



THE ROLE OF COOPERATIVES IN SUSTAINABLE DEVELOPMENT OF THE SMALL AND MEDIUM-SIZED ENTERPRISES (SMEs) SECTOR IN NIGERIA

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Abstract

The paper examined the contributions of cooperative societies to development of the small and medium-sized enterprises (SMEs) in Nigeria. Over 50% of Nigeria's employment is provided by the SME sector. SMEs in Nigeria remain a stronghold of the economy as most productive sectors of the economy are dominated by the SMEs. In spite of the potentials of the SMEs in employment creation and poverty alleviation, funding and management capacity remain major challenges in this sector. Cooperatives have been known globally to promote small business development through funding, provision of entrepreneurial services and promotion of small holder businesses. However, cooperative societies in Nigeria are themselves faced with problems of illiteracy and lack of educational opportunities. This study employed both primary and secondary data to examine the role of cooperatives in Nigeria. Results which were analyzed using statistical means indicate that inadequate finance constitute a major challenge for cooperative and microfinance banks should be empowered by the government to extend financial facilities to the cooperatives.

Keywords: *Cooperatives, Sustainable Development, Small Businesses, Microfinance.*

Background to the Study

Over the last few years, cooperatives have experienced tremendous growth all over the world. Cooperative credit societies are amongst the most important sources of financing for small scale entrepreneurs in developing countries (OECD, 2011). Cooperatives credit unions emerged in 19th Century Europe where their success story spread all over the world. As far back as 2006, there were more than 46,000 credit unions servicing 172 million people in 92 countries of the world (Woccu, statistics, 2006). These figures have more than double by the end of 2013. Although, not all cooperatives are involved in micro financing, it was estimated that Africa, Latin America and Asia had over 31, 725 credit societies with more than 58 million members in 2006. To appreciate the impressive growth rate of cooperatives (credit societies) in Africa, the world council of credit unions (Woccu, 2006) reports that in ten years (between 1996 and 2006) the growth rate was more than 54%. Nigerian economy is dominated by micro entrepreneurs and small/medium scale businesses (SMEs). They provide employment in almost all the sectors of the economy from Agriculture, Manufacturing to Commerce etc. (Kolade, 2013).

Aremu and Adeyemi (2010) traced the history of SMEs in Nigeria to 1946 when the essential paper No. 24 of 1945 was presented (that is, “a ten year plan of development and welfare of Nigeria). Since then, SMEs have attracted significant attention as the seed bed of innovations, invention and employment creation. The federal office of statistics reports that 97% of all businesses in Nigeria are small businesses employing less than 100 employees. The SMEs provide not less than 50% of Nigeria's employment as well as industrial output, thereby serving as lubricant that drives a vibrant and diversified economy (Mahmoud, 2005).

Although, over the years the Nigerian government has designed several initiatives for entrepreneurial development and small business growth, these efforts have yielded very little results. Initiatives like mandatory minimum credit allocation by banks to SMEs, The Agricultural Credit Guarantee Scheme Fund (ACGSF) and The Small and Medium Industries Equity Investment Scheme (SMIEIS) have generally yielded poor results (Ogboru, 2007). This has necessitated the need to identify other institutional arrangement like the cooperatives that could provide a more accepted beneficial result.

Objective of the Study

The objective of the study is to examine the contributions of cooperative societies to development of the small and medium-sized enterprises (SMEs) in Nigeria.

Literature & Conceptual Clarification

A cooperative is defined by the ICA (1995), as “an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise. A cooperative society is viewed by Helms (2005) as an association of persons who voluntarily come together to have a common end through the formation of a democratically controlled enterprise, making equitable contribution to the capital required and accepting a fair share of the risk and benefits of the undertaking. It can be said that cooperatives are based on the values of self-help and responsibility, democratic governance, equality and equity as well as solidarity. Members of cooperative societies believe in the core ethical values of honesty, openness, welfare and care for others as well as social responsibility. As economic enterprises, cooperatives play a useful role in uplifting the socio-economic status of members and local communities. They also operate businesses in major sectors of the economy.

The Nigerian SMEs

The definitions of SMEs differ from country to country. The three factors that are usually considered in the definition of cooperative in many countries are; (i) capital investment on plant and machinery (ii) number of workers employed and (iii) volume of production or business turnover.

In Nigerian, the credit guidelines for financial institutions issued by the Central Bank of Nigeria (CBN, 1990) defined small businesses as those with annual turnover or annual expenditure not exceeding N200,000,000. The levels of employment should also be less than 50 employees for small scale businesses and 100 employees for medium sized businesses. Ogboru (2007) quoting IFC (2002) put the asset base of small scale businesses at less than N1million and medium-sized

businesses at N150million. The SMIES also defined SME as any enterprise having a maximum asset base of N200 million excluding land and working capital. It also prescribed the number of employees at less than 10 or more than 300. Most SMEs in Nigeria are small units, rural based, specialized firms and family-owned.

This paper presents results from a study on the role of cooperatives on the sustainable development of SMEs in Nigeria. The study specifically sought to:

- 1 Assess the role of cooperatives in providing finance to SMEs.
- 2 Assess the role of cooperatives in the provision of infrastructural facilities.

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, 2010).

