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Fund mobilization role of cooperative thrift and credit societies in Nigeria

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ABSTRACT

The study looks into the fund mobilization role of cooperative thrift and credit societies in Nigeria. The cooperative thrift and credit society of Ajayi Crowther University Oyo State of Nigeria was used as a case study. Primary data were collected from the workers of the university serving as the respondents through the questionnaire instrument. The responses were analysed with the use of simple percentages. Two hypotheses were also tested to confirm the analysis. It was discovered that every member of staff consulted belong to one or two cooperative societies due majorly to the easier access of getting loan from the societies than from the banks. The loans given by the societies were also derivable from the savings contributions from members. It can therefore be concluded that cooperative thrift and credit societies in Nigeria are good in mobilizing funds from the surplus unit (the savers) to the deficit unit (the borrowers), the activity that has led to economic development of the co-operators and their societies at large. It is therefore good for government to give more recognition to the societies and should be extending grants and loans to them to boost their activities. This would help in filling the financial gap which has been existing within the whole range of financial intermediation process in the country.

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Introduction

Men started living together when they realised the mutual benefit of cooperation. Human and even some animals cooperate as a social necessity to support and protect one another and to act as others third eye. In the course of time, cooperative has proved equally beneficial in economic, business and agricultural development to mention few areas.

Cooperative societies are entities voluntarily owned and controlled by their members who operate them on a non profit basis (Adeusi et al, 2008). The society generally is a sort of self help organisation who put its resources together in order to provide goods and services to their members at reasonable prices which may be of benefit, loans, and credit facilities. It is an economic system with a social outlook; its operations are based on self help, solidarity and democracy. It attempts to instil and probate self reliance and social responsibility as part of a new ideal of human society.

In terms of mobilization of funds for development project and economic venture, focus has always been on the banking institutions and other non banking institutions like insurance companies, discount houses that are not traditional in nature. As a result of this, there has been little or non- recognition of the thrift and credit societies which have greatly served as the media for mobilization of funds for economic project and development not only in the rural communities but also in urban centres. Therefore, it is the aim of this paper to examine the fund mobilization procedure of the thrift and credit societies in our economy and find out why they still thrive amidst the various branches of the banking institutions.

Literature Review

A cooperative movement in the world owes their existence to the development of cooperative in the United Kingdom around 1844. The idea of development during the period of the industrial revolution in western Europe, and their origin is usually associated with Robert Owen and a group of Rochdale

weavers commonly referred to as the Rochdale pioneers. Robert Owen advocated for what he called village of cooperatives or cooperative colonies where workers would form communities and pull resources together to improve themselves.

Today, like in those days, cooperatives are organised specially to enable people of limited means to pool their resources together and mobilize enough fund to engage in meaningful business, capable of solving their economic need through the use of fund. Based on this Nwankwo (1980) asserted that cooperative enterprise requires sufficient fund in order to achieve goals and aspirations of its members. It becomes necessary therefore for its members to assess financial need of their enterprise to commence and maintain successful operations of the organisation.

While assessing the classical effects of thrift and credit cooperative societies on rural development, Okerele (1981) noted that the cooperative movement in developing countries like Nigeria has acquired some importance as an institutional framework for development as those in the grass root make use of the cooperatives to better their economic lot, and consequently the economy at large. To corroborate the above, Oloyede (1999) gave some characteristics of these thrift and credit cooperative institutions that have been thriving in the presence of numerous bank branches as

- They resemble and compete aggressively with commercial banks (though cannot create money)
- They source funds by issuing claims similar to other financial intermediaries;
- They give attractive interest on savings to win customers; and
- They channel their available resources for investment purposes similar to those of banks.

In addition to the above, Ayodele et al (2008) identified another major reason why the thrift and credit cooperative societies are more preferred to the banking institutions as the ease with which loans are processed and the low level of interest normally

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charged on loans from cooperative institutions compared to the high interest payable on bank loans.

Fund Mobilization in Thrift and Credit Cooperative Societies

The thrift and credit cooperative societies engage in intermediation of funds by channelling funds between the surplus units (lenders) and deficit units (borrowers). Even with the advent of modern banking, the societies still persist largely because banks are inadequate to channel funds to all sectors that are in need of them (Ojo, 1992).

The thrift and credit societies therefore mobilize funds through various sources which majorly consists of contributions from each member and the interest on loans advanced to members, and sometimes but rarely to non members. As pointed out by Ijere (1996) and affirmed by Adeusi et al (2008), the contributions can be fortnightly, weekly, monthly, or any other periodic interval. The contributions depend on the ability of each member and unlike what obtained in the revolving loan scheme; the contributions are not revolved among the members, instead members are granted permissions to contribute according to their capabilities.

