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CONTRIBUTIONS OF INFORMAL SAVINGS AND CREDIT INSTITUTIONS TO RURAL DEVELOPMENT: EVIDENCE FROM IFEDAPO COOPERATIVE MULTIPURPOSE SOCIETY

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Abstract

The study examined the contribution of Ifedapo Cooperative Multipurpose Society to the rural development of Ikare Akoko and its environ. A set of data covering period 2003 – 2007 was collected on the activities of the cooperative society and those of the members. The data were analyzed to determine the savings mobilization capacity, employment generation and social integration of members. The study revealed that the cooperative society is one of the components of the bedrock of rural development in the area. This is reflected in the business financing, wealth creation and employment generation for members and non members in the community. The study also revealed, that the cooperative society also promotes social and integration and gender equality.

Introduction

Cooperative movement, all over the world has been contributing immensely to the development of the economy. In Nigeria, it is a people centred voluntary association of persons united to meet their economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprises (COPAC, 1999). Cooperatives principles and values involve self-help, self-responsibility, democracy, equality, equity, solidarity and social responsibility. All these principles are necessary for the development of the developing economy, most especially in Nigeria where the financial market is inefficient (Rahji 2000).

In Nigeria, where rural poor have little or no access to formal credit, cooperative societies constitute the most widespread indigenous savings and credit association in which members pool their individual resources and have access to credit on favourable terms (Okorie and Miller, 1976, Nweze, 1991). Cooperative movement permits large resources mobilization and it acts as a catalyst for local entrepreneurial growth. And the accelerative effect of the indigenous entrepreneurs cannot be over-emphasized in achieving macro-economic objectives in any country. Indigenous enterprises play significant role in income distribution, development of local technology, stimulation of indigenous entrepreneurship, reduction of rural-urban migration, support and linkage of the entire industrial sector. Cooperative societies usually assure stability within local communities. This induces further entrepreneurial expansion (UN 1996).

In spite of the significance of the cooperative societies, the government in Nigeria does not harness their full potentials (Nweze, 1991). Kropp et al., (1989) posit that cooperative system has not attracted much attention due to the wrong notion that the rural households have no workable traditional sources of credit except from usurious moneylenders. However, the volume of savings does not provide sufficient credit to many cooperative societies members. It means the cooperative societies must not be allowed to operate completely outside the formal financial sector if they are to be relied upon for rural development. There is a need to find out whether cooperative societies have actually assisted the members to improve their businesses. If the cooperative societies have not performed creditably well, what could be responsible for this? Suffice it to say that there is a need for empirical evidence of the significant contribution of these cooperative societies to the members in particular and the economy as a whole.

This study will examine the enterprise creation and employment generation capacity of a society – Ifedapo Cooperative Multipurpose Society together with savings mobilization potentials and social integration impact on the members. Structurally, the study is divided into

four parts, part one is on introduction, part two gives conceptual framework, part three gives methodology, part four discusses data and collection method, part five explains empirical results and part six gives conclusion.

2. Conceptual Framework

Financial institutions and capital market are mainly the financial intermediaries in any economy. Financial institutions can be divided into formal and informal banking. The informal banking institutions include credit and savings associations and self-help organizations while formal banking institutions include commercial banks and other development banks, Anao (1980). The main function of an efficient financial system is to intermediate in the mobilization of investible funds from the surplus sector to the deficit sector of the economy (Oloyede, 1998).

The theory of financial intermediaries hinges on the nexus between the prospective borrowers and savers. In a developed economy the financial intermediaries act as middlemen between the borrowers and savers. They provide means of transferring funds from savers to borrowers (Donald, 2000). Suffice it to say that the impact of the cooperative movement is significant. The limited nations estimated that the cooperative enterprises have been able to secure the livelihood of about 3 billion jobs for over 800 million individual members. Economically cooperative enterprises are also significant in providing foodstuffs and other services to consumers in a large number of countries (COPAC 1999). This assertion is manifested by the share of market in commodities in some countries. For example in Cote d' Ivoire, the cooperative enterprises are responsible for 77 percent of cotton production (ACI, 1999), agricultural Cooperatives are the largest producers of fruits and vegetables for the national market. (Gawigawen, 1998) reported that the contribution of cooperatives to Gross Domestic Product in Philippines was 16 percent. In Demark, they were responsible for 94 percent of milk processing, 69 percent of farm supplies and 66 percent of cattle slaughtering.

