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What Size of Opportunity Will Open to Banks That Penetrate the Small and Medium Enterprise (SME) Finance Market at Lahore? The Next Great Challenge for Enterprising Banks

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Abstract: SMEs' share in Pakistan's formal loan portfolio is 6.5%. They obtain bulk of their finances from informal sources. This study is intended to determine the size of SME finance market, the principal informal sources and the volume of finances they provide. Primary data obtained from responses of 433 SMEs to a questionnaire has been used. The SMEs were randomly selected from market committees' lists. The study found that entrepreneurs form Rotating Savings and Credit Associations (ROSCAs) for obtaining interest and Collateral-free financing. About 90% of the surveyed entrepreneurs retain membership in up to four ROSCAs each. ROSCAs distribute Rs. 468 million per month among the members. This amounts to an impressive Rs. 1.2 million to each SME. Pakistani banking system does not finance SMEs at such a rate. As a source of SME finance, banks' role is only marginal. The figures represent a significant market awaiting penetration by entrepreneur banks. Banks can use these findings to help position themselves for a more affective role in the SME finance market.

Key words: SME, ROSCA, finance, bank, market, source, entrepreneur

INTRODUCTION

The 3.2 million SMEs operating in Pakistan are the backbone of its economy (Aysan *et al*., 2016). A strong SME sector and a strong economy are complementary. SMEs need finances for seeding, running and for growth. The well-known sources for this are the banks. SMEs around the world have characteristics that render them unattractive to banks as business partners. Banks prefer to finance larger account holders. SMEs that have been unable to accumulate adequate internal reserves (retained earnings) and who do not have access to formal financing have to rely on some other non-bank source to cater for their financial needs. Pakistan's SME Development Authority (SMEDA) asserts that 80% of Pakistani SMEs fail within the first four years and that only one in twenty is in existence after 25 years. The share of small and medium account holders in the country's deposit base has risen from 59.9% in 2007 to 65% in 2011. During this period their share in the country's total loan portfolio has reduced from 32.3-22.1%. The share of the SMEs financing further reduced from 11.8% in 2011-6.26% in 2014.

Contradictionscan be noticed. On the one hand the SMEs' share of the total loan portfolio is reducing and is presently only 6.26%. On the other hand their share in the aggregate deposit base is increasing. The sector's disposable (deposit-able) income is growing in spite of a reduction in their share of the (formal) credit base. Since banks do not finance SMEs it is evident the latter have access to a convenient and widely available informal source of finance.

Despite its importance this informal source of financehas not attracted scholarly attention in Pakistan. The major objective behind conducting this study is to ascertain the nature and extent of penetration of this informal source of finance. A research objectivewas defined to assist the study. Research objective To examine the extent of penetration of ROSCAs in the SME finance market.

Literature review: Enterprises need finances for start-up (seed financing), maintenance and for growth. According to the Pecking Order Theory in Finance (Myers and Majluf, 1984), businesses prefer to use retained earnings in preference to raising debt. Since, many SMEs are small

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and have recourse to smaller reserves, external debt financing becomes necessary in case of a large need. Sources of (informal) external finance include ROSCAs (Sherazi *et al*., 2013). Sources of formal finance are banks, both interest-bearing (conventional) as well as Islamic (Beck *et al*., 2011).

ROSCAs are pervasive in Asia, Latin America, the Caribbean and in Africa. In Gambia, Cameroon, Togo, Liberia, Ivory Coast, Republic of Congo and Nigeria, between 50-95% of the adult population are members of one or another ROSCA. Nearly 10% of the GDP of Ethiopia is generated by ROSCAs (Kedir and Ibrahim, 2011).

In Bharat, the operation of ROSCAs is regulated by the Chit Funds Act No. 40 of 1982. In the 1990s, 25% of deposits in Kerala banks were held by regulated (registered) ROSCAs. In Tamil Nadu, they were 12.5% of bank credit during that period (Eeckhout and Munshi, 2004). The finances processed in Bharat through the regulated ROSCAs are 10-50% of those processed through banks (Santhisree and Prasad, 2014). In Chennai, Bharat, 2.2 million subscribers, many of them SMEs, subscribe to Shriram Chits, Ltd., to form ROSCAs. The Pot sizes range from Rs.10,000-5,000,000 and the cycles range from 6-50 months.

