The Importance of Rotating Savings and Credit Associations in Lesotho

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ABSTRACT

Rotating savings and credit associations (ROSCA) are an important form of savings structure that responds to the needs of the majority of the population. This exploratory research investigated the importance of ROSCA in Lesotho through assessing motivation for their establishment, how they function and their social and economic roles. In-depth interviews were conducted on a randomly selected group of women and documentary review was used to back-up the findings. Information from the two sources were corroborated with the research questions.

The results indicated that ROSCA offers a way to accumulate savings and provide credit to people who cannot access credit from established financial institutions. Through ROSCA members displayed their ability to save, invest and acquire assets which they would not do on their own. ROSCA functions are simple and effective though not guided by legal structure. Funds obtained from ROSCA were used for consumption and investment purposes and this has played a key role in the economic and social uplifting of members and their families. Though the actions of ROSCA have proved to be substantial to the economic growth and poverty reduction strategies, nothing has been done to incorporate them in development activities. This has implication on financial policies to establish institutions that cater for structures such as ROSCA.

DECLARATION

I declare that this is my own unaided work. It is submitted in partial fulfillment of the requirement of the degree of Master of Management (in the field of Public and Development Management) at University of Witwatersrand, Johannesburg it has not been submitted for degree or examination to any other University before.

Thato Lepasa.

March, 2007

DEDICATION

For my husband Mohapi, my lovely daughter Matiisetso, and my sister Matseliso with thanks.

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THANK YOU ALL AND MAY GOD BLESS.

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ACRONYMS

BEDCO	-	Basotho Enterprise Development Corporation
CBL	-	Central Bank of Lesotho
GDP	-	Gross Domestic Product
GOL	-	Government of Lesotho
IMF	-	International Monetary Fund
IPRSP	-	Interim Poverty Reduction Strategy Paper
LADB	-	Lesotho Agricultural Development Bank
NASASA	-	National Stokvels Association of South Africa
NGO	-	Non-Governmental Organization
ROSCA	-	Rotating Savings and Credit Association
RSCG	-	Rural Savings and Credit Groups
SSE	-	Small Scale Enterprises
UNCDF	-	United Nations Capital Development Fund
UNDP	-	United Nations Development Programme
WEDFT	-	Women Enterpreneuship Development Trust Fund

CHAPTER 1

INTRODUCTION

1.1 Background

Developing countries are simultaneously faced with urgent problems such as poverty, overexploitation of natural resources and failing development interventionism. Finance and income generation are viewed as key factors in the attempts to improve the standard of living of the poor. A major constraint to the participation and contribution of the poor in economic growth is across to financial credit. The poor demand for credit and savings services to increase and stabilize consumption has always been clear however commercial banks with their conventional lending and savings system find it difficult to meet this demand, for reasons that include lack of collateral, high costs for small transactions and geographical isolation as noted by Bortie-Doku and Aryeetey (1995). As a consequence, large shares of rural households in developing countries lack access to credit and savings services. They are therefore compelled to use informal institutions as an alternative means to finance their business or personal needs.

The informal financial institution is the catch all definition, and Adams (1992) identified ten types of such institutions that are known to operate is many developing countries as indicated in the table below:

Table 1: Types and Descriptions of the Informal institutions

TYPES	DESCRIPTION
Sophisticated but legally unregulated institutions	These are credit unions, indigenous banks, pawnshops, finance companies and service of nongovernmental organizations (NGOs), which are regulated only slightly by government.
More or less specialized moneylenders	Those operating in localized markets. They have highly personalized relationships with their customers. Their interest rates are high, but they extend

	their loans quickly
Merchants	Those who provide loans (usually with no explicit interest charge) linked to the sale or purchase of commodities.
Pawnbrokers	They require borrowers to exchange collateral physically for loans. Therefore, they do not need much information about their clients
Loan brokers	They facilitate contacts between lenders and borrowers by trading on inside information about potential clients. Loans are relatively large compared to other types of informal finance.
Landlords	They provide their tenants with loans
Friends and relatives	These are the most common source of informal finance. Loans from friends and relatives usually do not involve interest or collateral, can be of different sizes and repayment arrangements can be open ended. Often borrowers are expected to provide a loan to the lender in the future (reciprocity)
Money guards	Those responsible persons who agree to safeguard cash for individuals, usually without interest although favors and gifts may be given.
Savings groups	They consist of individuals who regularly or irregularly deposit funds with a group leader. The accumulated money can be distributed to members after a certain time or can be used as an emergency fund
Rotating savings and credit associations (ROSCAs)	Those that explicitly pool savings and tie loans to deposits. Members are usually familiar with each other, contribute a certain sum every day, week or month, after which the fund is distributed to one of the members

Source: Adams, 1992

In general, informal finance involves small loans and deposits and short term transactions, operated without physical collateral and took place close to the residence of its clients *(ibid)*. The focus of this research is on ROSCA type of the informal institution.

ROSCA are informal indigenous savings and credit institutions, which are prevalent in both developing and developed economies around the world. They flourish in all socio-economic level of the society where formal financial institution seem to fail to meet the credit needs of a large fraction of the population, (Klonner, 2001). Calomiris and Rajaraman, (1998) defined ROSCA as a "voluntary grouping of individuals who agree to contribute financially at each set of uniformly spaced dates towards creation of fund which will then be allotted in accordance with some prearranged principle to each member of the group in turn," (p1). Ardener and Burman (1995) place special emphasis on the principles of rotation and regularity when distinguishing ROSCA from other mutual benefit societies.

ROSCA functions according to the basic principle, which is the same everywhere. A group of individuals meet together on a regular basis (weekly or monthly) and contributes a fixed amount of money per period into a common pot[1]. Each period the pot is disbursed to one or more members decided either mutually or by a leader of the ROSCA. This can be done either randomly hence the name random ROSCA or by bidding which results in bidding ROSCA. A random ROSCA is one where the pot is randomly assigned to members of the group, while bidding ROSCA is one whereby members of the group bid for the right to receive the pot at an earlier date. The process continues till every member of the group receives the pot. When all the participants have received the pot, the ROSCA can disband or begin another round.

Access to ROSCA can be a powerful tool for the poor to break away from the vicious circle of poverty as it gives them the means to integrate the economic and social fabric of their communities. For instance, income generation from a

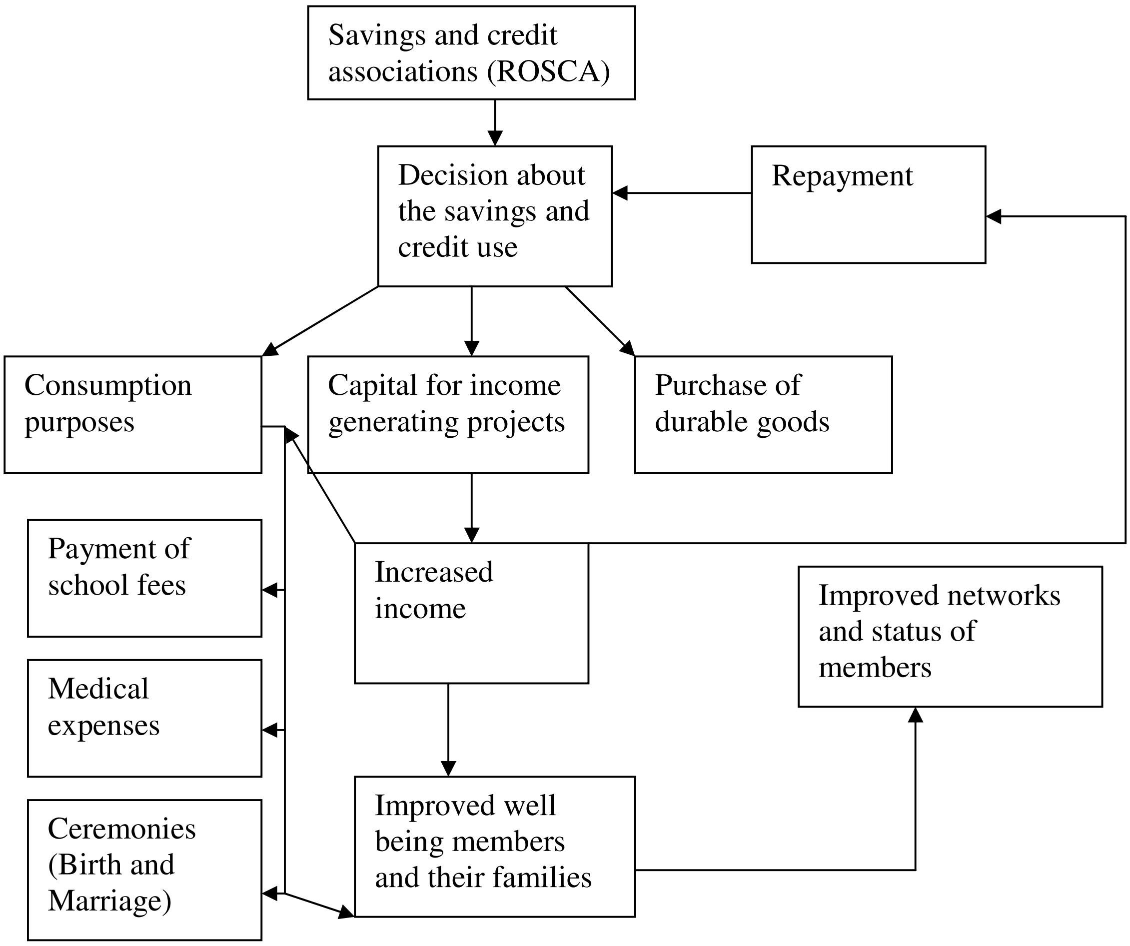
[1] Pot refers to the collection of the funds for the receipent

business helps not only the business to expand but also contributes to household income and its attendant benefits of food security and children's education.

According to Ardener and Burman (1995) global societies view ROSCA as a viable alternative particularly in relation to its potential for providing credit to the poor thereby creating employment and distribution of income to the poorest population. ROSCA are regarded as a vehicle to capital accumulation and investment and as answer to those goals that members cannot achieve on their own. In addition to that, ROSCA also provide a social component, that of solidarity, self-help, collective decision-making and management. Members may receive valuable information on a wide range of topics and advice on many issues. Although they may take various forms, all the indigenous savings and credit associations have one thing in common, they unite the local people, encouraging them to identify their needs and mobilize their resources to meet those needs, therefore providing for them what other institutions cannot provide.

The importance of ROSCA can be presented in the form of a diagram as illustrated in figure 1 below;

Figure1: Presentation of ROSCA's importance



The above diagram illustrates that as group members save and borrow and manage their groups, they gain status in their families and become more active in their communities. As their assets and income increase, they get involved in income generating activities, break free from money lenders, and send their children to schools and pay medical expenses as well as for cultural ceremonies.

In Lesotho, as in many developing countries informal savings have long existed although no date has been firmly associated with their introduction. Matobo (1993) indicated that the idea came with the Basotho miner who worked in South African mines where they learned about *stokvels*. In Lesotho they are termed

Mokholisano. The mobilization continue to dominate the financial market even in the presence of the formal institutions, as a result, special attention should be paid to these institutions as they are crucial elements of survival and key to economic growth. Although there is an awareness of the activities of these informal financial institutions, their relative importance is not known and their functioning is not contextualized. This contributes to the underestimation of the importance of these organizations both as savings institutions and as mechanisms for poverty alleviation and social advancement. This present paper aims to fill that gap and gives explanation on the importance of these associations in Lesotho. It is through that information that sustainable and development interventionism can be established.

According to Sparrenboom- Burger (1996), Lesotho has about eight thousand villages (8000) and ROSCA and burial societies are known to exist in almost every village, are also found in the informal sectors as well as public institutions. Since these associations operate on an informal basis, their general participation in the economy is not known. Matobo (1992) highlighted their prevalence in Lesotho and importance in the informal sector. She indicated that they fill the gap left by the formal institutions in terms of access to credit. However, she identified their weakness resulting from the fact that in most cases ROSCA loans are interest-free. Therefore saving money through ROSCA in periods of high inflation can be counter-productive to savers. Money would loose its value during the period of contribution cycle. Government of Lesotho study of 1992 (Central Bank of Lesotho 2001, Finmark Trust, 2003) revealed that the amount of savings mobilized through these institutions are small relative to their investment needs and the little savings that are available are used mostly for consumption rather than investment purposes. However, they also regarded them as an ideal tool for the development of the rural economy.

Though they may seem insecure, ROSCA continue to enjoy the support of the poor people through joining the old ones and or establishing new ones. These associations seem to play a significant role in terms of social and economic development of the poor people.

This research report is an exploratory study investigating the importance of ROSCA on the livelihood of the poor people in Lesotho. This will involve assessing the reasons and motivations for establishment, how they function and their contribution to the improvement of the standard of living of the members and their families. This improvement will be measured by the ability of the members to meet the basic needs, increased income, asset accumulation and improved productivity. The sustainability of these associations will be another area of interest. Sustainability relates to the ability of the organization to grow and adapt to changes. That is the effort of the association to ensure continuity of service, to expand and adjust to changing circumstances. In addition, the perception of government, banks and donor agencies on these associations will also be briefly considered to establish the potential of these institutions in rural development.

The main assumption is that these associations can be instrumental in poverty alleviation if they are incorporated in development strategies by the government. Understanding why the poor use ROSCA is crucial to reducing inequality, they may collaborate with the formal financial institutions which will make improvements on the provision of financial services therefore enhance the lives of the rural poor. Moreover, understanding how the poor people save, will be critical to designing appropriate and effective banking mechanism for them. As was the case in Tanzania whereby research indicated that informal finance made a positive contribution to both production and consumption activities of rural people, and was linked with the attempt to alleviate poverty in several ways including ability to cultivate larger farms, getting higher crop yields and a better food security status than before, (Kashuliza, 1993). Such positive findings had implications for development policy and led to a redefinition of policy strategies for dealing with informal finance.

In assessing the importance of ROSCA it is crucial to look at the position of Lesotho's political economy, financial institutions and poverty reduction strategies as will presented in the next session.

