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**Financial Cooperative Societies:  
Conceptual Framework and Evidence from Egypt**

**Ahmed Taha Al Ajlouni**

*Qassim University, College of Business and Economics, Department of Economics and Finance. Kingdom of Saudi Arabia  
Ajlouni69@yahoo.com and ajlouni@qu.edu.sa*

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ABSTRACT

**Keywords:**  
*Islamic finance, Crowd Funding,  
Microfinance, ROSCAs, Egypt,  
Personal Finance.*

**JEL classification:**  
*G23, P460, P480.*

*This paper reports on a survey conducted in Egypt about the motives behind participating in Societies; and their perception by participants. It is also devoted to clarifying the unique nature of Societies as a premise of informal finance to manage financial aspects that bear zero interest.*

*A random sample of participants from Helwan area in Cairo, who joined a Society for managing their financial needs, was selected. A questionnaire was used for collecting data and descriptive analysis methods were used for analyzing the study variables.*

*The study revealed that Societies have a long history mode that has been followed in many countries. It also showed that the participants devote the majority of the Society's sum for expenditure on current essential short-term needs. A high sensitivity to Islamic Sharī'ah has been showed by the Society members. It proved that the general trend toward Societies was very positive.*

## Introduction

The interest in finance issues at the personal and household level witnessed intensive research and field experience. A lot of initiatives around the globe were triggered at the local, regional and worldwide to disseminate programs for financing the poor in less developed and developing countries.

The non-banking informal retail finance through cooperative initiatives has a good potential as a feasible vehicle for personal and household financing. Cash raised by cooperative personal finance initiatives show substantial amounts of money that dispersed through the economy as leaks outside the formal financial system, (Waweru, 2011) mentioned that Saving and Credit Cooperative Societies SACCOs have mobilized over Ksh.150 billion (USD 2.14 billion) in savings i.e. more than 30 percent of the National Domestic savings. It impacts directly and indirectly on 72 percent of Kenya's population<sup>1</sup>.

Many studies showed that the majority of Muslim population<sup>\*</sup> around the globe has significant rates of rejection of traditional microloans, and still unbanked or facing constraints in case of going to get banking services (El-Gamal et al., 2014). As quoted El-Gamal et al. (2014) also, "recent studies have also included survey results that show Muslims to be highly excluded from access to banking products and services, with exclusion rates reaching as high as 88% in Pakistan" (Obaidullah & Khan, 2008). "Even for Muslims with access to microloans, surveys have suggested that up to 40% reject such loans on religious grounds" (Mylenko, 2009).

In six countries with largest Muslim populations (Indonesia, India, Pakistan, Bangladesh, Egypt and Nigeria) the number of people living on less than \$2 per day reaches 528 million (Obaidullah & Khan, 2008). The most recently published official poverty headcounts for FY13 indicate that "some 26.3% of Egypt's population is below the poverty line, most in rural Upper Egypt where poverty rates reach 50%" (Kouchouk, Nashar, & Hamed, 2015).

Society<sup>\*\*</sup> arrangement based on the idea of mutual personal lending was followed in Egypt many decades ago. The Egyptian experience disseminated in many Arab countries as Jordan (Al Ajlouni, 2015). In spite of that, just a tiny scientific research has been done to explore this socioeconomic phenomenon in Egypt (Alonso, 2015; El-Gamal et al., 2014)<sup>2</sup>. The current study, according to the researcher's knowledge, is one of the first studies that investigate such phenomenon in an Arabic community.

The main purpose of this paper is to report on a survey conducted in Egypt about the motives behind participation in Societies; and their perception by participants according to sex, income and educational level. Furthermore, the paper aims at clarifying the unique nature of Societies as a premise of informal finance for managing financial aspects that bears zero interest rate and its relation to the main stream of other modes of informal crowd funding for persons and households.

The priority in research efforts in Egypt and other Arab countries should be devoted for describing the phenomenon of Societies and understand its availability in volume, socioeconomic aspects, and geographical spread according to solid data in order to build ground for future analytical studies.

I hope this study will participate in revitalization and refreshing of the classic literature on the rotating credit and saving between household and persons through Societies, and to give this kind of finance the interest that it deserves in research and application similar to other modes of finance. Looking for

<sup>1</sup> As the researcher noted in Jordan, some Societies accumulated more than USD 350,000 during its period of 50 months.

<sup>\*</sup> The author asserts that poverty does not belong to a specific religion or ethnic group. It is a human problem. The religious side which is discussed here proved to be a key factor in this area of study (Abdul-Yakeen, Gatawa, Aliyu, & Ibrahim, 2016; El-Gamal, El-Komi, Karlan, & Osman, 2014; Mohieldin & Wright, 2000) The author referred to the statement "Muslim population" in this paper in order to attract the attention for the availability of microfinance vehicle accepted according to Islamic Shari'ah (law).

<sup>\*\*</sup> The terminology "Society" is very common in this area of study. It has been used in the oldest Rural Credit Cooperatives (RCC) that have been known in China (see Hsiao-Tung and Chih-i (1945)), and it is referred to in the local Arabic dialect in Egypt and other Arab countries as *Jamey'ah* (literally, Society). The word "Society" has a close meaning in the English language, and it's defined in Webster's dictionary as "a voluntary association of individuals for common ends; *especially*: an organized group working together or periodically meeting because of common interests, beliefs, or professions". It is defined in Oxford dictionary as "An organization or club formed for a particular purpose or activity".

<sup>2</sup> Alonso (2015) demonstrated the Egyptian experience through a case study about newly established internet-based platforms for crowd funding.

institutional structure that helps in maximizing the benefits of this mode, simultaneously; keep its characteristics that made it standstill until these days.

