d. 10-49. e. Specify._____
10. State the number of persons your business currently employs, full time or part time.
a. 1-3. b. 4-6. c. 7-9. d. 10-49. e. Specify._____
11. Indicate whether your cost of operation has decreased, remained unchanged or increased over the past five years.
a. Substantially increased. b. Increased. c. Remained unchanged. d. Decreased e. Substantially decreased.
12. As compared to five years ago, state how much your profits have changed.
a. Increased more than 20%. b. Increased, but less than 20%. c. No growth. d. Reduced by less than 20%. e. Reduced by more than 20%.
13. Over the last five years, state how much your firm has grown.
a. Grew more than 20%. b. Grew, less than 20%. c. No growth
d. Shrank a little. e. Shrank more than 20%
14. Indicate the change in your turnover over the last five years.
a. Increased more than 20%. b. Increased, but less than 20%. c. No change. d. Reduced by less than 20%. e. Reduced by more than 20%.
15. State the most pressing problem your firm is currently facing.
a. Customers b. Competition. c. Access to finance. d. Tax department
e. Load shedding.

Startup finance

16. Indicate your personal contribution to startup financing (percentage of total startup).
- a. 0-10. b. 10-25. c. 25-50. d. 50-75. e. 75-100.
17. Indicate family, relatives and friends' contribution to startup financing (percentage of total startup).
- a. 0-10. b. 10-25. c. 25-50. d. 50-75. e. 75-100.
18. Indicate Kmaytee contribution to startup financing (percentage of total startup).
- a. 0-10. b. 10-25. c. 25-50. d. 50-75. e. 75-100.
19. Indicate bank contribution to startup financing (percentage of total startup).
- a. 0-10. b. 10-25. c. 25-50. d. 50-75. e. 75-100.

Running finance

20. Indicate retained earnings contribution to running financing (percentage of total running).
- a. Below 10. b. 10-25. c. 25-50. d. 50-75. e. 75-100.
21. Indicate family, friends' contribution to running financing (percentage of total running).
- a. Below 10. b. 10-25. c. 25-50. d. 50-75. e. 75-100.
22. Indicate K'maytee contribution to running financing (percentage of total running).
- a. Below 10. b. 10-25. c. 25-50. d. 50-75. e. 75-100.
23. Indicate banks' contribution to running financing (percentage of total running).
- a. Below 10. b. 10-25. c. 25-50. d. 50-75. e. 75-100.

Bank loans

24. Have you applied for a bank loan within the last 12 months?
- a. Yes. No.
- If Yes, proceed to question number 35. If No, proceed to question number 34.
25. State the reasons for not applying for a bank loan.
- a. Possible rejection. b. Sufficient retained reserves. c. Bank loans involve Interest. d. Complicated documentation. e. Specify. _____.

Most recent bank loan

26. Did you obtain a loan within the last five years?
- Yes. No.
- If YES, answer the following question. If NO, proceed to question 28.
27. In terms of repayment period, the loan could be classed as
- a. Long term, longer than 12 months. b. Medium term, 7-12 months.
- c. Short term, 3-6 months. d. Overdraft. e. Specify.
28. If NO, why did you not obtain a loan within the last 12 months? Tick all that apply.
- a. I lacked the collateral. b. Documentation was difficult. c.

Unfavourable terms. d. I lacked the guarantee. e.

Specify _____.

29. Indicate the number of bank loans you have taken during the last 5 years.
a. None. b. One. c. Two. d. Five or less. e. Specify.
30. Indicate the use to which you put these loans. Select most significant answer.
a. Running expenses. b. Property. c. Growth. d. Premises improvement. e. Specify.
31. Indicate whether the availability of bank loans has decreased, remained unchanged or improved for your firm over the past 5 years.
a. Greatly improved. b. Improved. c. Remained unchanged. d. Decreased. e. Greatly decreased.
32. Indicate whether the general economic situation has improved, remained unchanged or deteriorated for business over the past 5 years.
a. Greatly improved. b. Improved. c. Remained unchanged. d. Deteriorated. e. Greatly deteriorated.
33. Indicate whether your firm-specific situation has improved, remained unchanged or deteriorated over the past 5 years.
a. Greatly improved. b. Improved. c. Remained unchanged. d. Deteriorated. e. Greatly deteriorated.
34. Indicate degree of your satisfaction with the convenience of bank loans.
a. Very satisfied. b. Satisfied. c. Somewhat satisfied. d. Unsatisfied. e. Very unsatisfied.

Experiences related to the most recent formal loan

35. The repayment period was equal to or less than, (months)
a. 6. b. 12. c. 18. d. 36. e. longer than 30 months.
36. The Interest rate of this loan was (percentage)
a. up to 15. b. up to 30. c. up to 40. d. 60. e. Other, specify _____.
37. The collateral posted was
a. Gold. b. Guarantee. c. Stock. d. Land. e. Specify _____.
38. The time taken between applying to the bank and the sanction was up to (months)
a. 1. b. 2. c. 3. d. 4. e. Specify _____.
39. Indicate the approximate size of loan, equal to or less than, (Rupees, lakhs).
a. 1. b. 5. c. 10. d. 20. e. Specify.

Finance, general

40. If you need external financing to realize your growth ambitions, state the type of financing would you prefer most.
a. Internal. b. Bank. c. Friends, relatives. d. Moneylender. e. K'maytee.

Appendix B
ROSCA (K'maytee) PENETRATION

K'maytee, general information

1. Are you a member or organizer of any K'maytee?
 Yes. No.
If Yes, proceed to next question. If No, quit.
2. The number of K'maytees that you are a member of, is
a. 1. b. 2. c. 3. d. 4. e. More, specify_____.
3. The number of defaults you personally encountered during the last 5 years is
a. 1. b. 2. c. 3. d. 4. e. Specify_____.
4. The number of defaults you have only heard of during the last 5 years, is
a. 1. b. 2. c. 3. d. 4. e. Specify_____.
5. What were the causes of the defaults? Click all that apply. Rank your answers
a. Death. b. Collapse of business. c. Mismanagement. d. Ill intent.
e. Bolee valee (Bidding type).

K'maytee Number 1

6. Indicate how you plan to spend this Pot.
a. Running expenses. b. Inventory. c. Growth. d. Merge pot with other pots to increase finances. e. Specify_____.
7. Indicate the number of members in K'maytee 1.
a. Up to 10. b. Up to 15. c. Up to 20. d. Up to 25. e. Specify_____.
8. What is the frequency of paying instalments in to K'maytee 1.
a. Daily. b. Weekly. c. Fortnightly. d. Monthly. e. specify_____.
9. Indicate the value of instalment in K'maytee 1 (Thousands of Rupees).
a. Up to 1. b. Up to 2. c. Up to 5. d. Up to 10. e. Specify_____.
10. What is the size of the "Pot" in K'maytee 1 (Rupees)?
a. Up to 20,000. b. Up to 50,000. c. Up to 1Lakh. d. Up to 5Lakh.
e. Specify_____.
11. What is the maximum number of subscribers for a position, in K'maytee 1?
a. 1. b. 2. c. 3. d. 4. e. Specify_____.
12. Indicate the duration (term, cycle, period) of K'maytee 1.
a. Weekly. b. Fortnightly. c. Monthly. d. 6-monthly. e. Specify_____.
13. Indicate where the draw takes place.
a. In President's office. b. In a bank. c. In any member's office. d. In a home. e. Specify_____.
14. Where does payment of subscription for K'maytee 1 takes place?
a. In President's office. b. In a bank. c. In any member's office. d. In a home. e. Specify_____.

15. Where do payments of Pot for K'maytee 1 take place?
 a. In President's office. b. In a bank. c. In any member's office. d. In a home. e. Specify_____.
16. In K'maytee 1, members' presence at draw is considered essential.
 Yes. No.
17. Indicate which type K'maytee 1 is.
 a. Random. b. Bidding. c. Need. d. In a home. e. Specify_____.
18. What is the basis for selecting members for K'maytee?
 a. Guild. b. Locality. c. Clan. d. Referral. e. Specify_____.

K'maytee Number 2

19. Indicate how you plan to spend this Pot.
 a. Running expenses. b. Inventory. c. Growth. d. Merge pot with other pots to increase finances. e. Specify_____.
20. Indicate the number of members in K'maytee 2.
 a. Up to 10. b. Up to 15. c. Up to 20. d. Up to 25. e. Specify_____.
21. What is the frequency of paying instalments in to K'maytee 2?
 a. Daily. b. Weekly. c. Fortnightly. d. Monthly. e. Specify_____.
22. Indicate the amount of instalment in K'maytee 2 (Thousands of Rupees).
 a. Up to 1. b. Up to 2. c. Up to 4. d. Up to 10. e. Specify_____.
23. What is the size of the "Pot" in K'maytee 2 (Rupees)?
 a. Up to 20,000. b. Up to 50,000. c. Up to 1Lakh. d. Up to 5Lakh. e. Specify_____.
24. What is the number of subscribers for a position, in K'maytee 2?
 a. 1. b. 2. c. 3. d. 4. e. Specify_____.
25. Indicate the duration (term, cycle, period) of K'maytee 2?
 a. Weekly. b. Fortnightly. c. Monthly. d. 6-monthly. e. Specify_____.
26. Indicate where the draw takes place.
 a. In President's office. b. In a bank. c. In any member's office. d. In a home. e. Specify_____.
27. Where do payments of subscription for K'maytee 2 take place?
 a. In President's office. b. In a bank. c. In any member's office. d. In a home. e. Specify_____.
28. Where does payment of Pot for K'maytee 2 take place?
 a. In President's office. b. In a bank. c. In any member's office. d. In a home. e. Specify_____.
29. In K'maytee 2, members' presence at draw is considered essential.
 Yes No.
30. Indicate which type K'maytee 2 is.
 a. Random. b. Bidding. c. Need. d. Decision. e. Specify_____.

31. What is the basis for selecting members for K'maytee 2?
a. Guild. b. Locality. c. Clan. d. Referral. e. Specify_____.

K'maytee Number 3

32. Indicate how you plan to spend this Pot.
a. Running expenses. b. Inventory. c. Growth. d. Merge pot with other pots to increase finances. e. Specify.
33. Indicate the number of members in K'maytee 3.
a. Up to 10. b. Up to 15. c. Up to 20. d. Up to 25. e. Specify_____.
34. What is the frequency of paying instalments in to K'maytee 3?
a. Daily. b. Weekly. c. Fortnightly. d. Monthly. e. specify_____.
35. What is the amount of instalment in K'maytee 3 (Thousands of Rupees)?
a. Up to 1. b. Up to 2. c. Up to 4. d. Up to 10. e. Specify_____.
36. What is the size of the "Pot" in K'maytee 3 (Rupees)?
a. Up to 20,000. b. Up to 50,000. c. Up to 1Lakh. d. Up to 5Lakh. e. Specify_____.
37. What is the number of subscribers for a position, in K'maytee 3?
a. 1. b. 2. c. 3. d. 4. e. Specify_____.
38. Indicate the duration (term, cycle, period) of K'maytee 3?
a. Weekly. b. Fortnightly. c. Monthly. d. 6-monthly. e. Specify_____.
39. Indicate where the draw takes place.
a. In President's office. b. In a bank. c. In any member's office. d. In a home. e. Specify_____.
40. Where do payments of subscription for K'maytee 3 take place?
a. In President's office. b. In a bank. c. In any member's office. d. In a home. e. Specify_____.
41. Where do payments of Pot for K'maytee 3 take place?
a. In President's office. b. In a bank. c. In any member's office. d. In a home. e. Specify_____.
42. In K'maytee 3, members' presence at draw is considered essential.
 Yes. No.
43. Indicate which type K'maytee 3 is.
a. Random. b. Bidding. c. Need. d. Decision. e. Specify_____.
44. What is the basis for selecting members for K'maytee 4?
a. Guild. b. Locality. c. Clan. d. Referral. e. Specify_____.

K'maytee Number 4

45. Indicate how you plan to spend this Pot.
a. Running expenses. b. Inventory. c. Growth. d. Merge pot with other pots to increase finances. e. Specify_____.

46. Indicate the number of members in K'maytee 4.
 a. Up to 10. b. Up to 15. c. Up to 20. d. Up to 25. e. Specify_____.
47. What the frequency of paying instalments in to K'maytee 4?
 a. Daily. b. Weekly. c. Fortnightly. d. Monthly. e. Specify_____.
48. What is the amount of instalment in K'maytee 4 (Thousands of Rupees)?
 a. Up to 1. b. Up to 2. c. Up to 4. d. Up to 10. e. Specify_____.
49. What is the size of the "Pot" in K'maytee 4 (Rupees)?
 a. Up to 20,000. b. Up to 50,000. c. Up to 1Lakh. d. Up to 5Lakh. e. Specify_____.
50. What is the number of subscribers for a position, in K'maytee 4?
 a. 1. b. 2. c. 3. d. 4. e. Specify_____.
51. Indicate the duration (term, cycle, period) of K'maytee 4.
 a. Weekly. b. Fortnightly. c. Monthly. d. 6-monthly. e. Specify_____.
52. Where does the draw take place?
 a. In President's office. b. In a bank. c. In any member's office. d. In a home. e. Specify_____.
53. Where do payments of subscription for K'maytee 4 take place?
 a. In President's office. b. In a bank. c. In any member's office. d. In a home. e. Specify_____.
54. Where do payments of Pot for K'maytee 4 take place?
 a. In President's office. b. In a bank. c. In any member's office. d. In a home. e. Specify_____.
55. In K'maytee 4, members' presence at draw is considered essential.
. Yes. . No.
56. Indicate which type K'maytee 4 is.
 a. Random. b. Bidding. c. Need. d. Decision. e. Specify_____.
57. What is the basis for selecting members for K'maytee 4?
 a. Guild. b. Locality. c. Clan. d. Referral. e. Specify_____.

Your opinions about financing through Kmaytees

58. The size of a Pot is sufficient to fulfil my need for running finance.
 a. Strongly agree. b. Agree. c. Neutral. d. Disagree. e. Strongly disagree.
59. The size of a Pot is sufficient to fulfil my financial needs for business growth.
 a. Strongly agree. b. Agree. c. Neutral. d. Disagree. e. Strongly disagree.
60. Enough Pots (K'maytee) are available to be added together to make a useful amount.
 a. Strongly agree. b. Agree. c. Neutral. d. Disagree. e. Strongly disagree.

61. Time of winning the Pot may not coincide with time of my need for finance.
a. Strongly agree. b. Agree. c. Neutral. d. Disagree. e. Strongly disagree.
62. K'maytees are reliable as they cannot be demolished by a single default.
a. Strongly agree. b. Agree. c. Neutral. d. Disagree. e. Strongly disagree.
63. Fraud by the K'maytee organizer is a strong possibility.
a. Strongly agree. b. Agree. c. Neutral. d. Disagree. e. Strongly disagree.
64. Mismanagement by the K'maytee organizer is a strong possibility.
a. Strongly agree. b. Agree. c. Neutral. d. Disagree. e. Strongly disagree.
65. Peer pressure is sufficient to prevent default.
a. Strongly agree. b. Agree. c. Neutral. d. Disagree. e. Strongly disagree.
66. Peer pressure is not sufficient to prevent default. Formal, legal support is necessary.
a. Strongly agree. b. Agree. c. Neutral. d. Disagree. e. Strongly disagree.
67. Sponsorship of an Interest-free K'maytee by a bank can greatly help reduce risk of default.
a. Strongly agree. b. Agree. c. Neutral. d. Disagree. e. Strongly disagree.
68. K'maytees are simpler than bank loans as documentation is not involved.
a. Strongly agree. b. Agree. c. Neutral. d. Disagree. e. Strongly disagree.
69. Unforeseen delay in paying subscription does not attract penalty.
a. Strongly agree. b. Agree. c. Neutral. d. Disagree. e. Strongly disagree.
70. Collateral is not required and social capital is enough for participation.
a. Strongly agree. b. Agree. c. Neutral. d. Disagree. e. Strongly disagree.
71. If the length of a K'maytee cycle is equal to that of a bank loan, K'maytee financing is less expensive than an equal bank loan.
a. Strongly agree. b. Agree. c. Neutral. d. Disagree. e. Strongly disagree.
72. If the length of a K'maytee cycle is equal to that of a bank loan, K'maytee financing is more convenient than an equal bank loan.
a. Strongly agree. b. Agree. c. Neutral. d. Disagree. e. Strongly disagree.
73. In a bidding K'maytee, the bid amounts help reduce cost of financing.
a. Strongly agree. b. Agree. c. Neutral. d. Disagree. e. Strongly disagree.
74. K'maytees help increase social capital of participants.
a. Strongly agree. b. Agree. c. Neutral. d. Disagree. e. Strongly disagree.

75. K'maytees encourage group interaction, involvement and participation.
a. Strongly agree. b. Agree. c. Neutral. d. Disagree. e. Strongly disagree.
76. The determinants of a K'maytee can be tailored to meet the needs of the group.
a. Strongly agree. b. Agree. c. Neutral. d. Disagree. e. Strongly disagree.
77. In bidding K'maytee, the organizer has to bid for his turn.
a. Strongly agree. b. Agree. c. Neutral. d. Disagree. e. Strongly disagree.
78. In any K'maytee, the organizer always gets the first Pot.
a. Strongly agree. b. Agree. c. Neutral. d. Disagree. e. Strongly disagree.
79. I am satisfied with the ease of obtaining running finance through K'maytee
a. Strongly agree. b. Agree. c. Neutral. d. Disagree. e. Strongly disagree.



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Appendix C
BANKS' PERSPECTIVE OF SME FINANCING

Section A General Information

	Year-end				
	'13	'12	'11	'10	'09
Total number of commercial accounts					
Total numbers of fresh loans					
Total amount of fresh loans					
Total amount outstanding, 31 Dec.					
numbers of Non-Performing Loans (NPLs), 31 Dec.					

