An Investigation of the Performance of Cooperative Thrift and Credit Societies In Financing Small-Scale Businesses in Nigeria

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Doi:10.5901/mjss.2013.v4n1p401

Abstract

This study investigated the performance of Cooperative Thrift and Credit Societies in financing small-scale businesses and identified the problems confronting CTCS in providing finances to small-scale businesses. This was with a view to providing information on the role of CTCS in the development and growth of small-scale businesses.Primary data involving the administration of questionnaire was utilized for the study. The instrument elicited information on the socio-demographic background of the cooperative leaders and small-scale entrepreneurs, the sources of funds to CTCS, sources of finance available to small-scale businesses and problems encountered by the CTCS in financing small-scale business. Data collected were analysed using descriptive statistics.The result of the study showed that CTCS has performed creditably well in providing funds to small-scale businesses. On the problems facing the CTCS in financing small-scale businesses of its members: inadequate fund (69.2%) and poor loan recovery (52.5%) were identified as the recurrent, while economic downturn (25.0%); bad leadership (15.8%); misappropriation of small-scale business capital (12.5%); poor accounting system (8.3%) and poor state of infrastructure (4.2%) are regarded as other problems facing the CTCS in financing small-scale businesses. The study concluded that in general, membership of CTCS by entrepreneurs had a positive impact on the growth and development of small-scale businesses in Nigeria.

Keywords: Keywords, cooperative thrift and credit society, small-scale business

1. Introduction

The cooperative societies are member owned, volunteer-led, self-help, democratic institutions that provide financial services to their members. They are not constituted to make profit and are openly committed to service the needs of disadvantaged communities and individuals, many of whom have been abandoned by mainstream banking. The motivation behind the formation of Cooperative Societies is to encourage thrift among their members and to pool these savings into a fund so that members can borrow from this should they need to do so. Their depositors are also their borrowers who know one another through some common bond and this pre-existing social connection helps circumvent problems of imperfect information and enforceability.

The Cooperative Societies mobilize funds for use in the sectors where funds are needed and also create in the members the spirit of savings. Therefore, government at all levels should create the enabling environment for the Cooperative Societies to flourish and grow as this will increase or fast-track the development and growth of the SMEs and equally reduce drastically the unemployment rate in the country and as well increase the living standard of the people. The performance of CTCS in financing small-scale businesses is still relatively new, hence this study.

2. Types of Cooperative

Cooperative Societies like other business organizations are established to perform certain tasks. They can be classified into four broad categories, according to the tasks performed. These include: marketing, purchasing, service and processing associations (King, 2002).

(i) Marketing Cooperatives: These are those Cooperatives through which members e.g. farmers sell the products of their farms. These Cooperatives may collect members' product for sales, grade, package, and perform other functions. The objective of such organization is to secure the greatest possible amount for the products of their farmer-owners. Some associations act solely as commission agents. Some association act as bargaining agents and do not actually handle the products. Others will actually buy the commodity from the farmers for resale.

(ii) Purchasing Cooperatives: These are those Cooperatives through which members buy the supplies they need. Purchasing Cooperatives often engage only in retailing and wholesaling. In order instances, they manufacture the products they sell and acquire the sources of raw materials. The objective of such organizations is to effect savings for members, especially the farmer on the things he buys. The principal source of such savings usually comes from lower prices or from higher quality and better adapted supplies and equipment.

(iii) Service Cooperatives: These are organized to provide their member with improved services or with service they could not otherwise obtain. The service undertaken may include credit, insurance, electric power, telephone, irrigation and drainage, hospital and mortuaries. Membership may be of rural or urban people or a combination of the two. The principal source of saving from membership in such association occurs largely because they are able to meet the specialized needs of members better than other kinds of organizations can.

(iv) Processing Cooperatives: These engage in the packing or processing of the farmer products. In many instances, the processing activities are part of the over-all activities of marketing Cooperatives. It is common for example, for Cooperative manufacturing association to undertake the marketing service of wholesaling the finished products. Through the integration of processing and marketing, made possible by Cooperative association, farmer or Cooperative members are able to extend control over their products as they move into consumption.

