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**Finance Pooling:  
The self-coordination of 'Esusu' saving scheme among traders  
in local Nigerian markets- a case study of Dubge market  
Ibadan, south-west Nigeria**

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# Contents

List of Tables	v
List of Figures	v
List of Maps	v
List of Acronyms	vi
Acknowledgment	vii
Abstract	viii
Relevance to Development Studies	viii
<b>Chapter 1 Background of the Study</b>	<b>1</b>
1.1 Introduction	1
1.2 Research Questions	3
1.3 Concepts applied in this Research	3
1.4 Researcher Positionality and Ethics	3
1.5 Organization of Research Chapters	4
<b>Chapter 2 Finance Pooling, Formal Finance vs Informal Finance</b>	<b>5</b>
2.1 Introduction	5
2.2 The Concept of Finance Pooling	7
2.3 Informal Finance vs. Formal Finance in Nigeria	8
2.3.1 Existing Types of Informal finance in Nigeria	9
2.4 Conclusion	12
<b>Chapter 3 Methodology</b>	<b>14</b>
3.1 Research Methodology	14
3.2 Study Site: Dugbe Market	14
3.3 Data Collection	15
3.4 Data Analysis	16
3.5 Limitation of the Study	17
<b>Chapter 4 Operation and Set Up of Esusu in Dugbe Market</b>	<b>18</b>
4.1 Introduction	18
4.2 Roadmap to Alternative Response to Mainstream Finance	18
4.3 Characteristics of Respondents	18
4.4 Analysing the Operational Mechanism of Esusu Dugbe Market Space	20
TAN’PE O, Who Called You? – Overview of the Process, Conduct of Esusu	20
Except Extreme Days, Every day is an Esusu Day	23
Collection and Distribution of Pooled funds in the Market	23
Distinctiveness in the Coordination, how so?	24
4.5 Coordination Challenges in Esusu	26

4.6 Conclusion	28
<b>Chapter 5 Building Collective Confidence through Trust in Esusu</b>	<b>29</b>
5.1 Introduction	29
5.2 Who Are Your Cliques? Exploring the Trust and Social Relationship among Members of Esusu groups	29
5.3 Conclusion	31
<b>Chapter 6 The Attractiveness of Informal Savings</b>	<b>33</b>
6.1 Introduction	33
6.2 Esusu has Become a Coping Strategy	33
6.4 Conclusion	35
<b>Chapter 7 36</b>	
7.1 Conclusions	36
7.2 Recommendation	37
<b>REFERENCES</b>	<b>38</b>
Appendices	43
Appendix 1 - Consent Form	43
Appendix 2 - Interview guide	43

## **List of Tables**

Table 1.1 Distribution Showing Social Economic Demographic	34
Table 1.2 Data showing access to financial Institutions	34
Table 1.3 Data indicating frequency at which platforms are used	34

## **List of Figures**

Figure 1.1 Conceptual Framework	18
Figure 3.3 Pictures showing Dugbe market	15

## **List of Maps**

Map 1.1 Map of Ibadan	14
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## **List of Charts**

Chart 1.1 Effectiveness of Esusu	25
Chart 2.2 Distribution exploring trust and social ties	31

## List of Acronyms

BOFIA	Banking and Other Financial Institution Act
CBN	Central Bank of Nigeria
MSMEs	Micro Small and Medium Enterprises
NBFIs	Non-Bank Financial Institutions
RCA	Rationality and Collective Action
RoSCA	Rotating Saving and Credit Association
SMEs	Small Medium Enterprise
UNDP	United Nations Development Programme
UNRISD	United Nations Research Institute for Social Development

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## **Abstract**

The existence of the informal economy is crucial to the growth of local and community development. This study aims to provide a broad understanding on the mechanisms and strategies put in place by local traders to carry out successful saving schemes despite the absence of a corporate structure. 'Esusu' (pooling finance) is a well-known practice historically especially in developing countries, though known and called by different names in different countries and tribe, it's contribution in enhancing economic and financial development at the local level remains relevant. However, there are significant gaps that are yet to be explored especially in the coordination of these saving scheme in the local urban market within the informal economy. This research raises the awareness on the processes involved into setting up a saving group, it takes a deeper look into the coordination aspect and insight were gathered from different coordinators of these said groups identified within the study population and location.

The paper provides comprehensive insights into the operationalization of saving schemes, the role of the coordinators of the group, the challenges of organizing such group, social trust relationship that is employed in establishing these groups, and the preference of the scheme over formal financing institutions.

The study combines a mixed method approach using qualitative and quantitative through interviews and descriptive statistics. The study finds out that 'Esusu' in the market-place remains the highly preferred means for small business owners to get access to credit facilities. It also reveals that, despite the vulnerability of different groups being exposed to several risks of default by the members of the groups, the willingness to become part of the group remains high. Additionally, drawing on existing literature that classifies these saving scheme as poor man's bank, it remains evident in this study that the participants of these groups cannot be entirely classify as poor using the yardstick of what the standard recognition of what 'poor means by the World Bank of living below \$2.15 per day.

## **Relevance to Development Studies**

The effects of communal saving scheme have been argued from several perspectives for years and several authors have taken different lenses in analysing the benefits of these scheme in the economy and development impact it has in a community or household. The study revealed that, groups are not self-coordinated, as there is always someone in charge of coordinating affairs. In the case of this study, coordinators of these groups have so much power in calling the shots of what happen in the group. They enforce the rules, they select members of their choice, they generally decide how the group is managed.

This understanding can be useful for researchers to shift focus a bit from rural informal finance and explore conditions at which urban informal finance operates and who the beneficiaries of these schemes are. Policymakers and regulators can benefit from understanding the knowledge produced by this research to create policies that acknowledge and recognize contributions of the informal economy.

## **Keywords**

Esusu, Informal Finance, Formal Finance, ROSCA, Finance Pooling, Social Solidarity Finance, Trust.



# Chapter 1 Background of the Study

## 1.1 Introduction

In Nigeria, Local market traders have a variety of financial demands, including the ability to borrow money at a fair rate, save money consistently, and be insured against unforeseen events that result in large out-of-pocket expenses. To varying degrees, the Rotational Savings and Credit Association (ROSCA), can satisfy these purposes. The Rotational Savings and Credit Association (ROSCA) consists of people who work together to pool and share financial resources. According to Owusu et al. (2013), ROSCA is mostly practiced by petty traders, and the participants alternatively receive the entire amount gathered after deciding how much to contribute regularly. The workings of saving scheme cycle such as ROSCA reveals that the first member who receives the pooled funds is obliged to continuously make contributions until the cycle ends. It is a continuous activity until all members of the group successfully receive their turn. It also shows us that in case of emergencies or extreme cases, the cycles can be altered and reshuffled again to fit the purpose, for instance, if one of the members need funds urgently, in persuading other members to urgently take a turn might alter the rotational structure, the member with the emergency will have to rely on strong social bond and collaboration of the group for the request to be granted. This gives the idea of reciprocity a new meaning since it implies that being open to switching the receivers' order in one ROSCA will likely result in reciprocation in a subsequent rotation if the circumstances are reversed (Sandor, 2010). These in between process that takes place within the cycle is handled and supervised by the capacity of the coordinator.

Baruah, (2023, p.237 in Yi, 2023) acknowledges the limitation of social economy in respect to what it can achieve, however recognises solidarity financing and other microcredit scheme which are integral in the social economy of having potential for reducing household economic stress. In the same vein, seen by its importance, Torres, (p.388 in Yi 2023) referred to social solidarity organizations as an umbrella for cover that aims towards achieving collective goals. While this literature has emphasised the importance of solidarity finance, relatively little is known about the process and the agents that start the process. Solidarity finance requires coordination and a social network to start with.

The Rotational Savings and Credit Association (ROSCA) is like the Nigerian 'Esusu' but also differs in amount and distribution model and is sometimes referred to as an informal financial sector that operates outside the purview of formal institutional finance. Esusu exists in a variety of forms, from a cycle of monthly contributions to withdrawals without interest to re-serve funds, as one part of the institution; it could also function in modulated cycles with interest, an auction mechanism which is used to determine fund distribution (Purcell, 2000).

Esusu denotes a financial resource offered by family, friends, neighbours, and group-based savings and loans in which individuals pools some set of amounts each day, weekly, and monthly, with one member of the group taking the entire amount raised during that period on a rotating basis (UNRISD, 2013; Bruton et al., 2021). It is also seen as a communal financial resource pool strengthened by group involvement, which has successfully supported the needs of local communities (Meyer, 2020). Sebei (2004) argued in his study that informal savings and credit associations in the indigenous community have significant advantages over cooperatives that lack an Esusu base. The author further argued that these models of savings are also more effective at mobilizing individual members' savings for lump sum distributions than cooperative societies (Sebei, 2004).

According to Maynard, Esusu in Africa became a necessity that served as a credit system in the lack of a banking system such that came into existence after British colonisation. Its major aim was to provide lump sum of money to meet obligations (Maynard, 1996). Esusu customs are present outside of Africa in the Caribbean Islands, where they most likely migrated during the era of the transatlantic slave trade. The relocation of the Yoruba Esusu rotating credit organization in the Anglophone Caribbean states that Esusu exist in all countries of the Caribbeans, it is called “partners” in Jamaica, “Susu” in the Trinidadians, the Guyanese calls it “boxi money”, in Barbados they use the term “meeting” to describe Esusu (ibid; p.102). In some American cities, immigrants played a key role in the establishment of contribution societies (Bascom, 1952 in Maynard 1996).

The Esusu in Nigerian local market setting is practised among diverse community with individuals from different socio-economic backgrounds, religions, political affiliations, educational literacy, tribes, and ethnic groups. Esusu are means at which people come together to pool resources to further their own, as well as group goals. There are various ways to do this. First, some organizations do little to no lending to mobilize savings. Secondly, certain lending units do not actively mobilize savings. Third, there are self-help financial groups that use different kinds of savings, such as those offered by licensed cooperatives and those that rotate (Ojenike and Olowoniyi, 2013).

According to Seibel (2004), Esusu is typically connected to revolving credit and savings associations in the literature on informal finance. According to the United Nations Research Institute for Social Development (UNRISD,) financial systems create wealth by promoting innovation and economic expansion, yet frequently deny access to financial services to low-profit socio-economic players, such as those involved in Social and Solidarity Economy (SSE). As a result of this, these organizations or businesses seek out the services of traditional lenders to support their financial needs. A study by Chliov et al. (2015); Ojong and Simba (2018), underscores the significance of obtaining financial resources for persons seeking to start a business venture in difficult entrepreneurial environments, in which microlending has been found very useful as an effective financing technique. According to Reifner (2000), microlending is used as a credit tool to support the public, especially marginalized people, from regular economic activity. It requires individuals to enter an arrangement that involves small loans, savings, or other forms of payment services (Chen et. al., 2017; Phamv and Lensik, 2007). This is the way in which an Esusu group contributes to society.

In addressing some issues associated with informal savings, and the possible risk of community-based savings plans like Esusu in the market, on the other hand, the informal nature of the market exposes traders to vulnerability and insecurity; therefore, establishing trust in the group remains a paramount stronghold for the sustainability of the initiative. to truly comprehend how a program or initiative functions, it is important to examine how it is organized and how it remains attractive over a long period of time. This is also drawn from the personal experience of my mom on some of the challenges she encountered while participating in saving groups within the marketplace and how it affected her business trade, which translated to the frustration I received at home from the event of “members absconding with funds” without any trace of recovery.

The concept of Esusu has been studied from different lenses using several approaches in analysing the impact and effectiveness of the scheme, and from these studies, we can establish that community-based savings are very effective looking at the purpose that they serve in the community. Despite the notable impact of how the scheme has contributed greatly to those who participate in providing them financial freedom and inclusivity, Degryse, Lu, and Ongena (2016) have minimized the significance and labelled it as “bad finance” or

“underground financing” because it lacks provision of security and is somewhat seen as informal financing since it is not protected by law.