Section B Class of Depositors

Number of accounts by class of depositors

Up to 100,000
100,000 - 1,000,000
1,000,000 - 10,000,000

Deposits made by class of depositors

Up to 100,000
100,001 - 1,000,000
1,000,001 - 10,000,000

Loans made to class of depositors

Up to 100,000
100,001 - 1,000,000
1,000,001 - 10,000,000

Loans as % of class deposits

Up to 100,000
100,001 - 1,000,000
1,000,001 - 10,000,000

Loans to class as % of total loan portfolio

Up to 100,000
100,001 - 1,000,000
1,000,001 - 10,000,000

Section C Details of Types of Loans

Short-term Loans

Period of loan, (months)
Number of Instalments
Rate of Interest, (%)
Period between Application - Approval, (months)
 numbers approved between 01 Jan – 31 Dec '13

Medium-term Loans

Period of loan

Number of Instalments

Number of Instalments

Period between Application and Approval

numbers approved between 01 Jan – 31 Dec '13

Long-term Loans

Period of loan

Number of Instalments

Rate of Interest

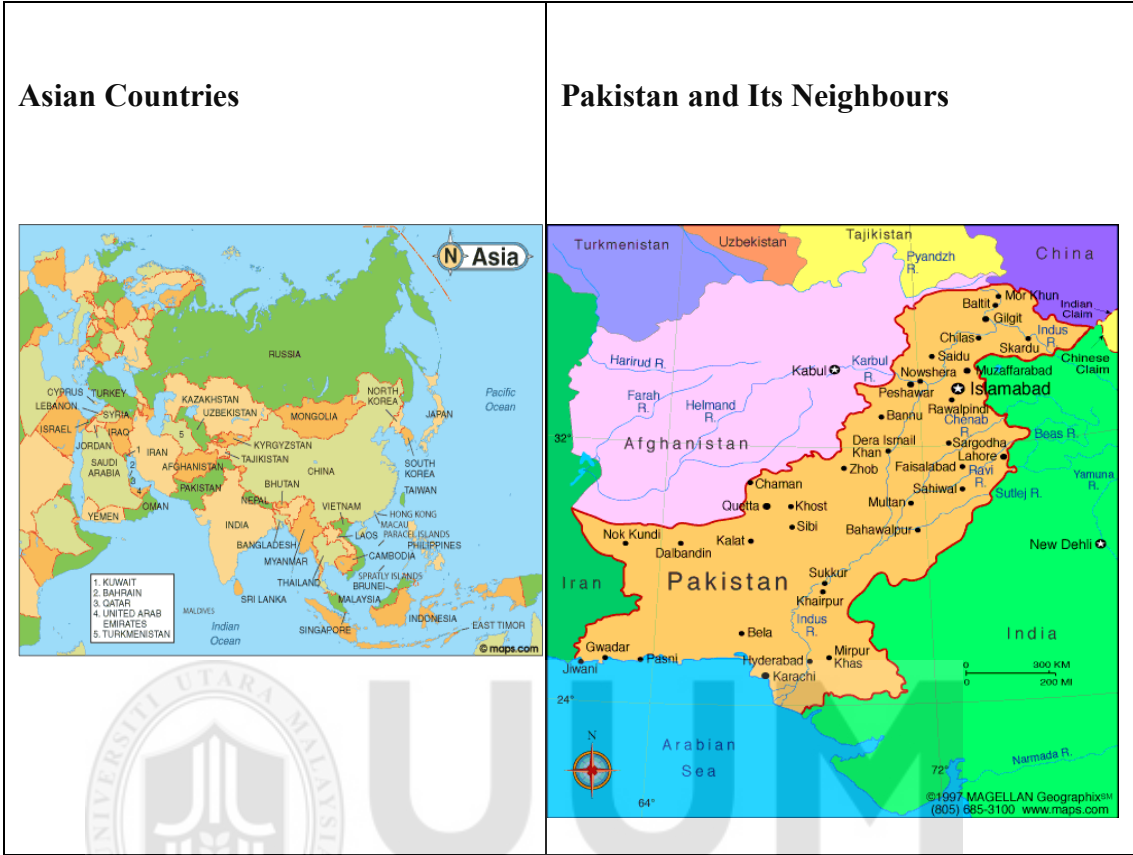
Period between Application and Approval

numbers approved between 01 Jan – 31 Dec '13



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Appendix D Maps of Pakistan



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Appendix E Interviews, coded

Table G.1
Categories of segments

No.	Codes	Segments	Total	Page
1	Relationship with banks	1 – 17	17	1
2	ROSCA organization	18 – 27	10	11
3	ROSCA management	28 – 41	14	16
4	Defaults	42 – 51	10	21
5	Advantages of ROSCAs	52 – 63	12	26
6	Weaknesses of ROSCAs	64 – 71	8	33
7	Important weaknesses of ROSCAs	72 – 78	7	37
8	Recommended reforms	79 – 89	11	40
Total			89	

Emerging Themes

Table G2
Themes that emerged from interviews and related codes

No.	Themes	Categories							
		1	2	3	4	5	6	7	8
1	Defaults		X	X	X		X	X	X
2	Dishonoured cheques	X			X		X	X	X
3	Legality of ROSCAs				X		X		
4	Timing of winning the Pot						X		
5	Depletion of working capital						X		
6	ROSCA membership by non-property owners				X		X		
7	Recommended Reforms	X	X	X	X	X	X	X	X

Table G.3
Relationship of codes to Research Questions

No.	Codes	Research Question		
		1	2	3
1	Relationship with banks	X		X
2	ROSCA organization	X		
3	ROSCA management		X	X
4	Defaults	X	X	X
5	Advantages of ROSCAs			X
6	Weaknesses of ROSCAs		X	X
7	Important weaknesses of ROSCAs		X	X
8	Recommended reforms			X

1. Relationship with banks

1. The volume of loans to SMEs is small. Is it so because banks hesitate to give loans to SMEs or is it because SMEs do not wish to deal with Interest, or both?

1. Banks hesitate to give loans to small traders. Secondly, many small traders prefer not to take loan from banks because of Interest.
 2. Banks require a lot of information before they can extend loans. The registration documents of houses, shops and businesses have to be deposited with the banks. Additionally, banks require some “commission” and they make us run about. Secondly our people do not want to pay Interest to banks. The business that takes money from banks does not prosper.
 3. Small traders lack the collateral which banks demand. Banks do not take Interest in the small traders. Interest is another factor. Traders who dislike Interest do not go to banks at all for financing.
 4. Banks hesitate to give loans to small traders. Secondly, many small traders prefer not to take loan from banks because of Interest.
 5. Small traders wish to avoid getting involved in Interest-bearing financing. In case of a bank loan, if they obtain a loan of Rs100, they have to return approximately Rs180 finally. Bank instalments are not easy. Banks also want to deal only with those people who can give full guarantees and from whom making recoveries is easy.
 6. People have the impression that whatever comes from a bank is based on Interest. Interest is abhorred by the traders. As a result they use banks only for safekeeping their money in Current accounts and as an intermediary for inter-city transfer of funds. For their own reasons, banks prefer to deal with much larger clients.
 7. I think the banks want to finance small traders but the traders do not wish to get involved in bank financing. The important reason is the presence of Interest in bank financing. Also, bank documentation is considered complicated by the traders. Many of them are unable to read and understand English. Banks’ demand for collateral or guarantee is also an obstacle in the way of traders obtaining bank loans.
 8. There are two aspects to this. Firstly banks require collateral against the finances they are going to loan. This may be a house, a shop, or some other property. A small trader, being small, lacks the resources. He may be working out of a rented shop and maybe living in a rented house. He might not have any property of his own that can be accepted for mortgage by the bank. The bank will not issue him any loan. On the other hand there is the question of markup. Small traders cannot handle markup and so avoid approaching banks for financing.
-

1. Relationship with banks

2. To what extent do banks maintain the confidentiality of accounts?

1. Banks do maintain confidentiality but share confidential customer data with government departments. Banks provide client information to government departments if the latter asked for it.
 2. There are some corrupt employees of some banks who were afflicted with evil desire such as gambling or matches, or going outside. When they are transferred from the branch, they inform the Income Tax department about the details of the transactions of some traders. Because of that there are some problems. FBR people make inquiries from the affected traders about the transactions. Otherwise there are no problems.
 3. Banks do not maintain confidentiality at all. In Pakistan relationships matter a lot. I have close working relationship with the officers in my bank branch. If I show them a cheque made out by an account holder in that branch, they will tell me how much balance the person has in his account, whether or not the cheque can be cashed and if not, how much money will be needed to be transferred into his account to enable the cheque to be cashed. I'm not talking of the National Bank only. I'm talking of all banks.
 4. Banks used to maintain confidentiality of account holders. Due to new State Bank of Pakistan regulations, banks are now bound to provide details of bank account holders' transactions to FBR. Because of this, the confidentiality of account holders' transactions is not maintained by banks.
 5. Banks do not maintain confidentiality at all. According to the rules, any government department can obtain the details of all the account's transactions from banks. The situation is so bad that if any person has good relationship with the bank officers, they can obtain all the details of the account transactions. There is no confidentiality.
 6. There is no confidentiality regarding bank accounts. If you know a bank officer well enough, you can find out all the details about any account in that branch.
 7. There is no confidentiality in bank accounts at all.
 8. In this market the banks claim to preserve 100% confidentiality of the account holder. However, the government has access to all accounts whenever they want. I think there is no confidentiality at all in banks.
-

1. Relationship with banks

3. How much time elapses between applying for and obtaining a bank loan?

1. If the client applies for a bank loan, considerable documentation is required. It might take approximately 3 to 6 months to complete the documentation and to obtain the loan, if it is sanctioned. If small traders obtain bank loans, it ordinarily causes only problems because the markup on Interest rate is considerable. This markup can reach 20 to 20% per annum.
2. Sometimes it takes a year and sometimes eight months to research the application of the traders, saying that your application has been forwarded. If it is approved we will give you the loan. People become fed up and abandon the application.
3. It takes a minimum of between 3 to 4 months between applying for loan and

- obtaining it.
4. Did not offer an opinion.
 5. Time taken for an application for bank loan to be sanctioned depends upon the skill of the applicant. Experienced traders who have good relations with the bank manager may obtain a loan within two months. In case of others it can be much longer.
 6. The time between applying for and obtaining a loan depends upon the skill of the account holder.
 7. I have never obtained a bank loan and have no experience.
 8. I do not know.
-

1. Relationship with banks

4. What advantages do small traders obtain when getting loans from banks?

1. Did not offer an opinion.
 2. Traders obtain no advantage at all from getting bank loans.
 3. If the bank loan is used correctly then it definitely helps in the business. If you ignore the aspect of Interest for the moment, if he invests the bank loan in his business in the form of running finance his cash flow improves and his buying is stronger, his products are stronger, his purchases improve. His profits improve.
 4. Traders obtain bank loans to expand their trade or increase their trade. There is no other advantage in obtaining bank loans.
 5. Small traders are in great need of financing. Their businesses default mainly because of lack of access to finance. They are in very great need of financing. Banks must launch schemes to provide small business persons easy access to finance.
 6. A qualified applicant may obtain a bank loan within say two or three months. This is quite unlike what happens in random ROSCAs. In a random ROSCA a member may have to wait until the last pot.
 7. I think the only advantage businessmen have in obtaining bank loans is that they can predict how much time will elapse between applying and obtaining it. In case of a random ROSCA, the timing of obtaining the pot cannot be guaranteed.
 8. They can get the loan without other traders coming to know about it.
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1. Relationship with banks

5. What are the difficulties small traders experience in obtaining bank loans?

1. Small traders have many difficulties in obtaining bank loans. The essential documentation is considerable. Additionally if you offer any property registration has to be submitted. Bank transfers the property to their own name.
2. Traders do not have disposable funds. Banks require collateral. If the trader requires a loan of Rs10 lakhs he will need to mortgage property worth at least 30 lakhs to the bank. People do not like to obtain loan from them and so they do not take them. Banks also require a lot of guarantee. They require that two friends or neighbors provide guarantee for the loan. Traders decline this condition because confidentiality is breached and the neighbors come to find out that he is applying for so much loan. To save their honor and maintain secrecy the trader will not go to a bank
3. Small traders lack the property which they can mortgage to the bank. The value

of the property is insufficient to meet bank's needs. Being a small trader he has to encounter the problems of documentation. He has the same problems of collateral. Either he has a shop which he has taken on goodwill or it has been rented. Even if the property is his own, he has difficulty getting the loans. Surveyors are unable to access the value of the property correctly. In places like Azam Market he will not obtain the loan that he needs.

4. Did not offer an opinion.
 5. Providing documents is a problem. Small traders are usually not so literate that they can read and understand the banks' loan agreement. Banks' agreements are very strong and complicated. For this reason small traders do not get involved with banks.
 6. Small traders, most of whom are not literate, have difficulty meeting the banks' requirements of documentation. Banks also demand a guarantee or the ownership documents for some property that may be used as collateral.
 7. The requirements for collateral or a guarantee, involvement of Interest and documentation are the main difficulties small traders do not access banks.
 8. The difficulties small traders had been getting bank loans are arranging the collateral or the guarantee, and rebuilding the property documents and understanding the loan documentation.
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1. Relationship with banks

6. What are the disadvantages small traders have in obtaining bank loans?

1. Additionally, if small traders obtain bank loans, they can be victims of bankruptcy because of the high Interest rate.
2. In my experience, if a trader takes loan from a bank, his business will never prosper. A friend of mine took a bank loan. His home and his shop were repossessed and sold by the bank. There is still a loan outstanding against his name. He mortgaged his house and it took a loan of Rs80 lakhs. He had to pay back a sum of Rs1 crore and 30 lakhs. He has become a defaulter. We all believe that we must never take a loan from a bank. Bank loans only cause problems and are never useful. Business cannot be completed properly. The Interest rate is so high that business cannot function. In our market the profit margin in wholesale transactions is very small and businesses cannot survive the high Interest rate.
3. Among the disadvantages small traders encounter in using bank loans is the rate of Interest. Secondly he cannot manage it properly. Normally, the trader does not take a loan from a bank to run his business. He takes the loan to meet some necessities. He does not use the loan to finance his business. As a result he is not in a position to pay the instalments of the Interest. The result is that after some time he defaults.
4. If after obtaining bank loans, the borrower's business does not do well, he has the burden of Interest. This increases to the extent that the borrower has difficulty in paying it.
5. The disadvantage of dealing with banks is that the traders' property gets pledged with the bank. If they ever default, the bank does not deal with them humanely. In order to further damage the defaulter, the bank occupies the pledged property and does not allow the owner to use it.
6. In obtaining financing, traders have to deal with Interest. This is effectively

higher than the declared or announced value. In case off a delay in paying instalments additional charges are imposed. In case of a default, the property is repossessed and auctioned.

7. In order to obtain loans, traders have to pledge property as collateral. They also have to pay a substantial Interest. In case of delay in payment of the subscription, a higher rate of Interest and surcharges are imposed. In case of a default, the property is repossessed and auctioned.
 8. The involvement of Interest and the paying of the instalments to the bank, the threat of default, the repossession of the property and its auctioning are the major disadvantages of obtaining a bank loan.
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1. Relationship with banks

7. Why do some traders maintain Current while others maintain Savings accounts?

1. Some traders maintain Current Accounts while others operate Savings Accounts. I personally feel that most accounts are Savings while business accounts are Current. Current accounts are easy to operate and have fewer restrictions applied upon them. Secondly, they do not have any Interest involved. Traders ordinarily use more CD accounts.
2. The banks that operate in our Azam Cloth Market work on Current Account. Very few traders maintain Savings Accounts. Current accounts generate profit for the banks. In our Azam Market the banks earn handsome profit due to current accounts. Our people do not have any share in the profits made by current account. They say that even if their funds lie in the banks for even six months, they will not take any profit from them. Banks are profitable in our Azam Market. Those of our colleagues who believe in religion say that their ancestors had not taken Interest from banks and they will not do it. But the new generation who has been educated, advise their fathers that they do not know how much profit their money can earn in a bank. Recently, a friend of mine deposited Rs50 Mn in KSB bank. The bank has defaulted, KSB bank. He is extremely worried. He kept the money in the bank thinking that he would get nine point some per cent profit. He had thought that he would earn Rs500,000 every month from bank Interest. There are very few people, 3% to 5% of the traders in Azam Cloth Market who go to banks and query about theirpercentage rate. Otherwise the rest say No.
3. There are two reasons why traders deposit their money in Current accounts. One is that Interest is not added into their deposits. The second is that at the end of the year Zakat is not deducted from their Current accounts. There are some minor tax issues also. The return obtained on Savings deposits is very low and dividend obtained is deducted by the tax authorities. Thirdly, withdrawing a large amount of money requires some notice to be given to the bank. This is a hassle.
4. Mostly, all traders maintain Current accounts. It is easy to draw money or cash a cheque from a Current account. Savings accounts have some conditions attached about how much money can be withdrawn and some notice of withdrawal.
5. Current accounts are easy to operate. No deduction on account of Zakat is made at the end of the year. They are free from Interest.
6. If traders deposit their finance his in a Current account, they are going having to

suffer any Zakat deduction. Additionally, earning on the account of Interest is not added into their funds.

7. Current accounts are easier to manage. No Zakat deduction is made at the end of the Islamic year.
 8. Current account is easy to operate. No deduction on account of Zakat is made from it.
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1. Relationship with banks

8. What information do banks obtain about the loan applicants before sanctioning?

1. Before giving any loans, the banks want to know how long the trader has been in business, their financial status, and your reputation and public relation in the market.
 2. The banks determine the market reputation of the party. Has he being a defaulter previously? What sort of business he has? Has he obtained a loan from another bank? They also query about him from his neighbours. There is no confidentiality. The applicant wants to take a loan to overcome his helplessness and to save his honor, but his honor is auctioned in the open public. Other people also find out that he has obtained a loan from a bank. He cannot escape.
 3. Most of the loans given by banks are based on “relationship lending” method.
 4. Banks cheque the reputation of the applicant. Is his business functioning correctly? Is it likely that he will run away with the banks finances? They inquire about his security. Does he exist in the market and does he carry a good reputation?
 5. Bank carries out a survey on its own. It examines their turnover. It cheques the documents of their guarantees and whatever they had pledged. There is a problem here. If the value of the guarantee is 100, the bank will give a loan only of 25% of the value.
 6. Banks try to determine the person’s net worth, his cash flow, whether or not he is the owner of any property, etc.
 7. Banks cheque the period for which the applicant has been in business, his cash flow and ownership documents of the collateral.
 8. Before giving loan to an applicant, the banks want to know his reputation in the market, his cash flow, and the correctness of his property documents.
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1. Relationship with banks

9. What type of traders do banks avoid giving loans to?

1. Banks avoid giving loans to traders whose financial situation is weak or those who have defaulted earlier.
2. The person who does not own a shop, whose trade relations are not satisfactory, the person who does not own his property, are not given any loan by the bank irrespective of his deposit in the bank. His reputation in the marketplace is also seen. Does he pay his dues in time, have his cheques bounced? People like this are not given loans by the bank.
3. Bankers avoid giving loans to traders with whom they do not have excellent relationships. The ordinary person.
4. Banks hesitate to extend loans to traders who do not have enough transactions in

their accounts, whose deposits are considered low and their reputation and worth in the market are not high.