1.2 Overview of Lesotho's political economy

Table 2: Lesotho at a glance

Total Population (2000)	2, 144,131
Annual Growth Rate (2000)	2.1%
GDP per capita (2003)	2.8%
Unemployment (2001)	45%
Age Dependency Ratio (2000)	79.2%
People living with HIV/AIDS (2002)	34%

Source Central Bank of Lesotho and Bureau of Statistics

Lesotho is a small land locked country of about 30 355 km2 with very open economy. It has the population of 2,1million with an annual growth rate of 2.6%. The economy of the country is highly dependent on South Africa. Not only does the country export labor services to its neighbor, it is also the main source of Lesotho's imports. The country benefits from this situation in the sense that the custom duties acquired through the Southern African Custom Union (SACU) are an important source of funds for government. Apart from that the economy is based on subsistence agriculture. Agriculture was regarded as the backbone of the country as well as the largest employer in the informal sector. It supports over 86 per cent of the rural population, (Sechaba Consultants, 2000, World Bank, 1995).

However, agricultural contribution to the Gross Domestic Product (GDP) has been gradually declining from 60 per cent in 1966 to 14 percent in 2001, (Bereng, 2001); this was attributed to declining soil fertility and soil erosion, decline of arable land due to residential encroachment, three quarters of land in the country consists of mountains, only about 10 percent of land is suitable for arable cultivation and lies in the lowlands where rapid settlement expansion occurs. There is also dependence on women and children for agricultural labour due to absence of men who are working in South African mines, (Sparren-boom Burger, 1996). Despite its declining contribution to the GDP, agriculture still directly or indirectly support about 70 percent of the population, (Finmark Trust, 2003)

It was estimated that about 20 percent of male labor force was employed in South African mines in 2001, and the income earned by these workers was estimated to contribute 30 per cent to the GDP in 2000, (Central Bank of Lesotho, 2001, Finmark Trust, 2003). However, the mines in RSA have been gradually shifting towards mechanization, instead of recruiting miners from Lesotho, are giving preference to the country's pool of unemployed nationals, as a result, the number of miners employed in RSA has been declining and following a downward trend as indicated in Table 3 below,

Table 3 : Number of Retrenched Miners since 1996

YEAR	RETRENCHED MINERS
1996	101,237
1997	96,541
1999	65,000
2001	59,861

Source: Vision 2020, (2001), IPRSP, (2000) and Population Policy, (2001)

With the decline in agricultural production and retrenchment of mineworkers, more than half of the population, 68 percent lives below poverty datum line, (Sechaba, 2000, World Bank, 1995). Poverty incidence is disproportionately high in the mountain areas of Lesotho as indicated on the map on the next page.

According to Sechaba Consultants (2000), about a quarter of poor households are engaged in some form of informal business which brings only a tiny amount of money. Brewing and selling traditional beer is one of the most common of these activities done by almost 20 percent of households. The low levels of cash income means that Lesotho continues to be one of the fifty poorest countries in the world and ranks 132 of 173 countries on UNDP's Human Development Index, (World Bank, 1999).

The unemployment in the country is estimated at 45 per cent (Vision 2020, 2001). Moreover, the labour force is growing rapidly, yet only few entrants are being absorbed by the formal sector employment. It is estimated that 25000 youth enter the workplace per year, but only 9000 find employment, (Central Bank, 1999). The high rates of HIV/AIDS have worsened the situation, since there are fewer competent people that are able to generate income. It is estimated that 31 percent of the adult population is HIV positive, (Ministry of Health, 2000). CBL (2001) therefore viewed Lesotho's economy as *"struggling to provide in the needs of the population. Some of the impediments to growth as mentioned by CBL are inadequate information on the potential of the economy, a lack of skilled manpower and poor infrastructure,"(p23).*

1.2.1 Financial Institutions

A key factor determining the level of access of poor people to financial services is to look at the various alternative channels that maybe available to them.

(a) Formal Institutions

These are institutions that operate according to the principles of the legal framework of the country. They include commercial and nationalized banks, special agricultural development agencies and regional cooperatives.

(i) Commercial Banks

The Lesotho's formal financial sector is very small consisting of 2 commercial banks Standard Bank and Ned bank. There were also the Statutory Bank

(Lesotho) which was oriented primarily to the needs of the locally-owned business borrowers and a Development Bank (Lesotho Agricultural Development Bank) which was established to assist small-scale entrepreneurs. The two ran into problems resulting from poor management, poor lending practices and excessive political intervention, (Finmark Trust, 2003). As a result LADB was liquidated in 2000 and Lesotho Bank was sold to Standard Bank in 2001 which controlled 70 percent of interest and 30 per cent was retained by the government.

With the changes in ownership and management, the commercial banks offer the same banking products as in South Africa which might not be suited to the Lesotho populace, (Finmark Trust, 2003). In the study of access to financial services in Lesotho, Finmark Trust reported that about 28.5% of Lesotho citizens use savings accounts, 1.8% use formal credits and 1.8% have insurance policies. Central Bank of Lesotho Annual report suggested that about 10% of the population borrow funds from formal financial intermediaries. This implies that the rest of the adult population remains in the informal financial sector. Hence Sparren-boom Burger (1996) characterizes the Lesotho commercial banks as those;

- Well managed
- Adequately capitalized
- Limited in number
- Operated in highly segmented market
- Adhering to short-term maturities in their portfolio

(b)Non-Bank Financial services

(i) Micro Lending

Micro lending is the response to market failure of conventional banking services for the rural poor. It responds to the needs of the low-income households. However, in Lesotho micro finance sector of the industry is very much unorganized and little data exists on them. The Moneylenders Act 1989 requires

Micro-lenders to register with Central Bank of Lesotho but adherence is very low. Central Bank (2001) records showed only 17 of registered micro-lenders.
Loans from the micro-lending institutions are salary based and employers are willing to enter into this arrangement because they receive a 3 percent commission. Though there is a maximum prime rate of 8 percent interest per annum, these institutions charge usurious interests of up to 50 percent and there is no enforcement of the law by the Central Bank of Lesotho. Micro lenders fund themselves through shareholders capital or loans from individuals, (Finmark Trust, 2003)

(ii) Non-governmental Organizations (NGO)

NGOs are not financial institutions, their savings and credit schemes are part of a larger project which includes access to micro funding, Finmark Trust (2003) reported that in 1999 about six NGO's were involved in micro finance activities. These were Lesotho Chamber of Commerce and Industry (LCCI), Lesotho Council of NGOs (LCN), Lesotho Mineworkers Development Agency (LMDA), Lesotho Manufacturers Associations (LMA) and Women in Business (WID). Although all these institutions still exist, only WID is still involved in provision of microfinance services to its members, the rest have diverted their services from providing finance to providing training to their members due to loan delinquencies.

(iii) Cooperatives and Credit Unions

These financial services organizations fill an important gap for low income household particularly the working poor. However, these institutions did not have any impressive results in Lesotho due to dependency on external aid which resulted in excessive loan delinquency and high political interference, (Bereng, 2001). These subsidized schemes proved to be short-lived and un-replicable for they could not pay for themselves, they did not emphasize the local ownership of the development process and only witnessed low repayment rates. According to SparrenBoom-burger (1996), cooperatives seem to be successful in mobilizing savings but were incapable of handling the credit side.

(c) Informal Institutions

Formal finance with its complicated bureaucratic procedures did not seem suitable for the rural poor they therefore used informal finance. Informal institutions are those beyond government control, as mentioned earlier aims at providing access to financial services vital to the poorest such as credit, a service traditionally not extended to the poor. Although they operate differently, they appear to be an ideal tool to extend financial services to the poor they include ROSCA, community-owned fund-raising activities and other types of self-help groups.

1.2.2 Poverty reduction strategies since independence

Access to financial services such as credit and savings has always been recognized as crucial to effective participation in market economy. Since independence in 1966, various credit projects were piloted throughout the country as a way of promoting rural economic growth (Bereng, 2001). For example, the Lesotho Agricultural Production and Institutional Support (LAPIS) programme was an NGO supported group credit extension scheme aimed at accessing agricultural credit to the rural sector. Other credit support programmes were promotes under the Basic Agricultural Support Programme (BASP), the Food Self-Sufficiency Programme (FSSP), CBL (2001). However, these directed schemes did not achieve impressive results in terms of growth, income generation and overall improvement in the living standard of the poor. The agricultural development projects were mostly donor funded and most of these projects failed due to lack of ownership and accountability by the communities concerned.

During 1970s the Government of Lesotho (GOL) was mainly concerned with the growth and sustainability of small-scale enterprises hence in 1975 Basotho Enterprise Development Cooperation (BEDCO) was established and entrusted with the responsibility to assist small and medium sized entrepreneurship. As part of its efforts to provide essential financial services to the rural communities, the government of Lesotho established the Lesotho Agricultural Development Bank (LADB) in 1976 with the objective of providing formal credit to farmers, (Kingdom of Lesotho, 1975). However, the LADB was monopolized by rich farmers and became inaccessible to small farmers since it required collateral, (Johnson in Mashinini, 2002). The LADB collapsed due to poor operational management and had to close its operations in 1998.

Cooperatives and credit unions have also provided farmers and small-scale entrepreneurs with credit. These institutions existed in Lesotho for a very long time and have received enormous amount of foreign aid, (Sparrenboom-Burger, 1996). Most of cooperative credit schemes failed because they depended on external funding without serious expectation of repayment and realistic system for collecting delinquent loans. Devereux, Pares and Best, (1990) stated that grants or injections of credit might reduce a community's commitment to building and maintaining its own savings mechanisms. Both Non-governmental organizations and government projects involved in micro credit programmes were not interested in establishing sustainable institutions, hence most of them diverted their services from providing finance to providing training.

The attempts by the authorities seem to have been unsuccessful. The schemes were characterized by high loan delinquency, misappropriation of loan funds and weak financial institutions. The biggest shortcoming of many NGO credit schemes as noted by Central Bank was that finance is availed to the rural poor on very consessional terms, thus focusing only on credit disbursements without any attempt to incorporate savings deposit services.

In competition of rare financial resources, the poor naturally lost out and were compelled to resort to exploitative informal sources of credit such as the moneylenders. While they are able to respond quickly to the pressing demands of the poor, nevertheless, these moneylenders exploited the poor by charging usurious interest rates of more than 50 per cent (Finmark Trust, 2003) and further compounded their poverty. In response to this, most people have formed innovative savings and credit schemes based on small groups as a means to enhance access to institutional credit, overcome collateral requirements and contribute to the creation of income earning activities. To this end, these institutions have been successful though little attention has been paid on them in Lesotho.

1.3 RESEARCH PROBLEM

Ensuring and enabling access to financial services is paramount to the socio-economic growth of the country. This is because the poor are involved in small businesses which play a major role in the economy in terms of employment creation, income generation and economic growth. There have always been the poor connections between formal financial intermediaries and the rural economy as a result poor people save through informal financial institutions such as ROSCA to deal with life cycle needs, emergencies and opportunities. Devereux et al (1987) detailed that saving through informal institutions can be disadvantageous in that;

- Money rarely earn interest
- Inflation causes cash-flow to fall in value
- There are risks involved, such as theft of money or embezzlement
- Many savings groups are designed to meet consumption not investment needs.

However, the informal associations such as ROSCA continue to enjoy the support of the majority living in the developing countries. The continued use of these informal savings and credit mechanisms is a proof of their usefulness. These institutions are recognized to be easily accessible especially for poor people. Though they are given little recognition by the formal institutions, these associations are highly valued especially by women. This paper therefore sets to establish the importance of these associations on the livelihood of the poor in Lesotho. Specifically the main interest is on the motivation for establishing ROSCA and how the associations function to meet the needs of the members, their economic and social role as well as their sustainability.

1.4 THE OBJECTIVES OF THIS RESEARCH

The objectives of this research are;

- To establish the role played by ROSCA on the livelihood of the poor by assessing the motivation for involvement in ROSCAs and how they function.
- To assess the benefits and shortcomings of being a member to a ROSCA.
- To determine the sustainability of these associations to empower its members to improve their well being in the long term.
- To establish how other stakeholders such as formal institutions and donor communities perceive these associations.

It is of great significance to know the role of ROSCA with the hope that the study will provide framework upon which these institutions can be assisted or improved into effective locally controlled savings and credit groups thereby liberating many families from moneylenders and strengthening income generating activities. Understanding the effectiveness of ROSCA will give valuable insight for policy makers to direct some aspects of rural development based on the analysis of local conditions as compared to international examples. These institutions can be instrumental in poverty alleviation strategies if they collaborate with other formal or informal institutions to build the capacity of the communities to manage their financial needs.

1.5 LOCATION OF THE STUDY

ROSCAs exist in all the ten districts of Lesotho and are unregulated institutions in terms of legal structures and there is little data available on their existence. This research was based on the information provided by twenty-eight (28) respondents selected from seven (7) randomly chosen ROSCAs from the two districts, (Maseru and Quthing). The selection was based on the researcher's knowledge of the economic backgrounds in the two districts, Maseru is the capital town with population of about 300 000 people and more people especially women are in the formal employment but found in ROSCAs.

Quthing is one of the five districts in the country, which are hardest hit by poverty. Many people in this location are without formal employment they rely heavily on remittances from the miners and subsistence agriculture. In addition to their agriculture, women in this area are engaged in income generating activities such as dressmaking, poultry production and selling traditional beer.

The data on the ROSCA was collected through interviews, the researcher and an assistant visited active ROSCAs whereby the group leader/organizer, treasurer and secretary were interviewed to gather detailed information about the functioning of ROSCA. In-depth interviews is valuable for this particular study because the researcher discovers not only the themes and topics which interviewees see as important, but also how they think about them, it provides attitudes and opinions.

1.6 LIMITATIONS

As has been mentioned earlier, these types of associations seem to be unregulated in the country and therefore unregistered, so it was very difficult to locate them. The researcher had to rely on other people for assistance. Although attempts were made to assure the respondents of confidentiality and benefits from this action research, most of them expressed unwillingness to reveal their own experiences because they saw no purpose that could possibly be served by the collection of such information. One common complaint was that such information never brings any benefit to them.

Financial information such as income is probably not fully accurate for the fact that most respondents were reluctant to disclose that kind of information to a stranger. It is therefore assumed that most of the financial information has been underestimated.

1.7 CHAPTER OUTLINE

The chapters will proceed as follows;

Chapter 1 An introductory chapter that provides the background of the study highlighting the political economy of the Lesotho. Furthermore, the problem statement that prompted this study, the purpose of the research as well as the limitations that hindered the progress of research as planned are the aspects of this chapter.

Chapter 2 Reviews the existing literature related to the topic. The literature indicates that ROSCA are plenteous and people find them the most convenient way of having extra cash. They are not only economically beneficial but they also carry the moral and social values to their members.

Chapter 3 Details the research methodology employed for this study.

Chapter 4 Presents the research results as cited from the responses of ROSCA members and some institutions that offer services relevant to ROSCA development.