The unregulated ROSCA sector is reputedly larger. In Kerala state of India, it is estimated that the volume of savings mobilized in the form of un-registered ROSCAs is twice that in the formal sector. ROSCAs employ a number of methodologies to select the member who will be given the pot (winner). These include lottery (Random ROSCAs), bidding, prior decision and negotiation methods (Sandsor, 2010; Dagnelie and Lemay, 2012).

Involvement of interest under any name or in any form is expressly forbidden in Islam. interest is not involved in Random ROSCAs (Gamal *et al*., 2014). To this extent they are Sharia-compliant. This is confirmed by fatwas (edicts) issued by scholars such as Othaimeen and Baz. Unlike in the case of formal financing, ROSCAs do not require material Collateral and rely only on social or human capital of the member. Some of the ingredients of this capital are the individual's reputation regarding his reliability, trust worthiness and honesty. Participants' default rate is low. It is 1.6% in Chennai Bharat. The general default rate of SMEs in USA was 11.9% in 2009 (Huebsch, 2013). Anthropologists attribute the lack of defections from ROSCAs to social pressures and norms. Informal-random ROSCA members usually know each other fairly well. Exclusion resulting from deliberate and ill-intentioned default brings with it serious consequences (Tipape, 2011). These could be "loss of face" and reputation, stigmatization as well as not being invited to any future ROSCA (Guha and Gupta, 2005).

Since, material Collateral is not factored in to ROSCA operation, documentation for property ownership or transfer is not required. Deeds of association and other similar legal documents are also not necessary. ROSCAs are relatively simple and less expensive to operate. In the classic interpretation of Pecking Order Theorytime-related rent is not paid when using retained earnings. Similarly, raising debt means obtaining finances for which time-related rent has to be paid. ROSCAs can be considered to be retained earnings. Duration of a ROSCA cycle can be set before commencement to any length agreed by the members. If the size of the Pot is the same as that of a bank loan and the periods of both are equal, ROSCA financing is noticeably less expensive because interest payments are not involved.

In Pakistan the extent of reliance of SMEs on ROSCAs has not attracted the wide scholarly attention that microfinance has. Very few studies are available on this subject. The most significant is one by Khan. That study focuses on the use of ROSCAs by households and hints at their use by SMEs. Carpenter and Jensen (2002) reported that 30% of the urban and 20 per cent of the rural households in Pakistan practice ROSCA. The nature of ROSCAs operating among the sampled population as well as the extent of theirpenetration areinvestigated in this study.

MATERIALS AND METHODS

The study was carried out in Lahore city, the second largest in Pakistan. Itis the capital of Punjab province. Lahore contributes approximately 13.2% to the national economy. The target populations of this study were the cloth wholesalers in Azam Cloth Market, the electrical, electronic and computer wholesalers at Faisal, Siddique, Hall Road and Hafeez Center markets, the machinery wholesalers at Bull Road and the retailers across Lahore. These markets are >50 years old. Having practiced ROSCA and also used conventional banking for more than half a century, businesspersons in the market are quite aware of their relative advantages and limitations. It was believed that all issues relevant to this study will be encountered in these markets.

The sampling units were the SMEs. In most cases the units of analyses were also the SMEs. However, in certain stages of data analysis the SMEs were grouped together according to their years in business. This was done to examineexperiences of SMEs of different age groups. A Pilot study was carried out among 62 SMEs. The survey questionnaire was modified. Some questions were added to cater for the fact that many respondents participated in multiple ROSCAs. It was also observed that SME owners sometimes denied having participated in ROSCA. ROSCA periodic subscription rates as well as Pot sizes were sometimes under-reported.

RESULTS AND DISCUSSION

Bank loansOf the 433 SMEs surveyed only 40 (9.2%) had obtained a bank loan within the past five years. Banks have penetrated only 10% of the SME finance market. On average, 90% of SMEs do not use bank financing. Reliance on bank loans reduces with increasing age of SMEs. The noticeably greater reduction in the incidences of obtaining loans by the two oldest age groups may be attributed to accumulation of greater retained earnings and to greater reliance on ROSCAs. It may be more correct to say that these two groups do not applyfor loans from banks rather than that the banks decline loans to them. The reduction of incidences of obtaining loans by the youngest SMEs may additionally be attributed to banks' reluctance to set-up financing partnerships with start-ups. To this extent, the results obtained by this study are consistent with those of earlier ones. It is this age-group that Khawaja and SMEDA have attributed the highest exit rate to.

