CO-OPERATIVE BUSINESS MODEL: A SUSTAINABLE TOOL FOR PROMOTING THRIFT AND CREDIT CO-OPERATIVES FOR MICROFINANCING AMONG CO-OPERATIVE SOCIETIES IN NIGERIA.

Egor Hikarofem Ise, PhD and Owan Tonica Obodagu, PhD
Federal Co-operative College, Oji River, Enugu State, Nigeria.
egor_hikorafem@yahoo.com

Abstract
This paper examined the applicability of the co-operative model, focusing on thrift and credit co-operative societies, with particular reference to CEM Multipurpose Co-operative Society Limited. The objective of the study was to access the sustainability of the co-operative business to its members. Purposive sampling technique was adopted in selection of the co-operative for the study. The study was anchored on the theory of collective action. Results revealed that thrift and credit co-operatives give the members the opportunity to save and to access credit at a lower cost than the prevailing interest rate charged by the conventional banks. Members also received interest on their savings which in turn encourage savings culture of members. Members accessed credit needed for their private businesses, and also accessed credit to meet up their personal needs. A total of N17,090,500 (USD 47,474) was saved by members from January – November, 2022, where members saved varied sums of money per month, which were given out as credit (loan) to members at 6% and non-members at 10% interest rate, and the accrued interest rate shared in proportion to a member's total contribution, at the end of the business year. Bulk contribution was also paid to the each member. The paper concluded that this practice over the years, has sustained members of thrift and credit co-operative societies in Nigeria, and enabled them to save and collect bulk money in November yearly. Since the thrift and credit co-operatives attract new members yearly, the paper recommended and encouraged non-members to join the co-operatives.
Keywords: *Thrift, credit, co-operatives, Nigeria.*

Introduction

Thrift (microsaving) is an aspect of microfinance consisting of a small deposit account offered to individuals as an incentive to share and store funds for future use. Thrifting works in a way similar to a normal savings account. Thrifts are commonly offered in Nigeria to help low-income earners save for future investment or cope better in case of unforeseen circumstances (microinsurance). They are also the most frequent sources of funding for microenterprise startup and expansion. Cooperators in Nigeria thrift and pool their savings together which they give out as credit (microcredit) to both members (at 5-6%) and non-members (at 10%) and operationalize operating under the cooperative business model. This model involves the cooperative principles, identity and values and includes patronage rebate, borrowing at low interest rate (6%) as against high charges at conventional banks (16-18%), trust and democratic member control. Over the years, these practices and transactions have sustained the cooperators, and they solve their current needs without disrupting the needs of future generation.

According to Grant (2019), sustainability focuses on meeting the needs of the present without compromising the ability of the future generations to meet their needs. The concept of sustainability is composed of three pillars: economic, environmental, and social also known informally as profits, planet, and people. Cooperatives have always endeavored to enable people to have access to goods and services without exploitation - to realize their needs and aspirations. This has led them to pursue a convergence between economic, social, and environmental interests - building triple bottom line sustainability (ICA, 2013).

ICA (1985) defined Cooperative as an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspiration through jointly owned and democratically controlled enterprise. Also, Ebonyi and Jimoh (2002) described cooperative societies as associations of persons who have voluntarily come together to achieve common objectives through the formation of a democratically controlled organization; making equitable contributions to the capital required and accepting a fair share of the risk and benefits of the undertakings. The cooperatives have cooperative values and principles set out by the International Cooperative Alliance that guides the operation of cooperatives and these make the cooperative different from other business models. Cooperative difference can as well be perceived from the way a cooperative operates and treats its members, and how the members collaborate and build their community. This is because the cooperative is owned by the very members it serves.

A thrift and credit co-operative is a cooperative that encourages savings among members and provides loan and other credit facilities to its members on low interest rate and non members at higher interest rate, and also meet the credit needs of rural people who might otherwise fall prey to loan sharks and other predatory lenders. They can be set up in poor or rural communities where access to means of securing savings and credit at non-exploitative terms is of greatest importance. Cooperative societies are formed or organized in Nigeria to accomplish one or more functions including production, purchasing, housing, marketing and provision of financial services among others, to the members (Adekunle, 2015). Members are known for strong commitment and participation in decision making.

