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An Empirical Study of Cooperative Societies on Credit Delivery for Small and Medium Scale Businesses in Ondo State, Nigeria

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Abstract

This study evaluates the impact of loans given to small-scale businesses by the cooperative societies in Ondo State and the performance of small-scale business. Primary data were sourced using questionnaires and personal interview while the secondary data were obtained from unpublished book of accounts and old receipts of selected small-scale business entrepreneurs from Ondo State. A total of 142 small-scale businesses registered with the National Association of Small-Scale Industrialists (NASSI), Ondo State chapter were randomly selected. Data collected were analyzed using appropriate descriptive and inferential statistical techniques. Specifically, the Pooled Least Square (PLS) regression technique was used which took the heterogeneity of individual firms into account. This was believed to enrich empirical analysis in a way that might not be possible if only cross-section or time series data were used. Findings revealed a strong and statistically significant relationship ($p<0.05$) between loan facilities of cooperative societies and indices of performance of small-scale businesses in Ondo State. Loan facilities granted by cooperative societies in Ondo State enhance the performance of small-scale businesses. Current assets were also found to be more loan sensitive than fixed assets. This seems to agree with financial and conventional wisdom since most cooperative societies grant short term finance to business owners. However, the fact that fixed assets is not loan sensitive contradicts the hypothesis of this study. Arising from the analyses and findings, the study therefore recommends that cooperative societies should seek long term capital from pensions and insurance companies in the country to enable them grant more loans to small businesses thereby improving the growth of the small-scale businesses. It is also recommended that all cooperative societies must be registered with monetary regulatory authorities so that their performances can be periodically evaluated and contribution to economic development determined.

Keywords: Cooperative Societies, Small-Scale Business and Social Capital

Introduction

The delivery of banking services in developing nations reaches less than 20% of the population (Rosenberg, 1994; Barenbach & Churchill, 1997; Robinson, 2001). The rest of the population may not have any access to a formal financial service provider and "the majority of low income households, in all parts of the world, historically don't have

access to formal financial services" because most formal financial service providers regard low income earners and households in rural and urban areas as financially poor - having no access to surplus monetary fund's either to save with or borrow from their institutions (Chiumya, 2006).

Several categories of people such as entrepreneurs, rural inhabitants, poor people and uneducated people are not served by formal financial institutions in developing countries (Adjei & Arun, 2009). Braverman & Guasch (1993) estimated that only 5% of farmers in Africa and about 15% in Asia and Latin America have had access to formal credit. On average across developing countries, Braverman & Guasch (1993) found that 5% of borrowers received 80% of formal credit. To buttress this finding, Rosenberg (1994) asserted that 90% of the rural population in developing countries lacks access to financial services from formal financial institutions, either for credit or savings. This 90% may have no better alternative than to either patronize or participate in informal finance programmes. Iganiga (2008) pointed out that the formal financial system provides services to about 35% of the economically active population of Nigerian citizens, while the remaining 65% are excluded from their services. In a country with a population of 160 million people, it suggests that about 104 million are served by informal finance providers. Capital in the form of money is crucial for entrepreneurial development. Harper (2003), reported that one way in which money affects entrepreneur's agency belief is through its impact on their business context. An entrepreneur's estimates of self-efficacy and degree of agency may include a cognitive appraisal of the situational context in which entrepreneurship occurs, including the nature of the goals to be achieved and the requirements of transactions to be carried out.

Therefore, the study is aimed at assessing the impact of loans granted by cooperative societies on the performance of small-scale businesses in Ondo State. Specifically sought to; examine the impact of loan facilities from cooperative societies on the sales and profit of small-scale businesses in Ondo State, assess whether loan facilities from cooperative societies have a significant effect on the current and fixed assets of small-scale businesses in Ondo State, determine whether there is a significant linkage between the tenure of the loan facilities of cooperative societies and the performance (profit/sales) of small-scale businesses in Ondo State.

