

THE ROLE OF COOPERATIVE SOCIETIES ON POVERTY REDUCTION IN NIGERIA

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Abstract

Cooperative societies are a major source of financial assistance to the poor. Their activities are controlled by their members who actively participate in the decision-making process of the society. This study examined the roles played by cooperative societies in alleviating the sufferings of the poor. Twenty (20) cooperative societies in Kaduna and its environs were sampled for the studies. Questionnaires were administered while interviews were conducted to clarify information earlier obtained. The study found that bad leadership practice has negative impact on the cooperative societies abilities to extend credit to members. The study also found that many poor in the society have found joy in their various cooperative societies through access to financial services at low interest rate. The study recommends stiff penalties on management of cooperatives found involved in fraudulent activities.

Keywords: Cooperative Societies, Poverty Reduction, Kaduna and Nigeria

Background to the Study

“Cooperative Credit Societies represent one of the most important sources of financing for the poor people and entrepreneurs in developing countries” (Magill, 1994). This statement is now twenty years old now, and even with all the development banking has experienced, it still remains true. Some authors' state that cooperatives credit unions in some southern regions represent as much as 80% of the microfinance field (Gaboury, Quirion, 2006) and major academics stress their importance for the field. Credit unions are playing an increasingly active role in poverty alleviation today (Amendariz, Monduch, 2005). This is the key issue: not only is the role of cooperative societies important, but it has also been increasingly lately.

Credit unions were born in 19th century Europe and Canada, where they became very successful. From there, they spread all over the world. This included most developing countries, which have experienced major development starting in the 1950's. As far back as 1005, there were more 46,000 credit unions, servicing about 172 million people in 92 countries (WOCCU, statistics, 2006). Of course, not all of them are involved in microfinance, as many of them are active in developed economics. In 2006, it was estimated that Africa, Asia and Latin America had 31,725 credit unions, servicing more than 59 million members. These members are impressive, but their growth is even more striking. In 1996 in Africa, Asia and Latin America, a total of 20,512 credit unions were servicing 16 million members. So, in 10 years, those regions have seen a growth rate of more than 54% in the number of institutions, and more than 265% growth in the number of members (Adams, 1999).

A common denominator for most perceptions of poverty is the notion of lack of economic or biological necessities required for economic or biological survival. It is a multidimensional phenomenon evidenced in poor living standard, mass unemployment, absence of access to health, education, security, insufficient income to meet needs. Poverty is traceable to several causes which include among others corruption, bad governance, debt overhang, unemployment, unformed government policies, increasing population growth, lack of effective skill training and globalization. Psychologically, it can be seen as lack of voice, power, discrimination, lack of respect and it translates to malnutrition and visible hardship. It has rebounding effects and becomes a vicious cycle. (Mbovwo, 1999, (Obadan, 1996).

Attempts at poverty alleviation date back to 1956 with the colonial government's development plans from 1962 to 1985 where emphasis was mostly on developing the agricultural sector. For example, the Operation Feed the Nation and Green Revolution. However, these only had trickle down effects. By 1999 there were about 30 institutions, agencies and programmes aimed at poverty alleviation and while new policies were initiated old ones were reactivated. More recent attempts at poverty alleviation date back to 1986, under the Babangida administration and built upon by the Abacha and Obasanjo administrations. The levels of implementation and achievement have been varied and either have been micro or macro based and it is argued that they have benefited only a few enriching a few while ignoring the poor or increasing hardship for those whom the programmes were drawn up in the first place. Among the programmes policies are the following:

Poverty Alleviation Initiatives' in Nigeria

The government of Nigeria has over the years embarked on several programmes aimed at alleviating the poverty situation of her citizenry. Even before the introduction of Structural Adjustment Programme, government showed concern for poverty alleviation though efforts were indirectly made. For instance, the objectives of the first National Development and improvement of opportunities in health, education, employment and economic development. These objectives if achieved would have led to alleviating the poverty situation of many people in the country even though it was more of a developmental programme. In the same vein, the fourth National plan was geared towards increase in real income of the average citizen as well as the reduction of income inequality among other things (Ogwumike, 1987) during the period there were many programmes that were put in place in Nigeria by the government which had positive effect on poverty alleviation. The problem was that in some of the programmes there was no clear definition of the target group. Example of some of these initiatives are the River Basin Development Authority (RBDA), the Agricultural Development Programme (ADP), the agricultural Credit guarantee scheme (ACGS), the Rural Electrification Scheme (RES).

