ABSTRACT

Despite of the growth of formal financial system gradually in our country, it surprises us that still informal financial system exists in our country. Of course it has its own advantages and disadvantages. This is perhaps because of poor institutionalisation of informal sectors, resulting to less opportunity for the people to take participates in formal financial institutions. Also since the formal financial institutions are unable to cater the need and demand of people at large, basically who belongs to low income group. Therefore for such types of people informal sectors still plays a dominant role in their life. And perhaps ROSCAs is one of most important components of informal financial sectors. Hence, the present’s papers mainly concentrate on implication of ROSCAs in human life.

Keywords: ROSCAs; Financial System; Pot; Random ROSCAs

INTRODUCTION

Informal finance market has a long history prior to the presence of formal finance market in the world and perhaps the main reason behind the strong application of financial services offered by the informal financial sectors is due to slow development of formal financial market in the world, especially in underdeveloped and developing nations. Same situation is also in the case of India, where informal finance markets are widespread popular among poor, low income group and rich people. However there are various other causes for the existence of informal financial sector in the economy, firstly, drawbacks of formal financial sectors due to which a large population is financially excluded from the formal financial sectors and for such group of people informal finance is an important source for enjoying the financial services.

Secondly, difficulties in obtaining the institutional credit, documentation, terms and condition, collateral etc. for people. Thirdly, poor functioning of the formal financial sectors, But we cannot set aside the significance of formal financial market in the economy. That is why; India is also a country where Informal financial practices are found among household, small scale enterprises in rural, semi urban and urban part of our country.

Size of ROSCA depend on the members ability to pay the periodical sum of amount to the organiser on regular basis until the last turn, in addition the size of ROSCA also depend on the size of membership, greater the members greater will be the term or size of ROSCA.
Informal financial market is said to be informal because financial transactions that occurs beyond the purview of government regulators is called informal finance. There are various types of informal sources of finance such as moneylenders, pawnshops, indigenous bankers, friends, relatives, trade associations, religious trust, rotating savings and credit associations etc.

There is no single evidence available for the inception of ROSCA on the earth but one cannot refuse from the successfully mobilisation of domestic savings in the rural, semi urban and urban areas in developing and underdeveloped countries, Jerome, 1991.

**OBJECTIVE OF THE STUDY**

1. To understand the nature and function of ROSCAs.
2. To analyse the impact of ROSCAs in the society.
3. To examine the sustainability of ROSCAs.

**REVIEW OF LITERATURE**

ROSCA fulfil the dual objective of a poor, low income, middle class or even rich household and promoting savings and credit among such people, Gugerty (2005).

According to Stefan, ROSCA is popular among high and low income households and flourish in economic nations where formal financial institutions are unable to satisfy the financial need of a large population. Hence, as an alternate to formal financial institutions ROSCA popularity is increasing in developing countries of the world.

ROSCA is a verbal voluntary informal association of person at local level who come together for the purpose of channeling the fund from savers to users of that fund and vice versa, Hovener in 1996 also ROSCA serve both economic and social function of a community.

ROSCAs are complex and vary according to the need and emergency of the members i.e. the formation of ROSCA is determined after keeping the interest of members. It has been observed that people who took participates in ROSCA have either no access or limited opportunity for obtaining external credit or credit from formal financial institutions, therefore they seeks such an institutions from where they can satisfy their need, Adnan (2002).

It is worth noting that the types of forming a ROSCA particularly depend on the preference and need of members, if the members have homogenous preference and income then they prefer random ROSCA and if members have heterogeneous preference and income then they prefer bidding ROSCA, Klonner, 1999.

According to Timothy (1994) the bid price goes on declining as the number of period of ROSCA increasing resulting number of members reducing till the end of ROSCA cycle. Bid auction can be proceeded in any of the way namely oral ascending bid auction, sealed bid auction, button auction, mobile auction, online auction etc.

ROSCA are designed primarily to encourage thrift and domestic savings among the interested members, thereafter mobilising ROSCA fund from informal financial institutions to formal financial institutions, Jerome, 1991.

In the words of Adam, 1995 ROSCA similar to banks as their operations are to accept deposits and give credit with interest, ROSCA also accepts deposits from savers group and provide credit to borrowers group at interest free till the end of ROSCA cycle, the reason behind referring ROSCA as banks is simple since both are the financial institutions who acts as an financial intermediary in the financial market.

Those who are in favour of establishment of ROSCA express their view about ROSCA social and economic domains based on local cultural concepts and values (Fessler, 2002)
ROSCA as an informal financial institutions received greater attention from the economists and finance group throughout the globe especially in developing and underdeveloped economies of the world, loury, 1994.

Empirical studies has shown that informal financial institutions having consistently low default rate as compared to formal financial institutions, Alex, 1997. The chances of default occurs due to asymmetric information released by the concerning parties causing moral hazards and adverse selection.

ROSCA can be meaningful or appropriate for any income group people. In other words ROSCA attracts to every income class people whether poor or rich, Alex, 1997.

To reduce the chances of default from organiser and member side, meaning non payment of ROSCA value and periodical contribution respectively by the existing members who have already taken ROSCA fund in that case organiser may ask collateral from members either any of them such as social collateral (guarantor), physical (tangible) or financial collateral like signed cheque book so that in case of failure of making payment by the members who enjoyed ROSCA fund, money can be collected on time.