Chapter 5 Gives the general analysis of data derived from the research findings.

Chapter 6 Provides the conclusion of the study.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

This chapter presents the review of literature on ROSCA, highlighting the overview of these associations, motives for their establishment, how these institutions functions and the utilization of ROSCA funds drawing from international experiences.

2.2 Overview of ROSCA

There is no historic account on the evolution of ROSCA anywhere in the world. Although Geertz (1962) and Ardener (1964) published their studies on ROSCA some three decades ago, their works are still quoted much in the literature. Ardener (1964) in Ardener and Burman (1995) is a comprehensive survey of ROSCA around the world which addresses the various types and ways in which they work. This literature established that ROSCAs are a worldwide phenomenon although they are especially wide spread in Asia and Africa. Bouman (1994) in Gugerty (2003) has done a remarkable work in documenting their prevalence in Asia, Latin America and Africa. Estimations by Bouman (1994) suggested that participation in Africa is very high ranging from 50 – 95 percent of the adult population in many rural areas in Liberia, Ivory Coast, Togo and Nigeria, whereas membership in Cameroon was estimated as 80 per cent of the adult population.

ROSCA have been reported in the extensive field of literature to exist in the developing world in both urban and rural areas and among all classes. Economic literature indicated that individuals might join ROSCA for three reasons, financing the purchase of durable good, intra-household conflict and insurance. Anthropologists and sociologists document how ROSCAs are embedded in pre-existing social networks that serve as a form of collateral, Gugerty(2003). While they are found in economies where formal credit market are thin or non existent, Besley and Levenson (1996) reported their popularity among the intellectual and political elites who have access to formal banking systems. They estimated up to 80 percent of adult population that participated in ROSCA in Taiwan in an economy that is going significant modernization. Ardener and Burman (1995) reported their existence among the employees of International Monetary Fund (IMF).

ROSCAs vary greatly in size and mode of operation; however, rotation and regularity seem to be the main features of these associations. Thomas (1989b) in Ardener and Burman (1996:25) divides ROSCAs in three categories as indicated in the table below.

Table 4: ROSCA Categories

CATEGORY	**DESCRIPTION**
A	Those with small membership, dealing in relatively small amounts of cash, which usually do not lend out money and operate primarily as savings groups.
B	Those who save with a specific goal in mind, such as the purchase of expensive item. These have variable membership size and may have additional funds to lend on interest.
C	This category is high budget rotating credit associations (HBRTCA) which are mostly dominated by men, they often deal with large amounts of money and main function is lending funds often at very high interests.

Source: Thomas (1989b) in Money goes Rounds

Burman in Shepherd (1998:110) characterized ROSCAs as those whereby:

- They are formed for a pecuniary gain and funds rotates immediately after formation, its liquidation is automatic and length of cycle seldom exceeds one year
- Only one loan per member, loan is automatic often by prearranged order, emergency cases enjoy priority.
- Periodic and equal contributions per participant require a regular income flows
- Membership is voluntary, small and homogeneous
- Contributions are fixed and regular and there is no safekeeping of funds
- Loans are of very short duration; proceedings less affected by inflation
- In principle no interest on loans.
- Main function is financial intermediation for individual welfare
- No supervision required, little administration and records
- Simple, usually unwritten procedures

Participation of women in ROSCA is reported to be very high. Lukhele (1990) reported that some 60 per cent of ROSCA members were women likely to be aged between twenty-four (24) and forty-nine (49). It is generally accepted that women are disproportionately represented among the world's poorest people. UNDP Human Development Report (1995) reported that 70 percent of the 1.3 billion living on less than 1$ per day are women, and they also make up the majority of the lower paid unorganized informal sector of most economies, (Cheston and Kuhn, 2002). Women have demonstrated to gain economically and their social position is enhanced through participation in these associations. Hence the Declaration of the Micro Credit Summit (RESULTS, 1997) quoted in (Goetz, 2001) notes that,

> "Empirical evidence has shown that women, as a group, are consistently better in promptness and reliability of repayment. Targeting women as clients of micro-credit programs has also been a very effective method of ensuring that the benefits of increased income accrue to the

> general welfare of the family, and particularly children. At the same time, women themselves benefit from the higher status they achieve when they are able to provide new income," (8).

2.3 Motivation for Establishment

ROSCA provides financial services vital to the poor, such as credit, a service traditionally not extended to the very poor as they are deemed un-creditworthy. Individuals join ROSCA to secure their economic and social positions within the community. The lack of collateral is often cited as a reason as to why individuals choose an informal finance mechanism such as ROSCA over formal financial institutions. Attractiveness of ROSCA remain those pointed out by Bortie-Doku and Aryeetey (1995) in Ghana, Niger-Thomas (1995) in Cameroon, Hospes (1995) in Indonesia and Burman and Lembete (1995) in South Africa. To them, founding members of ROSCA are motivated by a need to overcome frequent shortages of cash in their business activities and in crisis situations. Individuals then team up with others whom they have observed to have similar problems. ROSCA therefore helps members to become independent and provide for their families. They also indicated that though the primary focus is on savings, the clubs also provide social security for their members. Socializing and entertainment are seen as attractions to the clubs.

Ardener (1995) pointed out that "where incomes are very low, where there is no formal social security network, where ill health stalls and a variety of calamities hover, a system of low cost ROSCA helps to meet the challenges for all---," (p2). Anderson and Baland (2002) stated that members join ROSCA to save at a higher savings rate than they would at home. Gugerty (2003) pointed out that ROSCA serve as a mechanism through which individuals bind themselves to a particular saving rate in the presence of time-inconsistent preferences. Bouman (1977) in Gugerty (2003) pointed out that the most effective component and the foremost reason for joining a ROSCA is the forced saving element. Through the regularity of small deposits, which otherwise might be spent on trivialities, one is able to accumulate more sizeable sums for a worthwhile cause.

Although ROSCA savings are small in scale, Sethi (1995) in Ardener and Burman (1995) stated that they help to pool the savings both of those social groups that have little or no capacity to save and also those who have it. The availability of credit through ROSCA helped many women to become skilled entrepreneurs and achieve economic self-reliance. Buijs and Atherfold (1995) indicated that for many poor families wedding celebrations, birthdays, return from circumcision school and not to mention funerals can be very expensive. As a result some associations were formed to provide assistance in organizing celebrations or during hardships such as death.

Economic literature has focused on three reasons as to why individuals may join ROSCA, these are financing purchase of indivisible good, intra-household conflict and insurance, (Gugerty, 2003). Bersely, Coate and Loury (1993) indicated that individuals join ROSCA to finance the purchase of an indivisible durable good. According to these authors, all individuals except the last one improve their welfare by joining ROSCA as each receives the indivisible good sooner than saving alone.

Calomiris and Rajaman (1998) advocated that bidding ROSCA can serve as insurance when participants face income shocks which are not perfectly correlated over individuals. They argued that for recurring risks, insurance against multiple events overtime is possible through simultaneous membership in more than one ROSCA, or multiple shares in a single ROSCA. Klonner (2000) show how risk-averse participants in bidding ROSCA can insure themselves against idiosyncratic risks. ROSCA can serve as insurance in a rural setting where formal markets for insurance are virtually non-existent in that, ROSCA could allow members to switch places after the order had been determined and ROSCA may forgive members a payment if they receive negative shocks, (Gugerty, 2000).

Ardener and Burman (1995) believe that ROSCA are informal mechanisms that are predominantly used by the poor. Calomiris and Rajaman (1998) also claim that evidence on participation by the poor is very widespread. The assumption is that people who generally participate in ROSCA are credit constrained. Levenson and Bersley (1996) have the different view, they offer evidence that ROSCA may not necessarily be meant for the poor. They showed that participation increases with income, that is, richer individuals are more likely to participate in ROSCA.

ROSCAs are essentially simple organization tailored to the skills and resources of members. Ardener and Burman (1995) cites the following as social groups around which ROSCA has been formed, gender, age, kinship, ethnic affiliation, occupation and religion. Sethi (1995) added that social standing or personal character of the individual plays the important role as far as membership is concerned. He further stated that in some ROSCA membership is confined to the educated elite while in others it is limited to the illiterate or semi-educated. In Panjab University Campus (Sethi, 1995) it was revealed that membership was restricted largely on the basis of age and gender. Matobo (1993) realized that there were some associations which were purely run by low level educated members whereby highly educated were viewed with suspicion that they might bring their sophisticated ideas to the association.

Hospes (1995) stated that individuals join associations that fit their employment conditions, income flows, savings and money needs. She stated that because of the fluctuating incomes, the actual rotation of a fund may not be regular. Self-regulation of ROSCA implies endless possibilities to meet member's diverse financial needs and objectives. Bortie-Doku and Aryeetey (1995) mention 3 types of venues which influence the participation in ROSCA as public institutions, neighborhood and market. He stated that in Ghana there is a high predominance of women in the market hence many market clubs has all female membership. Women are also widely represented in neighborhood clubs whereas the public institutions are dominated by males but they still have women dominating in the clubs. Gugerty (2003) indicated that some groups reported that they investigated the character and/or financial position of the potential members such as whether she runs a small business or her other sources of income with which to make contributions and payments. This was also the case with teachers ROSCA in Zwelitsha as noted by Buijs and Atherfold (1995) whereby creditworthiness of potential members was checked before they could join the ROSCA. Those who were interested but had financial problems were not allowed to become members.

Linguistics and regional grouping within the South Asian population appeared to be more significant in the genesis of ROSCA. Groups who migrated from India, Pakistan and Bangladesh to Oxford were formed on the basis of linguistics and regional groupings hence their ROSCA businesses were conducted in their ethnic language, (Sethi, 1995).

Above all, the most important criteria for membership in these associations are based on mutual trust embedded in the socio-economic knowledge that members have of each other. The important qualities are trustworthiness, honesty as well as friendship. Those who join ROSCA are usually known to each other, involved in social activities and reliant on each other for mutual aid and support. A great degree of homogeneity is regarded as important for maintaining harmony among the members. Although ROSCAs are found in many differently organized societies, they only exist where social structure is built on strong communal basis. In Roberts (1994) words,

> *"ROSCAs are not found in societies where individualism is strong, where people are only weakly tied to each other and where actors believe that financial occupational mobility can be achieved by one's own efforts,"*

2.4 ROSCA Operations

ROSCA may differ from one another be it with respect to the number of participants, the frequency of meetings, the amount of the contribution or the way in which the ROSCA participants are screened/selected. According to Gugerty (2003) every ROSCA must make three decisions, first how to allocate funds to participants, second how to prevent default once a member has received funds and third how to balance the size of contribution, the number of members and the frequency of contributions. Funds can be allocated in a number of ways, randomized draws, and bidding or by some other criteria such as need, or seniority. The author indicated that the size and frequency of the contribution may be weighed against participant's ability to pay and intended use of funds. The larger the membership, the bigger the collective pot, but the greater the temptation of default.

Record keeping might appear important for the running of ROSCA. Burman and Lembete (1995) established that most associations in fact smaller ones did not keep any records. While others kept records of contributions and payouts. Record keeping is reported to be high among the public institutions than anywhere else because of the higher levels of literacy and organizational skills (Bortei-Duke and Aryeetey 1995). Although ROSCA institutions operate on a very informal basis, their leadership mimicked that of the formally constituted groups to a certain extend. Hospes (1995) indicated that most of them have the leader or organizer, treasure or secretary. The organizer is generally the person who originated the group.

The order of rotation which is the feature for all ROSCAs is decided by mutual consensus in response to financial need of individual members on daily, weekly, fortnightly or monthly basis. This is normally done on the first meeting. Buijs and Atherfold (1995) noted that there was no problem with choosing the same month, however, there was reluctance to have turns in the early months such as January to March for the fear that at the beginning of the year funds are low after the expensive Christmas season. Therefore those accumulated or acquired could be used more for consumption rather than in business. Stability of income enables individuals to sustain regular payments to the ROSCA thereby avoiding default.

A particular feature of ROSCA patronized by women is that the total sums handled by them are relatively small, the interval between installments very short and discount bid where they occur are also small. Most of the ROSCA did not offer any form of interest as offered by Banks and most members were aware and prepared to forgo such interest because of the social role of these clubs. Burman and Lembete (1995) found out that instead of being resort of the poorest in the communities, ROSCA were available to those who had a job or a regular source of income to meet contributions without fail.

Default is seen by members as a direct threat to the survival of the ROSCA and is treated accordingly. According to Burman and Lembete (1995), South African women were bemused when asked what would happen if someone did not pay her contributions, it clearly was unthinkable. The cost of default include social mechanisms that extend beyond the domain of the ROSCA into community wide sanctions such as peer pressure and social ostracism which affect every aspect of that individual's social and economic life. ROSCA are informal, unregulated financial institutions and cannot rely on legal and state control to assure enforcement of payment agreements made by participants.

The disgrace and humiliation that can fall on a defaulter is much feared. Defaulting can result in taking away an item worth the debt in the defaulter's house by the members, as was the case in Kenya: Kauwi Kiseveni Women's Group (Ardener and Burman, 1995). Members of this group visited the defaulter accompanied by the sub-chief; take away the item worth of the debt, including husband's property. To avoid the shame, social and economic deprivation arising from default, resort maybe to moneylenders, selling of assets or even malpractice such as prostitution in order to find ROSCA contribution, *(ibid)*.

2.5 Role of ROSCA

The basic motive underlying the emergence of ROSCA is economic, that is the accumulation of savings, (Sethi, 1995). ROSCAs are not only economic institutions, they also have an important social role.

2.5.1 Economic function

Funds obtained from ROSCA are put to multiple uses. Some clubs had clearly enunciated views on how the money should be used or even imposed restrictions, as was the case in a study by Burman and Lembete (1995) whereby a group of six women decided that everyone should buy curtains with their first rotation. The group monitors the individual to ensure that she honors the commitment. The dominant use is for income generating activities as revealed by Bortie-Doku and Aryeetey (1995). They reported that the majority of women in ROSCA clubs use their fund as working capital as can be reflected by the predominance of small-scale businesses in markets. Funds accumulated were also used to pay a wide range of consumption items, among others, payment of school fees appeared to be the most important. ROSCA funds are also useful for purchasing objects that cannot be jointly owned and cost more than a single member can purchase at once such as household furniture, iron roof and vehicles among others.

