

Revolving Loan Scheme (Esusu): A Substitute to the Nigerian Commercial Banking?

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Abstract: *The paper examined the role of revolving loan scheme (Esusu) in the development of rural areas of the country. Investigation was carried out to see how far the 'Esusu' groups have substituted for commercial banks among respondents in Olaoluwa and Iwo Local Government Area of Osun State of Nigeria.*

Through there are few commercial and Micro finance banks in the area surveyed, the people have not benefitted much from them due to their formal ways of doing things and their refusal to grant loans to individuals without collated securities. Hence, the people in the locality take solace in the revolving loan scheme organizations around them which has really paid off. Their collections from the 'Esusu' groups have been used meaningfully in their businesses, farming and in sponsoring their wards in schools.

It is therefore advised that government should give proper recognition to the 'Esusu' and assist them in order to foster the development of the Nigerian Financial system. The commercial banks should also be compelled to have direct linkage with the 'Esusu' groups so that they can have enough money as loans for their various projects so that the duo can be seen as complementary instead of rivals in their operations. This will go along way to improve economic status of the nation.

Keywords: *Commercial Banks, Esusu, Collections, Development*

I. Introduction

The extent of the economic development of a nation depends largely on the proper founding and establishment of developmental projects that are most suitable for the nation. It is to this end that financial institutions (either formal or informal) play a significant role in the economy as they are the chief sources from which funds are mobilized for economic activities. These institutions play an intermediating role by channeling funds from the surplus unit of the economy to that of the deficit one. For a uniform and effective development of the nation, this intermediation is done in such a way as to spread across all sectors of the economy, failure of which would certainly lead to a lopsided development.

It is based on this that the federal government initiated various economic policies which are aimed at industrializing the economy which can also transform the rural settings. This need comes to light at the realization that the rural sector is the prime supplier of industrial raw materials and other intermediate inputs, and the base of small scale industries at the grassroots.

These small scale industries represent a veritable vehicle for the achievement of national economic objective of employment generation and property reduction at low investment cost as well as the development of entrepreneurial capabilities including indigenous technology (Ojo, 2009)

Almost all forms of primary economic activities are concentrated in the rural areas including the abundance of human resources. Also, crude oil, coal, iron ore, e.t.c are minerals found in substantial quantities in the country, and an abundant percentage of these are located in the rural areas. Besides this abundance of minerals and human resources in the rural areas, Akinnirun (1990) further revealed that more than 80 per cent of the country's agricultural produce comes from the same sector of the economy.

According to Akinnirun (1990) one surprising feature of these rural areas is that in spite of the neglect by the government, they have been self-sustaining with noticeable scattered development. The dwellers in this sector have been able to engage in different types of economic and social activities like farming, trading, cottage industry, education of their young ones and themselves, building houses etc. The question that readily comes to one's mind is that "if these areas have been grossly neglected by the government, where does all the funds used for all the activities mentioned come from"? To a significant extent, this question can be answered by the existence of one or two forms of traditional financial arrangements which encourage savings and investment by mobilizing savings and making such available in lump sum for social and economic activities (Ayodele and Adeusi, 2008)

Therefore, the paper is out to examine the impact of revolving loan scheme (ESUSU) as a form of traditional financial institution on the socio-economic development of rural areas and also find out to what extent it has served as a substitute for banking institutions for the people in the area surveyed.

II. Theoretical Framework

The Nigerian Banking Model

For any development strategy to be feasible, there must be a favorable and suitable financial system which will provide the necessary funds. Ojo and Adewumi (1982) stated that until recently, institutional arrangement for the mobilization and channeling of funds in the rural sector was entirely outside the banking system. They went further by pointing out that even the rural banking of today is yet as successful as expected. They attributed this short-coming to the inefficient rural banking branch network in the country and the prevailing poor banking habit characterizing the rural economy. In essence, this means that an analysis of rural banking does not necessarily approximate to the credit situation in the rural sector.

According to them, in the discussion of the issue of finance and development, a very vital focal point is the issue of mobilization. In spite of the long history of banking in Nigeria, the banks have minimal impact and contact with the rural dwellers. Analysing further, they pointed out that even when the banks were directed by the authorities to set up branches in the rural areas, the banks' responses to such policy call were poor. This was as a result of the rigidity of the banks' operations and the seeming unprofitability of operating in a rural area where patronage of banks' service is likely to be low. This was corroborated by Ojo (2009), when he noted that the advent of microfinance in the rural areas has not really changed much concerning rural mobilization of funds due to their formal ways of doing things like the conventional commercial banks.