Conceptual Framework

From its earliest manifestation, the co-operative thrift and credit society has shown its capacity as a social and economic mechanism for achieving fundamental change as well as sustainability in the livelihood of its members in Nigeria. While the conventional business entity is designed to advance the economic and social well-being of a small number of shareholders, the co-operative is typically focused on enhancing both the welfare of its members and the welfare of larger members of the community. That makes the difference. Historically, this welfare of a larger community is typified in the way Africans engaged in informal groupings in the 19th century in order to assist one another through formation of Isusu (thrifting) groups, age grades, Umunna (Kindred) work, communal life assistance, ndi – iyom (married women group). In Isusu group, for instance, various kinds of persons: women, men and youths of varied ages and skill/trade came together to form Isusu by which certain sums of money are contributed weekly, fortnightly or monthly to the common purse of the organisation to be shared at a pre-determined time period among the contributors, and sometimes according to what each person had contributed overtime. From the common purse, soft loans were extended to desiring members of the group, at comparatively low interest rate. Usually, the loans were repayable on or before the predetermined time of sharing the bulk money saved by members through the Isusu group. Isusu, as a tool of pooling savings is still in practice in this 21st century in Africa, extensively in rural economy. Till date, age grades and Umunna (Kindred) associations are formidable workforce by which traditional Africans protect themselves and assist one another in certain occasions. Members of these associations contribute to a common purse through which the same members are assisted in times of perils like burial and marriage ceremonies, communal work on building projects, settlement of debts, and borrowings from the purse to meet personal financial obligations. The larger community also practice communal life and renders assistance to one another in various dimensions, providing financial assistance and workforce to one another and other members of the community. Ndi – iyom (married women) of various communities constitute themselves into virile groups for the purpose of rendering services to the communities and assisting one another in times of need.

Cooperative societies are groups made up of individuals whose inter-related tasks and specialities enable the total aggregate to achieve set goals; perform complementary and reciprocal functions. They are socio-economic groups distinguished from other forms of gathering or aggregation of people by consciousness of membership and interaction as they accomplish set tasks and goals. Cooperatives seek to fundamentally change the way in which economic systems behave. At its heart lies an ideological opposition to the hyper competitive, profit-maximising free-enterprise system.

Theoretical Framework

Collective Action Theory

Collective action is any form of organized interest carried by a group of people in order to address their needs. The economic theory of collective action is concerned with the provision of public goods (and other collective consumption) through the collaboration of two or more individuals, and the impact of externalities on group behavior. Collective action theory was propounded by Mancur Olson in 1965. The theory states that individuals under certain institutional arrangements and shared norms arc capable of organizing and sustaining co-operation that advances the common interest of the group in which they belong. This line of thought recognizes that human beings can organize and govern themselves based on appropriate institutional arrangements and mutual agreements in a communal life. According to Baronchelli (2018), collective action refers to action taken together by a group of people whose goal is to enhance members' status and achieve a common objective. The theory of collective action is not restricted to a particular phenomenon and can be related to groups, organizations, agencies and even community action. For Olson, collective action is an action taken by a group in pursuit of members' perceived common interest especially in reducing any economic problem affecting them as a community. He saw it also as a voluntary action taken by a group to achieve common interest which helps in reducing negative externalities in providing public goods or services since they address the needs of the people. It brings a lot of positive impact on the society, for instance, poverty inequalities could be bridged, and livelihood for marginalized and vulnerable group like the elderly and widow could be improved.

This study is anchored on Collective Action Theory because it examines the growing and extensive theoretical literature that posits a host of structural variables presumed to affect the likelihood of individuals achieving collective action to overcome socio-economic dilemmas. It studies how a theory of bonded rational, norm-based human behavior is a better foundation for explaining collective action than a model of maximizing material payoffs. Collective Action Theory describes the situation in which multiple individuals would all benefit from a certain action, but has an associated cost, making it implausible that any individual can or will undertake and solve it alone. The ideal solution is then to undertake this as a collective action, the cost of which is shared.

Through Thrift and Credit Cooperatives, individuals can come together to acquire productive resources such as land, credit facilities, cheaper loans as well as microsavings which they cannot acquire alone. This theory is relevant to this study because it shows how the coming together of low-income earners to form Thrift and Credit Cooperatives have to a great extent been able to solve their challenges of Credit by creating sources of income and savings through easy access to cooperative credit which has to a large extent helped to boost their livelihood activities. Also, sustainability has been attained because cooperators can create more gainful jobs and business enterprises through the credit/loan, available to them through their cooperative. This in turn increases their sources of income which ultimately reduces the level of poverty among them, thereby showing the cooperative difference.