And failing to pay remaining share on time, then the organiser or group of members can take fund from his bank accounts and compensate the same. Similarly in case of newly admitted members who are having the suspicious profile in this situation also organiser may ask him for producing such financial security against their membership.

Traditionally, ROSCA are popular in Asia, Africa and Latin America but now it is spreading in some advance countries of the world in the form of one of the sources of financing for household and small scale entrepreneur. Globally basically three main variations are found about ROSCA as discussed below: Kirton, 1996

Mutual ROSCA: such ROSCA is most popular which is primarily based on social bonding among the members.

Commercial ROSCA: it is less informal than mutual ROSCA in this ROSCA fund collected by outsider who initiate this scheme and then act like a bankers and obtain commision for performing such services as a bankers and attempt to optimise the mix of mobilised savings and loan allocated.

Financial ROSCA: it is approximately more close to the formal financial arrangements. In this interest is paid by the bankers who initiate the scheme in the in the form of commission or discount, given choice to members for determining the recipient of ROSCA fund in order wise depending upon their requirement, those who received ROSCA fund before their turn has to pay certain percentage of fixed interest on the borrowed amount (1.5%-2%) and those who have save received some additional benefit over their actual amount so contributed.

The operational framework of ROSCA is rooted in the close social links among members of the ROSCA which may be extended over family, neighbourhood, community, workplace or some other social entity. Truly speaking as far as ROSCA organisational and operational practice is concern it is easily accessible to members as compared to formal financial institutions.

Transaction cost such as time and travel cost, documentation, legal expenses and other expenses are low in ROSCA relative to formal financial institutions.

Originally ROSCA was limited up to rural areas but gradually due to commercialization and modernization it extended to urban areas. Sociologists, economists and anthropologists have done extensive research in ROSCA.

Countries and territories in which ROSCA are prevalent include Barbados, Benin, Bolivia, Cameroon, Chile, China, Congo, Egypt, Ethiopia, Ghana, Guyana, Hawaii, Hongkong, Mexico, India, Pakistan, Bangladesh, Sri Lanka, Nepal, Indonesia, Philippines, Jamaica, Japan, Kenya, Korea, Liberia, Malaysia,

ROSCA represents a verbal contract among social group who are voluntarily gathered together with a view to cooperate spirit on the basis of mutual trust and confidence for the purpose of satisfying sufficiently financial needs of their members.

The logic of collective action and mutual benefit in a rotation wise of financial resources has made the ROSCA a universal phenomenon, found all over the world.

The history of ROSCA existed before the introduction of money in the economy where the barter system were existed, in that time also people of villages formed ROSCA for grain in this members periodical contribution made in grain such as wheat, rice, corn and other paddy only but sooner due to monetization of economy barter system shift to monetary system.

In Japan the earliest records of ROSCA is traced out to 1275 century and in Korea may even go back to 9 century, in Africa the continent of most ROSCA culture existed in the economy in mid 11 century, ROSCA most popularly found in Asia, Africa and Latin America.

ROSCA existed in the developing as well as among immigrant group of developed countries due to failure of formal financial institutions to trap the informal financial market, but it is expected that ROSCA could be displaced when there is favourable economic development taken place in the country.

It is one of the stylized facts that in spite of widespread access to formal financial institutions still in some of the developing and developed economies informal financial institutions such as ROSCA coexist hence it is one of the interesting topics for comprehensive research. It is easily understood that the country where formal financial system is in dismal condition there, then people have to depend on informal financial institutions such as ROSCA since these people do not have much access of formal financial institutions but the country in which formal financial institutions system is full-fledged developed then by logically there should be no existence of informal financial institutions but against our thinking there indeed informal financial institution still prevalence in that country we have to think rationally for the existence of ROSCA in advanced economies of the world. The possible answer for the existence of ROSCA in rich countries may be because of certain households who have low income for them ROSCA is a primary or even the only avenues where they can save or obtain credit because formal financial institutions do not provide them platform from there can save and borrow.

**RESEARCH METHODOLOGY**

The presents study is completely based on secondary sources of data collection such as electronic resources, books, newspapers, magazines, annual reports of ministry of corporate affairs government of India etc. i.e. with the objective of successfully completion of ongoing study data are collected from published and unpublished sources.

**LIMITATION OF THE STUDY**

Firstly, there is an absence of good research in terms of quantitative way or empirical research work is not available satisfactory. Hence for the bright future of ROSCAs there is a great requirement of deep research which is missing in this study. Secondly, since the presents study is one of the important elements of indigenous financial system that is why there is no uniqueness in its practices. In short one can say that some variation is possible in its nature and functioning.

**CONCLUSION**

After going through the above study we can analyse the rationale of ROSCAs in our societies. The societies basically, comprising of poor, low income households and even rich people as well, because ROSCAs as an informal financial institutions operating similar to the formal financial institutions. As in the case of banks which accepts deposits from depositors and provide loan to the borrowers.
Similarly in case of ROSCAs which satisfy dual needs of its members. Net savers make deposits and net borrowers obtain easy credit. The main reason behind the existence of ROSCAs is of its flexibility and its transparency.

REFERENCES