There is a general assumption that people who are participants in the Esusu group necessarily know one another because they belong to the same social groups or cooperatives. It is on this note that using the Nigerian local market becomes a case study to first look at the scale of the coordination process of the scheme, and some of the challenges that are being faced by the coordinators of the scheme. This research looks at the process of the coordination of Esusu in Nigerian local market setting, consisting of a diverse community with individuals from different socio-economic backgrounds. It is crucial to understand how the schemes are being set up, how members are selected, and how coordinators decide on the character of participants in the scheme. This research intends to elaborate on questions around social networks if present within the group, and how trust designs are established for members who participate in the program, particularly in large commercial local marketplace.

## **1.2 Research Questions**

For this research, the main question guiding this study is centred around understanding “how informal saving scheme like ‘Esusu’ are coordinated within the market”, These questions were further divided into sub questions.

1. What informs the setting up of Esusu saving group within the local market?
2. How is trust established within the group and at what stage is such trust needed?
3. What challenges the coordination of Esusu, and how are they controlled?
4. Why do traders give preference Esusu than the formal banking system? What measures are put in place by coordinators that makes Esusu attractive to members?

## **1.3 Concepts applied in this Research**

This research will explore the concept of finance pooling and its relevance in businesses, the concept will be broadly defined and the role it plays among the traders will be establish. Additionally, we will take a deep dive into understanding the concept of informal finance, identifying the various types that exist within the context of study.

The concept of informal finance will be studied, and a comparative analysis of formal finance will be established providing motivation why certain choice of finance is preferable to the other. Embedded in this study will be the concept of trust. Trust is a very strong element when it comes to finance in both the formal and informal economy. These trust element enables institution to establish control measures that ensures the sustenance and adherence of responsibility in the system.

## **1.4 Researcher Positionality and Ethics**

My personal relationship to some of the traders in the past avail me the access into the market study group. The traders were willing to share their experience and the benefits of how the scheme is impacting their daily lives. The data collection was based on voluntary participation and an informed consent form provided by the school was evidence that I was a member of a formal institution which also gave the study some authenticity. Participants were informed on the purpose of the research, and how their responses would be used, emphasizing confidentiality and anonymity. Many of the participants did not mind appearing on the recorded videos with their faces as they were happy to be interviewed. To maintain anonymity,

personal identifiers were eliminated from data sets, and pseudonyms were used in reporting. Only the research team had access to the stored data, that was safely kept in a passworded personal computer.

The research process was transparent, with regular updates provided to participants and stakeholders. It was made known to the participants that they were accountable for their actions and decisions, ensuring that the research was conducted with integrity and honesty. The research was conducted with respect to the cultural norms and values of the community. I engaged with participants in a culturally appropriate manner recognizing and valuing their traditions and practices.

## **1.5 Organization of Research Chapters**

This research paper is divided into seven chapters. The first chapter gives a background to the study and a general summary of the research design. The second chapter introduces the conceptual framework, reviewed several literatures on finance pooling, informal and formal finance. The methodology is assigned to Chapter three. The general presentation and discussion of findings started in Chapter four, discussing the market, overview of the operationalization and coordination process of Esusu. The fifth Chapter presents explanations on trust and social relationship. Chapter six analysed the attractiveness of the scheme and its preference over formal financing institution. While the final Chapter closes out on the conclusion of the study.

# Chapter 2 Finance Pooling, Formal Finance vs Informal Finance

## 2.1 Introduction

The adoption of Ostrom's second generation theory in 1998 and Social Solidarity Finance (SSF) approach into a conceptual framework guides the review of this paper. Ostrom's theory is grounded on the premise that if rational, self-interested individuals establish mutual trust and collective action, problem can be seemed to be resolved without relying primarily on the state or the market (Araral, 2014). Adopting this cooperative action tends to produce a workable solution for the group's social order (ibid, p.14).

This chapter also provides an in-depth exploration of the interplay between finance pooling, the distinction between formal and informal financial systems, with a focus on the Nigerian context. By critically engaging with the existing literature and theory, it illuminates the practical challenges, society underpinnings, and operational dynamics of platforms such as Esusu, Ajo, and other solidarity finance groups existing within the market. The analysis delves into complex relationships between these diverse financial systems, revealing how they intersect to address varying economic needs across different segment of the society.

**The Social Solidarity Finance (SSF):** is an approach that is rooted in social economy (SE). To put into perspective, solidarity economy is heavily influenced by local factors and is often guided by solidarity and collaboration that correlates with the frugal and circular economies (Yi et.al. 2023). In that case, the Social solidarity Finance approach posits that individuals are made up of chain of network, interconnected through social relationship and financial bond thus creating mutual dependency meshed into an organised whole (Artis (2017). This Social Solidarity Finance (SSF) is seen as "a different approach to entrepreneurship", that is based on some common characteristics and values such as voluntary and open membership, implementation of principles of solidarity and responsibilities, social objectives over capital, aligning membership interest with group interest (Quebec, 2014). Social solidarity finance like the cooperative, community-based saving groups is one of the common features you find in an informal economy, operating at a small scale, maintaining autonomy and independence of government control with its focus on supporting local economies. According to Artis (2017), SSF's primary goal is to make it easier for those who start, grow, or take over an income-generating activity to obtain finance. SSF is built on productive finance because revenue created is what allows for reimbursement. It is made up of a variety of interconnected social relationships that explore and emphasize how individuals and groups form alliances and cooperate to achieve common goals (ibid, p. 738).

However, this research is relevant in establishing that solidarity finance has found its way into the formal economy, and it continues to create and promote livelihoods with people adopting its approach as an alternative to achieve their personal and group goals.

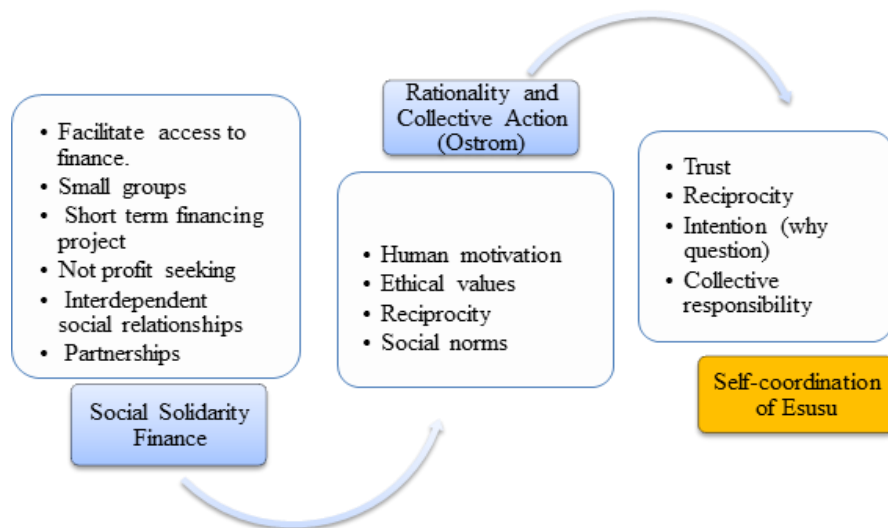
**Rationality and Collective Action (RCA):** The introduction of Elinor Ostrom's second generation theory (1998) of collective action is as a result of paradigm change in the management and understanding of common pool resources (CPRs). The theory highlighted the not so clear issue addressed in the first-generation collective action theories, a good example is centred around Olson's (1965) argument "the logic of collective action", where he questions the idea, that a group's potential for benefits will be enough to inspire group action. He adopted the stance that the naïve view of group is incorrect, his argument is that people want to enjoy the benefits that comes with a group but are not ready to put in the work and would rather prefer to be a freeloader. He added that the only time people would take action

is if they are part of a small group, being forced to, or incentive. While Oslon's argument points out the limitation of collective action, Ostrom in her work provided a more nuance approach, not to dilute Oslon's claim but rather argued that in some conditions, these challenges can be overcome especially when it comes to the management of common pool resources, using some empirical evidence in explaining her standpoint. The discourse is based on trust and reciprocity which contends that self-governance may effectively address collective action issues in the commons (Araral, 2014). Beyond individual self-interest, Ostrom's point of view emphasises how members in communities, collectively, work together for collective benefits ((Lewis and Petersen, 2023). She underlined the value of reciprocity, trust and social norms in promoting cooperation, an element that were not present in Oslon's claim. She also presented functional design principles that could strengthen collective action. Principles such as establishing rules, graduated sanctions, monitoring to prevent free riders and exploitation within groups, coordination, defining boundaries and proportional equivalence between cost and benefits has proven effective to the co-designing of health improvement (Robert et. al (2021) and has also aided collaborative group working within a user led project (Wheeler et.al 2024).

This framework serves as a span between theory and practice, expanding the perspective on the research problem. It elucidates the connections between concepts and their interactions with the study's outcome in contributing to the understanding of finance pooling, the coordination and collective participation in the informal financial system within the context of the local economy (market) with emphasis on Esusu.

This conceptual framework in this study will help us understand the intersection of these diverse financial systems, on its organization and management.

**Figure 2**  
**Conceptual Framework**



Source: Authors own construction adapted from Ostrom 1998 and Artis 2017

## 2.2 The Concept of Finance Pooling

As a means in dealing with financial management, the concept of finance pooling is widely embraced by several financial analyst across countries.

Finance pooling have been seen effective as a business strategy adaptation during crisis and the major aspect of cash pooling is the centralized cash, of which it is then allocated to subsidiaries (Zirener, 2023; Lenglet, 2021). Companies adopted cash pooling as a shield against uncertainty after the COVID-19 shock (Jung, 2024).

The Central Bank of Nigeria reported an estimation of 377 million Micro, Small, and Medium-sized Enterprises (MSMEs) in Nigeria (CBN, 2017). Many businesses rely on debt to finance day to day activities and its continued existence. Debt incurs expenses, and some of these expenses when not being met, becomes unsurmountable. Due to this, cash pooling found its relevance and was adopted to maximise working capital to obtain certain group benefits that comes with it. Corporations use centralized cash pooling to achieve short- and long-term financial need, however the effort it requires should not be undermined, effort of restructuring, strategic adjustment and organizational change are necessary in achieving its success (Zirener, 2023). At the organizational level, cash pooling increases system complexity; nevertheless, to mitigate this complexity, open and clear communication between the management and all subsidiaries is essential. The bedrock of cash pooling rests on three principles, flexible decision making in times of financial shock, transparency, and its cost saving strategy approach (ibid). Without regular transparent interaction, the financial strategy becomes ineffective (Mucelli et al. 2020). Finance pooling schemes in the informal economy, such as *Esusu* savings scheme, have been the subject of much research and documentation in the context of African markets because of their distinctive combination of social, cultural, and economic aspects. Bascom (1952) documented the *Esusu* saving scheme, which is a classic example of Yoruba financial pooling. For those involved, this long-standing custom provides a social safety net as well as a source of credit, giving them access to money that would otherwise be beyond their means at official banking institutions. It extends beyond just savings and loans, rather serves as a cover for mutual funds and benefits. The importance of *Esusu* in ensuring monetary stability and encouraging economic resilience among community members, participants of the groups decide on how they want the collection and distribution to be organised, they decide through an in-depth conversation the collection dates, funds distributions, and amount to be contributed. Participants can build up a fund large enough to cover a range of financial demands, from major investments to regular costs, by combining their resources.

*Esusu*'s operational coordination in the commercial hub of Dugbe requires careful planning and management to guarantee its success. The responsibility for managing the collection and distribution of funds often rests in the hands of a coordinator or a small team of trusted leaders. These individuals, well-respected within the community, are selected for their integrity and expertise in handling finances. Their role extends beyond mere book-keeping, they serve as mediators, resolving disputes and ensuring that everyone adheres to the agreed upon rules. Their guidance keeps the system running smoothly, balancing the delicate mix of trust and accountability that holds the group together.

