

Full Length Research Paper

Credit and thrift co-operatives in Nigeria: A potential source of capital formation and employment

Godly Otto¹ and Wilfred Ukpere^{2*}

¹Department of Economics, University of Port Harcourt, Rivers State, Nigeria.

²Department of Industrial Psychology and People Management, Faculty of Management, University of Johannesburg, South Africa.

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Unemployment is a major challenge in Nigeria and many other developing countries. There is unemployment among professionals and non-professionals alike, there is unemployment among young school graduates, experienced professionals, tradesmen, and non-skilled workers in Nigeria. The consequences of unemployment in Nigeria are grave and may be classified as social and private. They include increase in crime rates, loss of potential output, poverty, and loss of potential tax revenue due government, professional studentship and family instability. In Nigeria, as in some other developing countries, job losses by households' heads have negatively affected some homes, leading to family disintegration. Unemployment can explain the rising trends of female headed households in Nigeria. One major source of unemployment in Nigeria is insufficient capital for investments. The Harrod-Domar (neo-classical) theory encourages savings as a source of capital formation for investments with the consequent employment generation. This work identifies co-operative credits and thrift associations as a veritable source of capital formation which is required for investment purposes. The thrift cooperative as a micro finance agency is also a direct source of employment for those engaged in its management or coordination.

Key words: Co-operatives, thrift and credit societies, unemployment.

INTRODUCTION

Unemployment is a major challenge in many developing countries including Nigeria. Unemployment breeds a lot of private and social consequences which are negative (Alam et al., 2009; Alam, 2009). These include poverty, crime, social inequality, loss of output, family disintegration, among others. Governments all over the world concert efforts to mitigate this problem (Alam, 2009). In Nigeria, several efforts have been made to create jobs for the teeming able bodied people who are available for work but who are yet to find jobs (Goodluck, 2011). One key source of unemployment in Nigeria is dearth of capital required to combine with other factors of production, which are, land, labour and entrepreneurship (Nieman et al., 2003). Credit and thrift societies constitute a source of capital formation and employment generation. According to Harrod and Domar (1957), savings mobilization and

subsequent investment is the key to economic growth and development

Problem statement

The loss of employment of households' heads in Nigeria has negatively affected some homes, leading to family disintegration. Unemployment is responsible for the rising rates of female headed households in Nigeria. One major source of unemployment in Nigeria is the lack of capital for investments.

Research questions

This paper intends to answer some questions and they are listed thus:

i. What are the reasons for the rising trends in unemployment in Nigeria?

*Corresponding author. E-mail: wilfredukpere@gmail.com, pastorwilfred@yahoo.co.uk.

- ii. What is responsible for the paucity of capital for small businesses in Nigeria?
- iii. How can Nigeria as a nation and prospective investors overcome the deficiency in capital formation and mobilization?

Research objective

From the ongoing, this study attempts to identify co-operative organisations as veritable sources of funding for investments. In addition, the objective of the research is to show how co-operative organizations stimulate capital formation and mobilization within a country. The paper will also touch other pertinent factors that impacts employment generation in Nigeria.

LITERATURE REVIEW

Definition of concepts

Generally, a cooperative may be defined as an association of persons who pool their resources together on mutual basis to solve specific socio-economic problems, which may include income generating activities. A co-operative may also be defined as a self help organization.

These associations may be formed by either producers or consumers.

The initiative to form such cooperatives usually arises from one or two people. These initiators then play an advocacy role and enlist other people to the co-operative. Often, the initiators become the key drivers of these projects and reap the consequent benefits as managers of these ventures.

There are several types of co-operative societies in Nigeria. These include:

- i. Multipurpose co-operative societies
- ii. Marketing co-operative societies
- iii. Consumers co-operative societies
- iv. Processing co-operative societies
- v. Industrial co-operative societies
- vi. Supply/purchasing co-operative societies
- vii. Credits and thrift co-operative societies

Co-operative societies in Nigeria operate at three levels: the primary, secondary and tertiary. The primary societies operate at the level of a community, the secondary society operate at the level of the local government area, while the tertiary or apex co-operative organization operates across the local government areas but within the state.

Brief history

The origin of co-operatives in the world may be traced to eighteen century England. The co-operative was formed as a result of human sufferings and degradation during

the industrial revolution in England. The social impact of the revolution was pronounced and largely felt by the common man who needed to improve their conditions of living that had deteriorated to an inhuman standard. At that time, while employers were reaping high profits, employees were paid subsistent wages which remained very low in spite of rising cost of living (Ukpere, 2010). This affected the welfare of workers negatively, even the quality of food taken by workers was low (Bryce, 1996). It was as a result of these developments that the idea of co-operative movement was conceived by Robert Owen, who is often seen and referred to as the father of co-operative societies. Robert Owen advocated for self-supporting communities. Owen's initiative provided an example which was followed by the Rochdale Pioneers (a group of workers) who organized themselves into a movement for a new humanism based on self-help and group actions (Abia, 2000). However, Taylor (1974) traces the global origin of thrifts co-operative to the credits society formed by Herman Schulge – Delitzsch in 1851 to provide credit facilities to debt ridden peasant farmers in Germany.

