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ROTATING SAVINGS AND CREDIT ASSOCIATIONS: AN ALTERNATIVE FUNDING FOR SUSTAINABLE MICRO ENTERPRISE- CASE OF CHINHOYI, ZIMBABWE

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ABSTRACT

Micro enterprises and sole proprietorship have long been recognized as a very important source of self employment, job creation, innovation and economic development. However, funding constraints in financial markets limit entry of new firms and development of existing micro enterprises, thus affecting economic growth. *This paper reports on a research study examining the role of Rotating Saving and Credit Associations (ROSCAs) in Chinhoyi and explores how local enterprises use the finance made available in their businesses through ROSCAs to ensure operations sustainability. The study adopted a descriptive research design and a questionnaire was used to collect information together with interviews. Findings points to a strong relationship between ROSCA membership and operations sustainability*. The attractive feature of ROSCAs as a funding methodology as derived from the findings is that it can be formed with variations depending on funding needs and how much entrepreneurs can afford to put aside. Investment ROSCAs were found to be prevalent in the town as compared to other types. Most thriving businesses in Chinhoyi were found to be members of some informal credit association. Most thriving businesses were found in the retail sector with fair results in manufacturing. However, *for ROSCAs to be effective there is need for formal workshops and or seminars to members to boost their entrepreneurial capabilities thus resulting in sustained Growth of MSMEs.*

Keywords: *Rotating Savings and Credit Associations*, Informal Finance, Small Enterprise, Funding gap, Entrepreneurship

BACKGROUND

MSMEs (Micro Small and Medium enterprises) play significant roles in economic development of the economy and are an important source of job creation and innovation. According to Department of Trade and Industry's small firms statistics unit (DTI, 1999a) there are 3.7 million businesses in UK, out of which 94.8% are micro businesses and a further 4.4% is small firms (Curran & Blackburn, 2001). According to the World Bank, SMEs (employing upto 250 workers) employ 50% of the labour force in Mexico; nearly 60 percent in Ecuador and Brazil; around 70 percent in Argentina, Colombia, Panama, and Peru; and as much as 86 percent in Chile, including the informal economy. A similar pattern is observed in developed countries with 80% of total labour force in Italy and Spain, about 70% in Japan and France and 60% in Germany and UK (Ayyagari, Beck & Demirgüç-Kunt 2007) employed in small enterprise.

Despite such significant contribution made by the SME's, they continually face funding constraints in the formal finance market. Deakins *et al*. (2008) carried out an in-depth study of Scottish SMEs and discovered the funding constraints faced by SMEs. According to findings obtained by Woodruff (2001) from analysis of a survey data (1994 and 1998) of microenterprises in Mexico, a very small percentage of surveyed firms (2.5%) are able to receive finance at start up and only 3% afterwards. According to the World Bank Environmental Survey (WBES) data, the share of bank credit from total financing is systematically lower for SMEs (OECD, 2006). A report based on a survey of economies belonging to ASEAN (Association of South Eastern Asian Nations) found that a small fraction of SMEs (from 3% to 18% depending on country) have access to the formal financial services. Overall, the formal finance sector fulfils only about 25% of small firm financing needs (ASEAN, 2005). Other research reports an inverse relationship between size of the firms and severity of funding constraints. The Inter-American Development Bank (IADB) in Latin America and the Caribbean region's (2005) survey supported the hypothesis that firm size and severity of the financial constraints have negative correlation and that various features of business environment, such as enforcement of creditor rights and competition, have a significant impact on the ease of access to credit. These findings are also supported by qualitative evidence from other developing regions (ASEAN, 2005). People turned away by formal financial services often try to exploit other financial sources such as internal funds (savings, friends/family loans) and informal finance (money lenders). Savings, and friends and family loans may help in gathering start up capital but they cannot be ongoing and thus are not easy to draw on for day to day business activities or the development of the enterprise. Moneylenders charge high rates and are a risky option for the entrepreneur. Thus, these sources may fill part of the need for finance but not all – a funding gap remains. The question remains as to why SMEs face funding constraints. There are several reasons posited that range from the financial structure of MSME's to the legal and regulatory environment of country (OECD, 2006). The most commonly cited problem is asymmetric information in the SME market. According to economic orthodoxy, imperfect information increases credit rationing by the providers of funds (Stiglitz & Wiess, 1981) as financial providers such banks are reluctant to lend under imperfect information. Because of the relatively small size of MSME loans, it is not worth banks investing the time and money in solving the information gap, and thus they remain reluctant to lend to small enterprise.