In as much as these programmes were mostly developmental initiatives, they were designed to take care of employment (generate employment), improving agricultural output and income, and reduce the tide of rural-urban migration. Some of these programmes recorded some level of successes; most of them were not sustained, they failed as a result of the diversion from the original focus. For instance, the Rural Banking and Agricultural Credit Guarantee Scheme failed because its savings that was meant for rural mobilization was diverted to urban areas in form of credits and investments.

The severe economic crisis of the early 1980s made life more difficult for Nigerians; this made the government to come up with programmes that could alleviate the hardship people experienced. In the bid to check the crisis situation, the Nigeria government came up with Structural Adjustment Programme (SAP) 1986 – 1992. The adoption of this programme did not go well with Nigerians hence the need for many other poverty alleviation programmes in Nigeria. Some of these programmes recorded some level of successes though they were sustained as a result of diversion from the original focus and the lack of political will and commitment, (CBN Enugu Zone, 1998). Notable among these programmes is, The National Directorate of Employment (NDE), which was established in 1986 as a main organ for employment creation. Its objective was to design and implement programmes targeted at combating the rising rate of unemployment. The focus was on vocational skill development, special public works, small scale Enterprise, Agricultural employment programmes.

Poverty and Unemployment in Nigeria

High levels of unemployment among the youth in Nigeria; the National Bureau of Statistics (NBS) puts the rate of youth unemployment in Nigeria at 40 million, representing 23.9% in 2011 which represents both personal and societal misfortune. It also means a massive loss of golden opportunity for national economic development. Globally, youth unemployment has a lifelong negative effect on income stability since the weak morale and stunted career growth of young people result in setbacks on the course of their working lives.

The rising increase in unemployment rate among young people calls for genuine concern. According to the International Labour Organization (ILO, 2011) the global unemployment rate rose from 11.8 to 12.7 percent between 2008 and 2009. In the ten years from 1998 to 2008, youth unemployment increased by a total of 0.2 percent or about 100,000 persons per year; but from 2008 to 2009 it increased by 5.3 percent or 4.5 million persons in a single year. By the end of 2010, an estimated 75.8 million people were unemployed (UN "World Youth Report", 2012).

The challenges of youth unemployment are not limited to developing countries. In Spain, for example, a majority of youth (51.4%) were unemployed as of the third quarter of 2011, just as Greece recorded 46.6% of youth unemployment in the same period (OECD, 2011). International Labour Organization (ILO) reports that youth unemployment rate in Portugal was 30.7% and 22% in the United Kingdom at the end of 2011.

In Nigeria, as in other developing countries, high rate of youth unemployment means high number of economically frustrated youths. The resultant effects are not only loss of potential for national economic transformation but also a contribution to social instability. The chairman of the Subsidy Reinvestment and Employment Programme (Sure-P), Kolade (2013), bemoaned the rising rate of unemployment in the country, saying that no fewer than 40 million Nigerian Youths are without jobs.

Poverty in Nigeria

The Dictionary of Modern Economics (1973) defines poverty as: "A condition in which income is insufficient to meet subsistence needs". Odigwe (2002), corroborated the above definition by interpreting subsistence needs to mean basic needs like food, water, shelter, health and basic education.

Olaitan (2005), viewed poverty as: "A situation in which a person has little or no access to income and wealth". Going by this definition, any person with less than a dollar income per day is said to be poor.

From the point of view of World Bank (1997), poverty means: "Human deprivation of economic opportunity, education, health and nutrition, as well as lack of empowerment and security".

The United Nations Development Programme (UNDP) and the Millennium Development Goals viewed poverty from the point of view of human development (Adah, 2007). According to the two International agencies, poverty restricts human development through the restriction of human freedom, dignity and self-respect.

Apart from the restriction of human development, poverty can be manifested in many other ways. Action Aid International Nigeria (2008) highlighted some of the ways and they include the escalation of crises, high crime rate, increased child labour, low literacy and high rate of unemployment. Poverty can also be manifested in poor health, insecurity, noiselessness, low level of income, food insecurity and social exclusion. Aliyu (2001) attributes causes of poverty in Nigeria to include mismanagement of resources, poor economic policies, insufficient infrastructural facilities, poor performance in vital sectors and high foreign debt profile.