According to Ojo (1992), financial gap exists over the whole range of financial intermediation process in Nigeria. He revealed that links exist between the rural and the urban sectors. These he referred to as the surplus and the deficit units respectively. According to him, the gap in the financial intermediation process is more pronounced with the rural sector. These gaps include,

- (i) Genuine availability of fund gap – This is due to the financial institutions failing to appreciate the economic significance and development role of the individual and aggregate rural economic units. This has led to the neglect by the banks and other credit supplying institutions, of the agricultural sector and the small scale industries, which are considered to be risky.
- (ii) Information gap – This arises due to the lack of adequate and effective information mechanisms in the rural sector. This prevents those in need of credits from getting them. Information gap, according to him arises chiefly out of ignorance, and this in turn is attributable to high level of illiteracy which is a dominant feature of many rural communities.

On the issues of the problem of flow of funds into the rural sector, Ewulu (1995) pointed out that banking in Nigeria since inception, which dated back to the 19th century, has been urban oriented. He stated that this was due to the fact that the primary objective for establishing the bank was to facilitate trade and commerce within the metropolitan headquarters, and to finance import/export trade and other locally based expatriate enterprises.

The arguments of these banks, even today is that the rural sector is predominantly an agricultural economy and given the type of deposit liability (which is short-term on the average) and the high risk involved in agricultural projects, these make the operations of the banks to be highly unsuitable for the rural economy. Consequently, the banks focus their attention on the urban commercial economy where they are assured of brisk profitable businesses to the detriment of the rural economy.

Oloyede (1999), and Ekezie(1997) on their own parts likened the modern financial institutions with the traditional financial ones as they all engaged to varying extent, in financial intermediation. They mobilize funds from the surplus sector and channel such to the deficit sector. The authors also pointed out that in the pre-banking era, informal financial institutions served Nigerian communities relatively well and performed some of the functions of modern banks although in an unrefined and limited manner. He further revealed that even up till today, they still outnumber the modern financial institutions in terms of units. Oloyede (1999) and Ojo (2010) also brought to light the fact that informal (traditional) financial institutions are not confined only to rural areas, they also exist in urban centres along with banks and network of other financial institutions. Therefore, informal financial institutions among which 'Esusu' is very prominent continue to exist side by side with the modern financial institutions in the urban cities.

The concept of Revolving loan Scheme (Esusu)

The Scheme is a self-imposed (or group influenced) savings on a regular basis. This scheme is referred to by different names by the different ethnic groups in the country. According to Bascom (1982), it is known as Isusu in Igbo land, 'Isoko' among Edo people, 'Esusu' in Yoruba land and 'Dashi' in the Hausa land All of Nigeria nation He noted that a very unique attribute of the 'Esusu' is that it follows the same principle or mode of operations all across the different ethnic groups. Organisation of 'Esusu' basically suggests a division of job functions. Though there may not be a permanent leader or treasurer in some cases, a permanent secretary is always appointed. The meeting place rotates sometimes among members and the host of a particular meeting

automatically becomes the chairman of the meeting who in turn collects the total contributions for that day. In other circumstances the meeting venue is stationed with a permanent chairman of the association.

Furthermore, Bascom (1982) pointed out that age-leaders are normally acknowledged by all members and also there exists some inner leaders who recommend new members. The extent of the influence of these acceptable new members is spelt out.

Management and Operations of ‘Esusu’

Fadipe (1970) wrote that the total contribution at each meeting goes to the host of that meeting, usually less by some amount which would be set aside for administrative purpose.

Bascom (1982) and Fadipe (1970) agreed that membership is usually voluntary (but usually, group influence is present, savings is on a regular and compulsory basis. Although membership is voluntary, each member is under mandate to pay his/her own contribution when due. Defaults or lateness in the payment of contribution is usually frowned at and met with stern punishment. Such member may be denied application for an earlier turn or even an outright expulsion in some cases. Bascom (1982) went further by pointing out that a single individual may hold more than some membership, so that the number of membership need not be the same as the number of members. Also a single membership can be shared by two or more members who cannot afford a whole member’s due.