The reasons most frequently cited by the 393 respondents who had not applied for a bank loan during the last five yearsisthe inclusion of interest in the loan covenant.It was cited by 314 respondents (79.9% of 393 SMEs that did not apply) as being the deterring reason. Almost 83.7% of respondents (333 out of 398 quoted the presence of interest as the reason for avoiding it during the last 12 months. Most respondents offered the clarification that it was not the rate of interest but the fact that their faith expressly forbids dealing with interest in any form or under any name. It is pointed out that over a period of the past 5 years, 79.9% of the SMEs that did not apply for a bank loan, quoted the presence of interest in the loan covenant as the principal deterrent. During the last 12 months, the percentage has risen to 83.7%. The intensity of religious sensibility has intensified.

Participation in ROSCAS: Out of the 433 sampled SMEs, 386 (89.1%) held membership in ROSCAs. Of these, 234 (60.6% of 386) participated in only one ROSCA each. About 40% hold simultaneous membership in up to four ROSCAs each. The total number of ROSCA memberships is 628. The average number of ROSCAs per SME is 1.6. This is a measure of the greater popularity of ROSCAs as compared to that of banks. It is also a measure of SMEs' ability to set-aside a significant share of their working capital for subscribing to ROSCAs. This would not have been possible had the enterprises been subject to financial stress and to fail at the rate SMEDA propagates. ROSCAs have penetrated nearly 90% of the SME finance market and have effectively replaced banks for this functionality (Table 1).

Table 1: Participation in multiple ROSCAs and number of ROSCAs, sampled population

	Member of (how many) ROSCAs							
Variables	One	Two	Three	Four	Five	Six	Total	Nil
No of SME respondents who are	234	94	33	20	3	2	386	47
Total ROSCAs they are member of	234	188	99	80	15	12	628	

Worksheet 1, Q.1 (1. Are you a member or organizer of any Kmaytee?); Worksheet 1, Q.2 (2. The number of Kmaytees that you are a member of); for columns Five and Six: Questionnaire hardcopies, Q.2 (the number of Kmaytees that you are a member of is); grand total: 628 (max possible no. of ROSCAs); ÷20, members per 32 (min possible no. of ROSCAs); ROSCA; ROSCAs per = 628 ÷ 386 respondent≈1.6

Pot sizes: The sizes of the pots vary from Rs.20000 in poorer neighborhoods to Rs. 30 million in more affluent markets. The largest Pots are found when a member SME participates in only a single ROSCA. The sizes reduce with increasing numbers of simultaneous participations. ROSCAs with the smallest Pot size are the least frequent. Only 21 instances having Pots of this size were encountered. SMEs using even the two smallest Pot sizes do participate in up to four ROSCAs. This indicates that participation in multiple ROSCAs is not a quality of only SMEs with greater volume of retained earnings. Participation in multiple (three or more) ROSCAs is more pronounced in SMEs that participate in ROSCAs with pots of Rs.500000 or more. The investments made reduce progressively with higher order ROSCAs (Table 2).

SMEs, including those that are financially smaller, will participate in an additional ROSCA if an opportunity presents itself. Membership in four SMEs appears to be the cut-off point. Only three SMEs were found to be members of five ROSCAs while only two were members of six. No SME was found to have membership in seven or more ROSCAs. The greatest investment is made in the first ROSCA.

Financing the start-up phase: Start-up is the phase that requires the largest investment in terms of financing and social effort. The order of preference of using different sources for start-up financing is personal, family, ROSCA and lastly, banks. Banks are the least popular source of financing a startup. Only 59 (13.6% of surveyed SMEs) resorted to bank for financing start-up. The 5% of the respondents had relied entirely on ROSCAs to help finance their start up (Table 3).

This is a case of near-classic application of the pecking order theory. The bulk of SMEs' financial requirement for seed finance is satisfied by personal or

Table 2: Pot sizes and number of SMEs participating in them, from survey

	ROSCA No.1 (Q.No.10)		ROSCA No.2 (Q.No.23)		ROSCA No.3 (Q.No.36)		ROSCA No.4 (Q.No.49)	
Pot size (Rs.)	No.	Amount (Rs.)	No.	Amount (Rs.)	No.	Amount (Rs.)	No.	Amount (Rs.)
20000	11	220000	7	140000	2	40000	1	20000
50000	56	2800000	14	700000	5	250000	5	250000
100000	65	6500000	25	2500000	9	900000	1	100000
500000	159	79500000	66	33000000	22	11000000	8	4000000