One of the important components on which saving platforms operates is based on trust, especially in informal settings with limited formal contracts and legal binding. Members establish this trust through regular encounters and the open handling of funds. They rely on their social networks and personal relationships to do this.

In contrast to conventional financial institutions that function under strict regulatory frameworks, *Esusu* schemes are flexible enough to adjust to the unique requirements and situations of their members. In markets like Dugbe, where merchants may encounter erratic

incomes and erratic financial demands, this flexibility is essential. The *Esusu* system can stay relevant and accessible to a broad variety of participants by allowing contribution amounts and schedules to be adjusted in accordance with individual capacities and collective agreements.

Finance pooling in Dugbe market, has enabled traders to grow their businesses, navigate inflation risk by stocking and paying for goods ahead of time, control financial emergencies, plan for ongoing and upcoming projects, and maximize profit.

## 2.3 Informal Finance vs. Formal Finance in Nigeria

The social solidarity finance approach is a great example of the Nigerian informal finance ecosystem as it usually organised in small groups at different clusters and targeted towards a particular solution or need. The country's financial environment remains a lively tapestry made up of both the formal and the informal institutions and therefore plays a dire role in shaping the country economic climate, laying the groundwork for its continuous growing economy. According to Ghate (1992), former financial service providers are enterprises that have been officially registered and authorized by a central bank to offer financial services. They operate within a regulated framework ensuring compliance with established standards that guides their practices. Despite the wide presence of formal institutions and the commercial banks, new generation banks like the emerging fintech, microfinance, insurance companies and online banking platforms, the country's long-term presence of informal institution networks such as 'Ésusu' (Rotating Saving and Credit Association), Local money lenders, Ajo, and cooperative societies, continues to thrive particularly in urban and semi urban environment serving the financial need of millions of Nigeria. These informal networks, which are strongly established in Nigerian culture and built on trust relationships and social ties, often supplement official institutions by servicing the unbanked, banked, or those excluded from conventional financial services due to certain criteria.

Bascom (1952) argues that informal financial institutions are most effective in contexts where mainstream banking services are either inaccessible, or insufficient to meet financial demands. The inherent flexibility of informal finance allows for a level of personalization that formal banking institutions, constrained by rigid structures and standardization are unable to provide.

According to Adams and Hunter (2019), studies from the 1980s indicate that informal finance played a significant developmental role in developing countries especially for poor, small-holder farmers, micro business owners and women in general. This illustrated how informal finance operated in numerous nations far more efficiently than formal finance. Many terms have been used to describe informal finance, but as more academic papers grew, new interpretations emerged.

Informal finance as described by the author, referred it as a "collage of dynamic, innovative and flexible arrangement that are adapted to local economic and social environment" {...} they describe it as resilient and enduring, and therefore acknowledges that while some informal institutions contracting and disappearing, others are transitioning into semi formal or formal establishment. However, informal finance operates and thrives in countries where the formal system is stretched thin, and in countries where the formal system is flourishing. This therefore indicates that both systems can co-exist, and each one do not guarantee the extinction of the other (ibid).

In Nigeria, the role of formal banking system in the economy is so great that the Non-Bank Financial Institutions (NBFIs) of which 'Ésusu' falls under are scarcely acknowledged.



Agreeably, banks in emerging countries outperform these informal institutions in terms of volume of transaction, operationalization, products variety, security and insurance, however these does not in any way undermine the importance and contribution institutions as such have on the economy in both rural and urban areas alike (Ikechukwu, 2012).

The Central Bank of Nigeria (CBN) in its Banking and Other financial Institutions Act (BOFIA, 2020) which oversees the operations of Nigeria's digital financial service providers and FinTech's, did not explicitly acknowledge the presence of informal finance, rather it defines and categorizes anything outside the purview of a 'bank' as 'other financial institutions' as those that execute financial transactions electronically, remotely, or digitally. It also states that before conducting financial transaction in Nigeria, such firms must first establish a corporation in Nigeria and obtain a licence from the CBN. Such entities include business like bureau de change, credit bureau, finance company or money brokerage, international money transfer services, mortgage refiner among others.

Conversely, informal financial institutions operate outside the bounds of regulations, yet they remain a legitimate financial activity. Though they operate beyond the purview of formal financial institutions and are not directly supervised by the conventional and monetary policies, yet they thrive as essential grassroot alternative to mainstream finance ( Ngalawa and Viegi, 2013). Sandsor (2010) recognises the cultural and sociological factors that drive informal finance such that these transactions are inextricably linked with social relationships and cultural practices in many African societies that goes beyond just economic accessibility but rather promoting solidarity and community connectedness, where issues are resolves, and local needs are met with fewer restrictive requirement for membership.

A study conducted to ascertain how rural household access finance reported that the challenges encountered in obtaining formal credit by individuals were intricate banking procedures, little financial knowledge, exorbitant interest rates, and a lack of suitable collateral (Michael et.al. 2018). A solid credit history, substantial documentation, and collateral are often requirements that many informal merchants are unable to achieve when dealing with professional institutions, whereas individuals and companies that fulfil the standards set by financial institutions, such as those related to documentation, collateral, and creditworthiness, can access formal financial systems.

According to Ola-David and Osabuohien (2018) informal finance relies more on social relationships and trust than on either, where many participants lack the official credentials required to access mainstream financial services, inclusion is critical. Traders can use their social standing and relationships within the market to access these financial benefits that comes at a cost in the formal institutions.

### **2.3.1 Existing Types of Informal finance in Nigeria**

Giving the growing number of savings groups in developing countries, it is important to take a closer look on the existing groups considering that informal financing plays a vital role in Nigeria and several strategies have been explored in promoting and organizing the groups (Adeola et al. 2022). There are several types of informal credit associations within the reach of common man, and these have been called many names by several scholars. As analysed by Aryeetey, 1994; Adeusi et.al., 2013; in Ibitoye (2018), the informal institutions in the market can be classified into 3 groups: (i) those that only operate on one side of the market, such as the loan or saving side; this includes moneylenders, hire-purchase companies, and daily contributors (Ajo as called by the traders in Dugbe market).(ii) Lending based on relationships, including RoSCAs, and lending to family, colleagues and friends (iii) The

intermediaries, these are the middlemen, which may include cooperative organizations and loan recovery groups.

### ***Mutual Societies***

Mutual or corporative societies are born out of the need and necessity of those who share similar objectives of pooling funds to carry out projects that requires funding. They are operated not for the benefit of profit making, but for members empowerment. Oftentimes they are member society that belong to same line of businesses. In Nigeria, we have several types of cooperative societies and some of them are the Farmers groups, Artisan and creative society, Thrift and saving society, civil society, just to mention a few. They usually operate based on open and close membership, depending on the group. These organizations function by soliciting membership payments, which are subsequently utilised to grant credit to those in need of financial support. These society are democratic in nature, and to some extent guarantee that members have same level of right and can exercise collective shared power in decision making. They also used pooled funds for the purpose of giving out loans to members and non-members with a fraction of interest on it. Some registered credit unions operate under the principles of the law guiding their operations.

It is important to note that, not all corporative society are registered, majority of the informal corporative society are not registered while some corporative that falls under formal corporation or institutions are registered, for instance the Corporative society of Nigerian Nollywood industry is registered, this is done so that members can get access to benefits like healthcare access, insurance cover, business proposals, access to tender or bidding and so on. The informal corporative society are not registered, and they are operated on the basis that members credit limit is based on how much they have saved up in the organisation.

Additionally, members pay some annual due or monthly due depending on what is being decided by the corporation on its contribution and these funds are pooled together, reserved and utilized when members need financial assistance. This is part of the social responsibility that the corporation have toward their members. Also, not all members who belong to the same profession belong to the accredited corporative society, people are encouraged to be part of the group, but it is not mandatory for them to be part.

### ***Rotational Savings and Credit Association (RoSCA's is Esusu)***

These Rotating Savings Associations, known by different regional names have their origins in many parts of the world, and research shows that it has its roots present in Asia, Africa, and the Caribbeans. According to Seibel (2004) the earliest evidence of financial institutions in Africa can be traced back to the 16<sup>th</sup> century, where numerous groups are popular with each of the ethnic groups having a description of what it is called within each community. The system is known as 'Esusu' or 'Ajo' in the southwestern region of Nigeria where we have the Yoruba tribe, 'Isusu' in the eastern region of the Igbo tribe, 'Adashi' in the northern region, the Hausa tribe and been referred to as 'Etibe', 'Oku', 'Osusu', and 'Etoto' in the southern part of the country where majority of the minority groups belongs to (Adebayo, 1994; Jerome, 1991).

In his analysis of the RoSCA as an economic development, Geertz (1962) found that the fundamental idea underlying rotating credit associations is universal; lump sum fund usually fixed, are disbursed to each member at predetermined intervals and in full. Given such definition by Geertz, Ardener (1964) modified the term in his study, he defines "RoSCAs as an association formed upon a core participant who agree to make certain contributions to a fund which is given in whole or part to each individual in rotation". The generalization of Geertz definition of the fixed amount did not critically breakdown the process because from the market perspective, a lot of factors is considered before deciding on how much funds

are to be pooled together. Factors like market seasons, amount, economic capacity of each individual, the business activity of the individual for the previous week or months needs to be considered before making certain decisions.

RoSCAs offers an important opportunity to understand the conditions at which micro-credit programs might flourish (Biggart, 2001). They are adaptable to many purposes, it is considered flexible of its rules, simplicity in its operation and gives access to credit utilization for members.

### ***Everyday Saving Contributors (popularly known as Ajo in the market)***

The traditional trust-based micro saving system, known locally as ‘Ajo’<sup>1</sup> continues to thrive within Nigerian markets, providing traders with an effective mechanism for managing their funds and setting project timelines for their businesses. In southwestern Nigeria, the term ‘Ajo’ originated from the Yoruba word “akojo”<sup>2</sup> which translates to “pooling contribution” or putting together for growth” in English, emphasizing the collective intent to foster financial expansion and support (Adebayo 1994).

This contribution scheme, often managed by individuals or group of individuals, operate within markets by traveling from trader to trader, meticulously recording daily savings in hand-held ledgers. These ‘Ajo collectors’ plays a crucial role, not only in reminding contributors of their financial commitments but also in safeguarding the accumulated funds until the designated payout period. Over the years, their work has significantly reinforced African’s informal financial sector, serving as a vital form of social capital that fosters nomic stability and trust among market participants (Esiobu et al. 2015).

Commonly referred to as “alajo”<sup>3</sup>, these collectors are often well-established and recognised within their communities. Market traders often vouch for them to their fellow traders to establish business relationship with them. These collectors recruit participants by visiting merchants’ stalls or shops, introducing themselves, and explaining the saving system and how it works. If the merchant is convinced of trusting these collectors and its benefits, they enrol and begin making regular contributions. This system has empowered many low-income earners, enabling them to set and achieve financial goals. For instance, in the market, if a trader commits to contributing 5000 naira daily (\$4) to an “Ajo” for a month, the collector receives an equivalent sum as compensation at the end of the period. It also allows for flexibility of contributing whatever you have and at the end, the average amount is what the collector receives.

### ***Moneylenders, Loan Sharks in the Market***

Informal moneylenders, including explorative loan sharks, remain prevalent in many of the world’s low-income countries, they are lenders who are not licensed to do money lending business (Danganan, 2012). Despite the introduction of government -backed micro finance initiative, trade liberalization, these informal lending practices continue to flourish. These group of people are not bank agents, they put their money in the line to facilitate credit for traders.

In the case of Dugbe market, these money lenders not only offer cash but operate and offers flexibility to traders. They most times offers goods to traders to sell with a certain % increase and the trader pays back when he or she finish the sales of that item. In most cases

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<sup>1</sup> Ajo is a Yoruba local language that is used to describe daily contribution.

