



Graduate School of Development Studies

Informal Financial Institutions and Poverty Reduction in an Informal Sector in Nigeria
Case of Rotating Savings and Credits Associations (ROSCA) in Ijebu Ode

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This document represents part of the author's study programme while at the Institute of Social Studies. The views stated therein are those of the author and not necessarily those of the Institute.

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Dedication

I dedicate this work to the ALMIGHTY GOD.

List of Acronyms

ASCRA	= Accumulating Saving and Credit Association
CBN	= Central Bank of Nigeria
EFInA	= Enhancing Financial Innovation and Access
GDP	= Gross Domestic Product
FFI	= Formal Financial Institution
FGD	= Focused Group Discussion
FINSCOPE	= Financial Scope
FMBN	= Federal Mortgage Bank of Nigeria
IFI	= Informal Financial institution
IMF	= International Monetary Fund
NACB	= Nigerian Agricultural and Co-operative Bank
NBCI	= Nigerian Bank for Commerce and Industry
NGN	= Nigerian Naira
NIDB	= Nigerian Industrial Development bank
RESCA	= Regular Savings and Credit Association
ROSCA	= Rotating Savings and Credit Association
SAP	= Structural Adjustment Programme
WDR	= World Development Report
www	= World Wide Web

Abstract

Despite the concerted effort of various governments and international bodies through a number of lofty programmes and measures aimed at making dent on poverty, there is still a worrisome trend of poverty situation in the world. This explains that poverty reduction is the most difficult obstacle bewildering any country in the developing world where on the average, majority of the population is considered poor. Meanwhile, the depth and severity of extreme poverty in Nigeria also has been alarming. And over the years, the government undertook some poverty reduction initiatives with the aim of reducing, if not totally eradicating poverty; especially using informal finance in order to enable people have access to funds that will improve their means of livelihood. This study attempts to explore the mode of operation and reasons why informal financial institution and poverty reduction in the informal sector is prevalent in Nigeria through the help of Rotating Savings and Credit Association (ROSCA).

Furthermore, the study critically explains the comparative analysis of access to funds in both formal and informal financial institutions in the areas of fund mobilization and availability, default management and their effects on the participants' well-being. Forty respondents were sampled from the six identified ROSCA groups for this study and were subjected to Focused Group Discussions (FGDs) in Ijebu-Ode, Ogun State, Nigeria. The findings revealed that the existence of ROSCA in Nigeria has brought a relief and succour to the people because of its easy access to funds and conveniences. This implies that the cheapness and availability of ROSCA funds is one of the core reasons that have been promoting its emergence all over the world. The result also showed that ROSCA groups are strong providers of insurance and informal employment; especially for those who aspire to engage in private business and other entrepreneurial practice.

In addition, the findings revealed that ROSCA (informal financial institution) is quite convenient and helpful in terms of credit provisioning than banks (formal financial institution) because the latter has apparent potential profitability and it has standard and regulatory requirements which seem difficult to comply with for some people especially low income earners and rural poor. In conclusion, it could be deduced that ROSCA has demonstrated that informal sector and informal finance remain very relevant in enhancing income of the poor household and for community development in developing countries.

Relevance to Development Studies

Income generation improves economic sustainability and reduces the poverty level of a society. With increased income, development is attracted and a society is better off. Informal Financial Institution like ROSCA in Ijebu Ode is positively impacting on the lives of the people because of its flexibility, accessibility and especially the recognition of each person's capability to contribute in the pot. One for one and one for all as they say.

Keywords: Informal Financial Institutions, Formal Financial Institution, Informal Sector, ROSCA, Poverty Reduction and Credit Facilities.

CHAPTER ONE:

INTRODUCTION

1.1 Background

In Nigeria, majority of the population are poor and predominantly engaged in the informal sector where there is no guarantee of income and capacity to provide collateral security for credit facilities thus limiting their access to credit and perpetuating poverty situation among the people. The Nigeria's banking culture according to FinScope survey report of 2008 indicates that an estimated 74 per cent of the adult population has never been engaged in formal saving, 85 per cent of adult females do not save, 61 per cent of those that does not save would like a bank account, only 3 per cent of the adult population use a microfinance bank and 73 per cent of adult Nigerians are financially excluded from formal finance. A report by the Central Bank of Nigeria states that 65 per cent of Nigerians lack access to credit facilities (CBN 2008).

Generally, development planners and economists believe that the Formal Financial Institutions (FFI) perform better than Informal Financial Institution (IFI) in channelling funds to sectors and target groups in the rural economy in conjunctions with the private and in stimulating economic activities and growth of nations. However, policymakers acknowledge the fact that majority of rural households rely on Informal Financial Institutions (IFI) for their daily financial needs. In view of the credit given to the performance of formal financial institutions and the reliance on the informal finance by some group as indicated above, it becomes pertinent that the extent and nature of reliability and potential of the IFI be explored so as to understand why it has attracted growing interest particularly among the rural people.

Studies of formal financial institutions reveal an asymmetry in the quest for potential savings and credit extension. Formal Financial Institutions in many cases are shown to be better suited to service the needs of big clients (in term of asset value loan demand) rather than small, and this is more active in manufacturing than in agriculture (Sagrario and Yotopoulos, 1991). It is evidenced that the formal financial institutions operate in fragmented market where competition is imperfect due to the distortion imposed from outside by the government (McKinnon 1973, Shaw 1973 as cited in Ayadi and Hyman 2006). The existence of transaction cost inherent during the process of financial intermediation lead to structural distortion in the credit market thereby resulting to externalities which limit the activities of the formal financial institutions, at the same time, providing an opportunity for financial intermediation to fill in the institutional vacuum left by the formal financial sector (ibid).

The general assumption is that people engage in informal finance because of lack of access to or deprivation of credit facilities and therefore informality is an attribute of poverty. More so understanding the degree to which different obstacles limits the development of quality pro-poor credit facilities in

Nigeria is crucial to designing appropriate policy and interventions. It is against this background that a study of the IFI in the informal sector in Nigeria using Ijebu Ode as a case becomes necessary in order to understand the factors that underlie the success of informal financial institution such as ROSCA in the rural settings of Nigeria.

1.2 Statement of the problem

Presently, it has become very difficult if not impossible for many Nigerians to live above the poverty line. Accessibility to credit facilities is also very difficult for women and men, farmers and people who are poor. The inability of the formal financial institutions (FFI) to make funds available to reach the poor segment of the population, due to the strident conditions attached to loan has increased the relevance of the informal financial institutions (IFIs) such as money lenders, pawnbrokers, Rotating Saving and Credit Associations (ROSCA) and so on, that provide credit service for the needy in short notice with little or no restriction. ROSCA as an example of informal financial institutions has been credited as not only provided a means by which individuals have access to funds but also avenue by which they can have access to inputs and improve technology from which productivity growth is accelerated (World Bank 1989; Chipeta and Mkandawire 1991; Ayretey 1997 as cited in Yusuf et.al, 2009). Therefore ROSCA also helps in smoothening temporary shocks in consumption; improve income distribution and the standard of living of most its members who are poor.

In relation to the above, the failure of most programmes by successive governments in Nigeria to tackle the menace of poverty among the general population due to political instability, corruption, bureaucratic bottleneck, lack of sincerity of purpose, elitist orientation of the programmes and the unwillingness of the formal financial institutions to grant loans/credit facilities to the poor resulting from non-provision of collateral security have been held responsible for this situation. The concerns generated by the prevalent situation has brought the need to focus attention on the operations of informal financial institutions, with emphasis on ROSCA as a scheme that is capable of solving the problem of access to credit facilities in the rural setting of Nigeria. The Informal finance is defined to embrace all financial transactions that take place beyond the functional scope of various countries' banking and other financial sector regulations (Bortei-Doku and Aryeetey, 1995). This definition permits the inclusion of a wide range of financial activity whose operational scope may differ across countries.

ROSCA schemes are generally adopted to make credit accessible to beneficiaries. According to Yusuf et .al (2009) the definition of informal finance pulls in such schemes as the operations of Rotating Saving and Credit Associations (ROSCA) which is known all over Africa as professional money-lenders, pawnbrokers, mobile bankers (generally known as susu or esusu collectors in West Africa), credit unions, co-operative societies etc. have been observed in both urban and rural areas. ROSCA is noted for taking deposits and also lending in various ways as well as dealing with specific groups of people, ensuring that only people that satisfy distinct selective criteria are able to either deposit with them or borrow from them.

In view of the background information presented so far regarding the informal financial institution and accessibility to credit facilities, the question remains whether the informal finance exist because of the lack of access to bank loan by the poor and/or market segmentation and information asymmetry that exist in the formal financial system. However by comparing accessibility to funds in the formal and informal financial institutions, in relation to problems encountered in the process especially with regards to funds mobilisation, availability, and default management and effects on participants' well being, this study will reveal the reasons for the success or prevalence of the informal financial institution such as ROSCA in the rural setting of Nigeria.

The remainder of the paper is organized as follows; chapter 2 explains the sample area, population size and the method adopted. Chapter 3 provides the literature review on IFI, ROSCA and Informal Sector while Chapter 4 discusses the general context of Nigerian financial system. In Chapter 5, we analyze and discuss the field work experience while chapter 6 concludes.

CHAPTER TWO

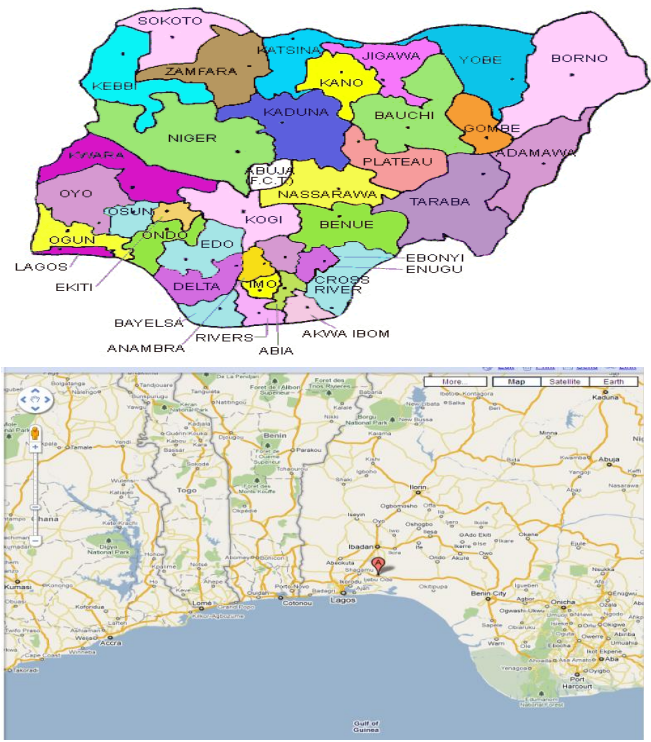
2.0 METHODOLOGY

In this chapter, we discuss the area which the study covers, the population size, instrument used for the study and the method adopted in carrying out the study. Also the justification for the study as well as its limitation is presented.