3. Growth of the Nigerian Cooperative Movement

Cooperatives as a form of voluntary self help organization have been known in many parts of this country for several decades, Cooperative programmes in their own right have never featured in National Development Plan until the Third Plan (1975-1980). This reflected both the slow progress of the movement in Nigeria and a lack of active federal government interest, despite the fact that Cooperatives are potentially an important instrument of social transformation, especially in the rural areas. Before 1980, less than 1% of the Nigerian populations are member of the Cooperative Movement. The Federal Government of Nigeria in 1980 adopted a policy on rural Cooperatives in its "Green Revolution Programme" with the following objectives:

i. To foster the development of a virile rural Cooperative system in Nigeria, which can be used as an effective vehicle of social and economic development especially at the grassroots level throughout the federation?
ii. To intensify Cooperative education training and public enlightenment at all levels in order to bring about increased participation and involvement of farmers and other rural people in the cooperative movement and to enable there make decisions which will improve their income and enhance their general value and that of the masses;
iii. To use rural Cooperative to achieve increased domestic production of good industrial raw material and equal distribution of farm inputs and other commodities; and
iv. To widen the democratic base in the local communities through cooperative participation and effort, and thereby enhance personal achievement and satisfaction; social understanding and political unity for all the people.
v. In furtherance of its commitment to Cooperatives, the Federal Government of Nigeria established the Federal Department of Agricultural Cooperative (FDAC) in 1980. The FDAC's main responsibility was to initiate series of policies and programmes to establish agricultural cooperative throughout the federation. It initiated national agricultural policy formulation in the area of inter-governmental cooperation concerning agricultural Cooperatives.

In order to better execute this mandate, it established in 1981 four zonal offices located in Ibadan, Enugu, Jos and Kaduna. Subsequently, state offices were opened in order to bring the technical services closer to the population. Initially, the FDAC was organized into five divisions:

(i) Agricultural Planning and Development
(ii) Education and Training
(iii) Public Relations and Extension Services
(iv) Projects Implementation, Monitoring and Evaluation
(v) Supply and Marketing.

The above divisions have the responsibility to oversee the efforts that are being made towards the rural population in terms of developing the Cooperative movement (Onyewaku and Fabiyi, 2001).

A number of capital Cooperative projects had been undertaken and these include feed mills, storage depots, and onshore fishing projects, Cooperatives for food processing, transportation and inter-state cooperative marketing of food crops. The feed mill project processes farmers' raw produce such as maize, guinea corn, cotton seed, groundnut cake, etc. into animal feed. The establishment of storage depots is to collect and store food crops for eventual marketing and distribution of food stuffs, and improve the price structure. It also ensures some stability of supply and pricing to both the consumer and the farmer. The Third National Development Plan (1975-1980) clearly articulated that Cooperatives are powerful instruments for increasing productivity and rapid rural transformation.

4. Performance of the CTCS in funding Small Scale Business

The analysis of the performance of the CTCS in funding small scale business is hinged on these broad areas: (1) Effectiveness of the loans; (2) Adequacy of the loans in meeting the needs of the small-scale business entrepreneurs; (3) loan recovery; (4) speed at which loans are obtained; and (5) loan monitoring by the CTCS.

Analysis showed that majority (48.8%) of the respondents believed the CTCS has performed effectively well in its duties of financing members' businesses; while 91 (37.9%) said the CTCS has performed effectively. 21(8.8%) of the respondent believed that the CTCS has performed averagely in the funding of the small-scale business (see Table 1 (a)).

On the adequacy of the loan granted by the CTCS to meeting the needs of the small-scale business entrepreneurs, opinion differs on the adequacy. Majority of the respondents (46.3%) said the loan granted were very adequate, while (31.3%) just said it was adequate. Twenty one (8.8%) averagely believed on the adequacy of the loans in meeting the needs of entrepreneurs. Ten (4.2%) of the respondents said it has little effect, while 1.4% of the respondents said the loans were not adequate (see Table 1 (b)).

Many of the respondents (50.0%) said the CTCS are very effective in loan recovery, while 37.1% believed the CTCS has performed averagely in funding the small-scale business. Twenty (8.3%) of the respondents reported that the CTCS are not effective in loan recovery, while 4.2% believed that they are slightly effective (see table 1 (c)).

On speed in obtaining loans from the CTCS, majority 115 (47.9%) of the respondents opined that CTCS has been effective, while 27.5% said they have been highly effective in speed of giving loans. Forty four (18.3%) of the respondents rated the CTCS averagely in loan disbursement, while 4.2% said they were grossly ineffective. Five (2.1%) of the respondents said the CTCS has been ineffective in its disbursement of loans (see Table 1 (d)).

The result of the descriptive analysis on the performance of the CTCS in funding small-scale business had showed that all the parameters (effectiveness of the CTCS, adequacy of the CTCS, loan Recovery and speed in obtaining loans) except one (monitoring of loans) showed an average performance of the CTCS with a mean of 3.3836, 3.2773, 3.2903 and 3.0633 respectively. While the monitoring of loans by the CTCS was rated below average with a mean value of 2.9234 (see Table 2).

