
Financial Linkage between Modern and Traditional Cooperatives with Formal Financial Institutions in the South-East Zone, Nigeria

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Abstract: *The study examined the socio-economic characteristics of members of the cooperatives, pattern of financial linkage between the modern and traditional cooperatives with formal financial institutions and problems encountered in linking the formal financial bodies in fund mobilization. In the South East Zone, Ebonyi and Enugu States were randomly chosen. From the two states, thirty six cooperatives were randomly selected, out of which were 18 modern and 18 traditional. These cooperatives were selected from six agricultural zones of the two states. Thirty six leaders of the associations were purposively selected and 180 members of the cooperatives were sampled in both formal and informal associations. Primary data were collected through the use of questionnaires designed differently for the leaders and members of both forms of the cooperatives. The data were analyzed by using percentage and chi-square (X^2) test. The findings of the study revealed that farmers, civil servants and petty traders dominated the two forms of the cooperatives and majority of these cooperatives were married and had formal education. The study showed that 67.8% traditional and 82.2% of modern cooperatives were dominated by middle aged group (31 - 50 years). The result further showed that the two forms of cooperatives differed in their linkage with formal financial institutions as 100% of modern and 44.4% of traditional cooperatives were linked with banks. Also 70% of modern and 42.2% of traditional cooperatives patronize formal financial institutions. Finance, irregular contribution, lateness and absenteeism to meetings constituted impediment to mobilization of savings. The cooperatives differed significantly in their problems as X^2 -cal (27.33) was greater than X^2 -tab (19.68). The study concludes that government should pass legislation for the promotion of linkage between the formal and informal financial institutions. On the other hand, modern cooperatives should be strengthened by incorporating some existing social mechanism obtainable in traditional associations so as to reduce the financial irregularities prevalent in modern cooperatives.*

Keywords: *Financial linkage, modern and traditional cooperatives.*

I. Introduction

Over 70% of the Nigerian population living in rural areas contributes about 80% of the food produced in this country and many of these small families live in appalling condition of poverty, ill-health, illiteracy and squalor [1]. It is believed that one of the militating factors which keep the peasant families in the pitiable condition is lack of fund or savings by the rural masses. Even the little income that is not spent immediately on consumption is not properly saved.

In the late 70s, rural banking programmes were introduced in order to extend banking services to the rural areas. The aim was to inculcate banking habits among the rural dwellers so that from there the banks can mobilize the savings of the rural inhabitants, but this effort has not yielded the target result.

Though the rural banking scheme witnessed a little expansion during the period, one of the reasons while the banks did not reach the target was because of inadequate patronage of the formal financial bodies by the rural dwellers that still adhere to the system of saving in their different age groups, clubs and other associations. These associations play vital role in mobilizing the members little savings.

The problem here arises that despite the vital functions the informal associations play in rural areas, government has not given proper and adequate recognition to them. The recognition which could be either inform of designing or even implementing a sound policy and programme that could give solid backing to those indigenous associations as was done to rural commercial banks and microfinance banks. On the other hand, not much effort has been known to be made by successive governments as to formulate policies that could link these indigenous associations and other suitable organs of the government. The financial self help groups in rural areas are not even systematically linked to banks and none is eligible for bank loan with the exception of registered cooperative societies [2].

Even the commercial banks that exist in the rural areas hardly carry out campaign for inculcation of banking habits among the rural dwellers because majority of these that patronize the banks are civil servants, pensioners, few elites in the communities and some traders while the bulk of the rural population hardly maintain savings deposit or borrow from the banks [3 and 4].

With this neglect of informal cooperatives by government and its support of the modern cooperatives, it becomes pertinent for the study to address this question. Why do the rural formal financial bodies not meet up with the task of establishing relationships with the rural masses and further more with different organizations in the rural areas? What is the extent of relationship between modern and traditional cooperatives with formal financial institutions?

This study then identified socio-economic characteristics of the members of the cooperatives, the nature and pattern of financial linkages between the two forms of the cooperatives and formal financial institutions. It also examined the obstacles encountered in linking the formal financial bodies and in mobilizing savings in the two forms of the cooperatives.

II. Methodology

South-east of Nigeria was purposively selected for the study because the zone has many cooperative societies. The zone is a progressive zone from cooperative points of view [1]. There are various kinds of cooperatives in the zone which are not common in other zones except in Igbo states.

In order to have a good spread of the respondents in the zone, random sampling technique was used. From the South-East zone that was used for the study, two states were randomly selected, namely Ebonyi and Enugu States. The two states chosen were made up of six agricultural zones – Ebonyi North, Central and South, Enugu East, West and North. From each of the agricultural zone, one L.G.A was randomly selected. These were Ishielu in Ebonyi Central, Ohaukwu in Ebonyi North, Ivo in Ebonyi South, Isi-Uzo in Enugu East, Udi in Enugu West and Igbo-Etita in Enugu North.

