



DIGITAL ISLAMIC ROTATING SAVINGS AND  
FINANCE PLATFORM

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# OUTLINE



Iran

Ghor'e-keshii khanevadegi

## The Idea

- Contrary to popular belief, can «financial intermediary be made for another purpose than profit maximization».
- Islamic social finance can play a critical role to change the paradigm of financial intermediation.

# The Objective

- To discuss developing/generating a novel Rotating Saving and Finance system running over a digital platform based on Islamic Finance principles.

# Rotating Credit and Savings Association (ROSCA)

- The term “rotating credit association”, as used by Geertz (1962), seems to be the most apt so far devised for institutions which have previously been called *esusu* or contribution clubs, or have been included in the wider groups of thrift, loan, and benevolent associations.
- A satisfactory definition is still lacking. For example, Geertz writes: 'The basic principle upon which the rotating credit association is founded is everywhere the same: a lump sum fund composed of fixed contributions from each member of the association is distributed, at fixed intervals and as a whole, to each member in turn' (Geertz 1962, P. 243).

# ROSCA from Islamic Finance Perspective

- ROSCA is a process of agreement among a group of people, who agree that each of them contributes a specific amount of money, to be used to meet each participant's targeted amount of financing needs, based on mutual solidarity and collaboration (Dinç, 2019).

# Literature Review: Theoretical & Empirical Works

Rotating Savings and Credit Association (ROSCA)

Concept and Framework	Riskiness	Bank-Based	Shariah Compliance
<ul style="list-style-type: none"><li>• Besley et al., 1993</li><li>• Ardener, 1964</li><li>• Mushuku, &amp; Mayisa, 2014</li><li>• Geertz, 1962</li></ul>	<ul style="list-style-type: none"><li>• Klonner, 2006</li><li>• Besley et al., 1994</li><li>• Al-Zoubi &amp; Maghyereh, 2007</li></ul>	<ul style="list-style-type: none"><li>• Bousalam &amp; Hamzaoui (2015)</li><li>• Kedir, Disney &amp; Dasgupta, 2011</li></ul>	<ul style="list-style-type: none"><li>• Yakeen, Gatawa &amp; Na-Allah, 2014</li><li>• Aliero, 2014</li></ul>

# Brief Description

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ROSCA model is considered as an appropriate tool for both retail and corporate finance in many different ways like crowdfunding.

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Through this model, the ROSCA convert the fiscal power of participants to their financial power.

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ROSCA is different from the banks by having different parities on fund-demand and fund-supply sides.

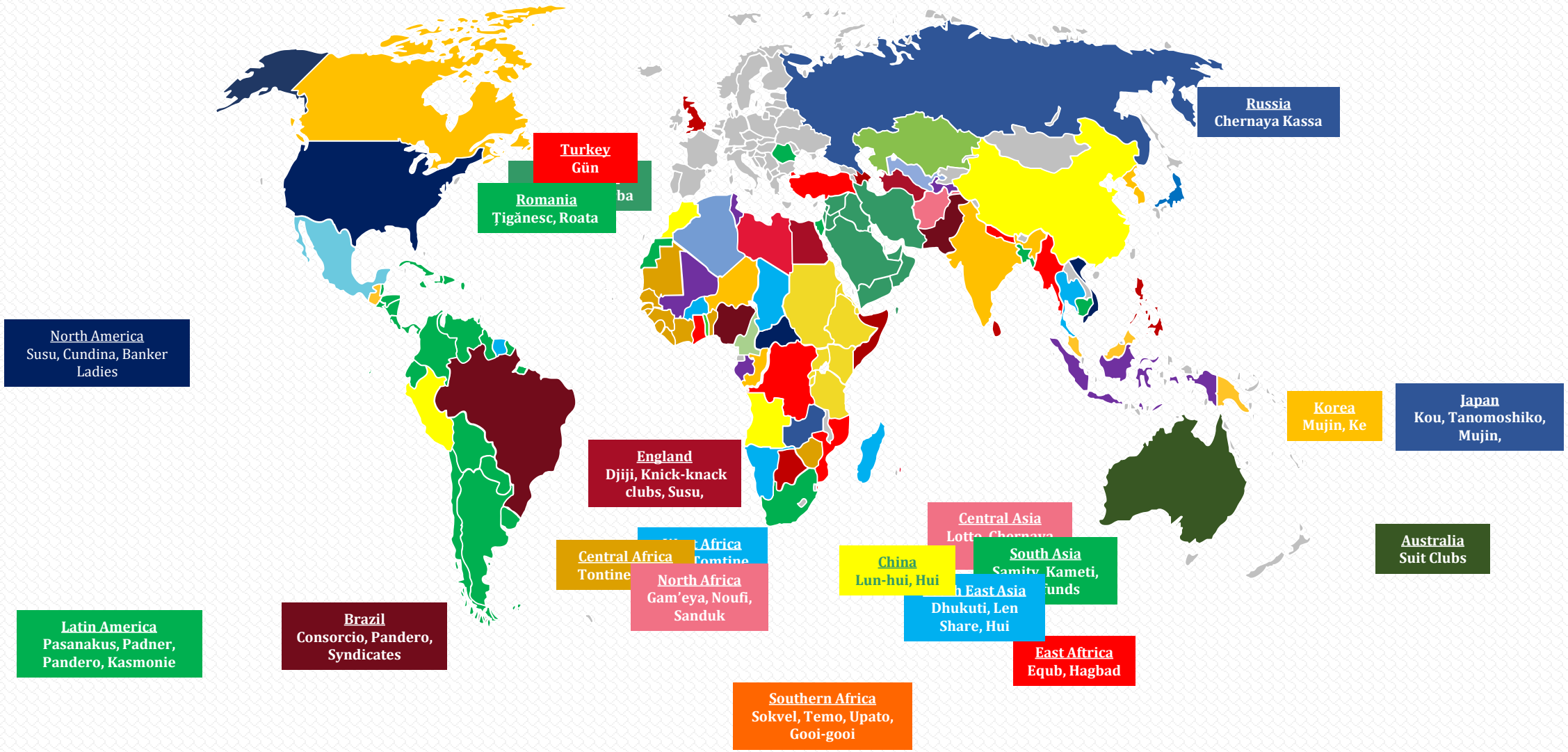
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ROSCA is holding the role for organizing the group and clearing the transfers between positive and negative savings as operator.