<sup>2</sup> Akojo is also a local dialect from the Yoruba people that translate to putting together.

from the lender is part of the traders in this market and he or she has the financial capacity to offer loan services to other traders.

Despite the presence of these informal institutions, formal financial institutions in Nigeria still stimulate innovation by developing new products, advancing technology, implementing inclusive regulations that aims to increase the number of people who can use financial services. To target underprivileged groups and encourage financial inclusion, they make investments in fintech solutions, mobile banking, and digital infrastructure. According to the World Bank Global financial inclusion index (2021), Nigeria still has her population of over 26% still unbanked and the CBN and the formal institutions are working tirelessly to ensure financial inclusion of these unbanked individuals.

In line with Falola et.al. (2021) argument on accessibility of informal finance among rural farmers, he posits that cooperative societies were the primary informal loan source for farmers, followed by the RoSCAs, he argued that farmers in utilizing these loans improved their agricultural production by purchasing farm inputs, acquiring improved seed varieties, renting mechanized machines. In addition to this, the farm size, income, educational level, household size and loan duration of the farmers were the criteria set aside for distribution of credit to farmers.

Nevertheless, there are drawbacks to using informal financing, (Ayyagari, Demirgüç-Kunt and Maksimovic, 2010) Stability, regulatory compliance, and risk management are given top priority in formal financial organizations. They carry out risk assessments, follow set procedures, and are supervised by regulators to guard against systemic hazards for depositors, investors, fraud, embezzlement, institutional mismanagement, and the larger financial system. Participants in the informal financial networks are more susceptible to abuse, fraud, and instability since these systems often lack official risk management procedures and regulatory oversight. Informal finances are faced with challenge of insufficient funds and delays in credit disbursement (Falola et.al., 2021).

Formal contracts and legal frameworks provide higher level of protection than informal agreements, which place a greater emphasis on social relationships, trust, and informal agreements the as noted by Mbizi and Gwangwava (2013), the lack of official regulation can result in problems including internal conflicts and poor management. The honesty and dependability of *Esusu* groups' coordinators and members is crucial to their long-term viability. In the absence of official supervision, there is a chance that money could be embezzled or that conflicts could emerge that are hard to settle in the absence of a recognized legal structure.

Personal benefits of not using a bank include not having to worry about internet fraud, not having trouble recovering passwords, not having to pay for transport, and having quicker access to loans. Also, not having to deal with the reading and writing challenges that come with being an uneducated trader, which could expose their bank account privacy to random strangers assisting them with paperwork at a bank.

The interactions between formal and informal finance draw attention to the need for a more inclusive financial ecosystem that capitalizes on each system's advantages.

## 2.4 Conclusion

Nigeria has an entrepreneurial economy that makes a substantial contribution to employment creation and economic growth. With potential for business growth and become more successful, independent business owners, entrepreneurs are faced with several challenges in accessing affordable financing at a fair rate (CBN, 2017). To provide more accessible and culturally sensitive financial products and services, policymakers and financial institutions can

benefit from the adaptability and community-based character of informal finance. Promoting collaborations between formal institutions and informal financial systems can augment financial inclusion and bolster the economic endeavours of individuals functioning within the informal sector. We may endeavour to create more robust and egalitarian financial ecosystems for everyone by comprehending the subtle differences between formal and informal financial systems.

## Chapter 3 Methodology

### 3.1 Research Methodology

This study combines both qualitative and quantitative form of data collection. The approach aims that a comprehensive understanding of how saving groups are organized and coordinated within the Dugbe market in Southwest Nigeria. Online survey was used to develop to gather 88 responses, and semi structured interview was conducted soliciting 12 responses from saving group coordinators within the identified groups in the market.

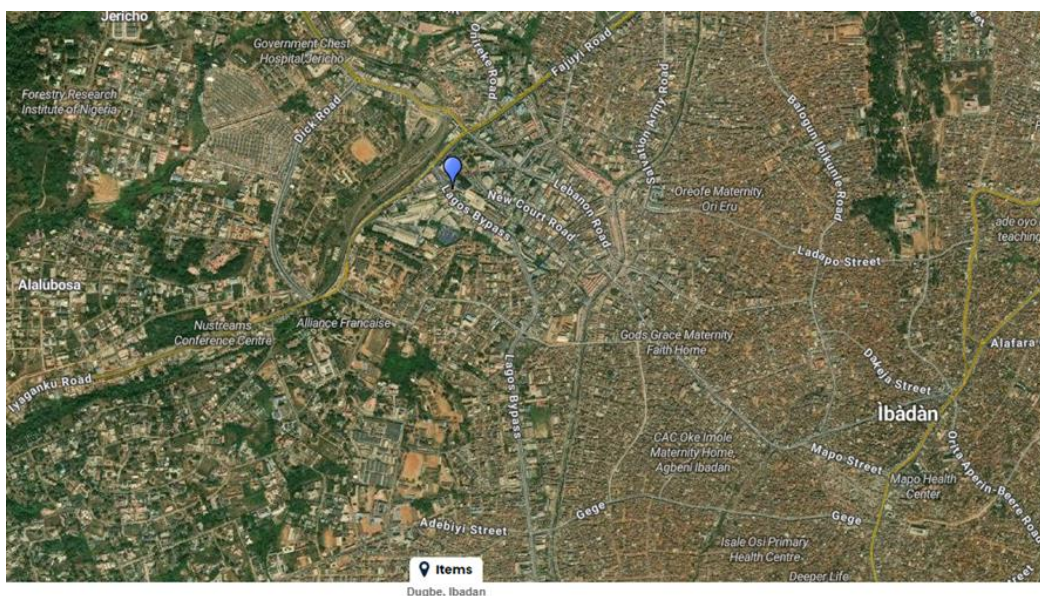
### 3.2 Study Site: Dugbe Market

The informal sector of Nigeria being referred to as “old wine in a new wineskin” by Onyebueke and Geyer (2011) acknowledges that for most part of human history, businesses have always had the informality embedded in it and evolved overtime. Market systems according to Moller et.al. (2020, p.395) was conceptualised and described as parts of wider sociological technical system context for value creation. This suggests that markets, at their core are creations of humans, shaped by experiences and surroundings of individuals who engage within them, modelling its structure and flow through actions and interactions (Araujo, 2007; Fligstein, 2001).

Market as a structural process evolves, the constant evolution of market practices between actors results to co-existing markets (Kjellberg and Helgesson 2006). This is true for the Dugbe market, an urban market in Ibadan, southwest Nigeria. This market evolved from a tow collection centre (Oladejo,2015) before transitioning into a market and it is regarded as one of the oldest centralized shopping markets located in a strategic location connected to major hubs in the city.

Map 1

Map of Ibadan



Source: Google satellite map of Dugbe, Ibadan, 2024



The spatial organization of informal markets plays a pivotal role in their overall structure. The marketplaces are typically divided into distinct sections or clusters, each dedicated to specific commodity enabling ease of commerce making it easy for traders and customers to navigate resulting in a more effective environment.

The Dugbe market is a very big market and is situated in the largest city in Nigeria by land mass, with a lot of activities and this research so therefore cannot cover the totality of the market. There are clusters of the market that is designated for selling of clothes, food items, household goods, spare parts for vehicle, stationaries, thrift items, baby wears, and so much more. The choice of goods to be sold, determines where you might want to position yourself as a trader. The market rich and diverse nature made it a unique choice for case selection, both in the type of goods that is being traded and the traders that are conducting their trades in the market, while also considering the popularity of the market among residents living in the state.

**Figure 1**  
**Pictures showing some sub-sections of the markets**



Source: Field study 2024

### 3.3 Data Collection

The data used in this paper was gathered in August 2024 using technology assisted tool like Microsoft teams, google online survey questionnaire, and semi-structured interview guide. Interviews were conducted with traders, business owners, savings coordinators, and market leaders. Interview and survey method was used to properly investigate the market traders.

The use of research assistant was employed in this study, and part of their responsibility was to organize these traders, confirming their availability, mapping the structure of the different market segment and identifying the number of saving groups present in each market segment

A random selection of 4 sub section of the market was made, the names are, Oginni Complex, Dugbe Alawo, Joy Complex and Ogunpa, this selection of the market is interlinked but recorded as different entities and has a different executive management. The study identified 25 groups within these sections of the market and respondents were interviewed from these sections of the markets.

However, it is important to note for future research that this numbers above are active groups currently in operation as at the time of this research, and there is possibility that the numbers might be more or less in the future depending on what the economic situation or coordination process is.

The Snowball technique was used in recruiting and gaining access to the market and from personal networks, I was able to get initial contacts to meet with coordinators and members of different groups (virtually) to explain the purpose of the study. The chosen participants were invited to complete an online survey, these surveys were given to them ahead of them and it was shared through platforms like WhatsApp which was the common communication app they used in interacting with their fellow traders and customers. The coordinators were sent email for interview invites which sometimes was difficult to get immediate response from coordinators because the traders inactively check their mails even though it is functional to them.

Furthermore, the survey was structured using some modified Likert scales, the questions were designed to obtain some kind of response, while other questions allow for individuals to communicate their thought freely leaving some questions open for the respondent to fill out their opinion. Data obtained included the demographics of the respondent which includes (gender, age, geo-political zone, educational background, residential arrangement) nature of business the traders were into, attractiveness of Esusu, perception of the coordination of the Esusu, and the social and trust relationship among members of the group. These questions were all captured in the formatting of the survey form that were sent out to participant. The questions were crafted using 'simple language' to aid first hand understanding.

The qualitative data conducted through close online interviews was proven helpful in diving deeper into unexplored areas that were not fully covered by the structured survey forms. The findings from this research showed a lot of people's realities, though very similar realities because they operate on the same ecosystem. However, the data shows that the intent at which a small business owner or a trader may choose to participate in a saving scheme in the market stems from different motivation and project at hand.

### 3.4 Data Analysis

A total of 88 quality responses was obtained from different subsection of the market that filled the online survey, and data was automatically analysed by the google forms that was used in creating the data. However, the data was cleaned, removing invalid and incomplete responses. The open-ended question in the survey was coded into categories.

The study also employed the use of descriptive statistics, using charts, frequencies, percentages and table to identify the trends and patterns in reporting the responses obtained.

The first set of interviews were held on the 13<sup>th</sup> of August, the second on the 18<sup>th</sup> of August and the rest of the interview was carried out on the 27<sup>th</sup> of August. To guarantee precision, individual interviews were held with every participant. and **12** interviews (coordinators) were conducted, each lasting an average of *forty-five* to one hour. The interview was a



mixture of some local languages, some were held in English, pidgin English, Yoruba which is the native language of the study area, and other local dialect like Igbo, Urohbo. The interview was recorded and transcribed with the help of a native translator and in English. During the analysis of the data, the transcripts were coded with different colors for easy identification, themed and read several times in other to familiarise and identify trends and pattern in responses. These findings were then synthesized by identifying key findings and connecting them to the objective of the study. Also, through reporting of significant data, direct responses from the participant were analysed in the study. Finally, the conceptual Framework of Social Solidarity Finance and Ostrom second-generation theory will be the guiding framework in interpreting the data findings.

### **3.5 Limitation of the Study**

One of the notable limitations encountered in this study was timing. Despite using a snowball technique to gain access to the participant, I encountered scheduling issues with the traders; it was difficult to find a suitable time to conduct the interviews. However, some of the strategies employed included conducting the interview on a Sunday, when business activities were less.

Another challenge was that of multiple subgroups and double coordination. It was observed during the study there were a lot of subgroups of Esusu within a section of the market, for instance, we saw about 3 to 4 groups in one section, therefore making it a difficult process in the selection of the coordinators, because there were cases where one coordinator coordinates more than one Esusu group. In resolving this, some criteria like number of groups existence, memberships size and the activeness of the group, was applied in the selection of groups.

