**Journal of Global Accounting**
Vol. 6 No. 2 September, 2019. ISSN: 1118-6828
www.unizikjga.com

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Nnamdi Azikiwe University,
Awka

# SAVINGS DIVERSIFICATION FOR ECONOMIC GROWTH AND DEVELOPMENT IN NIGERIA: THE CO-OPERATIVE MODEL

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## ABSTRACT

*The paper examined savings as an economic diversification strategy for economic growth and development in Nigeria. The objective was to assess savings as a capital tool for the growth and development of other resources among Nigerians, particularly cooperative members. Expost facto research design was used. Secondary data were collected from co-operative societies in Nigeria. It was found that most business organizations such as sole proprietorship, partnerships and joint stock companies do not encourage thrifting like the co-operative societies. Hence, the co-operative societies operate both at the grassroots and urban sectors of Nigeria. Findings further showed that co-operative societies have the potential to influence savings behavior of their members positively. It was concluded that co-operative societies are critical partners in accelerating economic development of Nigeria. The paper recommended stronger collaboration between conventional financial institutions and co-operative societies so that more synergistic relationship could be established in order to build up the savings and economic growth of Nigerians, particularly at the grassroots and rural sector for accelerated development of Nigeria.*

**Keywords:** Savings, Co-operatives, Growth, Development, Nigeria.

Article Info: **Received** August 9, 2019; **Reviewed** August 24, 2019; **Accepted** August 26, 2019.

## 1. Introduction

Cooperative societies are basically formed to bridge the gap of proximity and formality of financial institutions as well as create dynamism for the low income households. They play crucial roles in the rural economies and among low income households by protecting the interest of smallholders, improving livelihood sources through collective actions and by mobilizing savings for investment. One of the basic objectives of organizing and expanding cooperative societies in the work place and rural areas of Nigeria is to enhance the ability and propensity to save money (Daniel, 2006). Cooperative societies enable people to pool their limited resources together, maximize their resources, gain access to resources, and increase their bargaining power. Cooperative thrift and credit societies are unique type of cooperatives that focus on mobilizing savings and subsequent provision of loans. In specific terms, they provide opportunities for mobilization of savings as well as provision of access to many investment opportunities.

Every developing economy cannot downplay the importance of savings because of its relevance to the economic growth and transformation of nations. Paucity of savings leads to stagnated investment climate and subsistence business failure. Jalo, Onu, Dire, and Margwa (2015) observed that despite that savings is dependent on income; membership of some groups could wield strong influence on the capacity and willingness to save. Research in savings behavior has been on the increase in recent times owing to the importance of capital accumulation in stimulating economic growth and development. Economic growth and ultimate development rarely occur without effective and efficient financial system that not only provide quality, accessible and convenient financial products but with appreciable depth to accommodate people at lower income strata (Vogel, 2004). There is the need for need-based financial operators that help low income earners to develop savings habits, maximize investment models and processes. Low income households need financial institutions, especially the cooperative societies, which will serve their needs conveniently. Rural areas are generally underserved by formal financial institutions owing to high cost and inherent risk of providing financial services to mostly small scale rural clients who generally lack collateral and must depend on unreliable incomes from agriculture.

Hence, savings as economic diversification to improve and empower those who may not easily receive financial assistance from other sectors, private or public. This underscores the place of savings as a capacity building process using the cooperative model. Low savings or near absence of it has resulted into inadequate financing of industrial, consumer and agricultural production as well as weak exploitation of economic opportunities in Nigeria. Low income households need financial services such as savings that can assist them raise capital for investments, acquires lump sum of money and also increase their propensity to save money. Many investments designed to enhance industrial productivity are dependent on access to appropriate financial services (World Bank, 2006). International organizations recognized the need to involve Non-Governmental Organizations (NGOs) and Cooperatives as veritable and effective channels for providing financial services to Nigerians (Oke, Adeyerno, & Agbonlahor, 2007). The most popular among them is cooperative societies, which undertake lending and savings on the principle of self-help (Mkpado & Arene, 2007)

The importance of savings mobilization role which cooperative societies play in pulling low income households out of poverty and generation of income yielding assets has become outstanding in recent years such that one out of every three person in Nigeria belong to cooperatives. In reality, the survival of multipurpose cooperative societies and cooperative thrift and credit is hinged on member nexus and participation, which is occasioned by increased and consistent members' savings. Nwankwo, Ewuim, and Asoanya (2013) concluded that there is a strong relationship between cooperative membership and ability to save. There is strong emphasis on the formation of cooperatives to increase savings. Against this backdrop, the objective of this paper is to examine savings as a financial service among cooperative societies for economic diversification for capacity building in Nigeria.