From the L.G.As selected, three communities were randomly chosen making it 18 communities. Then from each community of the 18 communities chosen, two cooperatives were randomly selected, one modern and the other traditional. This gave a total of 18 modern and 18 traditional cooperatives making it a ground total of 36 cooperatives used in the study.

For the formal cooperatives in each of the local government drawn, a list/register of the communities and the registered cooperatives was made available by the cooperative officer in charge and from there the random selection was made. For the informal association in each of the communities chosen, traditional cooperatives/groups were randomly drawn from the frame compiled by the secretaries or the village heads of these communities.

In each of the 36 associations, the group leader was purposively selected and with his/her aid, 5 active members of the societies were randomly drawn from each group. This brought the sample size to 180 respondents and the leaders of the cooperatives selected.

Data were obtained through primary sources. Two sets of questionnaires were designed, one for the leaders of the cooperatives and the other for the members of the association. Information sourced from the leaders included types and pattern of financial linkages with formal financial institutions and the problems encountered by these associations. The information from the members was socio-economic characteristics, reasons for banking or not banking with formal financial institutions and problems encountered in the associations. Also officials of formal financial institutions were interviewed orally. The oral interview for the bank officials was made under informal arrangement as it was hard for them to disclose information related to their offices

The data were analysed by using descriptive statistics such as percentage. Ch-square (X^2) statistics was applied to see if problems encountered in the cooperatives, that is indigenous on one hand and modern on the other differed significantly.

The formula is shown below;

$$X^2 = \sum \left(\frac{O - E}{E} \right)^2$$

Where;

\sum = Summation (sign for adding up)

O = Observed frequency

E = corresponding expected frequency.

Chi-square calculated is significant at a given level of X^2 -cal is greater than X^2 -tab.

III Results and Discussion

Socio-economic Characteristics of Members

Table1: Percentage distribution of respondents according to socio-economic characteristics of the members

Variables	Percentage for indigenous cooperatives. N=90	Percentage for modern cooperative. N=90
Age		
21 – 30 years	11.1	2.2
31 – 40 years	38.9	32.2
41 – 50 years	28.9	50.0
51 and above years	21.1	15.6
Education		
No formal education	22.2	8.9
Attended primary school	45.6	48.9
Attended secondary school	22.0	31.1
Attended beyond secondary school	10.0	11.1
Economic activity		
Farming	38.9	35.6
Civil service	12.2	18.9
Teaching	17.8	23.3

Artisan	11.1	10.0
Petty trading	20.0	12.2
Marital Status		
Single	18.9	6.7
Married	72.2	80.0
Widowed	6.7	10.0
Divorced	2.2	3.3

From the table 1 shown above, the result showed that the distribution of members of the cooperatives with regards to age revealed that there was high proportion of middle aged group (31 – 50 years) in both forms of the association as traditional association recorded 67.8% while that of modern group was 82.2% respectively. This showed that belonging to the associations would enable them to be committed and save more, otherwise the money would be spent on conspicuous consumption. The table showed that younger and older people participated more in traditional groups as they had 11.1% and 21.1% informal groups as against 2.2% and 15.6% in formal group respectively. The reason adduced was that entry into traditional group does not need much protocol.

Also majority of the cooperators had formal education (91.1% in modern and 77.6% in traditional groups, respectively). The high percentage of education was that some of the retirees and retrenched civil servants had settled in their different homes and take part in various activities.

On the economic activities, 38.9% of the cooperators were farmers in traditional group while 35.6% were in same profession in modern cooperative. The high proportions of farmers recorded when compared with other professions suggest that agriculture is still the core economic activity of the rural dwellers.

On the other hand, 20% of petty traders participated more in the traditional groups relative to 12.2% obtained in modern cooperatives. The greater number of the petty traders in informal group was attributed to the fact that savings mobilized are usually shared in the months of November/December when money realized by the members are invested in their business to take advantage of the Christmas period when the volume of sales is high.

With regards to marital status, the study showed that majority of cooperators were married with 72.2% in informal and 80% in formal associations while divorced ranked least (2.2% in informal and 3.3% in formal associations). This shows that marriage is highly honoured in the rural society and divorce discouraged.

Nature and Pattern of Financial Linkage

The nature and pattern of financial linkages are presented in the tables II and III below.

Table 11: Distributions of respondents according to the number of the associations that have links with formal financial bodies

Financial Institutions	Indigenous Associations	Modern Associations
	Percentage	Percentage
Rural commercial banks	22.2	50.0
Bank of Agriculture	–	27.8
Microfinance bank	22.2	22.2
Investment cooperation	–	–
Finance cooperation	–	–
Insurance companies	–	–
Total	44.4	100

Direct and Indirect Linkage

Table 111: Distributions according to direct linkage through accounts run by the cooperatives in the study area.