5. Banks do not wish to give loans to small traders or retailers. This is because the entire system of retail trade runs on credit that they have given to parties in the background. The guarantees the bank demands from such people are more solid than solid.
 6. Traders who defaulted on an earlier bank loan, whose inventory, cash flow etc. are less than required by the banks or those who provide a suitable guarantee for collateral are denied financing.
 7. Banks are wary of traders who were just started business, whose cash flow is unsteady poor who had a poor track record of earlier bank loans.
 8. Banks avoid giving loans to traders who have a history of earlier defaults, whose cash flow is less than what the bank expects, or who do not have ownership of some property.
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1. Relationship with banks

10. What sort of guarantee is demanded from them before loan approval?

1. Before approving a loan, banks demand the Registration documents of the business or their house or any other property. Sometimes they also ask for a personal guarantee.
 2. Bank guarantees are very solid and such people cannot fulfil them. There are four head offices of a bank which must approve the loan application. Even if the applicant has good social relations with the bank manager he will not be able to obtain the loan. The inventory in the shop is valued and the value of his business is appraised. If his shop is worth Rs20 Million, even obtained the loan of only Rs4 Mn or Rs5 Million. He will still not get the full worth. The DC (Deputy Commissioner) rate in the bazaar is Rs2.7 Mn per marla, whereas the actual rate is much more than this. Banks consider the DC rate only. If the business is worth more than this, the bank will give him a loan of may be Rs3 Million. He has to make do with whatever he gets.
 3. Collateral in the form of property is demanded by the banks.
 4. It normally the banks tried that the applicant should pledge either his shop or his house. Because if he is working out of a rented shop is not possible to determine when he will leave it and abscond with the money. For their security, banks demand a shop or his house. If the applicant does not own his own shop, banks see his turnover or cash flow.
 5. Banks sometime ask for personal guarantee. Sometimes they ask for collateral whose value is higher than that they would pass from account holders with a good track record.
 6. The guarantees usually demanded are the property documents, gold, etc.
 7. Applicants are required to offer property as collateral.
 8. Traders must provide proof of ownership of some property that is going to be pledged.
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1. Relationship with banks

11. What sort of conditions are imposed upon them, like higher Interest rate etc.?

1. Interest is demanded for the loans the banks give. Sometimes the rate of Interest can be quite considerable. Interest in range anywhere from 18 to 25%.
 2. Look! No one gives guarantee for anyone else. No one is prepared to give a guarantee to the bank for another person. They say brother what use is it for me to enter this matter, if tomorrow you do not pay the bank, I will be trapped. The rate of Interest is very high. People cannot afford it. Some of our shopkeepers have deposited money in the bank and received 7 to 8 Interest. When they go to them for the loan they are charged 18%. Banks also incurred large expenditure to operate. The branches that operate pay a rent of around Rs400,000-Rs500,000 a month. The salaries of the staff may be 800,000 Rs1 Mn per month. If a branch costs the bank Rs20 Mn annually to operate, where will they get this much money? They will have to make it up from these payments.
 3. Did not offer an opinion.
 4. Did not offer an opinion.
 5. The bank may also impose a higher rate of Interest upon them.
 6. In case the collateral is slightly less than what the bank demands, a higher Interest rate is imposed.
 7. Applicants, whose cash flow is somewhat unsteady but offered ample collateral, are expected to pay a higher rate of Interest.
 8. In case the trader does not have sufficient cash flow and ownership of property, but has one only the banks can impose a higher rate of Interest.
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1. Relationship with banks

12. What action does the bank take in case of a default by a small trader?

1. In case of default by a small trader, his property can be repossessed by the bank. The bank recovers their loan by selling his repossessed property at a very low Forced Sale Value. The small trader suffers considerably lost due to this and can be disturbed for the rest of his life.
2. In case of a default, the bank will seal and auction his shop or his house or any other property whose registry is available with the banks. They are ordered and they have the decree. In this Azam Cloth Market, during the previous 10 years, there has been no case of repossession or auctioning of any property, alhamdulillah. We keep briefing our traders not to take any loan from any bank. Ask for a loan from a friend but never get a loan from a bank.
3. If a small trader defaults, banks will climb upon him. He is small, and is scared very quickly. Recovery is quickly made from him. They threaten to seal his shop, ruin his reputation in the market and place posters in the market place about his default. The small trader is already half dead. He agrees to sell his assets to pay the loan. He is pressurized so much that he can even consider closing his business. He is immensely tortured mentally.
4. If the trader defaults on the payment of his loans, the bank forfeits the property.
5. In case of a default the, the bank takes the small traders to banking court immediately. Instead of using a middleman who will help negotiate the case with the bank out of court, so that the recovery is made easy, the bank wants to go to the court immediately. The bank wants to occupy the pledged property for

itself. It does not give them a chance whereas the defendant should be given an opportunity.

6. In case of a default by a small trader, his property that was pledged to the bank as collateral is repossessed and auctioned.
 7. In case of a default by a small trader, the bank take these matter to a banking court and tries to auction the pledged property.
 8. In case of a default by a small trader, the banks tried to occupy the property and auctioned so that they can recover what the trader owes to them.
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1. Relationship with banks

13. What action is taken by the bank in case a small trader delays paying instalments?

1. In addition, bank can levy punitive charges and Risk Premium in case of delay in paying instalments.
 2. In case of delay in paying instalments to the bank, the bank imposes a higher Interest rate. Additional charges are also levied on the person.
 3. Did not offer an opinion.
 4. If the trader delays in payment the instalments, the bank first warns him. After that the bank pressurizes him to pay the instalments. Sometimes they can even logical case with the police. Usually the traders paying instalments.
 5. The bank has already made provisions in the agreement that if the installment is not such and such date, additional compounded Interest will be levied upon the borrower. In its own place, the bank is 102% totally safe.
 6. A delay in paying instalments attracts a higher Interest rate. Other hidden charges may also be imposed.
 7. A delay in payment of the installment attracts a higher Interest rate and additional charges.
 8. In case of a delay, banks impose a higher rate of Interest and additional charges.
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1. Relationship with banks

14. When do banks demand post-dated cheques from small traders?

1. In order to assure payment of instalments, banks sometime demand post-dated cheques. These cheques have a legal position. Banks secure their position by these cheques.
 2. In case the bank feels that the trader is likely to miss paying instalments, they demand post-dated cheques from him. This gives them additional legal leverage to force him to pay in time.
 3. According to my experience, banks do not ask for post-dated cheques for running financing. They demanded only for term loans.
 4. Normally, banks do not believe in post-dated cheques because cheques mean very little in our society.
 5. Banks demand post-dated cheques for term loans only.
 6. Did not offer an opinion.
 7. Banks do not demand post-dated cheques in every case.
 8. I am not sure about this.
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1. Relationship with banks

15. What type and value of collateral is demanded by the banks?

1. Banks demand valuable property as collateral. Banks give loans up to about 25-30% of the market value of this property. 75% of the value of the property is retained as security.
 2. Banks demand as collateral property whose value is at least 3 to 4 times that of the loan that is asked.
 3. Did not offer an opinion.
 4. Banks give up to 60% of the value of the property that is being pledged for loan.
 5. If you need an investment of Rs1 Million, 5 Million, 10 Mn from a bank, you will have to offer collateral worth Rs30 Million. Only then the bank will take Interest. In exchange, the bank will pay you a meagre amount. It does not give you any facility whatsoever.
 6. The collateral the banks demand is supposed to have a present market value that is at least four times the amount of loan asked for.
 7. The collateral usually demanded is property whose value is at least three times that of the amount of loan being asked.
 8. The collateral must be commercial or residential property whose value is 3 to 4 times greater than that of the loan ask for.
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1. Relationship with banks

16. To what extent is the recovery of funds possible if a cheque is dishonoured?

1. If a cheque given to us by an individual or a trader becomes dishonoured, we usually do not receive any cooperation from the police or the bank. Dishonoured cheques are a serious problem for trade.
2. Up to 200 or 300 dishonoured cheques each are lying in many shops. Every person has up to 100 cheques with him. Some of them belong to traders from of Afghanistan, Jalalabad and Kandahar. Traders from these places have come here, giving cheques. Restrictions have been placed on their coming to Pakistan. People are very worried, trade involving cheques has flopped. A cheque is a fraud, it is a deceit. Just like a credit card was a deceit. Earlier, if someone had Rs500 in his pocket he would spend Rs300 only. Ever since credit cards have started people have started uncontrolled purchasing and the end has been a disaster. People have defaulted and there have been fights in households. Now the problem is that many people have numerous dishonoured cheques that cannot be cashed. Registering a case against somebody and getting him inside. Recently one of our shopkeepers has gone in. Today it is six months since he was arrested. He issued cheques worth Rs55 Million. He cannot pay off. It is five months since he is in Camp Jail. He was a very good party. Everybody here trades in credit. We trust and take a cheque. What is a cheque? Recovery is very difficult. If a criminal spends six months in jail, the courts let him out on bail. There is no law. The other man says that if you demand Rs60 Mn from me, I will spend six months in jail and come out. Then try to recover the money from me.
3. Recovery of funds involved in a dishonoured cheque depends on the influence of the victim.
4. In the case of a dishonoured cheque, the bank examines the reputation of the party in the market. The bank tries to recover the money by every means. The

- offender is also given some grace period to clear the cheque. Banks do not extend loans without any security. They try to use the security to clear this dishonoured cheque. According to law, a dishonoured cheque is a police case.
5. According to law, recovery from a dishonoured cheque is very simple. If someone's cheque is dishonoured, an FIR (First Inspection Report) can be launched against him and he can be arrested by the police. He finds no relief until there is a deal between him and the bank or the affected person. The method has become very simplified. But I think FIR should not be lodged. But they should be struck with that person to see whether he has defaulted by some misfortune or has he intentionally committed this act. I feel just 80 to 85% of the people are those to have suffered a loss due to a genuine business setback. The fact is that the payments that he was himself to have received did not reach him in time as promised and so his cheques bounced.
 6. You cannot say anything about recovery from bounced cheques. Here might be right. If the cheque has been issued by a strongman who can play with toy in order, there is nothing you can do about it. You are left at his mercy.
 7. It is possible to make recovery from a dishonoured cheque given by a Pakistani business person of even small repute but it takes some time. It is not so that the recovery is totally impossible. The traders from Afghanistan are not reliable at all. We accept only those cheques that have been signed by the buyer of our goods. If these cheques are not cashed in two days, four days, five days or a month, they will still be cashed. If someone says that these cheques cannot be cashed I will not agree with him. In my opinion people from Afghanistan are not traders. They are all thieves. We do not accept anything from them. We tell them that we will dispatch the goods once the funds are credited into our account. If the customers are from some other place and I know them, such as from Peshawar, Abbottabad, xyz, etc. we accept their cheques.
 8. Dishonoured cheques are a hassle. If they are made by our regular customers, the matter can be corrected in a few days. Bounced cheques given by traders from Afghanistan are a total loss. In other cases it depends upon the victim's relationship with the police.
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1. Relationship with banks

17. Discuss the usefulness of publishing details of bounced cheques on a publicly accessible central database.

1. Banks have a central database for Nonperforming Loans (NPL). If a similar publicly-accessible database is prepared for dishonoured cheques it will discourage individuals from issuing uncovered cheques and greatly improve trade in the country.
2. A central database for dishonoured cheques is a good idea. However unfortunately many of our people are illiterate and will not be able to access the database using laptops or computers. It is quite possible in Europe and other advanced countries for traders to immediately access the database and cheque the position of bounced cheques issued by a person. Great fraud is going on here. People coming from the frontier or the NWFP live in Peshawar but give cheques from a bank in Rawalpindi. They trade using cheques. Fraud is going on. Every trader brings a chequebook with 50 or 100 cheques. Banks should not open an account for everybody. They should seek the position of the applicant.

Bank managers are told that if they can open 200 new accounts they will be promoted or be given a bonus. In their greed they take 10,000 or Rs15,000 from each applicant and open their accounts. It is not sufficient to simply open a new account. They should see the financial base of every applicant. Is this a default party, or is it a default party or is it committing a fraud? The traders give a Rs2 or Rs5 rupees worth of cheque and write two 510 or 20 lakh rupees on it. How will the amount be recovered? Our system has been totally destroyed ever since people have come to use cheques. Instead of using a central database only, I feel the lists of dishonoured cheques should be printed and sold in the marketplace exactly like lists of winning prize bonds are published by the State Bank of Pakistan. People can buy the lists for a small amount of money, take them home and can learn of the bonds that have won the prize. Similar lists of dishonoured cheques can be used by traders to determine whether the person giving the cheque is habitual. His NIC number, picture etc. should be published. This will bring awareness to the public. The bank account of such fraudsters should be closed. He is a defaulter but is also killing other people that he is trading with. The fraudsters have great power. Liars are listened to today. They can hire attorneys. No bank manager or bank wants to antagonize them. They are afraid of the fraudsters. There is no grip of law in the country. If the law has a grip such things will not happen. If such a law is made it will help not only the capitalist but even those who are poor. They will know that they cannot be cheated. Laws should be made to protect trade and they should be appreciated.

3. Publishing the details of bounced cheques on a publicly accessed database will certainly help reduce the epidemic of dishonoured cheques. The general practice in our markets is to consider dishonoured cheques as zero. Small businessmen prefer to deal in cash. Sometimes traders give IOUs on a scrap of paper. This scrap has more value than a cheque. Traders accept cheques when they are sure they will be cashed. If the details of dishonoured cheques are published on the Internet or are otherwise very easily available even to small traders it will eliminate the scene of writing cheques casually.
4. Information regarding dishonoured cheques should be circulated to all the banks in the country. This way the banks will know which person is a habitual bad-cheque writer. The affected bank can give the offender a grace period to clear his cheques. This step will reduce or even end the practice of issuing bad cheques.
5. The system, whereby all banks can share the details of nonperforming loans between each other, already exists. This information is used by banks to evaluate a loan application. However some black sheep within the bank do manage to bypass this safety measure and help a defaulter to obtain a loan. I agree that there should be a central database about every person and about every dishonoured cheque. His cheque should not be accepted, small or large, till it is found that all his earlier cheques have been honored. If any of his earlier cheques had been dishonoured, then his cheque should not be accepted.
6. Particulars of account holders whose cheques have bounced, such as their National Identity Card (NIC) number should be included in an easily accessible database on the Internet. This database should also be available in hardcopy form on payment of a small fee just like lists of winning prize bonds numbers. Traders can use this list to make an informed decision about whether or not to accept a cheque.

7. If details of a bad cheque, such as the NIC number of the writer, the date, the amount, and the name of the bank involved are made easily available to any business person, it will help a great deal in curbing the flood of bad cheques that is threatening to ruin our economy.
 8. It will be a great idea to publish the complete details of bounced cheques and their writers online and in hard copy form. However this might not be really practicable. The reason is that banks in Pakistan are in a rush to open new accounts. They are more interested in the number of accounts rather than in the quality of the account holder. The government has made laws about bounced cheques harder but the matters are status quo.
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2. ROSCA organization

18. How is the reliability of a ROSCA holder determined?

1. We satisfy ourselves about the financial worth and market-reputation of the committee holder before we participate in a ROSCA.
 2. The reliability of ROSCA holders can be evaluated in a number of ways. Does he have his own shop, is his business doing well and not that his business is a flop and he is trying to raise finances by organizing the ROSCA to support it and then run away with our money. We first cheque his full data. That he has two godowns, he owns his shop, he has his own house end that he is a good business person. Only then we participate in the ROSCA. Because if the ROSCA is of 30 people and we give him Rs100,000 for Rs200,000 every month. It is quite possible that our names will come out at the end of the cycle. He can run away with that money. Where will we recover that money?
 3. We choose a ROSCA holder by examining his past history, his dealings and his status in the market. We see how many years he has successfully been managing ROSCAs. We also want to see the type of members he has. If the members have goodwill in the market we assume the ROSCA is good.
 4. The earlier performance of the ROSCA holder is first checked. Then, his general reputation in the market is checked. If it is okay, only when people join his ROSCA. They trust him.
 5. Committee holders are all mutual friends.
 6. First of all we see the reputation of the committee holder in the market. Then we see how many ROSCAs he has organized successfully before. As he been doing this for a decade or two or is this the first time? We see the amount of the pot and his status. Is he a big gun or a big shot in the market or is he a run of the mill businessman trying his hand at ROSCA. I guess reputation is the big factor.
 7. This is not an experience of one or two days but of year after year. I have worked here for 15 to 20 years. I am the third generation of my family doing business in this market. We inherited experience from our elders. We use the same experience to select the ROSCA holders carefully.
 8. Before accepting the traders as a member in our ROSCAs, we carefully examine his reputation in the market, his business dealings with others, and the volume of his business.
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2. ROSCA organization

19. What types of traders are admitted as members in a ROSCA?

1. Only such traders are admitted into a ROSCA whose financial situation is satisfactory and who are known to be reliable payers of instalments.
 2. We gladly accept as members such traders who have their own shop, who have good reputation in the market, whose business is good, is dealing with people is good, he hasn't issued cheques that later were dishonoured, no one comes and shouts at his shop that this man who owes money, such it trader we happily considered as members and assumed that is subscription will reach in time. If the subscription must be paid by the 10th of every month and his subscription has not reached by the 15th, he is considered a defaulter.
 3. Traders who have good payment history or who have goodwill in the market fall in the first category. The second category of traders is those, with whom we have dealings, either we owe them for they owe us. These people are also considered as members and can be adjusted in the ROSCA.
 4. First his business is examined. Is his business ongoing, are there chances of losses? Secondly what is the man's personal credibility, is he reliable, and can he be relied upon?
 5. Those traders who have good rapport in the market about when we know that they have so much turnover. According to their turnover, we include them in a ROSCA.
 6. Again it boils down to the factor of reputation. In the market such as ours, reputation develops very quickly. The president will examine your business, is your sale regular or is it only seasonal.
 7. We accept as members only such trader whose business is flourishing and can be seen to be flourishing, who is known to make payments to others in time and is not known for committing even minor irregularities. Our members are people who are reliable and not unreliable. Operating from a rented premise is not a disadvantage.
 8. We accept them if they carry a good reputation in the market, are known to be easy to work and are financially capable.
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2. ROSCA organization

20. What types of traders are not admitted as members in a ROSCA?

1. Traders whose dealings with others or their financial situation are not satisfactory, are ordinarily not admitted into the ROSCA. This is done to prevent problems from arising later.
2. Those traders who are not considered good in their dealing with others, who do not pay the subscription in time, who already owe to other people, they are not made members. If he does not have his own shop and is sitting in a rented premises, or lives in a rented house, or has taken a loan from a bank to buy a car such a person cannot be accepted and cannot function as a member.
3. We do not admit traders into ROSCAs who do not have good goodwill. Their give and take affairs are weak. Traders who may have goodwill but are quarrelsome or are over-smart are avoided.
4. The trader whose reputation in the market is bad, who does not make payments in time, who takes away goods but delays in making payments, is not admitted as a member in the ROSCA.

