Esusu – Global Encyclopaedia of Informality

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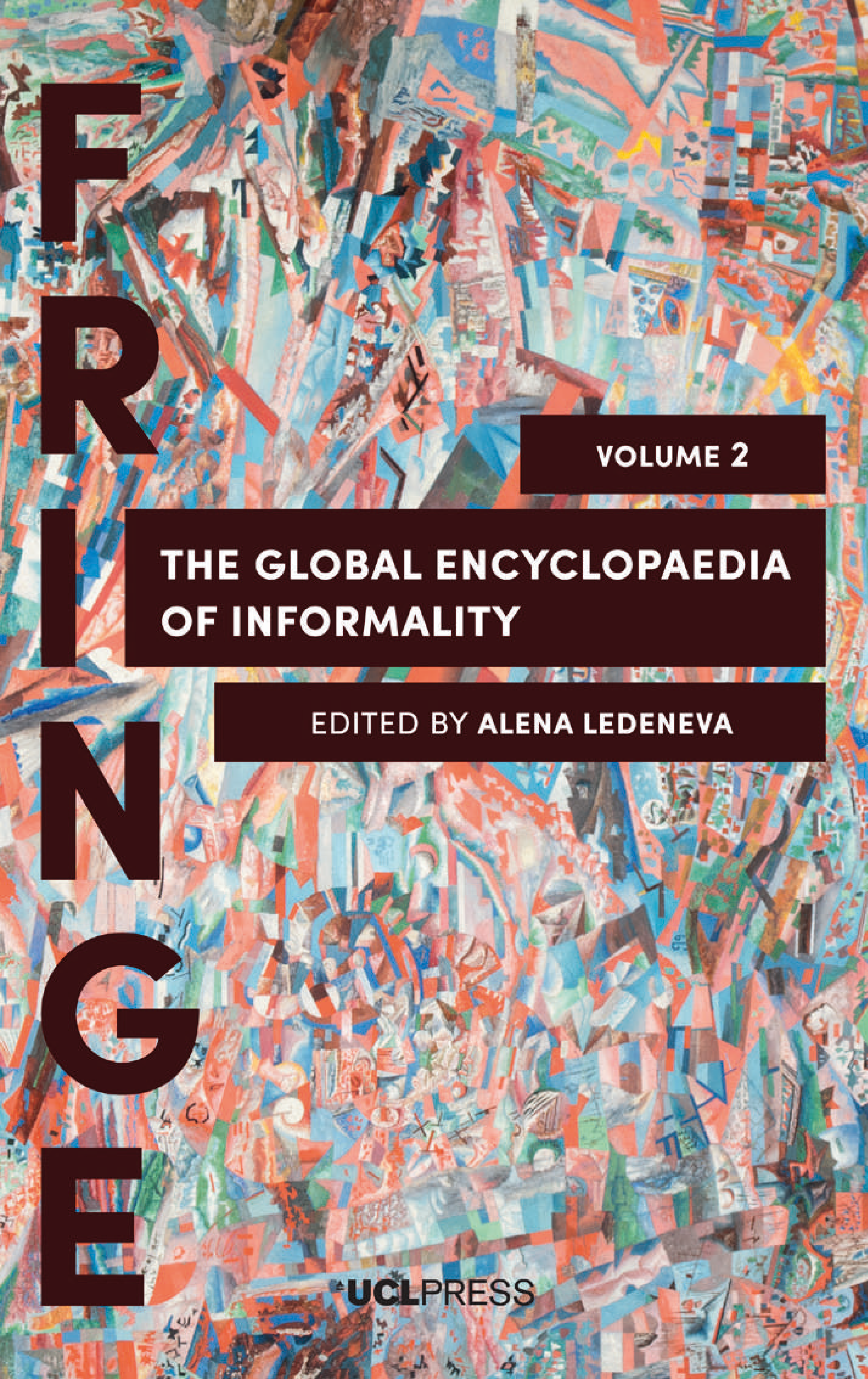

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THE GLOBAL ENCYCLOPAEDIA OF INFORMALITY

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same time this was accompanied by peer pressure and a desire or necessity to create dependency relations in order to have people to rely upon.

