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ASSESSING THE SUSTAINABILITY OF INFORMAL SAVING GROUPS AS A SOURCE OF FINANCE FOR THE ZIMBABWEAN INFORMAL SECTOR

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ABSTRACT

Informal saving groups is an area that has been of interest to various researchers, especially in the African context due to the challenges being faced by various economies in terms of operations of financial institutions and donor funding. Various economic activities in third world countries are carried out by informal groups whose success has increasingly become a cause for concern. For example, Rotating Saving and Credit Associations (ROSCAs) and Accumulating Savings and Credit Associations (ASCAs) have contributed much to the social development of various economies due to their flexibility and less regulations. However, their sustainability has been of much concern as these are not extending beyond one cycle or they are there for limited cycles. The focus of this paper is to assess the sustainability of these informal saving groups and their contribution to the informal sector. Findings suggest that the continuity of these informal saving groups is being limited by economic conditions that are making it difficult for some business operators to continue participating in these groups as well as unemployment. Also some members are taking advantage of the economic condition to run away from their own obligations. It is argued that to ensure the survival of these informal saving groups, groups should have documentation and constitutions in place to guide their operations so as to minimise the risk of members defaulting payment of their dues and getting away with it. Participation by non-governmental organisations in these informal groups is recommended so as to promote the permanent existence of the informal saving groups and as a reference check of the operations of these informal groups.

KEYWORDS

ROSCAs, ASCAs, round tables, economic transformation, informal sector.

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INTRODUCTION AND BACKGROUND OF THE STUDY

Zimbabwe, a landlocked country in Southern Africa has gone through various economic and political transitions since its inception to independence in the year 1980. The country had to deal with difficult numerous transitions from economic meltdown, politics, economics, public sector administration, national security, regional and international relations as well as social economic development (Kiggundu, 2002). At such a time when the country was experiencing economic meltdown, the banking sector was not spared in the turmoil. Zimbabwe's financial services sector witnessed phenomenal growth since economic deregulation in 1991. However, this was short-lived as economic turbulences and political meltdown, took over the country since year 2000 creating a new and challenging environment (Muranda, 2006). Nine banks have closed since 2011 and this was attributed to weak and ineffective regulatory and supervisory framework, poor corporate governance, high levels of non-performing loans and concentrated ownership (Mhlanga, 2015).

The activities during the first decade of the new millenium led to the erosion of consumer confidence in the financial system, posing challenges to the viability of this sector as well as further segregation of the marginalised population of the society from using formal banking channels which in turn has a devastating effect on the economy as a whole. This group of people have turned to their own foam of solace of raising income for their personal projects as well as improving their standards of living which is known as 'round tables' which are referred to as either rotating savings and credit association (ROSCA) or accumulative savings and credit association (ASCA).

The informal sector has been growing due to the high unemployment levels in the country. Companies have been closing down and retrenching employees due to the harsh economic climate in the country. The survey carried out by (ZIMSTATs) in 2004 revealed that the employed population aged 15 years and above was estimated to be 5.1 million and of these 681 000 were considered to be in the informal sector. The same survey carried out in 2011 revealed that the employed population aged 15 years and above, was estimated to be 5, 4 million. Of these, 84% were considered to be in informal employment, 11% were in formal employment and 5% were in employment not classifiable.

A survey carried out by Finscope 2011 revealed that 31% of adults in Zimbabwe do not have a savings culture though the majority of people in the rural areas continue to save money outside the formal banking system due to limited banking products being offered (FINSCOPE, 2012). A follow up survey on the Finscope consumer survey of 2011 which was carried out in 2014 revealed that 7% Zimbabwean adults rely on informal mechanisms such as mukando or round, this entailed borrowing from friends and family, though it excluded any formal credit products.

Not only individuals are relying on 'round-table' money saving clubs but also small to medium enterprises (SMEs). A survey carried out by Finscope in 2012 also revealed that MSMEs have also turned to these round tables for solace as borrowing from the formal sector has proven to be challenging. According to the survey, 72% of MSME owners save. Of this 72%, 65% keep their savings at home, and 31% save with a savings club club (FINSCOPE, 2013). At least 17% save with a commercial bank, while 23% buy something and sell it later for profit. The main reason for savings relate to managing and growing the business. A similar survey carried out in 2014 revealed that 7% of the adult population relied on informal mechanisms such as Mukando or Round (FINSCOPE, 2014).