5. Traders whose rapport is that they have already defaulted in some earlier ROSCA or those who cannot afford to pay subscriptions, or if they get an earlier pot it might be difficult to extract from them the remaining subscriptions, are not accepted as members. Usually ROSCAs default or break because of such people who will take the pot but cannot pay the subscriptions. This loss has to be borne by all the other ROSCA members and the ROSCA breaks.
 6. We do not accept as members traders who carry a bad reputation in the market or are quarrelsome by nature. The owner or the shop is a safer option than one who is working out of rented premises. All these factors filtered down to reputation. If a very new businessman wishes to participate in a ROSCA, he will not be admitted at all because he has no reputation. He might **close** his business one day and vanish. The law and order is of no help to trace the person. We have had an occasion where a business person disappeared leaving the other members to bear the loss.
 7. We are wholesalers and do not accept retailers. We do not accept traders from other markets. If we accept an outsider, it will be one whom we have known for the last 30 or 50 years. There are some outsider members in our ROSCAs. They are those whom we have known for the last more than 50 years and who have been working with us for three generations. Operating from one's own premise is not a requirement.
 8. Traders who are known to be quarrelsome, who do not make payments in time for whose volume of business appears small are not accepted.
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2. ROSCA organization

21. What precautions are observed when admitting new traders?

1. A newcomer who has not yet set up a track record can be admitted into a small ROSCA if he can provide the personal guarantee of another person who has established a good reputation and track record.
2. Look! A ROSCA consists of confidentiality and an amount of money. It has to be given to the people. A person who subscribes to a ROSCA does so hoping that today he's putting in money tomorrow he will get it back. If I get the money I will get my daughter married off or make my home or improve the variety in my shop. There are others who feel that a ROSCA is a profit. It should be paid from the profit of a business and not from its capital. People who subscribe to a ROSCA and pay from their capital soon find their shops have become empty. If the ROSCA consists of 30 people, and he has been paying from the capital, and his draw comes out on the 29th or 30th position, his business will be emptied of capital. He should subscribe to a ROSCA on the assumption that his name will come out at the end and he should subscribe to it only from his income and not his capital. If he participates in the ROSCA from his capital and then puts the pot back in the business as capital, his business will flop. Only such a person should subscribe to a ROSCA who does it from his earnings and knows that if his chance comes he will buy something. Before admitting a person as a member when he has not yet developed credibility we ask for a personal guarantee. Sometimes people also ask for post-dated cheques. Sometimes his name is drawn at the end of the cycle. We exercise care when selecting a member. Once selected, he is like any other person. Most of the traders operating in this market are third-generation, grandsons of grandfathers. Their

grandfathers have been working here as well as their fathers for the last 50 years. We know each other very well. We do not admit newcomers especially those from outlying villages in our ROSCAs because we do not know their antecedents. We accept as members traders from this market because we know whose grandson or son he is. In our market we do not demand post-dated cheques. It might be happening in other markets.

3. In case of a newcomer, we find out about his person from members of his earlier ROSCAs. He has tried to enter our ROSCA through some reference or referral. We ask about him from them. If there is the slightest doubt about him we do not admit him into ROSCA.
 4. As for the person who is to be admitted into the ROSCA for the first time, inquiries are made from his neighboring traders about him. What sort of reputation does he carry? Is he correct in the matter of transactions of money? A person who is correct in the matters of transactions of money is admitted into the ROSCA.
 5. When considering new members we take the same factors into account. What is their reputation in the market, what is their turnover, have they ever participated in a ROSCA earlier and if so what was the result?
 6. Very new traders will get the last pot.
 7. Such traders will be assigned the last pot. This policy will continue to the newer traders have developed sufficient good reputation.
 8. Newcomers into the ROSCA are generally assigned the last pots in the cycle.
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2. ROSCA organization

22. What are the lowest and the highest limits of pots in your market?

1. The range of values of pots in our markets can extend from about Rs100,000 to about Rs10 or 20 Million.
 2. ROSCAs are participated even by the salesman class and the poorer class. Some participating in ROSCAs of Rs30,000, even of Rs50,000 and even Rs500,000 per month but with confidentiality. They do not show in their tax returns that they are participating in a ROSCA of this value. 400,000 and Rs500,000 per month ROSCAs are very common. ROSCAs of Rs1 and 1.5 crore are common.
 3. The smallest ROSCA running in this market is approximately Rs1 Million. The largest that I have experienced personally are Rs20 Million.
 4. In this market, the lowest value of ROSCA is Rs10,000, Rs15,000 and Rs50,000. The highest value of ROSCA is Rs10 Million.
 5. In this market, the largest ROSCA is of Rs10 Million. The smallest ROSCA is Rs500,000. ROSCA less than Rs500,000 is impracticable. The smaller committees are used by our workers, salespersons etc. to manage their own affairs with a small amount.
 6. The lowest value ROSCAs in this market is about Rs10000 Porters and labourers participate in these ROSCAs. The higher value ROSCAs are Rs2.5 Mn or Rs5 Million.
 7. The smallest committees in this market are not those being run by traders They are being run by labourers, salesmen, etc. They may be of the range of Rs10000 - Rs100000. In this market the largest committees are Rs25 Mn to Rs30 Million.
 8. The smallest ROSCA in this market is Rs1000. It is managed by the labourers who carry material from place to place. The largest ROSCA may be up to Rs10
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Million.

2. ROSCA organization

23. What are the ordinary limits of lowest and highest pots in your market?

1. The average values range from Rs100,000 to Rs2.5 Million.
 2. ROSCAs of Rs2 Million, 2.5 Mn and 5 Mn are very common. Traders participate in ROSCAs of their own means.
 3. The average range is approximately Rs2.5 Mn to Rs5 Million. The average subscription is Rs100,000 to Rs200,000 per month.
 4. The average value of ROSCAs in this market is Rs1 Mn and Rs2 Million.
 5. The most popular range of ROSCAs is Rs3 Mn to Rs5.
 6. The popular range for shopkeepers is Rs500,00 to Rs1.5 Million.
 7. The more usual range of pots is Rs2.5 Mn to Rs5 Million.
 8. The popular range of ROSCAs is between Rs1 Mn to Rs2 Million.
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2. ROSCA organization

24. What is the range in which most of the pots lie?

1. The overwhelming majority of ROSCAs have a value of ROSCAs ranging from Rs100,000 - Rs1 Million.
 2. The sizes of the pots in the ROSCAs depends upon the means of the traders. Small traders usually go in for Rs3 Mn Rs5 Mn while larger ones go for Rs15 Million. They are also ROSCAs of Rs20,000 and Rs30,000 in this market. The amount depends upon the convenience of the traders.
 3. The popular range is Rs2 Mn to Rs3 Million.
 4. Most people want to deposit a small sum of Money and earn a larger sum of money from it. When people are in a large part from the ROSCA, they invested in their business to earn profit.
 5. The most popular range of ROSCAs is Rs3 Mn to Rs5.
 6. Most of the ROSCAs that are aware of are in this range
 7. The most popular range of pots is also Rs2.5 Mn to Rs5 Million.
 8. Most of the ROSCAs that are running in this market are in the range of Rs1 Mn to Rs2 Million.
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2. ROSCA organization

25. What are the limits of the numbers of members in ROSCAs?

1. The number of members in a ROSCA is usually 20 to 25.
2. Good ROSCAs usually last between two and 2 ½ years. They have 25 members or 30 members in them.
3. Generally, the number of members in a ROSCA is between 20 and 24. In case we wish to have more, then it is 30 members
4. The average number of members in a ROSCA is 22 to 30.
5. ROSCAs usually consist of between 20 and 30 members.
6. Most often, the size of membership of a ROSCA is 20 members Sometimes it can go as much as 30 also.
7. ROSCA organizers do not accept the membership larger than 20 to 30. Even if a

trader is in the position to acquire several positions in the same ROSCA, he is discouraged by the ROSCA organizers from obtaining several positions, lest the membership exceeds 30.

8. Most of the ROSCAs that are running in this market are in the range of Rs1 Mn to Rs2 Million.
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2. ROSCA organization

26. Why have these limits been set?

1. This membership size is considered convenient because membership is related to time. If the number of members in a committee exceeds about 25, the time of completing the ROSCA becomes inconvenient and managing the members becomes difficult.
 2. If the number of members becomes large, it becomes a burden. The ROSCA is taking three or four years and not ending. A period of 20 years passes quickly.
 3. ROSCAs are not viable if the number of members is less than 20. If the membership is more than 30 it requires a lot of patience in managing the ROSCA.
 4. There is a greater likelihood of a long ROSCA to break up. Someone can die, someone can run away, or someone's business may collapse. If the number of members is less than a certain amount the ROSCA is not viable. The larger is the number of members, the larger is the size of the pot.
 5. It is usually is not viable to have less than 20 members. In case of membership exceeding 30, the likelihood of mishaps occurring during this long period increases. Some members had to wait inordinately long to obtain their pots.
 6. Experiences shown that if the membership is less than 20, the ROSCAs are not practicable. If the membership is greater than 30, some of the members had to wait long before they can get their savings back. Also, during this long period there is a greater chance of someone dropping out.
 7. If the membership is less than 20 ROSCAs tend to be not viable. If the membership size is larger than 30, the waiting period for the last successful traders is excessive. Maintaining cohesion for more than 30 months can be difficult.
 8. Experience has shown us that this is a good range.
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2. ROSCA organization

27. Approximately how many ROSCAs are operating in your market?

1. It is a common custom to be part of a ROSCA. Many ROSCAs are operating in the market. It is impossible for me to count them but their numbers is in several tens. I cannot count them all. Every shopkeeper is a member of at least one ROSCA.
2. It is difficult to determine how many committees are running in the Azam Cloth Market, but there are many. In my own Punjab block, I am aware of 20 or 25 ROSCAs. These range in size from Rs10,000 per month Rs5 Mn per month.
3. I have no idea how many ROSCAs are running in this market.
4. At this time, 10 to 15 ROSCAs are operating in this market. All these have pots of Rs10 Mn to Rs20 Million.
5. In this market in which we are sitting now I estimate that 20 to 25 committee

ROSCAs are operating. These range between Rs3 Mn to Rs5 Mn each. Approximately 5 ROSCAs are those which are larger and are between Rs8 Mn to Rs10 Million.

6. I cannot say with certainty how many ROSCAs are operating in this market. I suspect that there are about 20 to 25 ROSCAs whose members are traders. As far as labour ROSCAs are concerned I suppose there might be as much as 100 or even more.
7. There are approximately 6000 businesses operating in the Azam Cloth Market. I do not know the statistics for all of them. In the Punjab block I think there are three ROSCAs of up to Rs5 Million.
8. In this street, I think there are around 10 ROSCAs of between Rs3 Mn to Rs5 Million. Smaller ROSCAs of around Rs10,000 are too many to count.

3. ROSCA management

28. How frequently are the winners decided, daily, weekly, fortnightly or monthly?

1. Committees are drawn on daily, weekly, fortnightly or monthly basis. As far as my personal experience is concerned, I have participated only in ROSCAs that are monthly.
 2. Draws take place once a month. There are no ROSCAs of daily, weekly, or fortnightly in my block.
 3. The draws are conducted once a month.
 4. The draw is held once a month on the 10th.
 5. The draws take place once every month.
 6. In this market, draws are held once a month. The subscriptions may be collected on a daily, weekly, fortnightly or monthly basis.
 7. In all cases, the draw is held once a month.
 8. We hold the draw once a month. All other ROSCAs that I know of also hold the draw once a month.
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3. ROSCA management

29. How is the winner chosen?

1. The selection of the winner is ordinarily done by random selection of a name on a chit of paper. When all the members are present at a decided place, in their presence the name of the winner is drawn and they are informed accordingly.
2. Draws are carried out by using a pair of for every member. Is the name of one's personal and it is impossible to commit a fraud. One other ball carries the word "lucky". When members come in they are asked to cheque their names on the ball. Only members handle the balls, the ROSCA organizer does not come near them. To ROSCA members carry out the draw. One is out the balls with the names one by one while the other pulls out the other balls one of which has the word lucky written on it.
3. We use chits to select the names of the winners.
4. The draw is held using two sets of chits of paper. One set contains the names of the candidates while the other set contains bank chits and one that appears the words "successful" or "congratulations".
5. We use chits of paper for the draw. Each chit bears the name of only one

- member. One chit is drawn from the pile at random.
6. Draws are held by means of two sets of chits or balls. Each ball or chit in one set carries the names of the members who are eligible to be selected. The other set of balls or the chits carries the legend “winner” or “congratulations”.
 7. We use a system of chits. Every kid carries the name of one eligible member. One chit is picked at random. It appears the name of the winner.
 8. We use two sets of chits. Both sets carry equal number of chits. In one set, each chit bears the name of one eligible member. In the other set, all chits are blank except one that carries the words “congratulations”. The winner is the member whose name is drawn from one pile of chips and simultaneously the word “congratulations” is drawn from the other.

3. ROSCA management

30. Where does the draw take place?

1. The draw of the ROSCA ordinarily takes place in the market in the office or premises of the ROSCA holder or organizer. In case of large value ROSCAs, the draw takes place in a hotel.
2. The draw takes place in the shop or basement or godown of the ROSCA organizer. We do not carry out the draw in a hotel. Those people go to hotels will have to eat at the other person’s expense. Many of them are defaulters. Only male owners, jewellers etc. go to hotels for the draw. Why should we spend Rs20000-Rs30000 on a meal to feed the others? What we want to do is to maintain confidentiality. In our system to be sometimes be measured not to announce the names of the winners. Words are used to indicate the name of the winners and the ROSCA organizer does not announce their real names.
3. The draw for the winner is held usually in the office of the ROSCA manager.
4. Normally the draw is held in the office of the ROSCA holder. In some cases the draw is held in a restaurant and meals are taken after the draw.
5. The draw takes place at a hotel. The winner serves a meal to all those were present.
6. In this market, the draws are held in the office of the ROSCA organizer.
7. The draw is held in the office or shop of the ROSCA organizer.
8. The draw is held in the office or shop off the ROSCA]organizer.

3. ROSCA management

31. In what form is the pot paid out to the winner?

1. The pot for the ROSCA can be paid in cash or in the form of a cheque. Cash is preferred. Some ROSCAs also operate in gold. The payments (and receipts) are all made in terms of gold.
2. The parts are paid to the winner in the mix of cash and cheques. Some ROSCA members pay instalment in cash while the other ROSCA members pay in the form of cheques given to them by their own customers. Confidentiality is maintained by this method. If a cheque cannot be cashed the shopkeeper who deposited this cheque will pay in cash.
3. The pot is paid in cash and mostly in the form of cheques.
4. The pot is paid in the form of cash and cheques.
5. The pot is 1 kg of gold.

6. the pot is paid in the form of cash and cheques.
 7. The payment of the pot is made in the form of cash or cheques whichever are available.
 8. The pot is paid partly in the form of cash and partly in the form of cheques.
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3. ROSCA management

32. In what form are the subscriptions paid?

1. The subscription for the ROSCA can be made in cash, in the form of a cheque. Cash is preferred. In certain cases, gold is also used.
 2. Instalments are paid in the form of cash or cheques. Gold is used in the gold market.
 3. The instalments are also paid sometimes in the form of cash but mostly in the form of cheques.
 4. The subscription is paid in cash or in the form of a cheque.
 5. Each instalment is one tablet of gold. Members who have acquired more than one position give multiple tablets.
 6. Instalment is paid in the form of cash and cheques. The cheques are usually those that were received from customers by ROSCA members
 7. The instalments are paid in the form of cash or cheque.
 8. The pot is paid partly in the form of cash and partly in the form of cheques.
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3. ROSCA management

33. Where is the pot paid to the winner?

1. The small value pots can be collected by the winner in the office of the ROSCA holder or are delivered to the winner. Large value pots of ROSCAs that are conducted in a hotel, are delivered in the hotel.
 2. The pot is paid to the winner at the shop of the ROSCA organizer.
 3. Usually the pot is delivered to the winner's doorstep in the form of cash and cheques.
 4. The pot is paid wherever the subscriptions are collected and the draw is held.
 5. The pot is paid out in the same place where the draw is held.
 6. The pot is usually collected by the winner from the office of the ROSCA holder. Occasionally the ROSCA holder may deliver the pot at the winner's doorstep.
 7. The pot is paid out in the office of the ROSCA holder. Sometimes it is delivered to the winner's office.
 8. The pot can be collected by the winner from the office of the ROSCA organizer. Sometimes it is delivered by the ROSCA organizer to the office of the winner.
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3. ROSCA management

34. Where is the subscription paid?

- 1 Small value subscriptions are deposited in cash or cheque by the member in the premises of the ROSCA holder. In other cases a representative of the ROSCA holder goes around the marketplace and collects the subscriptions from the

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- members at their business places.
 - 2 Subscriptions are sometimes paid by the member to the ROSCA organizer and the latter's office, and sometimes a representative of the ROSCA organizer comes to the shop of the ROSCA member and collects the subscriptions from there.
 - 3 The instalments are paid in the office of the ROSCA holder.
 - 4 Did not offer an opinion.
 - 5 The instalments are paid at the same time and place when the draw is held.
 - 6 The instalments are either paid at the office of the ROSCA holder, or are collected by the representative of the ROSCA holder from the members' premises.
 - 7 Instalments are sometimes paid to the ROSCA holder in his office. Sometimes a representative of the ROSCA organizer goes around the shops of the members collecting the instalments.
 - 8 Sometimes the instalments are delivered to the ROSCA organizer. Sometimes they are collected from the shop or office of the member by the organizer or his employees.
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3. ROSCA management

35. How do you ensure the pot winner will pay the remaining instalments in time?

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1. We can tell from our experience that the party that has won the pot is of sound financial condition and will be able to continue paying the subscriptions. Additionally, it is in the Interest of the party that they pay the instalments in time. Otherwise they will acquire a bad reputation and will be unable to participate in any later ROSCA.
 2. ROSCAs had been operating in this market for decades. There has never been a case of default. The system is operating. There has never been a case in which a person did not deposit his subscription or ran away with the pot. In our market we have a system of NOC. If any shopkeeper were to sell his shop, we the members of the Association will not give him an NOC until he has cleared all his outstanding dues. We will give him the NOC only operate in tears his dues. If we receive an application for the transfer of ownership, the full payment of the price of the shop is deposited in our office by the buyer. We have done this to protect the investment of people from Faisal Abad, Karachi etc. There is no other market in all of Asia that protects the investors capital the way we do in this market.
 3. Winners of the pot do not run away with it. The system runs on trust.
 4. The question of whether or not a winner will run away with the pot is settled before any member is admitted into the ROSCA. People who are likely to run away with the pot are not admitted into the ROSCA to start with. The man is sitting in the market, he is operating in the market, is doing business in the market. If it does not pay it will cause severe difficulties for him. If he does not pay people break connection with him and he cannot survive in the market. We do not take a advanced cheques from a winner. Some ROSCAs to take advanced cheques but mostly we do not. The whole system runs on trust.
 5. Our ROSCA runs on complete trust of each other. However, before we pay the winner the pot we make him sign post-dated cheques to ensure that he will pay

