The Role of Co-operative Loans in Rural Finance: Evidence from Ogun State, Nigeria

Onafowokan Oluyombo

This paper examines how loans made by co-operative societies in rural areas meet the financial needs of their members and, by extension, the role of the co-operative lending in rural finance. The study makes use of primary data from nine focus group discussions comprising seventy two members selected randomly from twelve co-operatives in six local government areas. Data was analysed using tables of numbers and percentages, content analysis and quotations from participants. The study found that the financial needs of the members were met through loan granting at reduced interest rates without the pledging of fixed and financial assets as collateral. The low interest rate on loans reduces the likelihood of members patronising money lenders and of possible loan defaults. The personal guarantor arrangement greatly enhanced the inter-personal relationship among members enabling them to provide support to members in trouble and reducing their individual poverty level. However, there may be need for emergency loans that can be repaid over a longer period of time to ease the financial burden of the members and enhance social and financial capital.

Introduction

The delivery of banking services in developing nations reaches less than 20% of the population (Rosenberg, 1994; Robinson, 2001; Ndiaye, 2005). 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 have not had access to formal financial services" (Chiumya, 2006: 29) because most formal financial service providers regard low income earners and households in rural areas as too poor financially — having no access to surplus monetary funds — to either save with or borrow from their institutions. Several categories of people such as rural inhabitants, poor people and uneducated people are not served by formal financial institutions in developing countries (Adjei and Arun, 2009).

The inability of commercial banks to provide financial services to the rural areas in Nigeria led to the introduction of different poverty alleviation institutions and programmes such as the People's Bank of Nigeria, Community Banks, the National Directorate of Employment, the Directorate of Food, Road and Rural Infrastructure, the Family Economic Advancement Programme and the Family Support Programme over the years by the government at federal, state and local levels. Most of these interventions have failed while those still in existence are located in the cities outside the reach of the rural dwellers (Oluyombo, 2010). The non-availability of formal financial institutions in rural areas in addition to the failure of the government's anti-poverty programmes in rural communities have led to the upsurge in different types of informal financial providers (Oke et al, 2007; Akingunola and Onayemi, 2010) such as rotational savings schemes, money lenders and co-operative societies. The rural poor are also largely neglected by formal microfinance institutions (MFIs) because they have no access to institutional credit due to collateral requirements, complex procedures, poor communication and an inadequate banking network in the rural areas (Haque and Yamao, 2008). Nathan et al (2004) opine that to minimise transaction costs, the MFIs tend to be urban based leaving the poor in the rural areas under-served.

Develtere and Pollet (2008) note that the impact of co-operative societies on poverty reduction has not been studied in any systematic way. In order to be able to answer this question correctly, the impact of co-operatives should be measured and analysed at different levels of the economy, especially among rural dwellers in developing countries where there is a paucity of accurate secondary data such as Nigeria. The increase in numbers and types of microfinance programmes and institutions in the world is an important reason why the role of

co-operative societies' loan service in rural finance should be researched. The aim of this study is to determine if loans given by co-operative societies in rural areas meet the financial needs of members of the scheme as well as the role of the loan in rural finance.

Literature Review

Concept of co-operative

Co-operatives are financial organisations that are owned and controlled by the members and they provide savings and credit services to their members in the community (Sharma et al, 2005). They can be viewed as a form of microfinance institutions owned by their members which provide small scale financial services — typically mainly savings and loans. They differ from the formal microfinance institutions such as the microfinance banks (MFBs) in Nigeria which are meant to serve the general public in that they are voluntary associations which are member owned, self-managed and democratically controlled within a specific location (Adedayo and Yusuf, 2004). Other formal microfinance institutions such as the MFBs in Nigeria are also location bound with the microfinance policy delineating their operational locations (Central Bank of Nigeria, 2005) either as a unit MFB or a state-wide MFB. Co-operatives enable low income earners to access financial and non financial services that are packaged in a manner that enable those without access to formal financial services to access comparatively small loans, saving schemes and other services for working capital and income generation (Nathan et al, 2004). "They appear to be the most standardised informal financial institutions with well organised savings mobilisation strategy in the informal market" (Oloyede, 2008: 47).

