ROSCAs Role in Facilitating Control to the Unbanked: Evidence from Pakistan

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Abstract

This study investigated the role of Rotating savings and credit association ''ROSCA'' in allowing unbanked consumers to control and manage their routine financial matters and assessed the consequences of the Committee (i.e.ROSCA) system for unbanked consumers in the Pakistani context. Qualitative data were gathered from low-income unbanked consumers through semi-structured interviews. The study finds that the institutional culture and rules of Committees offer unbanked participants control over their everyday financial affairs and generally provide the unbanked an opportunity to address their vulnerability. However, Committees lack legally binding contracts and thus the possibility of fraud by Committee organizers cannot be completely discounted. Moreover, Committee institutions are unable to offer safekeeping services to their members, which raises concerns about the safety and privacy of money collected by a member from the Committee fund. Therefore, Committees cannot consistently ensure that the unbanked have the ability to manage their day-to-day financial affairs; thus, the unbanked individual could experience vulnerability. Finally, policy implications regarding the financial inclusion and wellbeing of unbanked consumers are discussed.

Key Words: Committees, ROSCAs, Consumer Vulnerability, Financial Exclusion, Unbanked, Pakistan

Introduction

A majority of the inhabitants of developing countries lack access to basic bank accounts. For example, according to the World Bank's Global Findex database, only 13% of Pakistani adults have a formal bank account (Demirguc-Kunt et al., 2015). The unbanked often rely on informal sources of financing, such as social networks, because mainstream financial institutions fail to deliver sufficient financial services to all segments of society (Callier, 1990). Certain social networks have developed in the form of informal institutions voluntarily created to provide communal assistance and achieve certain objectives (Katz and Bender, 1976). One type of major informal financial institution that is ubiquitous in developing countries is the rotating savings and credit association (ROSCA) (Aliber, 2001; Bouman, 1995a; Callier, 1990). ROSCAs operate under different names in different countries and is commonly known as 'Committee' in Pakistan (Bouman, 1995a).

The unbanked often experience vulnerability (Kamran and Uusitalo, 2016a), which refers to the occurrence of harm to them (Ståsett, 2007). Those who experience vulnerability often rely on their social networks to manage marketplace vulnerability (Wang and Tian, 2014). Consumers are vulnerable when they are powerless, lack control and are dependant in a consumption situation that has adverse consequences for them (Baker et al., 2005). The unbanked consumers' experience of vulnerability is manifested by their psychological, social and economic detriment (e.g., Kamran and Uusitalo, 2016a). Those who experience vulnerability attempt to find ways to address their vulnerability (Baker et al., 2005). The low-income consumers are not sole recipients of bad things from their environments. Sometimes they portray excellent skills to deal with stressful situations and to bring control to their lives (Hill and Stephens 1997). It is evident that unbanked consumers find it problematic to save money and to access short-term credit smoothly (Kempson and Whyley, 1999). Participation in ROSCAs, through which vulnerable consumers can save money and access short-term credit (Aliber, 2001), constitutes an informal response to the lack of access to financial services and represents a coping mechanism to overcome the issue of financial exclusion.

Extensive research has been conducted on ROSCAs from different perspectives and within the context of different countries. For example, studies have focused on the origin of ROSCAs (Bouman, 1995a); their mechanism for creating savings (Aliber, 2001); the possibility of risk sharing (Besley, 1995); their enforcement and role in the economy (Chiteji, 2002); their economic role and performance (Besley et al., 1993); payment arrears in ROSCAs (Ndjeunga and Winter-Nelson, 1997); and people's motivations for joining ROSCAs (Peterlechner, 2009). However, previous researchers have given inadequate attention to the role of informal institutions (i.e., ROSCAs) in helping the unbanked to manage marketplace vulnerability. This gap in the literature warrants the study of how the institutional characteristics of ROSCAs help to address vulnerability in the everyday lives of low-income groups who are at high risk of financial exclusion (Carbo et al., 2007; Kempson and Whyley, 1999). Therefore, this study investigates how Committees facilitate the control and management by unbanked consumers of their routine financial matters and examines the consequences of Committee systems for the unbanked individuals who participate in them.

Although financial exclusion is an important global issue, few marketing studies have examined this topic, especially from the perspective of unbanked consumers. Considering the views of the unbanked could facilitate the design of proactive strategies for both their financial inclusion and the fulfilment of their needs (Koku, 2015). This paper applies new institutional theory to explain how the institutional aspects of Committees facilitate the autonomy of unbanked consumers and reduce their powerlessness. Thus, this study contributes to both financial exclusion and consumer vulnerability literature and has implications for the financial inclusion and wellbeing of low-income unbanked consumers in Pakistan.

New institutional theory

The meaning of the term institution has been defined to include established "law, custom, usage, practice, organization, or other element in the political or social life of a people; a regulative principle or convention subservient to the needs of an organized community or the general ends of civilization" (Oxford English Dictionary, dated from 1551, cited in Baba et al, 2013,p. 76). Scott (2001) defines institutions "as multifaceted, durable social structures, made up of symbolic elements, social activities, and material resources" (p. 49).