2.1 The Study Area

This study covers the people that are engaged in the informal sector of Ijebu ode. Ijebu-Ode is the commercial centre of the local government located in the South Western Nigeria. Ijebu-Ode is about 110km by road from north east of Lagos with a population of 222,653 (National Population Commission, 2007) and the second largest city in Ogun state. Ijebu Ode is significantly known for uncultivated large hectares of land, strong and committed farmers whose agricultural products include cassava, maize, kola nut, yam, oil palm, timber and so on that are grown at the subsistence level due to lack of access to credit facilities that can enhance the cultivation of these various agricultural products. The town is popular within the Yoruba (one of the three major groups in Nigeria) with cultural values.

1.1 Map of Nigeria, Ogun State and Ijebu Ode (Study Area)



2.2 Justification of the Study

. In Nigeria, there has been a monumental increase in the activities of the ROSCA which consequently provide unique opportunity for researches to direct searchlight on the prevalence of the informal finance in rural areas and this raises concerns as to why this is so despite the existence of the formal financial institutions, hence the study.

Ijebu Ode is chosen for this study because majority of the people residing there are engaged in petty trading, farming at subsistence level while others include artisan who are self employed and operate in the informal sector which is associated with low productivity and low income. People in Ijebu Ode lived below the international extreme poverty line of US\$1 per day (Mabogunje and Kates, 2004). Thus the area can be a representative of the country due to the fact that majority of the Nigeria population lives below this international poverty line. This study will contribute to the debate on the activities of the informal financial institution vis-à-vis poverty reduction strategy in most developing countries including Nigeria especially as it relates to poverty reduction. More so it will give an insight on issues of informal financial markets.

2.3 Population Study Design and Instrument

The study adopted a qualitative approach using focus group discussion and interviews. Six ROSCA group were identified from different location within Ijebu Ode community. They are Ifesowapo multi business located in Imere, Oluwaseyi Olisa located in Olisa, Gbemisola Interbase located in Oke-Aje market, Ise Loogun Ise located in Imososi, Arewa Fish- seller located in Bonojo and Beauty Sisters Hairdressers located in Odosinusi. These groups were made up 580 members whose spectrum includes traders, drivers, farmers, artisans, teachers, nurses, small scale entrepreneur, market women and transport service providers (see Table 1 in appendix A).

Issue raised during interview include background of respondents, marital status, educational status, employment status, household size/composition, income, total-contributing amount, amount credit/loan collected, interest rate charge (If any), duration of the loan, criteria for eligibility, are there different loan duration, what factors makes loan duration change, what exceptional circumstance do the association allow borrower to extend repayment period, success rate of payment, sanction for loan defaulter, how funds collected help in reducing individual level of poverty, and problem encountered as members of ROSCAs. Secondary information was also obtained from literature to support the primary source.

2.4 Sampling Method

In this study, two kinds of sampling methodology were applied in order to answer the research question: (a) Convenience Sampling (b) Snowball Sampling. The Convenience Sampling method used fits the research questions. It allows the researcher to meet additional ROSCA member as the opportunity arose. Snowball approach was useful as it allowed for new contacts during the research thereby creating links to other informants. The emerged network

helped explain how the ROSCA stayed in touch and organized themselves. The study adopted different techniques of data gathering as this helped triangulate findings. The primary data consisted of semi-structured interviews conducted through meetings arranged with each ROSCA group members within Ijebu Ode. The semi-structured interview encouraged two-way communication, providing spaces for follow up discussion and questions. For my analysis, narrative method was applied.

The intended number of ROSCA (40 respondents) were selected among the identified ROSCA using the systematic random sampling. In Gbemisola Interbase Oke –Aje with 450 members, a greater number of respondents were chosen compared to other ROSCA groups. 15 members of this group were selected from the register including two members of the executives based on the systematic random sampling (where the total number on the register were divided by the number to be chosen; $450/15=30$). Fifteen members were selected from this group of ROSCA based on its size (every 30th member on the register). This same method was applied in other group for the selection. In Ifesowapo ROSCA with 45 members, 5 members were selected including one executive member (i.e. every 9th member on the register). In Oluwaseyi Olisa, Arewa Fish Seller and Beauty Sister Hairdressers ROSCA with 25 members each, 5 members were selected from each of the groups including one executive member (i.e. every 5th member on the register). In addition to this, the last group which is Ise Loogun Ise ROSCA with 15 members has 5 selections including one executive (every 3rd member on the register). Secondary information was also obtained from related literature, journals and articles to support the primary source.

2.5 Limitation of the Study

As common with sound research study, the researcher was faced with many challenges such as time, financial constraints, identification and availability of respondents for the participatory group assessment. However, since research involves a painstaking procedure, the study withstood these challenges in order to achieve desired result. The snowballing method adopted for the identification of ROSCA group has some inherent difficulties. Atkinson and Flint (2004) note that elements are not drawn randomly but are dependent on the subjective choices of the first respondent accessed. The implication of this is that snowball samples are biased, especially towards inclusion of individual who already know one another and do not allow researcher to make claims of generality from a particular sample. Furthermore, the painstaking process of interview transcription constitutes another limitation. Flick (2006) notes that managing transcribed interviews requires the researcher to identify respondents' view that are similar, highlighting these and use them based on their broad relevance to the key research questions. In addition the researcher faced the problem of condensing the views of the respondents into one thereby homogenizing them.

CHAPTER THREE

3.0 Literature Review: Theoretical and Conceptual

This chapter presents relevant literature, theories and concepts on informal financial institution, which form the basis for discussing and analyzing the activities of Rotating Savings and Credit Association (ROSCA) in relation to Poverty Reduction. The literature is sub divided as ROSCA, operation and enforcement in ROSCA, motives for participating in ROSCA and the role of ROSCA in Poverty Reduction.

3.1 Debates on Informal financial Institutions (IFIs)

Generally most intellectual debate on informal finances has been viewed from two perspectives namely 'the residual' and 'the dualism' paradigm. The residual paradigm believed that the inefficiencies generated within the formal financial system and the improper way of adaptation of world's formal financial condition led to the existences of informal finance. This paradigm originated from the works of MCKinnon (1973) and Shaw (1973). They argue that informal finance stems from the excessive regulation of the FFI through the use of direct credit policies, interest rate ceilings and preferential allocation of credit which created distortion in the economy. The distortion led to high cost of fund to the poor, rural dwellers, small scale entrepreneurs and other disadvantaged groups thereby accentuating the development of the IFI. Furthermore, Bouman and Houtman as cited in Fischer (1994) argue that the rural economies of many Asian and African countries require the financial system to generate turnover of small loans with low risk and low transaction cost, but the banks of formal institutions do not have the managerial capacity to small loans since the local lenders (informal institutions) are already involved in providing such services. In line with this position, Ardener and Fitchette (1992) believed that informal institutions are better than the formal institutions in supplying short term credit/loans to the poor, more closer to their client and are thus in a better position to give recipe to changing financial needs than the formal.

The second perspective which relates to the dualism paradigm believes that IFI exist as a result other motives beyond the purely economic. According to this school of thought, IFI exist due to subordinate role it plays to the FFI thus creating market segmentation. In their view the occurrence of market segmentation is not due to regulation but because of the fact that the IFI serve in redistributing income among community members and provide a form of social security by meeting their fluctuating liquidity needs (Hugon, 1990 as cited in Soyibo, 1996). While it is costly in formal institution to acquire information about clients, informal utilizes local personal information resulting into a weak legal system which inhibits contract enforcement thereby results in credit rationing of potentials borrower without collateral. The market segmentation can be filled by informal agent as the collateral is replace by reputation, group responsibility and interlinked transaction.

Ardener and Burman (1995) argued further that informal finance is efficient in responding to the socio economic conditions of the poor as a result of the availability of resources without depending on market segmentation. Hill as cited by Ardener and Burman (1995) pointed out that rural poor need not to be learned on the saving habit since they have already engaged in the activities among themselves and need not to resemble any formal institution using the West African economies experience. He continued his argument in 1970s and 1980s with the Indian case study and later concluded that informal credit market evolved faster in rural areas especially where agriculture predominate and there is concentration of formal finance. In such situation, informal institutions compete with formal institution and still survive the competitiveness, financial viability and low cost of operation (Bouman, 1995). Informality exist due to inefficiencies caused by market segmentation which prevents the formal institution to enter into the market since the informal cannot help but be replaced by formal one which is tends to eliminate the segmentation as the informal financial system develops and are less efficient in conducting financial transaction.

An increasing body of analytical work has attempted to give an explanation to the functioning of credit markets using the new theoretical developments. Challenging paradigms of competitive equilibrium have tried to explore the implication of incomplete market on market segmentation and imperfect information for the operation of credit market in developing countries thus providing a theoretical foundation for policy intervention. Schrenirer (2000) explains that interest rates charged by a credit institution will have a dual role-sorting potential borrowers (leading to adverse selection) and affecting the actions of borrowers (leading to the incentive effect). Interest rates thus affect the nature of transaction and do not necessarily clear the market. Both effects are noticed as a result of the information imperfection inherent in credit market. Besley and Levenson (1996) following this line of argument analyzed the rationale for intervention in rural credit market in the presence of the failure of the market. He posited that since credit market are characterized by imperfect information and high transaction cost, an efficiency measure as exist in a perfectly competitive market will not be an accurate measure against which to define market failure. These problems lead to credit rationing in credit markets, adverse selection and moral hazard. Interest rate is thus seen to play an active allocative role of equating demand and supply for loan able funds and will also affect the quality of the lender's loan able portfolios. Further empirical research on the use of credit by rural household tends to show that although it is not obvious that demand for credit far outweigh the supply, there are significant obstacles to the transformation of potential demand into the revealed demand (Aryeetey, 1997). The absence of supply creates lack of demand expressed in low revealed demand. Again due to market failure in the credit market, the transaction cost involved in obtaining credit is considered greater than the satisfaction, prompting household to switch profits between activities as a way of financing working capital.

The relevance of the financial sector to economic development is not clear cut. However, Hicks (1969 as cited in Bouman 1988) hold the view that financial sector play a crucial role in the mobilization of capital for industrial-

zation. In the 1980s, several African government or countries including Nigeria embarked on structural adjustment programmes in order to correct disruptions in their economies and possibly put an end to poverty. This seldom delivered their intended objectives. The expected outcome was marred by policy reversals of government with poor performance of the financial institution.

Among the two methods of providing credit to the target group (formal and informal), the informal method has been identified as the most successful because in several developing economies where poverty is high, some individuals, households and region remain isolated from market and from mechanism for borrowing and lending or insuring against risk (Aryeetey, 1997 and Tsai, 2004). Consequently, informal lender tends to reach the poor at low transaction cost. The informal is built around group concept. The model works in a situation where group commitment to saving and credit are weak and look up to donor sponsored credit. While this works better with a group that voluntarily come together to form a revolving saving and credit association, it develop managerial problem where the group are not voluntary (Besley et al., 1993).