## 2. Review of Related Literature

### 2.1 Conceptual Framework

According to Ebonyi and Jimo (2002) savings simply means refraining from spending or not spending all income on consumption. It involves putting some resources aside for emergency and for investment purposes. In terms of material goods, savings means the amount of goods that are not consumed out of the total output. Savings reduces the demand for consumer goods and sets free resources for the production of producer goods". The level of savings is mostly determined by the level of income, all things being equal. An increase in income, gives rise to an increase in savings and vice-versa. Another key determinant of the degree of savings is the consumption habit of the saver. When consumption is subtracted from income, the remainder is savings and therefore high consumption will result to low savings and vice-versa (Umebali & Ozoani, 1999). Savings are money not immediately spent but are kept for future use. Savings mobilization is the accumulation of savings for a long period of time for meaningful investment. Around the world, poor households save in various forms and for various purposes. People tend to save to compensate for uneven income streams. Different households save for various purposes such as insurance against bad health, disability and other emergencies, investments, social and religious obligations and for future consumption. Poor households save in cash, in-kind (animals, gold, grain, land, raw materials etc.) and use rotating savings and credit associations, and other forms of financial and non-financial savings and loan associations because of limited access to appropriate deposit facilities.

Savings were the forgotten half of financial intermediation (Vogel, 2004). The former perception of low savings capacity and low demand for deposit facilities has been shattered in the last decade (Fiebig, Hannig, & Wisniwski, 1999). It is now generally acknowledged that households and in fact the poor will deposit their surplus capital in financial institutions if the institutions are appropriately structured and offer clients savings products that meet their specific needs If demand-oriented deposit facilities are embedded in appropriate institutional settings, they may achieve a level of outreach and impact that credit only facilities cannot achieve. Savings provide for the accumulation of capital that, in turn can generate future income and therefore enable future consumption. Zeller, Schrieder, Von Braun, and Heidhues (2007) defined savings as the net change in equity between periods. This definition includes change in monetary and non-monetary assets such as food, jewelry and other consumption and production durables. However, the authors argued that in broader role of rural finance, the definition of household savings must be expanded to include investment in human capital such as the number of children and the education and nutritional status of family members.

Households usually evaluate different forms of savings in terms of security, liquidity and economic return. Liquidity and risk-adjusted returns of the assets possessed by the household are expected to be major determinants of its ability to smoothen consumption inter temporally, especially if access to financial institutions is missing. Assets exhibit different degrees of liquidity, depending on the physical characteristics of the assets (divisibility versus lumpiness) and on the conditions and imperfections of asset markets. Some assets are seldom bought or sold because of cultural or legal constraints that forbid their sale. Other durables may lie in the domain of an individual's property e.g. women's jewelry and men cattle. These can only be liquidated if the individual farmer agrees to sell to finance agricultural activities. The third class of durables is illiquid because of their physical characteristics, such as a standing crop for which there are no future markets. The degree of liquidity of durables is also determined by divergence of expected returns of holding the asset and its sale price in imperfect commodity markets (Robinson & Barry, 2002).

What people save, avoiding consuming all their income is called "personal savings". These savings can remain on the bank accounts for future use or be actively invested in houses, real estates, bonds, share and other financial instruments (Nwankwo, Ewuim, & Asoya, 2013). National savings are personal savings plus the business savings and public savings. Business can be measured by the value of undistributed corporate profits. Public savings are basically tax revenues less public expenditure.

The most liquid asset is money. Holding a cash reserve maintains flexibility in future use, but also incurs the risk of inflation and demands from other households or community members. For these reasons, it may be preferable to hold savings in the form of food, livestock and jewelry or to deposit cash in safekeeping institutions, such as a savings group or with a money keeper. Zeller, Schrieder, Von Braun and Heidhues (2004) noted that a general systematization of forms of household savings according to their degree of liquidity or their security rate of return is of course not feasible. For instance physical characteristics of assets such as divisibility and lumpiness may be overridden by specific cultural or regional specific market conditions. Livestock may be worthwhile investment in some environments yet may not be profitable and liquid form of savings under different socioeconomic conditions.

Generally, voluntary savings can take the form of cash, institutional or in-kind savings. Institutional savings include deposits in formal (e.g. banks), semi-formal (e.g. cooperatives) and informal (e.g. rotating savings and credit association) financial institutions. In-kind savings include savings in grain, animals, gold, land, raw materials, finished goods and construction material (Fiebig, Hannig, & Wisniwski, 1999).

Again, a threefold classification into formal, informal and semi-formal savings mobilization has been used (Matin, Hulme, & Rutherford, 2002). The informal sector has commonly been viewed as unregistered savings services provided by rotating savings and credit associations (ROSCAs), accumulating savings and credit associations (ASCAs) and deposit takers. Formal providers are those who are subject to banking laws of the country of operation provide conventional retail services to customers and engage in financial intermediation. Semi-formal providers are usually registered as NGOs or cooperatives as well as MFIs. Aryeetey and Udry (2001) observed that itinerant deposit collectors collect savings from their customers and charge a fee for the service.