ROSCAs are characterized by the collective action of community members whereby members follow institutional rules to pursue their collective goals of saving money and accessing short-term credit (Bouman, 1995a, 1995b).

Institutional theorists have posited heterogeneous organizations and endeavoured to identify the differences among organizational practices and structures (Child and Kieser, 1981). Contrarily, new institutional theorists offer a theory to establish reasons for the homogeneity of organizational practices and structures amongst organizations operating within the same field (DiMaggio and Powell, 1983). New institutional theories emerged in the 1970s and gained a great deal of attention, along with other lines of thought that emphasized the dependence of modern organizations on their environments (Meyer, 2008, p. 788). New institutional theory considers institutions from a sociological standpoint in order to assess how institutions work and influence society at large (DiMaggio and Powell, 1983; Scott, 2001). New institutionalism holds that (1) 'organizations are complex social actors whose behaviour is shaped as much by their cultural environments as by rational calculations and technical imperatives; (2) because compliance is culturally defined, organizations often react to their rule environments through symbolism as well as through substance; and (3) such symbolic displays can operate at the environmental level to foster institutional isomorphism and to channel the social construction of legitimacy' (Suchman and Edelman, 1996, p. 918).

Organizations adopt practices that are considered appropriate for their management in a given field by different parties within their respective environments, such as consumer groups, unions, organizations and the public (Greenwood and Miller, 2010). Hence, organizations seek legitimacy to operate effectively in their respective environments or social systems (DiMaggio and Powell, 1983; Suchman, 1995). Organizational legitimacy is derived from institutional forces, i.e., regulatory, normative and cognitive pillars (Suchman, 1995). Suchman (1995) defines legitimacy as a "generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (p. 574). Legitimacy is a socially constructed phenomenon and depends on the collective perceptions of a social group. It is not adversely affected by the reservations of particular observers about a single behaviour of organization. For instance, an organization could diverge from certain individuals' values but maintain legitimacy because the deviation draws no communal disapproval (Suchman, 1995, p. 574). The concept of legitimacy also explains similarities among the structures and practices of established organizations in a given field. This homogeneity is called institutional isomorphism, which is the process that renders one organization similar to other organizations that encounter similar environmental circumstances (DiMaggio and Powell, 1983).

To be socially acceptable, organizations must conform to the established practices and norms in a given field (Washington and Patterson, 2011). DiMaggio and Powell (1983) explain the regulatory, social and cultural pressures that an organization faces in its environment. The forces of these three pillars are the main predictors of an organization's growth and its reactions to different situational demands. DiMaggio and Powell (1983) call these institutional forces coercive, mimetic and normative, whereas Scott (2001) defined the three pillars of the institutional system as regulative, normative and cognitive. Nevertheless, both authors' explanations of the organizational pillars are similar (Ahlstrom and Bruton, 2010).

Regulatory pillars emphasize the enforcement mechanism, i.e., rule setting, monitoring and sanctioning activities (Scott, 2008, p. 54). Examples of regulatory forces include organizational policies and rules, as well as contracts and their enforcement through mediation and negotiation (Henisz and Levitt, 2011). The normative pillar encompasses prescriptive, evaluative and obligatory dimensions of social life (Scott, 2008, p. 54). Therefore, normative forces refer to the collective expectations of correct behaviour, e.g., norms, values and social exchange processes (Henisz and Levitt, 2011). Normative forces create standards to which organizations and individuals are expected to conform (Scott, 2008). Finally, cultural-cognitive aspects emphasize the shared ideas that form social reality and the frames through which meaning is constructed (Scott, 2008, p. 57). Cognitive forces imply that an organization's survival depends on its societal acceptance in a specific cultural context (DiMaggio and Powell, 1983; Scott, 2008).

Rotating savings and credit associations (ROSCAs)

Various informal institutes act as substitutes for formal institutes for the people of developing countries and help these people to solve various problems (World Bank, 2002). It is imperative to draw a distinction between formal and informal institutions. Formal institutions possess principles and procedures that are developed, communicated, and implemented through formal channels. Contrarily, informal institutions represent unwritten, socially shared rules that are developed, communicated, and implemented outside formally approved channels (Helmke and Levitsky, 2004). Informal institutions are managed within social networks and can take the form of self-help groups (Bouman, 1995a) that are voluntarily created to provide mutual assistance and to fulfil certain objectives (Katz and Bender, 1976). Economic self-help groups such as ROSCAs are small informal organizations created to enable members to derive economic benefits from mutual assistance, solidarity and joint responsibility. These benefits include mobilization of savings and credit facilities and the pursuit of group enterprise activities (Anand, 2002, p. 7). These groups assist individuals who are excluded and marginalized from mainstream financial services by giving them access to informal financial services (Callier, 1990).