As further revealed by Ijere (1996) each members contributions throughout the year is credited to him with his portion of the shared earned interest. The interest is distributed among the members in proportion to each members total contributions throughout the year.

Fadipe (1970) pointed out that some of these institutions give out loans to non-members but usually at a higher interest rate in comparison to the rate charged on members' loans. According to him although membership is not usually restricted, it is quite common for people of related interest to come together in a thrift and credit cooperative society.

According to Onoh (1980), other channels of funds mobilization by the thrift and credit societies include entrance fee or share capital contributed at the joining point of the societies, others include voluntary or special deposit, funds generated internally through business transaction and funds in form of grants from the governments through the societies to the end users. All these funds are made use by the thrift and credit cooperative societies to keep them going.

Apart from above, Famoriyo (1987) pointed out that the various Nigerian governments since the introduction of modern cooperative organisation in 1935 have been encouraging the growth and development of the organisation through loans. These loans are offered by government to the needy cooperatives for varieties of purpose. Though the said loans are always of low interest, the impact has not been felt significantly. Other areas of assistance by government include establishment of institutions for the training of cooperative officials and auditing of cooperative societies' accounting records. This has helped in instituting confidence in the mind of the co-operators and the society at large.

Benefits of Thrift And Credit Cooperative Societies To Members

According to Famoriyo (1987) many benefits are derivable from cooperative societies. They are:

1. Encouragement of members to save money for capital formation and development
2. Members enjoy credit facilities for their business operations
3. The spirit of thrift and wise use of money is incubated in members
4. Members get money to provide themselves with good services, good health care delivery and other basic needs

5. The standard of living of members is raised and the quality of their lives is improved

6. Members can jointly tackle some risks which ordinarily would not have been possible by one co-operator.

However, Adeusi et al (2008) noted that the thrift and credit cooperative societies have been passing through some problems such as inadequate fund, crude accounting records, legal recognition and mismanagement of funds among others. All these were verified further in the course of this paper.

Methodology

The research design that was employed in this study was the descriptive one. Primary data were the major data used for the analysis, and were collected through the use of questionnaire served on sixty (60) staff members of Ajayi Crowther University Oyo to elicit responses from them on the subject matter.

The respondents comprise of 22 lecturers and 38 non teaching staff who are all members of the only thrift and credit cooperative society on the campus. The primary data were supported by going through some records of the society in order to verify more facts from the society.

Data Analysis

Simple percentages were used to analyse the collected data and two hypotheses were formulated and tested to analyse the data further. Out of the 60 questionnaires sent out to respondents, 56 were filled and returned. All the 22 questionnaires given to the lecturers were recovered while 34 out of the 38 served the non teaching staff were recovered.

This is shown below;

From table 2 above, the total number in the table outnumbered the number of respondents served with questionnaires. This is as a result of some respondents who said they joined the society as a result of two reasons- to make savings for future and for loan consideration. Only five co-operators join the society as a result of influence from friends and colleagues while two workers joined just to be identified with the society.

Table 3 above showed that almost all the funds available to the cooperative thrift and credit society under survey come from member's contributions. This accounted for about 66% of the source of getting funds by the society, it means the society is a good fund mobilizer among members. Fourteen (14) respondents agreed that funds were derivable through the income from the cooperative investment in form of interest on loans while only five members said loans were sometimes sought from wealthy members in time of need. From the table also, there was no record of any external source of getting funds for use. This renders support to some assertions from the literature that government only audit cooperative account without really supporting them financially like they do to the Nigerian Banks in time of crisis.

Analysis from table 4 above showed that 42 out of 56 respondents have borrowed money for investment and employment generation purposes. This represents 75% of the total respondents under survey. Ten respondents claimed that the loans collected from the society were used for their wards school fees. Only four (4) respondents claimed that the loans they got were used for other purposes. They said the loans were used to service other loans collected from other sources. It can be deduced from above that loans collected from the cooperative society were judiciously used especially to create jobs, thereby helping in the development of the society.

It can be deduced from the table that all the respondents claimed to know that the interest charged on loans obtainable

from their cooperative society is far less than the interest charged on loans from Nigeria commercial banks. They gave 5% as the interest charges on any loan from the cooperative surveyed while the prevailing interest rate on loan from commercial banks in Nigeria ranges between 22% and 26%.

This shows that interest charges from the campus cooperative society is investment friendly while the interest charged by the commercial banks is on the high side as most investors in the country cannot even earn Internal Rates of Return (IRR) of 22% on their investment.

This attributed to the reasons given by respondents why they always patronize their cooperative thrift and credit society for loans while majority of them said they just keep bank accounts for the collection of their monthly salary.