Continentally, the development of the private sector varies greatly from country to country. Liedholm (2001) review of national surveys conducted in several African countries3 estimates that between 17% to 27% of the working age population is employed in micro and small enterprises, being nearly twice the employment of large scale enterprises and the public sector. MSMEs are flourishing in South Africa, Mauritius and North Africa, thanks to fairly modern financial systems and clear government policies in favour of private enterprise. Elsewhere the rise of a small-business class has been hindered by political instability or strong dependence on a few raw materials. In the Democratic Republic of Congo, for example, most MSMEs went bankrupt in the 1990s – as a result of looting in 1993 and 1996 or during the civil war. In Congo, Equatorial Guinea, Gabon and Chad, the dominance of oil has slowed the emergence of non-oil businesses. These two extremes, Senegal and Kenya have created conditions for private-sector growth but are still held back by an inadequate financial system. In Nigeria, MSMEs (about 95 per cent of formal manufacturing activity) are key to the economy but insecurity, corruption and poor infrastructure prevent them being motors of growth. Africa's private sector consists of mostly informal microenterprises, operating alongside large firms. Most companies are small because the private sector is new and because of legal and financial obstacles to capital accumulation. In South Africa, with its robust private sector, micro and very small enterprises provided more than 55 per cent of all jobs and 22 per cent of GDP in 2003, while big firms accounted for 64 per cent of GDP. MSMEs are weak in Africa because of small local markets, undeveloped regional integration and very difficult business conditions, which include cumbersome official procedures, poor infrastructure, dubious legal systems, and most importantly inadequate financial systems and unattractive tax regimes as such many firms stay small and informal and use simple technology that does not require great use of national infrastructure.

There are specific characteristics of MSME's that make it difficult for them to access finance. Small firms *are* risky, as evidenced by the high failure rates – Cobham (2000) found that 50% of small firms failed within five years after their start up in UK and USA. Similarly Mead and Liedholm (1998) the failure rate is even higher in Africa as about 50% of small enterprises fail with just three years. Further small firms exhibit greater volatility in earnings from year to year, reducing the predictability that bankers desire. Smaller companies also have less security against which a loan can be secured, although this is often overcome in part by lending against the proprietor rather than the firm, whereby the owner's assets become the security. However, this feeds upon and into a wider problem where the financial situation of the owner and business are indistinct – company transport, accommodation and other expenses cover both business and personal use – and it is difficult to form a picture of the business itself. The problem of the funding gap has been identified as resulting in serious barriers to economic development in the long run and discouraging innovation and the growth cycle (Hyytinen & Toivanen, 2005). Though it is well documented and some policies and interventions have also been introduced nationally and even globally to attempt to deal with it, the problem is still there. However, many policies that have emerged attempt to work through formal, internationally recognised channels. Typically, banks face pressure to increase lending, often coupled with incentives, such as government subsidies or guarantees for loans to small enterprise. Even when an indigenous initiative emerges, such as microfinance, it seems that it is swiftly brought within the purview of the traditional system. The microfinance sector sees increasing entry by divisions of national banks, while the wave of commercialisation seems to be increasingly populating the field with institutions operating under the same economic pressures as banks. Undoubtedly, the eventual consequences will be that the existing problems that banks historically faced will be replicated. The finance gap for small firms will not be eradicated this way. The contention of this paper is that we should also explore and analyse existing indigenous sources of funding that are being used by SMEs. One important example is that of Rotating Savings and Credit Associations (ROSCAs). Most of the research studies on ROSCAs associate it with financing household expenses and little attention has been paid to the ROSCAs as investment finance that can provide sustainable financing options in long run. The objective of this paper is to examine how ROSCAs are used by small enterprises, emphasising how it is used as a sustainable and efficient source of finance. We concentrate on the use of ROSCAs by businesses in Pakistan, where their use is widespread and a strong part of national culture. In particular, we explore the use of investment ROSCAs by entrepreneurs and from this analysis identify the possibilities within this field.