Ijere (1996) however distinguished between ‘Esusu’ and the common meeting token, contributed by age groups’. He revealed that the common meeting does not permit for the revolving of contributions. The contributions are stored in a common cash box which is kept in the house of the treasurer or the chairman or recently in the bank. This money is used to help members who might be in need of some urgent money for a little consideration, or the money is shared or used to organize a get together party at the end of the year, where members are compelled to be attired in the same type of attire.

III. Methodology

Survey research method was adopted in the paper. Questionnaires were served to elicit responses from the respondents within two local government areas (Iwo and Oka-Oluwa) of Osun State. The headquarters of the two local government areas (Iwo and Bodeosi) were chosen because of the availability of commercial and micro finance banks so that thorough comparison can be done between the conventional banks and the revolving loan scheme (Esusu) organisations. Questionnaires were served on 100 respondents, where ninety-two (92) were recovered and analysed.

Analysis of Data: The simple percentages were used to analyse the data for the paper and formulated hypotheses were tested with the use of chi-square (χ^2).

IV. Discussion Of Result

Table I: Distribution of respondents based on their educational qualifications

Education Background	Frequency	Percentage	Cum. Percentage
Pry. Six and below	45	48.91	48.91
WAEC/grade II	20	21.74	70.65
NCE/OND	14	15.22	85.87
HND/B.Sc and above	13	14.13	100.00
Total	92	100.0	

Source – field survey, 2015

From table 1, It is shown that majority of the respondents surveyed had maximum of O’level certificate (WAEC) as this category formed 70.65% of the total respondents only 14 respondents and 13 respondents possessed NCE/OND and HND/BS respectively out of the total 92 respondents surveyed.

Table 2: Respondents’ Occupational Distribution

Occupation	Frequency	Percentage	Cum. Percentage
Farming	10	10.87	10.87
Trading	40	43.48	54.35
Artisans	22	23.91	78.26
Govt. workers	20	21.74	100.00
Total	92	100.00	

Source – Field survey, 2015

The data from table 2 shows that 40 respondents out of 92 respondents were traders, Artisans were 22, while government workers and the farmers were 20 and 10 respectively.

Table 3: Reasons for Joining Esusu group

Reason	Frequency	Percentage	Cum. Percentage
Easy to Operate	37	40.22	40.22
Out of Friendship	07	7.61	47.83
To save for a target	48	52.17	100.00
Total	92	100.00	

Source – Field survey, 2015

From the table 3, it can be deduced that more than half (52.17%) of the total respondents joined Esusu group so that they can save for a target. 37 of the respondents joined the group because its operation is informal in nature unlike the banking operations. Only seven of the respondents joined the group due to friendship tie.

Table 4: Respondents’ distribution on whether Esusu groups have served as substitutes to the banking institutions.

Response	Frequency	Percentage	Cum. Percentage
Yes	75	81.52	81.52
No	11	11.96	93.48
Indifferent	06	6.52	100.00
Total	92	100.00	

Source – Field survey, 2015

The information in table 4 shows that 81.52% of the total respondents agreed that the Esusu groups have served as substitutes for banks in their lives and so have no reason to do anything with banks due to the banks stringent and formal way of doing things. They said they were comfortable with their Esusu groups’ operations through which all their needs have been met after their failed trials in dealing with banks. Eleven of the respondents said Esusu groups are not substitutes to banks because they have benefited from the services of banks in their environments. The remaining six said they could not tell much about the difference between Esusu groups and banks because they never kept any bank accounts in their lives and so could not make any comparison.

Table 5: Respondents’ distribution on the use to which Esusu collections were put

Options	Frequency	Percentage	Cum. Percentage
Business	46	50.00	50.00
Education of wards	20	21.74	71.74
Agriculture	10	10.87	82.61
Ceremony	06	6.52	89.13
Feeding	07	7.61	96.74
Others	03	3.26	100.00
Total	92	100.00	

Source – Field survey, 2015

Recalling from table 5, It shows that all the 92 respondents surveyed have made use their collections in benefiting ways. 46 respondents have invested their money collected from Esusu groups in their various businesses. This number forms 50% percent of the total respondents. Many artisans like volcanizer said they used their money to buy fairly used tyres for sale to their customers, apart from the traders surveyed. Twenty (20) of the respondents said they used their money to sponsor their children in schools. Those who used their money on agriculture and ceremonies were ten and six respectively. Only seven respondents used their money to feed their families while three respondents said they used their money to offsets debts of different categories. The data generally show that Esusu has contributed positively to the economic development of the environment.