## 1. Background and Literature Review

### What are Societies? How do Societies work?

The Society model depends in its general framework on the contract of *Al Qard Hasan* (interest free loan) Al Ajlouni (2017). It represents an important way in raising money for consumer needs and saving for short and midterm periods. Besides, Society is a remarkable phenomenon that needs in depth study in Muslim communities since it represents a substitute for the traditional banking system. According to its main structure and mechanism that has been known in Egypt and the Arab countries, Societies can be defined as an informal mode of group rotating credit raise funding in a crowd funding way between peers in a socially related homogenous group, based on no interest<sup>3</sup>. A group of relevant people as cousins, neighbors, colleagues at work, local village residents, or any related group decides to form a Society. Every one of them pays an equal particular amount of money each month (USD 10 as an example). The collected sum of money from the group is given each month to one of the participants (Al Ajlouni, 2015)<sup>4</sup>. Basically; this model of financing is a not profit based, hence, not devoted to business projects; it represents a way for raising money from individuals in a cooperative way to meet current expenditure and savings for a short and midterm periods. It bears no charge or any legal requirements or obligations.

The willingness and ability of poor people to save using a variety of informal mechanisms such as rotating savings and credit organizations (ROSCAs) and deposit collectors, sometimes at very high costs, has been documented earlier (Rutherford, 2009; Steel & Aryeetey, 1994). In an early study, (Ardener, 1964) pointed to the saving potential of ROSCAs, stating that "the most obvious function of these associations is that they assist in small-scale capital formation, or more simply, they create savings".

Research showed that this mode of finance is attractive to middle income and banked people in developing and developed countries in addition to the traditional cluster of beneficiaries of this scheme (Al Ajlouni, 2015; Ibrahim & Galt, 2003; Kedir & Ibrahim, 2011).

Although Societies are interested in the first place in credit, the saving side is not neglected; part of the participants in the Society aim at saving more than looking for credit as a drive to participate in Society (Al Ajlouni, 2015; Karlan, Ratan, & Zinman, 2014) raised this issue and proved that poor people can save. Other researchers provide evidence which suggests that the poor and less fortunate people have substantial demand for savings and making joint saving work (Banerjee & Duflo, 2007; Besley, Coate, & Loury, 1993; Collins et al., 2009; Dagnelie & Lemay-Boucher, 2012; Kedir & Ibrahim, 2011; Rutherford, 2009). Other studies talked about the importance of household savings in the informal and rural sector to finance economic development (Dekle & Hamada, 2000). The religious side of ROSCAs also counts and discussed the proximity of this mode of finance to the principles of Islam (Abdul-Yakeen et al., 2016).

### 2.1 Informal Finance

People used to help themselves in procuring required funds for different reasons. Building social safety net when current income or wealth were insufficient in cases of lump sum expenses as in the case of illness, disability, the need to get hold of essential household furniture, and capital assets for production (for micro enterprises), the initiatives were shaped and supported by cultural values and norms for those purposes.

Basically, formality of finance can be divided according to the provider; therefore, general kinds can be distinguished among the mainstream literature: formal, semiformal and informal. The formal financial

<sup>3</sup> The interest free base is not restricted to the Societies, family loans among the poor are frequently interest-free (Collins, Morduch, Rutherford, & Ruthven, 2009).

<sup>4</sup> Suppose that 20 persons participate in the process, each one of them will pay 10\$ monthly for twenty months and have one chance out of twenty to receive the collected monthly fund (USD 10 \*20= USD 200). The cooperative finance ends in due course of the twentieth month when all members have received their monthly payments. As noted; an amount of USD 4000 (20\*200) leaked out the formal financial system.

providers are the dominant kind. They are defined as: "those that are subject not only to general laws but also to specific banking regulation and supervision (Including all kinds of banks and non-bank financial intermediaries)" (Access, 2010). Semiformal providers are "registered entities subject to commercial laws but are not necessarily regulated or supervised by banks (including financial Nongovernmental organizations (NGOs), credit unions, and cooperatives)" (Access, 2010). The informal kind includes the interpersonal credit.

The term "informal finance" has been only vaguely defined by referring to a variety of financing sources apart from banks and stock markets (Allen, Qian, & Xie, 2013). No decisive distinction has been found between nongovernmental (or semiformal) finance and the direct personal credit among people through social networks.

The Financial Stability Board (FSB) recognized informal finance under the "shadow banking sector" in a broad definition as "credit intermediation involving entities and activities outside the regular banking system" (Banking, 2011). Some studies consider informal finance as the network financing between a group of persons who are related to each other by a particular non-official bond (i.e. relatives, neighbors, coworkers, etc.).

According to "Schreiner" (2001), informal finance is a good thing compared to no finance, and it will always have a place for both the rich and poor. This is the case of undeveloped and semi developed communities. "Schreiner" mentioned also that the informal finance often falls short compared to effective formal finance, especially for savings services. Developed communities are the example of this situation.

## 2.2 Popular Schemes of Cooperative Finance

### 2.2.1 Crowd funding and P2P

Raising funds from different sources known as Crowd Sourcing, or commonly known as Crowd funding (CF) implies raising financial resources from a large number of capital providers ("the crowd") without indicating the purpose of the funding (Moritz & Block, 2014). It is defined as "the financing of a project by a group of individuals (collectively, "the crowd") instead of professional "accredited" entities or individuals such as banks, venture capitalists or business angels (Mitra, 2012). Asserting the role of internet networks, CF, defined by Bradford (2012), is "the use of the Internet to raise money through small contributions from a large number of investors".