RESEARCH QUESTIONS

The research sought to answer the following questions:

- What is the effect of Rotating Savings and Credit Association on small enterprise sustainability?
- What are the participants' views on the ROSCA as a strategy for sustainable micro enterprise?

PROBLEM AND PURPOSE OF THE STUDY

Although SMEs in the developing world have been seen to favour ROSCAs as funding strategy for sustainable SME entrepreneurial activity compared to formal lending institutions, recent experiential evidence and increased activity in formal micro lending institutions, suggest that this condition may no longer exist. This study therefore attempted to determine the impact of ROSCAs on micro enterprise stability, given the above experience. Studies on role of ROSCAs in SMEs have been carried extensively in countries like Bangladesh, India, and other developing countries, but little have been done in Zimbabwe. The purpose of this study is to contribute to a better understanding of the current status of ROSCAs in Zimbabwe popularly known as "Marounds" and persceptions and attitudes by participants towards this funding strategy.

REVIEW OF RELATED LITERATURE

Conceptual framework on ROSCAs

Rotating Savings and Credit Associations (ROSCAs) has always been popular in developing countries. According to Geertz (2006) Rotating Savings and Credit Association or **ROSCA** is a group of individuals who agree to meet for a defined period of time in order to save and borrow together. "ROSCAs are the poor man's bank, where money is not idle for long but changes hands rapidly, satisfying both consumption and production needs." Meetings can be regular or tied to seasonal cash flow cycles in rural communities. Each member contributes the same amount at each meeting, and one member takes the whole sum once. As a result, each member is able to access a larger sum of money during the life of the ROSCA, and use it for whatever purpose she or he wishes. This method of saving is a popular alternative to the risks of saving at home, where family and relatives may demand access to savings. ROSCAs have been present in Asia, Latin America, Caribbean and Africa (Ardener, 1964; Ardener & Burman, 1995). The popularity of ROSCAs can be estimated by the number of the people who participate in the schemes. Besley and Levenson (1996) found that 68% to 85% of the Taiwanese population participate in ROSCAs. Bouman (1995: 372) stated that “membership [of ROSCAs] in Republic of Congo comprises about 50% of the adult population (male and female), and 50-95% in many rural areas in Liberia, Ivory Coast, Togo, Nigeria, and Cameroon”. Similarly Kimuyu (1999) conducted survey of 115 household in central Kenya and reported that 45% of them were participating in ROSCAs. ROSCAs are not only found in areas where formal finance markets are less developed but their prevalence is also documented well developed finance markets. ROSCAs have been found among bank employees in Bolivia (Adams & Canavesi, 1989) and Ghana (Brotei- Doku & Aryeetey, 1995). Another study carried in Harare- Zimbabwe by Chamlee-Wright (2002) found 76% urban market traders participate in ROSCAs and about 77% of these traders also have bank accounts. ROSCAs are also found in countries like Taiwan that has a well-functioning credit market. A study in Indonesia shows that “even among household with steady access to microfinance services provided by Bank Rakyat Indonesia, roughly 40 percent also participate in ROSCAs” (Armedariz & Morduch, 2005: 59). ROSCAs are also found among South Asian communities in Oxford in the United Kingdom (Srinivasan, 1995).

ROSCAs usually have particular local names, such as *Hui* in Taiwan, *Tanda* in Mexico, *Polla* in Chile (Armendariz & Morduch, 2005) tontines in Cambodia, wichin gye in Korea, arisan in Indonesia, likelembas in the Democratic Republic of the Congo, xitique in Mozambique and djanggis in Cameroon,. The rotating savings and credit association, as its name indicates, is not only a saving instrument but also has a lending function too. They are flexible, with variations in the basic structure both across different countries and depending on the needs of its members. In its basic/traditional form, a ROSCA refers to a group of people who come together to form an association. Each member of the group commit to pay a certain amount that is determined at the start of the scheme. In order to understand how it works, suppose a group of 10 members and each member in this group is agreed to pay $100 each month. This way, each month they collect $1000 that is given to one member who is selected through predetermined criteria. The receiver of the collected money is excluded from future draws however they have to pay their contribution ($100 in this case) through the entire cycle (Ambec & Treich, 2007). A cycle of a ROSCA is said to be complete when all members have received their payment. After that the ROSCA is either dismantled or new cycle is started. The benefit of the basic ROSCA is that all the members receive finance earlier than if they had saved it themselves, except the last person. The academic literature suggests various rationale for the ROSCAs such as financing lumpy and durable goods (Besley, Coate & Loury, 1993) event insurance (Ambec & Triech, 2007; Calomiris & Rajarman (1998) and commitment saving devices (Gugerty, 2007; Anderson & Baland, 2002).