- regularly.
6. About ensuring that the pot winner will pay the remaining instalments. As I said earlier ROSCA members are chosen with care. We accept only such traders as members who we are reasonably certain will pay the instalments in time. The whole system runs on trust. In case of a newcomer member, we ask that he provide a guarantor. Occasionally we ask that the newcomer winner provide post-dated cheques for the remaining instalments. We usually do not ask reputable traders who have successfully participated in several earlier ROSCAs, to provide cheques because this causes annoyance to them.
 7. This is a matter of trust. We select only such traders as members who we are sure will pay their instalments even after winning an early pot. In some other markets, I believe post-dated cheques for the remaining instalments are obtained from the winner before the pot is delivered to him.
 8. In our ROSCAs we have no problem on that account. We have chosen our members carefully. They are all reliable and trustworthy traders who care for their reputation. I have heard that in some other ROSCAs, the winner is expected to deliver post-dated cheques for the remaining instalments before he takes the pot.
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3. ROSCA management

36. Do ROSCAs enable social interaction between the members?

1. Another advantage of ROSCA space that we are able to meet new people with whom we would not be able to meet otherwise. This creates a small social set up in which we can interact with each other.
 2. No social interaction takes place at the time of the draw. However when we meet in times of happiness or sorrow such as a marriage or a funeral, we discuss social matters also. These include finding a good match for a son or a daughter. You might have noticed that many people are related by marriage to each other in this market. Often people come to me in my office and suggest that they have a daughter who has become wise. I then estimate which of the sons of the traders are eligible. If I find any I talk to the fathers of the two. In this way we make God happy. Most of the traders here belong to the Sheikh brotherhood.
 3. At the time of the draw of the ROSCA members get together and in addition to talking about the ROSCA they also talk about business in general and social matters. There is a degree of social interaction during the draws.
 4. Because of the ROSCA, a connection is made among the members. We meet each other. We arrange meals for each other. A social context is set up.
 5. Considerable social interaction takes place at the time of the draw.
 6. Socializing by ROSCA members varies from case to case. Small shopkeepers are too busy to socialize. Sometimes they even do not attend the draw but send a representative to bring back the news. In other cases they just wait to be told by others about who won the draw. When the traders manage larger businesses, they may have the leisure to socialize.
 7. Very little socializing takes place at the time of the draw. The traders are busy and do not have time for this. They are so busy that sometimes this center only a salesperson as a representative at the draw.
 8. Yes and no. Some traders socialize while others do not.
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3. ROSCA management

37. Are bidding ROSCAs operating in your market?

1. According to my information, there is no bidding ROSCA in the market nor is there anyone likely to be in the foreseeable future.
 2. There is no bidding ROSCA going on in our market. We consider it a cruelty and a fraud against the needy people. We absolutely think it is a cancer against the society and people who carry out bidding ROSCAs define the rights of other people. It is inexcusable that if ROSCA of Rs5 Mn should be taken away for Rs1.5 Million. In the decade of the 80's bidding ROSCA was practiced and many people became defaulters. One shop in the Shah Alam market became a defaulter.
 3. There is no bidding ROSCA operating in this market.
 4. No bidding ROSCA is operating in our market.
 5. To the best of my knowledge, bidding committees are not operating in this market.
 6. I have not heard of any bidding ROSCA in this market place.
 7. Bidding ROSCAs do not operate in this market.
 8. There are no bidding ROSCAs in my market.
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3. ROSCA management

38. How many bidding ROSCAs are operating in your market?

1. There is no bidding ROSCA prevailing in this market.
 2. In our market, No. There are no bidding ROSCAs going on in this market.
 3. There is no bidding ROSCA operating in this market.
 4. Did not offer an opinion.
 5. There are none in this market.
 6. I do not think any bidding ROSCA is operating here
 7. There are none.
 8. There are none.
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3. ROSCA management

39. When did the last bidding ROSCA operate in your market?

1. I do not have any information about when the last bidding ROSCA ever took place in this market.
 2. I believe the last bidding ROSCA took place in the decade of the 80's. But it did not take place in my block it took place in Karachi and Lahore blocks. The participants have long since died out.
 3. I have no idea when the last bidding ROSCA operated in this market. I have never experienced one.
 4. Bidding ROSCAs have never operated in this market.
 5. I am not aware.
 6. I do not know when the last bidding ROSCA operated here.
 7. I do not know.
 8. I do not know.
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3. ROSCA management

40. Where are bidding ROSCAs operating?

1. I do occasionally hear rumors of bidding ROSCAs going on in some distant place. I do not know of any market in which bidding ROSCAs are being carried out.
 2. Bidding ROSCAs are probably being carried out in the iron market and steel bar market at Misri Shah. They are also carried out in the Landa Bazaar. The organizers have brains made of iron and do not realize that bidding ROSCAs are a cruelty to the members
 3. I have seen the advertisements of bidding ROSCAs on the TV. I do not know where they are operating.
 4. Bidding ROSCAs are said to operate in certain markets. I do not know where they are operating.
 5. I do not know.
 6. I do not have any idea where bidding ROSCAs are operating.
 7. I am not interested and have never found out.
 8. I do not know.
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3. ROSCA management

41. Why are bidding ROSCAs infamous and unpopular?

1. In my opinion bidding ROSCAs had become failures because their modus operandi is unjust and damaging. Slowly and gradually they seem to be going out of the society.
 2. Bidding ROSCAs are a cruelty. They come in the purview of Interest. A person deposits Rs2 Mn and carries away much more. Neither the taker is happy nor the giver is happy.
 3. The people who participate in bidding ROSCAs usually are infamous.
 4. Bidding ROSCAs are not proper from the Islamic point of view, so we do not allow them here. Bidding ROSCAs seem to be run by infamous people. These usually break frequently. Members take the pot after winning the pot and then run away with it.
 5. Bidding ROSCAs are unsocial and exploitative.
 6. I have heard that they are un-Islamic and exploitative of the needy.
 7. Bidding ROSCAs exploit the weakness of the needy member. The difference between the value of the pot and the bid amount is a form of Interest. Bidding ROSCAs are inhumane, well, and un-Islamic.
 8. They are Satanic. They are cruel and exploit the needy person. They are a form of Interest.
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4. Defaults

42. How many random ROSCA failures have you seen or heard of during the last five years?

1. ROSCAs are participated in only after rigorous investigation. As far as the default ratio in random committee ROSCAs is concerned, it is rather low. We
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- hear of very few ROSCAs that have failed. Usually ROSCAs are able to complete their cycle successfully.
2. I have been the general secretary of this Association since 1995. In these 20 years I've seen only two ROSCAs failing. One of the defaulter ROSCA organizers is still working in this market. He is returning people's capital in small amounts since then.
 3. During the last five years I have seen only one random ROSCA failing. It was my own.
 4. I have never personally experienced failure of any random ROSCAs. I have never personally seen any random ROSCA failing. However, I've heard of a few of them failing.
 5. If consider the failure rate of random ROSCAs as a percentage, it is negligible. I've heard of only three or four random ROSCA failing during the last five years.
 6. I have not heard of any random ROSCA defaulting on account of the committee holder. I've heard or two or three defaults on the part ROSCAs members
 7. According to my information, maybe one or two random ROSCAs have failed in the last five years.
 8. I have not heard of a single random ROSCA failing in this market in the last five years.
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4. Defaults

43. What were the causes of the failures?

1. ROSCAs default if the ROSCA holders or the members do not pay. If the ROSCA holder develops ill-intent and does not pay the pot to the winner the ROSCA defaults. If a winner takes the pot and runs away without paying the remaining instalments, in that case too, the ROSCA develops problems and gets stuck.
 2. I think the cause of failure was his ill intent.
 3. It was a case of financial mismanagement.
 4. The reason for failure of random ROSCAs is lack of education. People say they do not have the money whereas actually they may have it. People do not have the habit of paying.
 5. Usually ROSCA failures are due to the inability of members to pay subscriptions in time. Very rarely, it has been caused by financial mismanagement by the committee organizer.
 6. I believe the default was caused by members' inability to pay instalments
 7. In both cases the cause was ill-intent or dishonesty by the ROSCA holder.
 8. The ROSCAs are carefully managed. There are no failures.
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4. Defaults

44. How many Bidding ROSCA failures have you seen or heard of during the last five years?

1. In the past several years I have heard of very few bidding ROSCAs.
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2. In our market bidding ROSCAs have never functioned. I cannot tell you how many bidding committees have failed here.
 3. I'm neither heard nor experience any bidding ROSCAs failing.
 4. Did not offer an opinion.
 5. I am not Interested in bidding ROSCAs. I have not counted their failure but believe it is very high.
 6. I believe almost all fail.
 7. I suspect the failure rate of bidding ROSCAs is very high.
 8. I do not know for sure. But I believe the failure rate is too high.
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4. Defaults

45. What were the causes of the failures of Bidding ROSCAs?

1. The reasons for their failure, as I said earlier, are unjust modus operandi. ROSCA holders or members are usually devoid of any repute. All sorts of people get together. It is because of these reasons that bidding ROSCAs usually fail.
 2. Did not offer an opinion.
 3. I have not neither heard nor experienced any bidding ROSCAs.
 4. Did not offer an opinion.
 5. I think bidding ROSCAs fail because they are based on exploitation.
 6. I believe organizers and members of bidding ROSCAs are greedy people who do not have enough social capital to participate in random ROSCAs.
 7. They are against Nature, our culture and our religion.
 8. They are Satanic. They are cruel and exploit the needy person. They are a form of Interest.
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4. Defaults

46. What are the causes of Bidding ROSCA failures?

1. Did not offer an opinion.
 2. Did not offer an opinion.
 3. I have neither heard nor experienced any bidding ROSCAs.
 4. Did not offer an opinion.
 5. As I said, bidding ROSCAs are based on exploitation and unfairness.
 6. There were several reasons why some members of random ROSCAs defaulted. In one case is a person spent extravagantly on the marriage of his son or daughter. I would say it was a case of financial mismanagement.
 7. Cruel systems cannot survive.
 8. I do not know.
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4. Defaults

47. What measures do you adopt to prevent default?

1. To prevent defaults in ROSCAs, I feel the members should be chosen carefully. Only people who have proved to be trustworthy and with whom we had worked
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- earlier and people were close to us should be selected. Their financial status should be determined so that they are allowed to participate only in committees which they can successfully support and do not fall prey to problems.
2. The ROSCA organizer selects his members very carefully. What sort of reputation that this man have, can this per cent pay Rs50,000 or Rs100,000 per month regularly? He consults his friends and they consult me. I sometimes convince the ROSCA organizer to not accept certain people as members because they will not be able to pay regularly and in time. If a member defaults, I have a lot of power. I can put a lock on his doors if a person tries to defraud. If we find that he is not behaving correctly we warn him that his business will be locked. His behavior is causing bad reputation for the market. If he still does not behave correctly, we call 5 or 6 committee members and agree on our course of action.
 3. The goodwill of the people from whom we are to collect subscriptions, matters a lot. In case of new members we have a system of so-called “guarantee”. If such a person wins a draw we expect him to provide two people who will guarantee that this person will pay the remaining instalments. It is our other ROSCA members who will vouch for the person.
 4. The person who organizes the ROSCA in the market is a powerful person. Everybody cannot organize it. He has resources and he has a hold in the market. Only such people are accepted as members in the ROSCA as have good reputation in the market.
 5. We choose our members with care. All of them are our friends and colleagues. If any one of them defaults, the others support him. If he defaults after obtaining the pot, the rest of the members gathered around to help him along and help him to make his payments somehow or the other. If he defaults before he obtains his pot, someone else steps in as a new member, takes the defaulter’s place, changes the name of the position and the committee goes on as before. Suppose there are 30 members in a ROSCA and a person wins the pot number six. To ensure that he will pay the remaining subscriptions, we adopt the same methodology as that adopted by the banks. Before we pay him the pot we make him sign 24 post-dated cheques to ensure that he will pay regularly.
 6. About ensuring that the pot winner will pay the remaining instalments. As I said earlier ROSCA members are chosen with care. We accept only such traders as members who we are reasonably certain will pay the instalments in time. The whole system runs on trust. In case of a newcomer member, we ask that he provide a guarantor. Occasionally we ask that the newcomer winner provide post-dated cheques for the remaining instalments. We usually do not ask reputable traders who have successfully participated in several earlier ROSCAs, to provide cheques because this causes annoyance to them.
 7. The most important step that we take to prevent default is prudent selection of the members We do not demand cheques from pot winners but I believe some other ROSCAs do that.
 8. We choose the ROSCA organizer and the members with great care. The committee holder makes sure before the ROSCA starts that the members are reliable and will pay the subscription even after they have collected the pot. The ROSCA holder is financially strong to start with. The members he chooses for his ROSCA are also reliable. For this reason there is no likelihood of a default taking place in the ROSCA.
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4. Defaults

48. Is the social pressure of peers sufficient to prevent default?

1. If a member default takes place we try to use peer pressure and social pressure to prevent default. Sometimes it works sometimes it does not. Usually social pressure is not enough.
 2. In our market social relationships and the pressure created by them have great importance. The sons or daughters of most traders in this market are married to sons or daughters of other traders here. Their sense of shame is very important to them. They may have bad relations with customers but are very careful within the marketplace. They do not want that someone should come at the shop and speak loudly that they owe the ROSCA. For the sake of his honor even deliver a cheque of the amount, apologize for his delay but will pay up.
 3. Social contacts with the peers and social capital in the market play a significant role in preventing default by ROSCA members
 4. Social capital and mutual interconnection counts a lot. Members care for what the other care and think. Ordinarily people do not commit such things in a ROSCA.
 5. In our society we have this. Our social values are such that our ROSCA members do not want to have themselves insulted before the others. They try their best to prevent their reputation of from being soiled. If one of them even thinks of defaulting, the others exert sufficient social pressure upon him to prevent him from doing so. The best ROSCAs simply accept only such members about whom they are certain that they will not default. Members understand that if their reputation is soiled just once, they will not be able to do business in this market. The defaulter will not be able to buy any material on credit because nobody will sell material on credit if word goes out that he is a ROSCA defaulter. This is just like the publicly-accessible database we talked of regarding dishonoured cheques. It happens very clearly.
 6. Peer pressure and social relations are usually not enough to prevent a default. Default has more to do with your own personal financial standing
 7. Peer pressure is not enough to prevent anyone from defaulting. Every member manages his own affairs.
 8. Peer pressure is sufficient only to a small extent to prevent any default.
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4. Defaults

49. How much will it help to apply legal pressure on the defaulters?

1. If pressure can be applied in an appropriate legal manner and we have appropriate legal support, it will bring about great improvement in the system and will reduce the number of defaults.
 2. All the ROSCAs operating are extra-legal. We show in our returns that the capital available to us is Rs500,000 but we are operating ROSCAs worth Rs3 Million. While this extra money come from? Neither the government deals with us correctly nor we deal with them correctly. The businesses are planning on lies. If the tax system is improved and the government gives protection to the people, the people will pay taxes honestly. There are 10,000 businesses in this market but only 2000 pay taxes. The government officers do not work correctly. Very few are in the tax net. Most shopkeepers own 2 to 3 cars but do not show any.
 3. It will bring a substantial reduction in defaults if there is some legal and procedural backing of ROSCAs.
 4. ROSCAs are purely private arrangement.
 5. If ROSCAs are given a legal status and are registered with some authority it will reduce the number of defaults. If a responsible department joins ROSCAs, it will provide additional social pressure and legal safeguard. The ROSCA holder will know that if a member disappears, his own capital will not sink. The joining of a responsible authority with ROSCA will always be better in every circumstance.
 6. It will be a great help if ROSCAs are recognized legally. If that is done, the judge will give the ball to the ROSCA organizer. The law will set up some procedures whereby ROSCAs will be spent. If the law takes notice of ROSCAs, recovery of funds such as bounced cheques will be made sure and easy.
 7. If ROSCAs are recognized by the Law, it will be a great help when defaulters are taken to the court.
 8. Yes! ROSCAs are not recognized by law. They operate by word-of-mouth without any document. In case of a default, the ROSCA organizer and members try to recover the situation by applying social and moral pressure on the defaulter. If legal pressure could be applied, it would reduce the default rate even further.
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4. Defaults

50. How far is it possible to make recovery of funds from dishonoured cheques?

1. Recovery of funds from dishonoured cheques, in my opinion, is only 50-50. It sometimes is possible and sometimes is not possible. In this condition we do not have any support from the government, the banks or the police. Eventually it becomes quite expensive. Police always demands money.
 2. We can only applying social pressure on people whose cheques had been dishonoured. Recently a case came before me. A party from Faisal Abad gave cheques worth Rs440,000. The aggrieved person waited two and a half months before hiring ruffians to obtain payment. The party who wrote the cheques came to me. I have arranged a compromise but the traders suffered a loss of Rs40,000. Collection funds involved in a bounced cheque is very difficult. Some people have a sense of shame and make an arrangement with the aggrieved person.
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- Many others seem to prefer going to jail rather than paying.
3. It is simply impossible to recover funds from a dishonoured cheque given to a ROSCA. The police or the courts do not entertain a cheque given for a ROSCA. Even if you make an application to the police regarding a defaulted ROSCA cheque, they will not entertain it. In case of defaulted cheques made for general business, the possibility of recovery is very low. In the current system it is impossible to recover the funds involved in a defaulted cheque.
 4. Did not offer an opinion.
 5. I feel recovery of bounced cheques is easy if the person has good connection with the police. A dishonoured cheque is a great tool to help in the recovery. Legally, the bank gives three chances for the settlement of a dishonoured cheque. If the cheque remains dishonoured even after availing the three chances, an FIR can be lodged very easily. The traders have mutually decided that instead of lodging an FIR with the police, they should use the market unions to influence the cheque writer to settle the matter. This will reduce the load on the police. The police are involved only if a settlement cannot be reached.
 6. Recovery of funds from a dishonoured cheque is very variable. If the party that gave a dishonoured cheque is solid, has a good reputation, was well-intentioned, but has suffered because of adverse seasonality or political turmoil, he will pay out ultimately. But if the party that signed the cheque is one who came with the intention of giving a bad cheque, and they know that the law and order situation is not strong enough to nab them, the probability of recovering from such a cheque is zero.
 7. Recovery from dishonoured cheques given by Pakistani traders of even a shred of respectability is 100% possible. Recovery from dishonoured cheques made by traders from Afghanistan is impossible.
 8. Dishonoured cheques are a hassle. If they are made by our regular customers, the matter can be corrected in a few days. Bounced cheques given by traders from Afghanistan are a total loss. In other cases it depends upon the victim's relationship with the police.
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4. Defaults

51. How effective are post-dated cheques in preventing defaults?

1. Post-dated cheques are a successful means, to some extent, to prevent default. If it is adopted, people develop a sense of responsibility and they become bound to a certain extent that they have to pay up.
 2. Post-dated cheques are used only to linger on or earn some time to the cheque writer. Cheques have no value if the writer is dishonest.
 3. Post-dated cheques help to a limited extent but only in the case of general business. In case of ROSCAs, they are nearly worthless.
 4. Did not offer an opinion.
 5. Post-dated cheques are a powerful tool to help in the recovery. However they are useful only for individuals who have good relations with the police.
 6. Recovery can be made from post-dated cheques only by traders who have great influence with the police. They can be used only to embarrass a defaulter.
 7. Post-dated cheques given by Pakistani businesspersons can be used to embarrass and coerce them to make a full payment. Otherwise in the present system of law and order they are useless.
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8. Post-dated cheques can be used to embarrass the defaulter. If they had been made by a reputable party, or recovery is simple. Post-dated cheques given by businessmen from Afghanistan are worthless.
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5. Advantages of ROSCAs