In a ROSCA, a group of trusted individuals agree to contribute a fixed amount into a fund at regular intervals. The members regularly arrange meetings at which the sum of the collected money is given to one of the members; the recipient is determined through a draw or by negotiation. This process continues until all members receive the sum of the money that they individually deposited into the ROSCA fund (Aliber, 2001; Basu, 2011). ROSCAs give each member (except the last member) faster access to a sum of money because any member can obtain a loan from all other members and then repay the loan in instalments (Bouman, 1995b). Besley et al. (1993) distinguish between random and bidding ROSCAs. Random

ROSCAs provide each member an equal chance of winning the money at each meeting based on the luck of the draw. In bidding ROSCAs, members decide on the order of payments. Bidding ROSCAs are characterized by greater certainty, because all members know that they will receive money at a certain date. The members contribute a specific amount of money to the ROSCA at a constant rate over its lifetime. A higher bid entitles a member to an earlier receipt date.

Most ROSCAs are flexible; in the event of changing needs and circumstances, members may change the order of payments, provided that the affected parties agree to this change (Peterlechner, 2009). To be viable, ROSCAs must guarantee that all members will make the required contributions, even after taking the ROSCA money or loan (Besley et al., 1993). A ROSCA member could default either before or after receiving the money (van den Brink and Chavas, 1997), but defaults are rare in ROSCAs (Chiteji, 2002). Social collateral is used to identify prospective ROSCA candidates; to screen potential members for dishonesty; and to socially penalize deliberate defaulters, which is an appropriate threat to induce member compliance (Chiteji, 2002).

As informal institutes, ROSCAs offer a platform to mitigate the financial exclusion problem by helping unbanked consumers to save money and access credit (Aliber, 2001; Bouman, 1995a; Kamran and Uusitalo, 2016a). The marketplace vulnerability of unbanked consumers (Kamran and Uusitalo, 2016b) implies powerlessness and a lack of control, which leads to dependence on external factors (e.g., marketers) to create fairness in the marketplace (Baker et al, 2005 p. 134). Savings and short-term credit are areas where unbanked consumers encounter vulnerability (Kempson and Whyley, 1999; Wallace and Quilgars, 2005) in the form of potential theft (Kempson and Whyley, 1999), a loss of interest on their savings (Kempson et al., 2005), a lack of access to short-term credit and the resulting use of high-cost private or illegal moneylenders (Kempson and Whyley, 1999; Wallace and Quilgars, 2005), which in turn generates threats to borrowers' safety (Ellison et al., 2006) and economic stress (Herbert and Hopwood-Road, 2006). This paper seeks to understand how unbanked consumers use Committees to manage their routine financial affairs and how the institutional characteristics of Committees are related to the ability of unbanked consumers to control their lives and mitigate vulnerability. The empirical study was conducted among low-income unbanked consumers in Pakistan.

Methodology

This study utilized qualitative interview method to collect data from unbanked individuals who participate in Committee schemes in Pakistan. The interviews aimed to obtain a detailed understanding about the role of Committees in helping the unbanked to cope with financial exclusion and vulnerability. This technique allowed to focus on the views and experiences of the unbanked regarding Committee participation.

Thirty unbanked participants were recruited from four (socially) lower-class neighbourhoods in the twin cities of Rawalpindi and Islamabad, Pakistan. Twenty interviews were conducted in 2014 and 10 were conducted in 2015. This research employed the purposeful sampling technique, which entails the recruitment of participants who can provide detailed information about the phenomenon under investigation. Four participants who had strong social ties within their respective neighbourhoods and who were knowledgeable about the essential characteristics of study participants helped to recruit participants from their respective neighbourhoods.

The informants included 11 women and 19 men who worked in various low-income professions. Eleven informants were local residents, and 19 were workers who migrated from different villages of Pakistan to work in Rawalpindi or Islamabad. Individuals earning USD3650 or less per annum (living on USD10 or less per day)—which is equal to 382,428 Pakistani Rupees (PKR), or €3269 (31,869 PKR) per month—fall into the low-income group (Kochhar, 2015). All participants belonged to the low-income group, with incomes of 7000-26,000 PKR (€60-220) per month, with the exception of one informant whose monthly income was slightly higher. The majority of the participants were either illiterate or had left school in their early years (See Table 1, p. 7).

The interviews were conducted in homes and other locations (such as shops and small restaurants) according to participants' preferences. The informants volunteered to participate in the study but were given a small amount of money as a financial incentive. The university's ethical guidelines were followed when interacting with participants. Because most participants were illiterate or less literate, the information sheets and consent forms were explained to each participant at the beginning of the interview to ensure that he or she understood the research objectives. Moreover, they were assured confidentiality and anonymity.

Because this study investigates how participation in Committees helps unbanked consumers to take control of their financial matters and address everyday vulnerability, Questions were asked about different aspects of the Committees, including their functioning, the benefits of participation, problems encountered while participating, default, and potential issues that may arise after receiving money from the Committee fund. The wording and sequence of questions were tailored according to participants' characteristics and to the situation. A nondirective questioning method was employed to encourage informants to speak in detail (Elliott and Jankel-Elliott, 2003). Twenty-eight interviews were conducted in Urdu and two were conducted in Punjabi. Interviews were conducted until the data collected reached the theoretical saturation point, which is the point at which no new information is being provided by the study participant (Flick, 1998). The shortest interview was 22 minutes, and the longest interview was slightly more than one hour. The interviews were tape-recorded with prior permission from all informants. Almost 17 hours of audio-recorded interviews were transcribed, which produced 564 handwritten A4-sized pages. The accuracy of the transcripts was re-checked by repeatedly listening to the audio records (Bird, 2005).

