Cooperative Societies and Microenterprise Financing in Nigeria: A Literature Approach

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Abstract:

This paper aimed at discussing the potentials of cooperative societies as vehicle for funding micro and small-scale enterprises, or small businesses. The study aimed to explain the role of cooperatives in financing new venture growth and microenterprises through microfinance banks towards creating a robust framework for proper government policy intervention in the cooperative system in Nigeria. A literature approach was adopted using multiple sources of data involving a review of published reports, journal articles and relevant case studies. The study shows that cooperative societies have a significant role to play in funding and delivery of government policy interventions to micro and small-scale enterprises. The paper recommends that Nigerian government should draw useful lessons from successful countries to exploit the potentials of cooperative societies in financing small-scale business ventures. Government should also devise appropriate legal and regulatory frameworks to ensure that cooperative methods are fully integrated into Microfinance Policy in Nigeria.

Keywords: C*ooperatives, financing, microenterprises, small-scale businesses, MSMEs, Nigeria*

1. Introduction

The concept of alleviating financial constraints for prospective entrepreneurs and small business owners has increasingly become a top agenda of the policy-makers worldwide. This precipitated the need to design innovative and appropriate funding alternative models for supporting Micro, Small and Medium Enterprises (MSMEs), which are perceived as a strong engine of economic growth and development across the world (Robu, 2013). In Nigeria, MSMEs dominated the major sectors of the economy. A study by Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) has shown that there were 37,067,416 MSMEs in Nigeria, employing 59,741,211 persons, representing 84.02% of the total labour force, and makes a contribution of about 48.47% to the nation's GDP in nominal terms (SMEDAN, 2013). The breakdown of the composition of the MSMEs indicates that microenterprises alone constitute 99.8% of the identified MSMEs. Indeed, the promotion of microenterprises is perceived as an ideal solution to the employment crisis (Mosley and Hulme 1998). This is because of their preponderance and ubiquitous nature in employment and income generating activities, including small production units, groceries, street vendors, rental and catering services, supermarkets, and transportation service engaged in undocumented and unregulated economic activity. It is therefore obvious that the development of the MSME sector will have significant impact on the growth of the Nigerian economy.

Micro-entrepreneurs and small business owners face numerous challenges, particularly funding problems, due to inherent constrictions bedevilling entrepreneurship in the developing countries (Mande & Lawal, 2014). Beck and Demirguc-Kunt (2006) echo the significance of finance to small businesses, because it allows them to undertake productive investments and contribute to the development of the national economy. Indeed, funding constraints have continued to affect the growth and survival of new ventures and small businesses in developing economies largely due to poorly functioning financial markets and products. Yet, the key role that small businesses play in the process of economic growth cannot be ignored. Consequently, providing affordable financial services to micro and small-scale enterprises is a major challenge in developing countries and has remained an important issue of development strategy for several decades, especially in Africa. There is also a growing interest in creating wealth-generating opportunities in low-income group and rural areas, particularly in terms of providing a dependable source of finance to micro and small-scale entrepreneurs through cooperative model. Because the focus of cooperative societies or organisations is to maximise the welfare of their members, which is traditionally achieved through their credit mechanisms. By their nature hence cooperatives provide a very effective institutional framework with a blend of collective solidarity, viable economic activities and social mobilisation (London Economics, 2008). Cooperatives may also have significant benefits for micro and small-scale enterprises to pool their resources to achieve scale and scope in their activities towards increased performance. More significantly, the poor performance of past efforts of government to finance the small business sector has brought the strong need to devise other institutional arrangements that could provide a more satisfactory outcome, such as cooperative model (Nwankwo, Ewuim & Asoya, 2012).