Matin, Hulme and Rutherford (2002) categorized the motives for savings into Life cycle needs, need to meet up with emergencies and the need to maximize opportunities. Robinson (2004) identified the following as possible decisive motives for mobilizing savings: Firstly, the need to Insure against disability, disease, retirement, sudden income losses and other contingencies. Secondly, the need to Safeguards against uneven income streams due to seasonal variations (savings of high-income periods are used to finance consumption expenditures during low income periods). Thirdly, the need to generate lump sum to finance a household's long-term goals (social and religious purposes, heritage, consumer durables), and savings for future investment.

Low-income earners with irregular streams of income save in periods of high income to compensate during periods of low income, Liquid deposit facilities or overdraft credit facilities could provide sufficient margins for decisions on the timing of consumption and investment. Motives for wealth accumulation focus on safety and interest rates while motives for future investments require security and immediate access to funds in the event that an investment opportunity suddenly arises (Fiebig, Hannig, & Wisniwski, 1999).

Low income households are induced to save when income streams are higher than consumption levels. Successful mobilization of institutional savings can only be ensued by the existence of demand-driven savings products offered by appropriate institutional structures. A broader understanding of the savings decisions of rural household has shown that appropriate supply can attract significant volumes of savings. Furthermore a much larger number of clients can be reached through savings mobilization than through credit granting. Micro savings have strong gender implications. Experience indicates that women are very reliable microfinance clients, demonstrating more discipline than men in making regular savings deposits and loan repayments (Ardene, 2001; Goetz & Gupta, 2003). An adequate supply of micro savings facilities will therefore supply much-needed services to women, especially considering the fact that women represent a large share of the poorest segments of the population and often pursue independent economic activities. Micro savings enable women to enter the financial system by building their own financial security. While this strengthens women's economic and social independence, it is also widely recognized that funds managed by women have greater effect on welfare of the entire family. Even appropriate and trustworthy institutional arrangements will fail to mobilize savings if enabling macroeconomic environment does not exist. The lack of political and macroeconomic stability and unsuitable legal and regulatory conditions discourage institutional savings. In countries where political distress, inflation and discretionary government interventions into the financial systems prevail, household may prefer informal especially in-kind savings options.

A study by Browning and Lusardi (1996) states that three factors were found to be determinants of savings behavaiour of households in Africa. One of these was the ability to save which in turn depends on a household disposable income and expenditure. The second was the propensity or willingness to save as influenced by socio- cultural and economic factors like the family obligation to educate children. The third one was the opportunity to save and returns on savings. In the same study by these two scholars, they revealed that high cost of living and social responsibility of rural respondents and urban households was responsible for not saving. Besides, they found out that family size affect savings in a negative form i.e. people with large families do rarely save compared to those with small families. Furthermore it was also found that landholding strongly influences the rate of total saving, since the size of landholding influences income and income influences savings positively. Accessibility to the financial institutions is an important factor in the promotion of savings. When financial institutions such as banks, cooperative societies, credit unions etc. are opened near market centres and operate at convenient hours, rural people opt to institutionalize their surpluses (Tesfamarian, 2012).

According to Robinson (2004), major determinants of savings include the transaction costs incurred on transforming available surplus into specific savings option or on liquidating it and the liquidity of the savings option. Vogel and Burkett (2006) and Bouman (2004) also identified real interest rate, safety of savings, trustworthiness and confidence on the saving mechanism, especially when formal savings accounts are considered and possibility of using savings to gain access to credit. In new development economics, transactions costs are considered to be of substantial interest for development finance. Transaction costs of savings on client side include the number of visit required to complete a transaction and the time spent traveling to the intermediary and completing the transaction. Geographical proximity plays a major role. Empirical evidence indicates that an increased bank density encourages higher volume of institutional savings as bank agencies get close to their customers. Transaction cost for depositors are increased by extensive paper work and regulations on the withdrawal of funds. Some MFIs limit access to deposit to ensure a stable capital base and instill a spirit of thriftiness, and some even block savings. Transaction costs play a very important role in individuals' decision to deposit their savings (Otero, 2009; Vogel & Burkett, 2006). Within the portfolio decision of saver, the return is closely linked to transaction costs. A seemingly positive real rate of return may turn negative for the individual when the transaction costs are considered. High transaction costs can therefore encourage in-kind savings rather institutional savings. Thus collecting deposits at door step of the customer reduces the customers' transaction costs and may lead to an increased volume of savings.

Authors like Rogg (2000) and Sauneroynina (2005) emphasize the predominance of positive real interest rates as determinants in the monetary savings portfolios decisions. Empirical evidence from various ethnic groups and countries has shown that savers, poor and non-poor respond positively to increased interest rates. Anecdotal evidence from informal savings mechanisms, however has suggested that people will save even in the presence of negative real interest rates. Poor rural savers may show less relative sensitivity to positive real return than urban savers. This indicates that for the rural poor, different factors may be decisive. Desui and Mellor (2003) in an empirical study concluded that response of savings to interest rate is inelastic, and that non price factors such as household size and dependency ratio were more influential in determining the savings rate.