Co-operative societies, also known as credit co-operatives, credit unions, financial co-operatives, and savings and credit co-operatives can be government sponsored, member sponsored or programme sponsored (Ghosh and Maharjan, 2001; Simkhada, 2004; Oluyombo, 2012). The government sponsored co-operatives are co-operatives established, owned and funded by the government to accomplish its economic objectives. Co-operatives that are established and owned by the individual members of the co-operatives are regarded as member sponsored co-operatives which are the focus of this study. Programme sponsored co-operatives are established and owned by an existing organisation which may be a Non Governmental Organisation (NGO), bank, donor etc with specific purpose of poverty eradication, targeted towards a particular group of people in a specified location. This study defines a co-operative as a voluntary open association established and owned by people of like minds who come together to form an organisation called a co-operative society without government or programme funding. They mobilise funds in the form of savings from the members, which then guarantees member access to the loan facility provided a minimum savings requirement is met. As a voluntary association, without control from the government, a member is free to join or cease to be a member of the association at will based on the rules guiding the co-operative.

Co-operatives and interest on loan

One of the key determinants of access to financial institutions credit is the pricing, which is the interest payable on a loan. This is also applicable to co-operative societies. The rate of interest on the loan and the way it is calculated determine how co-operative members patronise the programme loan. Higher interest rates are likely to serve as a constraint for members, depending on their socio-economic condition. The effect of interest rate charges on co-operative loan on the members is investigated in a number of studies. Lohlein and Wehrheim (2003) used social capital theory to explore the potential role of co-operatives in rural areas and found that interest on loans compared favourably with those charged by other financial providers because the co-operatives charge 28% per annum while the banks charge between 27% and 32% per annum interest on loans. This result is similar to the outcome of a study by Calkins and Ngo (2005) that banks in Ghana charge interest on loans of about 40% per annum. The lower interest on a co-operative loan is to encourage the members to participate in the programme

loan and also to improve their economic condition through the judicious use of the loan. Oke et al (2007) reported that the interest paid on a co-operative loan is less than that charged by the formal finance providers. Wanyama et al (2008) found that interest on loans is between 12 and 18% per annum on the reducing balance. This is partially different from Simkhada's (2004) finding of between 15% and 20% interest per annum on the reducing balance method. Other studies found the interest on loans charge by co-operatives to be less expensive than other sources of credit available to the members (Edgcomb and Garber, 1998; Sharma et al, 2005). The findings of previous studies above in Honduras, Nepal and Russia are uniform in reporting lower interest rates by co-operatives although the reason for the low interest charge is not explored in the literature.

Co-operatives loan processing and duration

There are varieties of options on how loan applications can be processed and the time an application takes between the application stage to loan approval and the disbursement. For example, bank loans in Ghana take longer to disburse with more administrative details when compared with co-operative societies (Calkins and Ngo, 2005). In a longitudinal study among an employee and a community based co-operative in Malawi, Eisenhauer (1995) reported on mixed views among the membership about the process of loan approval and disbursement. In addition, the use of executive members to assess loan can be subjected to further discussion and argument, but Wanyama found that emergency loans are given with shorter repayment periods and higher interest rates for health related matter loans (Wanyama et al, 2008), while, in another study, the loan repayment period was found to be long enough to allow members to pay their loan (Eisenhauer, 1995).

Use of co-operative loans

The choice of the use of co-operative loans varies from one member to another at a particular time. This may also be determined by the focus, location and the funding of the co-operative. For example, a co-operative that enjoys regular external funding may provide loans for a longer period than a self financed and member promoted co-operative. A study of two self promoted and two programme promoted co-operatives by Sharma et al (2005) found that programme promoted co-operatives enjoyed support in the form of grants from donors and that most members used their loan for agricultural production (23.6%), animal husbandry (22.3%) and business investment (20.8%). Adedayo and Yusuf (2004) findings on loan use shows that 64.17% was used for trade and investment, 4.62% on children's education, 8.46% on purchase of business inputs while 6.03% was deployed in acquisition of assets. However, the results of the study would have been further strengthened if non-members had been included in the sample. This would have provided a better understanding of impact of the co-operatives for comparison. The use of loans reveals 46% for construction of houses, 31% for children's education and 23% for family use Adebayo et al (2010). Enete (2008) found the impact of co-operatives on the employment market to be positive, citing instances where co-operatives have been used successfully to established small-scale industries, health care centres, poultry farms and food processing plants. Furthermore, the beneficiaries of co-operative loans used the funds for businesses such as petty trading or to pay their children's school fees. A study by Akingunola and Onayemi (2010) among women entrepreneurs found that loans from informal finance are used for business expansion (31%), new business (28%), working capital (27.5%), building (5%) and consumption (8.5%). Oluyombo (2010) studied the impact of savings and credit co-operative loans among monthly income earners with the aid of questionnaires and reported that participation in co-operatives assisted them to purchase household equipment and properties. Participants were also able to take advantage of the loan facility to engage in direct and indirect investment in business activities while still retaining their jobs. The study concluded that the programme had a positive impact on the social and economic wellbeing of the members.