ROSCAs and Micro Enterprise

ROSCAs may not always be directly related to enterprise, however, there are others that are and they often have different functions and roles. There are ROSCAs for smoothing cash flow, ROSCAs for urgent needs, ROSCAs for start-up capital etc. Gelinas (1998) subdivided ROSCAs into three main types: investment ROSCAs, bidding ROSCAs and marketplace ROSCAs. Investment ROSCAs are normally run by the entrepreneurs and members receive exactly the amount that they have contributed without any interest accruing and charged. In investment ROSCAs, members usually are selected randomly by drawing lots. In these ROSCAs each member has an equal chance to become the winner of the pot during each draw, with previous winners excluded. In bidding ROSCAs, one individual receives ROSCA’s money “in an earlier period by bidding more, in the form of a pledge of higher contributions to the ROSCA, or one-time side payments to the other ROSCA memebrs" (Besley, Coate and Loury, 1993: 793). The profit earned is distributed among all members (Gelinas, 1998). Just like random ROSCAs, a member of bidding ROSCA receives ROSCA's money only once and this process does not establish priority. Calomiris and Rajarman (1998) studied random and bidding ROSCAs and found that only bidding ROSCAs can provide insurance against sudden shocks.

A market place-ROSCA is organized by the professional ROSCA runner who collects contributions from the market and then kitty is auctioned off. The organizer usually reserves their commission for their services and remaining proceeds are distributed among members. Although the three types of ROSCAs are run in the market only investment ROSCAs are widely used by entrepreneurs as part of their business. There are a number of studies reporting use of ROSCAs for businesses purposes (Bortei- Doku and Aryeetey, 1995; Buckley, 1997; Robinson, 2002;) and their use in development. Gelinas (1998:111) states that "until 1970s, the banks for small and medium sized business in Taiwan were rotating savings and credit societies clearly part of the informal sector. Recently integrated into the formal sector, these community based banks still operate with *he hui* funds now totalling 3.8 billion dollar". It can be argued that group lending in microfinance, and its specific capture by new formalised institutions, is rooted in the culture of the ROSCA (Armendariz and Morduch, 2005). However, despite a long history of being used by smaller enterprises, it has received little interest by academics, policy makers and development agencies. This paper will indicate some of the potential that has been lost by that oversight.

METHODOLOGY

The study made use of qualitative survey with in depth structured interviews, observations and group discussions. The study sought to explore how micro enterprises raise funds for their continued survival. The data used in this paper was collected in August 2011 in the town of Chinhoyi, located in Mashonaland West Province. This is an agro based town. Historically, there were only four banks namely POSB, Stan chart, Barclays, and Agribank (formerly AFC) but over the last decade many commercial and microfinance banks have opened in the city. Despite this expansion of formal finance, there continues to be many types of rounds (mukando) operating in the city, occupying many different sectors such as salaried employees, housewives, small business owners etc. During the three months of fieldwork, data was collected through participant observation, questionnaires and qualitative interviews. The research respondents were chosen through cluster sampling method. In each cluster respondents were further subjected to purposive sampling. The first encounter meeting with respondents was aimed at establishing rapport and creating contacts. On the second meeting, questionaires were distributed to the selected participants and these were given ample time to complete. The third encounter resulted in qualitative interviews being conducted to get in depth information on how rounds (mukando) work for and through them. In order to insure accuracy, the interviews were conducted separately with each respondent. In the course of the study, 60 interviews were carried out, lasting an average of 30 minutes. All interviews were transcribed first in the native languages (Shona) and then translated into English. All interviews were started with getting general information about the respondents such as name, occupation, how long they have been doing Rounds (mukando)e.tc. Other topics covered in the interviews included type and features of Rounds (mukando), selection of members, dealing with information asymmetries, risks involved, enforcement mechanisms, costs involved etc. Preliminary analyses are done in native language before translating in English and further analysis.