Table 3: Indicate share of sources for start-up finance needs, percentage of total start-up needs

Variables	0-10	10-25	25-50	59-75	75-100
Personal	108	54	69	98	104
Family, friends	175	42	64	44	108
ROSCA	222	92	89	25	5
Bank	374	34	21	4	0

Qs 16, 17, 18 and 19, worksheet 1

family resources. Out of the 433 SME respondents, 325 (75%) used Personal and 258 (59.6%) used family resources for start-up financing. Time-related rent is not paid for them. Together, they correspond to the internal resources category of the theory. ROSCA financing also does not involve paying rent even if the pot is won at the start of the cycle. Considered from the time-rent perspective, ROSCAs are similar to internal financing. They are quite dissimilar to raising debt. This is borne out by the statistics. Out of the 433 respondents 211 (48.7%) used ROSCA financing. Only 59 (13.6%) resorted to bank financing the start-up phase.

Financing the running (maintenance) phase: There is a change in the ratiosin which different sources contribute to running-finance (Table 4). The most frequently resorted to source of running finance is internal retained earnings. ROSCAs are promoted and assume position as the second most frequently resorted source of running finance. They replace family as a source. Out of the 433 surveyed SMEs, 244 (56.4%) rely on ROSCAs for catering to their running finance requirements. ROSCAs provide from 25% up to (in 2 cases) 100% of their running finance requirements. Banks are the least frequently resorted source of running finance. Only 33 out of 433 (7.6%) of the surveyed SMEs used banks for this purpose. This compares unfavorably with 244 (56.4%) SMEs that have relied on ROSCA-derived running finances (Table 4).

Financing the growth phase: Lists the uses which ROSCA-derived finances will be put to. The most frequent use of ROSCA Pots is to help enterprise's growth (Table 5).

Investment in ROSCAs: Indicates the investments made by SMEs of age-groups in ROSCAs. The data shows amount of capital the participating SMEs can safely extract from their working capital and invest in ROSCAs (Table 6). SMEs younger than five years possess the resources and the disposition to participate in up to four ROSCAs. This indicates the pronounced popularity and easy access to ROSCAs as compared to banks. The investment provided by the first ROSCA (Rs. 283.036 million) is larger than those provided by the second and other ROSCAs.

ROSCA investment by the group younger than five years (Rs. 66.226 mn) is larger than the investment provided by the next older group (5-10 years). Investment in ROSCAs increases with age of enterprise. Most mature firms, those older than 20 years, have a per capita investment that is nearly three times that made by the youngest. This indicates that reliance on or the ability to use ROSCAs increases with firm age.

Access to finance, severity as a problem: Survey revealed that of the youngest SMEs, those having <5 years in business, 32.1% reported competition and 23.5% reported the adverse effects of electrical power load-shedding to be more deleterious to their operations than lack of access to finance (22.2% of 433). For this group, lack of access to finance was only the third-most injurious factor, after competition and electrical power load-shedding (Table 7).

For the next older age group, those between 5-10 years of age, lack of access to finance is demoted and assumes a position of even lesser significance. Only 17.3% of respondents reported it to be serious problem as compared to competition (33%), customers (26%) and Load shedding (19%). This relative distribution of factors that are injurious to SMEs is maintained for other age groups as well.

It was found that even fledgling SMEs, those younger than 5 years in business, possess the financial resources and the willingness to participate in up to four ROSCAs. This indicates the pronounced popularity and easy access to ROSCAs. The investment provided by the first ROSCA (Rs. 283 million) is larger than those provided by the second and other ROSCAs. Investment in ROSCA by the group younger than 5 years (Rs.66.226mn) is larger than the investment provided by the next older group (5-10 years). Investment in ROSCAs increases proportionately to age of enterprise. Most mature firms, those older than 20 years have a per capita investment

Table 4: Number of SMEs and fraction of running financing from sources

	SMEs who received fraction of running financing from source (up to%)					
Source	Nil	25	50	75	100	SMEs (number)
Personal	13	46	54	108	212	420
Family, etc.	299	72	46	11	5	134
ROSCA	189	136	97	9	2	244
Bank	400	19	11	3	0	33

Table 5: Use of ROSCA-derived finances

	Uses which SMEs put ROSCA-derived finances to (instances of membership)					
ROSCA	Running expenses	Inventory	Growth	Merge pot	Social	Total
ROSCA 1	103	81	116	56	25	381
ROSCA 2	31	66	228	35	17	377
ROSCA 3	5	9	21	4	14	53
ROSCA 4	3	7	4	1	5	20
Total	142	163	369	96	61	831
Percent of 831	17.09	19.61	44.4	11.55	7.35	100