Interestingly, this informal practice has survived and can be found in present-day Albania, albeit in different forms and in spite of the fact that commercial loans are available and interest rates on deposits have increased. The modern version of the *loteria* still rests on cash-only contributions (bank transfers are rarely, if ever, used) made by a group of people into a common pool that is smaller than that used in socialist times. One explanation for the smaller groups may be the desire to compensate for the higher risk associated with the scheme, as participants no longer always come from the same neighbourhood or workplace. They might not know one another well and may be dependent on the *loteria* organiser knowing and trusting them all individually.

The goal is no longer the purchase of household equipment, but rather having an available sum of money that would allow an extraordinary purchase. The money might be used for a variety of items ranging from the purchase of a mobile phone or an ipad, to paying for a holiday. Because salaries are now paid at different times, and participants may come from different environments, they need to agree on a specific payday and a draw day. They might also on occasions decide not to apply the lottery scheme at all, but simply agree consensually on when each participant will receive their money. Should they fail to agree, if, for instance, too many people want the money in the same month, then they would revert to drawing tickets and get back to the lottery-like method of allocating the savings.

5.18 ***Esusu*** (Nigeria)

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Esusu describes traditional forms of cooperation in African societies whereby groups of individuals contribute to informal savings and credit associations for their mutual benefit. These associations are found mainly in agricultural production and credit financing and they substitute for and complement modern cooperative institutions and formal financial systems. The practice is believed to have originated among the Yoruba people of Nigeria and to have spread from there to Liberia, the Democratic Republic of Congo and most of the West African countries (Seibel 2004). While known as *esusu* or *esu* among the Yorubas in south-western Nigeria, the practice is called *etoto* by the Ibos in south-eastern Nigeria; *adashi* by the Hausa people in northern Nigeria; *dashi* by the

Nupe people of Nigeria's Kwara and Niger States; *osusu* by the people of Ogoja in Cross River State; *isusu* by the Igbos from Abia, Anambra, Ebonyi, Enugu and Imo States; *asun* by the Ishans of Edo State; *etoto* by the Ibibios of Akwa Ibom State (Nigeria Real Estate Hub (NREH) 2014); *bam* by the Tivs of Benué State (Seibel 2004); *tortine* in Cameroon and Niger; and *susu* in Ghana (Iganiga and Asemota 2008). The term refers to the funds collected, not to the contributors themselves (Bascom 1952; see *obshchak*, 5.22 in this volume).

Outside Africa, *esusu* practices can be found in the Caribbean Islands, where they presumably migrated at the time of the transatlantic slave trade. Maynard (1996) documents the translocation of the Yoruba *esusu* rotating-credit association in Anglophone Caribbean. In Jamaica, the practice is called *partner*, while in other Caribbean Islands it is called *syndicate*. Migrants were also instrumental in establishing contribution societies in several American cities (Bascom 1952).

Among the Yorubas, traditional cooperatives known as *aaro*, *owe*, *esusu* and *ajo* are common. *Aaro* refers to a cooperative agricultural arrangement in which peer farmers form ad hoc groups and work on one another's farms at peak periods on tasks such as land preparation, planting, weeding and harvesting, until all the members of the group have been serviced (see *pomochi*, 5.13 in this volume). *Owe* is another form of agricultural cooperation whereby physically capable members of the community (usually young or middle-aged men) unite to assist the needy, elderly and chieftains on their farms.

Esusu and *ajo* describe means of informal financing, whereby individuals come together to further their individual and collective interests. This may take several forms. First, there are units that are aimed at mobilising savings but that engage in little or no lending. Second, there are lending units that engage in little savings mobilisation. Third, there are groups that engage in self-help finance and involve various types of savings, including rotating ones as well as those provided by licensed cooperatives (Ojenike and Olowoniyi 2013). In the literature on informal finance, *esusu* is generally associated with rotating savings and credit associations (Seibel 2004).

Among the Yorubas, *esusu* cooperatives operate as follows: a group of people team up to contribute a fixed and equal sum of money at specific intervals – daily, weekly, fortnightly, monthly or bi-monthly – enabling each member to collect the entire sum in rotation. When everyone in the group has benefitted from the pool, a new rotation cycle is launched. The order in which people get to draw the money is usually decided by means of a ballot or by consensus.