DISCUSSION OF FINDINGS AND CONCLUSIONS

The results obtained from questionnaires indicate that the majority of the respondents were in a way members of Rounds (mukando) though these Rounds differ in terms of their role or objective. Results from the 60 questionnaires send out to the various small to medium enterprises revealed the following:

Table 4:1 Respondents

Type of business	Number of respondents	% total of each sector
consultancy	10	16.7
farming	10	16.7
mining	5	8.3
manufacturing	15	25.0
retailing	20	33.3
total	60	100.0

Results indicated that thirty three (33%) of the respondents (20/60) were funding their business using Rounds,33.3% retailing ,25% manufacturing,16.7% farming and consultancy while only 8.3% was in mining. Further analysis of sector by sector produced the following results. Consultancy (8/10) 0r 80% indicated that Rounds (mukando) was a good source of finance for micro enterprises as this type of venture was not capital intensive .20% of the respondents reserved their comments.

Results point towards small number member rounds popularity as this shortens the cycle. The Data has been collected from sixty (60) SMEs in various sectors of the economy among them metal fabrication, wood work, cross border dealing, farming, consultancy, as well as mining. Analysis by gender indicate eight three percent (83%) (50/60) of the respondents were female while only seventeen (17%) were male. The results indicate that the practice is popular with women as they are considered to be more economical, trustworthy and honest in their dealings than men. When analysis was centered on marital status, sixty seven percent of the respondents (40/60) indicated that they were married women while thirty three percent were either single mothers or not yet married. The general trend is that married women are more trustworthy and financially sound than their counterparts.

Findings from the study revealed that The ROSCA in Zimbabwe is a simple system known as *mukando*, which requires no collateral or lengthy legal procedures and this made it popular to most small firms (70%) being active members. However, as indicated earlier on in the literature the name of ROSCA differ with other countries like in Jamaica where the contribution made to the pot is known as ‘handa’ and resulting pool of money or resulting pot money is termed as a ‘draw’ (Handa &

Kirton,1999), in Zimbabwe ROSCAs, the contribution made to the pot, the resulting pot money are all referred to as '*mukando*'.

People participate in ROSCAs with various objectives such as raising start up funds, emergency funds etc. As mentioned previously, this paper is based on investment *rounds* and people participate in it to raise funds to manage business cycle such as smoothing cash flow. In this type of *mukando*, members of the investment ROSCAs are known as '*party*' like in Pakistan (Khan & Lightfoot, 2010)

As is the case elsewhere, findings points to majority of clubs (70%), having no written or legal contracts among the *mukando* members, however informal and manual bookkeeping is done by the organizers of the group in order to keep record of who has contributed what and who has benefited. Fom the findings, *Mukando* is a very flexible mechanism and has some variations depending on the interests of the members. In the market, *mukando* with all different pot sizes, instalment period and cycle lengths can be found. These *mukando groups* usually have a small number of members and shorter cycles as compared to the *mukando groups* organized by salaried people and housewives.

The member who organizes the *mukando* is usually known as the '*party*' or '*main party*'. He gets the pot in the first *round*, which means that he gets the lump sum without paying any interest. He is either solely or mainly responsible for smooth functioning of the ROSCA, collecting contributions and drawing lots. Unlike community-based mukando in which all decisions are taken through consensus among members, the '*main party*' has near complete freedom to make decisions for this *group*. Other members may be required in the last resort to deal with any defaulters but otherwise all the organization will be in his hands. This includes the authority to select members of the ROSCA on his own guarantee. Dagnelie (2009) labelled ROSCAs where the organizer of the ROSCA makes all the decisions as 'president ROSCAs' and in his study found that the organizer of these ROSCAs were paid for their services. By contrast, the '*main party*' of the investment *committees* studied in Dera Ghazi Khan were not paid for organizing the *committee*; instead only receiving the benefit of collecting the pot in the first month. The '*main party*' is typically very well known and more financially sound than the other members of the *committee*. This wealth is useful because it guarantees the smooth functioning of the *committee* as if any member delays his instalment, the '*main party*' can pay from his own pocket. Individual members of the *committee* – small enterprise owners – keep a sharp eye on the financial position of the president. Interviewee (10) says that:
"It is very important to assess financial position of the president so that if any party delays payment, they can compensate from their own pocket".