5.2. Simple and easy for relatively uneducated traders

1. ROSCAs are a simple and easy methodology. We had been seeing them operate since we were little children. It is an easy method and a less educated trader or less educated individual can easily participate.
 2. Did not offer an opinion.
 3. Financing is obtained easily from ROSCAs. No documentation is needed. No collateral is required to be posted.
 4. One of the advantages of the ROSCA is that a person is able to arrange finances which he can invest in his business, earn profit and pay instalments for the ROSCA. In addition to this, many people have the requirement for lump sum expenditure such as marriage of children. In that case too ROSCAs are a great help. There are many other functions which a person cannot carry out without capital. A person can do that with funds obtained from the ROSCA. ROSCAs are an important part of our social set up.
 5. There are several advantages in obtaining financing from ROSCAs as compared to bank loans. The ROSCA is composed such of your friends. You do not have a fear that there will be a default and your capital will sink. The pot is a substantial sum of money which you can use in your business. Traders participate in ROSCAs mostly to obtain financing for investment in their business, so that they can obtain some capital with which to acquire material. I feel that as compared to obtaining a loan from a bank, ROSCAs are better in every way. there will be no fear of your honor being trampled, nor will there be any danger to any of the property being snatched away. ROSCA gives convenience to a small trader. He can establish himself with the ROSCA. A ROSCA is the best convenience for a small trader. If not large ROSCAs, many small ROSCAs should be encouraged so that small traders can manage their business. In my experience many small traders were able to set up or get their business on track because of ROSCA financing.
 6. ROSCAs offer a number of advantages over dealing with banks. Payment of tax is an important issue. People feel that if they deal with banks a lot of their confidential information will become public and attract scrutiny of the tax authorities. Bank procedures and documentation are very complicated. The less educated traders hesitate to deal with banks on this account. People have the impression that whatever comes from a bank is based on Interest. As a result banks are used only for safekeeping traders' money in Current accounts and using it as an intermediary for inter-city transfer of funds. In case there is a delay in paying instalments to a bank, the bank levies surcharges and hidden surcharges. In a ROSCA, no fines or surcharges are levied in case of a delay in paying instalments. No deductions are made and the member obtains the full amount that he paid to the ROSCA.
 7. Many of the traders in this market are barely literate. They have difficulty understanding the documentation of the bank but can participate in a ROSCA quite easily. ROSCA is an effective way of achieving compulsory saving.
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8. ROSCAs are easy to manage and work with. It is possible to obtain a large pot after having paid only a small amount as instalments. Even less educated persons can participate.
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5. Advantages of ROSCAs

53. Confidentiality.

1. ROSCAs maintain confidentiality to a certain extent. If you do not expose yourself and quietly participate in a ROSCA, no one will find out.
 2. ROSCAs are essential to develop it traders social capital and respect in the marketplace. ROSCAs are a form of compulsory saving when the trader would find it normally difficult to say. They help in getting daughters married off, or to buy a plot of land on which one day he will build a house. Confidentiality is usually maintained in ROSCAs. If the ROSCA with a pose some money to others, and may want to face the pavement, he may not want his winning to be announced.
 3. In some ROSCAs the names of the winners are not announced. In others, they are intentionally announced so that other traders in the market should know that such and such trader is participating in such and such ROSCA. This helps build goodwill and social capital in the market. Other traders use code words instead of their real names so that their confidentiality is maintained.
 4. There is usually very little confidentiality in a ROSCA. Everyone in the market is aware that such and such person has taken part in such and such ROSCA. Even pots are paid by means of a cross cheque. The government does not recognize ROSCAs. It also does not recognize any money that you may deposit in your bank on account of the ROSCA that you are managing. The government considers it as an income and taxes it. The government should realize that the traders are generating funds for promoting their businesses, on self-help bases. The government should encourage ROSCAs rather than discourage them by taxing. No bank account is safe from government prying. State bank has permitted the income tax and other departments to pry into bank accounts. If ROSCA funds are retained by the manager then there is secrecy but if the funds are deposited in a bank, there is no secrecy.
 5. As far as the government departments are concerned, ROSCAs operate in complete confidentiality. Within the ROSCA itself, some members ask that code names be used instead of their own names. This is to prevent other members from knowing that they had won the pot. In some other cases members want their names to be announced so that they can, over a period of time, be known as successful partners in successful ROSCAs. This helps them acquire social capital.
 6. Confidentiality of members can be maintained to an extent in the ROSCAs. Some members request the ROSCA manager will not announce their names. This is for confidentiality. In other cases members request the ROSCA manager to announce their names so that people can know that they (members) have participated in successful ROSCAs. This is to build up a good track record and reputation in the marketplace.
 7. Confidentiality or otherwise of ROSCA members is maintained according to the member's wish. Members usually do not announce they had won the pot lest other traders come to them and ask for loans. Others intentionally announced
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- their participation so that over a period of time, their reputation can be built up.
8. Did not offer an opinion.
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5. Advantages of ROSCAs

54. collateral or guarantees are not required. Good reputation is enough.

1. Collateral or guarantees are not required in a ROSCA. Social capital is enough.
 2. Unlike banks who demand ownership papers for property or the shop, no such collateral is required for ROSCAs. Many people in this marketplace have been able to establish good businesses because their winning was announced early in the ROSCA cycle.
 3. I have heard of some collateral being used in some ROSCAs somewhere but have never really seen it happening.
 4. Did not offer an opinion.
 5. You do not need any documentation in a ROSCA. It does not involve any documents. Too many registries (property deeds) are not involved. The sword of the bank is not always involved. The fear of the disappearance of one's property or of the property being snatched away goes away. If you need an investment of Rs1 Million, 5 Million, 10 Mn from a bank, you will have to offer collateral worth Rs30 Million. Only then the bank will take Interest. In exchange, the bank will pay you a meagre amount. It does not give you any facility whatsoever. If you invest this same instalments which you would give to a bank to a ROSCA, you will not have to submit any documents.
 6. Collateral is not usually required in the low value ROSCAs. Only when the amounts exceed Rs5 Mn or the winner is relatively new, post-dated cheques are demanded as collateral.
 7. Collateral or guarantee is not required in a ROSCA. Reputation and social capital are sufficient.
 8. Collateral or any guarantee like the one banks demand is not required in a ROSCA. The member's social capital and reputation are enough.
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5. Advantages of ROSCAs

55. Surcharges in case of inadvertent delay in payment of subscription.

1. There are no extra charges for documentation involved.
 2. Delay in the payment of subscription for ROSCAs does not attract any penalty. We only applying social pressure upon the person to pay in time. The ROSCA organizer usually keeps the first draw for himself. He uses this as a cushion or buffer so that if any member later delays in payment, he can use this buffer to make sure that the ROSCA operates flawlessly.
 3. Accidental delay in paying the subscriptions does not attract any punitive fine. If a ROSCA member's cheque bounces he is asked to pay the remaining subscriptions in cash. There is considerable social pressure upon each ROSCA member. Committee holders often take two positions in a ROSCA. The first pot always goes to the ROSCA holder. He invests it back into the business and from its profit he pays the subscription for his second ROSCA position. The ROSCA holder is aware of the mental attitudes of the members If a member defaults or delays in payment of the subscription, he is not included in the subsequent
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ROSCA. If he wins a pot, it is paid to him only upon providing the guarantee of other ROSCA members. In case a member who is a habitual problem maker wins the pot, he is paid-back whatever he paid to the ROSCA so far and his account is closed.

4. In our ROSCA we announce that the subscription must be deposited by the 10th of every month. In case of delay, foreseen or unforeseen, a fine of Rs500 per day is levied.
 5. Fines are not levied in case of an unforeseen delay. Actually we tried to help the member along so that he can pay in time.
 6. In ROSCAs operating in this market, we do not impose fines on a member for late payment. I have heard that in some other markets, members are threatened with a fine but usually the fine is not imposed.
 7. In case of an unforeseen delay in payment of subscriptions, we do not impose any penalty of any sort.
 8. In case of a delay in paying instalments, no fine of any sort is imposed.
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5. Advantages of ROSCAs

56. Several smaller traders can acquire one position in a high pot-value ROSCA.

1. More than one persons can join together to purchase one position in a ROSCA. In this way ROSCAs are accessible to traders with smaller means.
 2. In case individual traders are unable to pay the subscription amount, two or more can join together to get one position in the ROSCA. Even the ROSCA organizer sometimes encourages and helps smaller members to find other people to join together.
 3. It is possible for more than one traders to join together to acquire one position in a ROSCA.
 4. It is possible for more than one traders to join together to purchase one position in a ROSCA.
 5. In some conditions, more than one persons can join together to acquire one position in a ROSCA. This helps them to be members off a ROSCA whose members are solid citizens. This helps them acquire good rapport over a period of time.
 6. Two or more traders can join together to acquire one position in a ROSCA.
 7. More than one trader can join together to acquire one position in a ROSCA.
 8. It is possible for more than one trader, say two or even three to join together and acquire one position in a ROSCA. They divide the pot among themselves in their own ratio.
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5. Advantages of ROSCAs

57. Member can obtain the loan from friends against an imminent pot.

1. If I know that my turn to get the pot is coming soon, I can use this information to obtain a loan from a friend or relative. For example if I know that the 10th ROSCAs will be mine I can announce to a friend that I'm getting two lakh rupees in such and such time and using that as a security, I can obtain an earlier loan.
 2. Although it is not frequently done, impending ROSCA wins can be used or
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pledged to obtain loan from friends. Both the parties been contact the ROSCA organizer and asked that the name be changed from the first to the second. The first member will continue to pay the subscription but the pot will be paid to the second.

3. There is a practice in the market that traders whose ROSCA is likely to be announced soon use this future ROSCA as a promissory guarantee to obtain loan from friends.
 4. It is possible for a ROSCA member who is expecting a pot in the very near future, to use this future ROSCA pot as a promise or guarantee to obtain an earlier loan from friends or relatives. I have personal experience of this. It is a mutual and private agreement between two people and ROSCA has nothing to do with it.
 5. Committee holders are all mutual friends. They know the financial needs of each other. They can request each other if they have a financial need. Some of the partners surrender their own part to a member who has greater need of it with the understanding that once the needy person gets his own pot, he will give it back to the one who had given his own pot to him earlier. It is easy to give a loan, it is easy to oblige a friend and best of all one's own capital is completely safe.
 6. If a member is certain that his turn to win the pot may come soon, he can use this information to obtain some loan from friends and relatives.
 7. In other markets, I believe traders can use sharing imminent pots to obtain loans from friends and relatives.
 8. Members can pledge their forthcoming ROSCA to obtain some loan from friends and relatives. Most businesspersons cooperate for two, three or four months with each other.
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5. Advantages of ROSCAs

58. Funds obtained from a ROSCA are cheaper than bank loan of similar amount and duration.

1. In my opinion, the financing obtained from a ROSCA can be considered to be a savings. The saving that we cannot achieve ordinarily, can be achieved through a ROSCA as a compulsory saving. Financing obtained from a bank is a loan. It involves Interest which in our faith is forbidden.
 2. The profitability of ROSCA as compared to banks depends upon the person's intention. If the person intended that he will participate in a ROSCA and obtained the first pot and use it in his business than it will not work. Committees are actually a form of compulsory savings. If he wants financing for his business he might as well go to a bank. If he takes loan from a bank in a have to pay Interest and being involved in the labyrinths of the bank. ROSCA should be considered as a form of compulsory saving only and not as a source of quick capital which can be invested in his business.
 3. If we take only Interest into account, then the capital obtained from ROSCAs is cheaper than that obtained as a bank loan in every way. If we do not take Interest into account, the bank loan is more viable. It is like the pot that has been obtained early in the cycle. It can be invested in the business and profit earned. ROSCAs are generally not participated in for the sake of business. Ordinarily ROSCAs are not used for the growth of business. Whether the ROSCAs are
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- small or large, every member participates in them only for his savings.
4. When we subscribe to a ROSCA, we get nothing out of it except our saving. On the other hand if we invest the same amount of subscription in our business, we obtain some profit. It is an advantage of ROSCAs that you are able to save and sometimes you are in a lump sum pot which you can invest in the business. Actually ROSCAs are really a compulsory saving method. The pot is a bonus.
 5. The capital obtained from a ROSCA is definitely cheaper and more convenient than that obtained from a bank. However capital obtained from a bank has its own characteristics, advantages and disadvantages.
 6. ROSCA financing costs less than bank financing of the same amount and period. However, bank financing is a loan that can be reinvested in them business will generate profit. This profit can be more than the cost of the loan.
 7. Finances obtained from ROSCAs are certainly more convenient and less expensive than finances of the same magnitude and duration obtained from a bank.
 8. When a loan is taken from a bank, the bank will levy Interest or they can call it profit or markup. There is no such charge involved in a ROSCA. Finances obtained from a ROSCA are cheaper than similar finances obtained from a bank.
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5. Advantages of ROSCAs

59. Funds from a ROSCA are not subject to any deduction.

1. No deductions are involved in a ROSCA financing.
 2. No deductions are made from the capital that is obtained from a ROSCA.
 3. No deductions are made to the pot ordinarily. In certain cases of very high value pots, the draws take place in a hotel and the winner is expected to pay for the lunch or dinner of the attending members
 4. No deductions are made from the pot.
 5. We do not make any deductions from the pot.
 6. No deduction of any sort is made from the pot. No charges are levied, and in case of a delay we do not impose any penalty.
 7. No deductions are made from the pot at all.
 8. No charges or deductions of any sort are made from the pot. There is no deduction of any sort whatsoever.
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5. Advantages of ROSCAs

60. No Interest in any form is included in funds obtained from a ROSCA.

1. It is very obvious that no Interest is included in ROSCA financing.
2. No Interest of any form is included in the finance obtained from a ROSCA.
3. Random ROSCAs do not include any trace of Interest.
4. No element of Interest is included in any form in the pot.
5. The best feature of a ROSCA is that Interest is not involved.
6. The pot obtained from random ROSCA is completely free of any Interest. The member obtains exactly what he deposited.
7. Interest is not included in the pot in any form whatsoever.
8. No Interest in any form is involved in a ROSCA pot.

5. Advantages of ROSCAs

61. More affluent traders can acquire several positions to increase the pots.

1. Traders with access to greater financial resources can acquire multiple positions in a ROSCA or participate in several ROSCAs simultaneously. There are no restrictions.
 2. There are traders who purchase several positions in a ROSCA. They can invest a larger amount and obtained a large amount. They pay a larger subscription every month but in the end get a larger pot.
 3. Traders who can afford to pay high subscription rate either participate in several ROSCAs or acquire more than one positions in a single ROSCA to increase the size of their saving.
 4. Traders who can afford to set aside greater amounts of funds for subscription can either take part in several ROSCAs or can take several positions in the same ROSCA.
 5. Traders who can afford to, acquire several positions in the same ROSCA or in different ROSCAs. By this means, they are able to access greater capital.
 6. It is common practice for traders who can afford it, to take part either in several ROSCAs or acquire several positions in the same ROSCA. This way they can access greater capital
 7. Traders pay subscription to the limit of their capacity. Some participate in more than one ROSCA and others acquire multiple positions in the same ROSCA.
 8. If a trader can afford to, he can take more than one shares in a ROSCA. It is his own courage.
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5. Advantages of ROSCAs

62. Probability of obtaining an early pot can be increased by acquiring several positions.

1. If we participate in several positions or ROSCAs, it is obvious that in some cases we will obtain the pot earlier and in others a little later. In this case obtaining the financing can be spread over time.
 2. Did not offer an opinion.
 3. Some traders acquire multiple positions in a ROSCA so that their probability of earning an early pot increases.
 4. It is an advantage to take part in more ROSCAs or acquire several positions in the same ROSCA. The probability of obtaining an early pot increases. This pot can then be used as an investment and the earnings can be used to pay the subscriptions for the others ROSCAs.
 5. Traders who can afford to, acquire several positions in the same ROSCA or in different ROSCAs. Their likelihood of obtaining an early pot increases.
 6. By acquiring several positions in the same or different ROSCAs, it is possible to improve one's probability of obtaining an earlier pot.
 7. The larger the number of ROSCAs or positions that a trader participates in, the larger is the probability of his obtaining earlier pots.
 8. Acquiring several positions increases the probability of obtaining an early pot.
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5. Advantages of ROSCAs

63. Instalments may be paid in cash, cheque, or gold.

1. Payment of subscription is simple. We can pay in the form of cheque, cash or even gold.
 2. Did not offer an opinion.
 3. The subscriptions are paid usually in cash but more often in the form of cheques. There are some other markets where they may be paid in the form of gold.
 4. Instalments can be paid in cash or by cheque. In our market we prefer cheques. This is because in our market we pay income tax. In some other markets I believe subscription is paid in the form of gold.
 5. Instalments are paid in the form of gold. Sometimes it is cash or cheque.
 6. Did not offer an opinion.
 7. We accept instalments in cash or in cheque. Sometimes the cheques have been signed by the ROSCA member while in other cases they are cheques signed by buyers of the members They are accepted in good faith.
 8. Payment of instalments is convenient. It can be done in cash or it can be paid in the form of a cheque. It can be paid to the ROSCA organizer at the time of the draw or a representative of the ROSCA manager can go from the offices or shops of member to member collecting the instalments. It is very flexible and easy.
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6. Weaknesses of ROSCAs

64. Pots may not be obtained exactly when the funds are needed.

1. Certainly will be a good points in a ROSCA there are some reservations also. If we participate in a committee today we do not know when we would succeed in getting the pot. If it is up 20-member. We can get the money early in the cycle, in the middle or towards the end. We do not know if we will obtain the pot when we need the financing. This is certainly a shortcoming in a ROSCA.
 2. One should not participate in a ROSCA hoping that he will get a pot the next day and invest it in his business. Committees should be participated only for compulsory saving. Many people use talismans to get an early pot, others mumble mystical verses when the draw is taking place. I have found that in spite of all this the draw goes in favor of an absentee member who has not resorted to any magical or mystical power.
 3. ROSCAs have a noticeable disadvantage that the success in the draw cannot be predicted. In other words, the pot may not be available when it is more needed.
 4. Did not offer an opinion.
 5. Those traders approach banks that need greater financing than ROSCAs can provide. Also if they need a large amount, Rs10 for Rs15 Million, in a hurry they will go to the bank. There are two major factors here. In a ROSCA they will have to save for themselves. If they get the first pot, they will have to earn from it and pay the instalments. Once they get a loan from a bank they will compulsorily have to earn so much that they can return the bank's principal amount and the instalments. They must earn so much profit that they can pay the instalments. If they do not they will start moving towards default in six or seven months. There is excessive fluctuation in Pakistan's market. This fluctuation causes a problem to the person who took the loan. In the past there was one banking court. Today there are four banking judges. The banking cases have
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become so many and the conditions are so bad that cases do not get their turn to be heard before three or four months. The advantage of litigation and delays goes to the bank because the price of the property keeps appreciating and banks use increase exponentially because of compounding of the Interest. The bank sets the reserve price to include the capital and the compounded Interest. Since the defaulter was originally unable to pay it all, he has no chance of winning his property back. He loses his trade, he loses his business, and is relieved of his ancestral property.