The formal cooperative societies for meeting the credit needs of the urban and rural households, including the micro and small-scale entrepreneurs, have existed nearly a century in Nigeria. Indeed, the cooperatives have a great potential in providing financial services to the micro and small-scale enterprises and help towards achieving sustainable development. The cooperative model could help to provide a pipeline for channelling formal finance to small-scale businesses, especially microenterprises, which demonstrate the informal sector activities. Along complimentary line, the success of microfinance institutions in reaching the low-income group can be achieved by devising innovative strategies and financial products. These include the provision of small loans and credits to people for microenterprises, especially in rural areas. Beside mundane savings and credits activities, cooperative societies may be enhanced as on-lending microfinance institutions. Indeed, the modern microfinance has historical roots in the cooperative movement, in rural finance, since the 19th century, and in the microenterprise development sector since 1970s (Dunford, 2006). However, the nexus between Cooperative financing and Microfinance is still evolving with increasing interests in the domain by policy makers and researchers.

Theoretically, a cooperative society is commonly described as a business, voluntarily organised, operating at cost, which is owned, capitalised and controlled by member patrons as users, sharing risks and benefits proportional to their participation (Satgar, 2003). It thus has three fundamental concepts that differentiate it from other forms of business. These concepts relate to ownership and control of the organisation that lie on those who utilise its service (member patrons), return on investment is shared on equal basis, and returns on the owner's equity invested capital is limited (Aribaba, 2012). So the activities of a cooperative society are geared towards its members or the owners of the business, who are also its customers and users (Skurnik, 2002). Cooperatives mobilise local savings and administer credit to members, thereby encouraging thrift and entrepreneurial activity. They have relatively simple administrative processes and transaction costs are small and shared. However, the unique structure of cooperatives as compared to other forms of business organisations brings about greater difficulty for cooperatives to obtain debt financing from traditional sources of capital, like the banking sector.

Yet the focus of the Nigerian government microfinance policy is to enhance the access of micro-entrepreneurs and low income households to financial services required to expand and modernise their operations for rapid economic growth (CBN, 2011). The aim is to broaden financial services access to a large segment of the productive population which otherwise would have little or no access to financial services (Oladejo, 2011). Microfinance essentially means micro credit; or the system and practice of providing financial services to the poor or low-income group and other such initiatives or methods by formal agencies, including microfinance banks and government poverty alleviation programmes. According to Oladejo and Oyedele (2014), the evolution of microfinance banks would have effect on cooperative and sustainable development. CBN (2011) defines a Microfinance bank (MFB) as any company licensed by the Central Bank of Nigeria to carry on the business of providing financial services, such as savings and deposits, loans, domestic fund transfers, other financial and non-financial services to microfinance clients. It is perceived as a better and reliable means of providing financial services to the poor (Oluyombo, 2010). Thus, microfinance is a reflection of the small banking system for the poor, which evolved in many countries, including Bangladesh (Grameen Bank), India (Self-help Group-Bank Linkage Programme - SBLP) and Bolivia (BancoSol).

The changes in the Nigerian financial system vis-a-vis the quest for financial inclusion have drawn attention on the need to examine the financial role that cooperative societies can play in the economy. The main purpose of this paper is to examine the prospects of cooperative societies as vehicle for funding microenterprises, a topic which has received surprisingly little scholarly attention, given its implications for the effectiveness of microenterprise contributions to the national economy. Since most studies focus on the formal sources of funding new entrepreneurial ventures and small businesses, the paper explores the means through which cooperative societies can play a significant role in microfinance in Nigeria aimed at promoting public policy. The paper seeks to answer the questions, whether cooperatives have a major role to play in financing new venture growth and microenterprises in Nigeria? If yes, then whether a synergy between cooperative societies and microfinance banks financing methods can foster credit delivery to microenterprises The outcome of the study will help in creating a robust framework for proper government policy interventions in the cooperative system in Nigeria.

The remaining section of the paper is structured as follows: Section 2 covers literature review, section 3 deals with methodology and 4 discusses the emerging scenario about cooperative societies and microfinance banking and section 5 covers challenges facing cooperative financing in Nigeria. Section 6 provides lessons for effective cooperative societies in Nigeria and section 7 proffers the way forward, while the last section 8 concludes the paper.