Co-operative loan amount and repayment

Adedayo and Yusuf (2004) examined the structure and poverty reduction activities of co-operative societies in Nigeria. The study reported that the amount of the loans given to the members was significant. A study on the impact of co-operatives on rural development and poverty reduction by Adebayo et al (2010) reported that 93% of the members asserted that the loan provision amount may not be adequate to transform the economic condition of the borrowers positively within a short period of time. Adebayo et al (2010) noted that 92% of the members repaid their loan when due while 8% found it difficult to repay, but their result was not compared with previous studies.

Collateral for co-operative loans

The challenge in rural finance in developing nations is the ability of the rural dwellers to provide adequate collateral to access loans from financial institutions especially the banks. Eisenhauer (1995) study argues that co-operatives do not require as much collateral as banks do. It implies that co-operatives take collateral but it may not be in the same form and magnitude as a bank. Hence, the acceptance of personal guarantees of other members that are easy to provide for loans and satisfactory to the members (Edgcomb and Garber, 1998). This can improve access to co-operative loans. For example Falaiye's (2002) research to determine the changes that NGO microfinance programme savings and loans services have brought to beneficiaries in Nigeria found that client satisfaction arises from loans received with ease, group solidarity, lower interest rates and easier guarantees for loans which lead to self esteem among clients.

Gap in the literature

Previous studies in Nigeria by Enete (2008) and Akingunola and Onayemi (2010) consider female co-operative programmes and sample selection in these studies is restricted to members in the urban centres. For example, Enete (2010) used co-operative members at the University of Nigeria. More important is the lack of any detailed research on the impact of unregistered co-operative societies' loan products in Nigeria. Recent studies in Nigeria (Enete, 2008; Oluyombo, 2010) focused on educated co-operative members located within an educational institution, while Enete (2008) and Akingunola and Onayemi (2010) focuses on women entrepreneurs located in urban centres. This study therefore looks at both genders within unregistered co-operative societies located in the rural areas of Ogun State, Nigeria in areas without government provided potable water supply, electricity supply and tarred roads. These societies are neither approved nor regulated by the government. Their members engage in different types of businesses and trades. However, these unregistered co-operatives function the same way as the registered co-operative with one member one vote. The choice of unregistered co-operative societies is based upon the fact that they function more like financial institutions for rural dwellers. Moreover, relatively large numbers of informal microfinance providers in sub-Saharan Africa operate as savings co-operatives (Chiumya, 2006).

Research Proposition

This study investigates the relationship that exists between the loan service of unregistered co-operative societies and the participants, and the effect of the loans on rural finance by examining the following research proposition: that the loan service provided by co-operative societies meets the financial needs of their members and makes a contribution to improvement in rural finance.

Methodology

The research focused on the operation of co-operative societies in Nigeria and examines the impact of co-operative societies that are fully funded by the members without any form of assistance from donors and government on the participants in the rural areas of Ogun State,

Nigeria. A rural area is defined by the researcher as any community and/or village located within the State without government provided drinkable water supply, electricity supply and tarred roads. These criteria form the basis for selecting the communities and villages used for this study and also afford the researcher the opportunity to reach out to the real rural dwellers that can be referred to as the rural poor because “85% of people without electricity live in rural areas of developing countries in sub-Saharan Africa” (Henry and Schimmel, 2011: 1).