In Nigeria, the first formal co-operative was formed in 1936. The first co-operative legislation known as co-operative societies ordinance No. 6 of 1935 was enacted in 1935. This provided the plank for the first Registrar of co-operative societies to be appointed with the mandate to promote, supervise and register co-operative societies under the ordinance.

Credit and thrift co-operative

The focus of this discourse is the co-operative and thrift society, which may also be referred to as the credits and thrift co-operative or the thrift and loans co-operatives. All such co-operatives perform functions that are practically related. The core function is to improve access to credits at critical moments or more succinctly, financial intermediation. Principally, such co-operatives aim at making it easier for people (especially people with low income) to save, thereby increasing the amount of money available for lending to members. Loans and credits are provided to members at much more traditional and easier conditions than the methods adopted by commercial banks and other financial institutions (Otto, 2006). The thrift and credits co-operative is the earliest of co-operatives to have been formed worldwide and also in Nigeria. According to Abia (2000), it was the bedrock of capital formation of the lower Cross River Region in Nigeria.

MODEL AND FUNCTIONS

Models of co-operative and thrift societies

There are several models of thrift societies which are

discussed further.

Rotating savings and credit associations (ROSCAs)

These are formed when a group of people come together to make regular contributions to a common fund, which is then pooled as a source of credits. The members of the group may be neighbours, friends, or colleagues at work. The group forum provides an opportunity for social interaction and is quite popular with women. These self-help groups may be classified under informal microfinance institutions. In Nigeria, the “Esusu” is also an example of the ROSCAs. “Esusu” is a revolving loan scheme in Nigeria and is entrenched in many West African countries as a source of credit and savings. Similarly, members in such a society make fixed contributions of money at regular intervals. At each interval, one member collects the entire contributions from all. The “esusu” is a programme that can assist people raise funds to execute projects including the expansion of capital for investment purposes.

The Grameen solidarity model

This model is based on peer group influence, and loans are made to individuals in groups. Group members collectively guarantee loan repayment, and access to subsequent loans is dependent on successful repayment by all group members. Payments are usually made weekly. These groups have proved effective in deterring defaults as evidenced by loan repayment rates attained by organizations such as the Grameen Bank, who use this model. Under the Grameen Bank variation of this model, groups contain 5 members and savings must be contributed for 4 to 8 weeks prior to receiving a loan. Savings must also continue for the duration of the loan term. Only two of the major group members receive a loan initially. After a period of successful repayment, 2 more members receive loans and after another period of successful repayment, the final members receive a loan. Ledger (1990) cited in Chuku (2010), highlight the fact that this model has contributed to broader social benefits because of the mutual trust arrangement at the heart of the group guarantee system. The group itself often becomes the building block to a broader social network (Nyele, 2011).

There is a need to critically examine this, as repayment is not always easy. Frustration of repayment in the scheme, always result to social decadence.

Village banking model

Village banks are community managed credit and savings associations which provide access to financial services, build community self-help groups, and help

members accumulate savings. They usually have 25 to 50 members who are low-income individuals seeking to improve their lives through self-employment activities. These members run the association, elect their own officers, establish their own by-laws, distribute loans to individuals and collect payments and services. The loans are backed by moral collateral, the promise that the group stands behind each loan (Chuku, 2010). The function of this type of cooperative therefore is financial intermediation; recycling funds from surplus spenders to deficit spenders. More specifically, the services include; (1) Savings mobilization and (2) Extension of credits and loans.

In practice, three forms of thrift and loan co-operations exist and are presented thus:

1. One category specializes in mobilization of savings among its various clients. These clients or members may be traders, commercial vehicle workers full time house wives among other especially low income earners.
2. Another category includes those specialized in entirely granting loans to their clients and other members of the public.
3. A third category involves those who mobilize savings and also extend credits to their clients.

Quite often, the average cost of borrowing from these co-operatives or loan associations by non-members, is higher than the cost of borrowing from commercial banks, but the ease of access to such loans and the personal touch between the contracting parties is a major attraction for many people. Consequently, a lot of people patronize these co-operatives and other non-bank financial houses. There is also a need to see the demerits of the micro capitalist views on it

Prospects

Given the high level of poverty in Nigeria and paucity of loan able funds, the patronage of these credit associations is very high (Ewubare, Aiie and Akekere, 2008). According to the last national living standard survey report published in 2006 by the federal office of statistics (also known as Nigeria Bureau of statistic), the poverty profile in Nigeria has become critical as shown in Table 1.