Bouman (1988) defined IFI as contract or agreement conducted without references or recourse to the legal system to exchange cash and presences for promises for cash in the future. He also asserted that informal institution derives from the grassroots, bottom up demand of the poor for an appropriate financial service. Even though the informal institution is mostly legal, the lack of recourse to the legal system in the conduct of its affairs in countries like Nigeria makes its operation to appear unorganized, unregistered and difficult to regulate (Akintoye, 2008). Consequently, massive additions to the labour force by this sector do not show up in formal modern sector unemployment statistics due to the fact that the bulk of new entrants to the labour force create their own employment or work for small scale family owned enterprises. This concept of “informal sector” since its invention in the 1970s has attracted much interest, discussion and disagreement. According to Sethuraman 1981 as cited in Akintoye 2008, there are currently two approaches to defining informal sector activities: the definitional and the behavioural. The definitional is one which consists of economic activities which are not recorded in the Gross Domestic Product (GDP) and/ or the national income accounts. The behavioural which is sometimes referred to as the legalistic definition is based on whether or not an activity complies with the established judicial, regulatory, and institutional framework. However, the informal sector as consisting of small scale units engaged in production and distribution of goods and services with the primary objective of generating employment and income, notwithstanding the constraints on capital, both physical and human, and the technical-know-how. The informal sector does not appear to have a meaning independent of the formal sector, as it only derives its meaning when contrasted with the formal sector (ibid).

Akintoye (2008) opined that the informal sector comprises those employment generating activities of some urban residents, undertaken for survival in the absence of formal employment and that these activities are characterized by the lack of regulations by institutions of society in a social and legal environment in which similar activities are regulated. Employment in the informal sector is said to be characterized by low-pay and low job security amongst oc-

cupant (Demirguc- Kunt et al, 2008). It is dominated by petty trading of various kinds. The informal sector is assumed to be unregulated with small individual or family owned and run semi- organized business enterprises (Manda et al (2001) cited in Demirguc-Kunt et al, 2008). He asserted that informality is perceived as an economy characterized by corruption, poor regulation, poor financial and labour market environment. Amaral and Quintin (2006) cited by in Demirguc-Kunt et al, 2008 further stated that the role of financial institution are heterogeneous in both the formal and informal sector thus, the transaction cost associated with production in the informal sector as resulting from a limited access to formal means shapes the decision on whether patronize formal or informal institutions. Common features of operators in the informal sector as identified by Akintoye 2008 includes; easier access to production factors which are derivable from social organization of family and friends, involvement of entrepreneurs in virtually all branches of the economy ranging from productive activities general services and specialized services, technology is determined more by the constraints of the social relations, motivation for production by the operators in the informal sector is becoming more profit oriented.

The informal financial institution are classified into three components: (i) proprietary informal financial entities like moneylenders, smallholder farmers, traders, self help groups and other business/women, (ii) staff and social welfare schemes like those run by employers, friends, relatives and neighbours, and (iii) mutual aid entities like RESCAs, ROSCA and ASCRAs (Chandavarkar 1985 cited in Aredo,1993). The earliest evidence of informal financial institutions in Africa dates back to the 16th centuries to esusu, a rotating saving and credit association (ROSCA) among the Yoruba. As a form of social capital, the esusu as a financial self help group was transported during the slave trade to the Caribbean island (Bascom 1952 as cited in Ayadi et al 2006) where both the institution and the term still exist today and are now carried by a new wave of migrants to major American cities. Its origin were probably rotating work association, in which labour as a scarce commodity was accumulated and allocated to one member at a time, and then with the spreading of commercial transactions, replaced by money with the emergency of a cash economy. Nigeria is one of the countries where IFI continues to play an important role. There may be only few Nigerians who are not members in one or several of them. Amongst the three key ethnic groups in Nigeria, this kind of financial institution is recognized by certain name (**adashi in Hausa, isusu/ osusu in Igbo and esusu in Yoruba**). However, IFI of various types continue to be rediscovered in Nigeria by scholars (like Greene, 1993; Seibel and Marx, 1987) and practitioners who were interested in their development potential.

3.2. Rotating Saving and Credit Association (ROSCA)

The World Bank (2004) defined ROSCA as an association whose members meet regularly (weekly or monthly) and contribute a fixed amount which is allocated to each member on rotation based on lottery, bidding or other system that the group agreed. Levine, (1992) as cited in Aredo (1993) was of the view that the fixed contribution as an exchange for privilege of receiving a large sum at some point in the life of the group. He inferred from these defi-

nitions that in ROSCA each member agrees to pay an amount into a common purse so that each member, in rotation can receive one large sum. ROSCA was taught to be beneficial because of the assumed saving habit that later evolved into formal practices. In the 1970's and 1980's, ROSCA were believed to be the ideal way of addressing the conditions of low and fluctuating incomes. The work of Geertz 1962 as cited in Fisher 1994 linked ROSCA to a traditional means of mobilizing social relationship so as to fulfil the non-traditional economic functions using a small group in Indonesia and large cross geographical group in India. He concluded that ROSCA move away from the social functions towards a purely economic function of fund allocation determined by prices as development takes place.

Rotating Saving and Credit Association (ROSCA) known as *esusu* in Nigeria, *susu* in Ghana, *arisan* in Indonesia, *gun* in Turkey, *dhikun* in Nepal, *mabati* in Kenya, *chilemba* in Uganda, *kou* in Japan, *pasanacu* in Bolivia, *tontine* in Malaysia, *tanda* in Mexico, *upato* in Tanzania, *hui* in China, can be found all over the world. ROSCA are called different names in different countries across the globe. ROSCA are forms of informal financial institutions that are composed of members who make periodic payment of funds which are given to each contributor in turns.

The main types of indigenous saving and credit association are rotating and regular (Fischer, 1994). In the rotating type, contributions are collected during meeting and immediately handed over to members in rotation based on a pre-agreed sequence. In the non-rotating type, contributions are collected at regular intervals but are then deposited with the treasurer. At the end of a pre-determined cycle, members are paid back their total contribution. In almost non-rotating schemes, members were not entitled to any interest accruing from their lending activities. The major aim of these schemes is the obligation to save at regular intervals (Fischer, 1994; Aredo, 1993). Notably, the saving and credit activities which are carried out by these associations are based on an indigenous system of lending and local sanctions. In ROSCA, allocation of funds is usually done in the order that has been determined by members without any interest paid. Moreover, participants do not always value earlier positions in the ROSCA allocation more highly; implying credit may not be the primary reason for joining a ROSCA. Nor are ROSCA funds typically used for the purchase of a lumpy, indivisible good (Gurgerty, 2005).

According to him, the prevalence of ROSCA in Asia, Latin America, the Caribbean and Africa as documented by Bouman in 1995 where ROSCA participation was found to be particularly high in Africa. His estimates suggest that in 1986, 50percent of the adult population in the Congo participated in a ROSCA, while participation ranged from 50 to 95 percent in many rural areas in Liberia, Ivory Coast, Togo, and Nigeria. In 1992, membership in ROSCA in Cameroon was estimated at 80 percent of the adult population and in several villages in Nigeria in 1987, adult membership was found to be 66 percent of the population. This was supported by the work of Kimuyu (1999) in Kenya, which showed that in a sample of 115 households, 45percent of them were participating in ROSCA. While ROSCA are prevalence in the rural areas, it also exists in developed areas where individual could have access to formal banking institutions. For example, Chamlee-Wright (2002) asserts from a sample in ur-

ban Zimbabwe that 76 percent of urban market traders participate in a ROSCA, even though some of these traders have a banking account. This was also supported by Besley and Levenson, (1996) when they opine that countries such as Taiwan with relatively well functioning credit markets have as many as 80 percent of their adults population estimated to belong to ROSCA.

Analysing further the relevance of ROSCA, Yusuf et. al. (2009) cited the World Bank (1989), where it was reported that in Bolivia, some of the adult living in urban areas often participated in ROSCA putting an average participation to about one-sixth of their salaries, and that in rural Niger about 389 village households in 1986 indicated that informal credits especially ROSCA accounted for 84 percent of total loans they collected. They also cited work of Goodland et.al (1999), where it was observed that in Senegal, ROSCA assisted in equitable distribution and utilization of local resources most especially income raw materials because credit taken are used to finance income generating activity with returns in excess of the loan taken, thus reducing the level of poverty of the people, and that saving facilities provided by ROSCA are used for financing health care and education, thus increasing the peoples' access to these social facilities.

3.2.1 Operations and Enforcement in ROSCA

According to Chitieji (2002), a ROSCA emerge when a number of entrepreneurs agree to meet a specific number of times and to merge funds at each meeting date in order to make the sum available to some member. He opined that the defining characteristic of the ROSCA relies on the pooled funds of its members to make loans;

Why might a group of individuals agree to organize such an association? The standard way to model ROSCA is to begin with the assumption that the economy is composed of individuals who seek to acquire a good that is indivisible but have insufficient funds to do such immediately. ROSCA formation presents a potential solution to this problem because the pooled funds can be used to extend loans that enable individuals to obtain the indivisible good. While existing models typically focus on a consumer durable goods, in what follows we consider an example in which the indivisible good presents the prospect of earning additional income, since there is sufficient evidence in the empirical literature to suggest that ROSCA also are used to finance entrepreneurial activities.

In practice, empirical evidence provided by numerous anthropological studies such as Keith Hart on Ghana; Geertz; Adams and Canavesi on Bolivia suggests that default in ROSCA is rare (Chitieji 2002). Yet because it is apparent that a problem exists conceptually, it is important to determine why it does not manifest itself. How and why are ROSCA able to enforce the terms of membership? The discussion of enforcement in the existing literature has noted that ROSCA rely on social collateral in order to solve the potential problem of deliberate default. According to this perspective, the facts of life in developing countries - pre-existing relationships among prospective members and the tendency for repeated interaction among individuals-are tapped to hold the ROSCA together (ibid).

ROSCA members meet regularly to contribute the agreed amount which is given to one person according to the schedule. Generally, there are two mechanism of allocating ROSCA funds- Random and Bidding. In random ROSCA, members are allocated the funds through lottery that determined at

the beginning of the cycle. The first lottery is allocated in that order until it gets to the last person. In bidding ROSCA, allocation of fund to members is base on priority or decision imposed by the governing body and earlier request subject to the laid down conditions. This method is thus preferred to risk of saving at home, where family and relative may demand access to savings. These characteristics as pointed out by Ogwumike show the simplicity and transparency that is involved in communities with low levels of literacy and weak system for protecting collective property rights. The system further reduces the risk to member because it is time limited-typically lasting no more than 6 months and reduces the size of the loss, should someone take early and not pay back (Ogwumike, 2003).

Furthermore, he stated that;

Social collateral can be used either to obtain information that will allow the associations to properly screen candidates so as to ferret out the dishonest, or to allow the association to repossess property ex post, or to impose social penalties on defaulters, the threat of which can be sufficient to induce compliance. The fact that ROSCA typically are formed among members from the same community gives them mechanisms for penalizing those who deliberately default via ostracization or shaming the family.

