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Factor affecting to the Rosca participation in Sri Lanka

K.G.N.W.Abeyrathna

ABSTRACT

Rosca is a more famous financial term among every kind of societies in the world. Rosca system has been identified as a social integration and economic wellbeing system in every country. Consumers of the Rosca system represent every social stratum and they have used the Rosca for growing financial requirements. This research paper assesses the economic factors analysis of the Rosca participants and focuses on the respondents of Nillambe village in Kandy District, Sri Lanka. A sample frame of 45 (N=45) was selected under the random sampling technique. Primary data were collected using face to face interview method with a comprehensive questionnaire. Respondents had to answer the 50 questions which were placed with a four Likert scale where (4=Strongly Agree, 3= Agree 2=Disagree, 1=Strongly Disagree) and 15 demography questions were also filled. As a research model, the descriptive statistics was used to present the result of the data. SPSS and MS Excel were used to analyze the collected data. The result of the research revealed that consumers of the Rosca are willing to use the Rosca due to the fewer documents involved, Money back guarantee, trust, and short duration of time. During the research, researcher had to observe new findings from the research such as, the Rosca system creating a social combination, a convenient method for fundraising for purchasing the long-term assets.

Key Words: Community, Financial System, People Rosca, Sri Lanka

Introduction

Rosca is one of the identical informal financial methods which has spread in the world. Being a most popular financial method this enhances the savings and unity of the society. Rosca refers to a circle or being circular, here Rosca members themselves are gathering and working as a cyclical method to get their opportunity. According to the historical and archeological details, Rosca has a long history. Some Sri Lankan Buddhist Birth Stories (Jathaka Katha) have recorded about the Roscas and in addition to that, China records a history of 3000 years, Japan 800 years and Korea 2000 years of history of the Rosca. As a worldwide financial solution, this has several cultural aspects, various methods, and different names. For example, Sri Lanka (Seettu), Japan(Ko), Tanzaniya(Upato), Ghana(SuSu), Indonesia(Arisan), Kenya(Matabi), Taiwan(Hui), China(Hui), Mexico(Tandu), Dhiktu(Nepal) can be cited. These countries have different kinds of indigenous characteristics of the Rosca system, for example Sri Lanka has Simple Rosca (based on Cash), Consumer durable Rosca (based on Utility Goods) and Auction based Rosca. Apart from the financial aspect, there are other attributes and characteristics of the Rosca such as people gathering themselves, (For example in Western Cameroon, people gather themselves with each other after the business of Rosca and they share food, drinks and enjoy), to develop the team spirit and helping to each other, to develop the leadership of the people, to keep the ancient financial intermediary system. Today formal financial institutions such as banks supply the services for the target market to enhance the profitability and goodwill of the company but Rosca system does not play such a role to serve any specific social strata or class and it serves each and every kind of social class. Simply said, Rosca members are not the only people who are poor or uneducated but also immensely rich and highly educated individuals too who are engage in Rosca. For example school teachers, university students, university lecturers and bank employees are members of these Rosca because everyone can participate in it without any kind of barriers such as economic, cultural or social. Members of the Rosca have various purposes for example to find the initial investment for the businesses, to ensure smooth cash flows and making dowry for their daughters, to redeem the pawned gold articles, for educational requirements and working capital requirements for the businesses. The organizer is the main character because he is the person who organizes and has the obligation to handle the Rosca. Organizer must find the members and he must collect money and pay the members in time. If certain members of Rosca neglect paying their installment, the leader must recover them or when anyone neglects the obligation to the Rosca the leader must find another one instead of the missed one and the leader should have the capacity to manage Rosca from the beginning to the end. Then each and every time the leader must manage Rosca very well because he has the

power to register the new members and terminate their membership as well. Firstly, the organizer decides the total value of the Rosca and then decides the number of members and decide he amount of money to be paid by each of members. In a village, mostly family members are the members of the Rosca and sometimes neighbors and friends are the members of these Roscas as well. Apart from them, as for other characteristics of the Roscas members do not gain any interest payment but each member can get an equal chance and no one can join later and the the leader should be responsible for every transaction. Money is offered to the members of Rosca under a system of lots drawn.

Research Question

- What are the influential factors for Rosca participation?
- What is the contribution of Rosca system for the country economy?

Objectives

The Main objective of this study is to analyze the factors relating to the Rosca system and how Rosca helps to meet the financial arrangements and moreover to analyze the impact of household savings of the Rosca.

This research also focused on the following secondary objectives.

- To find out the development of the financial literacy in Sri Lanka.
- To find out the impact of Rosca to fulfill the real needs and wants of the Low income families.