A thematic analysis was conducted to identify, analyse and report patterns (themes) within the data. After reading and becoming familiar with the data, initial codes were identified within the data set. A broader level analysis was conducted to observe the potential results of combining the codes to create different themes. The themes were reviewed and refined to ensure adequate support from the data. The themes were initially reviewed at the coded data extraction level and then reviewed at the entire data set level. The significance of each theme was explained and the elements of the data related to each theme were identified. The new institutional theory literature guided the identification of main themes and sub-themes. However, the data was also red inductively to extract the nuances and contextual issues that explain the themes. The themes were given names that explain their relevance to the research question (Braun and Clarke, 2006) and also show linkage to the main aspects of new institutional theory.

S#	Alias	Sex	Age	Occupation	Education	Income	Residence
1	Rana	M	42	Tailor/Clothing shop owner	Left school	35000-40000	Local
2	Billa	M	40	Taxi driver	Completed school	20000-25000	Local
3	Papu	M	26	Tailor	Left school	17000-18000	MW
4	Khan	M	44	Taxi driver	Illiterate	15000-16000	Local
5	Bano	FM	36	Housemaid	Illiterate	15000	MW
6	Raja	M	41	Vegetable seller	Left school	15000-17000	Local
7	Izza	FM	55	Housewife	Left school	20,000	Local
8	Rani	FM	25	Housemaid	Illiterate	8000	MW
9	Pola	M	29	Grocery shopkeeper	Undergraduate	15000-16000	MW
10	Nomi	M	21	Cashier in café	Completed school	11000	MW
11	Nori	FM	40	Cleaner at a school	Illiterate	7000-8000	MW
12	Laila	FM	40	Housemaid	Illiterate	15000-16000	MW
13	Jelo	FM	40	Pvt school teacher	Completed college	7000	Local
14	Shan	M	26	Salesman in a shop	High school	10000	MW
15	Niaz	M	26	Tailor	Illiterate	15000-18000	MW
16	Chand	M	40	Tailor	Left school	25000-26000	MW
17	Gama	M	35	Hawker/Sweets seller	Illiterate	10000	MW
18	Sami	M	22	Grocery shopkeeper	Left school	15000-20000	MW
19	Sana	FM	35	Pvt. school attendant	Illiterate	10000	MW
20	Rema	FM	23	Housemaid	Illiterate	7000-8000	MW
21	Teto	M	26	Grocery shopkeeper	Left school	18000-20000	Local
22	Gul	M	25	Salesman in a shop	Left school	8000	Local
23	Nelo	FM	25	Housemaid	Illiterate	10000	MW
24	Noor	M	32	Tailor	Illiterate	10000-12000	MW
25	Rifi	FM	50	Housemaid	Left school	10000	MW
26	Zain	M	30	Tailor	Left school	15000-20000	MW
27	Sher	M	64	Dry cleaner	Left school	10000-15000	Local
28	Kaka	M	26	Welder	Left school	13000	Local
29	Phol	M	46	Taxi driver	Left school	22000-23000	Local
30	Sema	FM	25	Tailoring from home	Illiterate	15000-16000	MW

Table 1. Informants' profiles

Findings

This study finds that as informal institutions, Committees enjoy high levels of legitimacy amongst participating members. The strong culture and rules of Committees help the unbanked participants to control and manage their everyday financial affairs and mitigate their vulnerability. Nevertheless, Committees are small informal institutions and thus lack resources and legally binding contracts. Therefore, in some instances, Committees cannot guarantee the safety and privacy of money collected by members from the Committee fund. In the following section, In the following section, three main themes and subthemes that emerged as a result of the data analysis are discussed. The Committees' institutional culture included the sub-themes of shared goals and mutual cooperation amongst the members. Committees' institutional rules encompassed the sub-themes of the organizers' responsibility to pay money to members; payment of Committee instalments by members; and Committee payment arrangements. Finally, the institutional inability of the Committee to give control to unbanked consumers comprised three sub-themes: risk of fraud by the organizer; fear of theft of Committee money; and a lack of privacy regarding Committee money.

Committees' institutional culture

The Committee values of shared goals and mutual cooperation were collectively held and practiced by participating members, which manifests the Committees' institutional culture. Committee culture includes both cognitive (i.e., shared goals) and normative (i.e., mutual cooperation) institutional pillars, which helps the unbanked participants to take control of their financial affairs.

Committee members' pursuit of shared goals was exhibited in their joint assumption of responsibility to save money. Unbanked participants formed Committees because they believed that Committees offered the best option for saving money and helping them to avoid problems associated with other saving mechanisms. Thus, Committees were perceived as successful and socially acceptable informal institutions. The shared goal of saving money was pursued by members with a great degree of discipline, which gave the unbanked control over their money/saving matters. Unbanked participants had previously encountered problems when trying to saving money due to their lack of self-discipline, the temptation to spend money on unnecessary items, and the fear of robbery or social network awareness of money being saved at home. The concentration of low-income unbanked participants in Committees with the collective goal of saving money offered these individuals an opportunity to introduce some degree of control over their saving and routine financial matters. The Committee value of shared goals helped the unbanked to avoid potential losses. The following interview quotes explain how the shared goals of Committees enabled participants to save money effectively and to avoid loan requests from their close relatives.