According to Mayoux (2000) savings and loans enable women to set up new economic activities or expand existing ones in order to increase the income they earn, which enables them to increase the assets controlled by them, hence contribute to other dimensions of empowerment. It can be used directly to increase their well-being or that of their children. This is evidenced by Hua Live (1997) on the practice of Cambodian tontines in New Zealand whereby some 18 percent of the participants revealed that they used their ROSCA loans for deposits for getting a mortgage for their families, 41 percent used it to fund for an existing business or a new venture since it was very difficult to get a loan from formal system and the other 41 percent claimed that they save their loans for emergencies such as harvest failure. Reserve Bank of India (1991) in Ardener and Burman (1995) stated that data on borrowing of rural households indicate that 36 percent of household credits were used for consumption purposes, 13 percent for the social and religious ceremonies and the remaining 51 percent for productive purposes.

Gugerty (2003) reported that women have been shown to spend more of their income on their households, therefore, when women are helped to increase their incomes, the welfare of the whole family is improved, hence UNCDF (2001) commented that women's success benefit more than one person. Gugerty (2003) also confirmed the fact that women are more likely than men to spend their profits on household and family needs, their increased income benefits their children, particularly in education, diet, health care and clothing. The report by Women Entrepreneurship Development Trust Fund (WEDFT) (2001), in Tanzania reported that 55 per cent of women's increased income is used to purchase household items, 18 per cent goes for school fees and 15 percent is spend on clothing.

2.5.2 Social function

Fundamental to the strength of many ROSCA is being seen as having moral and social dimensions. The obligation of members to meet and pay their contributions demonstrates their social responsibilities. This socializing has a cost effective benefit, apart from cash, members may receive considerable economic returns such as valuable information on a wide range of topics and advice on many issues. By joining a ROSCA one builds upon his networks by interacting with her peers and building contact and that increases individual's social capital. Participation in ROSCA can enable those with few material asserts to build a reputation. Through these informal associations, women get community acknowledgement. The financial management skills they have acquired and increased access to credit changes the role of women within the community and enhances their status. ROSCA help members to achieve status, which explains why they are patronized by professionals, business women and executives who use their membership network to work their way into prestigious social and economic positions (Sethi, 1995). Burman and Lembete (1995) indicated that ROSCA among the rising middle class lighten the burdens of urban living South Africans by enabling women to draw on each other's professional advice without pay.

ROSCA associations can significantly reduce women's vulnerability to poverty by putting capital in their hands and allowing them to earn an independent income and contributing financially to their households and communities which sometimes translate into empowerment. This economic empowerment is expected to generate self-esteem and respect through discussion of social issues, support and advice for balancing family and business responsibilities, experience in decision making and leadership, ownership and control of credit institution, (Mayoux, 2000).

In patriarchal societies women do not have the power to make decisions, however, most ROSCAs have observed improvements in women's status in their communities. Women's ability to influence decisions that affect their lives and future, is considered to be one of the principal components of empowerment. Contributing financial resources to the family or community confers greater legitimacy and value to women's views and gives them more entitlements than they would otherwise have. Social capital also potentially expands the range of enforcement mechanisms for default on obligations in environment, in which resource to the legal system is costly or impossible, (Otero & Rhyne, 1994).

The solidarity group, because of its basis in mutual support, helps free borrowers from historically dependent relationships and therefore gains confidence. Shepherd (1998) alluded to this by saying that rural women often do not have social status to engage in independent enterprise. However group formation, whether in kin or among fellow villages helps to give women the confidence, legitimacy and mutual support to overcome status inferiority. Although both women and men participate in ROSCA, women's communal obligations are often oriented towards other women and centre on activities seen traditionally as women's work, as was the case with divorced women in South Africa who helped each other with children care, (Burman and Lembete, 1995).

2.6 Sustainability of ROSCAs

According to Bortei-Doku and Aryeetey (1995) survival of ROSCA clubs is enhanced by their flexible and cost-effective strategies. Sustainability of these associations depends on the continuous flow of cash from members, hence Burman and Lembete (1995) stated that instead of being a resort of the poorest in the community, ROSCA were available to those who had a job or regular source of income to meet contributions without fail. Ardener and Burman (1995) also indicated that important elements in determining the success or failure of ROSCA are the impact of inflation, of a sudden general financial crisis or recession of social disruption such as war, it is through that default may be overwhelming. They also confirmed that, the strength of the structure of ROSCA is that it permits some flexibility and can adjust to those challenges.   Bortie-Doku and Aryeetey (1995) pointed out that in Ghana in the 1980s, ROSCA payment were postponed for a period of the implementation of structural adjustment programme, and continue afterwards.

2.7 ROSCA and other Institutions

Institutional support is very important in the functioning of ROSCA. Literature indicates that in many developing countries ROSCA do not have any link with the formal sector. In some countries like India having realized the important role of these clubs require them to register with financial statistics. Van den Brink and Chavas (1997) suggested that when properly run, ROSCA system is more efficient than all other credit arrangements, it reaches 90 percent of all households in Cameroon and handles thousand of transactions each year at a low transaction cost, mobilizing about 11 per cent of the village income,

Not only do ROSCA flourish today, they have led to other forms of financial management. For example, *Indian chit funds* have provided ideas for the establishment of Indian Grammen banking system, (Sethi, 1995). In South Africa financial institutions utilized ROSCA to provide security for housing loans (Burman and Lembete, 1995). They indicated that the potential of ROSCA as vehicles for the betterment has become increasingly evident. For example as far back as 1984 a study by PEM Building Society drew the attention to the existence of ROSCA and designed a special account to suit their needs. This proved to be successful that it had been copied by other financial institutions which are competing vigorously for group savings. According to Baumann (2001) the South African government has also put the emphasis on the importance of savings as part of nation's overall economic health. Finance Minister Trevor Manuel for example, gave a keynote speech to the Savings and Credit Associations Africa 2001 Congress, emphasizing the importance of savings facilities for low-income households, not for its own sake but to increase the national savings rate. In Ghana, as established by Bortie-Doku and Aryeete (1995), as a result of ROSCA a mobile banking was established whereby a banker tours the market collecting dues from market women who receive their savings at the end of the month minus the banker's commission. Moreover banks in Ghana are tentatively attempting direct involvement with these associations.

The growth of *stokvels* in South Africa led to the establishment of an umbrella organization, the National Stokvel Association of South Africa (NASASA) in 1988, to mobilize *stokvel* savings and more effective participation in the mainstream economy, (Ardener and Burman, 1995, Verhoef, 2001). NASASA set out to improve the operational efficiency of *stokvels* and to consolidate compound savings to negotiate bulk consumer concessions and services from financial institutions. Ardener and Burman (1995) said that it is against this background of growing strength of ROSCA as the formal sector awakens to their importance in South Africa's financial future that the role of women in ROSCA must be viewed.

2.8 ROSCA in Lesotho

The origin of these associations is believed to be from the miners who were working in South Africa and learned about the *stokvels*, (Matobo, 1993). Because of the lack of interest of the commercial banks to work with the poor and frustration of Basotho women as a result of the norms and customs that regarded women as minors who require their husbands consent or male guardian to get a loan, most of the poor people have had to rely largely on sources of informal finance.

For the rural poor in Lesotho, the main vehicle for storing and accumulating savings has been livestock, (Sparren-boom Burger, 1996). However, the problem of stock theft has left many rural families very poor. For their survival many rural families depend on the remittances from the miners which are also declining as indicated on table 3. Though agriculture is considered as very minor in a macro-economic perspective, in the micro-economic perspective it could mean the difference between maintenance of life and collapse, (Sechaba, 2000). Social networks and support have also kept many poor households alive since those who could afford help others without means.

As in many developing countries, the informal sector of Lesotho plays a major role as the source of income. About a quarter of the households are engaged in some form of the informal business. These entrepreneurs obtain their credit from self-help groups, moneylenders or friends and relatives since formal financial institutions cannot extend credit to them, hence the high participation in ROSCA. Central Bank of Lesotho identified ROSCA groups as;

- Those having 10- 20 or more members
- There are no membership fees
- Those that firstly mobilize a culture of savings and will mobilize these savings into productive use.
- Substitute loan collateral with peer pressure.

Several types of ROSCAs are known to exist in Lesotho. The neighborhood ROSCA, probably the most common are established purposely to meet the socio-economic needs of the members. They are normally established by neighbors or friends. Their importance lies in the fact that they help to channel non-active, liquid, household savings that are extension of traditional forms of money-lending and they provide friendly and informal access to credit. There are also the religious ROSCA, those ones in which members of a religious community come together to first pray and sing verses and then conduct a ROSCA meeting. Some ROSCA were formed by a group of individuals who participated in a community development activity such as infrastructure and subsequently form a ROSCA, community based ROSCAs. The occupation ROSCAs are set by individuals working in the same occupation. Market ROSCAs are organized by traders in market place. The characteristics of these savings clubs are strict mutually accepted rules of operation, regular meetings, compulsory attendance and fixed contributions.

The growth and spread of these associations have not gone unrecognized. Having realized the potential of these institutions, CBL took a policy decision in 2001 to promote financial intermediation to rural communities by using already existing Rural Savings and Credit Groups (RSCG), Central Bank of Lesotho, (2001). The policy seeks to build on the strengths of the existing informal institutions and use them as conduits for channeling funds into rural communities. The details of the scheme is on appendix 1. The researcher did not have the experience to look at this project at the time of this research as it was at its initial stages and many of the respondents were not aware of its existence.

Summary

This chapter has revealed that ROSCA institutions are observed throughout the world by the poor and the well of. ROSCA associations have come into prominence because of the constraints of the formal institutions which demand collateral security for loans, whereas in ROSCA every contributor is deemed creditworthy. They fill the gap that the formal financial intermediaries have left. ROSCA operations are very simple, they have very limited records and their constitutions are not documented. ROSCA enables members to save and make money by taking a joint venture with colleagues, neighbors and friends. A primary qualification for membership in a ROSCA is trustworthiness and ability to make contributions.

These associations have helped the poor, unemployed as well as those with work to better their circumstances and put aside cash to fund education, start small businesses or simply buy sufficient food to feed the family. Apart from the economic aspect, members enjoy humane and social benefits when they come together in their ROSCA meetings. These associations also help to improve the status of women in society by increasing their self confidence.

CHAPTER 3

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents methods of data collection, presentation and interpretation that have been employed for this research. The findings of the study are based on interviews and literature collected in February, 2005. Unstructured interviews were used in the case of primary data and secondary sources involved reviewing documents which provided information needed for the research questions.

Data presentation will be in the form of frequency tables supported by verbatim quotations from the interviews. Analysis or interpretation consists of corroborating the data from both sources with the research questions.

3.2 Nature of the Research

Due to limited literature available on this topic in Lesotho this research is exploratory in nature. In exploratory research the focus is on gaining insight into and familiarity with the subject area for undertaking more rigorous investigations at a later stage. Therefore exploratory research rarely provides conclusive answer to problems or issues but give guidance on what future research should be conducted.

Exploratory research often uses qualitative methods of data collection. As Miles (1994) explained qualitative research is a source of well grounded, rich descriptions and explanations of processes occurring in the local contexts. This helps researchers to go beyond initial preconceptions and frameworks. Unlike quantitative research methods which involve numbers, qualitative methods are often associated with the collection and analysis of written and spoken text or the direct observation of behavior, (Cassell and Gillian, 1994). Qualitative method focuses on interpretations rather than quantification.

Qualitative research provides understanding of the concepts and takes place in a natural setting whereby the researcher often goes to site of participants to conduct research. Creswell (2003) stated that qualitative research views social phenomenon holistically and this explains why qualitative research studies appears to be broad rather than micro analysis.

3.3 Data collection

The sampling technique that was used for this particular research was purposive rather than representative. Obtaining a statistically representative sample was impossible given the fact that these associations were not registered hence not easy to locate. The researcher was therefore forced to choose interviews on the grounds of availability and access rather than representative-ness. Dilon (1987) indicated that purposive method involves selecting respondents because it is expected that they are representatives of the population of interest and or meet the specific needs of the research study. Denzon and Lincoln (2000) also noted that "sometimes informants are not readily accessible or identifiable but anyone the researcher meets might become valuable source of information," (p654). Respondents were found simply by knocking at the doors whereby an interview guide attached as appendix 2 was administered.

(a) Primary data

Focus of qualitative research is on participant's perception and interviews elicit views and experiences from participants. The in-depth interviews unlike other methods were best suited to the sample in this particular research because it encourages the informant to relate in their own terms, their experiences and attitudes or perceptions that are relevant to the research problem. As Walker (1985) puts it;

> "In order to understand why person act as they do we need to understand the meaning and significance they give to their actions; and this can be done through in-depth interviews. Through asking rather than observing their behavior and assuming, one is able to understand the rich context that is the substance of the meaning," (P46).

Through in-depth interview the researcher was able to obtain information more quickly. It also provided the researcher an opportunity to probe for additional information and clear up misunderstanding, to uncover new clues to open up new dimension of a problem and to secure, accurate, inclusive accounts that are based on personal experiences.

Interviews were carried out by the researcher with the help of an assistant in the two districts over a period of 3 weeks. Though qualitative research usually involves huge amounts of data, this particular research focused on a fairly small sample of 28 participants from seven (7) randomly selected ROSCA. Target was on ROSCA members on formal employment such as government employees and those in the informal sectors as well as those without any form of employment especially in the Quthing district. In most cases, interviewing the organizer or leader and treasurer/secretary was preferred for questions related to motive for establishment and how ROSCA functions.

Information was also gathered through interviews held with six (6) representatives from formal financial institutions (Banking Sectors) and non - banking sectors offering services and programmes relevant to ROSCA development. They were to give their perceptions of these associations and their linkages with them.

These organizations included among others;

1. Ministry of Trade, Industry and Marketing (MTIT) which is responsible for the development of the Small-Scale Enterprises (SSEs)
2. Basotho Development Corporation (BEDCO) established mainly to provide financial and technical support to the SSEs
3. Boliba Savings & Credit Bank (BSCB) a micro lending institution that provides credit to the Small and Medium Enterprises (SMES)
4. Central Bank of Lesotho (CBL) which is responsible for the regulation of financial institutions.

5. Lesotho Mineworkers Development Agency (LMDA) that provides training and technical support to the family of retrenched miners
6. Micro-Projects Management Unit (MMU) Funded by European Union which assist rural groups financially in undertaking infrastructural projects

(b) Secondary data

Documentary review of books, journal articles, policy documents and the internet literature was mainly on the international experiences. The literature review formed the basis for data analysis.

3.4 Presentation

Qualitative responses were coded according to the themes of the research. Frequency tables were used to obtain the most and least frequently mentioned responses and to make data more representative and manageable. Description of believes and attitudes are supported by evidence in the form of verbatim quotations from interviews. The reviewed literature has been used to back up the findings.