Gadway and O'Donnell (1996) have argued that poor savers mainly demand safe and liquid assets. They point out that the prevailing investment of surplus in illiquid assets (in-kind savings) is an expression of limited set of savings options the poor can choose from. In general, informal savings mechanisms are characterized by limited liquidity and divisibility or as Gadway and O'Donnell put it: "You can't sell half a cow". Under such conditions, immediate liquidity is often provided by credit rather than by savings products if relative prices benefit the former.

## 2.2 Cooperatives and Nature of Savings

Many development organizations and donor agencies have long recognized the importance of savings mobilization by revising their financial market development strategy (World Bank, 2008). Member owned institutions such as cooperative can be viable means to serve remote areas in terms of savings mobilization particularly if costs are kept low and good governance practiced. Multipurpose cooperatives that are well connected to formal financial institutions may be used to provide services to families in remote areas. By offering savings services, cooperatives promote greater member loyalty and loan repayment discipline, thus reducing the institution and cost of funds and on lending and overall transaction costs (Desai & Mellor, 2003).

Chao-Beroff (2003) showed that the rural poor generally have informal savings and other mechanisms to help mitigate some shocks. However, savings mechanisms to help build assets generally do not exist due to two reasons. *Firstly*, lack of incentive for institutions. *Secondly*, lack of demand because of inflexible and inconvenient deposit product (Chao-Bernoff, 2003; Wright, 2003).

One major type of cooperative that performs savings mobilization function is the thrift and loan cooperative society. Thrift and loan cooperative are essentially interest groups that are homogenous in nature and constitute membership of 10 or more people with a common interest to save and obtain loans in a group for which they seek to afford members the opportunity to learn to manage their own resources, thereby, improving their economic and social conditions. Thrift and loan cooperatives are formed among close associates with the aim of encouraging them to make some savings for the future. They are formal in nature, owned, controlled, used and democratically governed by members themselves. Its purpose is to encourage savings among members and using the pooled funds to make loans to its members at reasonable rates of interest, and providing related financial services to enable members improve their economic and social conditions. One peculiar feature about the thrift and loan cooperative is that they are essentially "not for profit" and definitely "not for charity either but for service to members".

Important characteristics of thrift and loan cooperative include open membership, sharing of common vision, democratic control and joint ownership. Members share a common vision, driven by a common field of or need for savings and credit. The major focus of group members is improving household food security and income and act as the starting point for its formation and also as basis for developing a common vision. The thrift and loan cooperative provide the basis for delivery of cost effective financial linkages for individual members" benefits through group security. Usually, every member is disposed to obtain loan from the society. Nwankwo (1994) reported that the role of credit cooperatives is often assessed with respect to trends of collected savings deposits, membership size, cost of mobilizing savings and local use of mobilized funds. Credit cooperative, Nwankwo (1994) continued is commonly found among artisans, farmers traders in rural areas and salary /wage earners in government and private establishments.

Ndifon, Agube, and Odok (2012) are of the opinion that the importance of cooperative societies arises from the fact the rural poor are not properly served by formal institution agencies. Cooperative societies also assume importance in view of the fact that money lenders subject the rural poor to severe exploitation by charging high interest. By forming into cooperative the rural poor can get over these two problems. In as much as the poor borrow and repay money to banks as a group the cost of lending decreases. Since the members of the cooperative groups are of homogenous economic class and since peer monitoring is the rule in the groups, loan advances are prompt. This makes cooperative group sustainable and the ever increasing number of cooperative societies has much to do with this fact

Family life cycle of a cooperative member is considered by many scholars as an important determinant of his savings behavior. Traditionally the life cycle, illustrates a progression of stages through which families pass; it comprises stages, starting from bachelorhood (single), to married (couple), to family growth (parenthood: birth of children), to family contraction (grown up children leaving home for studies or employment) to post parenthood (all children leaving home) to dissolution (single survivor: death of one of the spouses). It refers to as a series of stages through which most families' progress, with varying characteristics across various stages; these characteristics relate to marital status, size of the family, the age profile of the family members (focusing on the age of the oldest and/or youngest child), the employment status of the head of household, the income level and the disposable income at hand. These stated characteristics have significant impact of the savings behaviour of members of FMCS (Loudon & Bitta Della, 2002; Peter & Olson, 2005; Schiffman & Kanuk, 2004).

A cooperative member life cycle can be otherwise referred to as the age of members of cooperatives, that is, young adult members, middle age members and old adult members. These age classifications have a huge influence on members' savings behaviour. In a holistic view, Schultz (2004) citing Modigliani and Brumburg (1954) assume their life cycle model that individuals maximize lifetime utility by allocating lifetime discounted income to consumption in various periods of the life cycle by using capital markets, to equalize the discounted marginal utility of consumption in each period, assuming diminishing marginal utility of consumption in each period. The scholars further postulate that there are no children in the life cycle model; the individual enters the model as an adult at the beginning of the earnings span and receives utility only from present and prospective consumption and from assets.