Similarly, Kovsed and Lyk-Jensen (1999) list exclusion from future ROSCA, loss of status and prestige, and physical punishment as sanctions that may be employed in ROSCA; while Van den Brink and Chavas (1997) state that, in Cameroon, default problems are solved by the promise of advancement in line in future ROSCA for those who prove their worth, or by social ostracism and peer pressure for those who do not (Bouman, 1995).

As noted earlier, in order to guarantee financing to all members, a ROSCA must ensure that its members continue to make their promised contributions-even after they have received loan. If this does not occur, the ROSCA will not be ‘sustainable’, meaning that it will not be able to function throughout its projected lifetime. If a ROSCA is not viewed as sustainable, the parties to its contract cannot expect to receive their promised benefit from participation, making it difficult if not impossible to set up a ROSCA. Ensuring that members find it rational to make all assigned contributions is therefore a critical issue—at least in theory and practice for the association. In ROSCA, payments are made publicly, and groups monitor and enforce an individual’s payments to the group. Many ROSCA participants according to Gurgerty,(2005) also “bind their hands” through the use of a pre-commitment mechanism in which participants agree in advance on how they will use their funds and the group monitors the individual to ensure that s/he honours her/his commitment. While it is common to suggest that ROSCA use social collateral to ensure repayment, and to delineate the forms that this collateral may take or the types of penalties that may be employed, there has been little analysis of the ROSCA’s ability to use these types of penalties, the factors that affect this ability, and the implications this has for the structure of the financial system in an economy. It is pertinent to view the use of social collateral as a process of cross-subsidization in which pre-existing connections between individuals are used to defray costs that a ROSCA might otherwise be required to incur in order to enforce the terms of its contract. As noted in the literature, it is the presence of such connections that gives ROSCA the ability to enforce its

contracts. This ability is viewed as being affected by members' ability to police one another, the value of a good reputation to any one individual and the general awareness of an individual's reputation among other potential members, and the presence of relationships between members that can be tapped for information about individual entrepreneur characteristics such as their integrity.

This focus on determinants of the ability to enforce contracts reveals that each of these considerations is likely to be affected by membership size. This suggests that what matters is not so much the form that the social collateral takes, but whether its use allows enforcement in ROSCA of a given size. To relate the capacity to enforce contracts to membership size, it is possible to envision an enforcement function that connects the ROSCA's ability to enforce its contract to membership size. Intuitively, one can think of this enforcement function as depicting the presence and strength of the community or 'neighbourhood' effects that reflect the ROSCA's ability to inflict a loss upon deviant members (Ayadi and Hyman, 2006). This function would be decreasing in membership size, indicating that the capacity to enforce the terms of membership falls as membership size increases. Additionally, while adding one member initially might not impinge much on the ability to hold the association together, at larger sizes it may effect. The ability to enforce contracts therefore falls at an increasing rate as the membership increases.

3.2.2 Motives for Participating in ROSCA

ROSCA is said to be among the oldest and most prevalent savings institutions found in the world, and play an important role in savings mobilization in many developing economies (Carroll & Well, 1994). According to Gugerty (2005), ROSCA are locally organized groups that meet at regular intervals and pool their resources or funds together which is later given in turn to one or more members as lump sum; ROSCA often pay no interest and participants may have little or no control over when they receive the funds; individuals might also form ROSCA in order to provide each other with insurance, particularly in a setting where formal markets for insurance are virtually non-existent. ROSCA can therefore serve as insurance mechanism because participants may be able to access money when they need it. In furtherance to this position, he opined the motive for joining ROSCA as a substitute for insurance is mainly valid for the case of bidding ROSCA and not for random ROSCA. Bidding ROSCA is indeed the type of ROSCA which can best combine the allocation process and the timing of pot reception with respect to members' specific shocks. However random and decision ROSCA can provide insurance to a small extent. Some flexibility is indeed provided by allowing a member in need to receive the pot at an earlier round. In this way, ROSCA allows changes in the order of allocation, which could be subject to agreement by either consensus of all members or by the governing body. Moreover, there are opportunities for members to change order without knowledge of the governing body or any other member.

ROSCA can also provide insurance by offering loans to their members. In the vast majority of those associations a loan can only be offered to a member who has not yet received the pot. In addition, conditions are often imposed as for what reasons the loan can be granted (disease, financial problems, funerals,

accidents, etc). Decision ROSCA, both those imposing an order for the entire cycle and those making meeting-to-meeting decisions often consider desires and needs of members. Most decisions are based on individual member's needs. Of course this insurance aspect is enhanced for ROSCA based on meeting-to-meeting decision. A member to whom something unexpected happened and who has not yet received the pot can come to a meeting and request for assistance. For ROSCA fixing the entire ordering before the cycle begins, the insurance they can provide is limited. It can only take into account foreseen or potentially known shocks.

The importance of ROSCA, was also noted by Aryeetey (1994) who observed that ROSCA helps in mobilizing saving through the people's daily collection of deposits, which are in turn used as working capital that enables them to expand their output and earn a stream of profits, thereby providing significant source of income to individual household which reduce their level of poverty. Brass and Henderson (2000) as cited in Yusuf et.al. (2009) further said that ROSCA is used by subsistence farmer to provide adequate storage facilities to protect their farm produce from seasonal price fluctuation thereby enabling farmers to store their products in a reliable store or warehouse until prices are high enough to enable them reap the rewards of high profit.

Ogwumike, 2003 noted that in Kenya, members being of an overwhelming majority female would join a ROSCA in order to hide or secure their savings from their husband. They could then buy an indivisible good, which they prefer, whereas men can decide to spend for present consumption. By joining a ROSCA, women thus commit part of the household's income against the husband's preferences. Women participation and involvement in ROSCA is higher in the informal sector than that of men due to the fact that there is no guarantee income for the women. Among married women, those whose husbands are co-resident at the home are no more likely to participate in the ROSCA. ROSCA are used as a means to put money aside from the husband; membership would have to be kept secret from the husband. ROSCA meetings are usually only open to members but groups do not insist upon secrecy showing that participants are not primarily seeking to commit money against spouses. Moreover, majority members of ROSCA groups which share the financial leftovers of the group (mainly fines imposed on members in cases of non-payment, absenteeism or misbehaviour and administrative charges), use such fund at the end of a cycle (or of the year) to organise celebrations with dances and folklore where friends and neighbours are invited so as to attract attention from people in the neighbourhood and to advertise the success of their association, thereby generate new memberships.

3.2.3 Roles of ROSCA in Poverty Reduction in Nigeria

There have been numerous studies underlining the importance of Rotating Savings and Credit Associations (ROSCA) in developing countries. Many of these studies show that ROSCA are commonly found in rural areas and in the poorer neighbourhoods of the cities, and drive a considerable part of individuals' savings (Kimuyu 1999; Chitieji 2002; Ijaiya 2002; Chamlee-Wright 2000). Participants among ROSCA group use their collection for various purposes that are necessary for improving their socio economic conditions. Some have

use their payout for providing themselves with work or business that generates income for their survival. Many use ROSCA as means of capital accumulation and formation through savings, which is later used to expand on their already existing businesses thereby generating more wealth and improve on their living conditions. Participant in ROSCA has been able to use funds from their payout to provide employment opportunities for their wards and relatives as well as their communities. Others have been able to train their children up to higher education with funds collected through ROSCA.

Literature reveals that ROSCA are usually regarded as a means for poor people to save money in order to make an indivisible expense (a lumpy expenditure). Empirical analysis by Handa and Kirton (1999) and Van den Brink and Chavas (1997) assert the view that making use of the pot is for durable goods.

The economics literature on ROSCA provides several rationales for its formation. Across different countries in the sub Saharan Africa, Asian, Latin America, the Caribbean and Pacific and beyond, different forms of ROSCA are known to exist. Commitment by members of any ROSCA group is an essential quality which is identified in almost every group. Furthermore, as a poverty reducing strategy, ROSCA has been a significant tool for the poverty reduction by especially enabling saving habits that has evolved into formal practices. The cost implication of ROSCA is very minimal although, member may suffer from the risk of default from other members. Nevertheless, with enforced disciplined and close observation of membership returns, this can be checked early enough, that way ensuring that the financial commitment of other members are secured.

CHAPTER FOUR

This chapter discusses the general context of financial system in Nigeria and the interaction between formal and informal finance

4.1 Nigerian Financial System

According to the CBN (1993), the financial system refers to set of rules and regulation and the aggregate of financial arrangement, institution, agent that interact with each other and the rest of the world to foster economic growth and development of a nation. Ijaya (2002) recognised financial systems to have long been playing an important role in economic development. This recognition dates back to Goldsmith (1955), Cameron (1967), McKinnon (1973) and Shaw (1973). The financial system according to Nzotta (2004) serves as a catalyst to economic development through various institutional structures. The system vigorously seeks out and attracts the reservoir of saving and idle funds and allocated same to entrepreneurs, business, individuals and government for investment project and other purposes with a view of returns thereby forming the basis of economic development (ibid).

The Nigerian financial system can be generally divided into two sub sector: the formal and the informal sector. This distinction is necessary in view of the scope of this study and in order to explain the observed relationship between these institutions. The activities of informal covers all financial transactions that takes place outside the functional scope of banking and other financial sector regulation in the country. These activities are often unrecorded and unregulated. Examples are the professional/local money lenders, credit unions, cooperative and saving and credit associations. This sector is poorly developed, limited in reach and not integrated into the formal financial system. On the other hand, the formal sector could be clearly distinguished into money and capital institution that deals with short-term and long term instruments and funds respectively (Nnanna et al., 2004).

The liberalization of the financial sector in Nigeria was meant to promote competition in the financial industry, encourage increased deposit mobilization, improve access to credit and promote investment and economic growth. In 1986, the foreign exchange market was deregulated, followed by the deregulation of interest rates in 1987. The liberalization led to increase in the number of FFI operating in Nigeria. It increased from 50 in 1987 to 66 in 1988, 106 in 1990 and 120 in 1992 (Soyibo, 1994). Frantic efforts have been made at deepening the financial system and reduce the level of financial repression in Nigeria. The banking system dominates the flow of funds supporting the bank based and market based financial systems. The FFI comprises of the banks, development banks and specialized banks were *ab initio* designed as credit not saving institution meant for the rural people, intend to enjoy government sponsorship in perpetuity while operating outside the market forces. As a result, loans are granted at interest rate below the market rate while the cost of administration escalates. In order to realize suitable profit margin therefore, such development banks as they are called tends to minimize their fixed costs

by selecting large scale producer while the small holders who constitute the majority and already securing credit are excluded (Seibel and Marx, 1987). The situation is complicated growth in built factor which would have resulted from internal resources mobilization or from linkage between institutional finance and financial of the informal sector. This raises the question of what becomes the common people faith as regard credit facilities since their interest are not put into consideration.