Zeller (2004) however, suggested that the success of rural finance programmes can be measured using three criteria. These criteria are: (i) the coverage of the poor and their demand for financial service; (ii) accessibility, particularly equal gender access to the programme; and (iii) financial viability and sustainability in providing the service. The major micro finance institutions in sub-Saharan Africa are commercial or development banks, money lenders, rotatory savings, non-governmental organizations, Cooperative, Thrift and Credit Societies (CTCS), friends and relatives. These institutions have different characteristics when it comes to production credit, consumption/social credit, extension services, savings mobilization, and risk coverage which measure the coverage of the poor. Accessibility can be measured using formal or informal institutions, gender orientation, minimum balance, membership fees, collateral requirement, and formal/informal sector linkage. Subsidization, covering administrative costs, recovery rates, year of establishment and growth can also be used to measure financial viability and sustainability.

The important role of cooperative societies in encouraging the development of small-scale enterprises as a way of empowering the less privileged cannot be overemphasized. For instance, governments at all levels are interested in the administration and management of the CTCS. Cooperative societies constitute an ideal method for enhancing the productivity and living standards of the rural and urban populace. They encourage and promote entrepreneurship among the people. According to Osuntogun (2003), cooperatives serve as useful instruments for solving most of the problems of small-scale farmers. Through cooperative societies, farmers may obtain the benefits of economics of large-scale production, marketing, credit and other inputs procurement; Cooperatives could also serve as major instruments of market reforms. Members can process and market their produce more economically, buy supplies and equipment in larger quantities, and obtain credit at lower cost. In addition to sharing marketing profits, cooperation among farmers may improve their bargaining strength, increase their product prices, or lower their factor costs.

Furthermore, the education programme of a cooperative society may teach its members improved farming practice which may result in raising its members' income. It is clear from the results of previous studies summarized in the literature review that it is only Edgcomb and Garber (1998) that is empirical. While all the studies examine the effect of cooperatives on ownership of enterprise assets, it is only Edgcomb and Garber (1998), and Falaiye (2002) that

provided the components of enterprise assets used. However, both studies were conducted among female programs located in rural and urban areas, and they were not placed within any theory.

Underpinning Theory

This study adopted the used of social capital theory to further investigate the impact of cooperative societies on the performance of small-scale businesses. Social capital theory is an economic idea that refers to the connections between individuals and entities that can be economically valuable (Oluyombo, 2012). It is a social network that includes people who trust and assist each other to becoming powerful assets. Thus, the social relations in cooperative societies facilitate collective action which in-turn positively change social life's and transform the businesses of its members. The passage of time between this study and the last empirical study (Edgcomb and Garber, 1998) and other gaps identified above required that their conclusion be reassessed if they are still tenable in spite of the development in small-scale enterprise finance using quantitative analysis and empirical data from cooperative societies with membership of both sexes in Ondo State.

Methodology

The study adopted both primary and secondary source of data for this study. Data covering years between 2008 - 2012 were collected from the receipts/invoices of the sampled small business ventures. A multiple-stage sampling technique was employed for this study. 6 local government areas were randomly selected from the 18 local government areas in Ondo State. In the second stage, 6 towns respectively were randomly selected from these local governments using probability proportional to size of these towns. The last stage of the sampling involved the random selection of small businesses in each of the selected towns. The number of small business enterprises chosen is a function of the number of small business entrepreneurs available in a particular town. However, a total number of 142 small business entrepreneurs were interview and filled the questionnaire. The data collected based on the following dependent variables: amount of loan facilities from cooperative societies, tenure of such facilities, interest rates, profit from operations, total current assets, total fixed assets and total sales.

This study employed a number of analytical tools based on the objectives of the study. The tools include: Descriptive statistics, pooled least square and econometric view (E-view). The small-scale business performance is hypothesized to be influenced by the independent variables included in the equation below:

$\pi_{it} = f_1(\alpha_{it}) + \varepsilon_{it}$ …………………………………………….…………… 1

Where:

π_{it} which is the dependent variable measures a business performance indicator (profit/sales/employment generation).