Bradford (2012) recognized different kinds of crowd funding as donation sites, reward and pre-purchase sites, lending sites (peer-to-peer lending), sites not offering interest, sites offering interest, and equity sites. (Beaulieu, Sarker, & Sarker, 2015) identified six distinct crowd funding business models: private equity, royalty, microfinance, peer-to-peer lending, rewards, and donation.

According to Industry Report based on the Predicts Massolution's 2015CF, the Global Crowd funding market reached USD34.4 Billion in 2015 (Massolution, 2015).

In the literature review of a study about crowd funding, (Moritz & Block, 2014) pointed out to several studies that examined the effect of social networks on the decision behavior of capital providers, which confirmed that social networks have a positive influence in reducing information asymmetries, and thus, increase funding probability (Everett, 2015; Freedman & Jin, 2008; Lin, Prabhala, & Viswanathan, 2013).

The basic idea and mechanism of crowd funding provide understanding about how to collect money from a group of people, regardless of the vehicle or goal of this fund raising (Moritz & Block, 2014).

Responding to the banks' retrench during the global financial crises, multiple initiatives have risen as substitute to banks in providing credit for persons and small businesses. Contemporary schemes as Peer-to-peer finance (abbreviated frequently as P2P lending)<sup>5</sup> is one of these alternatives. Moreover, some P2P platforms like "Zopa" (Established in 2005) developed dramatically as it become a reliable choice to finance beyond individuals to business entities.

<sup>5</sup>It is also called Circle Lending in USA.

Notwithstanding that P2P lending, as a kind of crowd funding (Bradford, 2012)<sup>6</sup>, has established in many developed economies, it became well known and gained recognition in developing economies (Xusheng, 2014). It appeared in USA in an institutional form known as Circle Lending. The mission of Circle Lending is to help individuals gain access to affordable credit and to promote successful debt repayment. It is also embodied in USA, UK, and many countries in another form called Peer-to-peer lending.

As of April 2013, the largest peer-to-peer business lending site in the UK, "Funding Circle" has facilitated approximately GBP100 million in loans to over 1,700 companies to date (Pierrakis & Collins, 2013). The potential market indicates that the projected market of P2P market in USA will be USD150 billion by 2025 (Hernandez et al., 2015)<sup>7</sup>. The "Funding circle" (newly established in 2010) managed GBP1bn (USD1.5bn) loans to 12,000 small businesses in the UK, USA, Germany, Spain and the Netherlands<sup>8</sup>. The platforms of P2P in United States of America issued approximately USD5.5 billion in loans in 2014.

The P2P arrangement is recognized by Moenninghoff and Wieandt (2013) as: "platforms that facilitate financial services via direct, one-to-one contracts between a single recipient and one or multiple providers". According to Klafft (2008), P2P lending "are online platforms where borrowers place requests for loans online and private lenders bid to fund these in an auction-like process". It is a "practice of lending money to unrelated individuals, or "peers", without going through a traditional financial intermediary such as a bank or other traditional financial institution. This lending takes place online on P2P lending companies' websites using various lending platforms and credit checking tools"<sup>9</sup>. In this market, Internet-based platforms serve as intermediaries or network orchestrators linking entrepreneurs with potential funders, bypassing banks as a mediator; the idea is that borrowers can pay less interest and lenders can earn more interest because overhead from a bank's involvement is minimized (Beaulieu et al., 2015; Bruton, Khavul, Siegel, & Wright, 2015).

Although the structural design of P2P differs in the collateral and connectivity between members, in addition to the mediation of a third party, some researchers consider that the concept of P2P lending was generally considered to have originated from the concept of the "Grameen Bank," or "Rural Bank," created in Bangladesh by Dr. Muhammad Yunus, a 2006 Laureate of the Nobel Peace Prize (Wang et al., 2015).

Compared to ROSCAS and Societies for instance, P2P has no direct relationship between lender and borrower side as many studies claim. An important point was raised by Galloway (2009): "It is important to note, however, that P2P "lending" is somewhat of a misnomer. In fact, no platform allows lenders to lend directly to borrowers".

As a remarkable breakthrough in the financial services industry, P2P websites reached out to institutional lenders such as asset managers, pension funds, hedge funds, family offices, and other institutions and marketed these loans as a new asset class (Beaulieu et al., 2015) . Prosper embody a clear example (Prosper.com, 2015). The Guardian,(editorial, 2014) mentioned that Zopa<sup>10</sup> is to "cut out the banks entirely".

In spite of the previous virtues, Crowd funding through P2P electronic platforms is still not viable or sustainable in the less-developed countries (LDCs); people in the rural areas –and poor areas around cities- can hardly get the essential services including electricity and stable network services which make up the tunnel for this kind of financial service. They can't easily have bank accounts which should be available to start dealing through P2P platforms.

Even in developing countries which are newly introduced to the P2P, the market is still without laws and regulations designed specifically for online lending industry as the case in China where the viability and sustainability is still under question also. Wang et al. (2015) described this situation: "no entry barriers in online lending industry. Some platforms can get online hastily by simply purchasing and

<sup>6</sup> As it is person-to-person lending, it is called also P2P investing (Wang, Xu, & Ma, 2015)-It is called also Social Lending (Malekipirbazari & Aksakalli, 2015) .

<sup>7</sup> <http://www.pwc.com/us/en.html>

<sup>8</sup> Retrieved from: <https://www.fundingcircle.com/uk/about-us/>

<sup>9</sup> <http://www.houseoflouis.net/financialmarkets.php?>

<sup>10</sup> Zopa is a Founding member of the P2P Finance Association (P2PFA) in Britain.

modifying some less expensive website templates. Lacking clear industrial standards, the fast development of P2P online lending industry in China cannot guarantee the quality of the platforms at the very beginning". A study about drawbacks of P2P in China focused on the fraud in this business and showed that it poses unprecedented risks of default and fraud (Xu, Lu, & Chau, 2015).