Table 6: Investment in ROSCAs, based on age groups, (Rupees in millions)

			Pot sizes for ROSCAs no.					
SME age (years)	SMEs no.	ROSCAYes?	1	2	3	4	Total pot	Average, PotClm 8÷3
<5	81	75	42.376	16.410	4.720	3.120	66.626	0.888
5-10	98	90	44.180	12.800	5.360	0.300	62.616	0.696
11-15	94	83	63.660	28.176	26.89	1.550	120.276	1.450
16-20	127	102	102.930	41.975	11.31	8.300	164.515	1.613
>20	33	31	28.890	18.450	6.200	0.950	54.490	1.758
	433	381	283.036	119.811	57.08	18.22	468.123	1.223

Ages refer to enterprise' years in business

Table 7: Relative frequency of most pressing problems, expressed as percentages of total of age group

		Most pressing problem reported (% of Row total)				
SME age (years)	Total no. of SMEs	Customers	Competition	Access to Finance	Tax Dept.	Load shedding
<5	81	17.3	32.1	22.2	5.0	23.5
5-10	98	26.5	33.7	17.3	1.0	21.4
11-15	96	25.5	36	14.9	5.3	20.2
16-20	125	25.2	30.7	14.5	4.7	22.8
>20	33	33.3	12.1	18.2	1.2	24.2
	433	25	31.4	17.1	4.6	22.2

Ages represent enterprise's years in business; customers referred to defaulting customers

that is nearly three times that made by the youngest. This indicates that reliance on and the ability to use ROSCAs increases with firm age.

Volume of ROSCA economy: Volume of finances cycled by the ROSCA system is shown in Table 2 and 6. Every month, ROSCAs operating in the sampled population, finance their member SMEs to the extent of approximately, Rs. 468 million. When spread over the 381 SMEs that are ROSCA members, this translates to an average of Rs. 1.2 million per SME.

Uses of ROSCA-derived finances: Uses of ROSCA-derived finances are shown in Table 5. In nearly half the instances (44.4% of 831 membership instances) SME owners stated they intended to use the pot towards enabling growth of the enterprise. The second most frequent use (19.61% of 831) to which pot-derived funds were to be used was procurement of inventory. This was followed closely (17.09% of 831) with providing for running expenses of the enterprise. A significant number of SME owners (11.55% of 831) were members of multiple ROSCAs. Some stated they had sufficient retained reserves and intended to achieve greater savings through ROSCAs. Others stated they wanted to improve the probability of obtaining an early Pot. The smallest number (7.35% of 833) of the SME owners stated they intended to use the pot for "social" (non-business related) reasons. These usually included savings for forthcoming marriages, constructionor repairof homes, etc. The reason is somewhat different in case of very high-value (Rs. 10 million or more) Pots. In such cases, owners said they invest the pot in real estate. This is sold off when needed. Because of the trend of escalation in prices of real estate, the owners expect to reap a windfall profit in the transaction.

Table 8: Preferred source of external financing

Internal	Bank	Friends	Money-lender	ROSCA
Percent of 433				
36	20	49	1	327
8.31	4.62	11.32	0.23	75.52

Preferred source of future financing: The surveyed SMEs were asked to indicate their choice of a source of finance if they were to need external financing in the future. Three out of every four respondents said it would be ROSCAs. Only 20 (5% of 386) said they would access a bank for this purpose. This is only half the number of SMEs that had obtained a bank loan within the last 5 years. This indicates that recipients of bank finances would prefer ROSCAs over banks for a future transaction(Table 8).

The study reveals that only 9.2% of sampled population had obtained bank loans during the preceding five years. Instances of obtaining bank loans reduce with enterprise's increasing numbers of years in business. The most widely quoted reason for not applying for a bank loan is the inclusion of interest in the loan covenant. Over the period of 5 years, the number of respondents subscribing to this opinion has increased from 72.5% of the sampled population to 83.7%. ROSCAs finance 89.1% of the sampled population. Although most of the enterprises are members of only one ROSCA each, others retain memberships in up to four ROSCAs simultaneously. The average membership rate is 1.6 ROSCAs per SME. ROSCAs finance member SMEs in the range of Rs.20000 to Rs.30 Million. The most frequently encountered Pot size is Rs.500000. The greatest investment is made by the only ROSCA or the first of multiple ones.