6. Did not offer an opinion.
 7. One of the weaknesses of random ROSCAs is that obtaining the pot cannot be predicted. In case of decision ROSCAs however, it is decided beforehand.
 8. We cannot base a business plan on obtaining the pot because the time of obtaining the pot is unknown in the popular random ROSCAs. Committees can be used really only for savings.
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6. Weaknesses of ROSCAs

65. Traders operating in a rented premise may have difficulty joining a ROSCA.

1. Secondly, traders who operate out of a rented premises or whose financial position is weaker find it difficult to be admitted into a ROSCA. This is because if a party abandons the ROSCA we should not have any problem in continuing it.
 2. Traders who work in rented shops cannot participate in a ROSCA because they have no basis in the market. Their stock in the shop might be worth Rs10 Mn or 20 Million. 90.9% of the traders in this market are owners of their shops. How can a trader who has to take out the rental find enough money to pay subscription for the ROSCA?
 3. A trader who is accepted into our ROSCA need not have property rights of the shop that he is operating from. He may be operating out of a rented premise. His market goodwill determines his chance of acceptance. Often, traders who are operating out of their own shops are not accepted in the ROSCA.
 4. Before approving a trader to be a member of the ROSCA we see whether he is the owner of the shop, is his business doing well, does he have good reputation, his dealing with his neighbors, and is he in a position to pay the subscriptions easily and regularly. Even if the applicant is working in a rented premise, we see his business and his reputation. If his dealings with the people are okay then there is no problem in accepting him as a member.
 5. The most important factors considered about a trader when admitting him into our ROSCA is his social capital, reputation in the market, is turnover. Operating out of a rented premise is not a disadvantage for him although owning his own premise is a positive point.
 6. Did not offer an opinion.
 7. Operating from a rented premise is a very small disadvantage for acceptance as a member. We normally do not give any importance to whether the applicant for membership is operating from his own or from a rented premise.
 8. People are usually under the impression that traders who work out of a rented shop are not admitted into a ROSCA. This is not correct. It is the business reputation of the trader that is taken into account and not whether he is operating from a rented premise. In countless situations owners of premises are not
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admitted into the ROSCA because of their reputation.

6. Weaknesses of ROSCAs

66. Possibility of default always exists.

1. In today's business environment, there is a constant threat or fear of default. Last, God forbid, for any reason whatsoever if the ROSCA breaks it will cause a disturbance to the others.
 2. The fear of default is always present. We exercise great care to ensure there are no defaults. In this market we accept only traders from this market and not from any other. We accept members from other markets only if they are very closely related to a member such as his son for a son-in-law and on the member's guaranty. Because we do not know what is behind the wall. We do not know the state of business often applicant who is operating in a different market. We do not have any default in this market.
 3. The threat of default always exists. Of course it depends also upon the ROSCA holder and the members. The threat of default even exists in the form of an unforeseen mishap.
 4. The greatest difficulty we have in managing the ROSCA is collection of subscriptions. Members do not pay the said subscription on the date they promise. Sometimes they even exceed the last date. ROSCAs run on trust. We choose the members because of the trust we have in that if they are not trustworthy, no amount of pre-dated cheques will be able to help.
 5. A default is always possible. We reduce the probability by choosing the ROSCA organizer and the members carefully.
 6. Did not offer an opinion.
 7. Defaults simply do not take place. At the most there can be a delay in paying the instalments. If someone says that he lost his capital in a ROSCA, I think it is a lie. Everyone has obtained a full value of the pot.
 8. There is a greater fear of default in high value ROSCAs because the amount involved is very large. Small value ROSCAs are very common and tend to be less likely to suffer default. But the fear of default remains to some degree.
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6. Weaknesses of ROSCAs

67. Leaving a ROSCA before the cycle is completed is difficult.

1. Another disadvantage of ROSCAs is that if any time during the cycle, you are unable to continue paying, you will have to pay in any condition. It is not possible to exit from a ROSCA before it is completed.
 2. If a member wishes to exit the ROSCA prematurely he will have to speak to the ROSCA organizer and explain his difficulty. The organizer can then communicate with any other person and invite him to join the ROSCA individually. Financial details are decided mutually. In this situation, the person who wants to exit can be exploited by others who offer him a smaller amount than he had deposited to help him leave the ROSCA.
 3. It is unusual for a member to exit a ROSCA before its completion. If one does, it requires considerable effort on the part of the ROSCA holder to settle the financial crisis.
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4. Did not offer an opinion.
 5. As I said earlier, if a member defaults before he obtains his pot, someone else steps in as a new member, takes the defaulter's place, changes the name of the position and the committee goes on as before.
 6. Default by a ROSCA holder or a ROSCA member is a constant threat. Business runs on credit. ROSCA members receive cheque from their buyers and in good faith submit these cheques as subscription into the ROSCA. Because of the variable economic conditions in the country, sometimes these cheques bounce. If that be the case, the ROSCA is brought under threat of default.
 7. Traders wish to be included in ROSCAs. Not only that they can obtain a lump sum pot which they can use, they also acquire good reputation by participating well in a ROSCA that ends satisfactorily. I have not known of any member leaving the ROSCA midstream. If anyone does, we will be able to replace him with another member seamlessly.
 8. It sometimes happens that a committee member is unable to keep up with the payments and wants to quit. It is a difficult situation but the ROSCA holders usually manage it. They always find another trader for stepping into the position of the one who wants to leave.
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6. Weaknesses of ROSCAs

68. ROSCAs are extra-legal private arrangements. Recourse to law is difficult.

1. If a default takes place, a ROSCA is a private arrangement in our society. It is not legally covered. Problems can be solved only by private mutual consultation. If some solution can be found it is good otherwise it results in a loss to others and recovery of loss becomes difficult.
 2. ROSCAs are extra-legal. There is no such thing as law in this place. If there had been any law here, want only 800,000 people out of a population of more than 40 Mn be paying taxes? Our tax collectors say give us some money and don't come into the tax net. The law has upper hand in India. And everybody is in the tax net. CBR leads People's homes and confiscate undeclared money.
 3. ROSCAs have no legal standing. If we take a ROSCA dispute before a judge or the police we are not given a hearing.
 4. Did not offer an opinion.
 5. ROSCAs are a private matter. They are extra-legal. They do not obtain the same attention before a court of law as any other civil dispute may.
 6. Did not offer an opinion.
 7. ROSCAs are private arrangements and are not recognized by law. Some judges consider ROSCAs to be extra-legal if not simply the illegal. A complainant ROSCA holder does not obtain the same protocol in a court of law as he would if ROSCAs were declared legal.
 8. ROSCAs are a private matter involving only the spoken word and trust. Documents are not involved and are not available. They are quite illegal. If there is a default, it cannot be pursued in a court of law because there is no documentary proof against the defaulter.
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6. Weaknesses of ROSCAs

69. Earliest winners get a loan, last winners obtain only their savings, while others obtain a mixture of the two.

1. If ROSCAs are analyzed carefully, we find that those traders who obtain the pot early in the cycle such as the first or the fifth are in profit. It trader who obtains the 18th or 20th pot certainly suffers considerable loss. His capital is taken away from him and is returned to him after 18 to 20 months.
 2. The members who win the pot early in the cycle get a net loan while those who get the pot at the end of the cycle obtain only their savings. There is really no difference between the two. It is a question of mental attitude. The early winners are happy because they can invest the pot in the business and increase capital from the profit. The later winners are also happy because they have been able to achieve compulsory saving when ordinarily it would have difficult for them to save anything.
 3. Generally, traders participate in a ROSCA only for savings. An early pot is a bonus for the savers. They may invest it back into the business.
 4. Did not offer an opinion.
 5. Traders who obtain an early pot have in effect obtained a net loan. They can invest it in their business and earn a profit from it. Those who obtain the loan in the middle of the ROSCA cycle are 50/50. They are obtained a net loan as well as part of their savings. Those who obtain the pot at the end of the ROSCA cycle obtain only their compulsory saving.
 6. Did not offer an opinion.
 7. It is simply a matter of Providence when the pot will be received. Some obtain it early while others obtain it right at the end.
 8. Early pot winners are lucky because they can get an Interest-free loan without any collateral and having paid very little.
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6. Weaknesses of ROSCAs

70. Capital of last winners remains out of business for long causing reduced profits.

1. Had this capital remained in the business for 18 or 20 months, it would have turned additional profit to the trader.
 2. There is really no difference between the two. It is a question of mental attitude. The early winners are happy because they can invest the pot in the business and increase capital from the profit. The later winners are also happy because they have been able to achieve compulsory saving when ordinarily it would have difficult for them to save anything.
 3. If a trader does not participate in the ROSCA but invests whatever he would have paid as subscription into the business, he is likely to earn more profit. However he will not be able to save anything. ROSCAs are usually participated in for saving and not for raising capital to help promote business.
 4. Did not offer an opinion.
 5. This is true. Members who obtain an early pot are able to use it in their business and single. ROSCAs are really a form of compulsory saving. This is true. Members who obtain an early pot are able to use it in their business and single. ROSCAs are really a form of compulsory saving.
 6. Members who obtain an early pot, have in effect obtained a loan from the
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ROSCA. They can invest it in their business but they are constantly under stress that the loan has to be returned to the ROSCA from this business. Those who obtain the last pots, will obtain only their savings. Now, the future value of money is always less than the present value and it can be safely said that such members are at a loss

7. Later winners of the pot have had to extract this capital from the business for the duration of the ROSCA. And then not participated in the ROSCA, this capital would have been reinvested in the business and earn up potential profit areas however the businessperson would not have been able to save anything. Most traders considered ROSCAs to be a form of compulsory saving. The pot is considered a bonus.
 8. The late winners obtain only their savings and usually are a little unhappy about it. The ones who get the draw in the middle, achieve some saving and some Interest-free loan.
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6. Weaknesses of ROSCAs

71. Cheques may bounce. Recovery is almost impossible as police and courts are busy.

1. Cheques paid into the ROSCA can bounce. Justice cannot be obtained from the police or the law courts. And if available, it is very expensive and time-consuming. It is difficult to focus on our own work. ROSCAs operate on mutual trust. If someone betrays the trust it becomes difficult to catch.
 2. A lot of fraud goes on in other markets on account of the cheques. In our market we find there is no need to accept cheques on account of ROSCAs. If a person owes money he will pay. This is because people have been working here for generations. In other markets there is a lot of fraud going on. There is no law to protect against dishonoured cheques. Gen. Musharraf promulgated some law. Initially people were afraid of violating this law. Advocates have found some lacunas in the law. Today, there are many people sitting in jails who have issued dishonoured cheques and refuse to clear them.
 3. During the days of Gen. Musharraf a law for handling bounced cheques was promulgated. It helped the situation considerably. Any case attracted police attention and a criminal non-bailable case was filed against the defendant. People used to sign cheques only after deliberation. Actually people used to avoid writing cheques at all. This law began to be misused. People began to get cheques signed at gunpoint and would join up with their opponents in order to get a person into jail. The matter would go to court and in very rare cases the defendant would be granted bail. Now the government of Punjab and the police has created a separate department for handling bounced cheques. They look at the cheques. If the bounced cheques concern ROSCAs, they reject the case out of hand. Smaller traders can do nothing about it except try to apply social pressure on the cheque writeRs They have no legal recourse. Today the situation is that only influential individuals and well-connected traders can make recovery from dishonoured cheques. Bounced cheques have become a drag on the economy and capital is disappearing from the market. Recovery of the amount in a bounced cheque is almost impossible.
 4. Did not offer an opinion.
 5. Recovery from a bounced cheque can be made if a person is well connected to
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- the police.
6. Did not offer an opinion.
 7. A dishonoured cheque is not a serious problem in our ROSCA. The reason is that all the members in our ROSCAs are chosen very carefully. They are conscious of their reputation. In case of a cheque given by any one of them bounces, he will immediately replace it immediately by a fully covered one. In the general trade in our market, however, bounced cheques are a serious problem. Those that have been issued by most Pakistani businessmen ultimately get cleared after maybe a few days or a little longer. However their recovery is a hassle. Police is usually no help. We have to apply social pressure. Bounced cheques issued by businesspersons from Afghanistan are usually worthless.
 8. Giving a dishonoured cheque is a bailable offense. Making the recovery from such a cheque is a distraction that causes a lot of expense and bother to the victim.
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7. Important weaknesses of ROSCAs

72. Laws and procedures relating to dishonoured cheques are weak.

1. The greatest difficulty is the weakness of the law regarding handling bounce cheques. It does not help us at all in recovery. Consequently the attitude of people is irresponsible. Even fraudsters succeed in this.
 2. The bounced cheques are pieces of paper. We can do nothing about them.
 3. Laws and procedures dealing with dishonoured cheques are weak. Recovery of the amount in a bounced cheque is almost impossible.
 4. Did not offer an opinion.
 5. In the past a bounced cheque was a piece of paper. Later laws were promulgated and it became possible to involve the courts and the police to make recovery from the. However, there are shortcomings in the laws relating to bounced cheques. Criminals have managed to get cheques signed on gunpoint and choose them later to embarrass their opponents.
 6. Did not offer an opinion.
 7. Laws and procedures that deal with bounced cheques are weak and ineffective.
 8. The law and procedure for recovering from bounced cheques are weak. Businesspersons do not wish to get involved with the hassle of police stations and courts.
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7. Important weaknesses of ROSCAs

73. Capital remains out of business for long for the later winners

1. In other difficulty with ROSCA is that our capital is removed from business circle and put in the ROSCA. Our hands are tied and we suffer a loss on this account.
 2. The difference between early and late weaning of the pot is a question of how we view ROSCAs. ROSCAs are compulsory savings and should be considered as compulsory saving only. If a member gets the pot early in the cycle should consider it as a bonus but should not base his business plans on obtaining the pot early.
 3. Did not offer an opinion.
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4. Did not offer an opinion.
 5. This is true. However, had the capital remained in the business it would have earned the trader profit but the traders would not have been able to save anything.
 6. Did not offer an opinion.
 7. In case of members whose pot is announced later in the ROSCA cycle, their capital remains out of business for a long time.
 8. If a person joins a ROSCA with the intent of obtaining capital which he can use in business, then obtaining the last ROSCA will be a serious setback to him. If he has participated for the sake of achieving a saving, then late pots will not be a bother.
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7. Important weaknesses of ROSCAs

74. ROSCA holders are not permitted by law to collect funds.

1. The law does not recognize ROSCAs or permit it to gather funds. There is no legal permission for this. ROSCAs are a mutual arrangement. There is no legal backing at least in my opinion.
 2. Only banks and cooperative societies are permitted by law to collect funds. ROSCAs are extra-legal or illegal. The law does not take cognizance of ROSCAs and considers it private matters between partners. It will be a great help if the government gives recognition to ROSCAs.
 3. ROSCAs have no legal standing. If we take a ROSCA-dispute before a judge or the police we are not given a hearing.
 4. Did not offer an opinion.
 5. ROSCAs are not yet recognized by law. Their action is extra-legal.
 6. Did not offer an opinion.
 7. ROSCAs do not have any legal permission to collect funds. Only banks and cooperative societies have that. ROSCAs are therefore very private arrangements and their position before a judge in a court of law is somewhat shaky.
 8. I'm afraid that if ROSCAs are granted recognition in the eyes of the law, every second man will become a ROSCA holder. There might be a chaos in the market.
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7. Important weaknesses of ROSCAs

75. Less affluent small traders have difficulty accessing larger pot ROSCAs.

1. If I need larger financing, I cannot participate in a large value ROSCAs. This is because the periodic subscription I must pay is considerably large. I can only participate in a small or reasonable value ROSCA and my pot is also a small value one. We cannot participate in a high value ROSCA.
 2. Traders are allowed to become members of only those ROSCAs whose subscription they can pay reliably. This automatically bars small shopkeepers from trying to obtain larger pots. However, two or more traders who have ample social credit can join together to acquire a position in a large value ROSCA. In any case, the larger pot will have to be divided among them and so the share of each will be proportional to how much they were able to pay.
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3. Did not offer an opinion.
 4. Did not offer an opinion.
 5. Small traders are able to access only small value ROSCAs because the subscription they can afford to pay is small.
 6. Did not offer an opinion.
 7. Traders with smaller cash flow have difficulty accessing large value ROSCAs.
 8. Small traders have difficulty accessing larger ROSCAs because it means are small. They had to obtain their subscriptions from their business, if they cannot afford to pay the subscriptions, it will lead to trouble.
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7. Important weaknesses of ROSCAs

76. The possibility of a default always exists.

1. There is always the threat of default in the ROSCA. Although defaults are rather rare, these problems are encountered by the marketplace.
 2. It is true that default is a constant threat. In our market, we have taken ample measures to successfully ensure that default does not take place. The steps were mentioned earlier.
 3. The threat of default always exists.
 4. Did not offer an opinion.
 5. The fear of default is always present. However, we reduce it to negligible levels by choosing the ROSCA organizer and the members very carefully.
 6. Did not offer an opinion.
 7. In most ROSCAs, the possibility of default is always present.
 8. In our market there is no fear of default. However I understand that default is a possibility in other markets.
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7. Important weaknesses of ROSCAs

77. Traders who do not own property have difficulty being admitted into a ROSCA.

1. It is difficult for financially handicapped traders or for those who do not own property to participate in a ROSCA.
 2. Traders who do not own the shops from which they operate have considerable difficulty being accepted as members of high-value ROSCAs. This is a consequence of our attempt to make sure that only those people who can pay the subscription regularly and reliably are accepted as members so that our ROSCAs will not default.
 3. A trader who is accepted into our ROSCA need not have property rights of the shop that he is operating from. He may be operating out of a rented premise. His market goodwill determines his chance of acceptance. Often, traders who are operating out of their own shops are not accepted in the ROSCA.
 4. Did not offer an opinion.
 5. If a trader operates from a rented premise, it is not a negative point against him. Other factors are taken into account and these include social capital, reputation etc.
 6. Did not offer an opinion.
 7. In many ROSCAs, traders who lack ownership rights to their premises, have
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- difficulty accessing high pot value ROSCAs.
8. In our market operating out of a rented premise is not a negative point for a member. What is more important is his reputation and his social worth.
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7. Important weaknesses of ROSCAs

78. In case of a dishonoured cheque, justice is available only to influential traders

1. The in case of a dishonoured cheque, I feel that justice or its recovery, is usually available only to socially influential persons who have connections with the police or with unions. Only they are able to succeed in recovery. It is rather difficult for an ordinary trader to succeed in it.
 2. Bounced cheques are worthless pieces of paper. We cannot use them for recovery of our capital.
 3. Laws and procedures dealing with dishonoured cheques are weak. Recovery of the amount in a bounced cheque is almost impossible.
 4. Did not offer an opinion.
 5. Recovery from a bounced cheque can be made if the aggrieved party has good relations with the police.
 6. Did not offer an opinion.
 7. The prevalence of bounced cheques is a threat to trade.
 8. In our ROSCA, bounced cheques are only a tiny annoyance. In the general trade at large they are a serious setback. Unfortunately recovery from them is possible only for influential victims.
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8. Recommended reforms

79. Essential details of a dishonoured cheque should be posted on a publicly accessible database by the defaulter's bank.