This alone is a reflection of what important role these informal saving groups haven taken in the Zimbabwean context, with particular mention to the informal sector where unregistered operators are housed. Research has shown that the informal sector is playing a significant role in human capital development as well as social capital development (Beck, 2012). However, these informal savings groups have their life cut shot as they are either run for one cycle or for a period not exceeding three cycles. Some of the benefits that are expected to be derived from these informal saving groups do not reach the fruition stage due to various reasons thereby affecting the participants. The study used a survey approach for the people in Mufakose, Harare to assess the sustainability of the informal saving groups as a source of finance of the informal sector. The paper first presents the background of the study in the introduction, which contextualizes the problem, followed by the statement of the problem, the main objectives, specific-objectives, literature review, methodology, and the research findings and lastly the conclusion and recommendations.

STATEMENT OF THE PROBLEM

In a time when the economy is facing challenges in the banking sector as well as employment in the formal sector, a number of individuals from the marginalised groups of society have come up with their own survival schemes as this is common amongst human beings. Despite the economic challenges facing Zimbabwe, people are developing themselves, starting up businesses and expanding on the existing businesses, and even in their homesteads through finance sourced from the informal saving groups. It is against this background that the study intends to research on the floatation of 'round tables' money saving clubs that have found their ways into various communities in Zimbabwe and assess their sustainability.

RESEARCH OBJECTIVES

1. To investigate the drive behind the floatation of round tables.
2. To assess the impact of round tables to the operations of the community and the informal sector.
3. To assess the sustainability of round table money saving groups as a source of finance for the informal sector

LITERATURE REVIEW

THE ROTATING SAVINGS AND CREDIT ASSOCIATION (ROSCA)

ROSCAs might have originated from cooperative work groups among farmers; petty traders, artisans, and factory workers, individuals who are risk averse, and whose saving capacity is usually modest (Ardener, 2014). They can be created by wealthy people as an expression of solidarity with their less fortunate kinfolks, neighbours and associates, amongst others (Ardener, 2014). In the United Kingdom, ROSCAs featured during the earliest movement of Asians settling in Oxford used their rotating *kameti* and *kuri* clubs to acquire down-payments for their properties (Srinivasan 1995). They also existed when the Eritreans also had their rotating of *iqubs* (Almedon, 1995) and the Caribbean people had their traditional clubs, known as *partners* in Oxford which helped them in acquiring properties (Besson, 1995).

In Africa, ROSCAs were first positioned by Crowther's (1843), among the Egba (a Yoruba, Nigerian people), who applied the term *esu* to refer to contributions (Ardener, 2014). Herskovitz (1947) also concurs with Crowther by establishing the use of the word *susu* in Trinidad inferred it had been taken there by Yoruba slaves. ROSCAs in Cameroon originated through a group of friends from up-country who usually met during the weekends to socialize through rotating *njangi* (Ardener, 2014).

Various researches have established that ROSCAs play an important role in various communities, especially in developing countries. They have proven prolonged existence, fighting with inflation and providing personal needs (Chigara & Mutesasira, 2001). They offer social benefits in a domain of growing anonymity and personal seclusion while providing stepping stones for the disadvantaged and the ambitious. In addition, ROSCAs alleviate budgets, while offering company in socially intimidating environments. However, despite their benefits, ROSCAs also have their own shortcomings which include members defaulting from paying their contributions regularly and members stopping to contribute when their turn of receiving the pot has passed (Hirschland, 2005). These limitations are contributing to the dwindling of the life of the ROSCAs when such are actually the source of income for members who operate in the informal sector. However, social sanctions are applied to deter such members from participating in further ROSCAs (Beck, 2012).