Further into the data collection, there was a problem of terminologies being used. The term 'Ajo' was used interchangeably with 'Esusu', because Ajo is a commonly used name for any savings being made in the general Yoruba culture. So, I had to take time to explain to them what Esusu was and the scale at which it operates.

Finally, the exploratory design of this qualitative research limits the ability to generalize the findings with certainty.

## Chapter 4

# Operation and Set Up of Esusu in Dugbe Market

### 4.1 Introduction

This chapter begins the presentation and discussions of findings. It underlines the operationalization of 'Esusu' in the market, current economic situation of Nigeria, the market structure of Dugbe, the trade and supply chain of traders, and the influence of these economic situations on the businesses in resulting to alternative finance.

### 4.2 Roadmap to Alternative Response to Mainstream Finance

Despite its vast natural and human resources, Nigeria, like many African countries, remain deeply affected by poverty, with a significant portion of its population falling below the World Bank extreme poverty threshold of US\$2.15 per person per day. The <sup>4</sup>[Nigeria Multi-dimensional Poverty Index \(2022\)](#), approximately 133 million Nigerians representing 62.9% of the population of the country are living in poverty. Additionally, the [National Bureau of Statistics](#) (2024) reports a soaring inflation rate of 32.15% with food inflation at a staggering 37.52%, figures that continues to increase over time.

Powered by mounting discontent and the rising cost of living, Nigerians organise a ten-day nationwide demonstration (August 1-10) using the social media platform with the hashtag #endbadgovernanceinNigeria#, calling for political and economic reforms from the government. The abrupt removal of fuel subsidies and the floating of the country currency, which happened simultaneously severely impacted the economy situation of the country, as a result, major companies withdrew from the Nigerian market which raised the unemployment rate, the Nigerian people experiencing hike in LPG products, disrupting the transport system leading to general inflation all through the country. In a widely used expression by one of the placards observed during this protest read **"cost of living is killing the living"**. This circumstance demonstrates unequivocally the financial hardship the citizens are experiencing, the volatility makes long term planning difficult for businesses, thereby turning to various credit systems as alternate source of funding to satisfy growing needs while providing stability at the time being (Ajakaiye et.al., 2016).

This study shows that the traders in Dugbe market are no exception of the economic situation looming the country, they acknowledged the fact that the involvement and participation of the saving scheme has provided a platform as backup in solving their financial obligations.

### 4.3 Characteristics of Respondents

To determine the sample size, a survey was conducted firstly, to determine the number of Esusu groups, and the number of members in each group from each section of the market, secondly, to obtain information from the participants of various Esusu Groups through sharing of online questionnaire. From the survey, we realised that there are more than 4 groups of Esusu in each sub section of the market.

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<sup>4</sup> This study was conducted by the United Nation Development Programme (UNDP) in 2022.

From the field survey, a total of 88 respondents filled in the survey form, these numbers are combination of those who are part of the groups and those who trade within the subdivisions of the market.

Additionally, a total number of 25 groups were identified and a representative sample of 12 was interviewed during the process, which is more than 40% of the total number. Here are the distributions of the numbers of groups in this market, Oginni – 8, Joy Complex – 4, Akala Complex – 6, Dugbe Alawo – 7. The membership of these groups varies according to individual preferences and the rules binding each group in terms of how they recruit their members.

**Table 1**  
**Distribution Showing Social Economic Demographic of Respondent**

Variable	Frequency	Percentage%
<b>Age (years)</b>		
18-29	22	25.3
30-39	37	42.5
40-49	23	26.4
49-59	5	5.7
59-70	0	0
<b>Mean = 17.6</b>		
<b>Gender</b>		
Male	35	39.8
Female	53	60.2
Other	0	0
Prefer not to say	0	0
<b>Geo-political zone</b>		
South-west	54	61.4
South-east	22	25
South-south	10	11.4
North Central	0	0
North-east	0	0
North-west	2	2.3
<b>Educational Background</b>		
Primary level	0	0
Secondary level	34	38.6
Degree	47	53.4
M.sc	7	8
Ph.D.	0	0
<b>Average Daily Income</b>		
1000-10,000	16	18.2
10,000 – 20,000	20	22.7
20,000 – 50,000	24	27.3
50,000 – 100,000	17	19.3
500,000 – 1,000,000	1	1.1
<b>Number of years Trading</b>		
1-5	35	40.7
5-10	28	32.6

10-20	19	22.1
20-30	4	4.7
30-50	0	0
<b>Category of Residence</b>		
Rented	47	53.4
Owned	30	34.1
Currently building	11	12.5
<b>Total</b>	<b>88</b>	<b>100</b>

Source: field 2024

The socio-economic characteristics of the respondents, as presented in Table 1, reveal an interesting gender distribution within the Esusu scheme. While the majority of participants were women, comprising (60.2%) of the respondents, a substantial proportion of men (39.8%) also engaged in the scheme. This finding challenges the commonly held assumption that Esusu is predominantly women's activity.

To establish the diversity of the participants, involve in the informal saving, it is important to capture their socio-economic status. This data indicates that respondents enjoys some form of access to education, housing, daily income, and in most cases owns several businesses within the market, therefore excluding them from the category of marginalised and poor. This simply shows that, informal saving groups have been embraced beyond the rural community and is regarded in present day as an alternative means for additional income.

#### 4.4 Analysing the Operational Mechanism of Esusu Dugbe Market Space

This section provides contextual insights to how the coordination of Esusu scheme is organize reflecting similar outcomes on how traders self-organize themselves. Furthermore, collective responsibility and self-determination are what is described as the stronghold of the scheme within the market justifying Ostrom (1998) theory of rational choice and collective action.

Esusu within Dugbe market is very popular, the data from this study shows that 82. 6% within the sample of study are actively participating in the scheme.

The earliest conduct of Esusu mechanism was recorded Bascom (1956) in his study, in his analysis similar to the operation of the Esusu in the 21<sup>st</sup> century recorded similarity in report.

#### TAN'PE O,<sup>5</sup> Who Called You? – Overview of the Process, Conduct of Esusu

The above expression was used by my participant who happens to be a coordinator of one of the Esusu groups in the market. When asked why she opted for this name, she expressed that, the name calls for recollection of individual to critically think if they want to be part of the group because the membership is voluntary and not forced on anyone. This expression covers so many unwritten rules and regulations that the group might have, it raises a lot of questions to the participant because in case of default, the first question that is being asked

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<sup>5</sup> Tan'pe O is an expression used by my respondent who is one of the coordinators of the Esusu group. The meaning of the expression translates to "who called you"?

to the participant by the coordinator is who called you to be part of this group? Were you forced to be here? Your capacity should determine your participation, if you are unable to meet up to the requirement that is being laid down by the group, you are free to make choices not to be part of it. These questions were all spoken in the native language of Yoruba and interpreted by me. The coordinator further expressed.

“I have seen many Esusu groups in this market fade away because of misunderstanding or argument on who and who not to receive money. This type of behaviour is not allowed in the group I belong, I have observed several group for the past 5 years that I have been trading before I finally started my group and it is from the things I noticed that I used in running my group. Once a person indicates to be part of my group, it then becomes a **do or die affair** because everything will be clearly spelt out for the person before adding his or her name on the register and he or she will have to give consent before we proceed”. - Respondent I180824, Esusu Coordinator

Eftimie *et al.* (2007) explored the formation of voluntary groups and in his argument showed that trust and secrecy are key to group stability. He argued that trust allows members to build relationships, while secrecy in terms of information has limits and therefore a balance must be established to protect the interest of the group. Managing groups comes with a lot of responsibilities and the marketplace where these Esusu is conducted is not exempted. The argument of Eftimie resonates with some of the operational processes that have been put in place by the Esusu coordinators in ensuring that the group conduct remain stabilized.

“As one of the respondents said, when it comes to money issues, people are always on the edge and I as a coordinator try to manage every situation as much as possible. When a member defaults, and I know it is going to affect the next person, I use my initiative to shield that member by covering up with my personal fund, because I know when word gets out that a member has defaulted, it might cause a lot of issues which might take time to resolve if it escalates”. Respondent M180824, Esusu Coordinator

Every cycle of Esusu is considered a new cycle, it does not matter if a member has been in the group before or not, the group in the market takes account of every situation that transpires in the last cycle before the beginning of a new cycle. The number of members and the length of the contribution intervals determine how long the cycle lasts (Basom 1952).

However, what is certain by the coordinators is ensuring that processes put in place have been carefully thought through before the new cycle commences. Some of the coordinators from the study attested that they engage with members who were part of the cycle to get their feedback regarding their interest to continue with the group, and if there was any defaulting member within the previous cycle, they approach the member and inform them that they would no longer be part of the new cycle due to regular defaults which is affecting how the group functions.

In the earliest record, Esusu begins when an individual who is referred to as “Olori Esusu” in Yoruba, makes a declaration of their intention to start an Esusu. This person is regarded as the leader and the person also chooses members whom they feel will keep up with payment obligation (ibid.1952, p.65). This is similar to the process being conducted in the Dugbe market with many adjustments added to the process to ensure efficiency.

The coordinators who were interviewed from this study provided insights on how these savings groups are organized, they provided in detail the factors that are being considered when starting up a group. Some of the key factors mentioned were;

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<sup>6</sup> Olori Esusu – head of Esusu.

**Purpose (Why Question):** the study showed that Esusu is not just conducted in the market randomly, there must be an intention, a driving motivation to why it should be conducted in the first place. It is assumed that traders already have financial obligations in the market, some of them have loans that they are servicing, while others have some financial commitment to some associations like the micro finance bank, cooperative, which was mentioned earlier in this study, and many others. So, for an individual to take up the initiative to organize a saving group, they must be clear on why this needs to be done. For instance, for what reason is the Esusu being organized; profit, food sharing items, school fees, business expansion, new or ongoing projects. Secondly, how does it benefits individuals?

**Timing:** The coordinator must consider before sending out a general memo to people the timing of the contribution, people do not want to be overburden financially for long even though it is for their benefits. So, in proposing participation and extending membership, the coordinator must be aware of the timing he is willing to propose and how long the cycle is going to last. The Esusu in the market has different timings attached to it and each depends on the amount, how often they contribute, number of persons they want in each group, the number of working days in a month and many other considerations that is factored into the planning process.

It therefore considers duration of cycle (daily, weekly and monthly), number of working days and holidays.

**Amount:** Money is a motivational factor for a lot of traders in the market, this study realises that a lot of members are in multiple saving cycle, they sometimes engage in the Ajo daily contribution or have some accrued loans they are servicing. For some individuals, their ability to participate in a group is centred around affordability and not unwillingness to participate. Considerations like economic situation (inflation, price of goods, mood of the market), seasonality of market (festive season, summer), and finally the amount are all carefully thought out.

**Membership:** In this context, the membership is the most important factor, because it sets the rhythm of how the cycle is going to end up. The study shows that membership is considered first within close cycle before extending out to other people who might be interested. These coordinators profile the type of traders they approach to join their group. They consider the scale of business, frequency of businesses, how often the person comes to the market, who the person interacts with, and the personality of the individual within the market. They also look out for the character of the individual in terms of conflict with fellow traders, they look out for the integrity of the individual. Additionally, they look for status of trader e.g shop owner, business owner, part-timer marketers or sales representative. To make a strong point, some of the coordinators attested “members must be a regular trader in the market, and not just a trader, they must confide within the same sub section of the market, if these criteria are not met, the membership of the individual is not considered”.

**Book-keeping:** Documentation is very key in the cycle of these saving groups, traders among the market encounters a lot of activities from external buyer and internal buyer. The possibility of collecting money from someone and not remembering who you collected it from or how much can bring up a lot of disparities in the process. This study discovered that the coordinators of the various groups have their individual records, where they write down names of the individuals participating in the group and the number of times these collections were made. Every financial activity carried out within the open cycle, is documented for reference purposes. The traders consider mode of communication in terms of emergency, they lay down the rules and regulations (e.g. all payment must be collected at 4pm, no transfer of funds electronically, funds are distributed in cash only), ideal stationaries in keeping records for audit purposes.