> This way it is difficult…if you have money in your hand, then it will be spent...Money cannot be saved this way. When we give money to a Committee fund, it is our savings, and when we get that money in the aggregate, that sum of money gives us benefits (Jelo, 40).

> When you decide you need to save money, then you can start a Committee. Otherwise, you cannot save. If you keep the money yourself, then when someone asks for money, you cannot refuse them...When you have money, it occurs to you to buy this or buy that. When the money is in someone else's possession [Committee organizer], then people cannot ask for the money (Sami, 22).

The pursuit of the common goal of saving money also allowed the low-income unbanked participants to fulfil difficult consumption goals. These individuals lacked access to affordable credit to make large purchases. Saving money through Committees involved solidarity and helped participants to avoid taking loans from informal lenders and social connections, which often results in psychological, social and financial hardship. Rema explains her views as follows:

> I am participating in a two-year Committee for 24,000. I give 1000 Rupees each month... I will use this money for my sister's marriage...My sister's marriage is scheduled for the second month of the year...I will buy her a washing machine or some other item (Rema, 23).

Mutual cooperation is another key value of Committees that helps unbanked participants to take control of their routine financial affairs. Because the Committees were organized amongst neighbourhood residents, participants had strong social ties to one another, which often led to high levels of mutual cooperation due to members' trust in one another. In a collectivistic cultural context (i.e., Pakistan), individuals expect other group members to shelter them in difficult times. The value of mutual cooperation amongst Committee members accorded with their collectivistic cultural values and helped them to avoid potential harm caused by financial exclusion. Although Committee money was generally paid to participants in a predetermined order, if a particular participant experienced financial difficulty, both member-to-member and organizer-to-member assistance was given to this participant. This cooperation manifested in three different ways. First, one member could ask another member to exchange turns in the Committee order. Second, the organizing member of the Committee could use her/his powers of persuasion to encourage cooperation among the members. The following interview excerpt explains how both the Committee organizer and a member helped Bano to meet her financial needs:

> It was my daughter's marriage. First, I told Baji [Committee organizer] that in the fifth month, I have to marry my daughter off. Baji said it would be all right...and she gave me the Committee funds in the fourth month. She said you need it, so let us give it to you...I had either the fifth or sixth turn in the Committee, but she gave me the fourth turn. She did me a favour (Bano, 36).

Third, a member who receives his/her Committee money might provide financial assistance to another member, and then the debtor returns that money to the lender when he/she receives his/her Committee money. The following interview passage explains this exchange:

> It happens like this [in Committee]: I have a very close friend, relative or acquaintance. If I receive the second disbursement of Committee money, he says to me, "You have 120 thousand rupees from the Committee." I know that he needs the money urgently...he has to marry off his sister or daughter or there is some other problem in his house...If my heart says yes, then I may give him all or half of my Committee money... when he gets his Committee money, he will give me that half back. In this [Committee], we help one another (Chand, 40).

Cooperation among Committee participants was reciprocal. Those who assisted other members expected the same degree of support in the event they experienced financial difficulties. The social support mechanism of Committee programmes gave the informants autonomy and the ability to avoid possible difficulties in times of urgent financial need. This cooperation provided a sense of security to participants by helping them to avoid taking loans from informal sources. Thus, different types of cooperation among Committee members helped them to combat the vulnerability they might otherwise experience due to financial exclusion.

Committees' institutional rules

The regulatory pillars of Committees included different rules applicable to both the Committee organizers and participating members. These rules established the organizers' obligation to pay Committee money to members upon their respective turns; the members' obligation to make timely payments of Committee instalments; and the Committee payment protocol.

Committees' unwritten rules were strictly adhered by both the organizers and the members. One such rule requires the organizer to pay the sum deposited by an individual member in the Committee fund on his/her respective turn, which provides security for the money paid by participating members. Members were also expected to abide by the rules. For example, they were obligated to deposit Committee instalments by the due date, although that obligation sometimes created problems due to members' frail economic circumstances. In addition, as a rule, Committee money was given to members in a specific sequence, which was decided through a draw; members who obtained the money late in the sequence occasionally experienced anxiety.

Committees' institutional rules also offered safety for the money provided by members. A majority of participants reported no apprehension regarding the safety of their money during Committee participation. They were virtually guaranteed to receive the sum of money that they had deposited in the Committee fund from the Committee organizer. Participants' stories reveal that the Committee organizers usually complied with the unwritten institutional rules and agreements. Compliance with the rules enhanced acceptance and trust of the Committee amongst its members. If a group member failed to pay the instalments or disappeared after joining, then the organizer had to contribute the amount due from his/her own pocket. The guarantee that members will receive money from the organizer enhanced the willingness of participants to save money and eliminated potential problems associated with other informal saving mechanisms. The following interview quote explains this aspect of Committees:

> They are our neighbours. They do not run away...Even if someone does run away, then the person who created the first Committee [the organizer] is responsible. It is his job to decide whether to accept someone into the Committee. We do not experience any tension (Khan, 44).