ACCUMULATIVE SAVINGS AND CREDIT ASSOCIATION (ASCA)

ASCAs are others forms of informal saving groups which are not similar to rotating groups, the money do not rotate; each member receives a share of any added value, according to their investment (Ardener, 2014). ASCA, is a term that was first introduced in reference to savings groups in which cash is not instantly withdrawn, but are left to mature for loan making (Bouman, 1995). In Africa, ASCAs can be traced back to the year 1993 where members of CARE's Matu Masu Dubara (Women on the Move) programme in rural Niger added their own improvements to the already standing and commonly used ROSCA model. This was done to advance the supposed Village Savings and Loan Associations (VSLA), which turned out to be the primary and most prominent ASCA. They then designed time bound links for rural women and soon extended the programme by training village agents that were hired by interested groups of women to train them the ASCA system. This promoted the fast spread of the ASCA system and other big Non-governmental organisations (NGOs) such as the Catholic Relief Services; Oxfam/Free-dom from Hunger, Plan, and World Vision soon adopted the system (Allen & Panetta, 2010).

ASCAs act as micro finance for the participants as they are independent from external financial sources or legislations governing them thus they can operate with very low transaction costs compared to other financial institutions. Group members agree on their individual investments and loan conditions, therefore individuals, no matter how poor can participate (Beck, 2012). In other countries, NGOs make use of ASCAs such as Mozambique, as a social tool to develop the marginalised sector of the society. Organisations such as World Vision promote groups through operations of a social fund, where members contribute monthly and can withdraw in case of emergencies, sort of an insurance system. Funds not exhausted at the end of the cycle, can be channelled towards a charitable cause such as buying school material for orphans (Wilson et al., 2010).

In comparison with savings groups in the formal sector, ASCAs also have their own shortfalls. They are unreliable source of finance compared to formal micro-finance institutions because members may not meet their designated investments or to repay their withdrawn credits to the group (Johnson et al., 2002). Security of the funds contributed may also be limited as cash might be stored in one member's house which can be prone to theft (Johnson & Sharma, 2007). Johnson and Sharma (2007) attest that there might be abuse of power by traditional leaders to dominate their associations and enrich themselves. Associations whose membership includes relatives and friends may be challenging to pursue sanctions in case of default, or to turn down a loan thereby creating conflict of interest between abuses of power. In addition, there is potential disturbance of the smooth operations due to unity thus rationalized accounting methods which should be introduced. These help to institutionalize doubt while the original trust among group members can be preserved (Johnson & Sharma, 2007).

SUSTAINABILITY OF ROUND TABLES

It is assumed that informal groups rely on social sanctions to solve their enforcement problems. However, in contrast institutional features of these informal groups serve in some part to prevent members from defaulting on their responsibilities. Reliable individuals tend to belong to ROSCAs where the order of the ranks is randomly drawn at each cycle and where members can request to change their rank if required. Also, fixed ROSCAs are more sustainable compared to random ROSCAs (Ardener, 2014).

GENDER AND ROUND TABLES

Research carried out has reflected that women are often dominant in ROSCAs. They play significant roles in the ROSCAs such as being chosen as treasurers for their prudence and reliability, less likely as presidents (Ardener, 2014). The interest shown by women demonstrates the belief that the association should be of joint benefit; since each participant has contributed to each lump sum, hence everyone will be interested seeing that it is wisely and suitably spent (Ardener & Burman, 1995).

SMALL TO MEDIUM ENTERPRISES (SMES) AND ROUND TABLES

SMEs have limited internal cash flow to finance their day to day business hence they require credit from banks that in turn demand collateral security (Paulet et al., 2014). In Ghana, SMEs can access finance from both the formal and informal markets (Domeher et al., 2017). The formal market includes the banks, micro-finance institutions and savings and loans institutions whilst the informal market includes but not limited to friends, families, moneylenders and ROSCAs and ASCAs (Domeher et al., 2017). In the UK, entrepreneurs place value on savings and informal means of funding though most SMEs depended mostly on financial institutions for assistance financially and less on their immediate families whilst in China it is the opposite (Hussairi et al., 2006).

In a research carried in Chinohoyi on ROSCAs and SMEs, findings revealed that SMEs considered the ROSCAs as a vital tool for funding sustainable Micro Enterprises. This is due to the fact that ROSCAs assists in smoothening business financial cycles as well as help in cash flow management. In addition, ROSCAs also enhance micro enterprise sustainability through pooling financial resources to one member per time period thereby facilitating recapitalization of enterprise (Mbizi & Gwangava, 2013).