## **Except Extreme Days, Every day is an Esusu Day**

Every day is an Esusu day is the term used by my respondent in describing the some of the social norm of operation guiding the coordination of the group. When asked what she meant by extreme days, she further explained;

“When someone dies in the market and there is an announcement by the market chairman that shops are not to be opened, on days like that, Esusu funds are not collected. Also, when a member of the group dies. We also factor in extreme weather conditions like rainfall, because we acknowledge that during extreme rainfall customer do not come inside the market as much, so the sales might be very poor, so we consider that. But aside from that, every day is an Esusu day”. Coordinator, Filed Interview 2024

Another respondent who enriched the conversation added;

“If a member of the group is not going to be available, he or she is expected to inform the coordinator ahead of time and send his or her funds for the available duration they will be out of the market. Sometimes, what my group member does is they give their contribution to their next neighbour who is also in the saving group to contribute for them during their absence”. Coordinator, Filed Interview 2024:

At the core of any establishment, it is necessary to lay down some shared expectation of how people should behave given a certain situation. These expectations are necessary as it serves as a frame that guides expected behaviours in promoting order.

According to Crawford and Ostrom (1995) in Ostrom, (2000) analysed the concept of social norm as “shared understandings about actions that are obligatory, permitted, or forbidden”. The creation of these unwritten norms is principally managed by the coordinators, and it provides guiding principle on the management and coordination of these scheme in ensuring collective action of participating members. These norms serve essential functions; they maintain control, define boundaries, and establish sanctions in the event of defaults. For instance, some of the social norms identified in this study guiding the conduct of participant includes the following;

1. Individual transacting outside the scope of group is at owner’s risk.
2. Traders from other submarkets are not allowed into the group directly.
3. Payments must be collected, completed and handed over to recipients daily before 6pm Nigerian time.
4. Everyone will be accorded same level of respect regardless of how young or old the coordinators were.
5. Subsequent defaulters will be fined 1000 Naira (1€) at every hour that passes and will be kicked out the group after cycles ends.
6. Any money raised from defaulters will be used in entertainment of the group at the end of the cycle.
7. All contributions must be made in cash and not electronic transfers

## **Collection and Distribution of Pooled funds in the Market**

In the market, the collection of funds is done in two ways. Firstly, the coordinator goes round with the collection ledger to the shop of the members, collects the money and ticks off the register for that day, or, secondly, the trader comes to the shop of the coordinator to drop off their contributions and get their names ticked off. These two options can be used interchangeably depending on the group and what they agreed upon. This mode of collection is

similar to the collection of Ájo' where the alajo goes around to collect funds from participants. After funds are collected from every participating member, the funds are then packaged in an envelope depending on the amount and same is being given to the member on the waiting list to receive the cycle. The member then signs off on the register as received. This cycle is repeated daily, weekly, monthly, and so on depending on the duration of Esusu that is being conducted and the cycle only stops rotating until every member of the group has received the pooled funds.

Bacom (1952) notes that the number of memberships within an Esusu group does not necessarily correspond to the actual number of participants. An individual may hold multiple memberships by making multiple contributions and receiving payout more than once within the same cycle. The duration of each cycle is determined by both the interval between contributions and the total number of participants in the group (Bascom, 1952, p.64).

This assertion is true for the traders in Dugbe market, the study found that multiple memberships were being held, as I was able to review the record register, and in probing further to the reason why, some of the analysis were;

1. The individual can afford to hold multiple slots.
2. The individual has so many financial projects they need to raise bulk money for.
3. Individuals could pair with other individuals if they cannot afford the stipulated amount necessary for contribution.
4. Members may stand in for extra persons if the rules restrict certain individuals from participating.

This above discovery in this study aligns with Bacom study where he recorded that a single "membership" can be shared by two or more individuals who are unable to afford the full contribution on their own (ibid).

## **Distinctiveness in the Coordination, how so?**

In designing this study, what was not anticipated was discovering significant variations in how informal savings scheme were managed. I initially assumed that the informal nature of Esusu would result in a straightforward, uncomplicated coordination process. However, the findings reveal an unexpected element of formality in how the scheme operates within the marketplace. This section explores participants perceptions of the scheme's coordination and examines how well these processes align with their needs, particularly in terms of providing effective access to funds. The role of the coordinators is seen as significant in the coordination of these scheme. These agents assume the responsibility of ensuring that group activities within the scheme remains active and managed effectively. They serve as a vital link between participant and the collective goal, their role as a coordinator cultivates an environment where members feel empowered and safe to participate.

Additionally, we could also see from recent findings and research that as the world becomes more and more a global village, key players with affiliation of the formal institution have adopted the concept of Esusu and therefore are transforming the system into a more digitalized scheme while trying to maintain its indigenous origin. This transition stems from introducing mobile apps that enables tracking tools and managing funds effectively. [Esusu Africa](#) and [Esusu](#) are one of the notable businesses that was built out of the principle of these coordination of the informality of Esusu. These two companies are registered businesses, and its operation consider some elements of formal banking documentations, which is distinct from the practice of Esusu in Dugbe market.

The consideration of registering these schemes is not the priority of the traders in the market as this would not make significant difference from a microfinance bank which they



are familiar with, rather the informality of the scheme with a touch of formality in establishing an effective management process is the highlight of the research. This is revealed in the analysis of elements taken into consideration before the establishment of the group.

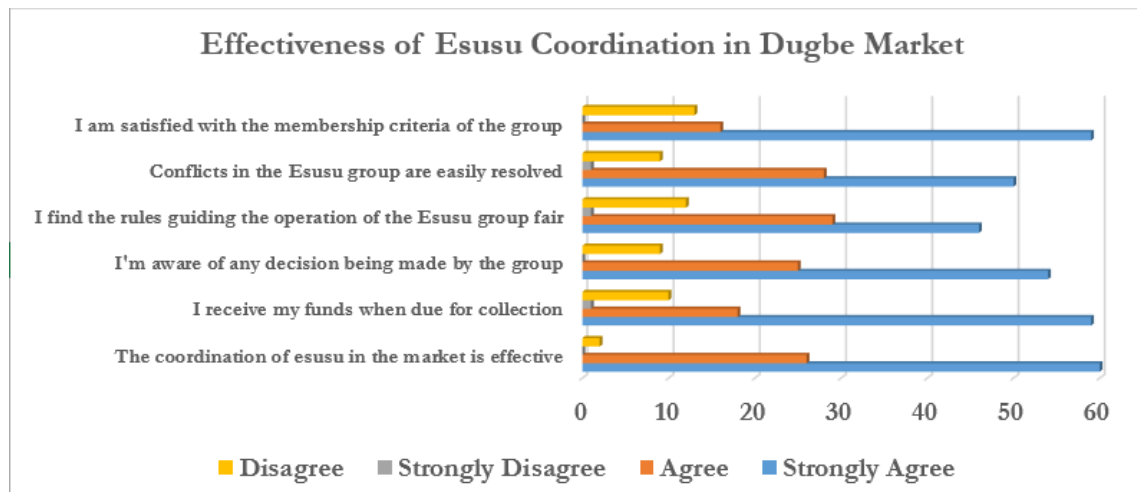
The charts below reveal participant perception in the scheme and have also acknowledge the process as effectiveness as they expressed their satisfaction on how the scheme is being managed, with a few disagreeing on the process.

A respondent reported.

“I love the way the group is being managed, if you are not strict on the rules, people will not take the activities seriously which will bring problem in the way money is being handled. Because everybody is here for the money, and with money, you can see another side of people”.

**Chart 1**

**Showing the Effectiveness of Esusu Coordination, lenses of the traders**



Source: Field work 2024

What is considered effective for participating members of the group are not far from the presence of clear rules, open communication and transparency. To them, this is what sustains the activities of the group. This aligns with Asen and Uto (2024) study affirming that, to strengthen thrift groups management, ethical principles of integrity, transparency is very essential (Asen and Uto, 2024).

It is noteworthy that the rules governing Esusu groups were neither codified in formal bylaws nor distributed through any written documentation. Yet, every participating member is fully aware that these rules were binding on all Esusu groups within the market. Before deciding to join, individuals were cognizant of these unwritten expectations, underscoring how communication within the informal market is shaped by strong social bonds. The market community consists of traders with shared interests, organized into cliques and friendships, hence social interactions range from discussions about personal lives, to business matters, to politics, gossips, and state of the country, fostering a closely knit networks of relationships.

In this context, it becomes evident when a member defaults on their obligations, individuals are often ostracized, labelled, and often excluded from future participation due to their reputation as a habitual defaulter. This informal means of control, rooted in social stigma, serves as a powerful mechanism of enforcement within the market. It compels individual to meet their obligation, irrespective of their circumstances, unless faced with extreme

situations. This strategy is deeply entrenched in the marketplace, ensuring that reciprocity on obligations and compliance of collective norms thereby maintaining the integrity of the Esusu scheme.

The traditional savings and credit scheme appear to cope well with risks being adequately managed by designs created by the group, they achieved this through a combination of locally valued financial and non-financial services tailored to the communities (Eboh, 2000) consistently aligning with Ostrom's views on the need for members to create their own regulations and systems for managing resources, in this case, social capital.

#### 4.5 Coordination Challenges in Esusu

Challenges are crucial obstacles that can seriously impair the efficacy of the collectives in a setting where trust and cooperation are essential. Conflict may arise from the easy disruption of the delicate balance between contribution and payment. The group's sustainable practices depend on addressing these issues, particularly if continuity is a top priority.

Eboh argued that controlling membership size is one of the risk coping strategies in informal savings plans. This is significant because as a group's grows, so does the level of social cohesion among its members, however, these memberships should not be viewed as excessively small or enormous (Eboh, 2000). The responsibility of this management automatically falls on the coordinator of the group and in controlling these issues, sometimes create a tension between the members and the coordinators.

Firstly, as recorded by some of the coordinators, some of the challenges encountered by the group was having to remind people to contribute to the pot at the appropriate time, which was translated by some of the members as lack of respect from the coordinator and some of the members.

The issue of lack of respect came up a lot during this study, some coordinators recalled their experiences on the issue of respect, never within the scope of the study that I envisage the issue of respect as being part of the challenges in group organisation. A coordinator recalled their experience,

“Before I decided to establish some rules, I remember the frustration of having to go to members shop to ask them for their contributions and they kept asking me to come back. I think it was because I was young, and I was also not a westerner who spoke their language so they felt they could order me around. I also think most of them felt intimidated by me, because I have a master's degree and spoke very good English, so sometimes they feel intimidated and say words like, **“even with my masters why didn't I get a white collar job in bank since I know how to handle finances well”**. They expected me to beg them or talk to them nicely even after when they do the wrong thing that resulted in confusion within the group. I endured it for some time, but then after the cycle ended before the beginning of the next, I made some rules and made it known to everyone, and those who were interested remained and complied and those who felt it was too much, left the group”.

- Respondent: Coordinator field work 2024

However, reflecting on it from a cultural point of view of the Nigerian culture in general, it became evident why respect is an important factor to consider in the cultural arrangement of groups especially in western Nigeria. In general, the southern part of Nigeria (Yoruba tribe) is traditionally very respectful especially towards the elderly. The men are required to prostrate, and the women are required to kneel, however, Eze-Uzoamaka and Oloidi (2017), argued that western education has supplanted and diminish customary exchange of greetings and showing respect to others, resulting to young people greeting from afar, or making

conversations from afar using gestures of demonstrating with hands and so on. They further added that modern ways of life have led to abandonment of indigenous principles.

This account reveals to us that similarities is important to look out when setting up a group, not to exclude people from association but to ensure that the distinctness in groups such as the marketplace is well managed.