# Example (ROSCA)

- i. An organizer might establish a ROSCA for the amount of \$1,000.
- ii. In this case, the ROSCA organizer could gather ten trustworthy individuals and require each of them to contribute \$100 to the fund monthly.
- iii. At the end of the first monthly meeting, the organizer would take home a lump sum of \$1,000.
- iv. In the second monthly meeting, another member would take home the next \$1,000.
- v. This would continue until everyone has a turn with the proceeds.
- vi. At the end of the 10 months when everyone has had a distribution, the ROSCA would disband or begin another round.



# KOU

- Kou is a simplified name for ROSCAs and group savings and loan associations in Japan. The oldest document referring to Kou in Japan is dated 1275 A.D.
- Some researchers feel that the Kou system was introduced to the country in the 12<sup>th</sup> or 13<sup>th</sup> Century at the latest. During this period pawnshops, called muiin-sen (mujin money), were also common.
- An example of a kou contract written in 1345 A.D. (Nippon Sogo Ginkou, 1967. p.21)

**There are records even from  
6th century from China**

# Six points are worth noting in this contract:

1. Members made a written contract at the first meeting and agreed to abide by the rules of the Kou.
2. Members had the duty to pay a certain amount of money at each meeting, except at the meeting when they received the fund. If a member who had not received a fund did not fulfill all of the obligations of being a kou member, he or she lost the right to draw a fund. Members who had received funds, and later defaulted on their obligations, suffered compulsory exclusion from the group and also were punished in other ways.
3. Rotation of the fund was determined by lot.
4. Members who had received a fund had no right to participate in further drawings but must meet their payment obligations. To guarantee that they continued to pay into the fund members were sometimes required to offer two cosigners who were members of the association.
5. Members met two or three times a year.
6. After all members had received a fund, the Kou might be disbanded.

# ROSCA based Apps

eMoneyPool

USA

StepLadder

Brazil

fc AZ FUNDCHAIN

British Virgin Islands



USA

# ROSCA based Apps



Germany

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USA



USA

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USA

# ROSCA-based Institutions

- **Bangladesh**
  - Rickshaw Cooperatives
  - Labour Associations and Cooperatives of Petty Shopkeepers
- **Canada**
  - There Is Another Real Alternative (TIARA)
- **China**
  - Xiang Zujian's ROSCA
- **Denmark, Spain, Italy**
  - JakBank
- **Ethiopia**
  - Shiromeda traders' Equb
  - Filakit traders' Equb
  - Farmers' equb in Maserut
- **Germany**
  - Bausparkasse
- **India**
  - Guru Nanak Chit Fund Pvt Ltd
  - Udhaya Chit Funds Limited
  - Santosh Chit Fund Private Limited
- **Nepal**
  - Himalaya Finance & Savings Company Ltd.
  - Pokhara
  - Baudha Gumha
- **Senegal**
  - Sandaga
  - Sonaga
  - Kaye Baakh
- **South Africa**
  - Kemano Investment Club
  - Sweet Harmony
  - Kliptown Helping Hand (Kliptown)



# National Stokvel Association of South Africa (NASASA)

- NASASA is a self-regulatory organization authorized by the South African Reserve bank in terms of **Government Notice 404** in **Gazette 35368**.
- In terms of Banks Act 1990 (Act No. 94 of 1990), a Stokvel is required to be a member of NASASA or a similar body approved by the Reserve Bank in writing.
- According to Nedbank research, a total of **R44 billion** is collectively saved in **820 000 stokvels** in South Africa annually, with more than **11 million South Africans** being members of stokvels,.