Co-operative membership

The membership of the co-operatives studied is open to all members of the community, provided they are recommended by existing members as being honest, hardworking and reliable. Members are expected to participate in the co-operative and save for at least six months before they can access a loan. Their savings are not accessible to the members under any condition except on withdrawal of membership or death, and this forms the corporate assets of the society. This is the pool from which loans are granted to deserving members. The motive behind this is that the savings will serve as collateral needed for the loans in case of default. Members are also expected to obtain guarantors within the co-operative who will guarantee the repayment of the loan. Such guarantors are called upon to redeem their obligations in case of default. All loans are expected to be repaid within six to twelve months depending on the capacity of the borrower. However, those who wish to repay the loan within a shorter duration are allowed to do so, thus reducing the amount of interest payable.

Nature, sources and analysis of data

The focus of this work is on informal co-operative societies which are not required to submit any report to the government. The majority of these co-operatives do not prepare financial statements that can be relied upon as a basis on which to make meaningful decisions. Hence this research cannot rely on such secondary, documentary data for analysis and this is one of the reasons why the researcher decided to use primary data directly from the rural dwellers using a cross sectional design. Primary data is also valuable because of the richness of the data, the directness of information from participants and the opportunity of accessing the silent but salient reactions during interviews and focus group discussion which are not present in secondary data collection approach. The distinctive nature of this study which focuses on people that otherwise are not taken care of by overall government provision and systems also merits the use of primary data.

Within Ogun State, two local government areas were selected, based on Nigera’s poverty index, in each of the three senatorial district of the State. Two co-operatives from each of the six local governments, and six members from each co-operative were randomly selected for the study. In all, 12 co-operative societies were used for the study with 72 members through focus group discussion (FGD). The focus group discussion guides were translated into the local language (Yoruba) of the respondents in order to gather accurate responses to the questions. The FGDs were conducted in Yoruba to ensure the full and maximum involvement of the participants since the majority of the participants were illiterate. This was possible because the researcher is also fluent in the local language. The co-operative executives were not allowed to participate in the FGDs. This precaution was undertaken to avoid biases and to enhance the validity and reliability of the study by reducing subjectivity and third party interference. The FGD guide comprised of well-structured open ended questions, to allow participants to describe their experiences with the co-operative and speak without any restriction using their own words. The FGDs were documented using a tape recorder and record sheets. The recorded discussions from the FGDs were transcribed and later translated into English. These transcriptions and translations were then compared and reviewed with the notes taken. The data derived from the FGDs were reported and analysed using tables in numbers and percentages, content analysis and quotation — in their words — as necessary.

Results and Discussion

Demographic characteristics

The researcher decided not to collect demographic information such as educational qualification from the focus group participants to spare those with limited education from shame and ridicule. The participants were selected based on their membership of the co-operative irrespective of their loan situation and duration in the programme. However, 72 individuals comprising nine groups took part in the FGD. Participants included 33 men and 39 women while 44 participants were loan members and 28 are no-loan members. The minimum number of people making up a group was six with a maximum of nine. Each group comprised a minimum of two no-loan members and this made the discussions lively and as truthful as possible.

Presentation of results

The effect of loans based on the result of the FGD in table 1 below reveal that the low interest on loans is an attractive feature that motivated members to obtain a loan. The interest was lower than that charged by money lenders and banks. This may encourage members to be loyal to the programme since the closest alternative — the money lender — is more expensive. Members may take a loan because the interest does not seem to be a burden. Consequently, members pay low interest and also derive the benefit in terms of income it generates for the programme. An elderly woman who had been a member of the co-operative for about five years said:

> A man in the community committed suicide because the proceeds from the sales of his house and car were unable to fully repay the loan he took from the bank. We learnt later that the bank interest was cumulative and it was more than double the amount of the loan he took at the end of a year"(FGD I).

A male participant who had been in the programme for about three years commented:

> The interest on loan is cheaper compared to money lender because the money lent is our money and we are happy with it (FGD G).