In urban areas, the Yorubas distinguish between *esusu* and *ajo*. In *ajo*, a professional collector, the *alajo*, goes round to collect contributions, usually on a daily or weekly basis, and is paid a small commission for this service. This is more personal than the formal financial system, since no one needs to go to the bank to make a deposit. At the same time, it is less personal than *esusu* associations, since *ajo* contributors do not necessarily know the other contributors. Rather, their relations are mediated by the *alajo*, who keeps a record of contributions. Each contributor must make regular contributions within a given period, but is at liberty to contribute according to their budget. In certain circumstances, such as an emergency, a contributor may ask the *alajo* to return a certain amount of their contribution; this is what distinguishes *ajo* from *esusu*. In some cases, the *alajo* has a bank account, in which he or she deposits the funds until the end of the collection cycle, at which point the money must be paid to the chosen contributor. The decision on how and when the contributor gets the money from the *alajo* is mutually agreed between the two of them. For instance, if the contributor contributes daily (which is popular among traders and small business owners) and the contribution 'matures' at the end of the month, the *alajo* will, after subtracting his or her fee, return the rest of the contribution to the contributor.

It is left to the *alajo*'s discretion whether or not to use a bank account for the collected funds. Many Nigerians are reluctant to subscribe to formal financial services. In southern and northern Nigeria, for example, street traders resort to informal means of credit and savings mobilisation because they do not trust most formal microfinance institutions (Oloyede 2008). When an *alajo* chooses to use a bank account, however, this means that informal finances enter the formal financial system, and creates a link between the formal and the informal systems. This coexistence has been recognised under the concept of financial dualism (Osabuohien and Duruji 2007).

Esusu operates outside the formal legal and financial systems and tends to function solely on an oath of allegiance and mutual trust. This ensures that members of the association who have collected their funds early do not pull out of the system, causing other members to lose some or all of their contributions. As for *ajo*, the credibility of the *alajo* plays the key role in preventing risk and ensuring continued patronage.

Esusu remains popular despite the establishment of formal microfinance institutions in Nigeria. It is used by workers of the informal sector, market places, rural and urban communities and religious groups. It is particularly popular among low- and middle-income earners. Many rural workers rely on it because they are poorly paid and therefore do not have access to the formal financial system. *Esusu*, by contrast, tailors its financial services to the real, day-to-day needs of each member of the group. With *esusu*, saving is more convenient and credit is less costly than it would be in the formal financial system (Oloyede 2008). There are also cost-related incentives for joining an *esusu* group: it is interest free. Gender also plays a role: Nigerian women are more likely to use *esusu* as an informal means of saving than men (National Bureau of Statistics 2013).

While *esusu* is largely an informal practice, it also penetrates formal work settings and serves individuals and groups within business organisations. Engaging in *esusu* is often seen as supplementary to other means of obtaining credit (such as cooperatives). Many people engage in *esusu* in order to pursue a specific objective such as purchasing assets, starting a business or expanding their trade. Informal business operators often resort to *esusu* since they find it hard to obtain loans from banks.

Empirical studies of informal finance, financial exclusion, modern cooperatives, poverty alleviation, micro-financing and savings mobilisation in Nigeria recognise the significance of *esusu* and its variants and acknowledge its impact. Legal aspects and trust issues around the practices of *esusu* are less straightforward. Nonetheless, *esusu* practices in Nigeria and beyond are based on trust and on the integrity of the contributing members (Hofstede 1980; Fukuyama 1996). Comparative research into the origins and instruments of informal financing in a cross-country or a cultural-type perspective may bring interesting, if unconventional, results.

5.19 ***Mahalla*** (Uzbekistan)

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Derived from the Arabic *mahali*, meaning ‘local’, the term *mahalla* is formally used in Uzbekistan to mean neighbourhood, local community, or state administrative unit. There are today some 12,000 *mahallas* in Uzbekistan, each of which consists of anything between 150 and 1,500 households (Micklewright and Marnie 2005: 431). However, the word’s rich cultural roots mean that *mahalla* has multiple meanings and definitions. In Uzbekistan it is also used by local people to describe community-based, informal economic practices (Sievers 2002; Urinboyev 2013). In this sense, *mahalla* denotes the means whereby people obtain access to public goods, services and social protection while bypassing the state. It is therefore necessary to distinguish between the ‘administrative’ (formal)

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