ROSCAS AND ASCAS IN THE CONTEXT OF ZIMBABWE

Gumbo (1994) locates the existence of ROSCAs in Zimbabwe in periods backdated to over two decades and beyond where they were attributed by the lack of formalised security systems for the low income groups, particularly women of the Zimbabwean economy (Chigara & Mutesasira, 2001). Chigara and Mutesasira (2001) established the existence of ROSCAs and ASCAs in Zimbabwe in the early years of the 21st century.

Allen and Hobane (2004) carried out a research in Midlands on the impact of Income Generating Activities (IGA) on the livelihoods of people, with particular mention to Kupfuma Ishungu (KI). The study availed that IGAs had a positive influence on people's lives. A majority (86.76%) of the respondents in the study were women compared to men, of these 75% were married. In addition, the majority of the respondents had an age range between 20 years -50 years. It also revealed that housing quality had improved due to IGAs and the number of income generating activities per household increased by 45%. Household labour allocated to IGAs increased by 48% and loan funds tended to be used both for consumption and productive activities, with a bias towards production. All this shows a positive impact on the informal saving groups on the livelihoods of people as well as their income generating activities.

In a similar research carried out in Gutu on ROSCAs, findings revealed a positive impact on the livelihood of people who participated in the groups (Mushuku & Mayisa, 2014). Examples of the impact include ability to send children to school, entrepreneurial benefits, assets acquisition, insurance against emergencies, etc. Such enables people to manage attainment of human capital through educating children, physical capital by accumulating assets and financial capital as a resulting of setting up businesses. These findings concur with the findings of the research carried out by Chigara and Mutesasira (2001). However, the ROSCAs are also facing challenges such as members defaulting, lack and inconsistent payment, mismanagement of funds and fraud and also lack of finance to contribute regularly were encountered by ROSCA members. Such problems threaten the life of the ROSCAs.

METHODOLOGY

The researcher used the survey method. This is a widely accepted method that engages fact-finding. It involves adequate and truthful analysis of findings (Cooper and Schindler, 2003). The research was carried out by gathering data from primary sources in order to identify gaps and achieve the research objectives. A survey questionnaire was developed based on the research objectives. The questionnaire was divided into four sections: profile of the individual, operations of the informal group, benefits and challenges associated with being a member. The survey questionnaire was pre-tested using 10 participants of the informal saving groups. A total of 150 questionnaires were circulated through networks of co-workers, relatives, church members and friends and colleagues of acquaintances. A total of 102 of the distributed questionnaires were returned and of these 94 were accepted as complete for the purpose of data analysis. Focus group discussions (FGD) were also conducted to gather information on the operation of the informal saving groups. With relevant collected data, examination of facts was then conducted based on the research objectives and conclusions drawn.

FINDINGS

The results obtained from the survey through questionnaires are presented in this section. Table 1 show that the majority (62%) of the saving clubs are ROSCAs whilst the others are in the foam of ASCAs.

TABLE 1: NATURE OF INFORMAL SAVING GROUP

Distributed Questionnaires	Returned Questionnaires	Spoiled Questionnaires	ROSCAs	ASCAs
150	102	8	58	36

Source: Raw Data

THE OPERATION OF ROUND TABLES

The study revealed that the majority (62%) of the saving clubs are ROSCAs whilst the others are in the foam of ASCAs where the ratio of membership of women to men is greater (78%:22%) which concurs to Ardener's survey that when it comes to gender, women are the ones who mainly participated in these saving groups. Legibility of membership into these groups was based from one being a co-worker, relative, family member, acquaintance, church member business partner or a person who has an association with an existing member.

The research showed that a majority of the ROSCAs met only once at the beginning of the cycle to decide on issues such as amount of cash to be contributed, to identify and agree to the members of the group and the period with the money would be due as long as the length of the cycle (which was usually dependant on the group size). The ASCAs usually met once a week or twice a month to discuss issues pertaining to who has been given a loan and who has delayed payment and how much money the group had to date. For some of the ASCAs at the end of each cycle, a gathering will be held where members would contribute and the person chosen would host them.