### 2.2.2 RCSs and ROSCAs

The idea of mutual personal credit, or the Rural Credit Cooperative (RCC) was founded in northern China in 1923 on the basis of 0 percent and was studied for a long time (it is known as Societies in China-1945) (Myers, 1970). During this time period, the Rural Credit Societies started (RCS)<sup>11</sup>, and it was described as a sort of savings society into which a member pays in order to receive a fixed sum in the future. The implementation spread to such an extent that by 1939, rural credit cooperatives were being established by the government throughout China (Hsiao-Tung & Chih-i, 1945).

The RCS premise was structured on a cooperative way of mutual personal lending, and time value was considered implicitly as the participants pay more or less according to their turn in the Society<sup>12</sup>. The RCSs can be viewed as the first efforts in China to advance a system of microcredit with group membership. It should be noticed that the Chinese experience has multiple versions and differ basically in the interest bearing and installment calculation (Fei, 2013; Gamble, 1954; Geertz, 1962; Hsiao-Tung & Chih-i, 1945).

Recent studies about China, evidence suggests and quite overwhelmingly, that friends and relatives no longer charge interest on loans. A study found that 61.57 per cent to 79 per cent of farm households used informal finance (He, 2006). Another study found that 47.36 per cent of households in Guizhou borrowed from RCC and 57.22 per cent from friends or relatives (He & Li, 2005). These numbers are very much in line with the numbers reported in the current study and underscore the significance of lending amongst friends. A study about Informal Lending amongst friends and relatives in China presented valuable information about the informal personal finance; it also revealed impressive results. The study showed that informal borrowing amongst farm household friends and relatives in rural areas is incredibly strong and culturally directed, where the interest charged amongst them is 0 per cent (Turvey & Kong, 2010). The study found that informal lending amongst friends occurs in more than 67 per cent of households that have some form of debt. It excelled the formal initiatives (Turvey & Kong, 2010).

The earliest records of ROSCA in Japan date as far back as 1275<sup>13</sup> (Salahuddin & Rashmi, 2015). Early research about the idea of rotating credit associations<sup>14</sup> showed that this premise has been working effectively in Asia and Africa (Geertz, 1962).

Geertz (1962) described the basic principle upon which the rotating credit association is founded: "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 of the association in turn. Thus, if there are ten members of the association, if the association meets weekly, and if the weekly contribution from each member is one dollar, then each week over a ten-week period a different member will receive ten dollars". Later definitions of ROSCAs and characteristics asserted the essence of this definition (Callier, 1990; Chiteji,

11 The author used the acronym RCS, while it's written RCF in the original text.

12 According to the RCS original model, anyone in need of money could organize a society and collect 10 members. At the first meeting the organizer will collect a total of 100 Yuan in prescribed amounts from all members and over the subsequent 10 periods, will repay into the pool an amount exactly equal to 100 Yuan. At the second meeting a subscriber receives 100 Yuan and this is treated as a loan. Since it is held for the longest period the first subscriber will have to deposit more than all others. The third subscriber pays a little less to account for shorter loan duration (4.5 years) and so on. The last subscribers are actually contributing as savings and for this they have to pay in less. Thus the first subscriber who receives 100 Yuan in the second meeting might contribute a total of 145 Yuan over 5 years while the 10th subscriber would contribute only 55 Yuan in total to - - receive 100 Yuan in year 5 (an 81% simple return on savings). The organizer thus gets an interest free loan but must also provide a feast at each meeting. If any member defaults the organizer is responsible for making that member's payment so the RCFs had to rely on existing ties and trust (Hsiao-Tung & Chih-i, 1945).

13 This doesn't contradict with the fact that the first documented study about Societies was in China, because records not studies found in Japan

14 Many terms are used in the literature for this single type of institution at the time of (Geertz) study (1962): contribution clubs, slates, mutual lending societies, pooling clubs, thrift groups, friendly societies, etc.

2002; Dagnelie & Lemay-Boucher, 2012; Donoso, Altunbaş, & Kara, 2011; Kedir & Ibrahim, 2011; Kimuyu, 1999; Mrak, 1989).

As a source for informal finance, ROSCAs are seen as a way of filling the gap in many developing countries – in some areas in developed countries also- where access to formal savings or credit facilities is limited or non-existent (Etang, Fielding, & Knowles, 2011). They are also seen "as vehicles for resources mobilization and gateways to economic prosperity for families especially those in lower and middle income category" (Waweru, 2011). These initiatives are simple in structure and system; they have clear and easy characteristics which made them easy and affordable for all people. Interest is not calculated (Interest Free), rotation is determined by lot or by agreement, membership tend to be small, and a separate staff of officers does not exist (Geertz, 1962).

Kirton (1996) recognized three general categories of ROSCAs: Mutual, Commercial, and Financial<sup>15</sup>. Mutual ROSCA is what the mainstream of ROSCAs follows; it is the interest of the current study. Such ROSCA is the most popular and it is primarily based on social bonding among the members.

The standard version of Mutual ROSCA follows the fixed selection order which is determined by random selection or agreement between members. This kind is the most popular one, and the overwhelming portion of classical ROSCAs is interest free. According to the random ROSCAs premise, participated members contribute to a pot which is allocated by lottery in each round. In the bidding ROSCAs, savings are assigned through auctions; a participant receives the pot earlier by bidding more than other participants. The highest bid wins the pot and the earning of the auction is distributed among the members or added to future pots (Besley et al., 1993; Klonner, 2003).