4.2 Problem of Access to Fund and Preference of Informal Finance

In Nigeria, the financial service available to the rural setting ranges from formal banking system to easily accessible informal savings and credit system. The FFI are reluctant in providing credit facilities to the rural poor due to low marginal propensity to save resulting to low deposits. The FFI will give credit to big clients so as to improve their portfolio performance rather than the poor who are characterized by small transaction which lead to high transaction cost, perceived risk and small collateral. Empirical studies reveal that access to finance is very much key for growth and development in any country as investment requires fund (WDR, 2005). Individuals, households, firms need access to finance in order to provide capital for their workings so as to smoothen out changes due to time of production/sales and provide regular source of income. Unlike what obtains in developed economies, Sub-Saharan African economies do not, however, financial systems do not operate efficiently and, therefore credit as required may not be forthcoming. In such a situation, an alternative source of finance has to be sought. In addition to this, historical system has been highly fragmented into dual markets, namely, a formal and an informal financial institution (Nissanka, 1992). People in Sub-Saharan Africa without access to formal financial institutions often use informal financial arrangements provided through groups. A huge literature describes the incarnations of these arrangements across the continent (Adams and Fitchett, 1992).

Despite emphasis on increasing the availability of credit to small and medium scales entrepreneur and rural poor in Nigeria, access to credit by such remains a major constraint due to lending terms and condition that needs to be met as demand by the formal financial institution. Hence majority of the population especially the rural poor are not considered credit worthy based on the characteristics of the sector in which they operate (informal) where lending is generally assumed to be risky resulting to lack of access to credit. In most countries of the world, lending to individual or small business is considered riskier than lending to a big company by the formal financial institution due to the information asymmetry in the informal economic and the segmentation of the market (Kimuyu, 1999).

The major characteristics of informal schemes are; informality of operations, savings and credit components and little or no interest rate in relation to the formal financial institutions. These IFI are found in various forms in all rural communities in Nigeria (Otu et al., 2003). However, the size of activities covered under the scheme has not been determined. The non-traditional formalized institutions are operating side by side with the IFI thus providing savings, credit and insurance facilities for the people in Nigeria.

In addition to the number of banks in operation, different formal development institutions were established at various levels between 1964 and 1977 to create and promote employment opportunities in Nigeria amongst which are Nigerian Industrial Development Bank (NIDB), Nigerian Agricultural and Co-operative Bank (NACB), Federal Mortgage Bank of Nigeria (FMBN) and Nigerian Bank for Commerce and Industry (NBCI). Each of these institutions was charged with the responsibility of promoting sectoral or sub-sectoral development (CBN, 2002). These institutions made varying contributions to their sector by funding projects, however, with drastic reduction of government subvention to these institutions in the 90's, their operations reduced drastically and by the end of 1990, they ceased to function as they relied solely on government for fund (Mohammed and Hasan, 2008).

The poor performance of these institutions remains a challenge to the government and the regulators of the monetary authorities as they could not channel the needed financial resources to the productive sectors. According to Central Bank of Nigeria, the unreachable clients in Nigeria productive sectors estimate will reach 40 million (CBN, 2004) and the FFI have not been able to adequately address the gap (huge unserved market) in terms of credit, savings and others financial services required by the poor and small scale entrepreneurs which constitutes over 80 million of Nigeria's active population. The existence of this gap in the provision of financial services to a large number of active but poor and low income groups will further accentuate poverty and slow down growth and development. The IFI therefore, became an option which came in handy to support and strengthen the activities of the informal sectors of the economy, rural poor which remain neglected by the government, FFI irrespective of their contributions to the economy of their communities, the state and the country as a whole. IFI has been able to give financial succour and provide opportunities for employment and make them to be self reliance thus help in alleviating poverty level in Nigeria.

Thus, attempt to provide solution to the problem of rural poor credit needs and reduce poverty level in the country make rural people to resort to informal finance (ROSCA) where saving are mobilized and pooled together to assist the needy. Therefore, the ideal of informal finance development stems from the inability of the formal finance to satisfactorily provide credit for the poor who are desirous of starting business but lack the necessary capital.

As stated in 2008 Enhancing financial Innovation and Access (EFInA), about 70 percent of Nigeria's population of 150 million lives below the poverty line and the percentage of the population with access to formal financial services is among the lowest of African countries. In 2005, the CBN estimated that about 35 percent of the economically active population had access to formal financial services, of which less than 2 percent of rural low-income people had access to formal financial services (CBN, 2006). According to FinScope survey 2008, the salaried population has been more widely targeted by financial service providers with an estimated 71 percent (9.6 million) of salaried adults using banking services compared to only 15 percent (4.3 million) of farm workers. Financial products available to the banked segment include savings and current accounts, insurance, ATM cards, debit and credit cards, fixed deposit

accounts, value cards, mortgages, other loan products, overdrafts, vehicle finance, Islamic Financing Investment and Islamic loans.

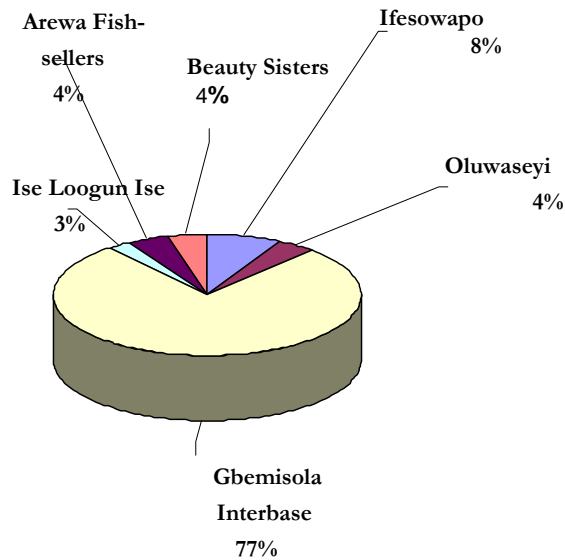
CHAPTER FIVE

5.0 DATA ANALYSIS AND INTERPRETATION OF RESULTS

This chapter focuses on the analysis of the field work experience of the researcher. The researcher used focus group discussion to engage with respondents in the field. Six different ROSCA groups were identified in the field and also six different focus group discussions were held with each group. This chapter will analyse the responses of the interview with the groups with emphasis on questions related to the membership composition, size, amount contributed, questions related to seasonal or regular contributions amongst others which relates to operation enforcement and motives for ROSCA. As indicated earlier, six ROSCA groups were identified by the researcher in the field. These included The Arewa Fish Sellers ROSCA which was the oldest having existed for over 19 years. While it had a good number of members, only 25 members belonged to a ROSCA. Another ROSCA group was Gbemisola Interbase Oke Aje which had membership strength of about 450 and had been in existence since 2004. . On probing further about its size, it was revealed that its location inside the market and nearness to a motor park enhanced its size. The next group was Ifesowapo multi-business ROSCA which has membership strength of 45 and had been in existence since 2001. Another ROSCA group was Oluwaseyi Olisa with membership strength of 25 and was established since 2005.

The Beauty Sisters Hair Dressers ROSCA was also identified. This group was established in 2007 and had a membership of 25. The youngest ROSCA identified was Ise Loogun Ise ROSCA which was established in 2008 and had membership strength of 15. Each of these ROSCA groups has their members drawn from different occupations that are involved in the production and distribution of economic and social services in the economy. Amongst them are artisan traders, farmers, small scale entrepreneurs, transport and telecommunication service providers, teachers and nurses. Each of the ROSCA groups had executive members that coordinate the day to day running of the group and management of the funds collected from members (see Table 1 in Appendix A).

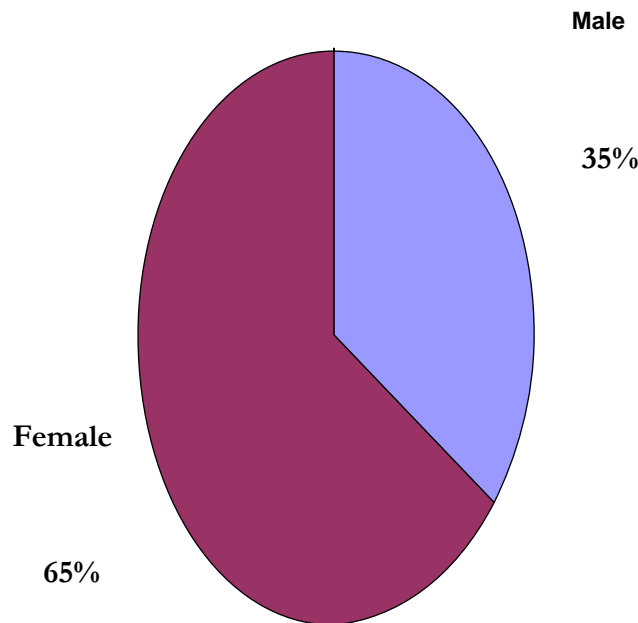
Chart showing Names and Membership of Selected ROSCAS



5.1 Gender Composition of ROSCA

Male and female memberships were found in four (4) out of six (6) sampled ROSCA. The ROSCA that are gender inclusive are Ifesowapo Multi Business, Oluwaseyi Olisa, Gbemisola Interbase Oke Aje and Ise Loogun Ise. However, 2 ROSCA: Arewa Fish Seller and Beauty Sisters Hairdressers restricted their membership to female only. This is not because of sex but the nature of their trade- fish and hair care which are female dominated in Nigeria as compared to other countries in the world where male are involved in such trade. Meanwhile there is no age limit across all the sampled ROSCA. Each of these ROSCA allow members of different ages (young and old) in as much the person can fulfil his/ her social and financial obligations. From the sampled respondents, 65 percent were female which indicate that women participate in ROSCA than men. This position was asserted by Arderner and Burman 1996 and Tsai, 2004.

Chart Showing the Gender distribution in ROSCAS



Source: Field work Ijebu Ode July/August, 2010

The interaction of the researcher with the focus group interview among different groups revealed the following responses;

5.2 Membership size:-

Would you say membership has increased?

If I recall very well, we started the group with 100 persons, but today we have up to 450 members. Our size is also our strength (Respondent G12 from Gbemisola ROSCA group, (19th July, 2010)

We started with just ten members, presently we are twenty five in number (Respondent O5 from Olumaseyi Olisa ROSCA group, 21st July, 2010)

We were not up to fifteen that started it sometimes back but we have gradually increased to 45 now (Respondent F5 from Ifesowapo Multi business, 28th July, 2010).

The above statements were made by the respondents in response to the question raised by the researcher. ROSCA groups are formed by five or more people coming together to form one by contributing and sharing funds among themselves. The membership of ROSCA is not limited to a specific number as individuals are free to associate but set certain criteria's for themselves in order to meet up with the obligations to the group. From the statements above, membership of the ROSCA groups mentioned have increased since inception. This could be noticed from their present membership strength (see Table 1 in appendix A). There is freedom of entry and exist in as much as one is not indebted to the association. While some have grown in size, others

have not grown; instead they have decreased in size due to a number of factors amongst which are death, proximity to markets, distance and change of location.