DRIVE BEHIND THE FLOATATION OF ROUND TABLES

The research revealed that the factors behind the formation of these saving groups vary from one group to the other. The majority of the ROSCAs (64% of 62%) were created mainly for the purposes of savings, whilst 22% were created for the purpose of acquiring assets, 4% for insurance purposes, 8% for business purposes whilst 2% for other purposes. Of the ASCAs (48% of the respondents), the majority were created for income generation (38%), 32% for savings, 15% for business purposes, 10% for acquiring assets, 3% for insurance purposes, and the remaining balance(2%) for other purposes.

The above are revealed in Table 2 below:

TABLE 2: REASONS FOR CREATING INFORMAL SAVING GROUPS

Reason	ROSCA (%)	ASCA (%)
Savings	64	32
Investments	0	38
Acquisition of Assets	22	10
Business	8	15
Insurance	4	3
Other	2	2
Total (%)	100	100

Source: Raw Data

The findings also reveal that there are no costs attached to the operations of these groups but the costs that may cripple in are in the foam of bad debts of members who would have defaulting paying their dues. This has been common in the case of round tables that are operated by members who are employed in the informal sector. The informal sector members are attributing it to the state of the economy where business is not doing well and where people are also defaulting to pay the amounts due to them as well.

THE IMPACT OF ROUND TABLES

The research also revealed that the majority (58%) of the participants of these informal groups were employed in the informal sector and they engaged in business such as cross border trading, transport operators, selling vegetables (*musika*), hair dressers, operating tuckshops, etc. 26% were civil servants, 10% were employed in the private sector whilst the balance (6%) was unemployed at all. Of those operating in the informal sector, they were split as follows:

1. Cross-border traders (16%)
2. Operating *musika* (6%)
3. Hair dressers (4%)
4. Operating tuckshops (9%)
5. Flea markets (13%)
6. Transport (3.5%)
7. Other (6.5%)

The majority of the participants aired that they were benefiting from the informal saving groups, especially those that are in the informal sectors. Some of the reasons are that they get to have financial assistance in terms of emergencies and their living standards have actually improved due to the acquisition of assets and starting their own business as well as expanding their own businesses as well.

SUSTAINABILITY OF ROUND TABLE MONEY SAVING GROUPS

The study revealed that a majority of the participants had Ordinary level (31%), followed by diploma (28%), then degree (24%) and postgraduate (12%), and followed lastly by Advanced level (5%). This had a bearing on the operations of the group and its going concern. Only 44% kept records for their operations whilst 56% did not maintain any records. For those who kept records, they are maintained either by the group leader or secretary of whom the two play similar roles but just a difference of terminology.

The research revealed that 28 % of the groups were recurring whilst 72% were once off groups that did not recur. The ones that recurred were found in those groups that were formed by civil servants and it was definite that their salaries would be received month end. The reasons for the once off groups were cited as the following:

1. Different membership (12%).
2. Lack of trust amongst members (26%).
3. Members defaulting (32%).
4. Achievement of set objectives of foaming the group (2%).

The informal saving groups are facing problems in terms of some members defaulting to contribute their designated portion and repayment of loans. This in turn is having a negative impact on the operations of the cycles as well as the income for the groups. Since there are no formal procedures, recovering the money from the members who would have defaulted is proving to be difficult hence lack of trust amongst the members is declining.

CONCLUSIONS AND RECOMMENDATIONS

The study revealed that there is potential for the informal saving groups to contribute to economic development as various individuals and households are benefiting from such schemes. Informal traders are benefiting hugely as since their businesses are not registered hence they are not in a position to borrow from the formal sector. The informal saving groups are providing capital for new business ventures as well as expansion of existing ones which is improving on the operations of various traders. However, the challenges of some members defaulting has featured in many groups hence if not monitored it can lead to the death of these groups in the societies. The researcher is proposing that an Association be created by the City Council of Harare to monitor the operations of these groups so that some members do not benefit unjustly. The researcher is also proposing that Banks also partner with these groups (ASCAs) so that instead of the money lying idle when no one is borrowing, it be invested in the banks where it earns interest. Formalisation of these groups may actually reduce the risks of people defaulting in paying their dues. The researcher is also proposing further research to be carried out on informal savings groups as a tool for women empowerment as this research has revealed that a majority of the participants are women. In addition, further research may also be carried out on the role that NGOs can play in developing these informal saving groups.

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