The earlier data on demographics shows the mean age (17.6) of the traders consists of very young traders, therefore positing the probability of having young coordinator as very high. Also, the study recorded a lot of cultural difference among the group even though majority of the participants were from southwest Nigeria, we still had other regions being represented, which made the exhibition of several cultures in the mode of communication among groups members very distinct.

Secondly, a prominent issue that was faced was the issue of cash flow. It was recalled during the study that sometimes coordinators go home with excess cash at hand because members are not willing to take in money as at the time they indicated they needed it. This challenge exposes the coordinators to the risk of getting robbed and could sometimes warrant the coordinator to deposit these lumps of cash to their personal bank account, which incurs additional transaction cost when the need to make the transfer to the recipient of the money.

“I could have as high as two hundred thousand naira in cash with no member willing to collect fund, this could go on for days, that I will have to beg members to take in some money, while other days, we might find more than three people needing urgent money at the same time”. Coordinator, Fieldwork 2024

When asked the reason for this, the coordinator narrated that sometime situation of members changes, the intention for the use of the money might have change or in this case, the price of goods might have gone up higher than what was expected, so sometimes the member might just want to delay the funds in order not to risk spending the money.

“Before our group became so organized, I remember some members might just stay away from the market for days, sometime 2 or 4 days without informing anyone and it become difficult to reach them on phone because they do not pick up their calls. This caused big issue in the market, because I had to cover up for the member payment for days where they were not around. It causes so much stress on me because people were not willing to hear that the money is not complete for them to receive.” - Trader 2024

To mitigate such risks, coordinators often implement informal surety bonds. This practice involves requiring members to nominate at least one person who can assume their obligations in the event of payment defaults or when they are unavailable.

The experience of these coordinators was different at each of the groups they handled, for some, it was lack of respect, irresponsibility of some members to take obligations seriously, lack of trust, but the common theme that was observed was the uniformity of how they control the challenges. The realisation that laid down rules was going to be the solutions to some of the challenges they faced. This was also attributed to the fact that the coordinators from this study had some level of education, and they had self-awareness of situations around them and how to generally manage conflicts and people.

Esusu coordination represents a multifaceted endeavour that requires careful management of interpersonal relationships, financial transactions, and organizational logistics. Coordinators play a significant role in the success of these schemes, adeptly balancing the diverse interest of individuals members with collective objective of the group. For many Nigerians, particularly in bustling market setting like Dugbe, Esusu remains a vital financial resource, despite the challenges inherent in its informal structure.

## 4.6 Conclusion

This chapter has provided an analysis of the respondent socio-economic characteristics group setup in Dugbe market ecosystem. It introduces to us how Esusu scheme in Dugbe are organized and managed, by acknowledging the role played by the coordinators in ensuring that groups remain functional and effective. In this chapter, the study uses Ostrom perspective on social norms in establishing how social norms plays a critical role in the enforcement of roles and responsibility of participating members of the scheme. The Esusu group within the sample of this study encounters challenges in its coordination, and by establishing what these challenges are, the chapter also provided how they are managed and controlled.

## **Chapter 5**

# **Building Collective Confidence through Trust in Esusu**

### **5.1 Introduction**

Over time, an individual's perception of trust within a group changes. Initially, groups or organizations may be seen as inherently trustworthy, but eventually, they become spaces where trust is built through the interactions of members. When trust is absent, members are more likely to leave, and the group shifts from being viewed as a trustworthy entity to a place where trust must be actively established through ongoing relationships (Fine and Holyfield, 1996).

The challenges of coordinating activities among individual agents and ensuring the fulfilment of mutual responsibility are often addressed through the application of various social norms. Mechanisms such as trust, reciprocity, solidarity and cooperation are essential tools for fostering collaboration in informal economic exchanges (Lascaux, 2014). Trust underpins relentless pursuit of financial capital for micro enterprises (Brown et.al., 2011). As a system built on trust, Esusu has thrived in its appeal among market traders in a society where trust in financial affairs is questioned at every turn. According to Anderson, Baland and Moene (2009), external enforcement cannot ensure that members in informal groups comply by their duties. These measures serve as tools for self-regulation, ensuring responsibility and safeguarding that participants stick to their commitment. The embedding of these internal rules to the group operations limits potential risk that could arise within the group.

Among the informal social system that govern informal market trade systems, trust plays a crucial role. Ottati (1994) describes this as 'capital trust' where he asserts that in the allocation of credit within industrial district depends on the ability to work, and the possibility to know and trust each other. He posed the relationship of trust is what enables transaction in informal credit system. The repayment performance in community based social capital is associated to generalized trust among members, the values they share create an environment where members honour their obligations (van Bastelaer and Leathers 2006); members in group lending develop reputation which is embedded in trust by playing the 'trust game' in the repayment of funds (Guttman, 2010); trust is essential in generating group cohesion in voluntary organizations (Fine and Holyfield, 1996).

### **5.2 Who Are Your Cliques? Exploring the Trust and Social Relationship among Members of Esusu groups**

In the stability of relationships, "trust becomes a shared experience among members" certain individuals have attained some level of reputation, of which such have been transferred to groups that provides its legitimacy (Fine and Holyfield, 1996). In exploring relationship with an individual, the primary objective is to gather as much information about that person as possible, and information in the case of the market settings, is supplied by individuals who are within same environment with the person in question. The coordinators of these Esusu groups in the selection of their members always start with the cliques they have within the market, those they trust and have a close relationship with. These are the core members of the group, they make the decisions on who to extend membership invitation to and who not to, they decide on how much the contribution should be, they decide on the timing and the

rules of the group. The extension of members who decides to join do not really have a say in the operations, they only adhere to what has been established already.

The study also revealed that the importance of trust can be observed at three different levels of the Esusu coordination in Dugbe market. First, it reinforces the notion that trust need to be a binding factor that ensures stability of the group. It acknowledges 'relational trust' in play, where it was observed that some individuals decide to/not participate in the group Esusu due to the personality of individuals in that group. Applying the concept of rationality to this, this indicates that individuals have ability to freely use the information at their disposal, regardless of how inadequate, to make decisions within their context – in this case, participation in group membership.

This revelation is in line with Six (2007), analysis on inter-personal trust using the “<sup>7</sup>relational signalling perspective” lenses, where he argued that trust building involves logic of appropriateness, where the consideration for trust focuses on what is appropriate in the given situation through normative frame.

Secondly, the study recognises the use of third-party alliance in establishing trust in Esusu. This transfer of trust did not solely rest on the coordinator, rather on the members participating in the scheme. The study revealed from the record registers that were kept by the coordinators, that some individuals have more than five slot in the rotation and when asked the reason for this, it was made known that traders sometimes pair themselves up to raise the stipulated amount that is laid down in the Esusu group within the market.

For instance, trader A and B are friends and they both trade in Dugbe market but trader A trades in Oginni section and trader B trades in Joy complex and there happen to be an Esusu group that an invitation have been extended to trader A to become a member. For the case of this analysis, let's say the contribution amount is pegged at #10,000 daily, by mutual friendship and relationship, trader A tells her friend about it and the friend happen to show interest to participate, however because of the rules of the Esusu group that does not allow anyone outside the complex, trader B is unable to participate directly, rather she goes through her friend. So, every day of the collection, trader B sends her contribution to A and she contributes to the group. So, in general, what trader A contributes is #20,000 therefore booking for two slots of the rotation and when it is finally her turn to get the funds, she collects them all and share part with her friend. This example is one of many similar cases that exist in the market, people form alliance among their close friends which they trust within the market to participate because they are sometimes limited by the rules or norms that exist within the group. With this arrangement that exist, in case of default, the coordinators deal directly with the individual whose name is on the register even if the default is not the person's fault directly.

When asked how these trust systems and social relationship dynamics impacted managing everyone participation and ensuring compliance of repayment. The coordinators reemphasized that the only way they can manage everyone expectation is through the rules that is established, stating that when there is control of activities, it brings confidence.

Thirdly, in the coordination of Esusu in the market, the study recognises the '**duality of trust and control**'. What this suggest is that in the expectation of others, trust and control exist in these groups, and they are not mutually exclusive but often are intertwined in the function of this group. While the members trust that the coordinators of their group are not going to default, the group exert some form of control through rules and regulations, procedures, and monitoring, in ensuring that compliance is attained. The duality of trust and

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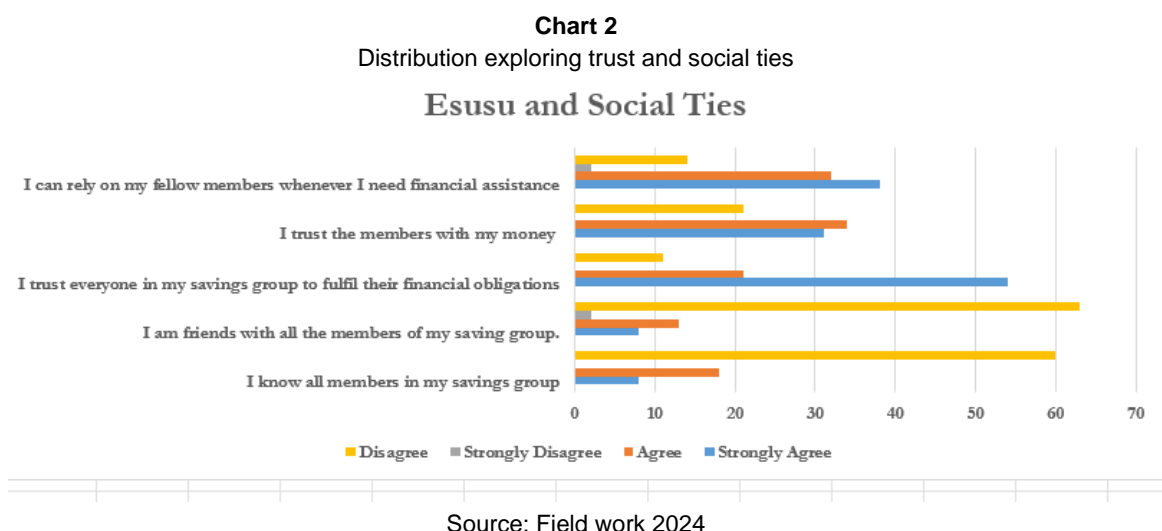
<sup>7</sup> Relational Signalling Perspective (RST) is based on two assumption that first, human behaviour is goal directed and, in an attempt, to explain any social phenomena, we must first pay attention to the goal of the individual actors. Secondly, human behaviour is context dependent. Lindenberg (1997).

control suggest that trust and control are mutually dependent, “creating each other, but remaining irreducible to each other” (Möllering, 2005).

However, the study shows that social relationships and trust are important, it also reveals that not all participating members know each other. Esusu in the market hold no meetings, or social gatherings, members communicate informally and what connect most people to one another is the money that pools them in. “Moreover, the term Esusu refers to the fund rather than to the group of contributors. One may say " I took my Esusu (money) today," but one hardly say " I went to the meeting (or place) of my Esusu today." (Bascom, 1952). Even the head of the Esusu group may not know who all the members are.

This is also the reason why the aspect of rules in ensuring the control of the group is strong, because without the effect of personal relationships, one can exert control without any form of bias.

The data below shows the how the enforcement of rules among members can establish some level of trust within the group. The study also revealed that members within same saving scheme are necessary not known to each other and any iota of trust being extended is only for the purpose of the group and not outside the group.



Trust is a fundamental consideration when establishing communal saving groups, as it is essential to carefully vet potential members for sincerity and integrity. Respondents emphasized their concerns about trust, highlighting the need to secure their investment and ensure that all members uphold their responsibilities. They recounted instances within the market where both group members and coordinators have absconded with funds, leading to significant financial losses. The fundamental tenets that allow seamless coordination of members are reciprocity and trust, which in turns leads to collective action which is in line with what the framework of this study is about.