These figures clearly indicate that poverty is steadily increasing in Nigeria except for 1996, in which the report showed marginal improvement. Current data shows (using the World Bank standard of people living below \$ 1. or 2.00 daily) that the level of poverty in Nigeria is well over 72% and unemployment is steadily on the increase (Otto, 2009). So, the prospect of any business that will service and help to alleviate the plight of the poor is good. According to Todaro and Smith (2003), the marginal savings rate of the poor, when viewed from a holistic perspective are not small; this high volume of savings from the poor who usually constitute the target group of

Table 1. Distribution of population in poverty.

Year	Non poor (%)	Moderately poor (%)	Core poor(%)
1980	72.8	21.0	6.2
1985	53.7	34.2	12.1
1992	57.3	28.9	13.9
1996	34.4	36.3	29.3
2004	42.2	38.1	19.7

Source: Nigerian Bureau of Statistics (NBS), (2006).

credit co-operatives can be encouraged and efficiently mobilized for the benefit of the individuals, the co-operative and the entire economy.

The Governments in Nigeria as governments in many parts of the world are committed towards poverty emancipation and so, are likely to be less hostile but supportive of credit co-operatives. More succinctly, stringent tax imposition and adverse operational policies inimical to the progress of co-operatives are not likely.

Besides the needs and problems of the poor including emergencies such as unanticipated deaths of close relatives, school fees, rents, among others, are not likely to cease in the near future. These needs will constantly require attention whenever and wherever they occur. Co-operatives can thrive anywhere; be it in the rural area or urban. It is not constrained by infrastructural inadequacies as power supply and many other difficulties common in the rural areas. The credit and thrift association is a potential source of self employment for any individual or group of individuals with sufficient interest in such ventures. More so because the initial cost of setting up such ventures are not prohibitive.

Pitfalls

Given the level of indiscipline and corruption in Nigeria, any business that has to do with credits is potentially risky. Many Nigerians are also not disposed to meeting obligations such as school fees, house rents, electricity bills, to mention a few, when they are due. Hence, agent interested in extending credits should be willing to confront these challenges.

Registration requirement

Co-operative associations are registered with the states co-operative division of the ministry of commerce in the relevant state of domicile. The ministry may differ from state to state since co-operatives are governed through the specified laws of a state. For instance, the co-operative societies in Delta and Edo states are governed by section 7 (1) of the co-operative operatives' law, cap 45 of the Bendel state of Nigeria law of 1976 including all its amendments since then. In some states, the co-operatives division is in the Ministry of Trade and Industry

(for example, Rivers State). In Rivers State, as at 2004, there were over 500 registered co-operatives with several others operating without due registration. To operate legally as a thrift and credit co-operative, at least two levels of registration are mandatory; a) the general registration as co-operatives, which is done at the ministry; b) specific registration as a credit association, which is done at the courts and unions of other such bodies.

These registration requirements, especially the second level of registration are better handled by professional consultants or experts including lawyers.

SURVEY OF THRIFT SOCIETIES IN SELECTED COUNTRIES

According to Taylor (1974), the first credit society was formed by Herman Schulze-Delitsch in 1851 to provide credit facilities for debt-ridden peasant farmers in Germany. Co-operative credit associations have been found in several countries to be well suited to providing loan facilities and stimulating savings as evidenced from the study of selected countries further discussed.

Ghana

In Ghana, credit and thrift societies are owned, managed and controlled by the people of the areas in which they are located. They are responsible for financing co-operatives as well as members within each catchment area. Thus, the main task of these credit co-operatives were to mobilize savings from the area and to on-lend such savings to deserving customers of the area, to enable them improve their productivity. These credit co-operatives ensure that credits are made to agriculture and other priority rural activities and also to the small rural borrower.

To enhance borrowers' effective utilization of loans, a proper monitoring is carried out and assistance in terms of procuring needed inputs is also offered (Agwu, 2006).

India

The most widespread application of co-operative thrift society has been in India, where the problem of peasant indebtedness and greedy money lenders has been a

particularly serious issue. In India, co-operative banks and loan societies actually made an in-road into the rural areas, mainly as a result of official initiative and encouragement. The structures of co-operative banks were biased in favour of their occupations, which are agricultural co-operatives, employee's co-operatives, business co-operatives and industrial co-operatives

The co-operative credit structure for short and medium term credit is a three tier federal one. With a State co-operative bank at the apex in each state, the central co-operatives at the district level, and the primary credit societies at the base. This has greatly improved the financing of agriculture and small scale enterprises and led to rising trend in output. India is currently a net exporter of food and almost self-sufficient in industrial goods.