Respondents from some of the groups note thus:

It is not our size or the amount we contribute that matters to us but the fact that we are able to trust one another that no one can collect the funds and run away with it. So we do not want any member who will join and not be able to fulfil the contributory obligation (Respondent B3 from Beauty Sister Hairdressers 6th August, 2010).

We are more than this before but the size has gone down due to loss of membership (Respondent P3 from Arewa Fish Sellers 6th August, 2010).

some of our members have moved with their families to other places and others have moved on their own and this has affected our membership strength (Respondent A4 from Ise Loogun Ise 10th August, 2010).

These are some of the comments made by the members of the ROSCA groups depicting that there has been a reduction in their membership size. The researcher was made to understand that it is a normal occurrence for people to leave the association when they like especially when they feel that they cannot continue with the contribution again. Some members move to other ROSCA groups when they feel they want to challenge themselves and contribute more.

From these, several factors may be responsible for either decrease or increase in size of ROSCA. Among these is distance, proximity of the market, amount being contributed and so on. The size of ROSCA determines the types and amount of the contribution that will be given to members. The larger the size of the ROSCA, the more amount available for collection and vice versa although the waiting time also differs. For example from the sample study, Gbemisola Interbase Oke Aje ROSCA with 450 members has the tendency to getting higher contribution based on the size of its member and the longer the cycle. Also, the smaller the size of the ROSCA, the more opportunity they can be able to do the contribution within the year. This has been one of the reasons why the cycle of the ROSCA sampled differs as some do it only once in a year while others can do more than once. From the field study, Gbemisola Interbase Oke Aje ROSCA has only one cycle compared to other five ROSCA whose cycle is twice in a year. It is important to note that despite the meagre amount involved in the contribution as low as US\$3, people are still contented with it due to the trust and what can be termed family string attached to themselves and the commitment of fulfilling their obligation. Membership strength of ROSCA seems to be based on trust as people have to get adequate information about any individual willing to join in order to determine the contributive ability of such person. No wonder ROSCA members evolves from family relations or people that live very close and know little information about themselves. One of the respondents from the ROSCA groups stated:

We are only few members because of the kind of trade we are engaged in (hairdressers) but though we are few we also enjoy a lot of trust amongst ourselves. Groups with bigger members may have certain advantages and benefits but trust is

a big issue with them (Respondent B2 from Beauty Sister Hairdressers 6th August, 2010).

For they are so much, everyone is eager to collect. Members are desperate.

Safety becomes also an issue. When you collect the pot of money with such groups you are afraid because anything can happen to you. You could be robbed of all the money if you are unlucky; with our group it is different (Respondent B3 from Beauty Sister Hairdressers 6th August, 2010).

Let us also note that our association is gender specific, very few men will want to engage in selling fish or make hair in our kind of society, but in bigger cities like the state capital or in Lagos men engage in these activities just like the women. In this rural setting, the men see things differently so this affects our size (Respondent P1 from Arewa Fish Sellers 6th August, 2010).

the group is more than this before but the size has gone down due to death of some of their members and their decision not to allow outsider to join them since they have that trust in themselves....a quite number of us has moved to another big city as a result starting a new business which is lucrative than selling fish (Respondent P2 from Arewa Fish Sellers 6th August, 2010).

While there has been an increase in the size or number of some ROSCA members as in Oluwaseyi ROSCA, Gbemisola Interbase and others, those like Arewa Fish Seller and Beauty Sisters Hairdresser has not been able to increase the size of their membership since it is gender inclusive and that only people that are within their specified work trades are allowed to join.

How do you manage emergency need of funds by your member?

Do you still follow the cycle?

We all know when a member has an emergency situation on their hands.

A sick child, the loss of a family member or anything which brings grief to a member; in such situations all members support one another to help the member that is in pain (Respondent G1 from Gbemisola Interbase Oke aje, 9th July, 2010)

In such situations we immediately come to the rescue of that member. We seek the understanding of every member to support that member and usually there is full co-operation and understanding to give a helping hand (Respondent P4 from Arewa Fish Sellers 6th August, 2010).

The other ROSCA groups also responded in the same way.

After I had collected my own rotation in the third week, I had an urgent need to pay for my children school fees when she gained admission into the university, it is the president that gave me that money from the association purse, which I later paid back without any interest (Respondent O5 from Oluwaseyi Olisa ROSCA, 21st July, 2010)

I lost my father two months ago, and during that week it was not yet my turn to collect the contribution, my turn is still five weeks behind. I pleaded with the person whose turn it was to take the pot and she accepted to allow me take the pot because of my pressing need. The money has really helped me

(Respondent F3 from Ifesowapo Multi Business ROSCA, 28th July, 2010)

From the researchers findings point of view, ROSCA can as well stand as insurance for members especially in the allocation of funds during emergencies. It can therefore, be argued that ROSCA serves as a form of insurance arrangement determined on compassionate grounds (Ardener and Burman, 1995) for such shocks in most rural settings.

5.3 Motives for joining ROSCA:- The researcher asked from the focus group what motivates them to join ROSCA and here are some of their responses.

ROSCA is very helpful and easy for me to access (Respondent G9 from Gbemisola Interbase Oke- Aje, 19th July, 2010)

*I have been using ROSCA as a way of saving for long. It is very easy for me to save through the association
(Respondent F2 from Ifesowapo Multibusiness, 28th July, 2010)*

*I joined ROSCA because it is very good and assist me in case of my emergency need of money
(Respondent O5 from Olumaseyi Olisa 21st July, 2010)*

*Joining ROSCA for me is a routine since I grew up and I discover it to be a saving grace especially in the time of need. I have sent my children to school through my involvement in ROSCA and done many things which I could not have done without ROSCA money. Infact, I can say it is now my habit and I cannot do without it.
(Respondent G10 from Gbemisola Interbase Oke- Aje 19th July, 2010)*

In ROSCA you collect bulky money which can be used to start a business of your own or used it to expand on the one you already have. This bulky money you collect at a go assist one in doing tangible things (Respondent A5 from Ise Loogun Ise 10th July, 2010)

*I noticed this with my parents when I was growing that they do something like this and found out that it is very helpful. I was introduced to it by them and it is from the contribution they got that I started this business. Since then I had vow not to leave it. More so, the social engagement that members are involved
(Respondent P2 from Arena Fish Sellers 6th August, 2010)*

As a member of Hairdresser Association, we felt there could be a way of assisting one another and so we decided to bring in ROSCA so that we can pull money together and use it to assist ourselves. More so, this our business is not moving as such, one can do some other things with the contribution (Respondent B4 from Beauty Sisters Hairdresser, 6th August,

2010)

From these statements, members of the public are motivated to join ROSCA owing to its variety of usefulness and the impact which ROSCA has had on their well being. ROSCA loan have been found useful by poor masses in Nigeria, Sun Saharan African and across the globe to start new businesses, to fund personal and children education and to provide for home utilities, feeding and other social needs, at other times, ROSCA loans have also been used for asset acquisition, landed properties, and for further personal savings.

Theoretically, people go for IFI (ROSCA) due to lack of access or restriction to FI (banks) and financial repression (Aryeetey 1997). This result from the field work goes in line with these positions. Other reasons why people are adapted to ROSCA relates to saving habit and self discipline. Participant use the opportunity to discipline themselves and get used to savings as their saving habit may not have been very strong (Bortei-Doku and Aryeetey, 1995; Gugerty, 2005). Apart from the saving motives, further analysis reveals that 100 percent of the sampled respondents use ROSCA collections to expand their existing business and/or start a new business, home upkeep and maintenance, payment for children education and asset acquisition (see Table 6 in appendix A).

Further still, ROSCA contributions have been used to meet social functions such as ceremonies and festivals. 50 percent of the sampled population asserts this (see Table 6 in appendix A). Below are statements from respondents;

*For the past five years, I have been saving in group for Ileya (muslim) festival where I contribute money to buy the ram for the feast.
(Respondent F4 from Ifesowapo Multibusiness, 28th July, 2010)*

*ROSCA contribution has enabled me to meet my religious obligation as a Muslim. I have gone to MECCA twice by savings with my ROSCA group.
(Respondent G8 from Gbemisola Interbase Oke-Aje, 19th July, 2010)*

In addition to this, Arewa Fish Seller for example engage themselves in social activities which has been inculcated into their rules and regulations that they should be present and supportive to any member that has any social activities or functions be it child naming, burial, house warming and so on. ROSCA continues to succeed and is popular in Nigeria as a result of the relief and succour people get from participating in them in terms of the easy access and its conveniences. The cheapness and availability of ROSCA funds is one of the reasons that have been promoting its emergence all over the world. Many traders, merchants, farmers among others have used ROSCA for capital formation and have moved into big cities as a result of business expansion thereby creating employment opportunities. A respondent noted thus:

*I own lots of motor bikes which I rent out for different types of economic activities. Most of my motor bikes, I got through the support of ROSCA.
There was a time I rode one myself but now that I have many, I give to people to ride. I even buy for them to pay me back my money on daily basis thereby creating work for them and generating more income for me.*

(Respondent G6 from Gbemisola Interbase Oke- Aje, 19th July, 2010)

All these, go a long way to affirm many theories that has attempted to explain the motives for joining ROSCA. Some suggest that individuals join ROSCAs to finance the purchase of expensive durable goods (Besley et al., 1993, 1994). Others describe ROSCA as a solution to intra-household conflict over savings and also act as an insurance mechanism (Bortei-Doku and Aryeetey, 1995; Gugerty, 2005)

5.4 Provision of Employment and Reduction of Poverty

The researcher's approach to this question was first to ask executive members of the different ROSCA groups who then made reference to specific members of their association to share their stories with the researcher.

Would you say your association has helped in providing employment and reducing poverty amongst your members?

I would say yes. Some of our members are employees in the government and different sectors of the private sector. At different times when government salaries have been delayed, and sometimes this can be for two months if the issues are not quickly resolved, they fall back on the contribution they get from the association.

They don't have to go begging.

(Respondent G1 from Gbemisola Interbase Oke- Aje, 19th July, 2010)

We have had members who joined the association after losing their jobs because of the difficult economic situation in the country, but today they are engaged in their own business and are still savings and contributing for other people like them. Such people are now self employed and also employing other hands to assist them in their business.

(Respondent F1 from Ifesowapo Multi business, 28th July, 2010)

Belonging to the association has helped some of our members in saving and from the contributions they collect, they are able equip their shops and support their kids and younger ones.

Those with fewer responsibilities aspire to open other shops in other locations. So we can say a big yes.

Respondent B1 from Beauty Sisters Hairdresser)

Some of our members have used the returns they get to open businesses for their wives. Some have also opened small businesses for the children who are unable to secure formal employment. So definitely the association has helped in employment generation and reducing poverty in so many ways.