Branligan (1991), in his study discovered that 50 percent of the small businesses surveyed could not receive external finance while 77 percent indicated that lack of access to financial resources was their major problem. He reported that more than 80 percent of the Small and Medium Scale Enterprises (SMEs) surveyed found it difficult to access funds at the formal financial institutions due to stringent credit policies. In Nigeria, SMEs have over the years relied on self-financing institutions. Most studies have not focused on the activities of self-help organizations, - especially cooperative societies in Nigeria. This study intends to bridge this gap. The study will investigate whether Cooperative Societies have been able to address the financial needs of the members.

3. Methodology

The study was carried out in Akoko North East Local Government in Ondo State of Nigeria. Farming is an important economic activity in this area but most farmers engage in some non-farm activities to augment their farming income. The cooperative societies in the Akoko region operate under one umbrella known as Ifedapo Cooperative Multipurpose Society (ICMS). It is characterized by formal organizational framework even though it is informal in outlook. ICMS was founded and registered on January 6, 1996. It started with 70 members. Eleven years later the members grew to 503, who were committed to savings mobilization. The society has appointed manager, secretary and treasurer as the top management. Within this period about 10 members had more than 20 hectares of plantation while 5 of them established 5 palm oil/kernel processing plants. Some benefited from the savings mobilization and credit provision to purchase vehicles and for personal buildings. The management of ICMS maintains proper books of accounts and records and prepares financial statements and report at the end of every year.

4. Sources of Data

This study used time series data for a period of 5 years (2003 – 2007) of ICMS and members' economic activities. Data were collected

on savings habit of members, loans demand and amount disbursed, developmental projects executed by societies and individual members and employment generating and wealth creation capacities of project. Data on members; savings habit, loan request and amount disbursed were obtained from books of account and records of the union, while information on employment generation and the asset acquisition status of members were obtained through a well-structured, closed-ended questionnaire administered by the investigators. Out of the total number of 503 members a sample of 400 members were selected for the study representing 80 percent of the population. Descriptive statistics was employed to analyse the data collected.

Empirical Results

A common feature of the ICMS was resource mobilization through monthly contribution of cash during meeting days, which usually fall on the last Saturday of every month. The size of contributions ranged between ₦100 – ₦200, ₦250 – ₦500 and ₦550 – ₦1000 for the years 2003, 2004, 2005, 2006, 2007 (see table 1).

Table 1: Savings mobilization by ICMS (2003 – 2007)

Year	Savings	Marginal savings	Percentage change
	₦	₦	%
2003	1,805,000	-	-
2004	1,940,315	135,315	7.5
2005	2,220,770	260,385	13.41
2006	2,890,855	690,155	31.36
2007	2,950,000	59,145	2.01

Source: Field survey 2008.

From the table savings increased progressively by 7.5% and 13.41% between 2003 and 2004, it rose to 31.3 percent in 2006 and 2 percent in 2007. The decline in relative percentage change between 2006 and 2007 might not be unconnected with uncertainty surrounding the election preparation at that time.

Loan disbursed

A total of 480 loans amounting to ₦10,550,876 (respectively 82% of loan demanded) were approved and disbursed between 2003 and 2007.

The lending rate

The lending rate is 1.5% on outstanding balance compared to Microfinance Bank rate of 7%. The total volume of loan given to members is usually 300% of the savings made by members with favourable 3 years repayment period.

But there is gap between loan supply and demand as shown in table 2:

Table 2: Loan Supply and Demand Gap

Year	Loan demand	Loan supply	Excess supply	Short fall
	₦	₦	₦	%
2003	2,140,620	1,864,031	276,589	12.9
2004	256,031	1,934,300	626,014	24.5
2005	2,630,614	2,160,312	470,302	17.9
2006	2,760,302	2,246,021	514,281	18.6
2007	2,823,142	2,346,212	475,130	16.8

Sources: Field Survey, 2008.