Sustainability and Cooperative

Thrift and Credit Co-operative societies mobilize local savings and administer credit to members, thereby encouraging thrift and entrepreneurial activity. They have relatively simple administrative processes and transaction costs are small and are shared.

Interest income from loans and return on investments may either be distributed to the members or reinvested in the society within a given period. The member saves his or her money within the framework of the cooperative knowing that he or she will receive a sustainable return for his effort in the form of interest on savings. Members are granted loans based on the amount of their savings on an interest rate lower than that charged by the commercial financial institutions. Thrift and credit cooperative fill a unique role of mobilizing savings from the lower to middle wealth segments of the population and channeling them to similar class of borrowers in the form of loans for investment and consumption. Therefore, thrift and credit cooperative by its nature especially through the practices of obligatory savings contributions, teaches the members to be thrifty thus, influencing their savings.

According to Adesina (1998), thrift and credit cooperative offer benefits like easy borrowing system, provision for emergency spending and promotion of savings culture. Emejulu (1998) states that the benefits derived from thrift and credit cooperative societies are the overall development of the society by increasing members' volume of available funds for investment, availability of savings opportunity will greatly minimize unnecessary household consumption, mobilization of savings which will increase members' capital and resource base, reduction of currency hoarding and general efficiency of financial institutions as each will work hard to attract more depositors.

The principles of thrift and credit cooperative society, differentiates it from other forms of savings or credit organizations and ensures its sustainability. These principles include:

1. Membership is confined to employees of an organization: This means that the membership of the cooperative society is restricted to employees of the organization. Thus non employees cannot be members of such cooperative society,
2. Provision of share transfer fund: It is created as a special reserve fund out of the annual surplus. Its aim is to provide a stand by fund from which withdrawing members can be redeemed or taken over by the cooperative thus leaving the share capital unaffected.
3. Provision of authorized share capital: The authorized share capital is made up of members share contributions. This is the main source of cooperative owned

capital. It is not withdrawable but can be transferred. It permits the cooperative to go into real investment and be free from membership fluctuation.

4. Minimum savings of 10% of members' monthly earnings: The aim is for members to retire wisely and wealthier. When one joins a cooperative and contributes 10% of his or her monthly earnings that means that at the end of the year, the member has saved 120% of his annual income. Such a member after being in the membership of cooperative for 5 years as the case may be must have saved 600% of his annual income. However, this is optional.
5. Provision for fixed deposit: The fixed deposit aim at integrating contribution within the cooperative. Deposits are fixed for a period of 3 to 12 months with an interest rate of 12% per annum. At the end of the fixed period, members withdraw their deposits. The cooperative uses such funds for short term and emergency loans.
6. No cash transaction: Cash administration is one of the most difficult aspects of cooperative administration and when members are allowed to pay cash, most members would default. Deductions are done at source electronically.
7. No withdrawal of savings until loans are fully paid: loan are given to members with regards to their savings. Withdrawal of savings is not encouraged although, in special cases where a membership for ten years and above or in some emergency cases, cooperative allows a member to withdraw part of his/her savings.

Role of Thrift and Credit Co-operative Societies in Nigeria

These societies mobilize local savings and administer credit to members, thereby encouraging thrift and entrepreneurial activity. They have relatively simple administrative processes and transaction costs are small.

A study of micro entrepreneurs in Nigeria indicates that individuals who belong to these societies have higher personal agency and belief in them. They believe that they are competent and that their actions can lead to desired outcomes such as better access to credit and increased micro enterprise performance in the form of growth, revenue, profitability and number of sustainability.

In other words, these societies give more than credit facilities to members. They create a learning environment by giving technical support and aiding improved social interaction.

They can deliver these services because:

- They have both formal and informal attributes and are registered and recognized by the government.
- Members contribute what they can afford and their savings and reputation serve as their collateral.