In recent times, emphasis has been placed on the cooperative member household characteristics as having strong influence. Household characteristics is a general term that includes details of household members such as number of household members, household composition, marital status of household members, number of children in a household by age, and total and grouped total household income. Household composition classifies households according to the relationships between usually resident people. The classification is based on how many and what type(s) of family nuclei were present in a household, and whether or not there were related or unrelated people present. Lerner (2011) observed that socio-economic characteristics of households that influence savings pattern of a cooperative member include literacy level, family size, sex ratio, dependency level, age of households, size of land holdings, building, equipment, income and quality/quantity of available resources.

## 2.3 Co-operative Enterprise as a Business Model

The concept of a 'business model' first emerged in the 1950s. However, it really came to prominence within the academic literature in the 1990s. Four primary elements are generally understood to comprise a business model (Johnson, Christensen, & Kagermann, 2008). The first of these is the 'consumer value proposition' (CVP) that seeks to address the specific value or benefits that the business model is to offer via its products or services. It requires a good understanding of the target market and customer characteristics. The second element is the 'profit formula', which is how the business will generate profits while also remaining competitive on price. The third element comprises the 'key resources' that the business will require in order to deliver its CVP, and the fourth element encompasses the 'key processes' that the business will employ to help it deliver the CVP. This can include the rules, polices and key performance measures as well as the firm's culture. These four elements are in-turn built on a foundation of 'building blocks' that deal with the specifics of how the product, profit formula, resources and processes are configured (Johnson, Christensen, & Kagermann, 2008).

It should be noted that the co-operative has quite a different value proposition of the IOF as well as a dissimilar treatment of costs and profits. While the IOF is designed to maximize profits and returns to shareholders, the co-operative has multiple aims associated with its business model that are not entirely economic. There are three conditions which must exist to ensure the success of a co-operative; i) the purpose of the co-operative is central to the members; ii) the governance structure ensures patronage remains cohesive; and iii) the operating system finds competitive advantage in the relationship with members (Birchall, 2011). A key starting point for understanding a co-operative business model is its ‘purpose’ from which a ‘member value propositions’ (MVP) needs to be developed. These elements replace the more common product and customer value proposition of conventional IOF business models. The other elements of the model comprise the ‘profit formula’, ‘key resources’ and ‘key processes’, which are treated in a similar manner to conventional IOF business models.

However, there are some significant differences in how a co-operative would approach its revenue model, as well as its value chain management with members as suppliers/customers. This is due to the nature of the co-operative as more of a strategic network than a conventional supply chain system (Garcia-Perez & Garcia-Martinez, 2007). It also relates to a member welfare maximizing strategy as opposed to a profit maximizing strategy. The core competencies, board structures, team structure and approach to alliances and partnering are also different in co-operatives. While the typical boards comprise of a mix of major shareholders, corporate managers and independent outsiders, the co-operative is often characterized by member-patrons with experience of their own business, but less strategic expertise in the management of a larger entity (Condon, 1987). Co-operative boards also face three key tensions: i) the need to represent the interests of members while protecting the co-operative; ii) to see the co-operative thrive and grow; and iii) to support management while controlling the co- operative (Cornforth, 2004). The professional development of co-operative board members is therefore important to ameliorate these challenges (Campbell, 2004). In addition, there must be careful selection of senior executives within the co-operative, particularly the Board Chairman. For example, a study of French worker co-operatives found three types of Chairman; i) ‘mountain climbers’, who grew up from within the co-operative; ii) ‘helicopters’, who came in over the top of the ‘mountain climbers’, but from within the co- operative via a fast-track promotion; and iii) ‘parachutists’, who were brought into the role from outside the co- operative (Bataille-Chedotel & Huntzinger, 2004). Those who grew up within the co-operative were found to have greater capacity to engender the trust of the Board than those brought in from outside.

## 2.4 Theoretical Framework

The paper is anchored on the push-pull theory. The theory clarifies the distinction between motives and incentives that propel people to adopt or refuse to adopt a behavior. It stipulates that some factors keep people from accepting a new way which he referred to as pull factors. There are also factors that encourage people to seek changes which are referred to as push factors. Motivated behavior results from a person as he/she is pushed or pulled towards an end state. Some rural households refuse saving with cooperative because of biological and psychological issues rooted in fear and disgust while others accepted to save with cooperatives because of the environmental prospects and incentives such as goals to achieve, education and network they intend to build or belong. This theory is relevant because it explains why some people save with cooperatives and why some people do not. People who save with cooperative have strong incentive and believe that cooperative platform will enable them reach their desired state. People who do not save with cooperative also have some pull factors such as mistrust, poor awareness and prejudice that hold them back from patronizing cooperatives.