Objectives of the Study

This paper represents results from a study on the role of cooperative societies in poverty reduction in Nigeria.

The study specifically sought to:

- (i) Assess the factors limiting cooperative societies abilities to reduce poverty.
- (ii) Assess the roles of cooperative credit societies in poverty reduction.

Theoretical Framework

The theoretical underpinning for this paper is based on Schumpeter's theory of innovation. Schumpeter saw innovation as the real gales of creative destruction that is essential in driving growth and employment rates in a capitalist system. (Badi and Badi, 2008) Schumpeter drew a clear distinction between the entrepreneurs whose innovations gave rise to profitable new enterprises and the bankers who advance credit to finance the creation of new ventures (Schumpeter, 1939). He placed emphasis on the special role of credit creation by financial institutions which he regards as 'the monetary complement of innovation'. As independent agents, cooperative societies are a union who bear all the risks. This demands special skills to judge the potential for success in financing members' businesses that will eventually create employment needed by job seekers. Schumpeter emphasized that it is just as important to deny credit to those lacking that potential as it is to supply credit to those having it (Schumpeter, 1939). Promoting cooperative societies is one of the strategies designed to achieve the broad objective of poverty reduction and employment generation (Sanusi, 2011).

Methodology of the Study

This study made use of both descriptive and econometric analysis. The study adopted purposive and stratified sampling techniques. The cooperative societies operating in Kaduna and Kano states comprised the study population. The total population of the study is 50 cooperative societies made up of 25 each from Kaduna Kano states.

Sources of Data

Both the primary and secondary sources of data were used in this research study. Panel data were collected from the selected cooperative societies in Kaduna and Kano states for a period of five years from 2008 to 2012. Annual cooperative level data was extracted from the loans/advances; savings/deposit registers as well as the balance sheet of the cooperative societies. By studying the repeated cross section of observations, panel data are well suited to study the dynamics of changes.

A survey was conducted to examine the public views on the causes of poverty in Nigeria as well as the roles played by the cooperative societies in poverty reduction. A cross sectional design was used in the study to measure the causes and effects of poverty based on a seven (7) variable responses. The sample for this aspect of the study was made up of 180 respondents (60% individuals and 40% corporate customers). These were selected through random sampling method from customers in Kano and Kaduna states.

The questionnaires were administered to the economically active customers. The data was processed and analyzed using mean statistics according to the variables stated in the study. Decision is based on rating below 0.5 approximated as 0.0 point, while rating equaling or greater than 0.5 is approximated as 1.0 point.

Results and Discussions

The data collected from the questionnaires were presented in tabular forms. The data presented is based on the number of questionnaires that were successfully collected from the respondents. The analysis was based on four point likert rating scale as thus: 4.0 points – strongly agreed, 3.0 points – agreed, 2.0 points – disagree and 1.0 points – strongly disagree.

Table 1: Factors Limiting Cooperative Societies ability to grant credit

S/No.	Limiting Factors	SA	A	D	SD	Mean	Remark
1.	Inadequate access to finance	130	20	5	5	3.71	Agree
2.	Lack of relevant skills	120	20	15	5	3.59	Agree
3.	Lack of information and connections	20	30	30	80	1.93	Disagree
4.	Absence of proper mentorship	30	20	40	40	1.93	Disagree
5.	Absence of Infrastructure	150	8	1	1	3.91	Agree
6.	Lack of experience	120	20	10	10	3.56	Agree
7.	Other socio-economic and political factors	100	40	15	5	3.46	Agree
	Grand Mean					2.88	

Source: Author's Field Survey

From the result in table 1 above, it is clear that respondents were of the view that inadequate access to finance, lack of relevant skills/experience and absence of infrastructure are critical factors limiting cooperative societies to grant credit and reduce poverty. Over 81% of the respondents strongly agree that inadequate access to finance and the absence of a viable credit policy that addresses the specific needs of enterprises is a great hindrance to poverty reduction. Government banking sector reforms including the formation of microfinance banks has not impacted on employment creation.