The strong social off-Line networks between members strengthen the safety umbrella that Society offers to its members. As a kind of ROSCAs, mutual trust and social ties strengthen the Society and hedge it against delinquency and default risk.

In spite of the fact that Societies differ in the liability which is due on the borrower to his peers, instead of the bank or Micro Finance Institution MFI<sup>16</sup>, as in the case of group lending, they both have a common commitment framework built on the social relations and its enforcement. This calls them to monitor one another through a process of peer monitoring, and exclude risky borrowers from their group (Morduch, 1999). Personal trust among group members and social homogeneity represent an important factor for loan repayment (Cassar, Crowley, & Wydick, 2007). This system of peer monitoring plays a crucial role in alleviating ex ante moral hazard problems (Besley & Coate, 1995; Chowdhury, 2005; Conning, 1999; Stiglitz, 1990). Group lending through Joint Liability Group (JLG) lending mechanisms helps in mitigating the adverse selection problem by assortative matching in the formation of groups (Mukherjee & Bhattacharya, 2015). This community-based monitoring may be a cost-efficient system of monitoring, because people living close to each other have better information about borrowers than banks (van den Berg, Lensink, & Servin, 2015; Varian, 1990).

Group lending with joint liability (with peer monitoring and peer pressure) can, however, lower the incidence of such strategic default (De Aghion & Morduch, 2004). Ghatak (2000) proved that "joint-liability lending contracts, similar to those used by credit cooperatives and group-lending schemes, will induce endogenous peer selection in the formation of groups in a way that the instrument of joint liability can be used as a screening device to exploit this local information".

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15 According to Kirton (1996) , "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 commission for performing such services as a bankers and attempt to optimize the mix of mobilized 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."

16 It is a Mutual Group lending against as the case of bank Group lending. "In this group-lending mechanism the institution lends to micro-entrepreneurs organized as small affinity groups, sharing similar socioeconomic backgrounds. The group members use their social capital to jointly assume liability and peer-monitor their loans, thereby mitigating the information asymmetric risks for the lender (Ghatak, 2000; Ghatak & Guinnane, 1999; Marakkath & Attuel-mendes, 2015)

### 2.2.3 Egyptian Experience ROSCAs and Microfinance

Egypt is the largest Arab country that provides other countries with a rich experience in many aspects; it is a pioneer country in microfinance. Mit Ghamr in Egypt witnessed the first modern practice of Islamic finance, it started this experience 1963. According to Alonso (2015), this project had a strong focus on development and provided micro-savings and micro-loans before microfinance was conceptualized as such in the 1970s. Societies are one of the social initiatives that were followed by other Arab countries as a way to deal with current financial needs. In spite of that, very little literature was found on the Egyptian and Arab experience in using the ROSCAs. El-Gamal et al. (2014) in a study conducted in poor villages in Egypt introduced a new model of micro-lending based on the well known ROSCA structure, an alternative microfinance model which aims to establish credit unions for the poor that includes bank's involvement, wherein the bank plays the role of a guarantor in the familiar ROSCA. They also addressed the possibility of failure coordination in the standard ROSCA structure (fixed collection order) by introducing bank insurance<sup>17</sup>.

Alonso (2015) shed light on two internet-based platforms that have recently been established in Egypt as the first Islamic finance and Islamic microfinance crowd funding platforms of the region, respectively. According to Alonso, these examples provide the possibility of a fruitful common ground between the Islamic finance and crowd funding industries.

A study conducted in a rural area in Egypt by Mohieldin and Wright (2000) found that ROSCAs is one of the dominant kinds of informal finance (alongside with occasional borrowing from friends and relatives and Islamic investment companies). The study found that the informal finance was relatively more active than the formal one as poor people had more appetite to depend on informal finance and informal loans associated with short term consumption and working capital needs. One of the interesting findings is the role of traditions and religion in the behavior of people and perception of the informal finance that built on personal relation networks. It worked as important collateral that established effective enforcement mechanism in case of default.

## 3. Survey Analysis

### 3.1 Objectives

The main purpose of this paper is to report on a survey conducted in Egypt about the motives behind participating in Societies, and how they are perceived by participants according to sex, education level, and income. Another purpose of this paper is devoted to clarifying the unique nature of Societies as a premise of informal finance to manage financial aspects that bears zero interest rate and its relation to the main stream of other modes of informal crowd funding for persons and households.

### 3.2 Methodology

#### 3.2.1 Study Design

This is a descriptive quantitative study that depends mainly on a questionnaire. This method for collecting data is convenient for the selected sample, and easy for understanding and statistical analysis. The study surveyed a sample of participants who depend on the Societies to help in managing their financial requirements.

#### 3.2.2 Sample Description

A sample of 204 respondents from the employees in Helwan area in Cairo, the Egyptian capital, who joined Societies, answered the questionnaire. Participants were informed that participation in the study was optional.

<sup>17</sup> "The banker guarantees the stream of payments and loans to any member of the ROSCA who continues to make required payments on time. Those who default become debtors to the bank, and if they default on their debt to the bank".

**Table 1: Cross tabulation between sex and educational level**

| Certification           | Sex    |        | Total  |
|-------------------------|--------|--------|--------|
|                         | Male   | Female |        |
| under high school       | 0%     | 6.9%   | 4.9%   |
| high school and diploma | 46.7%  | 33.3%  | 37.3%  |
| higher education        | 53.3%  | 59.7%  | 57.8%  |
| Total                   | 100.0% | 100.0% | 100.0% |

According to the Cross tabulation between sex and educational level which table 1 summarizes, the main demographic and economic characteristics of the participants were as follows: %71 were females, 57.8% of the respondents hold higher education certificates, 37.3% have high school and diploma certificates, and less than 5% of the respondents have under high school certification<sup>18</sup>.