(Respondent O1 from Oluwaseyi Olisa ROSCA)

I secured a place with the contribution I got for my daughter to

sell phone accessories and this is helping her generate her own income. She is less dependent on us for money now and until she has something more formal she can sustain herself with what she makes from this business.

(Respondent O3 from Oluwaseyi Olisa ROSCA)

The responses from the executive members of the different ROSCA associations interviewed goes to confirm that ROSCA groups are a strong provider of informal employment. Especially for those who aspire to engage in private business and other entrepreneurial practice. In a society that is predominantly rural and dominated by civil service employment, private entrepreneurial practice which is supported by such ROSCA associations can be said to be the foundation which holds the economy of the community and ensures that it thrives.

5.5 Administration, Discipline and Defaults Management

Empirical analysis from the field study shows in all ROSCA identified and sampled that every member have equal chance to collect contribution from the pot through random balloting. However, in Gbemisola Interbase Oke-Aje, Arewa Fish Sellers and Beauty Sister Hairdressers ROSCAs, executive members are given the privilege to collect from the pot first before other members can take their chance through balloting. There is no other conditions that members need to meet before such fund is given to participant in as much you are a regular contributor. In most cases among the sampled ROSCA, such collections are interest free. Nevertheless, Oluwaseyi Olisa ROSCA collects 1 percent while Gbemisola Interbase Oke Aje collects 2 percent as administrative charges each time when members are taking from the pot. On the other hand, Arewa Fish Seller ROSCA collects just 100 naira which is equivalent US\$0.66. Although there are other loans aside from the weekly or monthly contributions which members can access from Gbemisola Interbase Oke Aje for administrative charges and savings which attract interest of 20 percent and before you can access such loan, one need to provide two guarantors who must be a member of the ROSCA. This is not common in other ROSCA sampled.

The researcher ask from this particular ROSCA (Gbemisola Interbase Oke Aje) why this is so?

The Chairperson responded to that by saying;

Such operation is quite different from the pot contribution, we adopted this method for the purpose of income generation for the association and the need for two Members as guarantors is just to guide against people defaulting.

Researcher: Have you ever applied for loan from any bank either individually or as ROSCA?

I have not approach any bank for any loan in my life and my group has not too. (Respondent F5 from Ifesowapo ROSCA)

I went sometimes to inquire about it but the conditions they are asking for is too much for me, so I do not go back as an individual. Our group has not.

(Respondent G7 from Gbemisola Interbase ROSCA)

Anything that has to do with interest is against my religious practice and believes so I do not have to take bank loan. Our group has not applied for loan before.
(Respondent O2 from Oluwaseyi Olisa ROSCA)

I have not asked for loan from any bank. I sell food and it does not require huge amount of capital as such. This ROSCA does not favour anything that has to do with interest. Therefore have not and have no intention of taking banks' loan. *(Respondent B3 from Beauty Sisters Hairdresser ROSCA)*

Our group has not gone to any bank for loan but as individual; I have taken loan from bank through my office.
(Respondent A3 from Ise Loogun Ise ROSCA)

We have not been to any bank before for loan and likewise me.
(Respondent P5 from Arena Fish Seller ROSCA)

Bank loan is very difficult to get and it involves too much protocol too much. I have gone there before and I was told to open an account with them and put money after which I will bring something as collateral, person that will surety me and some other things that I cannot remember. After, I have to fill their form. All these protocol takes time and so I have not been able to apply. For our group, we do not need bank loan so why should we apply. We have enough money for ourselves, we even take our money to the bank.
(Respondent B1 from Beauty Sisters Hairdresser ROSCA)

From all the above responses, it is noted that none of the sampled ROSCA group has obtained any loan from the bank. However, some individual members confirm being to the bank for loan enquiry but never follow up due to the fact that they cannot meet the conditions being demanded by the bank as well as the high interest rate involved while those who work with government establishment confirmed their recipient. There were other members who opined that their religion do not allow them to go for anything that has to do with interest and knowing fully that banks loan will usually attract interest, they see no reason why they should patronize banks for loan. Other respondents who have being to banks individual to make enquiry never gone back due to the administrative policy that has to be fulfilled before such loan can be given. This asserts the bottleneck of the formal financial institution in credit provision and the difficulty that people face when seeking credit from the formal institutions.

Researcher: How do you compare accessibility of funds in ROSCA to that of Banks?

This one is far better than banks loan, it is very easy and cheap and there is no problem for you at all if you can make your contribution. Unlike

*Bank loan where you have to go through different procedure,
pay some money to open account first and then charged special interest rate.
Bank loan is difficult. Even bank loan is not meant for poor people because
poor people cannot meet up or provide what their demands are.
(Respondent F2 from Ifesowapo)*

*ROSCA is convenient for me than Banks loan. It gives me rest of mind
and I have easy access to ROSCA compared to loan from the bank.
Bank loan is not meant for poor people. If you collect loan from bank, fear of re-
payment and loss of collateral will not allow you to rest until you finish the pay-
ment .If you collect say 5000 naira from bank, they will ask you to pay back
8500 which is much, so to me ROSCA is better. You collect easily and pay eas-
ily (Respondent O3 from Oluwaseyi Olisa)*

*Our ROSCA do not attract any interest here. There is no loan from the bank
without interest, even if you collect loan you pay more than 50 percent interest
on it. That is why I do not go to bank for loan and will never venture into
taking loan from the bank
(Respondent G15 from Gbemisola)*

*You can be disappointed when you go for bank loan especially
when they ask you to provide landed property as surety and
other conditions which you cannot meet but there is no disappointment
in ROSCA since it must come to you. We know much of ourselves
(Respondent A4 from Ise Loogun Ise)*

*In my own opinion, ROSCA is far better than banks, even you look at it
now, how many banks even give out loans now days, we here of bank liquidation
and they no longer gives loan but here in ROSCA we are happy.
We get loan every time we need it, we assist ourselves..... in short ROSCA
is a succor for rural people like us. It is very cheap, convenient and helpful com-
pared to banks loan
(Respondent P3 from Arewa Fish Seller)*

*ROSCA loan is more convenient, easier when compared to banks' loan. Its
accessibility at any point of need provide assistance for members as
you cannot just go to bank without any security. More so, there is no
interest rate here and in most banks or other finance agent loan
you pay high interest rate because they have to make profit at people's expense
(Respondent B5 from Beauty Sister Hairdresser)*

Drawing inference from all the above statements, Respondents in this study claimed that ROSCA loans are more convenient, accessible, easy, and more helpful than bank loans. Some members even vouch never to approach banks for any loan. For those who have collected loan from the bank at one time or the other, they assert that bank loan attracts interest rate and people always away from such high interest and that it is somehow hard for to get

such loan especially when you do not have something to collateralize the loan. Apart from this, they have to bond themselves with their place of work before such loan can be granted to them by the bank. This revealed that ROSCA members feel more secured and sheltered with their activities and that they have enough resources (funds) to go round the members. Also, Banks' imposition of high interest, other banks charges, collateral securities and guarantors are cumbersome, unfriendly, and anti-poor in approach and administration. Banks loans according to ROSCA members have not aimed to reduce poverty nor increased their business or trading enterprises. It has heightened their stress and panic especially during refund or delayed refunding. However, poor masses have found relief, comforts and succour in ROSCA. They feel safe and satisfied with the policies and administration of ROSCA compared with bank loans. This finding is contrary to what is obtainable in the literature about ROSCA in the other part of the World where interest is being charged on loan given to their members (Tsai, 2004).

Furthermore, it shows that ROSCA mobilize rural savings from the rural poor people which the formal institution may not do. ROSCA are equally found to operate on a day and time that is convenient for their members while banks may not take the schedules of the rural people into consideration in carrying out their activities since they operate within a specified time and day. In addition, collateral required in most ROSCA loans are tied or based on membership contribution while that of the formal institutions are tied to a deposit account and mortgaged property. The transaction cost involved in ROSCA is very low compared to what is obtainable in the bank. ROSCA have information about every member and monitor themselves which the formal institution may not have, as they are sometimes out of touch with the rural masses. This position corroborate to the work of Germids et.al. (1991).

Default or Risk Management;-What are the difficulties that your ROSCA has encountered since established?

There is no much problem except that people join the ROSCA at times and leave when they like. Before now, people do not pay their contribution as when necessary and so it delays them but we have reorganized the group and we have trust in ourselves
(Respondent F1 from Ifesowapo)

I do not think we have had any problem aside that sometimes back, people collect loan and refuse to pay back their contribution but that has been taken care off now
(Respondent G8 from Gbemisola)

Researcher asked the question: You said such problem has been taken care off. How?

Respondent:

when that was happening, it was reported in the meeting and there were series of suggestion that came up. Thereafter we agreed on certain things that should be done to guide against such occurrence

Researcher asked the question; what are those things you agreed on?

Respondent;

One of the agreements is that a fine should be imposed on anybody that do not pay his contribution on time and that a grace period of two days is given before such fine is charged.

We agreed among ourselves that we should first of all contribute for 10weeks at the beginning of the cycle without given the money to anybody and that within this 10weeks, we will be able to discover who will not meet up with the contribution.

At the eleventh week when we must have ascertained these, the contribution will then be share to members. The executives first and we will pick numbers and follow in the order of the number. Since that time we have not had any case of members not contributing. That we have been doing for four year now

(Respondent G2 in the same ROSCA)

Except the fact that some people had left the ROSCA group, we have had no other problems

(Respondent O4 from Oluwaseyi Olisa)

We have not had any problem since we started two years ago

(Respondent A2 from Ise Loogun Ise ROSCA)

No problem at all for we see ourselves as one family

(Respondent B2 from Beauty Sisters Hairdressers)

Our great problem so far has been the exodus of members which has been due to many factors like change of trade, movement to cities.

Another one is the risk of involved in terms of lateness but with the introduction of grace period and fine, that has stopped.

(Respondent P4 from Arewa Fish Seller ROSCA)

Further analysis reveals that the major difficulty noticed in ROSCA is the risk associated with its management. But the members were able to be proactive enough to guide against default by members. Ardener and Burman, 1996; Anyanwu, 2004 corroborates these findings. This goes to suggest that interlinked credit transaction are practice in Nigeria as it is in agreement with Olomola (1992), but contrast with that of Udy (1990). It could then be suggested that default does almost not exist in ROSCA as most of the ROSCA do not record any losses (Bouman 1989 as cited in Fisher 1994). About 4 percent of the sampled respondent indicated that they had applied for banks loan individually with varying success rate. Thus it can be deduced that some members who by the virtue of their work have access to bank loan participated in ROSCA again in order to meet financial obligation rather than problem of accessibility. More so, the type of loan collected from the bank may not have been enough for the due to their income level which they falls. All these features have led to the prevalence of ROSCA in Nigeria.

CHAPTER SIX

6.0 CONCLUSION AND POLICY IMPLICATION

The aim of this research is to understand why rural people go for informal financial institutions in Nigeria and also to highlight the contribution of ROSCA in reducing poverty among its members in the informal sector. In addition, the study tries to compare the accessibility of credit in formal financial institutions and informal financial institutions and also to find out the problem encountered by ROSCA participants in the process. In doing this, some ROSCA groups were identified, sampled and members were interviewed on the composition, operations, motivation and usefulness of ROSCA, which was reconciled with the existing literatures on informal finance that are considered relevant in achieving the objectives of the study.