When considering the SME finance market as a whole, Personal savings are the most significant source of seed finance. This is followed closely by Family and then ROSCAs. Banks are a distant fourth. The situation alters if the figures are decomposed to indicate source's shares in seed financing. When considering sources that provide up to 25% (only) of seed financing, ROSCAs have the highest number of instances. Banks are still at number four position. ROSCAs assume role as the second most popular source after Personal for supplying running finance. Banks continue to remain a distant fourth ranking source for providing running finance. The most frequent use of ROSCAs is to finance enterprise growth. This is followed by purchase of inventory and meeting running expenses. Every month, ROSCAs inject Rs. 468 million in the SME finance market of the target population. A greater part of this is generated by the first of several or the single ROSCA. The volumes generated by second, third and fourth ROSCAs progressively reduce.

When queried as to the source of external finance they would prefer in the future, nearly three quarters of them replied it would be ROSCAs. Only half the SMEs that had previously obtained bank loans said they would do so again. Banks have been side-lined as a source of finance and are operating on the periphery. It also indicates the potential of growth possible if banks can effectively penetrate this market.

The study makes a number of quantitative contributions to literature. First, it delineates the extents of penetration of banks and informal sources in the SME finance market. Second, it indicates the disposable (investable) reserves that SMEs extract from their working capital. Thirdly, the study examines whether SMEs may be exiting due to financial challenges. Literature investigating relationship between Pakistani SMEs, sources of financing and exit rate is rare. It is hoped this study provides the foundation for further research. It is also hoped it will be used by banks to help them penetrate further in the SME finance market.

About <10% of the sampled SMEs obtained bank loans during the past 5 years. Most of themmention the inclusion of interest, expressly forbidden in Islam under any name or form as the reason they avoid obtaining bank loans. Most respondents offer the clarification that it is not the rate of interest but its mere presence that deters them. From the perspective of the banks SMEs are denied loans for reasons. From the perspective of SMEs, they do not ask for them because another more suitable option is available to them. This option is ROSCAs.

An overwhelming majority of the SMEs rely on ROSCAs for financing. Most of them participate in multiple ROSCAs simultaneously. Subscription to ROSCAs requires finances that have to be withdrawn from the enterprise's working capital without jeopardizing business. The fact that sampled SMEs participate at this rate indicates they are not financially stressed.

Analysis revealed that lack of access to finance is not the most significant problem encountered by them. ROSCAs are capable of satisfying SMEs' needs for finances. Banks provide peripheral, almost negligible, financing.

Contribution to literature and policy: The banking sector is a crucial component of a nation's monetary system. In order to improve the health of Pakistan's economy it is essential that banks' penetration and share of SME finance market be increased. This can be facilitated if banks become aware of the characteristics of this market as well as the extent of penetration by their competition, ROSCAs. These aspects have not earlier been examined in detail and scholarly studies are rare. This study contributes to literature and to policy formation by exploring these aspects. The findings can be used to adopt measures that can increase banking sector profitability by enhancing its share of the SME finance market.

This study found that abhorrence of Muslim-owned SMEs to involving interest in their transactions is the principal reason the majority (almost 90%) of the sampled SMEs do not apply for bank financing. This factor has remained under-reported. If banks can develop an instrument for financing SMEs without the involvement of interest they can penetrate a large untapped market. Banks that can achieve this earliest will position themselves advantageously.

In the past, the size of the "black" or undocumented economy has been estimated using factors such as electricity consumption. A component of the black economy that has not so far been examined in depth is the volume of finances processed by ROSCAs. This study attempts to answer that question also. It will indicate the magnitude of the component of the undocumented (ROSCA) economy which commercial banks may penetrate advantageously.

CONCLUSION

Several other significant gaps in our knowledge of ROSCA operation remain unfilled. Khan reported the presence of household ROSCAs in a small city. Little is known about their operating parameters in that city or in a large industrial-commercial hub like Lahore. The numbers of SMEs that participate in ROSCAs, the sizes of the Pots, etcetera have not been studied or reported. These components are investigated and reported in this study.

LIMITATIONS

This study was carried out in the city of Lahore. Thirty nine different business sectors were included in the study. It is recommended that future studies be carried out in the city of Faisal Abad and concentrate on the textile manufacturing sector. It is also recommended that other studies be carried out in the much larger city of Karachi. These should focus on separate business sectors.

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