Income clusters in Table 2 shows that 45% of the participants gain less than 1000 Egyptian pounds (EGPs) (about 130 US dollars), 39% of them receive between 1000– 2000EGPs, and the residual were in the above 2000 pounds cluster. Income distribution according to Sex unveils that males receive monthly income better than females, as 51.4% of the females lie in the lowest income cluster, contrary to 30% of the males.

**Table 2: Cross tabulation between sex and income**

| Income (EGP)   | Sex    |        | Total  |
|----------------|--------|--------|--------|
|                | Male   | Female |        |
| less than 1000 | 30.0%  | 51.4%  | 45.1%  |
| 1000 – 2000    | 56.7%  | 31.9%  | 39.2%  |
| More than2000  | 13.3%  | 16.7%  | 15.7%  |
| Total          | 100.0% | 100.0% | 100.0% |

**3.3 Data Collection**

The data is obtained from a sample of 204 respondents from Helwan area in Cairo- Egypt. The female members' portion was about 71%. The sample is restricted to employed people who join Societies as the subject of study. They're randomly selected to answer the questionnaire.

Participants were asked about their income, education, and sex, in addition to the motives behind participation in the Societies, their experience, how they judge them, and if they think Societies should be institutionalized or maintain the status quo.

**3.4 Limitations**

The study's subject is multidisciplinary and fresh; it was hard to find solid theories and scientific studies about it. Moreover, the sample was selected randomly but according to the individual's cooperation to complete the questionnaire. Females were better respondents than males, which may explain the high portion of them in the sample. Finally, the high percentage of educated people may be due to the fact that the sample was selected in an urbanized area, while circumstances in the rural and suburban areas differ considerably.

**4 Results and Discussion**

The demographic characteristics and motives that support members' intent to participate in the societies and their perception of the societies' performance will be discussed in this part.

**4.1 Demographic Characteristics**

As the sample description shows, the high education level of the participants is attributed to the fact that the study covered an urban area where literacy is high, while it's lower in rural areas. Although this affects the generalization of the study, it is expected to be reflected on the awareness regarding Societies.

<sup>18</sup>The high percentage of educated people belongs to the fact that the sample selected in an urbanized area, the fact is that in the rural and suburban areas differ dramatically.

The average income of a substantial portion of the participants (45%) is less than 1000 EGPs, and they suffer from high poverty rates, not far away from the ratio of the average monthly income per working person in urban areas where 55.6% of the national sample equals 864.8604 EGPs<sup>19</sup> (CAPMs, 2014).

These findings are not far from other estimates of poverty in Egypt which reach 26.3% of the average total population (Kouchouk et al., 2015). It is also consistent with the fact that the daily income in dollars is close to \$2<sup>20</sup> (CAPMs, 2014).

This implicitly means that the high rate of poor people represents important drive to participate in Societies in Egypt.

#### 4.2 Reasons Behind Participation and General Perception of Societies

The general trend will be tracked via calculating the value-weighted averages for each question in this part. Each probable answer is given a fixed serial number. Then, the average is calculated to find out the trend in the concentration of answers for each question. Five-scale range of answers is used as clarified in table 3 in order to compare the estimated average with these ranges, matching the average with the scale that it belongs to, and the answer that the range points at comes after that. This will be used in analyzing the reasons behind participation and general perception of Societies.

**Table 3: Weighting ranges and the encountered paragraphs in case of five answers possibility**

| Paragraph Number | From | To less than |
|------------------|------|--------------|
| 1                | 1    | 1.79         |
| 2                | 1.8  | 2.59         |
| 3                | 2.6  | 3.39         |
| 4                | 3.4  | 4.19         |
| 5                | 4.2  | 5            |

Source: Abdulfattah, (2008).

##### 4.2.1 Reasons Behind Participation

Table 4 shows that about 52% of the participants stated that the current need for money was the motive to join Societies, future need for money was the motive for 28.4% of them, saving for the future without a particular need is the drive for 9.8%, while the intention of helping others was the motive of 8.82% of the sample.

**Table 4: Reasons behind Participation**

| Reason                     | Subtotal |
|----------------------------|----------|
| Current Need for Money     | 51.96%   |
| Expected Need for Money    | 28.43%   |
| Just Saving for Future     | 9.80%    |
| Willingness to Help Others | 8.82%    |
| Other                      | 0.98%    |
| Total                      | 100.00%  |

The individual questions about the main purpose behind participation highlighted the current need for money as the main reason; the weighted arithmetic mean of the answers related to the same question asserted the same reason, as table 8 below shows. When adding the expected need for money (28.43%), we find the need for money for expending whether instantly or in the near future represent the overwhelming portion of the reasons behind participation (80.39%). Saving motive looks very small in comparison to the expenditure motive, with 9.8 % of the total. These findings point out that the poor people have less appetite to invest as they still can't meet their essential needs.

In regard to reasons behind going to Societies for credit, table 5 reveals that 59.8 % of the sample members adopt Islamic Shari'ah viewpoint against traditional banks (Commercial Banks that use

<sup>19</sup> Monthly income = (Annual Household Income/ (No. of H.H. Members /No. of H.H. Members Who Have Any Source of Income))/12 = ( 25,000 / (26842 /11143 ))/12 = 864.8604

<sup>20</sup> Daily income in USD =(Yearly H. Income /(No. of H.H. Members/ No. of H.H.)/ 365)\*1/8 ( \$1=EGP8)

interest rate basically), and it was their motive to join Societies. The high cost of borrowing from banks was the motive of 18.6% of the sample members to go to Societies. The routine procedures and credit requirements constituted 10.8% and 8.8% of the reasons for being involved in Societies; respectively.