Types of Account	N = 8, Informal Association's Percentage	N = 8, Modern Association's Percentage
Savings account	50.0	55.6
Current account	50.0	44.4
Fixed deposit	-	-
Purchase of shares	–	22.2

Multiple responses recorded

Table 11 above shows that 50% of the modern cooperatives and 22.2% of traditional associations had links with rural commercial banks. The high proportion of linkage observed in modern cooperatives was attributed to the purchase of shares from banks by the cooperatives so as to consolidate their relationship with the banks. Also the banks at times serve as intermediary between the cooperatives and government agencies and non-governmental organizations.

Also 27.8% of modern cooperatives had links with bank of agriculture, the reason for this linkage was when the cooperative bodies wanted to secure loan from the bank. On the relationship of the two associations with microfinance bank, the study showed that the two associations had similar links with the bank (22.2% was recorded in both forms of cooperatives). The reason was attributed to the fact that the bank was very close to them therefore much time was not wasted before getting to the bank.

The overall result showed that 100% of modern and 44.4% of traditional cooperatives established relationships or links with the banks. This implies that the two forms of the associations differed in their linkage with formal financial institutions. Therefore, this result agreed with Knopp *et al*, (1989) that some of the existing informal associations are not

systematically linked to banks.

Table 111 shows that 55.6% of modern and 50% of traditional associations operate savings account while 50% of indigenous and 44.4% of modern cooperatives operate current accounts while none of the groups operate fixed deposit. Only 22.2% of formal and none of the informal groups bought shares in banks.

In indirect linkage system, the cooperatives link up the formal financial institutions through government ministries, agencies, non-governmental organizations or special projects. These agencies or organizations act as intermediaries between the cooperatives and the formal financial institutions. Through these agencies or organizations, banks extend their services in form of consultancy services, seminars, etc to the associations. Out of 36 associations studied (both modern and indigenous) only 5.6% of the modern cooperatives had indirect link with the bank.

Procedures for the Linkage System

The formal financial institutions link up with the associations in accordance with some of the rules governing the institutions. In the financial institutions, before a linkage is made, the association is required to present their resolutions or constitution, passports of the signatories comprising mainly the chairman, secretary or financial secretary and treasurer of the association. At the completion of this requirement, a registration form is issued to the association by the bank. A minimum amount is required from the association to open an account with the bank. This amount varies from bank to bank.

Patronage of Formal Financial Institutions by the Members of the Cooperatives

Members of both forms of the associations patronize the rural banks on their individual capacities. The responses of the cooperators to their patronage of the banks are shown in Table IV below.

Table IV: Distribution of the Cooperators according to their Patronage of the Banks

Linkage	Members of the Association	
	Indigenous Percentage	Modern Percentage
Patronage	42.2	70
Non-Patronage	57.8	30
Total	100	100

Personal savings of the cooperators were at times mobilized by the financial institutions by accepting deposits from the individual members of the associations. From Table IV, it could be seen that greater numbers of the cooperators in modern groups patronize banks when compared with members of traditional associations (70% in modern and 42.2% in indigenous cooperators). The reason adduced for the high patronage of the financial institution by the modern cooperators was that the cooperators in modern cooperatives were more educated than their counterparts in traditional groups. This situation is reflected in Table 1 above. Secondly, some of the cooperators in modern groups were civil servants who use the banks as their banks for payment of salaries. The civil servants among the cooperators noted that they derive other benefits from the banks as they do take overdraft in time of financial stress or when salary does not come as expected.

Obstacles to Non-linkages of some of the (indigenous) Cooperatives with Formal Financial Institutions

Out of the 36 cooperatives studied, ten of the indigenous cooperatives did not have link with formal financial institutions. The reasons for the non-linkage are shown below.

Table V: Obstacles to Non-linkage of the ten informal groups with formal financial institutions

Obstacles	Percentage
Time consuming	33.4
Very far away	22.2
Fear of emergency and uncertainty	38.9
Low income	27.8
Inaccurate and poor records	16.7
Low interest rate	22.7
Illiteracy	11.1
Attitude of the institutions workers	16.7

Multiple responses recorded.