3.5 Method of Analysis

The theoretical literature sets the framework to analyze the data collected during field work. The analysis of data involved interpretative-descriptive approach, whereby the information from both sources were corroborated with the research question. This means that primary data from respondents were examined and compared with the literature as a way of establishing the importance of ROSCA.

3.6 Limitation of the research methodology

It was very difficult to locate these institutions as they were unregistered. The researcher and the assistant relied entirely on information given by villagers about where to find members of these associations. The lack of records on these associations, limited the extent to which financial profile could be structured. The respondents were reluctant to give their views fearing that they were investigated for other matters but they were assured confidentiality of their information by the researcher.

The study was conducted on a fairly small sample of ROSCA population it would therefore be misleading to draw general conclusions. The focus of research on ROSCA resulted in exclusion of a lot of information on other informal financial institutions.

Summary

This chapter has presented how data was collected for this research. Qualitative methods of data collection especially in-depth interview has proved to be the most appropriate for collecting data in this particular research since it elicit views and experiences of the respondents. Data presentation technique will involve use of frequency tables and verbatim quotations while analysis will involve corroborating the research questions with data from the two sources.

CHAPTER 4

PRESENTATION OF FINDINGS

4.1 Introduction

This chapter presents the findings of the investigation that was undertaken on 7th to 24th February, 2005 in the two districts of Lesotho, Maseru and Quthing. Maseru is the capital of Lesotho and Quthing is one of the districts hardest hit by poverty. Twenty-eight (28) members from seven (7) ROSCAs selected randomly and six (6) representatives of institutions offering programmes relevant to ROSCA development were also interviewed. The interviews were undertaken with individuals involved directly in administering the programme. The research questions were basically investigating the role of ROSCA on the livelihood of the poor. This was explored by looking at the issues related to the respondent's motives for involvement in ROSCA and how they function, benefits that accrue to members and their families, sustainability of these clubs and how the government and other organizations perceive these associations.

The presentation of the findings will involve the use of frequency tables and some verbatim quotes from the respondents as well as the literature position on the issues under investigation.

4.2 Demographic profile of the respondents

The demographic profiles of the respondents have been included so as to establish their significance on participation in ROSCA. The demographic information of the respondents is summarized in table 5.

Table 5: Demographic information of the respondents.

	MASERU		QUTHING	
PROFILE	**NO. of Respondents**	**Percentage (%)**	**No. of Respondents**	**Percentage (%)**
Age : 20 – 29	3	18	1	9
30 - 39	6	35	3	27
40 – 49	8	47	5	46
50+	-		2	18
TOTAL	**17**	**100**	**11**	**100**
Gender : Male	2	12	-	-
Female	15	88	11	100
TOTAL	**17**	**100**	**11**	**100**
Marital status: Single	1	6	-	-
Married	12	70	9	82
Separated	1	6	-	-
Widowed	3	18	2	18
TOTAL	**17**	**100**	**11**	**100**

Lukhele (1990) established that participation in ROSCA is likely to be among women aged between 24 and 49. Table 5 shows that the age of the respondents ranged from 20-50 with the majority being in their middle ages (30-49), that is 35 percent and 47 percent for Maseru and 27 percent and 46 percent for Quthing respectively. The middle age group is the active population who need additional income to purchase durable goods, as a result they join ROSCAs as it helps them to save towards the purchase of such goods. Table 5 further indicates that there is a very low participation for the young and the old age group, only 9 percent and 18 percent respectively. The reason given is that as individuals get older, their income earnings decreases and contributions in a ROSCA could be difficult. This is consistent with evidence gathered by Buijs and Atherfold (1995) that as individuals gets older, it is probable that as a result of their past earnings, they have substantial savings and do not need to use the services of ROSCA to help them purchase durable goods. However, they might join ROSCA to increase their social capital.

On the question of gender, it was established that there were more females than males who participated in ROSCA as depicted by Table 5. Female participation in the current sample was 88 percent for Maseru and 100 percent for Quthing. While there was only 12 percent for males. While some respondents said that this was by chance, others commended that it was deliberate arguing that women understands each other better, while men are not trustworthy, a requirement for membership in ROSCA associations. Formal banks in Lesotho do not keep gender segregated data, however it was observed by the researcher that women in Lesotho are less involved in loan schemes through formal banking system than men as a result of strict operations of the formal banks.

Another reason was practically that women have less collateral and could not borrow from the formal sector. Lesotho is a patriarchal society whereby women are still regarded as minors by the customary law and require their husband approval to get loans from the banks. However women's responsibility of daily family subsistence compelled them to find means of coping. Task sharing between men and women is not equal and traditionally women end up bearing more responsibility and work than men in ensuring the survival of the family. Women must produce food, look after children and possibly generate income, hence their high participation in ROSCAs. ROSCA has therefore increased women's control over resources which were used to increase assets in the family.

In relation to marital status, results on Table 5 indicated that there were more married women who participated in ROSCAs, about 70 percent and 82 percent of the respondents from Maseru and Quthing were married. Only 5 percent were single while the separated and widowed participants made up 16 and 18 percent respectively. Anderson and Baland (1999) noted that participation for married women who work is higher than men. They explained this with a model showing that married women are likely to join ROSCAs than men because of their stronger preference for saving for durable goods. According to Burman and Lembete (1995) some clubs indicated that they do not want married women in their clubs as they were more likely to default on contributions pleading family problems whereas single people had fewer responsibilities. Others preferred married people as they are viewed to be responsible. The reason given was that a married woman has more strain on her own resources as she has to spend on maintaining the household hence she is likely to join ROSCA.

Education and Occupation

The educational background and the type of work that members do to earn a living play an important role in membership in ROSCAs. The education and occupation of respondents have been presented in the table below.

Table 6: <u>Educational and Occupational distribution of the respondents</u>

EDUCATION	MASERU		QUTHING	
	No. of respondents	**Percentage (%)**	**No. of respondents**	**Percentage (%)**
Primary	2	11	6	55
High school	11	65	3	27
Tertiary	4	24	2	18
TOTAL	**17**	**100**	**11**	**100**
OCCUPATION				
Formal	6	35	2	18
Informal	10	59	5	46
Unemployed	1	6	4	36
TOTAL	**17**	**100**	**11**	**100**

ROSCA attract individuals from different educational backgrounds as can be observed from Table 6. About 65 percent of the respondents had high school education, the average being form C while 26 percent for Maseru and 18 percent for Quthing had some primary education. Twenty-four (24) percent and 18 percent had tertiary education. Lesotho occupies the unique position in Sub-Saharan Africa whereby literacy rate is higher about 76 percent for females than males, (Population Policy, 2001). Matobo (1993) placed education as one important criterion in determining membership in these associations indicating that associations are formed along equal or similar educational levels as members have similar understanding. She stated that there are some associations which are purely run by low level educated members whereby the highly educated are viewed with suspicion and scrutiny that they will bring their sophisticated ideas to the association. In the current sample membership in ROSCA does not seem to sort along educational lines, ROSCA were established among professional women as well as those who had little formal education.

On the question of how the respondents earn a living, it was established that the informal sector employment dominate the responses as presented in Table 6. Sixty-three (63) percent for Maseru and 46 percent for Quthing were engaged in small businesses such as dressmaking and knitting, selling used clothes, brewing traditional beer and selling fruits and vegetables in the markets. The informal employment dominates the market in Lesotho totaling more than 70 percent. However in terms of eligibility to credit, this category is marginalized due to lack collateral. Those in the formal employment who make up 32 percent for Maseru and only 18 percent for Quthing of the respondents were in the public service. Those without formal or informal employment reported their sources of income as relatives and the miner's remittances.

4.3 Motivation for the establishment of ROSCAs

Respondents were asked to give reasons as to why they established and or/ join ROSCAs. They had various conceptions regarding their involvement in ROSCAs.

As pointed out earlier the formal financial institutions in Lesotho have very weak connections to the poor and women as they require collateral while micro lending industry is not suited for the majority of individuals without formal employment sine they are salary based, (Finmark Trust, 2003). Bouman (1977) in Ardener and Burman (1995) pointed out that "the most effective component and foremost reason for joining a ROSCA is through the regularity of small deposits which might be spent on trivialities, one is able to accumulate more sizeable sums for a worthwhile cause," (184). They also mentioned the strong social advantages in these institutions as compared to formal and other informal financial schemes. The respondents in this sample shared the same view. Their responses are presented in table 7 below.

Table 7: Motivation for involvement in ROSCA

OBJECTIVE FOR ROSCA ESTABLISHMENT	**No. of respondents**	**%**
• To commit themselves to saving	16	57
• To mobilize resources for start-up capital.	8	29
• Purchase durable goods	4	14
TOTAL	**28**	**100**

Table 7 depicts that about 57 percent of the respondents were motivated by the fact that through ROSCA they were able to save for different purposes. Their self reported reasons for joining a ROSCA during interviews were as follows;

"You can't save alone, it is easy to misuse the money."

"Sitting with other members encourages discipline to save."

> *"It is difficult to keep money at home as demands are high."*
> *"On my own, I could not have the will to save, but by putting regular contributions in the savings club, I knew I would be able to meet my commitments."*

The strongest argument for the establishment of these associations is to free the poor from the clutches of moneylenders with their interest rates by providing financial assistance and independence to each other. Women's responsibility for daily family subsistence encourages a high rate of immediate consumption of their savings. About 29 percent indicated that their main objective was to assist all those who cannot obtain enough capital for their small businesses to overcome shortages of cash in their business activities. However, as business cannot be separated from family life respondents indicated that business funds are often depleted to support family. Saving for the purchase of durable goods was reported by 14 percent of the respondents in the current sample. They indicated that it enabled them to acquire household items that they would probably not buy on their own. These included among others refrigerators, sewing machines and room dividers and some kitchen utensils. The respondents reported that since their involvement in ROSCA, their lifestyles have changed, they are able to take their children to school and support their extended families. As one member pointed out, *" I have realized that I did not make a mistake by joining ROSCA since it gives me something to take home"*

From what is known about the history of ROSCA in the developing world, their social purpose is clearly as important as their economic purposes. From their responses, participants indicated clearly that membership in ROSCA has helped them to establish relations of trust with other villagers and colleagues and has provided them with moral support. The respondents reported that they acquire social capital through ROSCAs. This empowered them, increased their status and self-esteem. These associations were also valued for its social interaction and leisure. Members know where they would meet with other neighbors or friends and the distribution of the pot was always accompanied by some form of refreshments which were provided by the host or in some cases contributions were made by members for that particular event.

4.4 Recruitment criteria

On the issue of how members were recruited to the clubs, it was established that the criteria for establishment or acceptance to a ROSCA were varied, primarily influenced by the ability to pay. Members were usually known to one another or at least vouched by a respected member, they must be from the same neighborhood, belong to the same church or work in close proximity to one another, (Thomas, 1991 in Buijs and Atherfold, 1995). Gugerty (2003) reported that ROSCA in Kenya identified that half the participants investigated the potential ability to pay by making an assessment of the individual's financial position as to whether she ran a small business or trade or had some other sources of income of which to make payments. Respondent's recruitment criteria are presented in table 8 below;

Table 8 : ROSCA Recruitment Criteria

Criteria	No. of ROSCA	Percentage (%)
Neighborhood/residential area and gender	4	57
Friendship and character	1	14
Occupation	2	29
TOTAL	**7**	**100**

From Table 8, 57 percent of the respondents especially in the rural areas relied on neighborhood or residential area as the criteria for membership. ROSCA do not want to accept members from too far away for the fear that they will not be able to attend meetings or make payments. Respondents reported that neighbors included members of different background as was the case with membership in ROSCA E in the sample whereby members included a teacher, civil servant, market women and some house wives. Another important criteria was friendship and the character of the member, trust plays a bigger role. Some ROSCAs, about

29 percent in the sample restricted membership to occupation, indicating that individuals of different backgrounds are found in workplaces

There are usually no formal procedure for selection of members into the clubs, all participants in the sample reported that prospective members must be recognized as honest and respectable. Over half the associations required that at least two members attest to the character of the prospective member. Participants indicated that they distinguished potential members by past behavior and their reputation in the community. Individuals without visible means of livelihood were not encouraged to join. The fact that ROSCA members are screened suggests that high levels of trust and reciprocity are necessary to sustain the ROSCA, a point emphasized by Rutherfold, (2000). The recruitment pattern since 2001 for the ROSCA in the sample is presented in Table 9.

Table 9: <u>ROSCA recruitment pattern from 2001-2004</u>

ROSCAs	**YEARS**			
	2001	**2002**	**2003**	**2004**
A	24	20	22	24
B	20	16	18	18
C	6	6	6	6
D	10	14	16	12
E	12	12	12	12
F	6	10	12	12
G	-	-	6	6

One of the common features of ROSCAs depicted from Table 9 is that membership appears to be very stable. It shows that for ROSCA A, they started as a group of twenty-four (24) but the following year the number dropped to twenty (20) but picked up again in 2003 and 2004, ROSCA B had twenty (20) members in 2001, the following year the size dropped to sixteen (16) and picked up to eighteen (18) in 2003 and 2004. ROSCA C limited their membership to six (6) and it never increased or decreased, ROSCA F started as a small group of six (6) but increased their size to twelve (12) by 2004, their reason was that there were potential members who wanted to join and they could not leave them out. If there are any reasons for a member to leave the ROSCA, that would be at the end of the rotation and another member maybe admitted then. The decline in membership is not due to lack of interest but the inability to keep up with payments due to death in the family, illness and loss of work. The longer an individual has stayed in a ROSCA the more desirable she is as a member since other members would know of her credit worthiness and trustworthiness.

The size of membership was crucial for the functioning of ROSCA. Some ROSCA in the sample reported to be very strict as far as the size of membership was concerned. They wanted to have a limited number and can only recruit when some members have left the club. Respondents indicated that they also preferred the size that balances the calendar year such that a member would receive a pot at least once a year. The rotation were renewable, even if some members drop out new ones are recruited by members to ensure continuity.

From the sample, the size of membership varied from six in small clubs to twenty-four in larger ones. Those that preferred small membership reported that it was due to the fact that in small ROSCA they get their turns quickly. Another reason could be the fact that membership depend on each others honesty, so in small clubs members get to know each other better than in a larger clubs. Those in larger clubs like to have bigger pots than when they were in small groups, though they also argue that chance of default becomes acute in larger groups.