**Table 5: Reason Behind Leaving Banks to Finance via Societies (Borrowing)**

| Reason                           | Subtotal |
|----------------------------------|----------|
| Shari'ah Viewpoint Against Banks | 59.80%   |
| Tough Procedures                 | 10.78%   |
| Hard Collateral Policy           | 8.82%    |
| Cost of Borrowing                | 18.63%   |
| Other                            | 1.96%    |
| Total                            | 100.00%  |

As table 6 elucidates, using Societies instead of banks for saving based on Shari'ah viewpoint against traditional banks constituted 57.8% of the sample. About 17.7% of the respondents said that the low revenue banks offer for savings is there reason to join Societies, while 10.8% of them see that the banks don't offer suitable products for their saving purposes. A ratio of 8.8% of the respondents doesn't trust banks in general which is their reason for being members in Societies.

**Table 6: Reason Behind Leaving Banks to Finance via Societies (Saving)**

| Reason                           | Subtotal |
|----------------------------------|----------|
| Shari'ah Viewpoint Against Banks | 57.84%   |
| Low Return                       | 17.65%   |
| No Suitable Bank Products        | 10.78%   |
| Distrust All Kinds of Banks      | 8.82%    |
| Other                            | 4.90%    |
| Total                            | 100.00%  |

The individual questions about the reason behind leaving banks to finance via societies for borrowing and saving showed the role of Shari'ah viewpoint against commercial banks.

Analyzing the participants' responses about the drives for using Societies rather than banks -whether for borrowing or saving- shows that the religious dimension plays a vital drive for joining Societies instead of going to banks. This is clear as Shari'ah viewpoint against banks occupies 59.8% and 57.84% in borrowing and saving, respectively. This has an important implication as the Islamic modes of finance can be easily accepted. In a Muslim majority country with natural tendency toward commitment to Islamic believes, people in Egypt have a high degree of sensitivity regarding religious viewpoint in their economic activities.

In spite of the fact that the religious dimension counts considerably in using Societies rather than banks for borrowing and saving, the economic factors have an important share as well. The weighted arithmetic means of the answers related to the reason behind leaving banks to finance via Societies for borrowing and saving showed that the economic factors have the mean response as shown in table 8 below, the tough procedures in case of borrowing, and low return in case of saving. These findings are consistent with a previous study which pointed out difficulties in banks in regard to obtaining the institutional credit, documentation, terms and condition, collateral etc. for people (Salahuddin & Rashmi, 2015).

The respondents' answers about the kind of spending summarized in table 7 shows that 42% of them aim at paying for essential purposes like medication and study expenses for them and their family members. About 18.6% of them resort to Societies in order to pay for durable goods such as home furniture and cars, and the same ratio of the respondents depend on Societies for raising e funds for buying apartments or home rental installments. The table shows also that 14.7% of the questioned sample gets involved in Societies to procure money for marriage.

**Table 7: Purpose of Procuring Money to spend them in:**

| Reason             | Subtotal |
|--------------------|----------|
| Buying Durables    | 18.63%   |
| Essential Expenses | 42.16%   |
| Housing            | 18.63%   |
| Marriage           | 14.71%   |
| Other              | 5.88%    |
| Total              | 100.00%  |

The biggest portion (42.16%) of the fund raised by societies is allocated to essential expenses. The weighted arithmetic means of the answers related to the kind of expenditure of the Society's sum that appears in table 8 asserted the same result. The reason for that could be attributed to the insufficiency of the current income to cover expenses regarding these basic needs. The slight portion of participants seeking Societies for housing and marriage against buying durables and essential expenses could be attributed to the same reason in addition to the fact that the sums made by Societies are small in comparison to the money needed for housing and marriage.

The estimation results of the general trend of the sample motives for joining Societies are summarized in table 8. This table shows that the current need for money represented the core motive for joining Societies, while complicated bureaucratic procedures to be followed when going to banks was another motive. The low revenue rate that banks offer for saving accounts characterized an additional reason for using Societies. Table # shows also that the questioned sample use the funds to finance urgent essential expenditures like medication and study expenses.

**Table 8: Results of estimating the weighted arithmetic mean of the answers related to the motives behind participating in Societies and the most weighted answer (general trend)**

| Paragraph  | Weighted Arithmetic Mean | The Range which the Arithmetic Mean belongs | Weighted answer (general trend) |
|--|--------------------------|---|---------------------------------|
| Main Purpose Behind Participation                                | 1.7843                   | 1   | Current Need for Money          |
| Reason Behind Leaving Banks to Finance via Societies (Borrowing) | 1.9216                   | 2   | Tough Procedures                |
| Reason Behind Leaving Banks to Finance via Societies (Saving)    | 1.8529                   | 2   | Low Return                      |
| Purpose of Procuring Money to spend them in:                     | 2.4706                   | 2   | Essential Expenses              |

#### 4.2.2 General Perception of Societies

As table 9 clarifies regarding the perception of the sample opinions about Societies, an important result appears clearly: the majority of the respondents (57%) strongly agree that joining Societies effectively contributed to solving financial problems totally or partially, in addition to 33% of them agree on that. Besides, 90% of the sample agrees that being joining in Societies effectively contributed to solving financial problems of other people. About 47% were with legally organizing Societies, and 48% were with disseminating this premise.