- There are usually social ties among members which makes it difficult for people to abscond from the repayment of their loans.
- Members can borrow twice or three times the amount they have in savings. The modality depends on the society.
- The interest rate is 6% and is deducted before the applicant receives the loan. Loan recipients are usually given a year to repay their loans. The recipient can continue to save while repaying the loan.
- They invest in other business ventures and do profit sharing at the end of the year based on the share of each member. Although decision making is based on one vote per person, profit sharing is based on contribution.
- Financial inclusion will be achievable in Nigeria if the government encourages the formation of these societies.
- The promotion of these societies will create the financial, technical and social support required by micro entrepreneurs - a necessity for the diversification of the economy.

Co-operative Savings and Credit Societies

Co-operative savings and credit societies were established for the purpose of encouraging thrift and extending credit at low cost to honest, frugal, and industrious workers of the agricultural and classes with meagre means, and thus preventing their falling into the hands of "loan sharks" in time of unemployment, sickness, or need. Communities without local banks, or where existing banks do not loan money in small amounts, are a fertile field for saving and credit societies. These organizations are known under different names; people's banks, popular banks, rural banks, savings and loan banks, loan associations, credit associations, savings and loan fund associations, credit and savings societies, cooperative credit societies, loan societies, loan and credit unions, loan fund unions, and credit unions (Nwafor, Agu, Anigbogu & Umebali, 2018). These societies are not charitable institutions to care for the helpless or assist the incompetent, nor are they reformatory institutions to turn dishonest men into honest ones. They help only such able, honest, and unfortunate persons as are capable of being helped and are willing to try to help them. They are purely business enterprises and their underlying principle is cooperation (Ojiako and Gbukwa, 2012).

Cooperative Microcredit and Job Creation

Accessibility to microcredit is one of the very important factors in the process of poverty alleviation (Yusuf, Shirazi & MatGhani, 2013). To identify the factors that would enhance proper access to microcredit by the rural poor would not only aid rural development but can also guide the government to make more pro-poor policies that would influence more credit to be channeled to the rural areas for poverty reduction purposes. Access to credit plays a prominent role in poverty reduction particularly among the rural poor. For instance, access to microcredit of a peasant farmer can assist her/him to procure materials that can serve as input for improved productivity. In the like manner, accessibility of microcredit to a rural/urban artisan or micro entrepreneur can enable him/her to increase the working capital that can boost the trade with improved customer satisfaction, increased income and eventually escape from poverty trap. All this can lead to increase in household's literacy level, improved health status and better living standard (Todaro and Smith, 2011). In addition, access to microcredit can secure working capital for micro business that will generate more income, create employment and eventually reduce poverty. Conversely, inaccessibility of the poor to microcredit as a result of stringent conditions from the supply side and ineligibility of the applicant can further impoverish the poor. This has been identified as one of the major causes of rural poverty (Obisesan & Akinlade, 2013). Khandker and Samad (2014) found a positive relationship between cooperative credit and job creation.

Methodology

Purposive sampling technique was adopted in selecting CEM Multipurpose Co-operative Society Limited, registered twelve years ago. Currently, the co-operative engages in thrift savings, procurement and sale of food stuffs such as yams, stock fish, crayfish, and operates a consumer shop with various kinds of goods. These foodstuffs and goods at the consumer shop are arebeing patronized by the members and non-members. There are over thirty (30) Thrift and Credit Co-operatives within the study areas which have been in operation between 12 and 15 years, and their operational methods are still the same the CEM Multipurpose Co-operative Society Limited. This co-operative, under the study, has membership strength of 112 men and women. Financial Statements of the year 2019 of the co-operative were studied and analyzed. Results of the study are presented in Appendices A, B and C of this paper.

Results

Appendix A shows the income and expenditure profile of the co-operative. The total income (receipts) for the year January – November, 2019 was N1,218,100 (USD 3384) at exchange rate of one dollar = N360. Expenses were incurred through purchase of yams, stock fish, crayfish and fish, which were sold to realize the income streams as shown in the table: Appendix A.

Appendix B shows the financial statement of the co-operative's consumer shop. Result showed that it sustained a deficit.

Appendix C shows the Statement of Account of Thrift savings of the co-operative. A total of N17,090,500 (USD 47,474) was saved by members, where saved varied sums of money per month. These monies were given out as credit (loan) to members at 6% and non-members at 10%, and the accrued interest rate shared in proportion to a member's total contribution, at the end of the business year. Non-members did not receive any interest rate as shared. The bulk contribution of each member, from January – November, 2019 as thrift savings, was also paid to the member as his/her savings during the business year. Details of the Statement of Account are contained in Appendix C as attached.