4.5 ROSCAs Lifespan

ROSCA seem to have an unlimited life, once a cycle is completed a new one can start. The participants were asked of their ROSCAs lifespan to establish their sustainability and their responses are presented on the table below.

Table 10: ROSCA life span

Years of ROSCA's existence	Number of ROSCA	Percentage
2-5	2	29
6-10	4	57
11-15	1	14
TOTAL	7	**100**

Table 10 shows that ROSCA in the sample have existed for more than 2 years. About 29 percent have existed for an average of 3.5 years, 57 percent for an average of 8 years and 14 percent have existed for 11 years and was the longest in the sample. Respondents reported that ROSCA can expire as a result of circumstances beyond their control such as economic hardships and natural disasters.

4.6 HOW ROSCA FUNCTIONS

The way in which ROSCA functions could differ depending on the location or the purpose for which they were established for. The interest here was on how the ROSCAs were organized and other formalities of the clubs which included among other things frequency of the meetings, contributions, order of rotations, record keeping and dealing with delinquency.

The common feature of ROSCAs is a periodic pooling of fixed contribution to a common kit which is immediately handed over to members in rotation according to pre-agreed sequence based on need before the ROSCA begins. It was also indicated that the simplicity seems to be the main key to success in these local financial organizations as they tend to have clearly delimited membership, they use strict and regular meeting schedules, standard contributions and standard fines. These features were clearly evident in the clubs that were investigated in this survey.

4.6.1 Regulation

Members make rules and join associations that fit their employment conditions, income flows, savings and money needs. ROSCAs that participated in the study operated on an informal basis and their operations were based on common practices and conducted entirely on trust and goodwill of members. Seventy-one (71) percent of ROSCAs in the sample had some form of basic rules observed by all though not formally written, they were communicated to new members upon joining the clubs. This was encouraged by the fact that the regularity in contributing is regarded as obligation that must be met by all even in the existence of other pressures. One member stated that ***one of their rules is that members may not arrive late for meeting and those who did were fined***. Only 28 percent of the associations in the sample had written bye-laws regarding admission, withdrawal, absenteeism, lateness and default. The attendance to the meeting was essential to reinforce the group's relationship of trust and unity as they operated on the basis of the group decisions. Failure to observe the rules resulted in members being fined. The fines differed for all the association but the minimum was M2.00 and maximum of M10.00.

4.6.2 Structure and record keeping

These associations were rather characterized by formal leadership even in small clubs, as was reported by one member of a six membership club. All of them reported to have the chairman who in most cases was the organizer who records all transaction receives payments and records loan disbursements. The organizer was also responsible for the organization of parties which were normally held at the end of the rotation. In most cases there was no cash incentive for the chairperson. Some participants reported that their associations have committee comprising of the chairperson and secretary/treasurer who records all transaction, hand over the collections and maintain attendance. Even in the presence of such structure, the decision were made by consensus. The leaders were elected among members on the basis of perceived capabilities and tenure of office was 1 year equivalent to the round. However, re-election was possible for those members whose performance is satisfactory. In compensation of her services, the ROSCA leader enjoys the benefit of being the first to get the pot.

On the question as to whether the associations kept records, majority of the respondents reported that they did not keep the records because payments were made publicly at the meetings whereby all can witness and funds were immediately handed over to the recipient. Some indicated that the only records that were kept sometimes by the organizer or secretary were those generally concerned with loans and schedule of installments, attendance, interest calculations and some decisions that were made during the meetings. No receipts were issued in all the clubs.

4.6.3 Meetings

The anthropological literature Hospes (1995) emphasized that the frequency of meetings is correlated with the role that the ROSCA plays. If they play a social role, they are likely to be fortnightly or monthly, while those that were meant for savings tend to be daily or weekly. Where ROSCA plays a social role members meet at the time when they have gathered enough information to share with one another. In cases where ROSCA play an economic role the frequency is due to the fact that they need to accumulate funds for re-stocking in their business undertakings.

A feature of all ROSCA meetings in the sample was of course the receipt of contributions from members and the handing over of money to the person whose turn it was to receive the pot on a face to face interaction on weekly, fortnightly or monthly basis as presented in the table below.

Table 11: ROSCA meeting preferences

Order of rotation	**No. of ROSCA**	**Percentage (%)**
Weekly	2	29
Fortnightly	1	14
Monthly	4	57
TOTAL	**7**	**100**

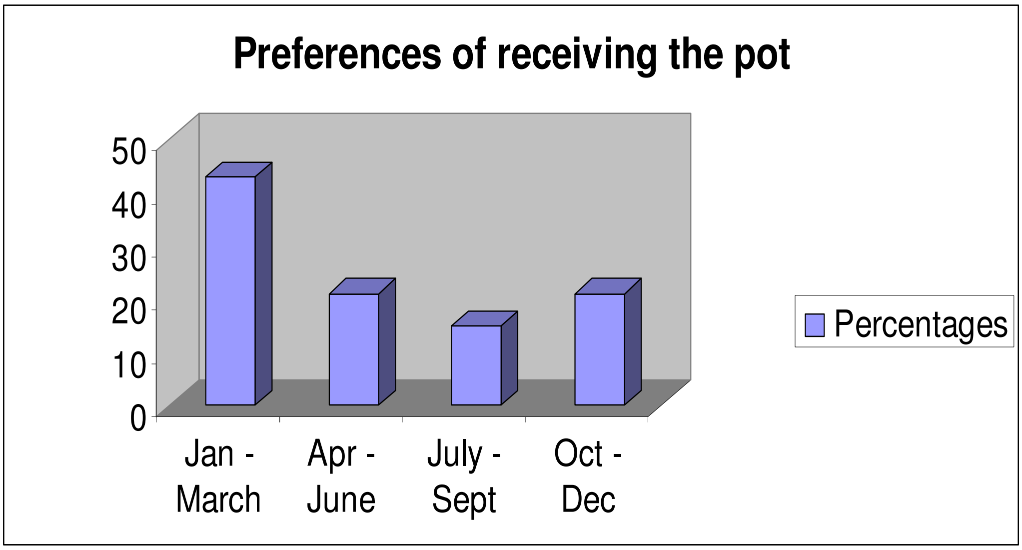
Table 11 shows that 57 percent of ROSCA respondents in the sample stated that their clubs prefer to have their turns on monthly basis, the time that coincides with the payment of wages/salaries for those in the public and private departments. Fourteen (14) percent preferred fortnight and 29 percent favored weekly interval payments and they were found to be in the market since it helps in restocking for their business activities. Respondents reported that meetings were normally held at the home of the recipient on Sundays afternoon, a day which seem to be convenient for neighbors and friends whereas workmates normally meet during lunch or after hours at their workplaces.

4.6.4 Order of rotation and preferences in receiving the pot

The order of rotation which is a basic feature for all ROSCAs can be determined by mutual consensus, drawing of lots or by bidding. In the current sample, the order of rotation that was highly preferred was the one determined by mutual consensus in response to the financial needs of individual members. Before the ROSCA could begin, all members attend a meeting whereby each member chooses the month in which they prefer to receive the pot. As a result, members enter the ROSCA knowing the month in which they will be receiving the pot. However, there is some form of flexibility in the clubs in which changes can be made in the rotation to accommodate the emergencies of members but the group has to attest to that. This does not guarantee that members will always access funds as and when they needed them.

Participants preferred to follow the calendar year and start their contributions in January and end in December. However participants have different preferences timings for receiving the pot. Buijs and Artherfold (1995) noted that the advantage of receiving the pot early is that members are effectively receiving an interest free loan, while those who get their turns late in the cycle are effectively paying interest. They further added that there was some reluctance to have turns in the early months such as January to March for the fear that at the beginning of the ear funds are low after the expensive Christmas season. This was not common to the respondents in the current sample as illustrated in figure 2.

Figure 2 : Monthly preferences for receiving the pot



From figure 2 about 48 percent of the respondents in this sample preferred to have their pot early, which was from January to March, since when funds are low after Christmas holidays there is high demand for cash as this is the time when school fees for the first quarter were due. This differs with the results by Buijs and Atherfold (1995) who indicated that early months are least favored in the rotation for fear that at the beginning of the year funds are low and this could mean high default and therefore small collection. April to June season is the time for payment of second quarter and the time whereby members can invest into their business as is the harvest season and food are in abundance. July to

September is the planting season and there is still enough food in the households and the least favored to have the pot. The festive appears to be much favored as it is the time when individuals need to spend money on all sorts of entertainments and buying Christmas presents for their families.

4.6.5 Contributions

A characteristic feature of all the groups was to mobilize resource through regular compulsory contribution of cash. The size and frequency of the contribution was balanced against number of members, the participant's ability to pay and use of funds. ROSCA may organize payments in several ways, through exchange of funds in face to face interaction or they may appoint a president to collect and allocate funds, (Gugerty, 2003). In the current sample, face to face interaction was the most common way of distributing payments.

The contributions depend on the earnings of the individuals. It was estimated that about 80 percent of paid employees earn less than M3000.00 per month, (Finmark Trust, 2003). According to Sechaba Consultants, (2000), the poor employ various strategies in order to make a living. The poor households do not only depend on money for their survival, they have assets, fields and livestock which keep them alive. The sale of livestock and products from the fields brought some income in to the household. However the production from the fields is declining due to among others shortage of arable land and soil erosion, there is also a high rate of stock theft which leave many households in poverty.

The poor also have strong social networks and get support from other people who are not so poor such as friends and relatives. Another source of income for the poor is the informal sector. About a quarter of the households are involved in some type of informal business which often brings a tiny amount of money. The government through work on construction projects, food aid and pensions is also regarded as one source of income for the poor.

The contributions for ROSCAs in the survey have been presented in table 12;

Table 12: <u>Membership contributions for June, 2005</u>

ROSCAs	**Amount Subscribed**	**Number of subscribers**	**Price amount**
A	200.00	12	2,400.00
B	100.00	18	1,800.00
C	500.00	6	3,000.00
D	200.00	12	2,400.00
E	250.00	6	1,500.00
F	50.00	12	600.00
G	100.00	24	2,400.00

Table 12 shows that in a club whereby each individual contributed M50.00, the recipient will take home M600.00, while in a club whereby 18 members contribute M100.00 the recipient will have M1800.00 at the end of the day. The largest contribution in this survey was a six member club (ROSCA C) whereby each individual contributed M500.00 making M3000.00 for the pot recipient.

Sethi (1995) emphasized that "a particular feature of ROSCAs patronized by women is that the total sum handled by them are relatively small, the interval between installments short and the discount bid where this occur small", (p173). This was found to be true with the ROSCAs in this survey such as ROSCA F whereby each members contributed M50.00. Contributions were fixed for the year and the basic amount was the same for all members. However, participants reported that there was some flexibility in the clubs such that some member may decide to pay additional amount depending on her financial position and that of the receiver. This member expects to get the same amount back when it was her turn.

Respondents also indicated that they have fixed dates for making contributions, for those clubs that meet on monthly basis the last day of the of the calendar month was suitable for everyone. Those who meet fortnightly and on weekly basis usually find Sundays of the second week and every week more appropriate. Some respondents reported that those who have not been able to make their contributions are given a grace period of one week, failing which actions was taken against them. Others insisted that they did not allow any late payments at all.

There were some factors that were mentioned by respondents that could lead to delays in making contributions. Those who relied on family and friends reported that sometimes the money they get is not sufficient for their contributions and they sometimes have to supplement it. Those who got husbands remittances complain that the money does not always reach them on time. The irregularities of cash flows in the small business were another reason for delaying to make payments. Contributions are paid at the house of the member receiving the pot.

4.6.6 Penalties for Defaulting

On the question on how the clubs deal with defaulting members, participants reported that defaulting threatens the stability of the associations therefore various measures were instituted to guard against such behavior. The possibility of default though typically low was always there. Defaulting can take various forms such as failing to make contribution before one could receive the pot or after one has already obtained the pot. In the former *"tit for tat* [2] mechanism was exercised.

The serious default was when the member failed to make contribution while she has already received the pot. In this situation various sanctions were imposed such as calling the member to explain her behavior in front of the whole group which was embarrassing, or showing at the member's home at odd hours which

[2] tit for tat means that if a member has not contributed for another, that particular member is under no obligation to pay when its her turn.

results in tension in the family and even conflicts, another option could be the seizure of property worth the amount owed and social exclusion was the last resort. Being excluded from the social networks that provide information and access to resources resulted in loss of reputation and this lowered the individual's ability to participate in other social and economic activities. Van den Brink and Chavas (1997) indicated that in Cameroon the existence of looser social networks in the urban settings result in enforcement mechanisms that rely less on community sanctions and more on forceful seizure of the delinquent member's property. The legal action goes against the philosophy of ROSCAs and is therefore not an alternative in case of default.

4.6.7 Lending to non-members

Respondents were asked as to whether they give loans to non-members, they reported that lending to non-members is a very risky undertaking in ROSCAs. Eighty percent of the associations reported that they did not borrow non-members their monies for reason that it would be very difficult to trace someone who is not part of the group and individuals behavior or honesty would not be known to the rest of the group. The remaining 20% reported that they do lent to non-members though in rare cases provided they were brought by a members who could guarantee the performance of such an individual and make follow-ups on them. The lending rate was 10% and 15% slightly lower than that offered by the commercial banks and other lending institutions as well as moneylenders who charged almost 50%.

4.7Benefits that accrue to members

Respondents were asked the benefits that have accrued to them as a result of their membership in ROSCAs. Respondents revealed that ROSCA winnings were used for both consumption and investment as indicated in table 13.

Table 13 : Utilization of ROSCA funds

Type of expenditure	No. of Respondents	Percentage (%)
• Household needs	20	71
• Used as a working capital	8	29
TOTAL	**28**	**100**

The results on table 13 indicated that the funds obtained from ROSCA were intended for a wide range of family subsistence and investment purpose in the businesses. Seventy-one percent was used on family subsistence. The two largest categories of household expenditure as reported by the respondents were the food and school fees. About 29 percent of respondents used their winnings as start-up capital for their businesses, this was because the low incomes of the poor did not allow them to save, invest and expand their activities beyond the barest means of survival. Small and micro-enterprises comprise nearly 90 percent of business activities in developing economies. However the problem with this sector is lack of access to credit from the formal institutions. Even-though ROSCA has answered that problem is still not enough as reported by participants since their savings were small. None of the ROSCA in the sample imposed restrictions on how the money should be used.