Table 1 Focus Group Discussion Result

56% (5 of 9 groups)	Liked the	Loan amount being given.
67% (6 of 9 groups)	Liked the	Duration of loan processing
67% (6 of 9 groups)	Liked the	Current duration of loan repayment is long enough and adequate for complete refund to be made.
67% (6 of 9 groups)	Disliked the	Current low level of loan monitoring and supervision
78% (7 of 9 groups)	Liked the	Flexible repayment of loan in small instalments
78% (7 of 9 groups)	Liked the	Low interest on loan compared to money lenders and banks.
89% (8 of 9 groups)	Liked the	Non usage of personal properties as collateral for loan

The members (78%) are happy with the flexibility of loan repayment in terms of the instalments and amount repaid at intervals. A similar result was reported by Oluyombo (2010). There is a flexible repayment plan based on individual cash flow and there is no restriction on the amount to be paid. The co-operatives recognise seasonal variations in income and therefore structure the loan in a way that is convenient and comfortable for members whereby the income level and its flow determines what a member repays and the interval of such repayment. 56% of the FGD participants (5 out of 9 groups) are satisfied with the amount of loan given. Others are of the opinion that there is need to increase the amount because income generated is a function of the capital invested. However, this cannot be met in the interim because of the constraint of funds available to the programme. A man who had been a member for three years said:

> Instead of giving double of the savings as loan, it should be increased to triple of the savings, so that members can have large amount of money for their businesses (FGD E).

Another woman who had been a member for about four years said that:

> I don't like the keeping of someone savings in the co-operative while paying interest on loan. At least, we should be allowed to use our savings to repay part of the loan (FGD A).

The processing of co-operative loan did not take too long for 6 out of the 9 groups. The period is short — less than five days — enough to meet the time when members actually need the money. An earlier study by Oke et al (2007) in Nigeria found that borrowing from microfinance programme was faster and shorter than formal financial institutions. A married woman among the participants said:

> The loan is available and there is no limit to the number of time members can borrow as far as the previous loan is completely repaid (FGD C).

Six out of the nine groups frowned at the low involvement of the co-operative executives in monitoring the utilisation of loans granted to members. This may be because members are the guarantors and if such loans are not utilised for the purpose for which they were granted, the burden of repayment in case of default will fall on the guarantor. It seemed that what was more important to the executives of the scheme was the timely refund of loan. However, loan diversion could have a negative effect on members who stood as personal guarantor where such loan is not repaid as and when due. A woman of about 55 years old who had been a member for about four years raised her concern that:

> The executive committee members are considered first in granting loan and it has almost turn the programme loan to a family affair whereby a prospective borrower needs to pay homage or allegiance to either the president, the secretary or any other members of the executive (FGD H).

A female participant in the FGD who had been in the scheme about six years replied that:

> Favouritism is restricted to very few co-operatives and for special emergency situation such as ill-health that requires immediate attention. Otherwise, members loan applications are considered on first come, first serve basis provided the member can provide the guarantor as required by the co-operative (FGD H).

The above comment from the FGD is similar with Enete's (2008) findings that officials sometimes hijack the scheme for their selfish interest. Accessibility to loans without mortgaging personal properties such as land, house and household equipment as collateral gives co-operative members (89%) a great level of satisfaction since they are able to maintain ownership of their assets as loan members because only personal guarantee of any co-operative member is required for taking a loan. The use of guarantor instead of assets is a psychological issue that relieves the member from the pain and agony of losing their properties to the co-operative in case of default. The FGD revealed that in case of default, the defaulter's savings in the scheme would be used to liquidate or off-set part of the loan while the guarantor is called upon to repay the balance. The discussions show that this rarely occurs because defaulters are persuaded by other members of the programme to repay. In most cases, this usually yields positive result because of the negative implication of default on the member's profile in the scheme and the community. This suggests that co-operative members in rural areas detest being labelled as not being credit worthy because of the social stigma attached to such label in the area. Six out of the nine groups traced the impact of the programme loan to the repayment period that is adequate for complete repayment of the loan. This does not mean that longer repayment period may not be needed by some members, but the source of funds available to the programme would determine the acceptable period of repayment so that misallocation of funds may be avoided. It is in the light of this that the average of six to twelve months repayment period used by the co-operative was deemed to be beneficial to the individuals especially since no collateral is given and the interest rate is lower than bank and money lenders' rates.

One of the FGD participants who had been a member for about five years said that:

> Many members used co-operative loan to build houses and businesses while young people in the community take loan to further their study at higher institutions on part-time basis. Others use the loan to train their children in educational areas (FGD B).