The above analyzes has showed that the CTCS has performed creditably well in the funding of the entrepreneur's businesses. This is very good for the small-scale business sector of the economy because CTCS is more accessible for loan/funding that will further develop the small-scale business sub-sector.

Table 1: Performance of the CTCS in funding Small Scale Businesses

S/N	Parameter	Frequency	Valid Percentage
A.	Effectiveness:		
	Not effectiveness	1	0.4
	Effective	2	0.8
	Averagely Effective	21	8.8
	Very effectively	91	37.9
	Strongly effective	117	48.8
	No Response	8	3.3
	Total	**240**	**100.0**
B.	Adequacy:		
	More adequate	3	1.3
	Low	10	4.2
	Average	21	8.8
	Adequate	75	31.3
	Very adequate	111	46.3
	No Response	20	8.3
	Total	**240**	**100.0**
C.	Loan Recovery:		
	Not effective	20	8.3
	Effective	10	4.2
	Averagely effective	89	37.1
	Very Effective	120	50.0
	No Response	1	0.4
	Total	**240**	**100.0**
D.	Speed of obtaining Loans:		
	Grossly ineffective	10	4.2
	Ineffective	5	2.1
	Averagely effective	44	18.3
	Effective	115	47.9
	Highly effective	66	27.5
	Total	**235**	**100.0**

Source: Field Survey, 2012

Table 2: Descriptive Analysis of the Performance of the CTCS in funding Small Scale Businesses

Parameters	N	Mean
Rate the effectiveness of the CTCS	232	3.3836
Rate the adequacy of the CTCS	220	3.2773
Rate of the society in recovery loan granted	31	3.2903
Rate the speed in which loan can be observed from CTCS	237	3.0633
How effectively does your CTCS monitor loans	235	2.9234

Source: Field Survey, 2012

5. Problems of the CTCS in financing small scale businesses

In terms of occurrence and proportion the following factors have been identified as constraints limiting the performance of the CTCS in financing small-scale businesses. Inadequate fund (69.2%); bad leadership (15.8%); poor loan recovery (52.5%); misappropriation of small scale business capital (12.5%); economic downturn (25.0%); poor state of infrastructure (4.2%); closure of business (3.3%); favoritism in loan disbursement (3.3%); poor accounting system (8.3%) and demand for loan is too much(3.3%) (see Table3).

From Table 4.15, inadequate fund and poor loan recovery were identified as leading constraining factors of the CTCS in financing small-scale businesses. Other constraints include: poor economic down turn, bad leadership, misappropriation of capital, poor accounting system, poor state of infrastructure, and business wound-up, favoritism and high demand for loan. Business would up, favoritism and high demand for low.

Table 3: Problems of the CTCS in financing small-scale businesses

Parameter	Frequency	Percentage (%)
Inadequate fund	83	69.2
Bad leadership	19	15.8
Poor loan recovery	63	52.5
Misappropriation of SSB Capital	15	12.5
Economic downturn	30	25.0
Poor state of infrastructure	5	4.2
Closure of SSB	4	3.3
Favoritism in loan Abasement	4	3.3
Poor Accountancy system	10	8.3
Demand for loan is much	4	3.3

Source: Field Survey, 2012

6. Conclusion

The study examined the performance of CTCS in financing small- scale business of its members. It also looked at the problems encountered by CTCS in providing loans to its members.

The study used primary and secondary data. Purposive sampling technique was used to select six towns, namely; Akure, Ikare, Irele, Okitipupa, Ondo and Owo. The towns were selected because they are the most populated and industrialized towns in Ondo state. The primary data was sourced using questionnaire. Random sampling technique was used to select 20 CTCS and 40 small-scale business entrepreneurs from each of the selected towns. A total of 120 out of 201 registered CTCS on the register of Ministry of Commerce and Industry, Ondo state and 240 out of 378 entrepreneurs of small-scale businesses registered with the National Association of Small-Scale Industrialist (NASSI), Ondo State chapter were selected. Secondary data was sourced from government publications on CTCS, and annual report of selected CTCS and small-scale business whose entrepreneur were selected for the study. Data collected were analysed using appropriate descriptive and inferential statistical techniques

The study revealed that majority of the respondents (50%) believed the CTCS has performed effectively well in its duties of financing members businesses. The results also showed that the CTCS are very effective (50.0%) in its loan recovery (see Table 1). The descriptive analysis of the performance of the CTCS in funding small-scale businesses showed that the CTCS has performed averagely on: effectiveness, adequacy, loan recovery and speed in obtaining loans; 3.3836, 3.2773, 3.2903 and 3.0633 respectively (see Table 2). The findings on the problems faced by the CTCS in financing businesses of its members showed that the major (52.5%) problem was poor loan recovery (see Table 3) .

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