Literature Review

The rosca is a famous word in Asia, Africa, Latin America, and Russia and in every developing and developed country. Rosca is indigenous to most developing countries and widely used by those who have limited access to formal finance (Khan & Ali, 2021). Now Rosca is a famous word in every kind of social stratum not only in developing countries but also in developed countries. Rosca is popular in developing countries such as in America, Asia, the Caribbean and Africa (Besley, Coate and Loury, 1994). Chinese people have been using Rosca system for 3000 years doing small informal finance and some Roscas have been converted into commercial banks. Korea has a history of 2000 years of Rosca and Japan has a history of 1255 years of Rosca called Mujin Rosca. But Sri Lanka does not have any written records of the Rosca history.

For the rosca history. The historical record say the word “Seettu” derived from a protégées or a Dutch word. Now people have been using rosca for gaining money to fulfill their sudden financial requirements. Rosca is an important source of self-employment, job creation, innovation, and economic development. (Ahh, et al., 2016). Sri Lankan People are using Rosca to start business or small type of self-employment and for various types of needs and wants. For example one of the mothers said that she started the Rosca to make arrangement to buy the necessary pieces of jewelry for her daughter’s wedding and another small and medium size entrepreneur said that he uses Rosca to redeem his pawned jewelries from the Peoples Bank. Most of the villagers use these Roscas as a source or means of saving money because financial companies, such as Banks and financial service companies have neglected a lot of people living in rural arrears. Given the difficulty of accessing to banks and other formal institutions, many people find the Roscas to be an attractive alternative to save money for business investment and purchasing durable goods (Bouman, 1995) In rural areas, as people do not have access to the financial companies and as they lack financial knowledge and are not familiar with that banking culture they think Rosca is the best saving system for them. Roscas don’t have documentation or a complex bookkeeping system. Flexible financial management and no documentation system can provide stable funding for a long time. Many people use this Rosca system making the Lump Sum of money before the full amount is accumulated, to avoid transaction costs or taxes, or to enhance the social friendship (Baland, 2002). Although savings and loans from friends and relatives can provide start-up funding, they are not always sufficient for enduring business problems, such as smoothing cash flow. Local moneylenders can charge extortionate interest rates. (Madiga & Geoff, 2011). In this context then Rosca can be considered as self-help method for the financial needs and wants of the people. Small and medium entrepreneurs use the Roscas as a smooth cash flow method for their businesses because Rosca is not a loanable fund and if people try to get loans bank or financial companies for smooth cash flows they have to pay the interest to the said financial institutions and presently even blue-chip businessmen also turn to in the Rosca system around the world. Roscas are also found among South Asian communities studying at Oxford University in the United Kingdom (Hevener, 2006). For example Rosca are famous not only among the uneducated people but also among educated people, such as Sri Lankan school teachers, banking staff, university academic and non-academic staff members. Lots of village-based Roscas are organized by the neighbors and their friends because it is easy to collect the monthly contribution and easy to meet the neighbors. Rosca members are small and homogeneous. The Poor and the rich are usually having separate clubs (Bouman, 1995). In Sri

Lanka, there are Rosca systems among the commuters using the train transport system as it is easy to collect the monthly installments on their salary day, lots of office staff members are used pay their due month installment on time. Apart from the economic value, Roscas have sociological value. For example West Cameroon Rosca participants are getting and sharing colanuts. A group of people assembles usually at the behest of their leader or organizer (Smets, 2000). Rosca creates opportunities for people to gather themselves and for sharing life experiences with each other.

Simple or random Roscas mean each individual contributes a fixed amount to the total capital. Everyone contributes the same installment at each meeting to receive the same size of the total capital or to receive the lump sum or the total of the monthly contribution. Then there is no loss or net gain.

Consumer durable Roscas are popular among women. Here the participants receive consumer goods such as kitchen equipment, plastic basins and grain grinders for the total sum. The person who submits the highest bid for the rotation receives the total capital at the auction Rosca. Auction Rosca based on an open auction. Mostly this system is used by entrepreneurs to finance their business. Rosca system and its circulation has two major parties, the first party is the head of the Rosca which means he is the person who is handling the Rosca. First party is responsible for smooth functioning of the Rosca and he has authority to select the people. (Baland, 2002). The President of the Roscas is a famous personality or a sound person in the area. Sometimes he may be the richest person in the area. The second party of the Roscas is the members of the Roscas and they must pay their due installment on time, and if not the president has to pay the unpaid installment of members by himself for the Rosca winner. On the first day president summons members to a particular home or place. In Sri Lanka Rosca members are summoned to the president's home on a poya day or an appointed day for lottery or auction. Sometimes they use the negotiation system to distribute the Rosca. The fund can be distributed according to the agreed terms and conditions such as lottery, auction, seniority, negotiation, consensus, bribery or the decision of the organizer (Smets, 2000). But Sri Lanka doesn't have a bribery system in this regard and most people are using the negotiation method for the Roscas. Governments of some countries and central banks directly intervene and mediate for the in Rosca market. Because Rosca market is the main component of the informal money market and it can generate more money to the financial market. In most countries Roscas is a main contributor to the housing loan market and small and medium enterprises loan market. Due to that, some countries have started banking systems using the Rosca. In several countries the government intervenes to the control