2. Literature Review

2.1 Microenterprises and Small-scale Enterprises (Ventures)

The significance of MSMEs in economic growth and development has been well elucidated in the economic and financial literature, as they have positive effects on employment generation and poverty reduction (CBN, 2014). The proper definition of small-scale enterprise or business is still a mirage, because of the challenge of conceptualisation due mainly to the thin dividing line between enterprises as well as differences in interpretation that differ from country to country and industry to industry. CBN (2014) reports that in the US, any business entity employing 500 workers and less is considered a small-scale enterprise, whereas in India, enterprises with employees between 1 and 100 are small-scale enterprises. More so, in Uganda, enterprises with 10 and less employees are microenterprises and those employing more than 10 but less 50 are small-scale enterprises, while those employing between 50 and 100 are categorised as medium scale enterprises. In Nigeria, the National Policy on Micro, Small and Medium Enterprises defines microenterprises as employing less than 10 people with assets (excluding land and buildings) of less than =N=5 million, small enterprises as between 10 – 49 employees and assets between =N=5 – =N=50 million, while medium enterprises are those with between 50 and 199 employees and assets between =N=50 – =N=500 million. It should be noted that, where there is conflict of classification between employment and asset size, the policy gives prominence to the number of employees over asset size. Whereas Nwankwo *et al.* (2012) characterised SMEs as small units, often rural-based and family-owned and largely labour intensive in nature with low-level technologies. This study adopts the definition of Aribaba (2012) of the term small-scale business as an enterprise considered to be owned by one or two persons, and is family-influenced in decision-making, with no defined organisational structure and has a relatively small market share as well as employing less than 50 persons. Therefore, the term microenterprises and small-scale enterprises refers to "small enterprises", which operates in the informal sector of the economy.

The lack of finance has remained one of the biggest impediments to the success of most entrepreneurial ideas and start-ups, as well as growing new ventures. It is important to identify other sources of funding the enterprise, particularly at the small-scale enterprise level. The inability of the low-income group to access formal credits, especially in the rural areas, in Nigeria has daunting effects on the growth of micro and small-scale enterprises and the development of entrepreneurial ideas. A major informal source of funds to many households is the cooperative organisations formed and administered by the people. Financial resources from the cooperative participation encourage households to engage in small investments in small enterprises. The cooperative organisations provide a platform where people work together to resolve their problems (Fapojuwo, Alarima & Abiona, 2012; Akpan 2015). Thus, micro-entrepreneurs and venture owners that have financial constraints for their small enterprises could access credits through the cooperative system.

From independence in 1960, the Nigerian government has been consistently involved in the provision of special financial services to fostering the growth of the MSMEs. These financial services are being provided either directly through government specialised institutions (e.g. the Bank of Agriculture, the Bank of Industry and the National Economic Reconstruction Fund), or indirectly through commercial banks and development finance institutions and programmes (e.g.

the Small and Medium Industry Equity Investment Scheme, the Small and Medium Enterprise Credit Guarantee, and the Agricultural Credit Guarantee Scheme), or as a collaboration with development agencies (e.g. World Bank, IFC and AfDB). Nigerian government policy interventions are common in the area of provision of finance to small-scale businesses, where for example, the Development Bank of Nigeria (DBN) was established in 2016 to cater for the MSME sector. However, the government has failed to take the advantages of cooperatives as a potential means of micro-credit delivery to microenterprises and, indeed, the informal sector. The neglect of cooperative approach to financing is obvious from the various micro-credit delivery programmes of the government as well as the evolving Microfinance Policy in Nigeria (Oladejo, 2011). The policy only mentioned cooperative society as merely a channel for poverty alleviation and rural development, but not for financing the MSMEs (Nwankwo *et al.* 2012).