Committee members' compliance with the institutional rules also contributed to the safety of the money for all Committee members. Negative incidents of default were not reported by any of the participants; instead, participants generally felt secure that they would receive their deposited money from the organizer. Members were also guaranteed to receive their Committee money due to the enforcement mechanisms implemented by these informal organizations. A defaulter would not only damage his or her reputation and trustworthiness in the group but could also be barred from participating in future Committee programmes. Moreover, the organizer selects members carefully based on honesty, trustworthiness, past history in Committee programmes and their financial ability to participate in such programmes. Compliance with and enforcement of communal rules and the rules established by the Committee organizer eliminated the risk of default by a group member.

Nevertheless, participants occasionally experienced difficulty complying with the rules due to situations that were beyond their control. Several participants had trouble paying their instalments for a variety of reasons, including a temporary decrease in income or an emergency. Payment difficulties were linked to their status as unbanked (i.e., living in poverty). Organizers allowed members to remit missed instalment payments in later instalments, making Committee participation easier. However, such payment arrangements were offered only once or twice during a programme and only in cases of genuine need. As an informal institution, Committees ensured the enforcement of payment rules. A member who regularly made late deposits risked exclusion from future Committee programmes. Participants must comply with the rules and pay the instalments in a timely matter. Low-income participants reported negative psychological experiences in the form of stress caused by difficulties in making instalment payments in times of financial hardship. The following interview excerpt explains how members occasionally had to compromise on other important needs:

> I know that I have to pay the Committee instalment; it is necessary. We can compromise on rent or [utility] bills, but Committee [instalments] should not be missed (Bano, 36).

A taxi driver whose earnings fluctuated throughout the year sometimes found it difficult to pay the Committee instalments:

> Sometimes we earn 500, 1500, or even 200...we survive when there are good days. Then we save the Committee money... there is difficulty when Moharram or Ramadan comes. Work [income] starts to decrease (Billa, 40)

At times, Committee payment rules resulted into both economic and psychological harm. The payment rule is inherently based on luck because payment turns are determined through a draw. Those who obtained money in the early turns received it as an interest-free loan and paid the instalments to the programme to pay off their debt. They had an advantage over those who received money in the later turns. Those who received the money early in the programme could use this money for urgent needs, invest it in their businesses or spend it to fulfil other economic needs. Those who received money late in the programme had to wait a long period of time. Because payment arrangements were determined on the basis of draws, there was a lack of control by participants. Those who received Committee money in the later turns could experience an imbalance or inequity in the exchange process, which could lead them to experience both psychological (i.e., stress) and economic detriment because the money could lose value due to inflation. Several informants described the receipt of Committee money in the early turns as agreeable and the receipt of Committee money in the later turns as disappointing. Raja has participated in Committee programmes for the last 18 years:

> If we obtain Committee money in the early turns, then we are happy, but if we receive it in the last turn, we are disappointed (Raja, 41).

Committees' institutional inadequacy

Committees have inadequate rules and policies to safeguard their unbanked members while addressing the financial exclusion issue. Committees' unwritten rules cannot be enforced legally; therefore, in the event of fraud by the Committee organizer, the members suffer. Moreover, Committees have no policy to provide safekeeping services to their members.

Committees are small, informal institutions, and their unwritten rules and agreements are not legally binding. Therefore, the possibility of fraud by Committee organizers cannot be eliminated. Several informants who participated in Committee programmes feared that the organizer would disappear. An incident of fraud was reported by only one informant; in that case, the organizer fled after collecting the Committee money. To eliminate the risk of fraud, the informants preferred to participate in programmes organized by local residents. The following excerpt explains the psychological and financial risks of Committee programmes:

> There is fear in the Committee that the man [organizer] may flee. But if the organizer is a local, there is no fear; if he is local, then we know he lives here. His house and shop are here...there is no fear. But if he [the organizer] is not local, then there is concern that he may run away. Then, who will pursue him? (Noor, 32).

Participants' accounts indicate that Committees do not ensure the privacy and safety of the money collected. In certain cases, Committees fail to safeguard their members' savings. Accordingly, several informants feared robbery when they brought their full Committee savings home. One informant who managed Committee matters expressed psychological concern about the safety of money collected from members and the possibility of financial harm if the money was stolen. It is also difficult to maintain members' privacy regarding the receipt of Committee money in a collectivistic culture where people generally know each other's activities. Thus, social network members outside the group may know that a person has received Committee money. There was a fear that a close relative or friend might ask for a loan and that problems would arise if that person was not trustworthy or was unable to repay the loan. Refusing a loan request from a social network member could lead to negative consequences, because it is customary to help others. However, if there is a lack of trust in a social network member and a fear that the money will not be repaid in full or on time, a loan request might be refused, which increases the possibility of the member's social harm, i.e., damaged relations with social network members. Chand explained his concerns as follows:

> You say, "I have the Committee money." Your wife tells the neighbours, who watch your Committee money. The way they [neighbours] kept an eye on my Committee money and asked for money [loan]...If you keep the Committee money at home, then there is fear of theft...It is not necessary that a dacoit [robber] comes to your home. It can be stolen from your home too. This is the fear (Chand, 40).