Respondents also reported the social role that ROSCA gives them apart from its economic value. Members indicated that they valued their clubs since they were forums in which they collect advice from other members and shared ideas both financial and social on how to use money constructively and how to solve social problems. These groups also help to improve the status of women in their families and society by increasing their self-esteem and confidence. In ROSCA, members, no matter what their class or social status is, find a convenient, simple and accessible means of satisfying their wants. Through ROSCA women feel empowered.

4.8 Challenges facing ROSCA

ROSCA like any other associations are faced with some challenges in their day to day undertakings. On the question of challenges facing their associations, respondents identified a number of challenges that were obstacles to their ROSCAs. They indicated that ROSCA rotational payments did not always coincide with the member's needs for cash. Poor people are most likely to be in need for emergency cash which could not be provided by ROSCA and they therefore had to resort to other sources such as moneylenders. The amount of savings mobilized by the rural poor and the informal financial institutions is very limited to make any significant contribution to the standard of living of the members.

It was also indicated that the rotating nature of the distribution system reduces the likelihood that a member will be able to receive her disbursement at the time when she can make the best use of the money, this means that members who unexpectedly need funds have to wait until the next meeting. The lack of flexibility is apparent in the loan amounts. Members received the same amount regardless of their precise needs. Therefore Bersely et.al. (1993) indicated that ROSCAs are not suited for insuring against risks because the fund can be obtained only once whereas shocks might occur several times during the duration of ROSCA.

In most cases ROSCA loans were interest-free. Saving money through ROSCA in periods of high inflation can be counter-productive to savers. Money would loose its value during the period of contribution cycle. In times of high inflation, the kind of investments that the group may consider must give quick and high returns, otherwise their savings will loose value rapidly. Matobo (1992) saw ROSCA as pooling of resources to combat an immediate problem without added benefits.

Their procedures are very simple and unwritten therefore the associations are not protected against fraud or embezzlement of funds. Although ROSCA acted as a stepping stone for the well-being and economic advancement of the poor by exposing them to small-scale financial methods, they have also opened windows of opportunity for some people to abscond with a lump-sum of money because of their allegal status.

Some members reported that lack of support from the government and other financial institutions inhibit expansion of their businesses. Since their collections are small, they needed to be incapacitated with other means to make their business more profitable such as being offered some credit as well as some trainings on entrepreneurship management.

4.9 Sustainability

On the question of what kept their ROSCAs going, respondents related their success to their ability to adapt to the local conditions. According to the respondents, the success of ROSCA depended on the honesty and trust of members to continuously make their payments. They even mentioned that they would rather default on furniture or other things than fail to make ROSCA contributions. However, member's ability to fulfill their obligation to contribute regularly depended on their sources of income. For those who relied on relatives and friends, it was sometimes very difficult to make payments as this source was unreliable and they sometimes got insufficient funds. For the self-employed sometimes business was not good, remittances from the miners were not sent at appropriate dates to be used for contributions. But ROSCAs flexibility nature catered for such problems, they could fix another date for contributions or allow the member some days to come up with the contributions. ROSCA can also allow some delayed payments in cases of emergencies beyond member's control such as death or sickness in the family or can allow the member to opt out of the current rotation and re-enter the ROSCA later.

As a way of limiting the risks of default, ROSCA placed the least experienced members or new ones near the end of the rotation. If circumstances lead a member to fail to pay her turn or worse to run off with the pot, social ostracism or exclusion from membership is often exerted on defaulters. This is a real hardship since ROSCA play an important social and economic role in the community.

According to Callier (1990) the logic of ROSCA is the logic of collective action not the logic of market hence the idea of interest rate was considered secondary aspect of the arrangement absent from the original idea of a ROSCA. Whereby the interest is charged is a very small percentage of about 10 percent compared to 30-50 percent charged by the moneylenders. The reason given by the respondents was that the idea was to encourage people to save, if they were charged high interest that might discourage them to save. However Matobo (1993) noted that absence of interest rates causes the cost of funds and inflation to be ignored.

4.10 Perception on ROSCA by other institutions

Institutions such as Banks, NGOs, Micro-lending institutions and the government through the Ministry of Trade, Industry and Marketing were asked how they view or perceive ROSCAs. It was established that the government has always had interest in providing financial services to the poor, but majority of the savings and credit projects failed due to lack of ownership and high delinquency. However, in 1992 the government instituted a Rural Finance Enterprise support Project to explore the development of rural savings and credit groups, ROSCA included, (Finmark Trust, 2003). The findings of the project revealed that these institutions are ideal for development. This led the government to consider ways of facilitating financial intermediation in these areas. Hence the Rural savings and Credit Groups scheme was established in 1999. The research did not have the experience to look at the scheme, however the participants did not seem to know about it.

The government through Ministry of Trade and Industry which is the key player in small scale businesses has never played any significant role with regard to the policy formulation as far as these associations are concerned. It was stated that they ought to register under the Societies Act of 1986, however, the implementation was minimal. When there are development projects to be undertaken, those associations are not taken into considerations, instead new groups are formed.

Formal institutions indicated that they do not offer any services relevant to groups such as ROSCAS for the fear that they do not have anything to offer as collateral and their transactions are small thereby increasing the administrative costs. However, they admitted that a lot of money is circulating in these associations, all they needed was appropriate financial intermediation that will cater for their needs.

NGOs which helped with credit provision, entirely concentrated on the provision of credit and savings and loan recovery mechanisms were forgotten. These institutions failed since they encouraged dependency. Therefore a lot of NGOS diverted their services to providing training.

Institutions indicated that linkage strategies with these associations could be vital since they already address some of the national problems of poverty and unemployment.

Summary

The chapter has presented the views of the respondents with regard to ROSCA. It was established that ROSCA are established by individuals regardless of age, education as well as occupation. The main reason for the establishment of these associations is the commitment to saving. ROSCA functions in a simple way and is not regulated however those no-written rules are observed by all. Funds obtained from ROSCA are used for consumption and investment have improved the standard of living of members and their families. The results also confirmed that ROSCAs are given little recognition by the formal institutions and government and this leaves them out in development undertakings.

CHAPTER 5

ANALYSIS OF THE RESEARCH RESULTS

5.1 Introduction

This chapter will take us through the analysis of the research findings derived from the field work and the literature pertaining to the research questions. The analysis method involved corroboration of information from both sources with the research questions, this will lead to policy implications.

The analysis will establish the importance of ROSCA on the poor through assessment of the need for establishment and participation in such structures. The analysis will also determine how ROSCA function to meet the needs of the member as this is crucial for their survival. The economic and social role of ROSCA will analyzed since they have an impact o their development.

5.2 Demographics and participation in ROSCA

5.2.1 Gender

Literature shows that women make up the majority of the poor population and the disadvantaged in terms of access to services including credit. Women therefore have few alternative ways to finance expensive purchases or capital investment yet such activities are necessary in their role of maintaining the family. The results on Table 5 indicated that female participation in ROSCA is on average 88 percent higher than that of male. This results from the fact that women's chances of accessing credit from the formal banks are minimal due to their minority status under the legal system, both customary and civil law. Women therefore join ROSCAs in order to display their ability to change the circumstances in which they find themselves in. The findings reflected that the main reason for establishing ROSCA is to get the strength to save. ROSCA is an answer to the financial requirements of the majority of individual left out by the formal institutions. Women are likely to save and borrow small amounts, a service which is often regarded as expensive by the formal banks as it increases administrative costs but through ROSCA women are able to save for emergency and predictable consumptions such as school fees, traditional ceremonies and productive investment.

Women are family caretakers and traders. They have proved beyond doubt that they have the ability to undertake such roles simultaneously. However they are concentrated in the informal sector constituting more than 70 percent with low or irregular incomes. These incomes do not allow them to save and invest to expand their businesses. Their involvement in ROSCA has afforded them an opportunity to supplement their meager incomes allowing them to formulate or expand their income generating activities thereby contributing to the wealth of the nation. This is an indication that access to credit allows women to become economically productive. When women's access to productive resources declines, more people suffer from poverty and its related effects such as malnutrition and illness.

ROSCA has also been regarded as effective in establishing women's power base. Traditionally, decision making is seen as men's role, as Mayoux (2000) puts it, although women play a part in production, men controlled the decision making. Even in development programs men tend to occupy the decision making positions. This has left a lot of women having an inferiority complex yet they play important roles in their communities. The findings suggested that within ROSCA, women tend to make decisions regarding the utilization of their ROSCA winnings therefore improving their ability to control their incomes. This has played an important role in increasing women's visibility at local and international levels.

Women also need to develop their own asset base, this is realized by the importance they put on savings provision and their involvement in ROSCAs. Through ROSCA women participate in the accumulation of property as some pointed out that they joined ROSCA to purchase the durable goods. This contributes to the enhancement of their status as inheritors of property which is traditionally a male domain.

ROSCAs are valued by women for their social interaction and leisure. While men can interact with one another at the pubs, women's interaction comes with their involvement in ROSCAs. ROSCA bring women together who did not previously know each other, and this provides a basis for development of information exchange and leadership skills. It was found out that during the meeting women along their contributions get engaged in discussions of different issues. The distribution of the pot is accompanied by some refreshments and there were some parties at the end of the round. This cooperation means a lot to women to the extent that even if one has left the group will continue with their friendship. This has also improved the status of women in the family and society as a whole.

The fact that ROSCA are controlled and management by women offers them opportunities for independence. They realize their potential in making decision without being dominated by men. Every member works very hard to be able to make contributions without fail, this shows that where people feel that whatever they do is for their own benefit, they take charge. This is very unlikely with government projects as people always look up to someone to take responsibility. To women, ROSCA provide the security and support that no bank can provide.

This implies a lack of gender- aware micro- credit and formal institutions. Women still suffer from inferior legal status, an obstacle that prevents them from participating and benefiting from the economic development equally with men. If this is fully addressed that will promote economic growth and reduce poverty. The productive role of women is overlooked in the economic analysis and policy formulation. This needs to be encompassed in all the national plans and reduce the gender-inequality. As World Bank (1995) indicated, "reduction in gender inequality can improve the well-being and productivity of the next generation. Extra income to the mothers has more positive impact on household investment in nutrition, health and education of children than extra income going to the fathers."

5.2.2 Education

Lesotho occupies a unique position in Sub-Saharan Africa with more educated females than males, (Population Policy, 2001). The results on table 6 show that participation in ROSCA does not appear to strongly sort along educational levels. It indicated that ROSCA attracts members from different educational backgrounds though the majority of the participants have completed their high school level. This educational advantage that Basotho women has not been taken advantage of nor benefited them as could be expected. Women continue to occupy the lower echelons in the job market and earn less than men. Despite their education, women are still found in large numbers in the informal sector employment whereby their ROSCA winnings are used as capital.

The advantage of different educational backgrounds in ROSCAs is that members gain both socially and economically through information sharing on different aspects of life be it at home or in businesses as their participation in seminars and workshops is minimal.

The implication here is that the fact that women make up the majority of the literate population form the basis upon which their position can be improved since education makes it possible for people to be more responsive and receptive to new ideas. The gender inequality that is experienced by women should be addressed as this has impact on their ability to contribute to development. This would enhance their social and economic status thereby contributing to the wealth of the nation.

5.2.3 Occupation

Occupation does not appear to be a strong indicator of participation in ROSCA. ROSCA have proved to be savings and credit schemes that suit the needs of all income groups. Individuals from the formal sector are just likely to participate in ROSCA as those in the informal sector or even the unemployed. This indicates that ROSCA is not necessarily meant for the economically deprived. Individuals from the middle and higher incomes also join ROSCAs. The results on table 6 revealed that the majority of ROSCA participants are found in the informal sector. This sector is neither organized nor regulated and therefore least favored by the formal institutions. A vast majority of businesses in this sector are operated with informal capital from ROSCAs, relatives and friends, not to mention loan sharks.

This shows that ROSCA members are credit constrained. Women cannot enter into contracts without the approval of their husbands. They therefore establish ROSCA since they do not through any stress negotiating with the husbands when they need credit. The informal sector is also regarded as the bad risk by the formal institutions as they lack collateral. With ROSCA collateral is often substituted by the trust embedded in membership. The small frequent loans offered by ROSCA are used as the working capital in the informal sector. ROSCA are therefore a result of general discrimination against women and informal sector members.

This has implication of the formal financial services policies. It shows that formal institutions do not offer services to the majority of the people. Given that the majority of women raise millions of Maloti through their ROSCAs, there is a need for financial intermediaries that cater for the needs of the informal sector. Government and the formal sector should think about establishing financial institutions that cater for the needs of the poor or alternatively incorporate their functions in development activities. Evidence has it that the informal sector can make an enormous contribution to economic development and poverty reduction given the chance to expand. The fact that the informal sector activities are run by women provides a valuable means for them to participate in the economic development.

5.3 Reason for involvement in ROSCA

Gugerty (2000) noted that ROSCA provides participants with the opportunity to safely keep their funds from both themselves and the demands of others, thus improving their level of individual financial responsibility. One of the frequent reasons for participation in ROSCA as revealed by table 7 is self- commitment to saving for the growing family demands. This indicates that a lot of people have the desire and ability to save, but there is lack of such facilities for them, the formal institutions regard small loans required by the poor as expensive to run in administrative terms. So ROSCA offers the poor a more congenial and better understood form of saving than formal banks. The formal institutions have always had the perception that the poor are not bankable. With their involvement in ROSCA the poor have proved that they are able to take and repay loans at the interest rates higher than those offered by the banks. Those attitudes must therefore be changed by understanding that the poor are bankable customers who must be offered services that adapt to their needs. The fact that ROSCA are repeated shows that members are hooked into savings.

Another reason for participation in ROSCA is the desire to speed up the process of accumulation of funds to purchase goods than it would be the case if saving alone. This forces members to buy goods even in the pressure of other family commitments which might force the individual to postpone a purchase if saving alone. The group follows up to ensure that the purchase has been made. Informants said that they would not have the will power to save on their own, and by putting regular contributions into a savings club, they knew they would be able to meet their commitments at the end of the year.

Individuals participate in ROSCAs in order to assist each other to set up their own businesses. This is because individual's efforts to initiate or expand their income generating activities are constrained by their limited access to credit and other financial services such as savings and deposits. With the small loans offered by ROSCA members are able to set up their income generating activities thereby improving their standard of living of the family and contributing to the wealth of the nation.

Formal institutions do not afford its clients an opportunity to interact socially. Involvement in ROSCA has helped members to establish relations of trust with other villagers or colleagues and gave them a sense of belonging. They build up social networks by interacting with peer. This humanitarian aspect has kept ROSCA members together. This empowers them socially and economically as by sitting with each other they learn a lot on how to deal with problems that they meet at home even in their business. These institutions can therefore serve as a basis for community development and empowerment of women.