The above comment agrees with Wanyama et al (2008) that co-operative members used loans to build houses and invest in businesses. An elderly woman who had been a member for more than six years commented that:

> My friend who would have died about six months ago survives her health problem by taking co-operative loan for medical attention in the city. She is back in the village and able to continue her businesses (FGD D).

A female participant who had been in the scheme for four years put the effect of the programme in a broader perspective:

> The commercial banks have failed many of us who are poor people including the so called microfinance banks because they are located in the cities. The co-operative is the last and only hope of the poor in this community and neighbouring villages. It is ours and we are happy with it. Since the government could not help us, we can help ourselves (FGD C).

Discussion of results

The study result reveals that the interest on loans is low and not a “cut throat” rate that jeopardises the interest of members. This agrees with Lohlein and Wehrheim (2003) that co-operative interest compares favourably with other financial institutions because co-operative charge 28% per annum while banks charge between 27-32% per annum. However, this study found that co-operative loan interest rates of between 12 and 18% per annum. Loan repayment in small instalments with flexible repayment plan depending on the borrower’s income pattern helped members to plan and match their income with the best repayment structure. Simkhada (2004) result suggested that this is possible because co-operative loans are designed according to purpose of the loan.

The study found loan availability, without the giving of collateral such as house, land and other properties except personal guarantor who is also a member of the scheme, brought satisfaction to the programme participants. The use of a co-member of the co-operative as a guarantor for a co-operative loan should help an individual who is starting life or business without any assets to access loan and this can be useful to bridge the gap between the rich and the poor. A similar result was documented by Falaiye (2002) while Eisenhauer (1995) who reported that co-operatives take less collateral than banks. This arrangement can lead to the development of more personal relationships among members and thereby foster mutual co-operation and social interaction among individuals. Collective action for mutual benefit in the social capital theory is found in this study because of the use of a personal guarantor among members for a co-operative loan instead of financial and physical assets. This implies that the social and economic development benefit in the social capital theory (World Bank, 1998) is also attainable among co-operative members. This demands that members should be those of high integrity and of proven character within the community in order to access loan and guarantee other loan seekers from the scheme. This is in view of the fact that a guarantor from the co-operative is also a member of the community. However, loan diversion could have a negative effect on members who stood as personal guarantor where such loan is not repaid and as when due. This may discourage some members from acting as a guarantor to other members of the programme especially if such guarantors experience public ridicule because of another member’s debt as a result of loan diversion. Any financial service provider that desires to operate in rural areas has this to contend with since the majority of the rural dwellers do not have the type of collateral that can enable them to participate in loan products from formal banking system (Haque and Yamao, 2008; Oluyombo, 2012). The researcher interprets this to imply that serious and financially disciplined members are more likely to get out of poverty

completely if loans are properly utilised to enhance and improve an individual's income because members have equal opportunity to loan availability since collateral requirement does not apply to any of them.

The trust among members because of personal guarantees provided for other members' loans shows that members' satisfaction is derived by the inter-personal relationship that occurs among the members, whereby members see themselves as their siblings' keepers in many areas. This helps members to respond positively to socio-economic emergencies of their families and neighbours. The readiness of members to guarantee other members' loans fostered good relationships with the co-operative. This is traceable to the existence of a spirit of togetherness among the co-operative members and not essentially to cultural aspects of any small community, though this may also have some influence on the result. If the above is related to the low interest rate that is computed on the reducing balance method as identified earlier in the study, members are likely to maintain consistent loan repayments to reduce their interest since each repayment directly determines the amount of interest payable.

The flexible repayments in small instalments enhanced adherence to the loan repayment schedule because members were not forced to pay amounts their income cannot accommodate at a particular time. The ability to meet a repayment schedule by the members is very important for co-operatives that relied solely on members' savings such as those considered in this study. Such co-operatives "achieve higher repayment rate" because "it is members' fund that is at stake" (Huppi and Feder, 1990: 199). The loan processing period is still shorter than a bank loan but longer than that of money lenders who may not need to consult anyone before giving loans to people within the community.