Conclusion and Recommendations

This practice of thrift (microsavings) and credit (microcredit) has sustained members of the co-operative under the study, as well as other numerous members of Thrift and Credit Co-operative Societies in Nigeria. Thrift savings as encouraged by the co-operative has enabled the members to save and collect bulk money in November of each year for other usages and enterprise. Only the co-operative members benefited. This is the co-operative difference, which attracted new members from year to year. It is therefore recommended that non-members should join the co-operatives and/or form co-operatives in Nigeria.

References

Abia, O. (2000). 'Rural co-operatives societies and the transformation of the lower Cross River Region' Kiabara, Newsletter, 6: 1, 3-4.

Adekunle, G. (2015). How thrift and credit societies can help Africa promote entrepreneurship http://theconversation.comlhow-thrift-and-credit-societies-can-help-africa-promote-entrepreneurship-50781.

Adesina, D. (1998). The indigenous African savings and credit association and the imported credit cooperative: The conflict. *Nigerian Journal of Cooperative Economics and Management*, 2(6), 17-25.

Babajide, K. (2013). Benefits of cooperative societies on the individualhttps:// www.vanguardngr.com/ 2013/08/benefits-of-cooperative- societies- to- the-individual/

Bamidele, A. (2015). How thrift and credit societies can help Africa promote entrepreneurshiphttps://theconversation.com!how-thrift-and-credit-societies-can-help-africa-promote-entrepreneurship-50781

Baronchelli, A. (2018). The emergence of consensus. *Royal Society Open Science.* 5(2), 172-189.

Coop new cooperative Forth night (2018). *Cooperative making a difference through sustainable development.*

Ebonyi, V., & Jimoh, O. B. (2002). *Cooperative movement: A way out of poverty.* Ibadan: Longman Publisher.

Emejulu, H. T. (1998). Foundations and cultural aspects of cooperative. Onitsha: Africana Press Ltd.

Grant, M. (2019), https://www.investopedia.com/terms/s/sustainability.asp.

ICA (2018). Cooperative Identity, Values and Principles https:// www.ica, coop/en/ cooperatives/cooperative-identity

ICA (2013), Cooperative sustainability,https:// www.ica.coop/en/cooperative-sustainability.

International Cooperative Alliance (ICA) (2010) Blueprint for a Cooperative Decade. Geneva: ICA

Khandker, S.R. & Samad, H.A. (2014). Dynamic effects of microfinance in Bangladesh. *World Bank Policy Research Working Paper Series 6821.*

Nwafor, G.O. Agu, A.F., Anigbogu, T. & Umebali, E.E. (2018). Loan repayment behaviour among members of farmers' multipurpose cooperative societies in Anambra State . *International Journal of Community and Cooperative Studies,* 6(1), 28-49.

Obisesan, A.A. & Akinlade, R.J. (2013). Credit constraints and poverty among Nigerian farming households. *Agricultural Journal,* 8(2), 94-100.

Ojiakor, I.A. & Gbukwa, B.C. (2012). Economic analysis of loan repayment capacity of small holder cooperative farmers in Yewa North Local Government Area of Ogun State, Nigeria. *African Journal of Agricultural Research,* 7(13), 2051-2062.

Olson, M. (1965). *The logic of collective action: Public goods and the theory of groups.* Oxford: Oxford Handbook Online.

Otto, A. and Ukpere, M. (2011). credit and thrift co-operatives in Nigeria: A potential source of capital formation and employment https: //www. researchgate.net! publication/ 262398845 Credit and thrift co operatives in Nigeria A potential source of capital formation and employment.

Svenden, G.L.H &Svendsen, G.T (2004). *The creation and destruction of social capital*: Entrepreneurship, co-operative movements and institutions. Edward Elgar, Cheltenham.

The International Co-operative Alliance Statement on co-operative identity https://nz.coop/wp-content/uploads/2014/0.s/ICA-7-principles.pdf

Todaro, M.P. & Smith, S.C. (2011). *Economic development,* 11th Edition, Boston: Addison-Wiley Publishers.

Yusuf, M.B., Shiraz, N.S. & Matghani, G. (2013). The impact of Pakistan poverty alleviation fund on poverty in Pakistan: An empirical analysis. *Middle East Journal of Scientific Research,* 13(10), 1335-1344.