## 2.5 Empirical Review

Literature on savings behavior is filled with empirical evidences about the role of cooperatives in influencing savings pattern. Sebattu (2012) in his study addressed the impact of savings and credit cooperatives on the income and family living conditions of members in Ethiopia. According to his findings, there was significant and positive correlation between years of stay in the cooperative, size of loan, and number of times loan availed and profit from economic activities, while the variable savings has significant negative correlation with the profit.

The result of the study conducted by Degu (2007) indicated that socio economic variables such as age, family size, dependency ratio, resource ownership and expenditure pattern affects the decision of household savings significantly. Similarly, Shittu (2012) found that age of the household head had a negative coefficient, which implied that the higher the age the smaller amount of savings in south western Nigeria.

Other variables, such as Household size (Rehman, Bashir, & Faridi, 2011) and the dependency ratio (Chhoedup, 2013; Unny, 2004) showed a negative relationship with household savings. Education of the household head (Shittu, 2012; Teshome, Kassa, Emana, & Haji, 2013) showed a positive impact on household savings.

Malapit (2009) studied the determinants of household pooling within households in Thailand and found out that savings had a significant positive increase with age, but tended to decline when the age crosses a certain limit, a finding consistent with the life cycle hypothesis.

Chhoedup (2013) examined the determinants of household savings and testing the life cycle hypothesis, where age was considered and found it to be significantly reduced. The result showed the coefficient of age to be significantly positive, as well as age square to be significantly negatively associated with household savings in Bhutan.

Nwankwo, Ewuim, and Asoya (2013) carried out a study on effect of cooperatives on the savings behavior of members in Oyi Local Government Area of Anambra State using data of 195 randomly selected members of credit cooperatives. Analysis of data was with descriptive statistical tools such as mean, tables, and frequency counts and multiple regression models. The results of the findings show that cooperative membership impacted positively on savings behavior of members, older members had more savings than newer members and that length of membership in cooperative was found to be important determinant of savings.

## 3. Design and Methodology

The study utilizes the ex-post facto research design. The study relied on secondary data sources; obtained from the financial reports of three (3) multipurpose cooperative and co-operative thrift and credit societies. The cooperative societies are as follows: University Workers (Awka) Multipurpose Co-operative Society Limited, Great Empire (Awka) Cooperative Thrift and Credit Society Limited, and National Museum (Enugu) Co-operative Thrift and Credit Society Limited. The data were extracted from the Statement of Financial Position and Income Statement of the cooperative societies.

## 4. Data Presentation and Results

### 4.1 Extract from Financial Reports of the Cooperative Societies

The following data were obtained from the financial statements of the cooperative societies for the years 2016 and 2015. They are shown below as follows:

**Table 1: University Workers Multipurpose Co-operative Society Limited Financial Statements**

| Result of Operations for the Year | | |
|---|---|---|
| | **2018** | **2017** |
| **Gross Earnings** | **N'000** | **N'000** |
| Interest from loans | 281,115 | 234,944 |
| Interest from money market | 15,143 | 283 |
| Trading Income | 65,540 | 23,236 |
| Other income | 21,376 | 6,291 |
| **Total Earnings** | **383,174** | **264,754** |
| **Less Costs** | | |
| Cash Administrative Expenses | (35,823) | (20,583) |
| Non-cash Administrative Expenses | (13,754) | (9,154) |
| **Profit Before Cost of Funds** | **333,597** | **235,017** |
| Cost of Fund | (244,332) | (153,786) |
| **Net Profit** | **79,265** | **81,231** |
| **FINANCIAL POSITION AS AT DECEMBER 31, 2018** | | |
| | **2018** | **2017** |
| | **N'000** | **N'000** |
| **Non-Current Assets** | | |
| Property, Plant & Equipment | 125,006 | 90,277 |
| Loan to members | 1,904,491 | 1,586,296 |
| **Sub Total** | **2,029,497** | **1,676,573** |
| **Current Assets** | | |
| Bank balances | 500,013 | 226,717 |
| Trade Debtors | 401,738 | 185,932 |
| Unremitted collections-UNIZIK | 54,399 | 576,749 |
| Inventories | 297,663 | 174,936 |
| **Sub Total** | **1,253,813** | **1,164,334** |
| **Total** | **3,283,310** | **2,840,907** |
| **Current Liabilities** | | |
| Refundable Members Deposits | 2,819,799 | 2,424,009 |
| Creditors & Accrued Expenses | 3,680 | 56,829 |
| Provisions | 329,831 | 238,785 |
| **Sub Total** | **3,153,310** | **2,719,623** |
| **Shareholders' Funds** | | |
| Share Capital | 3,255 | 22,271 |
| Reserves | 126,745 | 99,013 |

Source: Annual Reports and Accounts, 2017 and 2018.