α_{it} represents a vector of the independent variables. (Current assets, fixed assets, loan facility and loan tenure) .

According to Vera (2002) firms are equating total uses of funds for investment with total sources of funds. Thus, they must decide on the magnitude of their investment outlays in current assets and fixed assets. The amount of investment would depend on the available funds (cooperative societies) to the small-scale entrepreneurs.

$\alpha_{it} = f(Z_{it}, ſ\eta_{it}, q_{it}, b_{it}, ſ_{it}) + \varepsilon_{it}$ …………………………………………………. 2

and α_{it} f$(\Gamma_{it}, £_{it}, \Omega_{it})$

Where:

Γ_{it} = LPROFIT. This measures profit figure for the 5-year period (2008-2012) of each firm and the total profit of all the firms together.

$£_{it}$ = LSALES. This measures total sales of all the firms for the 5-year period.

$\Omega_{it = LEMP.}$ This measures employment generation of the small-scale business during the period under study.

Z_{it} = LFASSETS. This measures that part of cooperative loan used in acquiring business fixed assets for all the firms.

$ſ\eta_{it = LCASSETS.}$ This measures that part of cooperative loan used in acquiring business current assets for the firms.

q_{it} = LTDEBT. This measures a business total debt loan from cooperative societies balance at the end of the year.

b_{it} = LLOAN. This measures a business total loan from cooperative societies for the year.

$\int_{it}$ = LEMP. This measures a business employment generation by the firms.

Ψ_{it} = LTENURE. This measures the tenure (Time taken to pay back) of the loan facility.

ε_{it} = This represents the standard error term of the expression, that is other factors capable of determining the performance of small-scale business apart from the identified variables.

To be estimated as:

$\Gamma_{it} = a_0 + a_1 Z_{it} + a_2 f\eta_{it} + a_3 q_{it} + a_4 b_{it} + a_5 \int_{it} + u_{it}$ …………………..…….. 3

$£_{it,} = b_0 + b_1 Z_{it} + b_2 f\eta_{it} + b_3 q_{it} + b_4 b_{it} + b_5 \int_{it} + u_{it}$ ……..…………..… 4

And $\Omega_{it} = c_0 + c_1 Z_{it} + c_2 f\eta_{it} + c_3 q_{it} + c_4 b_{it} + c_5 \int_{it} + \varepsilon_{it}$ ………………... 5

a_0 and b_0 are constants while a, b and c $_{1....5}$ are parameters for $_i$ = 1, 2, 3…., 142 cross sectional units. Each cross-section unit is observed for dated periods t= 1,2…,5. a_{it} is the common effect of the intercept which is assumed to be identical for all the pool members. The fixed effect estimators allow the intercepts $a_{it,} b_{it}$ and b_{it} to differ across cross-section units by estimating different constants for each cross section. The basic specification treats the pool specification as a system of equation and estimates the model using the Pooled Least Square (PLS) instead of the usual Ordinary Least Square (OLS).

Although the nature of the panel data can be ignored and the pooled ordinary least squares (OLS) can be applied, the resulting model might be overly restrictive and can have complicated error processing, for example, heteroscedasticity across panel units and serial correlation within panel units. Therefore, according to Baum (2006) the two main alternative approaches to the fitting of models using panel data are to use fixed effect regressions and random effect regressions. According to Greene (2003), for a given panel data set, the general form of panel data model can be expressed as:

$Y_{it} = X_{it}\beta + Z_{it}\delta + U_i + \varepsilon_{it}$ ……………………………………………………………. 6

Where:

$i = 1,…,n$ is the number of cross-sectional units and $t = 1,…,T$ is the number of time periods.

Y_{it} is the observable dependent variable (LProfit, LSales or LEmp)

X_{it} is a 1 x k vector of variables which vary between individuals and over time (LFAssets, LCAssets, LLoan).

β is the k x 1 vector of coefficients on x.

Z_{it} is a 1 x p vector of the time-invariant observable variables which vary only between individuals.

δ is the p x 1 vector of coefficients on z.