**Table 9: Results of sample members' valuation of Societies**

| Paragraph  | Strongly Agree | Agree | Neutral | Disagree | Strongly Disagree | Total |
|--|----------------|-------|---------|----------|-------------------|-------|
| Participation in Societies Helped Effectively in Solving Sole Financial Problems   | 57%            | 33%   | 8%      | 2%       | 0%                | 100%  |
| Participation in Societies Helped Effectively in Solving Others Financial Problems | 43%            | 47%   | 6%      | 4%       | 0%                | 100%  |
| Are you with Regulating Societies  | 23%            | 24%   | 25%     | 22%      | 7%                | 100%  |
| Are You with Expanding the Premise of Societies                                    | 20%            | 28%   | 30%     | 20%      | 2%                | 100%  |
| Do You think that the Societies can be Substitute to Banks in Personal Credit      | 31%            | 40%   | 15%     | 12%      | 2%                | 100%  |

One of the important results revealed by this table is that 71% of the respondents see that Societies can be an alternative to banks in providing personal loans. The estimation results of the general trend according to the previous discussion are shown in table 10.

**Table 10: Results of estimating the weighted arithmetic mean of the answers related to the sample members' valuation of Societies and the most weighted answer (general trend)**

| Paragraph  | Weighted Arithmetic Mean | The Range which the Arithmetic Mean belongs | Weighted answer (general trend) |
|--|--------------------------|---|---------------------------------|
| Participation in Societies Helped Effectively in Solving Sole Financial Problems   | 1.5490                   | 1   | Strongly Agree                  |
| Participation in Societies Helped Effectively in Solving Others Financial Problems | 1.7059                   | 1   | Strongly Agree                  |
| Are you with Regulating Societies  | 2.5294                   | 2   | Agree                           |
| Are You with Expanding the Premise of Societies                                    | 2.5196                   | 2   | Agree                           |
| Do You think that the Societies can be Substitute to Banks in Personal Credit      | 2.0882                   | 2   | Agree                           |

The general perception of Societies part shows an impressive positive perception of this scheme; this is what individual answers revealed along with the weighted arithmetic means of the answers related to this side. The questioned sample was also enthusiastic for developing this idea by regulating it and disseminating it to a wider range.

The strong positive attitude toward Societies should be put in the right frame as it is appropriate in solving short term financial problems. This is clear from the analysis of the period, kind of expenditure, and sums of the Societies which has been discussed earlier, while viability of Societies to help in solving long term problems or capital expenditure will be investigated in a later study.

The negative viewpoint of the questioned sample towards banks as seen in the analyzed motives behind using Societies is reflected as a positive opinion towards the ability of Societies to be a proper replacement of banks for personal credit.

**Conclusion**

The main purpose of this study is to report on the main characteristics of the Societies in Egypt. In Addition, it aims at clarifying the unique nature of Societies as a premise of informal finance that has been at work for many decades in the world, including Muslim societies as a kind of financial coherence between homogenous social groups to manage financial aspects that bear zero interest rate, and its relation to the main stream of other modes of informal crowd funding for persons and households.

The current study showed that Societies have a long history mode that has been followed in many countries regardless of the nomination. An important point that appeared through literature review is that the finance without interest rate is viable and acceptable, whether it is called Islamic or used by non-Muslims.

The main findings agree in the general framework with the previous literature, but some differences in the demographic traits were noticed. The analysis of demographic traits showed that this model is not restricted to a particular gender since males and females participate in it. Contrary to the samples of previous studies which concentrate on less educated people, the sample members in this study show a well-educated society as 57.8% of them have high education level.

The income analysis uncovers that the majority of the questioned sample have income near to the national level in Egypt, which lies under the abject poverty line, similar to the people included in most of the previous studies.

With regard to the purpose of engaging in Societies, the survey results show that the people involved devote the majority of the Society's sum for expenditure on current essential short term needs, which means that these findings are not similar to the findings of earlier studies (Besley et al., 1993; Mohieldin & Wright, 2000). The respondents who need the money for housing and marriage as long term "projects" constituted a small portion. The findings in this regard point out to the fact that the people who join Societies have fewer propensities to invest as they still need more funds to meet their essential needs. In this regard, the Egyptian case is similar to the Jordanian experience (Al Ajlouni, 2015). The role of societies in saving is still tiny as the need for expenditure is still not satisfied.

Other studies proved that the participation in a ROSCAs is a device for committing members to save money and to deal with self-control problems (Dagnelie & Lemay-Boucher, 2012), which apparently differ from the motives in the current study.

The study showed that the majority of persons included in the sample are sensitive to Islamic Shari'ah standpoint, as it plays an important role in leaving banks towards societies.

In line with Al Ajlouni (2015), the current study showed that the general trend towards Societies is very positive by Participants. They clearly agree that Societies were a very successful way for helping themselves and others in solving financial problems. The majority of participants were with regulating Societies and expanding the premise for more people. The survey also indicates that the societies can be a substitute to banks in procuring personal credit.

As the research on Societies in Egypt is still fresh and multidisciplinary, the need for survey studies is still important. The in-depth studies thereafter will benefit from this kind of field study research. The comparative approach between countries and the possibility of applying Society's model on an institutional level in Muslim countries have a good potential. Academic and research institutions are invited to give attention to the subject of cooperative and personal finance in their research and curriculum of business and finance studies.

The role of government in Egypt is crucial in encapsulating this traditional mode of social-based initiatives in the financial legislations, in addition to adopting this premise and developing it or even structuring it, and to make recognized as a part of the national strategy for poverty alleviation.

More organizations which are interested in fighting poverty in the Muslim countries are invited to benefit from this model of self microfinance scheme as an instrument for helping poor people. It should be adopted at the national level or regional level by the Islamic Development Bank and other development institutions.

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