Amidst the benefits of the role of the co-operatives found in this study, the study reveals a challenge in the lack of loan monitoring and supervision by the co-operative executives. The executives should be concerned about the use of loan to ensure that loans are properly utilised for the purpose for which they are taken. This has the potential of reducing loan default and also encourages sincere members to be more committed to the programme. This may also discourage members without genuine motives from accessing a loan. Alternatively, it may be needful to ensure that the guarantor(s) agree(s) with the purpose for which loans are obtained and monitor the loan before providing such obligation to compliment the efforts of the executives. The current duration of loan repayment of not more than twelve months is acceptable to members which may be because of the loan amount involved. If the loan amount is increased, it may not be possible to accomplish repayment within the current loan duration. Likewise, the loan processing period may need to be reviewed to make it shorter to accommodate emergency cases because "poor households are more inclined to be in need of survival measures which include emergency consumption credit facilities" (Adjei et al, 2009: 282).

There may be a need for an emergency loan which can be repaid over a longer period of time to ease the financial burden of the members because social and financial capital can be further enhanced through an emergency loan. The inability of the co-operative to provide emergency loan was another challenge found in this study which was problematic for members during the period of emergencies such as illness and accidents.

Conclusion

Overall members were satisfied with the core activities of their co-operative in the provision of loans to members at reduced interest rates without the pledging of fixed and financial assets as collateral. The low interest rates reduced the need for members to patronise money lenders and limited the possibility of loan defaults. The use of a personal guarantor for co-operative loans helped individuals who just started life or business without any assets to enable them to access a loan. The members did not see themselves as over-burdened in servicing their loans.

Satisfaction is derived by co-operative members through the personal guarantor arrangement which greatly enhanced the inter-personal relationships that arise among them, such that members do help each other when in trouble because they see themselves as their sibling's keepers and reduce their individual poverty level. These impacts show the inter-relational effect of loan features on individuals and the use of a guarantor instead of personal assets encouraged members to borrow and removed discrimination among participants. The low interest rates also encouraged new members to participate in the programme and secure loans, instead of patronising money lenders. The study therefore found that the research proposition, that co-operative societies' loan services satisfy the financial need of their members and make a contribution to improvement in rural finance, was a valid one.

The Author

Dr Onafowokan Oluyombo is the Coordinator of Banking and Finance Programme at the Redeemer's University, Nigeria; and the Editor of Redeemer's University's Journal of Management and Social Sciences.

References

Adebayo, S T, Chinedum, O H, Dabo, C S P and Pascal, H (2010) "Cooperative Association as a Tool for Rural Development and Poverty Reduction in Rwanda: A Study of Abahuzamugambi ba kawa in Maraba Sector." *Educational Research*, Vol 1, No 11 pp600-608.

Adedayo, A and Yusuf, O R (2004) "Cooperatives and Poverty Alleviation in Rural Settlements of Kwara State, Nigeria." *Savanna*, Vol 19, No 2 pp123-131.

Adjei, J K and Arun, T (2009) "Microfinance Programmes and the Poor: Whom Are They Reaching? Evidence from Ghana." *Brooks World Poverty Institute, Working Paper* 72.

Adjei, J, Arun, T and Hossain, F (2009) "Asset Building and Poverty Reduction in Ghana: The Case of Microfinance." *Savings and Development*, No 3, XXXIII, pp265-291.

Akingunola, R O and Onayemi, S O (2010) "The Role of Informal Finance in the Development of Women Micro-Businesses in Nigeria: A Case Study of Ogun and Oyo States." *International Journal of Academic Research*, Vol 2, No 5, pp331-338.

Calkins, P and Ngo, A (2005) *The Impacts of Farmer Cooperatives on the Standard of Living of Cocoa Producing Villages in Cote d'Ivoire and Ghana*. Canada: Societe de Cooperation pour le Developpement International.

Central Bank of Nigeria (2005) *Microfinance Policy, Regulatory and Supervisory Framework for Nigeria*. CBN: ABUJA.

Chiumya, C (2006) *The Regulation of Microfinance Institutions: A Zambian Case Study*. Unpublished thesis (PhD), University of Manchester.

Develtere, P and Pollet, I (2008) "Renaissance of African Cooperatives in the 21st Century: Lessons from the Field." In: P Develtere et al, eds *Cooperating out of Poverty: The Renaissance of the African Cooperative Movement*. Geneva: International Labour Office, World Bank Institute, pp38-90.