the Rosca through the central Bank (Besley & Levenson, 1996). This is the case in India where Rosca can become registered as Non- banking financial institutions. (Biggart., 2001). But in Sri Lanka there are no rules and regulations for the Rosca.

Methodology

This research paper is based on a mix method study covering the Rosca systems founding in Sri Lanka. Data were obtained for this research from Nillambe village situated based 20 Kilometers away from the Kandy town in the central province. There is a co-operative village bank, Agriculture bank, Samurdhi Bank (recently called Divineguma Bank) and Sanasa society in this village and there are lots of Micro credit companies but villagers have to visit Galaha, Peradeniya, Kandy, Gampola Towns for the commercial banking services. The primary data required for this research were obtained using a structured questionnaire with 45 participants. The questionnaire consisted of 5 parts with demographic details. It comprises 40 quantitative questions and 10 qualitative questions. For measuring the relative performance of the respondents, they were asked to rate the questions on a five Likert scale. (1=strongly disagree, 2= Disagree, 3=Neutral, 4= Agree, 5= strongly agree). Random sampling method was employed to select the sample. Correlation analysis is used to prove the relationship of the data and SPSS and Microsoft Excel were used to data presentation and analysis.

Descriptive Analysis

This chapter consists of a descriptive analysis of the study. As the first step, univariate analysis was performed to demonstrate the composition of the sample by different characteristics of respondents. In bivariate analysis, two-way tables were used to demonstrate the association between two variables.

1. Univariate Analysis

1.1 Composition of sample by factors related to demography and finance

Table 1 shows the composition of the sample by the factors; gender of the person, education, religion, ethnicity, age of the person, monthly expenditure, savings from income, banks that are used for transactions, the age at which transactions were maid, monthly savings, having fixed deposits, Bank where fixed deposits are opened, satisfaction for the time duration of transaction, satisfaction for the benefit of transactions and advantages of Rosca compared with other transactions.

Table 1

Composition of the sample by demographic and financial factors

Variable	Category	Count	Percentage (%)	95% Confidence Interval for Percentage	
				Lower limit	Upper limit
Gender	Female	25	61.90	45.91	75.68
	Male	20	38.10	24.32	54.09
Education level	Primary	4	7.14	2.21	20.75
	Secondary	25	54.76	39.11	69.52
	Diploma	8	19.05	9.53	34.44
	Degree	8	19.05	9.53	34.44
Religion	Buddhism	39	88.10	73.64	95.15
	Catholic	6	11.90	4.85	26.36
Ethnicity	Sinhala	41	97.62	83.82	99.69
	Tamil	4	2.38	0.31	16.18
Age	11-20	6	7.14	2.21	20.75
	21-30	20	47.62	32.59	63.09
	31-40	12	28.57	16.60	44.57
	41-50	6	14.29	6.34	29.10
	51-60	1	2.38	0.31	16.18
Monthly expenditure	>100,000	38	90.48	76.44	96.53
	100,000 to 500,000	1	2.38	0.31	16.18
	500,000 to 1000,000	2	4.76	1.12	18.02
	< 1000,000	4	2.38	0.31	16.18
Savings from income	No	19	38.10	24.32	54.09
	Yes	26	61.90	45.91	75.68
Bank	Finance company	1	2.38	0.31	16.18
	Government bank	21	50.00	34.73	65.27
	Private bank	19	45.24	30.48	60.89
	Rural bank/SDB	4	2.38	0.31	16.18
Age started to make transactions	At birth	8	19.05	9.53	34.44
	age 17	19	38.10	24.32	54.09
	age 25	18	42.86	28.39	58.65
Monthly savings	No	11	19.05	9.53	34.44
	Yes	34	80.95	65.56	90.47
Having fixed deposits	No	18	35.71	22.34	51.76
	Yes	27	64.29	48.24	77.66
Satisfaction for the duration of the transaction	No	12	21.43	11.23	37.04
	Yes	33	78.57	62.96	88.77
satisfaction for the benefit of transactions	Dissatisfied	9	14.29	6.34	29.10
	Satisfied	36	85.71	70.90	93.66
Advantageous of Rosca compared with other transactions	Advantageous	19	38.10	24.32	54.09
	Disadvantageous	26	61.90	45.91	75.68