Hypotheses testing:

The hypotheses are as tested below using the chi-square (χ^2).

$$\text{Where } (\chi^2) = \sum \frac{(O-E)^2}{E} \quad \begin{array}{l} O = \text{Observed using frequency, and} \\ E = \text{Expected Frequency} \end{array}$$

Hypothesis I

H₀: Esusu groups have not served as substitutes to the Nigerian banking institutions.

Table 4. Replicated: Respondents' distribution on whether Esusu groups have served as substitutes to the Nigerian banking institutions

Response	Frequency	Percentage	Cum. Percentage
Yes	75	81.52	81.52
No	11	11.96	93.48
Indifferent	06	6.52	100.00
Total	92	100.00	

Chi – Square (χ^2) table for the data

Observe (O)	Expected (E)	(O-E)	(O-E) ²	(O-E) ² /E
75	30.67	44.33	1965.15	64.07
11	30.67	-19.67	386.91	12.63
06	30.67	-24.67	608.61	19.84
Total				96.53

Source – Authors computation, 2015

From the analysis above, the χ^2 calculated is 96.53 which is greater than the table value of χ^2 (i.e $\chi^2_{cal} > \chi^2_{tab}$). The table value is 5.99 at 5% significant level with (3-1) degree of freedom. Therefore, the null hypothesis is rejected while the alternative hypothesis is accepted, meaning that the Esusu groups have served as substitutes for banks in the area surveyed in meeting the needs of people.

Hypothesis 2

Ho: Revolving loan Scheme (Esusu) have not made positive impact on the socio-economic and infrastructural development of their communities.

Table 5 replicated: Respondents' distribution on the use to which Esusu collections were put.

Options	Frequency	Percentage	Cum. Percentage
Business	46	50.00	50.00
Education of Words	20	21.75	71.74
Agriculture	10	10.87	82.61
Ceremony	06	6.52	89.13
Feeding	07	7.61	96.74
Others	03	3.26	100.00
Total	92	100.00	

Chi-Square (χ^2) table for the data

Observe (O)	Expected (E)	(O-E)	(O-E) ²	(O-E) ² /E
46	15.33	30.67	940.65	61.36
20	15.33	4.67	21.81	1.42
10	15.33	-5.33	28.41	1.85
06	15.33	-9.33	87.05	5.68
07	15.33	-8.33	69.39	4.53
03	15.33	-12.33	152.03	9.92
Total				84.76

From the analysis, the χ^2 calculated is 84.76 which is greater than 11.07, the χ^2 value from the table with 6-1 degree of freedom at 5% significant level (i.e. $\chi^2_{cal} = 84.76 > \chi^2_{0.05} (5df) = 11.07$). Therefore, since $\chi^2_{cal} > \chi^2_{t}$, the null hypothesis is rejected while the alternative one is accepted. This means that revolving loan scheme (Esusu) has made positive impact on the socio-economic and infrastructural development of their communities.

V. Conclusion And Recommendations

From the foregoing, it was found out that the revolving loan scheme (Esusu) groups have served as appropriate substitutes for the banking institutions in the area surveyed which could be regarded as rural though with few commercial and microfinance banks. It was also discovered that the various Esusu groups in the area surveyed have contributed positively to the socio-economic and infrastructural development of the area. This is as a result of the members using their contributions on meaningful projects such as sponsoring of their wards, business, farming etc. The Esusu groups have served as their last hope because of various disappointment they have come across while dealing with banking institutions such as inability to get loans, problem of time wastage when withdrawing their funds, documentation of all transactions anytime they are in contact with the banks.

It is therefore recommended that the monetary authorities should compel the commercial banks to open more branches in the rural areas of the country so that the volume of money in circulation can be ascertained at any point in time.

The “Esusu” groups should be advised and assisted to get direct linkages with formal banking institutions through which more money can be borrowed for members since they are always with limited funds. Hence they should be accorded proper recognition as agents complementing the efforts of the banking institutions.

Lastly, the government should improve the infrastructural facilities in the rural areas for even distribution of labour force.

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