Germany

Co-operative credit providers are believed to have started in 1851 in Germany. In Germany, the orientations of the big commercial banks towards large scale industries created a gap in financing of farmers, petty traders, etc., which was filled by setting up of credit co-operatives. Raiffeisans co-operative bank helped to provide credit for debt ridden peasant farmers while Delitsch co-operative bank was for the independent farmers. Both quite independently sought their solutions through the co-operative credit associations.

Raiffeisan banks were based on village membership so that members knew, and could vouch for each other. They had no share capital, their farmer members accepted unlimited liability and their share of profits were not distributed but put into the reserve. It was from the reserves and the deposits of local salary earners that the banks accumulated their capital, and loans were made for productive purposes only, such as seeds, cattle and ploughs.

At the beginning of German's Industrialization, these credit associations emerged with a structure which provided a strong closeness to their customers. Deposits were quite safe for all creditors and depositors. This German model has been followed by most peasant economies in Central and Eastern Europe, Asia, and some African countries.

France

The orientation of the French commercial banks towards large-scale industry and commerce, as in Germany, created a gap in the provision of finance to farmers and craftsmen. In Germany, there were two major categories of financing associations; a) The co-operative banks proper, or those financing institutions collectively known as the *banques populaires* (People's Bank); b) The *Credit Agricole* – the state – controlled farmer's bank – a mutual credit and co-operative organization.

These co-operative banks, the People's Banks, began about a century ago and since 1878, they have multiplied all over France. They are not joint-stock companies as such, but association of persons putting together their savings, experience, and energies to distribute credit at a reasonable price from their own funds. But their current shape began to be formed in 1917 when, by the law of 13 March, 1917 on "the organization of credits for small and middle sized businesses and industry", received a specific co-operative status from the French Parliament. At this time, also began their vital co-operation with the *societies de caution mutuelles*, groups of companies in the same sector brought together at departmental level to act as guarantors for loans.

The People's Banks came into existence out of the spontaneous initiative of artisans, small industrialists, and traders who had the idea to unite at the local level, to help each other, and to lend each other money which the big banks refused to them (Tombola, 2009).

Although they serve as sources of finance for smaller industrialists generally, their "mission" as far as the government is concerned is to help the artisans, and they have an important function in administering and disbursing government funds placed at the disposal of this sector.

Members of the co-operative thrift association pay 10% of their net profits into a special safeguard fund to come to the rescue of anyone in difficulties.

In order to reinforce their activities of extending funds to smaller industrialists, the association has a subsidiary called *Sopcomec*, which provide funds to members in need of capital. Intervention includes the taking of minority participations.

The accessibility of credits to the "small man" and the determinedly regional character of these associations are noteworthy. Being more than ever conscious of the fact that the small and middle-sized enterprises and handicrafts face financial and management constraints, they have devised a wide range of services to meet their needs, for example they play the role of counselors and financial advisors. In addition, they also enter into partnership with enterprises.

RESEARCH METHODOLOGY

The study entails a survey of views and experiences in Nigeria and elsewhere on the utility of co-operative finance as sources of employment. The study relies more on secondary data. However, primary data was sourced to boost or confirm results as applicable to the Nigerian environment (Table 2). Using the chi square, the views of 40 respondents about the efficacy of the co-operatives as a source of finance for project implementation and employment generation in Nigeria was undertaken. The formula as expressed in Table 2 is:

$$X^2 = (F_o - F_e)^2 / F_e$$

Where x^2 = Chi-Square; F_o = observed frequency; F_e = Expected frequency

Hence, the paper has relied on both qualitative and quantitative

Table 2. The impact of co-operative credits on employment generation.

Response	Frequency				
	F _o	F _e	F _o -F _e	(F _o -F _e) ²	(F _o -F _e) ² /F _e
To a large extent	12	10	2	4	0.4
To an extent	16	10	6	36	3.6
To a little extent	7	10	-3	9	0.9
Not at all	5	10	-5	25	2.5
Total	40	40			7.4

Source: Field survey.

methods in order to overcome the limitation of both methods. Table 2 represents the responses of participants on the impact of co-operative credits on employment generation.

Conclusion

Credit co-operatives are a time honored and old organizational framework for effectively mobilizing the economic fortunes of people, especially people with low earning all over the world. As a socio-economic organization, co-operatives have also enhanced the optimum utilization of resources. This is because problems and weaknesses of individuals are solved through the group effort of the co-operatives since resources are pulled together and the economics of such group effort are redistributed. It is a major source of capital formation for small and medium size firms which is available for the benefit of individual members. It can also generate externalities through its employment creating impact.

In point, co-operatives are socially and individually profitable. But often, a co-operative is as good as its co-coordinators, or managers and this is the opening which young and agile graduates can take advantage of and reap substantial benefits. As the unemployment in Nigeria worsens, the thrift and loans co-operative can become a source of employment. The co-operatives can also be used as a medium to mobilize funds for job creation, through multiple project execution in the economy. With good management, this is not only possible but imperative for Nigeria now.

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