Hypothesis Testing

Two hypotheses were tested Hypothesis1.Cooperative thrift and credit societies could not mobilize funds efficiently among members By using the chi-square (χ^2) analytical method allowing 5% significance level The formula is $\chi^2 = \frac{\sum(O-E)^2}{E}$ Where E is expected frequencies O is observed frequencies When χ^2 calculated is less than the χ^2 table value, the null hypothesis is accepted but if otherwise, the alternative hypothesis is accepted .The degree of freedom (df)=(r-1) (c-1), where r= no of rows and c =no of columns

$$\begin{aligned} \text{The degree of freedom} &= (r-1) (c-1) = (4-1) (2-1) \\ &= 3 \times 1 \\ &= 3 \end{aligned}$$

From the computation of the χ^2 , the table value is 7.81 which is less than the calculated value of 57.58. Therefore, alternative hypothesis is accepted, meaning cooperative thrift and credit society could mobilize funds efficiently among members and in the society as a whole .This is against the erroneous belief that only formal financial institutions mobilize funds through savings

Hypothesis 2. Mobilized funds by cooperative societies were not used for development purposes The degree of freedom = (3-1) (2-1) =2 From the table above the calculated value of the $\chi^2 = 44.71$ but the table value of χ^2 is 5.99 (i.e. $\chi^2_{2df} (0.05) = 5.99$). Therefore since the calculated value is higher than the table value, the alternative hypothesis is accepted meaning that

the funds being mobilized by cooperative thrift and credit societies are being utilized for development purposes in the society. This shows that the cooperative societies mobilize funds efficiently between the ultimate savers and the ultimate borrowers in the economy.

Summary of findings

Based on the findings it was discovered that cooperative thrift and credit societies have been mobilizing savings efficiently among the co-operators who in turn borrow such money from the societies for onward use on investment and development purposes like trading ,running of small scale businesses and sometimes for the training of their wards. This renders support to the work of Adelaja (2010).

It was also discovered that , though all the workers (respondents) consulted claimed to have one or two bank accounts ,all the respondents belong to one or two cooperative societies . The reason for this was that it was easier to process loan facility from the cooperative thrift and credit societies than from the banking institutions which always request for costly property as collateral securities and charge abnormal interest rates which do not portray the realities of the Nigerian economy It is therefore clear that cooperative thrift and credit societies efficiently mobilize funds from the savers of funds to the ultimate users of such funds since every member has access to loan facility at a cheaper interest rate with a more convenient condition.

Recommendation

Since the cooperative thrift and credit society operates side by side with the formal banking institutions, it is recommended that the monetary authorities should pay more attention to these societies .Government recognition should go beyond the registration and auditing but should include thorough monitoring and extension of grants and loanable funds for developmental purposes , especially around this period when the Central Bank of Nigeria is preaching financial inclusion among all players in the Nigerian financial system

This will in no small way reposition the Nigerian financial system to boost the level of loanable funds and capital formation which would lead to more development projects in the economy.

Table1. Occupational Distribution of Respondents

Occupation	No of respondents	Proportion in %
Lecturing	22	39.29
Non teaching staff	34	60.71
Total	56	100.00

Source: field Survey 2013

Table 2. Reasons for joining thrift and credit cooperative society

Reason	No of respondents	Proportion in %
Out of friendship	05	8.93
To identify with a group	02	3.57
To make savings for future	35	62.50
For loan consideration	42	75.00
Total	84	

Table 3. Means of fund mobilization by the thrift and credit cooperative society

Means of obtaining fund	No of respondents	Proportion in %
Membership contributions	37	66.07
Loan from members	05	8.93
Income from investments	14	25.00
Loan /grants from external sources	-	00.00
Total	56	100.00

Source – field survey, 2013

Table 4. The use to which cooperative loans were put

Uses	No of respondents	Proportion in %
Trading/small scale industry	42	75.00
Education of wards	10	17.86
Others	04	7.14
Total	56	100.00

Source –field survey, 2013

Table 5. Whether interest on loan from the cooperative society is lower than those of banks

Response	No of respondents	Proportion in %
Yes	56	100.00
No	-	-
Total	56	100.00

Source – field survey, 2013

Table 3 replicated: Means of fund mobilization by the cooperate thrift and credit society

Means of obtaining fund	O	E	O-E	$\frac{(O-E)^2}{E}$
Membership contributions	37	14	23	37.79
Loan from members	05	14	-09	5.79
Income from investment	14	14	0	0.00
Loan/ grant from external sources	0	14	-14	14.00
	56			57.58

Table 4 replicated. Uses to which cooperative loans were put

Uses	O	E	O-E	$\frac{(O-E)^2}{E}$
Trading/small scale industry	42	18.67	23.33	29.15
Education of wards	10	18.67	-8.67	4.03
Others	04	18.67	-14.67	11.53
	56			44.71

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