To conclude, Committee institutional culture and rules offered the unbanked informants some degree of control over their routine financial matters and provided them an opportunity to address their vulnerability. However, as informal institutions, Committees lack legally binding contracts and are unable to guarantee the safety and privacy of Committee money. Therefore, Committees cannot always ensure that the unbanked have control over their day-to-day financial affairs.

Discussion

This paper addresses the neglected subject of the potential of informal economic institutions (i.e., Committees) to give unbanked consumers the ability to manage their everyday financial matters. This research applies new institutional theory to explain how different pillars of informal institutions (i.e., Committees) enable unbanked consumers to address their marketplace vulnerability. The present research contributes to both financial exclusion and consumer vulnerability domains by elucidating the usefulness of ROSCAs in facilitating unbanked consumers to deal with their marketplace vulnerability. It shows that Committees as a community resource as well as an informal institution help the unbanked individuals to introduce control in managing their regular financial affairs. The application of new institutional theory helped to gain a deep understanding regarding the potential role of ROSCAs in facilitating control to the financially excluded consumers in Pakistan. In particular, cognitive, normative and regulative institutional pillars of Committees permit control to the unbanked consumers that is important in mitigating their marketplace vulnerability. In spite of the institutional pillars, Committees are in some cases unable to help unbanked consumers to manage their marketplace vulnerability due to insufficient rules and policies. This study also shows that the institutional aspects of informal organizations support low-income consumers in coping with financial exclusion.

Community members have long organized themselves to meet collective and individual needs (Narayan, 1995, p. 1). ROSCAs, which operate based on the logic of 'collective action', provide a platform for people in low-income countries to manage the risks (Bouman,1995b) associated with financial exclusion. This research finds that Committees are based on three institutional pillars: cognitive, normative and regulatory (Scott, 2001, 2008). These pillars are deeply embedded in Committees and allow Committees to provide a workable substitute to the unbanked and thereby introduce some degree of control over their own financial lives. The collective positive perception of Committees amongst low-income unbanked consumers and members' compliance with institutional values and rules indicate that the Committees are considered a valuable means by which community members can access informal finances.

First, the cognitive pillar (Scott, 2001, 2008) is manifested by shared goals. As informal organizations, Committees depend on the shared meanings and social acceptance (DiMaggio and Powell, 1983; Scott, 2008) that they have enjoyed in the collectivist culture of Pakistan. Due to the cognitive pillar, Committees are a vital part of the lives of many low-income people because they provide a viable way to escape vulnerability. The constellation of low-income unbanked consumers in Committees with shared objective of saving and accessing short-term credit provided them an avenue to tackle their marketplace vulnerability caused by financial exclusion. Second, the normative pillar (Scott, 2001, 2008) is seen in Committees in the form of mutual cooperation amongst the members. This pillar is based on societal values and norms. The success of Committees derives from the obligation of members to act according to collectivistic cultural standards. The reciprocal cooperation expected from members leads to positive outcomes, such as meeting members' financial needs and avoiding negative experiences. Thus, mutual cooperation enables Committee participating members to access short-term credit to fulfil their urgent economic needs. This institutional aspect (i.e. normative pillar) permit unbanked consumers to escape encountering marketplace vulnerability which they could potentially experience in the event of loan acquisition from other informal sources (Kamran and Uusitalo, 2016a; 2016b). Third, the regulatory aspect (Scott, 2001, 2008) of Committees encompasses rules and assurances and aims to ensure the safety of money deposited by members. Both members' compliance with Committee rules and the organizer's assurance that all members will be repaid the sum of their deposits in the Committee fund eliminate the vulnerability that the unbanked might experience with other informal saving methods (Kamran and Uusitalo, 2016b). However, adherence to Committee rules can be difficult when members attempt to satisfy their obligations to the social networks. This difficulty was evident in the discussions about making timely instalment payments at the cost of neglecting other important needs. This trade-off led to feelings of vulnerability, psychological and social detriment, and the risk of exclusion from future Committee programmes.

ROSCAs provide each member (except the last one) quicker access to a sum of money relative to their personal savings (Bouman, 1995b). Committee members obtain different value for their equivalent deposits. A person receiving Committee money in the later turns technically obtains an amount equal to all other members, but their money has lost purchasing power due to inflation. Thus, these Committee payment arrangements caused psychological (i.e., stress) and economic detriment to participants. However, these rare individual negative experiences did not affect the Committees' institutional legitimacy, because this legitimacy depends on the collective perception of community members (Suchman, 1995). The legitimacy of Committees stems from three institutional aspects, i.e., cognitive, normative and regulatory (Suchman, 1995). There is widespread social acceptance and positive perceptions about the usefulness of Committees, signalling a high level of legitimacy for these informal financial institutions. Committees are considered legitimate organizations because their presence fulfils the basic financial needs of the unbanked in Pakistan and generally enables the unbanked to successfully overcome their marketplace vulnerability, especially in terms of saving and short-term credit. Although Committees enjoy a high level of legitimacy, their regulatory pillar (i.e., rules and policies) is relatively weak compared to their other institutional dimensions. This weakness could be viewed as a threat to the legitimacy of Committees; due to inadequate rules and policies, Committees fail to offer a perfect substitute for basic financial services to the unbanked.