**Table 2: Great Empire Cooperative Thrift and Credit Society Limited Trading, Profit and Loss Account**

| | 2015 | | | | 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| **ITEM** | **DR** | **K** | **CR** | **K** | **DR** | **K** | **CR** | **K** |
| Opening stock | = | = | | | | = | | |
| Purchase of Rice | 1,593,500 | = | | | 2,332,200 | = | | |
| Purchase of Oil | - | = | | | 439,000 | = | | |
| Handling charges | - | = | | | - | = | | |
| **Total Purchases** | **1,593,599** | **=** | | | **2,771,200** | **=** | | |
| Sales of Rice | | = | 1,644,500 | = | | = | 2,400,000 | = |
| Sales of Oil | | = | - | = | - | = | 457,900 | = |
| Closing Stock | - | = | - | = | - | = | - | = |
| **Gross Profit** | **51,000** | **=** | **-** | **=** | **86,700** | **=** | **-** | **=** |
| Gross Profit | | | 51,000 | = | | | 86,700 | |
| Entrance fee | | | 6,000 | = | | | 3,000 | |
| Bank Interest | | | 48,425 | 45 | | | 83,461 | 69 |
| Loan Interest Received | | | 2,843,366 | = | | | 3,926,592 | = |
| Sales of Loan forms | | | 6,100 | = | | | 4,550 | = |
| Fine | | | 200 | = | | | - | = |
| Hiring of seat | | | 800 | = | | | - | = |
| **TOTAL INCOME** | | | **2,955,891** | **45** | | | **4,104,303** | **69** |
| Annual Supervision fee (ASF) | 250 | = | | | 250 | = | | |
| Bank Charges | 123,095 | 13 | | | 133,614 | 38 | | |
| VAT | 5,969 | 28 | | | 2,921 | 52 | | |
| Transport | 14,500 | = | | | 14,590 | = | | |
| Stationery | 24,290 | = | | | 47,150 | = | | |
| Wages | 50,000 | = | | | 50,000 | = | | |
| Entertainment | 170,040 | = | | | 86,500 | = | | |
| With Holding Tax | 4,842 | = | | | 8,346 | 17 | | |
| Photocopies/\Typing | 6,400 | = | | | 11,250 | = | | |
| Phone calls | 100 | = | | | - | = | | |
| AGM expenses | - | = | | | 18,000 | = | | |
| 2 ½ % Int. on Ordinary savings | 941,653 | 60 | | | 1,041,009 | 73 | | |
| Depreciation @ 10% | 7,595 | - | | | 1,585 | = | | |
| Public Relation | 11,000 | = | | | 10,000 | = | | |
| Purchase of Co.op Bye laws | - | = | | | 500 | = | | |
| **TOTAL EXPENSES** | **1,359,735** | **57** | | | **1,425,716** | **80** | | |
| **NET PROFIT ( A – B)** | **1,596,155** | **88** | | | **2,678,586** | **89** | | |

Source: Annual Reports and Accounts, 2015 and 2016.

**Table 3: Great Empire Cooperative Thrift and Credit Society Limited Balance Sheet**

| | 2015 | | | | 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| **LIABILITIES:** | **DR** | **K** | **CR** | **K** | **DR** | **K** | **CR** | **K** |
| Ordinary savings | 37,666,144 | = | | | 41,640,389 | = | | |
| Special savings | 2,470,580 | = | | | 2,372,745 | = | | |
| Reserve fund | 1,023,670 | 65 | | | 1,023,670 | 65 | | |
| Education fund | 61,823 | 30 | | | 71,438 | 90 | | |
| General reserve | 4,943 | **43** | | | 8,160 | **83** | | |
| 2½ % Int. on Ordinary savings | 941,653 | 60 | | | 1,041,009 | 73 | | |
| Interest on Ordinary savings (unpaid) | 43 | 13 | | | 49 | 61 | | |
| **NET PROFIT** | **1,596,155** | **88** | | | **2,678,586** | **89** | | |
| **TOTAL** | **43,765,013** | **99** | | | **48,836,050** | **61** | | |
| **ASSETS:** | **DR** | **K** | **CR** | **K** | **DR** | **K** | **CR** | **K** |
| Cash in Hand | 11,709 | = | | | 82,769 | = | | |
| Cash at Bank | 6,490,347 | 79 | | | 4,481,577 | 41 | | |
| Debtors on Rice/Oil 2014/2015 | 367,500 | = | | | 204,955 | = | | |
| Debtors on Rice/ Oil 2015/2016 | 1,644,500 | = | | | 457,900 | = | | |
| Loan to EFA Ltd | 20,000 | **=** | | | 20,000 | **=** | | |
| Loan to Welfare | 44,000 | = | | | 44,000 | = | | |
| Shares in ECFA | 10,000 | = | | | 10,000 | = | | |
| Members Loan | 35,168,287 | 20 | | | 40,860,754 | 20 | | |
| Steel Cabinet | 4,750 | = | | | 4,275 | = | | |
| Soft loan | - | - | | | 252,000 | = | | |
| Wheel Barrow | - | = | | | 15,000 | = | | |
| Utensils | 1,420 | = | | | 710 | = | | |
| Tray | 2000 | = | | | 1,600 | = | | |
| Shares in Secondary | 500 | = | | | 500 | = | | |
| Closing Stock | - | = | | | - | - | | |
| **TOTAL** | **43,765,013** | **99** | | | **48,836,050** | **61** | | |

Source: Annual Reports and Accounts, 2015 and 2016.