Similarly, another interviewee (15) stated the importance of assessing the financial position of the president:
"President should have sound financial position as it guarantees timely payment".
A president (7) himself said that
"Someone whose name is drawn out is not responsible for whether I have got payment or not nor any member has paid his instalment to me or not. He is not responsible of it. He has the right to get his payment in time by me and I am bound to pay him".

This is consistent with earlier literature that also made similar suggestion that since the president receives the first pot, he/she must pay off if any member delays their payment (Kurtz, 1973).
Handa and Kirton (1999) also note that the role of the president in Jamaican ROSCAs is important as he initiates the scheme, selects members, collects contributions and pays into the pot if any member fails to pay. Thus, it is essential for the '*main party*' to be in a sound financial position in order to gain the trust of the other members into the *mukando*.

Sustainability of the ROSCAs

The sustainability of ROSCAs depends on members of the scheme paying into the pot till the end of the cycle; thus the major issue that most *committees* have to confront is possible default by one of the members. Thus, selection of suitable members is the critical first step, since mistakes here could render the *committee* unsustainable. There are several measures taken by the investment *committee* president to deal with this.

Selection of Members

In a small town like Chinhoyi many of the families are known to each other. People are connected with each other through various links, are engaged in frequent various transactions and have many personal or business relationships especially cross boarder traders. In this way information regarding someone's ability to pay or attitude towards money is easily available. In addition, a ROSCA is typically formed between those people who have long-term personal relationship with each other and in this way much 'soft' information is available about prospective members.
"We have our own community. We have same social relations. We share sorrows and happiness with each other. We have small city anyway. You, yourself know that here everyone knows each other and are having acquaintances. Secondly, we are businessmen. We know someone for five years, some for ten and some more than that. We know very well about each other's behaviour and attitudes" **(Respondent 3).**

Personal relationships help in assessing the risk involved in extending credit to any member.
Within these relationships, they might have some personal experience of financial dealing with each other and would have an understanding of someone's attitude towards keeping commitments and promises. But personal values are but one part of the story – there is also the question of the ability of the business to pay. Here again personal relationships assist in drawing out information about the financial viability of a business and the ability to keep up payments. Again, this is consistent with other literature that reports that social and personalconnectedness is very important feature of ROSCAs (Handa & Kirton, 1999; Biggart, 2001). Biggart (2010), in particular, concluded that strong social ties and embeddedness is one of the common features among globally widespread and naturally occurring ROSCAs. Thus, not only are personal relationships important but the wider reputation of any individual or their family is a key factor in the selection of members.
"Interviewer: *How do you know about others?*
Interviewee: *From his business dealings. He is not only dealing with us. He also deals with others for example with wholesalers from where he gets his supplies. It is easy to know if he has bad credit history"*
Similarly another interviewee (2) says that

"We check reputation of the party. For example, how long they take to pay committee. There are some people who immediately pay, some pay within five days, and some take longer".

This section shows that not only the president but also individual members carry out checks and calculate risks and benefits before being part of any *mukando*. Thus personal experience and reputation are the key factor to determine risk in the selection of the members. This use of local knowledge by participants in informal finance networks is a key advantage over formal financial markets, which are frequently excluded from, or unable to obtain such information. Formal finance's lack of access to such information results in credit rationing (Stiglitz and Wiess, 1981). ROSCAs embedding in local knowledge also avoid the related problem of information asymmetry that bedevils banks. In ROSCAs, people frequently participate with those in the same line of business and thus are well aware of profitability prospects and other factors.

Personal experience and reputation are key factors but not the only factors. They also assess risk by calculating business worth and personal property. In addition, ROSCA design and strategic decisions taken by the '*main party*' also play a critical role to determine sustainability of the ROSCAs. 'Main parties' use different strategies when including new members – such as one who is new to the area, has some bad history of late repayment or *ex ante* default (before receiving pot). In these cases, ROSCA members usually use two strategies: in the first the new member is told from the start that he will get the last pot. In this way the new member gets a chance to form a relationship with other ROSCAs members and prove his trustworthiness. In the second, the new member has to bring someone who has a respected position in the city, who knows the candidate personally and is ready to stand guarantee for him. In some cases, even with a guarantor, he will still receive the last pot. However, once trust has been established, subsequent transactions can follow the normal pattern. *Mukando* have proved to be sustainable if members are selected wisely. The sustainability of the group can be estimated through the number of years they have been operating. All the *Mukandos* observed were older than five years. The '*main party*' tries to keep those members who perform well for the subsequent *committees*. Thus, the continuity of *committee* increases the incentive for the members to make their payments in time.