The table V shows that fear of emergency and uncertainty topped the list with 38.9%. This was attributed to stress of distressed banks. The distance of the banks to the venue of the association’s meeting accounted for 22.2% of the problems, this involved cost of transportation as some of the roads are inaccessible during raining season. The compliant laid by these associations was incidence of robbery along some of the rural roads. They noted that instead of taking the risk of going to deposit the money in the banks, they lend them out to groups and individuals in their communities; this attracts more interest for them. This is why low interest rate accounted as high as 22.7%. Also time consuming was among the problems considered more as this accounted 33.3% of the constraints. The reason for this was because of the distance and poor condition of the roads. In addition to this, some of the banks in the rural areas were not on line therefore, much of the work were done manually. Amongst the problems observed were low income, illiteracy of some of the leaders and attitude of the banks’ workers.

Problems Encountered by the Cooperatives in the Process of Mobilizing Savings

Cooperatives all over the world face basic problems. These constraints range from economic, administrative, social to

cultural problems. Table VI shows the problems faced by the organizations in the study area.

Table VI: Distributions according to the Problems of the Cooperatives

Problems	Indigenous Association	Modern Association
Irregular Contribution	33.3	66.7
Corruption	11.1	38.9
Lateness and absenteeism	77.8	86.7
Insufficient fund	83.3	94.4
Unhealthy rivalry among the leaders	11.1	72.2
Inaccurate records	27.8	61.1
Poor safe keeping of fund	5.6	22.2
Inability to reach decision	22.2	38.9
Lack of assistance from financial bodies	61.1	55.6
Lack of government recognition	66.7	5.6
No supervision from trained cooperatives officers	33.3	–

X^2 – cal 27.33 X^2 – tab 19.68.

Multiple responses recorded

Table VI above shows that large proportion of financial constraints 83.3% of traditional and 94.4% of modern cooperatives ranked highest. This was attributed to low income which led to low savings. Also lateness and absenteeism to meetings act as obstacles to efficient operations of savings in both associations with 77.8% of indigenous and 86.7% modern complaining about these problems. These constraints were seen as factors that inhibit some of the associations from reaching at vital decisions in matters affecting the organizations. These problems were more in modern cooperatives and they affect them in mobilizing more savings.

Management related problems formed impediment to mobilization of sufficient fund. These were unhealthy rivalry (72.2% modern and 11.1% traditional cooperatives), inaccurate records (61.1% formal and 27.8% informal groups) and lack of supervision from cooperative officers with 66.7% in modern and 33.3% in indigenous associations.

These management problems marked higher in modern associations compared to indigenous groups. These management problems must have led to more corruptions (38.9%) in modern cooperatives than in traditional associations which were only 11.1%. These management problems that manifested more in modern cooperatives than traditional ones were attributed to

- (i) Officers of modern associations regard the cooperatives as government related organizations with the effect that *laissez-faire* attitudes are shown in proper management of the societies. The result of this action is the liquidation and possibly collapse of the associations.
- (ii) Members of modern cooperatives also regard the association as possible medium to get benefits from government and once such benefits cease to come, the members will overlook the affairs of the associations.

To determine whether there are differences in the problems militating against the mobilization of savings by both associations in the study area, chi-square (X^2) test was applied. The result showed that X^2 – cal (27.33) was greater than X^2 – tab (19.68). This implies that cooperatives differed in the problems inhibiting the efficient mobilization of savings by the two forms of the cooperatives.

IV. Conclusion

The result of the socio-economic characteristics of the members of the cooperatives showed that middle aged group (31-50 years) dominated the associations with 67.8% in traditional and 82.2% in modern cooperatives. A total of 91.1% of the cooperators in modern and 82.2% of them in traditional cooperatives acquired formal education. The two associations were dominated by farmers, civil servants and traders. Almost all the cooperators were married (72.2% in traditional and 80% in modern cooperatives).

The two associations differed in their linkage with formal financial institutions. Hundred percent of modern cooperatives linked with banks while 44.4% had relationship with the formal financial bodies. The study showed that 70% of the members of the modern cooperatives and 42.2% of cooperators from traditional groups patronize the formal financial institutions.

Finance, irregular contribution, lateness and absenteeism to meetings constituted impediment to mobilizing savings. The cooperatives differed significantly in their problems as X^2 – cal (27.33) was greater than X^2 – tab (19.68).

The study has shown that majority of the traditional associations did not have link with formal financial institutions and that mostly management problems were obstacles hindering the efficient operations of modern cooperatives. The study concludes that legislation is needed to promote linkage between the formal and informal financial institutions. The model to be designed to that effect should reflect a two – way flow of funds, savings from associations to the banks and credits from formal financial institutions to indigenous associations. The linkage system should be consolidated through regular and compulsory savings activities of the member of the associations. The linkage system of the two financial bodies could facilitate the inculcation of banking habits among the members of the associations. On the other hand, modern cooperatives should be strengthened by incorporating some of the existing social mechanisms that are obtainable in traditional association so that the financial irregularities and management problems in the modern cooperatives could be controlled or prevented.

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