Source: Survey Data

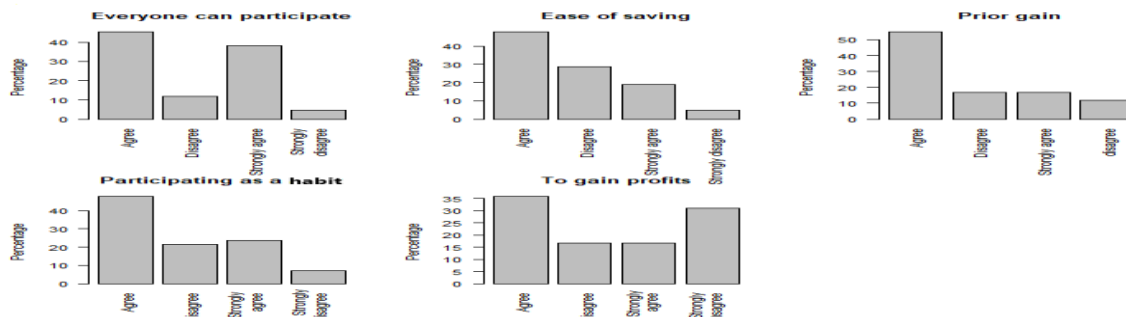
According to Table 1, about 62% of the sample consisted of females. The majority of the persons have studied up to secondary education level whereas the least number of persons have studied up to the primary. The highest percentage of the sample consisted of Sinhalese and Buddhist people and also about 48% of the sample consisted of persons whose ages were between 21 and 30 years. The monthly expenditure of about 90% of the selected sample was less than Rs.100,000 and the majority of people have savings from their income. About 50% of the sample used government banks for their transactions and the highest percentage of the sample has started to make transactions at the age 25 years. Furthermore the majority of the sample has monthly savings and fixed deposits as well and has satisfied with the duration and the benefits of transactions. About 62% of the sample stated that rosca was more disadvantageous than the other transactions.



1.2 Reasons for participating in the rosca

Figure 1

The agreement of the sample according to the reasons for participating in the rosca



Source-Survey Data

According to figure 1, the majority of people agreed that they participate in the Rosca because they have had prior gain.

Table 2

The importance of the Rosca – Quick access to money

Variable	Count	Percentage (%)	95% Confidence Interval for Percentage	
			Lower limit	Lower limit
Receiving money from the Rosca is very fast				
Agree	16	38.10	24.32	54.09
Disagree	11	26.19	14.76	42.10
Strongly agree	9	21.43	11.23	37.04
Strongly disagree	6	14.29	6.34	29.10
Documents are not required to get money				
Agree	17	40.48	26.34	56.39
Disagree	2	4.76	1.12	18.02
Strongly agree	19	45.24	30.48	60.89
Strongly disagree	4	9.52	3.47	23.56

Source-Survey Data

According to Table 2, higher percentage of people agreed that receiving money from Rosca is very fast and also about 45% of the sample strongly agreed that documents are not required to get money from Rosca.

2. Bivariate analysis

Table 3

Education level by gender of the person

Education level	Gender	
	Female	Male
Primary	2 (0.67)	1 (0.33)
Secondary	16 (0.70)	7 (0.30)
Diploma	2 (0.25)	6 (0.75)
Degree	6 (0.75)	2 (0.25)

Source- Survey Data

According to Table 3, females were more likely to have a higher level of education (degrees) than males.

Table 4
Monthly savings by monthly expenditure

Monthly savings	Monthly expenditure (%)			
	>100,000	100,000 to 500,000	500,000 to 1,000,000	< 1,000,000
No	75.0	12.5	12.5	0.0
Yes	94.1	0.0	2.94	2.94

Source: Survey Data

According to Table 4, about 94.1% of people who save money monthly have lower monthly expenses.

Conclusion

This research reviewed and summarized the previous research carried out by several researchers and academics covering both theoretical and empirical literature related to the Rosca systems and factors related to it. The literature review help designing the research questionnaire and other parts of the research. According to the chosen methodology, research was carried out to measure the relationship of the economic factors of the Rosca participants. The result of the research revealed that consumers of the Rosca are willing to use the Rosca due to the fewer documents, money back guarantee, trust and short duration of time. During the research, researcher has to observe new findings from the research such as, the Roscas system creating a social combination, a convenient method for fundraising for purchasing the long-term assets.

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