U_i is the unobserved individual-level effect.

ε_{it} is the disturbance term.

Equation 6 was estimated by the fixed effect or the random effect models, given the assumption about the unobserved effect, U_i. Both methods were incorporated in the analysis of this work.

Results and Discussion

Presentation and Analysis of Results

Table 1: PLS Regression Results of LLoan? on LProfit

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	106.3953	1.754468	60.64249	0.0000
R-squared	0.703392	Mean dependent var		279.5523
Adjusted R-squared	0.629110	S.D. dependent var		623.4345
S.E. of regression	379.6763	Sum squared resid		81735380
F-statistic	9.469134	Durbin-Watson stat		1.726037
Prob(F-statistic)	0.000000			
Dependent Variable: LPROFIT?				
Method: Pooled Least Squares				
Sample: 2008-2012				
Included observations: 5				
Number of cross-sections used: 142				
Total panel (balanced) observations: 710				
Cross sections without valid observations dropped				

Source: Author's Computation Using E-Views Statistical Package, Version 6.0

The results presented in table 1 above summarize the specific coefficients for all cross-sectional observations. The impact of loan from cooperative societies was statistically significant on the profit of 114 out of 142 small business at 5% probability level and on the profit of 28 out of 142 small business at 10% probability level. The adjusted R^2 of 0.6291 shows that about 62.91% of the variation in profit of small-scale businesses was explained by the independent variables. The F- statistics of 9.469 indicates that the model was statistically significant ($p<0.05$). The Durbin Watson statistics of 1.72 suggests that the result is free from the problem of serial correlation

Table 2: PLS Regression Results of LLoan? on LSales?

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	505.3726	12.43755	40.63282	0.0005
R-squared	0.923123	Mean dependent var		3683.365
Adjusted R-squared	0.903870	S.D. dependent var		8681.093
S.E. of regression	2691.552	Sum squared resid		4.11E+09
F-statistic	47.94693	Durbin-Watson stat		2.229581
Prob(F-statistic)	0.000000			
Dependent Variable: LSALES?				
Method: Pooled Least Squares				
Sample: 2008-2012				
Included observations: 5				
Number of cross-sections used: 142				
Total panel (balanced) observations: 710				
Cross sections without valid observations dropped				

Source: Author's Computation Using E-Views Statistical Package, Version 6.0

The results presented in table 2 show the summary of the specific coefficients for all cross sectional observations. The impact of loan from cooperative societies is statistically significant on the sales of about out of 142 small business at 5% level, and on the sales of 7 out of 142 small business at 10% level. The adjusted R^2 of 0.9039 shows that 90.39% of the variability of sales of small scale businesses was explained by loan facilities from cooperative societies in Ondo State. The F- statistics of 47.95 indicates that the model was statistically significant ($p<0.05$). The Durbin Watson statistics of 2.23 is an indication that the result is free from the problem of serial correlation. The loan facilities from cooperatives societies have positive relationship with sales and profit of most of the sampled business enterprises. This implies that if more loan facilities are extended to small-scale business venture they would enhance sales and profit. The empirical finding is that the loan facilities of the cooperative societies are efficiently and effectively utilized to enhance profitability.

Table 3: PLS Regression Results of LLoan? on LFAssets

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	263.8796	84.28478	3.130810	0.0018
R-squared	0.382779	Mean dependent var		1158.258
Adjusted R-squared	0.353423	S.D. dependent var		3176.088
S.E. of regression	1215.979	Sum squared resid		8.38E+08
F-statistic	30.07068	Durbin-Watson stat		1.962222
Prob(F-statistic)	0.000000			
Dependent Variable: LFASSETS?				
Method: Pooled Least Squares				
Sample: 2008-2012				
Included observations: 5				
Number of cross-sections used: 142				
Total panel (balanced) observations: 710				
Cross sections without valid observations dropped				