Committees do not fully mitigate the vulnerability of low-income consumers. As informal institutions, Committees lack the resources to consistently support the unbanked and to give them control (Baker et al., 2005) over their routine financial matters. This lack of control stems, for example, from unwritten contracts that are not legally binding; therefore, the possibility of fraud cannot be completely eliminated. Further, Committees do not provide safekeeping services to their members and thus fail to guarantee the safety and privacy of Committee money. In addition, the lack of privacy regarding payment of Committee money risks both psychological and social harm.

Policy implications

Aliber (2001) states that ROSCAs correspond to formal deposit-taking institutions and provide an alternative to formal lending institutions. Contrarily, Helmke and Levitsky (2004) assert that informal institutions might be the second-best option but cannot provide solutions equal to those of formal institutions. This study indicates that Committees' institutional culture and rules can allow consumers to mitigate their financial, psychological and social concerns. However, these informal savings and short-term credit arrangements cannot completely replace formal financial service providers. Committee participants may experience psychological, social or economic consequences. Therefore, following policy guidelines are proposed for the wellbeing of unbanked consumers in Pakistan.

The regulatory aspect of Committees presents the risk of psychological and economic harm to unbanked consumers. Nonetheless, Committee members demonstrate discipline in making instalments payments to their respective Committee programmes as a result of a strong cognitive pillar, i.e., shared goals. Social collateral determines the success of ROSCAs (Chiteji, 2002). Committee members generally meet the group's expectations of timely payments, indicating that there is a good opportunity for banks in Pakistan to offer group lending to low-income consumers (i.e., the Grameen bank model), which has been successfully implemented in various developing countries to cater to the micro-credit needs of the poor (Koku, 2015). Currently, group lending is offered by very few micro-finance institutions in Pakistan (e.g. Khushali Bank, the National Rural Support Programme). The poor generally lack collateral to obtain individual loans from the formal sector (Koku and Jagpal, 2015). A strong normative aspect in the form of mutual cooperation is manifested in Committees, which implies that members would be willing to provide cross-guarantees of one another's debts in a group lending model. Group lending helps banks and other micro-financing institutions to capture new customers. Importantly, micro-loans from operators in the formal sector could mitigate the vulnerability of the unbanked that they might otherwise experience due to problems with the regulatory aspect of Committees. In the formal lending model, loans are readily available to all members, whereas in a Committee, members must wait their turn. Likewise, short-term credit is not always available through Committees due to their regulatory aspect. Micro-finance coverage of poor families in Pakistan is only 2%, which is the lowest percentage in Asia (Nenova et al., 2009). A vast majority of commercial banks in Pakistan do not offer micro-finance. Regulators could require that all commercial banks offer micro-finance products in Pakistan to improve both the financial access and wellbeing of the poor. Finally, unbanked consumers risk encountering vulnerability in their saving endeavours due either to Committee rules (i.e., timely payment of committee instalments) or to the inability of Committees to ensure the safety and privacy of Committee money. Banks should design and target savings accounts to low-income consumers and effectively promote such accounts through viable communication channels. Savings accounts could help the unbanked to save at their own pace, eliminate their fear of robbery and enhance the privacy of their savings.

Study Limitations and Future research guidelines

Some limitations are realized in this research work which open up avenue for a few potential studies. First, ROSCAs place numerous social and economic liabilities on their organizers. This study did not address the organizers' concerns while managing ROSCA programs. They could experience vulnerability due to their responsibilities. Likewise, money privacy and safety concerns could be more severe for the organizers compared to the individual members. So, future studies could address ROSCA organizers' potential experience of vulnerability in managing ROSCAs and the mechanisms devised by organizers to combat such experiences of vulnerability. Second, this study focused exclusively on low-income unbanked consumers. However, 87% of the Pakistani population is unbanked (Demirguc-Kunt et al., 2015), which suggests that people from other income strata, such as middle- and high-income groups, are also unbanked. It is apparent that a vast majority of Pakistanis belonging to different income groups participate in Committees. Therefore, the motivations of middle- and high-income unbanked individuals to join Committees could be investigated. Moreover, the consequences of Committee participation should be explored, both for the middle- and high-income unbanked and for the economy in general. Finally, this study only addressed ROSCAs operation in a collectivistic cultural milieu where it found strong cultural influences on the functioning of ROSCAs. There is evidence that these informal institutions also function in certain individualistic societies, such as South Africa (Bouman, 1995a). Future research could investigate people's motivation to join ROSCAs and the functioning of ROSCA's in an individualistic cultural context.

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