# Theory and Application

- Utility from Autarkic saving:

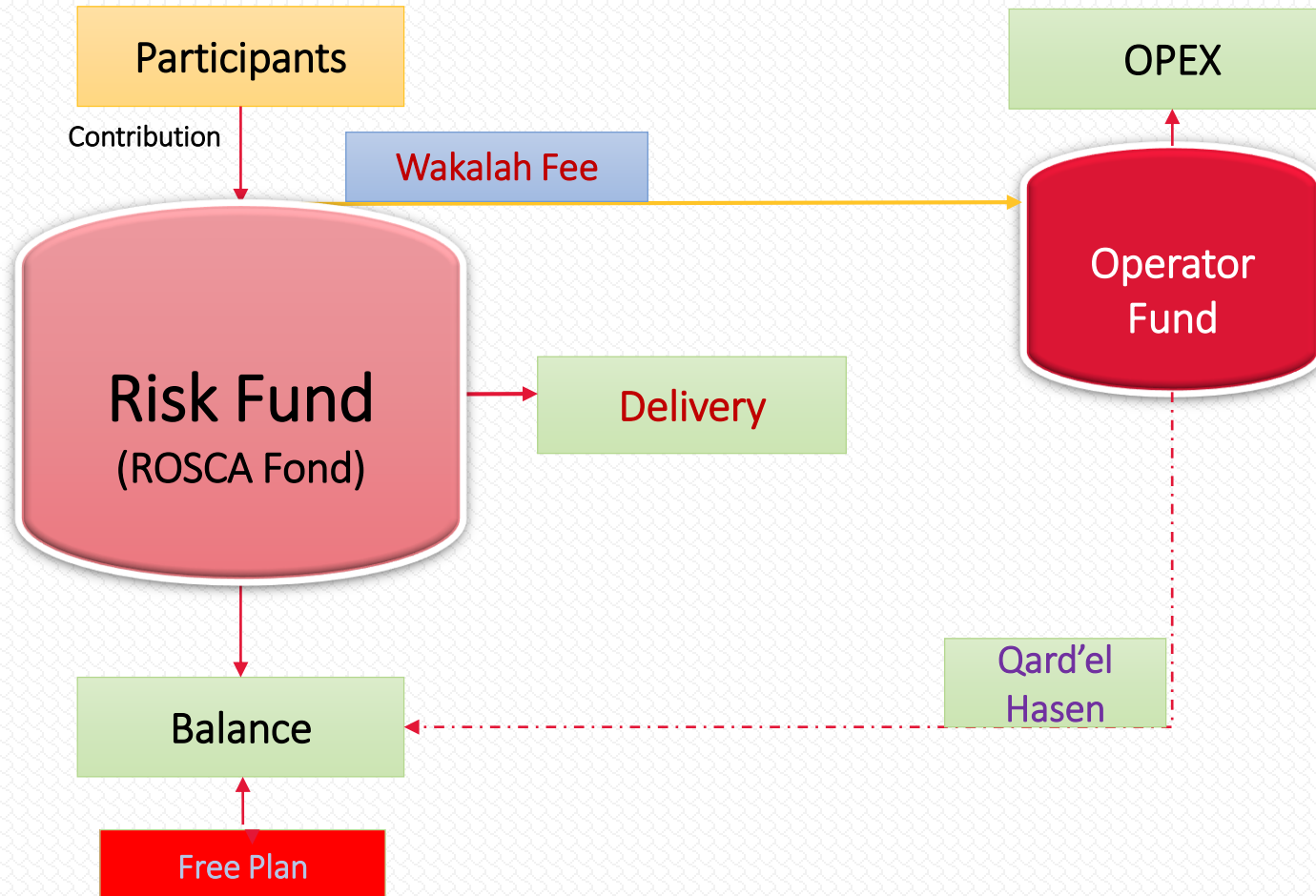
$$W_a = T^* \vartheta(1, y) - B^* \mu(q)$$

- Utility from saving through random ROSCA:

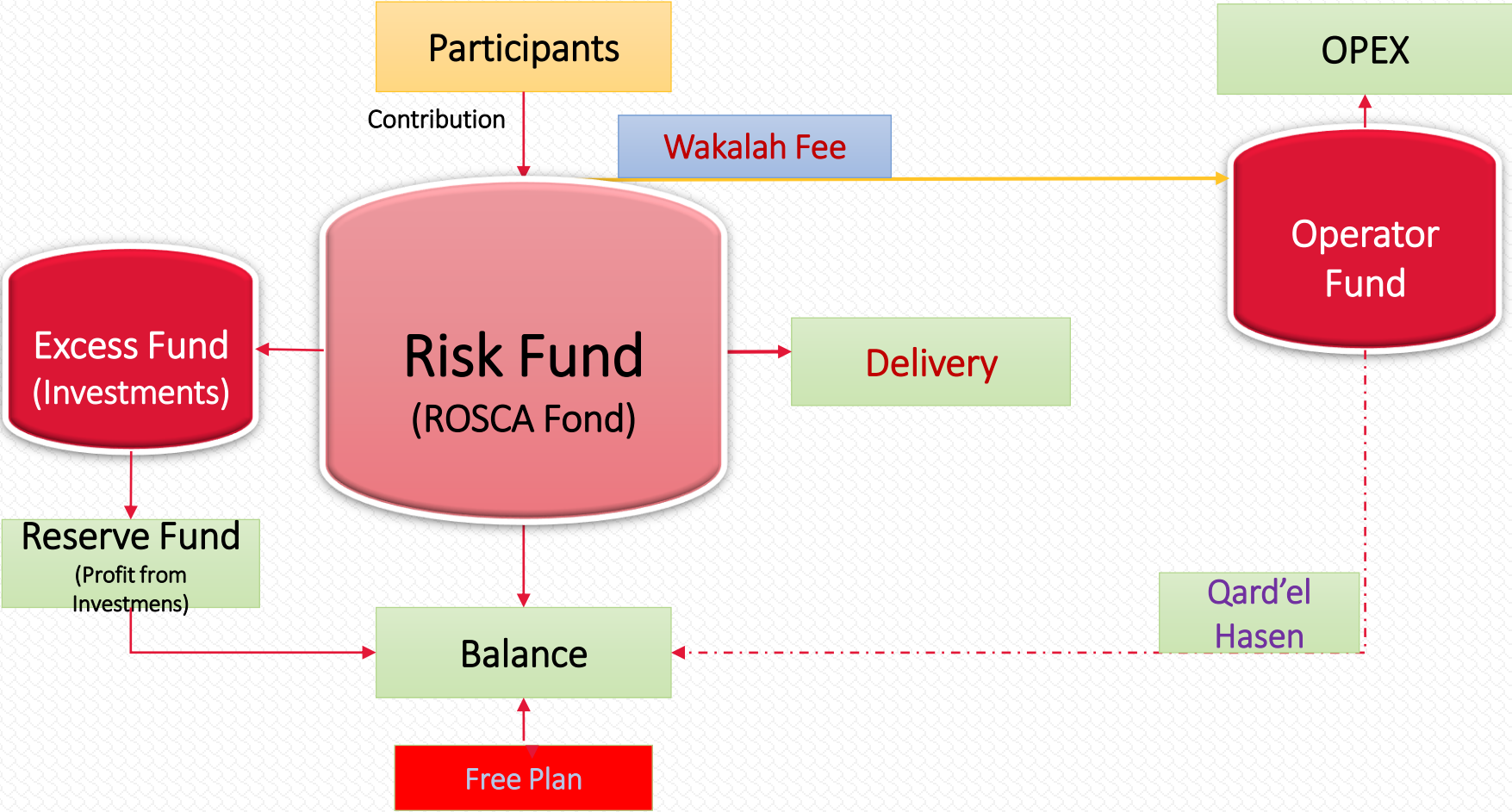
$$W_r = T^* \vartheta(1, y) - B\mu\left[\frac{(n-1)q}{2n}\right]$$

$(W_r > W_a)$ : Besley, Coate & Loury, 1994; Anderson & Baland, 2002; Klonner, 2003; Kedir, 2005

# Business Model – Theory – Wakalah Model



# Other Business Model (Potential)



# Conclusion

Undoubtedly, ROSCA is a vibrant concept and method to accumulate and allocate fund; therefore, applying it in the different sectors will facilitate the economy and add a new dimension in the accumulation and distribution of the fund. **ROSCA is a potential novel Islamic financial tool for increasing mutual cooperation, solidarity and financial inclusion in OIC and non-OIC countries. It is expected to open a new path for Islamic finance globally.** Besides, it is essential to mention that the ROSCA concept will strongly contribute to the role of Islamic finance regarding the paradigm shift in economics and finance.

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