## 5.3 Conclusion

This chapter explored the trust system, and established that, it is a determining factor for the success of Esusu. We also identify that members can be in the same group and not have social connections to one another in terms of close relationships. Members join these groups for different reason known to them and some members join these groups by proxy. In

exerting control, this study also acknowledges that rules are put in place to effectively manage individuals participating in the scheme.

One of the reasons traders contribute to Esusu scheme is because they trust that members in need of immediate financial aid will have access to the collective fund. This act of solidarity reflects relies heavily on members reciprocity to act in accordance with order to leverage the system to achieve personal and business financial objectives. This model exemplifies how collective responsibility creates self-sustaining financial ecosystem, fostering mutual support and resilience among participants.



## **Chapter 6**

### **The Attractiveness of Informal Savings**

#### **6.1 Introduction**

This chapter explores how Esusu has emerged as a vital coping mechanism for many within the marketplace. As a financial strategy, Esusu is regarded as both affordable and accessible, provided individuals are willing to adhere to the regulations governing the scheme. Driven by shared challenges, primarily the need to avoid excessive costs associated with engaging formal financial institutions, this system has become a lifeline for many traders in the Dugbe ecosystem. It offers an effective means for managing both business and personal costs, underscoring its significance in navigating the financial demands of the market.

#### **6.2 Esusu has Become a Coping Strategy**

The table below reveals that over 96% of respondents in this study have access to formal bank accounts, with these accounts actively used for daily transactions. Despite this, half of the respondents still prefer utilizing Esusu savings as a means of raising capital for their businesses. While many participants in the study acknowledge the banking institutions as secure platforms for financial transactions, they also emphasize that, given the scale of their operations, it remains unsustainable to continually service bank loans when more affordable alternatives as Esusu are available, in this case, Esusu is regarded as ‘a means to an end’ by its end users.

Businesses within the sample study in has expressed great dissatisfaction with the stringent requirement imposed by formal financial institutions for accessing credit, which fail to account for the unique challenges faced by small and medium size business owners in the country. This discourages many traders from seeking loans directly from banks, leading them to turn to alternative online leading platforms. Unfortunately, this often exposes them to the risk posed by illegal lenders who exploit personal data, heightening concerns over data breaches and privacy violations. Thompson et al. (2024) argue, the persistence of illegal online lending is fuelled by the laxity of regulations, lack of social security framework, widespread poverty, and limited access to formal loan facilities.

These factors enable unethical lenders to employ coercive tactics such as cyberbullying, threats to personal safety, and defamation of character to recover debts from defaulters, further exacerbating the vulnerabilities of those seeking financial support.

The formal financial system, in its design, emphasizes the importance of partnerships with Small and Medium Enterprises (SMEs) to broaden credit access for entrepreneurs. However, business owners in this study report that such ambitions do not align with the realities they face in fostering business growth and support. Instead, they perceive the system as one that burden them with recurrent debt rather than providing tangible support. This analysis is in line with Thom-Otuya and N. Chukuigwe (2014), argument that high lending rates, coupled with inequitable distribution of wealth and income in Nigerian have given rise to persistent challenges in microfinancing business across various sectors.

**Table 2**

Data showing access to financial institutions.

	Frequency	Proportion
<b>Access to Bank Institutions</b>	86	96.5%
<b>Respondent preference for business savings in the bank</b>	41	46.6%
<b>Respondent preference for business savings in the group</b>	47	53.4%

**Table 3**

Data indicating the frequency at which these platforms are being used.

	Very Often	Sometimes	Rarely	Never
<b>Esusu</b>	73.6%	12.6%	-	9.2%
<b>Bank</b>	76.1%	20.5%	-	-

Source: Fieldwork 2024

Lending constitutes a core function for banks seeking to maintain profitability, with these institutions serving as intermediaries between savers and borrowers. However, the risks associated with extending credit are substantial. Research indicates that financial institutions in Nigeria are particularly vulnerable due to the significant volume of non-performing assets, which can result in considerable losses when customers default on their financial obligations. (Agu and Ogbuagu, 2015). The high levels of bad and doubtful debt in Nigeria commercial banks are primarily attributed to inadequate monitoring of borrowers to ensure proper fund utilization, as well as the continuous rise in lending rates. Until effective regulations are implemented, individuals will likely continue defaulting on loan repayment. (Offiong and Egbuga, 2017; Agu and Ogbuagu, 2015).

To avoid the burden of accumulating debt associated with accessing credit, business owners in Dugbe have expressed their reluctance to engage with that aspect of banking services. Instead, they emphasize the importance of utilizing other banking products, such as debit cards and routine transactional services, which remain integral to their operations. As one business owner explained:

“My sister! the debt I have incurred servicing loan because the interest keeps going up, I have to take another loan to pay for another loan. It was becoming very stressful for me. It was by God’s grace that I finally paid in all the money (expressing this with sign of relief). Now, I contribute using only Esusu because the money comes in handy, all I have to do is plan for when I would need it and channel my payout then, and since the money is only

given to you in cash, I take the money to the bank and do all the transaction from my online bank platform. It saves me a lot of money, headache, time, and it help me plan for my business well”.

Another responded gave another perspective;

“My bank account remains active because of my customers, because we are in the cashless era, a lot of people do not carry cash around, they prefer to do transfer, and that is why my account remain useful for me. I also do transfer to my suppliers too whenever I go to the market to purchase goods, because I cannot carry huge amount of cash to the market for fear of it getting stolen”

These responses by these traders aligns with many of the situation of the traders in the market, accessing the data from the table 2 and 3 shows that the frequency at which people use the bank, and the scheme are close. Contributing very often to the scheme means that the number of transactions in the bank increases as well and when the contribution is low, the banking activities reduces too.

For these purposes, Esusu remains appealing and attractive to many business owners in Dugbe, the traders have described the scheme as safe and reliable in accessing bulk sum of money that enables them plan and attain their business growth projection. They emphasised that close relationship with organizers of the scheme also makes the group worthwhile as they believe, it was going to be smooth coordination. Nevertheless, among traders who actively participated in the scheme, 9.2% decided not to participate because of their prior experience with the scheme and personal accounts from other traders, for instance a respondent recorded that, the delay in payout and mismanagement of funds was the main reason why she decided not to participate in the scheme anymore. Instead, these individuals have chosen the formal banking institutions as the most secured place for their financial needs.

## 6.4 Conclusion

This chapter explored access to affordable credit as a critical element of Esusu within the market ecosystem, while pointing out the motivation and the causal factor why these schemes remain attractive to engage in. It adopts an exploratory approach of microfinancing of SMEs and the possible causes of bad loans in the formal banking system considering the banks as the closet alternative in providing secured funds in Nigeria.

This study reveals to us that, traders’ rationality is impacted by both individual and collective gains. They weigh their option on which is most profitable and desirable to them. Through this saving scheme, they obtain funds they would normally be unable to secure independently without depending on collective support or loan services from formal financial institutions. However, recognising the advantage that both system play in the performance of their business, they adopt these structures and in a more efficient way that suit to their current business needs.

## Chapter 7

### 7.1 Conclusions

A few years ago, an event occurred with my mother which left me intrigued on how much attachment my mother had with Esusu groups in her place of business, despite having been a victim of collection scam where a collector had absconded with people's money. This single incident did not derail my mother's focus from participating in the next scheme. Though she did not go into the scheme immediately because according to her, she needed to recover from the loss and plan for the next entry, so she could properly access the group before making commitments. Interpreting this incident in a nutshell has revealed that there would always be a continuous need for capital, and as an entrepreneur, measuring the level of risk you are willing to take as a business is key.

This research has revolved around this single event seeking to understand not just the concept of Esusu, but how these schemes are coordinated in present time urban markets that caters for incident such as the one experienced by my mother. In answering this question, this paper draws on a conclusion that the success of a group, particularly the groups in this study, is largely influenced by key factors such as trust and the identity<sup>8</sup> of the coordinator, as these factors are crucial in determining the outcome of the scheme.

In this study, the role of trust was deemed especially crucial since it tackles the issues of transaction safety, group reputation and control measures on members behavioural patterns in carrying out their responsibilities. From the onset, participants were able to gain an understanding of what is obtainable within and outside the group structure in terms of membership, fund distribution, and collection, which at the end of the day created a mutually beneficial agreement among group members in Dugbe market. These traders became more self-assured and cooperative as their interpersonal trust with one another grew and this was seen and measured through their tendency to trust each other within the group setting, because it builds up a learning mechanism that analyses encounter from previous interactions that did or did not aid cooperations.

Furthermore, the concept of reciprocity and collective responsibility was also critical in organizing Esusu groups. Through the lens of SSF and RCA, we discover that financial alternatives like Esusu are explored when group members reach a consensus on guiding rules and principles and are accountable to one another. The reciprocity within these groups builds balanced relationships between members who utilize them. It elicits a sense of obligation regardless of if members like one another. When local, self-organized individuals establish systems and effectively manages resources, these results can in turn promote cooperation and collective action. Esusu in Dugbe operates clearly among groups that have clear and defined boundaries, operating within some given provisions of rules, on which their collective duties are displayed. This fabric of individual responsibility attribute to collectives that is necessary for the group to thrive.

Additionally, Esusu not only addresses the need of the unbanked and marginalised population in rural communities where access to formal financial institutions is limited, but present participation by individuals in diverse economic class reveals that the scheme is also beneficial to all classes of persons. The duality of this therefore reveals that, Esusu is no longer seen as a survival tool alone, rather as an alternative strategy across socio-economic

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<sup>8</sup> Identity here refers to Esusu member's knowledge of the coordinator – including of character, personal relationship with, and financial capacity

spectrum. It has become an adaptable financial tool that is viewed as an alternative to formal finance and has been regarded to be cheap and accessible, aligning with Ayodele's (2015) findings that revolving loan schemes have served as a substitute for banking institution. Beyond the financial security that is being provided by the formal banking institutions, participant in this study have expressed the unwillingness to continuously service the reoccurring lending fee offered by commercial banks and has therefore seen the scheme as sufficient in their current business operations.

In Dugbe, the need for a more cost-effective means of conducting business created an opportunity for the rising of individuals to actively take up the responsibility of coordinating Esusu groups as this was seen as beneficial to them as well. This therefore indicates that, groups do not organise themselves unless there are people or individual willing to take up the initiative to lead in proffering long- or short-term solutions. It therefore expands the level of informality within the market ecosystem as compared to a formal system where all the tenets of formality are observed before execution. However, formal means of organisation remained in Esusu schemes as discussed in section 4.4. The complementing of both formal and informal practices as a form of organising for traders in Dugbe market illustrate how one system cannot be considered superior to the other as they are both unique and offers opportunities in different ways for small medium enterprises. This observation aligns with the study conducted by Gomez and Fransen that argues that the combination of the formality and informality is seen as compatible for conducive business growth using the multilevel framework (Gomez and Fransen 2020).

Nevertheless, Esusu schemes are not fool proof. Challenges such as, human error in recordkeeping, the risk of robbery due to cash dependency, lack of formal protection in terms of fraud and/or corruption, and potential for fund mismanagement persist.

## **7.2 Recommendation**

The distinctive nature of this study adds a nuanced perspective to the understanding of informal finance, particularly within major urban centres and trade hubs. It is my hope that future research will adopt a critical lens when examining and reporting on informal finance, by exploring conduct of informal finance, beneficiaries of the scheme, not limiting it to the rural and marginalised groups. Furthermore, while several studies have examined lending and recovery processes to SMEs within the formal financial sector, there is little evidence exploring the role of informal finance structures like Esusu in aiding loan paybacks. If properly investigated, we could see a spill from the informal finance influencing why loans are recovered. Finally, it will be great for further research to address 'what truly defines self-governed groups?'

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## **Appendices**

### **Appendix 1 - Consent Form**

### **Appendix 2 - Interview guide**



Research Consent  
Form.docx



Cynthia Akamere  
Interview Guide for Es