Methodology of the Study

This study employed both descriptive and statistical analysis. Purposive and stratified sampling techniques were used in this study. Cooperative Societies operating in Kaduna states comprised the study population. Both primary and secondary sources of data were used. Panel data were collected from the selected cooperative societies for a five year period from 2008 to 2012. Annual cooperative level data was extracted from the loans and savings registers as well as the audited financial statements.

A survey was conducted to examine the public views of respondents. The sample for this aspect of the study was made up of 204 respondents. These were selected through random sampling. The questionnaires were administered to economically active members of cooperative societies and operators of SMEs. The data was processed and analyzed using mean statistics in accordance with the variables stated in the study. Decision is based on rating below 0.5 approximated as 0.0 points, while rating equaling or greater than 0.5 is approximated as 1.0 point.

Results and Discussions

The data collected from the questionnaires were collated and presented in tabular form. Analysis was based on four point likert rating scale thus: strongly agreed (4.0 points), agreed (3.0 points), disagree (2.0 points), and strongly disagree (1.0 points).

Table 1: Role of Cooperatives in Providing Finance

| S/No | Statement | Strongly agree (SA) | Agree (A) | Disagree (D) | Strongly disagree (SD) | Mean | Remark |
|------|---|---------------------|-----------|--------------|------------------------|------|--------|
| 1 | Insider dealings have had a negative effect on the ability to extend financial services. | 75 | 68 | 36 | 25 | 51 | SA |
| 2 | Low interest rates on loans motivate applicants. | 71 | 75 | 29 | 29 | 48.5 | A |
| 3 | Electronic innovation have expanded the income generating potentials of the cooperatives. | 65 | 83 | 31 | 25 | 50 | A |
| 4 | Increased advances to SMEs have influenced positively interest based income. | 85 | 91 | 07 | 21 | 52.8 | A |

Source: Authors Field Survey

Results in table 1 above indicate that cooperatives play significant role in the provision of finance. Small enterprises have great difficulty in obtaining capital. This is due to the poor match between their capital needs and the rules in the capital markets. Cooperatives provides the best financing options to the SMEs because of low interest rates on loans as attested to by the respondents. Also increased advances to SMEs increases the income of the cooperatives which further strengthen the societies abilities to provide financial services. This also explains the resolve by some development agencies to channel funds meant for SMEs through cooperatives (Whiteman, 2011).

Table 2: Role of Cooperatives in providing infrastructural facilities

| S/No | Statement | Strongly agree (SA) | Agree (A) | Disagree (D) | Strongly disagree (SD) | Mean | Remark |
|------|--|---------------------|-----------|--------------|------------------------|-------|--------|
| 1 | Inabilities of the SMEs to provide infrastructural facilities have limited SMEs performance. | 46 | 47 | 81 | 30 | 47.75 | D |
| 2 | Cooperatives have had positive effect of enhancing infrastructure and industrialization. | 66 | 74 | 58 | 06 | 52.5 | A |
| 3 | Customer relationship management of the cooperatives have expanded their ability to provide infrastructure | 71 | 78 | 58 | 27 | 52.5 | A |

Source: Authors Field Survey

From the table above, it is clear that respondents are of the view that cooperatives play crucial role in the provision of infrastructural facilities and small scale industrialization. Inadequate infrastructure has been a problem to SMEs in Nigeria. Cooperatives are able to provide facilities by establishing joint production facilities for members with compliments of tools, electricity water supply (boreholes) etc. an international market in Onitsha-Anambra State was established by traders cooperative (HUDMCS) equipped with electricity, access roads, and other facilities (Philip, 2003). Cooperatives are also known to have increasingly promoted and supported manufacturing enterprises such as rice and maize processing mills in Kano and Kaduna respectively. Over 80% of the respondents affirm that cooperative have had positive effects on industrialization. Handicraft and other local art ventures are also receiving considerable assistance from cooperatives in Kaduna and some states in the south east.

Conclusions

From the findings of this study it is evidently clear that cooperatives contribute immensely to the sustainable development of small businesses in Nigeria. Cooperatives are viable vehicles for wealth creation, but they are still faced with myriads of problems. A major setback for cooperatives in Nigeria is poor leadership and management.

In addition, cooperatives emerged from people of limited means who lack the financial muscle to provide adequate capital for their societies. Poor integration of cooperatives especially in the rural areas has been identified as a limiting factor for the sustainability of the societies. In order to reposition the societies for the performance of their expected role in the development process, the following recommendations are essential.

Recommendations

The following steps will be necessary:

- 1 Cooperative societies should always ensure that only persons of high integrity and moral uprightness are elected into management position. This implies that all members should avoid passive attitudes.
- 2 Government should provide matching loans and grants to cooperative societies in order to boost their financial capacity.
- 3 Stronger cooperative societies should support the weaker societies with services such as training in literacy and record keeping.
- 4 Government should provide enabling environment where cooperative education and training will thrive. Most primary societies lack the resources to take advantage of the cooperative programmed in Universities and Polytechnics. Government can encourage this through scholarship schemes.
- 5 Government should provide a supportive policy and legal environment consistent with the nature of cooperatives guided by cooperative values.

- 6 Cooperative societies themselves should enact bye-laws that will protect the democratic character of cooperatives that vest control in its members.
- 7 Enthroning good governance culture of accountability and transparency in cooperative society should not be an option but a must. Punitive measures aimed at preventing and deterring management members from fraudulent and unethical practices should be given due attention.

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