The findings from the focus group discussion reveal that in spite of the liberalization of the formal financial institutions in Nigeria, informal financial activities has been on the increase and successful. This suggest that the financial repression or distortion hypothesis for the existence of informal financial institutions as a result of inefficiencies created by the formal financial institutions may not be enough to explain the existence or prevalence of informal financial institutions as their operations depend on many factors other than purely economic. In particular, as liberalization has not significantly improved the access of the rural dwellers and small scale entrepreneur to credit which are needed to generate income for their living. What this suggests is that the dualist hypothesis may be better in explaining the existence and prevalence of informal financial institutions (ROSCA) in Nigeria.

The study shows that ROSCA as informal financial institution is built around group concept and works well when it is voluntarily formed. This has been confirmed by empirical literature on economics of ROSCA. Among the rural people in Nigeria, it was also discovered that credit facilities from the formal institutions are perceived as being not accessible due to a large number of reasons amongst which are collateral requirements, high rate of interest, market segmentation and information asymmetry. These make them to dread loans from the formal financial institutions and believe that its gives them no peace of mind. Nevertheless, few participants that had opportunity of taken loans from formal financial institutions affirmed that the loan taken from the bank is not in any way as easy when compared to ROSCA. ROSCA loan is said to be very easy, convenient, accessible and guaranteed. It is equally revealing from the study that women are found to be involved in ROSCA participation than men despite its easy accessibility, openness and non restriction of membership on age, level of education and status in the community. The result of this study has further shown that the issue of ROSCA sustainability is hinged in Nigeria is built on prompt and regular payment of contributions by members. Other factors that has been responsible for the success of ROSCA in Nigeria includes the insurance that it provides for membership especially in time of urgent need of loan to meet financial exigencies.

More so, through ROSCA funds collected, employment doors are opened for many young graduates who use their allocation to provide income generating activities for themselves thereby making them to be self reliant. Many ROSCA participants in Nigeria has been able to use the fund collected to expand on their business, open a new business, acquired asset, pay school fees for their children up to high level of education which gives them prospect for employment and other areas of social mobility that are relevant in improving their social and economic conditions. Evidence of this was noted during my field work experience, where Respdent G6 from Gbemisola Interbase Oke Aje ROSCA and O3 from Oluwaseyi Olisa ROSCA respectively asserted that:

“I own lots of motorbikes which I rent out for different types of economic activities. Most of my motorbike, I got through the support of ROSCA. There was a time I rode one myself but now I have many. I give to people to ride. I even buy for them to pay me back my money on daily basis thereby creating work for them and generating more income for me”

“I secure a place with the contribution I got for my daughter to sell phone accessories and this is helping her generate her own income. She is less dependent on us for money now and until she has something more formal she can sustain herself with what she makes from this business”

In Nigeria, ROSCA has been found to provide credits that facilitate production or economic activities, consumption and social welfare.

Finally, in view of the developmental outcome associated with the activities of ROSCA in terms of socio economic impacts, ROSCA has demonstrated that informal sector and informal finance remain very relevant in enhancing income of the poor household and for community development in developing countries. It is therefore necessary for the formal financial institutions to find a way of collaborating with informal financial institutions and in relaxing some rules related to loan disbursement so as to reach many people especially the under privileged who are facing constraint occasioned by formal banking procedures. Nigeria government also has a crucial role to play in harmonizing the interests, efforts and resources of various actors and also issues tacking poverty in the country.

Appendix A

Table 1: Names and locations of Case of Rotating Savings and Credit Association (ROSCA)

Associations	Location	Year established	Executive members	Membership strength	Spectrum of membership
Ifesowapo Multi-business	Imere	2001 (10 yrs)	3	45	Traders, Business owners, Drivers, Farmers, Artisan etc
Oluwaseyi Olisa	Olisa	2005 (5 yrs)	4	25	Traders, Business owners, Drivers, Farmers, Artisan etc
Gbemisola Interbase Oke-Aje	Oke-Aje	2004 (6 yrs)	6	450	Drivers and Traders only
Ise Loogun Ise	Imososi	2008 (2 yrs)	2	15	Teachers, Traders, Nurses, Artisans, etc
Arewa Fish-sellers	Bonojo	1991 (19 yrs)	4	24	Fish sellers only.
Beauty Sisters Hair-dressers	Odosinusi	2007 (3 yrs)	5	25	Hairdressers only

Table 2: Age, gender, and membership characteristics of ROSCA

Associations	Gender based	Age status	Nature of ROSCA	Membership Restriction	Days of meeting
Ifesowapo Multi-business	M+F	No limit	Weekly	No restriction in membership	Tuesday @ 5:00 pm
Oluwaseyi Olisa	M+F	No limit	Weekly	No restriction in membership	Thursday @ 5:00 pm
Gbemisola Interbase Oke-Aje	M+F	No limit	Weekly	Restricted	Wednesday @ 10:00 am
Ise Loogun Ise	M+F	No limit	Monthly	No restriction in membership	10 th of every month @ 1:00pm
Arewa Fish-sellers	F only	No limit	Weekly	Restricted	Wednesday @ 3:00 pm
Beauty Sisters Hairdressers	F only	No limit	Weekly	Restricted	Wednesday @ 10:00 am

Table 3: Administration and Operations of ROSCA

Associations	Minimum contribution	Maximum contribution	Cycles in a year	Other contributions
Ifesowapo Multi-business	N500 (\$3)	N3,500 (\$21)	Twice	None
Oluwaseyi Olisa	N3,000 (\$18)	N3, 000 (\$18)	Twice	Daily, festival
Gbemisola Interbase Oke-Aje	N1, 000 (\$6)	N80, 000 (\$550)	Once	Daily, monthly Mar- kets, Festival, Project,
Ise Loogun Ise	N5, 000 (\$30)	N10, 000 (\$60)	Once	None
Arewa Fish-sellers	N1, 000 (\$12)	N4, 000 (\$24)	Twice	Social/Party contribu- tion, N20-Sitting fees, N100- Development fees
Beauty Sisters Hairdress- ers	N500 (\$3)	N2, 000 (\$24)	Twice/Thrice	None, N50-Sitting fees

Table 4: Comparison between ROSCA (informal sector) and Bank (formal sector)

Associations	Association's application for Bank loan	Membership application for Bank loan	Advantage of ROSCA over bank formal sector	Members comment/assessment of ROSCA during participation
Ifesowapo Multi-business	Nil	Yes	ROSCA loans is more convenient than bank loans	ROSCA very accessible and easy
Oluwaseyi Olisa	Nil	Nil	ROSCA loans is more convenient, helpful and accessible than bank loans	ROSCA is convenient and accessible
Gbemisola Interbase Oke-Aje	Nil	Yes	ROSCA is more helpful, accessible, and convenient	ROSCA is helpful and accessible.
Ise Loogun Ise	Nil	Yes	ROSCA loans is more convenient, helpful and accessible than bank loans	ROSCA is convenient and accessible
Arewa Fish-sellers	Nil	Nil	ROSCA is more helpful, accessible, and convenient	ROSCA is helpful and accessible.
Beauty Sisters Hairdressers	Nil	Nil	ROSCA loans is more convenient, helpful and accessible than bank loans	ROSCA is convenient and accessible

Table 5: Loan Administration, Discipline and Defaults Management

Associations	Loan distribution turn for members	Conditions to meet before loan is given	Interest on loan	Fines
Ifesowapo Multi-business	Equal chance through Random balloting	Must be a punctual regular contributor	Interest-Free	No fine is charged
Oluwaseyi Olisa	Equal chance through Random balloting	Must be a punctual regular contributor	1% as charges	No fine is charged
Gbemisola Interbase Oke-Aje	Exco members first, then members based on the date of joining.	Must have contributed for 10 weeks consecutively	2% as charges	N200 for late payment
Ise Loogun Ise	Equal chance through Random balloting	Must be a punctual regular contributor	Interest-Free	No fine is charged
Arewa Fish-sellers	Exco members first, then ballot for other members.	Must be a punctual regular contributor	N100 on each collection	N200 for late payment
Beauty Sisters Hairdressers	Exco members first, then ballot for other members.	Must be a punctual regular contributor	Interest-Free	N500 for late payment

Table 6: Motivation to join and usefulness of participating in ROSCA

Associations	To start new business	For expansion of existing business	For home upkeep and maintenance	For assets acquisition	For Children education	For personal Savings	For social functions
Ifesowapo Multi-business	√	√	√	√	√	√	√
Oluwaseyi Olisa	√	√	√	√	√	√	-
Gbemisola Internase Oke-Aje	√	√	√	√	√	√	-
Ise Loogun Ise	√	√	√	√	√	√	√
Arewa Fish-sellers	√	√	√	√	√	√	√
Beauty Sisters Hair-dressers	√	√	√	√	√	√	√

Source: Fieldwork Ijebu-Ode, July/August 2010.

Appendix B

Coding Frame for interviewed Focus Group Discussant

Ifesowapo Multi business ROSCA;

Mr Jimoh (F1)
Mr Wale (F2)
Mrs Muibat (F3)
Alhaja Serifat (F4) and
Mrs Rasidat (F5)

Oluwaseyi Olisa ROSCA;

Mrs Funmilola (O1)
Mrs Ayisat (O2)
Alhaja Suliati (O3)
Alhaji Akeem (O4) and
Miss Taibat (O5)

Gbemisola Interbase Oke Aje ROSCA;

Alhaji Lasisi (G1)
Mrs Monsurat (G2)
Alhaji Musa (G3)
Mr Afolorunsho (G4)
Mr Paul (G5)
Alhaja Mope (G6)
Mrs Blessing (G7)
Mrs Folake (G8)
Alhaji Musibau (G9)
Mr Fatai (G10)
Mr Biodun (G11)
Alhaja Basirat (G12)
Mrs Tope (G13)
Mrs Ahmed (G14) and
Alhaji Agoro (G15)

Ise Loogun Ise ROSCA;

Alhaji Shabi (A1)
Mr Adamu (A2),
Mrs Olusola (A3)
Miss Ronke (A4) and

Mrs Bimpe (A5)

Beauty Sisters Hairdressers ROSCA;

Mrs Olufunso (B1)

Mrs Keji (B2)

Mrs Bukky (B3),

Mrs Taye (B4) and

Miss Ifeoluwa (B5)

Arewa Fisf Seller ROSCA;

Alhaja Olayemi (P1)

Mrs Olufunke (P2)

Alhaj Temitope (P3)

Mrs Alaba (P4) and

Mrs Adebukonla (P5)

Notes

1. Executive members in each ROSCA are allocated the first number in the coding.
2. Exchange rate used in the study was one (1) US dollar to one hundred and fifty -four (154) Nigeria's naira.

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