Costs Involved in ROSCAs

In the ROSCAs, there are no specific screening and evaluation costs involved because it utilizes the existing social structure of relations. There are no written or legal contracts which mean no legal costs either. It could be argued that the work done in maintaining relationships imposes costs of a different kind, but this would downplay the way in which participants use ROSCAs to develop relationships and community. However, there might be some relatively trivial costs incurred by the '*main party*' of *Mukando* in maintaining the smooth functioning of the group. However it is such a small amount compared to running a business in the same market place that no members bother to talk about this. It is mentioned only in the cases when '*main party*' has to make several visits for one collection. The other cost mentioned by the shopkeepers is the cost incurred in making payment to the receiver of the pot. Presidents usually paid a cheque to the winner of pot as they use bank facilities rather than keeping large sums of money at home.

Typically, the president is liable to pay this amount because he is the person who enjoys the first *Mukando*. Presidents make different arrangements in which they deposit cash in different accounts in order to reduce transaction cost as another interviewee (R-1) says that

“Sometimes we deposit in different accounts then we bear cost on [using the] chequebook”.
These additional costs have the possibility of destabilising the commercial ROSCA system.

While the transactions were cost free, or only included time costs in the development of relationships that the business-owners though were worthwhile and important anyway, the ROSCA system seems to work smoothly. It seems apparent that this relatively minor change to the fiscal system threatens to put a cost on ROSCA membership that, although relatively trivial compared to the sums involved in the pot, undermines the principle that you get back what you put in and may put at risk this important system.

IMPLICATIONS ON THE ADOPTION OF ROSCAS FOR SUSTAINABLE MICRO ENTERPRISES

Participants considered the ROSCAs strategy so vital that eighty percent concurred that for the poor ROSCAs is the only viable funding strategy for sustainable Micro Enterprises. Specifically, they mentioned that the ROSCAs assists in smoothening business financial cycles as well as help in cash flow management. However, participants concurred that ROSCAs enhances micro enterprise sustainability by pooling financial resources to one member per time period and hence facilitate recapitalization of enterprise.

However, over reliance on the funding strategy (ROSCAs) limit growth according to some participants. The following response extracts illustrate some of the entrenched views held by participants about the adoption of the ROSCAs as an alternative funding strategy for sustainable micro enterprises:

> **Respondent 5:** *the ROSCAs help smoothening financial cycles in my business operation and hence help in sustaining my enterprise in difficulty times.*
>
> **Respondent 17:** *ROSCAs help to recapitalize my business operation since it pools together resources for the benefit of my enterprise*
>
> **Respondent 30:** *It is a cost free funding strategy and may be adjusted to suit the requirements of the group members*
>
> **Respondent 42:** *over reliance on the strategy may limit growth of enterprise, the strategy need only to be used when the business is still small.*
>
> **Respondent 59:** *Good strategy, but need to be complimented with other formal funding sources.*

Furthermore being a businessperson, it is not favourable to hold cash for longer period and ROSCAs`s flexibility facilitate that as highlighted by **respondent 55:**

> *“My own experience is that cycle should not be more than six months so that investment can be made twice in a year and the amount hang group is paid back”.*

Similarly another **respondent (**38) said that:

> *“longer groups are not good, they hold cash for longer period that if invested in business one can at least benefit”.*

SUGGESTIONS FROM THE ROSCAS GROUPS ON THE WAY FORWARD

One key issue addressed by ROSCAs group was the identification of areas they think as participants needed help in order to effectively use the rotating savings and credit association funding strategy. In one of the groups participants indicated that all areas needed attention as a way of informing and sensitizing them on how best to use it ie issues such as financial discipline, entrepreneurial training as well as group composition modalities. The other three groups were specific as to which sections they felt where problematic. They indicated lack of entrepreneurial skills among some of the member compromise success of the strategy and at times conflicts as a result of the benefiary selection lead to the disbanding of groups. It was observed that some benefiary could end up use the proceeds from the club for non productive activities due to limited entrepreneurial skills to venture into business activities. It was also observed that members who limited themselves to ROSCAs as a funding strategy remained small as the strategy of its is less useful- it needs to be complemented by other formal lending strategy.

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