1. There should be a publicly accessible database of bounced cheques. Those people who are habitual and those who pass their time by giving uncovered cheques, their details should be brought to the notice of the people so that people can protect themselves from these offenders.
 2. It is important for the government to promulgate and enforce laws regarding protection from dishonoured cheques. People have given us cheques about which we can do nothing. Someone is from Kohat, someone else is from Bannu, someone is from Dera Ismail Khan and someone is from Afghanistan. They used to come but now visa has been imposed upon them. From where shall receive our funds. We have pieces of paper. The money has been taken away by the cheque writers. Ever since the system of cheques started, capital has disappeared from the market and people are becoming defaulters. For the last one year there is no business in the market. What will we do with a cheque? We're very happy to see cheques lying there but they're useless. The party does not come to pay the money. Cheques are very bad. Dealing in cash is excellent. The details of all dishonoured cheques along with the names and identity card numbers of the persons who issued them and amounts and dates should be published. This will go a long way in protecting traders from fraudsters who use a Rs5 worth of cheque to get five lakh rupees from traders. Ever since plastic money, credit cards, started it has only caused problems in the market.
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3. If details of bounced cheques are placed on a publicly-accessible database, it will help reduce the problem of dishonoured cheques.
 4. Did not offer an opinion.
 5. It is correct that a law should be promulgated that strengthens procedures for managing bounced cheques. This will improve recovery from the defaulters.
 6. Did not offer an opinion.
 7. The system of publishing particulars of bounced cheques such as the offender's NIC number, date, amount and the bank involved, on the Internet and in hard copy form is highly recommended. There are simply too many cheques in the market known as dumb cheques. These cannot be cashed at all. Recovery cannot be made from them. If the offending party pays a small bribe to the police, no action will be taken against him. Only if the law is correctly implemented will the system of cheques be improved.
 8. Publishing the details of bounced cheques in publicly accessible and easily available lists is a (good idea. It will surely help in reducing the incidence of bounced cheques. They were in a However most of our traders are literate or semi-literate. They will have difficulty reading from lists and interpreting the meaning. The banks are private enterprises. They are clamouring to create new accounts. They worry more about the number of accounts than the account holders. If you start making lists of dishonoured cheques, I'm afraid it will run into volumes. How many lists will you prepare? I think this is too big a task to be achieved.
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8. Recommended reforms

80. The pot should be insured.

1. I feel that ROSCAs should be insured. If an insurance company cooperates and makes up the losses it will be a good idea.
 2. Such payment can be ensured which can be declared. If we ensure our payment they will ask us for the source of our capital. Our confidentiality will be compromised. The papers will go forward in the departments. Tomorrow if we make a claim for Rs8 Mn giving our national tax number they will ask us for the source of the funds.
 3. Ensuring the funds in a ROSCA is a good idea. It needs to be considered.
 4. Did not offer an opinion.
 5. Ensuring the pot is a good idea. The question off confidentiality will need to be addressed.
 6. When the trader accepts a post-dated cheque, there are numerous worries in his mind about whether or not the cheque will be honored when presented. An online for a hard copy database will be an extremely essential and useful tool in such a situation. The seller can take the well informed decision in such a case. In my opinion this database will be so useful that if traders lack the skills of going online, they can hire a person will do that for them.
 7. Ensuring the pot in particular and ROSCA in general is a great idea. It might not work in practice due to a possible lack of transparency by insurance companies.
 8. In our market the default rate is absolutely zero. There is no reason to ensure that the pot. It will only increase the operating cost. In other markets where there is a possibility of default, in showing the parts might be a good idea. It will increase the operating cost and issue of confidentiality will have to be addressed.
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8. Recommended reforms

81. The account of a habitual bounced-cheque writer should be closed.

1. People whose cheques bounce frequently, if their cheques continue to bounce in spite of a warning, their accounts should be locked or closed. Or there should be a ban on their accounts for a period of two years.
 2. An individual who is a habitual dishonoured-cheque writer he should not be allowed to open an account in any branch of any bank. Not one but all banks should be informed that such and such party is a defaulter. He is causing a loss to everyone including the banks. If his bank account is frozen this will be a lesson to other people not to issue dishonoured cheques.
 3. I think there is a rule or practice with the banks that if an account holder issues more than a certain amount of dishonoured cheques, his account is either freezed or closed.
 4. Did not offer an opinion.
 5. The accounts of an habitual bad cheque writer should be closed. They must not be allowed to operate in the market and cause mischief.
 6. Did not offer an opinion.
 7. Unless you tighten the laws on issuing dishonoured cheques, the system will not improve. If a person writes dishonoured cheques beyond a certain limit, his accounts should be frozen and he should not be permitted to issue any more cheques.
 8. The bank accounts of habitual bad-cheque writers must be closed. They should not be allowed to cause havoc in the market. They should not be allowed to open an account in any bank in the country. They should be a simple way of giving awareness to all the trading community that such and such person is a habitual bad-cheque writer and should be avoided. Our trading community is mostly illiterate and has developed no way by which they can share information about bad-cheque writers with other permit trading communities in the country. The markets are far away and cannot share market intelligence with each other. The sense of confidentiality also prevents people from sharing information. Bad cheque writers damage the trade, whether it be ROSCAs or general trading.
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8. Recommended reforms

82. ROSCAs should be legally permitted to collect deposits.

1. A long should be promulgated to enable ROSCAs to accumulate deposits. This will provide a legal status to ROSCAs.
 2. A law must be promulgated to regularize ROSCAs. They should be permitted to accumulate funds. Only after such a law is promulgated and enforced will capital be secured and safe. ROSCAs will be secured and individuals will be assured that their capital is safe.
 3. If a law is promulgated and implemented to regulate the operation of ROSCAs, it will remove a lot of our problems. Even the amounts of committees will be ensured. ROSCAs must be legally permitted to gather public funds.
 4. Did not offer an opinion.
 5. Yes. Laws should be passed to recognize and registers random ROSCAs that exceed a certain value.
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6. Investor confidence is very low because of the prevalence of bounced cheques. Individuals who issue bounced cheques exceeding a certain level of tolerance are playing havoc with the economy. Their accounts should be closed and they should not be permitted to operate anymore. This is an extreme and an aggressive remedy but I guess it is only by extreme and aggressive remedies that you can fix a sick society. This measure is highly recommended to be adopted
 7. ROSCAs should be given legal recognition by law. They should be registered with an authority and be permitted to collect funds. The question of confidentiality must be addressed adequately otherwise ROSCAs will be out of the frying pan and into the fire.
 8. ROSCAs should be legalized by law and permitted to collect funds. At present they are illegal and private.
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8. Recommended reforms

83. ROSCAs that exceed a certain pot size, should be registered with the Chamber, bazaar committee or trade union.

1. Another suggestion from my side is that ROSCAs should be given a legal status. Another suggestion is that in the marketplace, ROSCAs that exceed a certain value such as Rs100,000 should be registered with the Chamber, bazaar union or some committee. There should be an involvement of these in the ROSCA so that in case of any problem they can be of help.
 2. ROSCAs whose pot sizes exceed a certain limit must be registered by the Chamber, bazaar committee, or bazaar union.
 3. Did not offer an opinion.
 4. In the marketplace, if the trader develops a reputation that his cheques are dishonoured, he is not accepted as a member in any ROSCA. The government should take steps to ensure that if any person is a habitual bad cheque writer, his account should be frozen and he should not be allowed to operate in the market. Unfortunately our government is simply not interested in the welfare of trade. If this step is taken, capital will be saved and people will be secured that the business is safe.
 5. Random ROSCAs that exceed a certain value should be registered with a responsible authority such as the Chamber, bazaar committees for trade unions.
 6. ROSCAs are providing a single service to the economy. The government should take steps to encourage ROSCAs by passing an act of Parliament to allow them to operate and by giving them recognition. Ultimately it will be the government that will prosper if ROSCAs are able to boost the economy even more.
 7. All ROSCAs, big or small, should be registered with the Chamber, bazaar committee, trade union etc.
 8. ROSCAs that exceed a certain pot size, must be registered with the Chamber, trade unions or market committees. This will help reduce the occurrence of default even further.
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8. Recommended reforms

84. Default in a registered ROSCAs should be considered a cognizable offense and a report by the ROSCA member should be admissible as evidence in a court.

1. It is complaint by the ROSCA should be acceptable in a court of law as evidence. The defaulter may be given a time period in which to clear his arrears and enable the ROSCA to proceed.
 2. Default in registered ROSCAs should be considered a cognizable offense. Evidence given by ROSCA manager or members should be admissible in a court of law as evidence.
 3. Did not offer an opinion.
 4. Did not offer an opinion.
 5. Complaints by organizers off registered ROSCAs should be given a fair hearing and the evidence should be admissible in a court of law.
 6. Did not offer an opinion.
 7. A default in a ROSCA should be considered a cognizable offense. The evidence of the ROSCA organizer and/or ROSCA members should be admissible as evidence.
 8. Default in these existed ROSCAs should be considered an offense. Statement by ROSCA organizer or members should be considered legal by the judge.
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8. Recommended reforms

85. Bidding ROSCAs must not be registered.

1. Another suggestion I have is that bidding ROSCAs should closed by law. They should not be registered. In case any is discovered the Law should come into motion and end the bidding ROSCA because it is a form of gambling.
 2. Bidding ROSCAs are a fraud and a cruelty. They should not be registered.
 3. Bidding ROSCAs must be discouraged.
 4. Did not offer an opinion.
 5. Bidding ROSCAs should not be registered.
 6. Did not offer an opinion.
 7. Bidding ROSCAs should be discouraged as antisocial and anti-Islamic. They should not be registered.
 8. Bidding committees are criminal. They should not be encouraged. They should not be registered.
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8. Recommended reforms

86. Registered ROSCAs should be managed only by banks or traders who fulfil certain conditions.

1. Registered ROSCAs should be managed only by such institutions as banks or by traders who fulfil certain preconditions. These preconditions should be determined by bazaar committees, unions or the Chamber. It will be a great help if they can be involved with the ROSCA management.
 2. Registered ROSCAs should be managed only by institutions such as banks or traders that fulfil certain preconditions.
 3. If ROSCAs can be given legal cover, criteria to do this such as registration with the Chamber, bazaar committees, etc. will evolve.
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4. Did not offer an opinion.
 5. The fear of the failure of the ROSCA and the consequent loss of capital of the members is a threat that is always present. It can be reduced by making sure that registered random ROSCAs are operated only by banks or traders who comply with certain preconditions.
 6. Did not offer an opinion.
 7. The organizers or managers of registered random ROSCAs may be banks, or traders who fulfil certain requirements. These requirements can be developed collectively by bazaar committees, associations, trade unions and the Chamber.
 8. The registered ROSCAs should be managed only by such institutions (banks), or traders who fulfil certain conditions. These conditions can be developed by mutual consultation with the trading community and other stakeholderRs
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8. Recommended reforms

87. Banks should also operate Interest-free random ROSCAs.

1. Banks should organize Interest-free random committees. The pot sizes should be determined by the market requirements. The winner of the pot should deposit posted dated cheques for the remaining instalments before he can collect the pot. This will remove the danger of defaults. In order to protect the Interest of the bank, the first one or two pots should go to the bank time. They can be returned to the ROSCA later.
 2. If banks manage Interest-free ROSCAs it will go a long way to removing the threat of default. The size of the pot can be decided by market forces. If a member defaults on the subscription before winning the pot, the bank will pay on the defaulters be half and convert the payment into a loan. Winning members will have to deposit posted dated cheques to cover the remaining instalments. A huge amount of money will become part of the documented economy. The question of confidentiality will need to be addressed.
 3. If banks operate Interest-free ROSCAs it will attract many people. People trust banks more.
 4. Did not offer an opinion.
 5. Banks should be encouraged to operate Interest-free random ROSCAs. Terms and conditions such as the size of the pot, membership etc. can be determined by market forces.
 6. If a large institution supports or even takes over something it can help remove the concerns people have about defaults in ROSCAs. Banks are considered highly reputable in Pakistan. If banks begin to manage ROSCAs, it will remove all the fears and doubts that people have of ROSCAs defaulting and the loss of the capital. Banks must sponsor Interest-free ROSCAs. It will be very good for the ROSCA members
 7. It is obvious that if banks operate Interest-free random ROSCAs, the system of ROSCAs will improve considerably.
 8. It will be a good idea if banks can run Interest-free ROSCAs. However banks will not do that. The salaries of bank staff and are friends and expenditure come from Interest. ROSCAs are Interest-free and they will not generate any profit for banks. I'm afraid the banks will never organize ROSCAs or participate in any business which is free of profit or Interest. They will not come this way.
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8. Recommended reforms

88. In addition to banks, traders who have excellent reputation in the market should manage registered ROSCAs.

1. In addition to banks, the Chamber, traders or respectable individuals who have ample social capital in the market should be allowed to operate Interest-free random ROSCAs so that larger number of traders can participate in ROSCAs and their capital can be returned to them collectively.
 2. In addition to the banks the Chamber as well as traders with ample social capital and who meet certain preconditions should be allowed to manage registered ROSCAs. Traders who meet these preconditions should be income tax payers, have not passed any cheques that were later dishonoured, have not been convicted by a court of law and are the owners of substantial property and assets.
 3. In addition to banks, if the Chamber or such traders who have got highly social capital in the market are allowed to operate legally ROSCAs, it will certainly help strengthen ROSCAs.
 4. If a bank is involved in the collection of ROSCA subscriptions, defaults will be reduced considerably. If the ROSCA member is a bank account holder, the bank can pay to the ROSCA subscription from his account. If he does not have enough balance to be the rock and the subscription, the bank can they on his behalf and consider the amount paid as a loan to the members
 5. In addition to the banks, the Chamber and such traders who have social capital in the marketplace and satisfy certain preconditions may be allowed to operate ROSCAs.
 6. In addition to banks, registered ROSCAs should be managed only by the Chamber or by such traders who have very high reputation in the market.
 7. The organizers or managers of registered random ROSCAs may be banks, or traders who fulfil certain requirements. These requirements can be developed collectively by bazaar committees, associations, trade unions and the Chamber.
 8. The registered ROSCAs should be managed only by such institutions (banks), or traders who fulfil certain conditions. These conditions can be developed by mutual consultation with the trading community and other stakeholders. Adventurers should be kept away.
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8. Recommended reforms

89. Government should set aside a fund to boost registered Interest-free ROSCAs. This fund should be managed by the Chamber or qualified tradeRs

1. In order to end unemployment, the government provides funds to the banks to give loans to citizens. The government can patronize ROSCAs by promulgating laws and providing funds to banks or other institutions to manage ROSCAs. In this way, ROSCAs-members can obtain their pots early by paying relatively few subscriptions into the fund. They can be paid the pot after they had deposited post-dated cheques to the organizers. This situation will be somewhat similar to that of ordinary random ROSCAs in which some lucky members obtain the pot early in the cycle.
 2. This government has been making schemes to boost trade and employment in the country. You remember they started the Yellow Cab scheme. Thousands of cars were imported into the country and given to people to become taxis. What
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happened? All the money was wasted. They have now embarked on a bigger scheme. I think this game is a bigger folly than the earlier one. Billions of rupees are being distributed among young people who have no track record of business and cannot even prepare a business plan. It is based on Interest and is bound to fail. The government should set aside funds by which they can give assistance to registered ROSCAs managed by respectable traders. The default rate of ROSCAs is nearly zero. The government's funds will come back to the government because there is no default. Also because no Interest is involved, you will see this scheme will prosper. Business will get a boost in a way that is Islamic.

3. Yes! This is a good idea. The details of its implementation will have to be worked out beforehand.
4. If banks can manage ROSCAs it will be glorious. You have an account with the bank, you can give a cheque, the bankers can collect from you. If banks can manage ROSCAs, I think it will be 100% secure. If banks can be involved in managing ROSCAs, this ROSCA system will improve considerably. If a person gives a bad cheque his bank can give him a grace period during which he can make arrangements to cover the cheque. If the cheque is still not covered, the offender's name can be put on the Internet for everyone to see and take note of. This will reduce the incidence of bad cheques.
5. I think it will be a good idea if a fund is used to support marketplace ROSCAs. If a trader has paid in three or four instalments on time, it indicates that he is in a position to pay the remaining instalments also in time. If he is given the pot from the fund, it will be as though he had obtained a bank loan (early pot). He will pay off his loan into the fund. The government's funds will be recouped, the trader would have obtained a loan, the institution of ROSCAs will get boosted and hopefully the economy will improve. Once he has paid off his loans, it will give an opportunity to others to obtain benefit from this fund. He will have a fear that if he has given cheques to the ROSCA organizer. He understands that if his intention becomes bad he will come in the clutches of the government.
6. The government has access to the large amount of funds that they do not use correctly or not want to use correctly. In the past our government has spent a large amount of money but the returns have been zero. A case in point is the Yellow Cab scheme. Many of these cars landed up in the wrong hands. Another example is Mr. Shehbaz Sharif's Laptop Scheme. It will be an excellent idea if government can set aside a large amount of money to be used for paying off ROSCAs. It will boost the economy considerably. However, this scheme must be backed by an act of Parliament that criminalizes and punishes the misuse of dishonoured cheques. The dollar today is worth more than a dollar in the future. If the traders realize that by paying three or four instalments they can get access to the entire pot thereby saving a long amount of time, they will certainly go in for the scheme wholeheartedly.
7. ROSCAs are successful in our country because there is no interference by politicians in any sense whatsoever. How many businesspersons have you met against whom there is a large loan outstanding? Billions of rupees worth of loans were taken out by politicians and later written off as being nonperforming. If the government interferes in our ROSCA system, there is a strong possibility the system will be destroyed instead of improved having said that. If a substantial funds that is proportional to the requirements of the marketplace, is

placed at the disposal of the committee of respectable traders who meet certain qualifications and is used for accelerating payment of ROSCAs, ROSCAs and trade in the country will be given a great boost. However, I feel the rule about publishing the details of bounced cheques, and freezing the accounts of people who are habitual bounced-cheque writers, must be enforced.

8. The idea of the government providing a fund to support ROSCAs is a great step. The problem is its implementation. The people in the government are defaulter-type. They don't carry a good reputation. They will oblige their own favorite people who have no intention of returning loans. This will be a useless step by the government.
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