The evidence suggests that ROSCA have reached a high level of outreach arising from the high participation rates of women even in the remotest parts of the country. This has implication on financial policies that if people are provided with savings services that meet their needs and are easily accessible to them, this could have high pay-offs in terms of savings mobilization and asset accumulation, a point noted by Gugerty (2000). There is a need to develop financial services that suit the poor's capacity to save. It is evident from the findings that participation in ROSCA does not link women to the mainstream financial system. This implies that ROSCA groups can be strengthened by linking them to banks and donor agencies in order for them to expand. This could serve as a basis for community development.

5.4 Recruitment

The continuity of ROSCA is important hence members go to great lengths to admit only reliable and trusted members following personal recommendations. The results on Table 8 revealed that ROSCA are formed among individuals who know each other better as neighbors, friends and colleagues. ROSCAs importance lies in its ability to successfully resolve information that plague other credit institutions. Members are investigated for their potential ability to make payments as well as their character. ROSCA know clients better than banks which reduce information costs.

Savings requires self discipline and it is ROSCA that has provided individuals with that self-control mechanism. Members honor their obligation to make payments than is the case with the formal institutions. Once the money has been given to the receiver of the pot it is often very impossible to withdraw it, but with the formal institutions individuals can withdraw the deposited money when need arises.

It is evident from Table 9 that ROSCA are strict about their membership size and their sizes are smaller. Members set the maximum limit of membership, ranging from six to twenty-four in the current survey. This shows that since these associations depends on trust, it is easier to manage a small group than a larger one. Where membership declines is not due to lack of interest but in most cases is the inability to keep up with payments.

Membership in ROSCA has helped members to achieve relations of trust and also provided moral support. ROSCA members are known to be reliable and trustworthy enhancing their prestige within and outside ROSCA circles. Social factors appear to be a critical element of ROSCA performance.

When developing rural financial systems there is a lot to learn from these institutions, the formal institutions can capitalize on these institutions by incorporating some of their screening mechanisms to cater for the demands of the poor and avoid the high information costs involved with the poor.

5.5 Effectiveness of ROSCA Operations

5.5.1 Regulation

It has been observed from the findings that ROSCA procedures are simple and clearly understood when compared to formal banks procedures that are very complex and requires some degree of literacy. ROSCA processes the loan immediately without any paper work as is the case in formal institutions. Their operations are not guided by any legal system and they have unwritten rules of conduct. However it was established that members observe all the rules. ROSCA rely on trustworthiness of members and apply social sanctions in case a member fails to meet their obligations. However the social connectedness embedded in

ROSCA can also make it difficult for members to enforce social sanctions. ROSCA members would not want to see each other suffering.

ROSCA operations are also flexible. Its flexibility allows it to operate even under negative shocks such as illness or death in the family and loss of work. They forgive members who have been affected by negative shocks to make payment at a latter date without any interest which could be the case with formal institutions. Another advantage that is found in ROSCA which is not found in any other savings and credit is that they maybe suspended in case of adverse shocks that affect all members and re-group afterwards.

To allow them to operate effectively, ROSCA should not be regulated nor supervised, but should be co-opted in development activities.

5.5.2 Meetings

ROSCA meetings provide an enabling environment for development activities of members. The first meeting is where the decision regarding contributions, size of membership and order of allocation are made. Table 11 of the research results depicts that members prefer to meet monthly, fortnightly and/or weekly. This results from their sources of income as in meetings is where funds are distributed. Those in formal employment prefer monthly meetings as their salaries are monthly based whereas those in the informal sector prefer weekly meetings.

ROSCA meeting are very important to members as they are able to express themselves without the fear of humiliation. In this meetings women network so much those outside ROSCA are often without such valuable information. These meetings are also celebratory events. The host is responsible for providing food at the meeting.

This shows that there is lack of institutions where women can express themselves. As such ROSCA can be used as forums for the women's development programmes.

5.5.3 Contributions

Contributions in ROSCA varied depending on the earnings of members. Sethi (1995) noted that "a particular feature of ROSCA patronized by women is that the total sum handled are relatively small", (p173). The results on Table 12 confirmed that contributions are relatively small for ROSCA in the survey. This can be due to the fact that women are concentrated in the lower echelons of the job market and their salaries are low, hence they use ROSCA funds to supplement their low income. Women also invest in less capital intensive activities whereby their profits are low hence their small contributions as compared to high budget ROSCA which are occupied by men, their contributions are very high, Verhoef (2001)

ROSCA allows individuals smaller loans that are manageable and suit their income levels. The high involvement in ROSCA indicates that many credit programmes do not suit the income levels of many individuals.

5.5.4 Dealing with delinquency

Default is seen as a direct threat to the survival of ROSCA and is treated accordingly. ROSCA are commented for their ability to address the problem of default as compared to other institutions. The most serious form of default is when a member receives her share of funds and leaves the ROSCA without making any further contributions. Harsh measures are taken against such individual, she maybe called to account for her behavior in front of the whole group which is embarrassing. Or a group would be send to her home to take her valuable assets leading to family conflicts.

ROSCA therefore prevents the chances of default by obtaining the information about the reputation, wealth and trustworthiness of the potential clients at a very low cost than banks and other institutions. ROSCA rules stipulate clearly that payments must not be missed. The cost of default includes social mechanism that extends beyond the domain of ROSCA into the community through the application of social pressure and social ostracism which affect the individual's social and economic aspect of life. As Van de Brink and Chavas (1999) noted, "while social pressure is certainly great, people do keep a sharp eye on the transaction costs evolved in enforcing payment as the costs of loan recovery eventually outweigh the benefits of compliance," (752).

Participants indicated that members honor their obligation so make payments to an extend that instead of defaulting members may get involved in dire actions, a point noted by Ardener in Ardener and Burman (1995) that "*a member may go to great lengths such as stealing or selling a daughter into prostitution in order to fulfill his obligation to his association, failure to meet obligation can lead to suicide.*"

It was indicated that likelihood of default is at the beginning year that is from January to March. This is the time after the expensive festive season and many individuals needs money for the payment of school fees. Some ROSCA avoid default by beginning their rounds after such period.

It is important to understand how ROSCA employ sanctions to prevent default as this can help other lending schemes.

5.6 Benefits of ROSCA

ROSCA have both economic and social benefit to members and their families. Participants reported that they joined ROSCA in order to get the strength to save for a variety of needs. The results on Table 13 indicated that ROSCA funds are utilized for a wide range of subsistence and investment purposes for the benefit of the whole household. ROSCA helps to build the habit of saving since the obligation to contribute regularly becomes a solemn duty and encourages members to save in a way they would otherwise not do. Through ROSCA members are able to speed up the process of accumulation funds than when saving alone, it also allows members to buy in bulk and negotiate discounts. This indicates gains in improved income, assets accumulation and educational and nutritional status lifting members and their families to a higher standard of living.

However, the table further indicates that a large percentage goes to consumption while investment takes a small percentage. This is due to the limited savings and the fact that it is always very difficult for members to separate business from family, therefore business funds are often depleted by family activities rendering them unprofitable. The estimated demand for financial services for the poor is far in excess of the available supply by the ROSCA and other informal finance.

ROSCA have also proved to have the potential to strengthen women's position within the household and strengthen their support networks and access to information outside the home. This has contributed to women's independence and empowerment.

The actions of ROSCA have proven to be instrumental in poverty reduction. Research by UNCDF (2002) showed that increases in women's income turn to have a more positive effect on family welfare as they allocate a greater share of their income to the family needs. This has proved to be true with the participants in the current survey.

5.7 Sustainability

ROSCA is a very flexible system of credit delivery whose survival relies almost entirely on the use of social pressure to ensure payment. The sustainability of ROSCA is drawn from the fact that members are trustworthy, they honor their obligations to make payments. The design of ROSCA is based on member's predefined financial goals, their financial needs and capacity to pay. Members set themselves short-term goals to be achieved within one round. Once the round is complete ROSCA may continue or disband, in this case members are free to join or leave the clubs at the end of the rotation or even establish new clubs with new membership. By seeking information about potential member's creditworthiness reduces the information cost which plague other credit institutions.

The sustainability of ROSCA seems to depend so much on existing dynamics of economic activity and flow of income. When economic circumstances are unfavorable the clubs can suspend their operations after they have completed the round and re-group again when economic circumstances have improved.

With the increase and availability of formal institutions ROSCA did not disappear but rather remained a mechanism of independent financial control for women. This implies that when designing the rural financial intermediaries the government must come up with the supportive framework after identifying the needs, capacity and constraints of ROSCA institutions.

5.8 Relations with other institutions

Formal institutions and NGOs seem to be aware of the existence of ROSCA institutions. In-spite of the adaptability and strength of these indigenous savings and credit institutions, there has been no concerted efforts by the government to work with them. NGOS have innovative and practical ways to identify the poor rural communities but have not worked with these groups.

Information on these associations is needed to give decision makers a clearer understanding of the financial needs of the poor. This is the chance to establish linkages with these associations in order to cut on the information costs and reach a large percentage of the population.

Summary

ROSCA are an important part of the informal financial sector which has played a key role in financial intermediary particularly for those who do not have access to formal sector opportunities, the women. ROSCAs have reached an impressive level of outreach in this category. However, ROSCA are not necessarily meant for the poor as members require reliable sources of income to be able to keep up with payments. ROSCA operations are simple, flexible and effective. ROSCA funds are used to meet consumption and investment needs however they are often barely enough to allow households to maintain a subsistence production level.

CHAPTER 6

CONCLUSION

ROSCA are the most important form of savings and credit associations of the informal institutions. They are an effective way of reaching the poorest since they operate in rural areas where markets and institutions providing savings and credit are non-existent. ROSCA ensures access to financial services at the best cost for the poor and are adapted to local conditions. Participation of the poor in these associations has been correlated positively with betterment of family welfare. These associations have helped many poor families out of dire poverty hence many find themselves hooked to them.

A primary purpose for establishment of ROSCA is to save and mobilize deposits. This collective action helps members to better achieve their social and economic objectives than if they were to save on their own. The social capital that ROSCA afforded its members is very important in the sustainability of the association and their individual advancement.

ROSCA are formed among individuals who are known to each other. This is crucial to the running of ROSCA as a way of preventing default. However this system can also leave a lot of potential members out. ROSCA members prefer small size of membership as it is manageable and easy to know each other in a small space of time.

ROSCA functioning is not guided by any legal enforcement and they rely on the trust embedded in members, this trust enables ROSCA system to function properly but has some limitations as members often find it difficult to sanction the defaulters. ROSCA meetings are regarded as social events with both social and economic gains for the members.

ROSCA members do not appear to be ambitious, their contributions tall with their income earnings. This has led them to leave a debt-relation life without having to resort to dire actions in order to get money to make payments. ROSCA are adapted to local conditions and their extensive flexibility allows it to function under adverse economic conditions. This flexibility is apparent in the organizational response to payment issues. In situation whereby members cannot make payment the order of rotation can be adjusted and where economic conditions are un-favorable the group can disband.

The savings mobilized through ROSCA are limited to the extent that the large share goes to consumption rather than investment. However their utilization have let to the improved standard of living of the members and their families. The social aspect of ROSCA has proved to be fruitful in terms of the economic and social advancement of members.

The role of ROSCA is crucial in the development process since their effectiveness can be enhanced taking into consideration the fact that ROSCA are unregulated institutions and any attempt to co-opt them in development strategies would require some sort of regulation.

ROSCA institutions have not received any recognition or support from the government because their impacts both direct and indirect are not well understood. This has left them out in development activities. If these institutions are to be relied upon in far- reaching processes, they must not be allowed to operate in isolation. Improving these associations would be an important development objective.

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APPENDIX 2

TOPIC: The importance of ROSCAs in Lesotho

QUESTIONNAIRE for ROSCA members

Demographic profile

1. AGE…………………………………………
2. Gender……………………………………
3. Marital status……………………………
4. Education…………………………………
5. Occupation………………………………

Rationale for the establishment of ROSCA

1. When and why was the ROSCA established?

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2. What are the objectives of your ROSCA?

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3. What is each member's commitment to achieve the objectives?

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4. What is the criterion for recruiting members in your ROSCA?

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5 Are there any restrictions on membership and why?

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6. What is the size of your membership?

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7. Any particular reason for that size?

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8. Would you say membership in your ROSCA is increasing, constant or decreasing? Give reasons for your answer

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How ROSCA functions

1. What is the legal status of your association?

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   …………………………………………………………………………………………

2. What leadership structure exists in your organization?

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3. Is there any form of record keeping in your association?

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4. How often are meetings called and where do you meet?

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5. What is the criteria for order of rotation in your ROSCA?

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6. How much do you contribute per sitting?

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7. Do you borrow to non-members, what is the criterion?

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8. What is the interest rate and why?

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9. What is the default rate in ROSCA?

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10. What forms of sanctions are available for defaulters?

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11. How effective are those sanctions?

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Benefits that accrue to members

1. What are the accumulated funds utilized for?

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2. Are there any restrictions on the use of funds and why?

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3. How many family members are dependent on your ROSCA savings?

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……………………………………………………………………………………………

4. Are you engaged in any form of a business enterprise?

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   ……………………………………………………………………………………………

5. Have you experienced any change in your business as a result of your ROSCA funds?

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   ……………………………………………………………………………………………

6. What is your average monthly income?

   ……………………………………………………………………………………………

   ……………………………………………………………………………………………

7. Are there any changes in your livelihood activities as a result of your ROSCA loans?

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8. What are the benefits of being a ROSCA member?

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9. What are the challenges facing your ROSCA?

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Sustainability

1. What are the strategies for medium and long term survival of your ROSCA?

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2. How does your association safeguard against defaulting?

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3. What are your internal control systems?

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   ……………………………………………………………………………………………

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4. What is your form of outreach?

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ROSCA and other institutions

1. Is your ROSCA linked to any other formal or semi-formal institution?

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2. Does ROSCA take account of government policy micro-credit?

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3. What are the general attitudes of these institutions towards ROSCA?

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QUESTIONNAIRE FOR THE INSTITUTIONS

Their perceptions

1. Are you aware of ROSCA activities?

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2. What is your role in promoting ROSCA institutions?

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   ……………………………………………………………………………………………………
3. Do you offer any kind of support to ROSCA?

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   ……………………………………………………………………………………………………
4. What problems do you encounter in working with ROSCA?

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5. What do you think should be done to promote these associations?

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