Edgcomb, E L and Garber, C (1998) *Practitioner-Led Impact Assessment: A Test in Honduras*. Washington, DC: Management System International.

Eisenhauer, J M (1995) "Malawi Union of Savings and Credit Cooperatives: Member Service Survey." *World Council of Credit Unions Research Monograph Series*, Number 8.

Enete, A (2008) "Political and Genuine Cooperatives in Enugu State, Nigeria." In: P Develtere et al, eds *Cooperating out of Poverty: The Renaissance of the African Cooperative Movement*. Geneva: International Labour Office, World Bank Institute, pp208-224.

Falaiye, C (2002) *Assessing the impact of Microcredit on Rural Nigerian Women*. Unpublished dissertation (MSc), University of Guelph.

Ghosh, A K and Maharjan, K L (2001) "Impacts of Dairy Cooperative on Rural Income Generation in Bangladesh." *Journal of International Development and Cooperation*, Vol 8, No 1, pp91-105.

Haque, M S and Yamao, M (2008) "Can Microcredit Alleviate Rural Poverty? A Case Study of Bangladesh." In: *Proceedings of World Academy of Science, Engineering and Technology*, December 2008. Vol 36, pp663-671.

Henry, H and Schimmel, C (2011) "Cooperatives for People-Centred Rural Development." *International Labour Office Rural Policy Briefs*.

Huppi, M and Feder, G (1990) "The Role of Groups and Credit Cooperatives in Rural Lending." *The World Bank Research Observer*, Vol 5, No 2, pp187-204.
Lohlein, D and Wehrheim, P (2003) "The Role of Credit Cooperatives in Rural Russia." *Gloros Policy Paper*, June, pp1-20.
Nathan, F O, Margaret, B and Ashie, M (2004) "Microfinance and Poverty Reduction in Uganda: Achievements and Challenges." *Economic Policy Research Centre, Research Series* No 41.
Ndiaye, F (2005) "Microfinance as a Strategy for Poverty Reduction in Africa." Paper delivered at *Expert Group Meeting on Poverty Eradication*. Bangkok, 6-7 July.
Oke, J T O, Adeyemo, R and Agbonlahor, M (2007) "An Empirical Analysis of Microcredit Repayment in South Western Nigeria." *Humanity and Social Sciences Journal*, 2 (1), pp63-74.
Oloyede, J A (2008) "Informal Financial Sector, Savings Mobilization and Rural Development in Nigeria: Further Evidence from Ekiti State of Nigeria." *African Economic and Business Review*, Vol 6, No 1, pp35-63.
Oluyombo, O O (2010) "Assessing the Impact of Savings and Credit Cooperatives among Monthly Income Earners." *Journal of Research in National Development*, Vol 8, No 2b, pp407-415.
Oluyombo, O O (2012) *The Role of Cooperative Societies in Rural Finance: Evidence From Ogun State, Nigeria*. Unpublished thesis (PhD), De Montfort University, Leicester.
Robinson, M S (2001) *The Microfinance Revolution: Sustainable Finance for the Poor*. USA: International Bank for Reconstruction and Development.
Rosenberg, R (1994) *Beyond Self-Sufficiency: Licensed Leverage and Microfinance Strategy*. Washington, DC: United State Agency for International Development.
Sharma, N, Simkhada, N R and Shrestha, R (2005) *Impact Assessment of SACCOSs in Nepal's Hill Districts: Findings of an Action Research*. Kathmandu: Centre for Micro-Finance (Pvt) Ltd.
Simkhada, N R (2004) "Innovations in Nepal's Microfinance Sector and Benefits for Asia — A Case Study of Four Savings and Credit Cooperative Societies operating in the Hills of Nepal." Paper Presented to the *Workshop on Sharing Microfinance Resources and Knowledge in South Asia*. February 24.
Wanyama, F O, Develtere, P and Pollet, I (2008) "Encountering Evidence: Cooperatives and Poverty Reduction in Africa." *Working Papers on Social and Co-operative Entrepreneurship*, WP-SCE 08-02.
World Bank (1998) "The Initiative on Defining, Monitoring and Measuring Social Capital: Overview and Program Description." *Social Capital Initiative Working Paper* No 1, April.