Source: Author's Computation Using E-Views Statistical Package, Version 6.0

The results presented in table 3 showed the summary of the specific coefficients for all cross sectional observations. The impact of Loan from cooperative societies is statistically significant on the fixed assets of about 37 out of 142 small business at 5% significant level, and on the fixed assets of about 5 out of 142 small business at 10% significant level. The impact of Loan from cooperative societies is not statistically significant on the fixed assets of about 100 out of 142 small business at both levels. The adjusted R^2 is 0.3534 showing that about 35.34% of the behaviour of fixed assets of small scale businesses was explained by loan facilities from cooperative societies in Ondo State of Nigeria. The F- statistics of 30.07 showed that the model was statistically significant at 5% significant level. The Durbin Watson statistics of 1.96 is an indication that the result is free from the problem of serial correlation.

Table 4: PLS Regression Results of LLoan? on LCAssets

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-774.493	56.69032	-13.6618	0.0093
R-squared	0.873186	Mean dependent var		3916.794
Adjusted R-squared	0.841426	S.D. dependent var		18484.72
S.E. of regression	7360.855	Sum squared resid		3.07E+10
F-statistic	27.49375	Durbin-Watson stat		1.905148
Prob(F-statistic)	0.000000			
Dependent Variable: LCASSETS?				
Method: Pooled Least Squares				
Sample: 2008-2012				
Included observations: 5				
Number of cross-sections used: 142				
Total panel (balanced) observations: 710				
Cross sections without valid observations dropped				

Source: Author's Computation Using E-Views Statistical Package, Version 6.0

The impact of Loan from cooperative societies is statistically significant on the current assets of about 119 out of 142 small business at 5% significant level, and on the current assets of about 23 out of 142 small business at 10% significant level. The adjusted R^2 is 0.8414 showing that about 84.14% of the behaviour of current assets of small scale businesses was explained by loan facilities from cooperative societies in Ondo State of Nigeria. The F- statistics of 27.49 showed that the model was statistically significant at 5% significant level. The Durbin Watson statistics of 1.91 is an indication that the result is free from the problem of serial correlation.

Table 5: PLS Regression Results of LTenure? on LProfit

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3068.356	79.4756	38.60752	0.0027
R-squared	0.922628	Mean dependent var		14.14391
Adjusted R-squared	0.913115	S.D. dependent var		2.726621
S.E. of regression	0.803704	Sum squared resid		78.80473
F-statistic	96.98695	Durbin-Watson stat		1.924805
Prob(F-statistic)	0.000000			
Dependent Variable: LPROFIT?				
Method: Pooled Least Squares				
Sample: 2008-2012				
Included observations: 5				
Number of cross-sections used: 142				
Total panel (balanced) observations: 710				
Cross sections without valid observations dropped				

Source: Author's Computation Using E-Views Statistical Package, Version 6.0

The results presented in table 5 showed the summary of the specific coefficients for all cross sectional observations. There is a positive relationship between tenure of loan facilities and profit of small-scale businesses. This deviates

from the hypothesis of this study and it implies that shorter tenure leads to increasing profit. However, this situation may be as a result of the fact that most cooperative societies deal on short term lending. The impact of tenure of loan facilities from cooperative societies is statistically significant on all 142 small business at 5% significant level. The adjusted R^2 is 0.9131 showing that about 91.31% of the behaviour of profit of small scale businesses was explained by tenure of loan facilities from cooperative societies in Ondo State of Nigeria. The F- statistics of 96.99 showed that the model was statistically significant at 5% significant level. The Durbin Watson statistics of 1.92 is an indication that the result is free from the problem of serial correlation.