**Table 4: National Museum (Enugu) Co-operative Thrift and Credit Society Limited Financial Statements**

| **Income Statement** | | |
|---|---|---|
| | **2017** | **2016** |
| | **N(Millions)** | **N(Millions)** |
| **Income & Expenditure** | | |
| Income from loan interest | 234.94 | 243.23 |
| Income from trading | 23.24 | 5.90 |
| Income from other sources | 6.57 | 11.61 |
| **Total Income** | 264.75 | **260.74** |
| | | |
| **Less** Cost of funds | (153.79) | (152.01) |
| Operating Costs | (29.74) | (28.15) |
| **Net Profit** | **81.23** | **80.57** |
| | | |
| **Balance Sheet** | | |
| | **2017** | **2016** |
| | **N(Millions)** | **N(Millions)** |
| Assets | | |
| Office Complex under const. | 85.39 | 64.86 |
| Ptjer Foxed Assets | 4.89 | 0.24 |
| Loans to members | 1,586.30 | 1,427.67 |
| Trade Debtors | 185.09 | 114.19 |
| Outstanding remittances | 576.75 | 658.15 |
| Other Assets | 401.49 | 184.06 |
| **Total Assets** | **2,840.91** | **2.449.16** |
| | | |
| **Liabilities** | | |
| Deposits | 2,424.01 | 2,041.19 |
| Other Current liabilities | 295.61 | 335.45 |
| **Total Current Liabilities** | **2,719.62** | **2,376.64** |
| | | |
| **Shareholders' Fund** | | |
| Share Capital | 22.27 | 3.02 |
| Reserves | 99.01 | 69.51 |
| **Total Shareholders' fund** | **121.29** | **72.53** |
| **Total Liabilities** | **2,840.91** | **2,449.16** |
| | | |
| **Returns** | | |
| Cost of funds | 7% pa | **8% pa** |
| Dividend | N1,823.69 | **N13,353.25** |

Source: Annual Reports and Accounts, 2016 and 2017.

## 4.2 Discussion of Findings

This finding confirms the assertion made in Nwankwo, Ewuim, and Asoya (2013) that cooperative societies play significant role in savings mobilization. Indeed, cooperative inculcate financial discipline and literacy into their members as well as provide convenient and easy avenue for savings. Another study by Echukwu (2009) conducted in Idah Local Government Area of Kogi State with data from women credit cooperatives also revealed that the members of such cooperative societies were economically empowered via activities of the cooperatives, in terms of improvement in their savings behaviour and access to credit.

Gadway and O'Donnell (1996) observed that cooperatives do not only provide easy outlet for savings but also influence attitude towards thrifting and savings. Co-operative membership stood out as a significant determinant of savings. As Schultz (2004) observed, cooperative influence savings pattern of members and also influence the neighborhood where they exist with financial literacy and discipline. Cooperative societies owing to its nature and method of operation enable people who were unable to save to have savings. As Degu (2007) observed, groups like cooperatives propel people who would ordinarily be unable to save to develop savings habit. Chhoedup (2013) observed that only age, dependency ratio and income level had significant effect on savings but this model in line with Robinson (2004) has reiterated the critical contributions of cooperative as determinant of savings.

## 5. Conclusion and Recommendations

Cooperative societies have the potential to influence savings behavior of members positively. Their influence in increasing the amount of savings of members, inculcating financial discipline, imparting financial knowledge, providing avenue to earn dividend and provision of savings outlet that are affordable, convenient and simple cannot be ignored. People who joined cooperatives have more stable savings habit compared to others who do not. Cooperative membership is therefore a significant determinant of saving and occupies a critical position in influencing people's savings culture. It is recommended that indeed, this increasing role of cooperatives in savings as economic diversification, growth and development, need to be acknowledged and maximized, since cooperative societies play significant role in influencing savings pattern of people both in rural and urban areas.

There is the need for continuous and more awareness about the benefits of cooperatives as well as encourage workers and others especially in rural areas to join cooperatives so that they will benefit from improved financial discipline, financial education, ability to thrift and opportunity to earn dividend. There is the need to strengthen co-operatives on trainings in order to play effective role in mobilizing savings and in influencing savings behavior of people. Co-operative apexes should take up the responsibility of increasing more awareness and capacities of cooperatives that operate in their jurisdiction. Cooperative societies should be seen as critical partner in economic growth and development. Stronger collaboration between conventional financial institutions and co-operatives should be explored so that more synergistic relationship can be established.

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