With over 93% respondents strongly agreeing that absence of infrastructure is a critical factor hindering employment creation by the SMEs, it is clear that beyond rhetoric's attention should be focused on provision of adequate infrastructure. As observed by Nkechi et al (2012), the power sector has proven to be the greatest challenge to any aspiring entrepreneur in Nigeria. Basic infrastructural facilities such as good roads, water, constant power supply and access to information and communication technology are essential for businesses to thrive. In Nigeria, most businesses are run on generating sets with huge costs to the entrepreneur. These huge overhead costs end up eroding the profits generated and by extension limiting the growth potentials of business outfits.

Table 2 paints a disturbing effect of unemployment in Nigeria. Over 80% of the respondents agreed that unemployment results in poverty, frustrations, increased crime and social hazard rates. Increased corruption is also linked to the effects of unemployment.

Aduba (2011) observed that youth restiveness resulting in hostage taking, pipeline vandalization, kidnapping and other criminal activities in Nigeria can be traced to high rate of unemployment. Unemployment in Nigeria is a growing problem that has significant long-term consequences for individuals, societies and the national economy.

Table 2: Prospects in Employment Generation and Poverty Reduction in Nigeria

S/No.	Limiting Factors	SA	A	D	SD	Mean	Remark
		4	3	2	1		
1.	Establishment of new support institutions	10	20	50	80	1.75	Disagree
2.	Establishment of more new universities	20	10	60	70	1.87	Disagree
3.	Strengthening of existing support institutions	100	40	15	5	3.46	Agree
4.	Design specific training programmes in entrepreneurship	80	40	25	15	3.15	Agree
5.	Hasten energy sector reforms	130	20	6	4	3.72	Agree
6.	Establish viable credit societies	110	40	3	7	3.61	Agree
7.	Redesign school curricular	80	40	30	10	3.18	Agree
	Grand Mean					2.96	

Source: Author's Field Survey

The problem of youth unemployment in Nigeria is not without solutions. Nkechi et al (2012) noted that government fully appreciates the opportunities creates for employment generation. Table 2 above indicates that majority of the respondents (over 80%) were of the view that the establishment of new support institutions and new universities is not necessary for solving unemployment problems in Nigeria. These findings are in agreement with HIIC (2013) who described the Nigerian economy as being too weak to absorb the large number of unemployed youths in Nigeria.

However, over 90% of the respondents agreed that existing support institutions should be strengthened to meet the challenges of youth unemployment in Nigeria. Institutions such as Small and Medium Development Agency (SMEDAN), Small and Medium Industries Equity Investment Scheme (SMEIS) and the Microfinance Banks (MFBs) can be further strengthened to support entrepreneurs and SMEs in Nigeria. They also agreed that establishment of viable cooperatives societies is necessary for poverty alleviation.

Conclusions

From the findings of this study, it is clear that high rate of poverty represent both widespread personal misfortune for individuals and a lost opportunity for critical national economic development. Also, persons who experience extended unemployment in youths are at increased risk for other social pathologies. This is because direct poverty effects on unemployed young people's families include considerable cognitive, health, nutrition and psychological deficits for children raised in poverty.

Poverty is a living condition in which an entity is faced with economic, social, political, cultural and environmental deprivation. It is a state of involuntary deprivation to which a person, household, community or nation can be subjected. None the less, people constitute the central subject in any poverty situation. Rich and poor people cohabited the world from time immemorial but while the number of the poor in the advanced countries of the world has reduced considerably over the years, the reverse is the case in most developing countries. A peaceful co-existence in the world cannot be guaranteed if there is a sharp division of the inhabitants into poor and non-poor. Cooperative societies can play crucial roles in poverty reduction.

Recommendations

From the findings of this study, the following steps will be necessary to reduce poverty in Nigeria.

1. The Federal Government through Directors of Cooperatives in various states should extend grants to cooperative societies.
2. The National Directorate of Employment should be empowered to disburse loans to unemployed graduates.
3. Specific training programmes should be organized in the area of credit administration for operators of cooperative societies.
4. Special recognition in the form of awards should be instituted for cooperative societies that have excelled in savings mobilization and credit disbursement.
5. Erring management members of cooperative societies should be sanctioned to serve as deterrent to others with fraudulent tendencies.

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