Table 6: PLS Regression Results of LTenure on LSales

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3068.356	79.4756	38.60752	0.0027
R-squared	0.248420	Mean dependent var		3683.365
Adjusted R-squared	0.060194	S.D. dependent var		8681.093
S.E. of regression	8415.762	Sum squared resid		4.02E+10
F-statistic	21.319797	Durbin-Watson stat		2.054958
Prob(F-statistic)	0.001491			
Dependent Variable: LSALES?				
Method: Pooled Least Squares				
Sample: 2008-2012				
Included observations: 5				
Number of cross-sections used: 142				
Total panel (balanced) observations: 710				
Cross sections without valid observations dropped				

Source: Author's Computation Using E-Views Statistical Package, Version 6.0

The results presented in table 6 showed the summary of the specific coefficients for all cross sectional observations. There is a positive relationship between tenure of loan facilities and profit of small scale businesses. This aligns with the hypothesis of this study and it implies that longer tenure leads to increasing sales. However, the impact of tenure of loan facilities from cooperative societies is statistically significant in only 6 out of 142 small businesses at 5% level and statistically significant in only 3 out of 142 small businesses at 10% level. This implies that loan tenure is not statistically significant in 133 out of 142 small scale businesses in Ondo state. The adjusted R^2 is 0.0602 shows that 6.02% of the variation of total sales of small scale businesses was explained by tenure of loan facilities from cooperative societies in Ondo State. The F-statistics of 21.32 shows that the model was statistically significant ($p<0.05$). The Durbin Watson statistics of 2.05 provides an indication that the result is free from the problem of serial correlation.

Discussion and Findings

The indices of performance used for small businesses in this study were profit, sales, fixed assets, current assets and employment generation. Overall, based on the use of a panel model, the study empirically showed that loan facilities from CTCS led to business development which can be associated with increased profitability. The finding agrees with the assumption of the study which implies that the ability to make more profit is likely a function of access to a cooperative loan in Ondo State. However, the finding contradicts those reported by Oluyombo (2012) in Ogun State of Nigeria, although it was based on the use of Chi square analysis. The other aspect of the study considers the effect of CTCS loans on the assets of small businesses. Whilst the study found insignificant evidence of the effects of a loan on fixed assets, the effect of loan facilities from CTCS on current assets is statistically strong, positive and significant. The study found significant evidence of increase in enterprise assets as a result of participation in cooperative societies.

According to May (2001), found that all over the world, there are bereft of meaning until situated within a theoretical framework. The delivery of informal finance is better understood and appreciated when examined through the lens of the social capital theory. Social capital theory concerns the relationship that exists among people which is expected to lead to social and economic development. The theory signifies the abilities of people to work together towards resolving social issue and promoting equitable access to benefits of development (Basargekar, 2010). The findings of this study which showed an increase in profit, sales, current assets and employment rate of small businesses in Ondo State has further justified the relevance of social capital theory in the developmental process of a developing nation. An increase in fixed assets loan facilities from CTCS was not found to be statistically significant and this may be attributed to the fact that because most of the lending activities of CTCS are on short term basis. However, a lack of increase in fixed assets of small businesses does not contradict the relevance of social capital theory.

Conclusion and Recommendation

The results of this study have implications on both local and foreign investors, owners of small- scale business enterprises in Nigeria, managers of cooperative society's policy makers. Arising from the results, it was discovered that the degree of relationship between loan facilities of CTCS and indices of performance of small-scale businesses in Ondo State is very high and are statistically significant at 5% level of significance. The implication is that loan facilities from CTCS in Ondo State enhance the performance of small-scale businesses. This further justifies the finding of Adaramola (2011) that the importance of credit facilities from the non-bank financial institutions cannot be overemphasized in enhancing the development of SMEs in the country.

The author discovered that credit facilities from banks are insignificant with respect to SMEs development. This is an indication that bank and financial institutions have not influenced the performance of SMEs as a result of the unavailability of credit or financial support of the SMEs due to stringent and high interest payment on credit and loans. In addition to the above, there is no, or very low, credit facilities to SMEs by the banks due to banking business of borrowings for long term and lending for short term especially to the sectors that are considered risky.

It was also established, while assessing the impact of loan facilities from CTCS on the indices of performance in this study, that current asset was more loan sensitive than fixed assets. This seems to agree with financial and conventional wisdom since most CTCS grant short term finance to business owners. However, the fact that fixed assets are no CTCS loan sensitive contradicts the hypothesis of this study. The study therefore concludes that social capital in cooperative societies is a profitability enhancing variable.

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