2.2 Cooperative Societies

A cooperative is simply an association of persons who pool their resources together on mutual basis to solve specific socio-economic problems, including income generating activities (Otto & Ukpere, 2011). The origin of cooperative societies is traced to 1844 with the establishment of Rochdale Society of Equitable Pioneers in England. The classic objective of Rochdale Pioneers was the mobilisation of capital from the members to start a profit-making business, for the sole purpose of pecuniary benefit and improvement of the social and economic conditions of its members (ICA, 2015). Whereas the global origin of thrifts cooperative emanated from the credits society formed by Herman Schulge – Delitzsch in 1851 to provide credit facilities to debt ridden peasant farmers in Germany (Taylor, 1974). In Nigeria, the first formal cooperative society was Gbedun Cooperative Produce Marketing Society Ltd formed in 1937 under the Cooperative Societies Ordinance No. 6 of 1935, which was modelled on the Indian Cooperative Societies Act of 1912 (Yebisi, 2014).

The role of cooperatives has different dimensions, in a capitalist system, they serve the interest of the diverse members to help realise their economic objectives related to production or consumption. In a mixed economy, they serve the welfare objectives of the state in the area of poverty alleviation and empowerment of the poor (Parthasarthy, 1991). Whereas in a socialist system, cooperatives are perceived as instruments that can help in the transformation of the society into a socialistic form ending inequality and exploitation (Khyostov, 1975 cited in Shylendra, 2011). Consequently, cooperatives are considered as an instrument for attaining larger goals of development with a focus on the poor and vulnerable groups. Hence, the success of cooperatives can be measured by their real impact on the low income strata of the society. Despite numerous attempts at developing a theory of cooperation (Emelianoff, 1948; Robotka, 1957; Kennedy, 1983), the theory of cooperative society has remained weak and illusive (Skurnik 2002). Because the concept of cooperatives is better in practice than in theory. Most of the studies on cooperatives have dwelt on agricultural development and related activities rather than financing micro-entrepreneurs and microenterprise development (Devi & Govt, 2012; Memane, 2012; Keyagha, Ilavbarhe & Ada-Okungbowa, 2016). Oladejo (2011) opines that the cooperative method provides the best funding alternative for MSMEs than all other economic grouping and schemes. The formation of cooperative societies are often predicated on the growing need for credit and access to the basic necessities of life and articles of trade (Kareem, Arigbabu, Akintaro & Badmuset, 2012). They play an important role in the economic advancement of the society, such as fostering entrepreneurship, wealth creation and securing social services, welfare and classifying production units (Aribisala, 2012). Hence cooperative societies can be a viable instrument for change and should thus attract public support. A major area in which the cooperatives have key role to play is credit to microenterprises. The changing dynamics of the financial development, especially in terms of financial inclusion in the developing countries, has precipitated the strong need for applying new approaches and creative methods in funding microenterprises, which dominate the informal sector of the economy. In this wise, the role of cooperative societies can be accentuated to facilitate the flow of funds from both member patrons and formal microfinance institutions in form of on-lending facility to cooperative members. Although microfinance is not a new concept in finance, business, economics, in practice a lot is to be explored as to its potential impact among micro-entrepreneurs and small venture owners, who can organised themselves into cooperatives. The nexus between the cooperatives and the microfinance has been well established, since cooperatives have a long history of providing financial services to the poor and low-income people (Shylendra, 2011). Cooperative banks and credit unions were initially established to reduce poverty and high indebtedness among small-scale farmers and craftsmen in urban and rural areas. Therefore, the unprecedented challenge of raising capital for small venture growth have inspired micro-entrepreneurs or small-scale business owners to exploit the benefits of coming together with others to form cooperative societies. Such cooperatives will help them to finance their business ventures and to share other resources, including knowledge, skills and business information (Akpan, 2015). Oladejo (2013) accentuates the importance of cooperatives as an informal capital market for entrepreneurship. Also, the cooperative societies are a veritable opportunity through which government interventions can be channelled for small venture creation and growth largely due to their greater intimacy with micro and small-entrepreneurs or borrowers compared to the banks.

The regulation, structure and operating principles of cooperatives differ from country to country. In Nigeria, there are two strands of cooperative societies: one that is purely promoted and operated by independent citizens (either for all people or based on vocation) and the other promoted by employees within their workplace (workers cooperatives). According to the Nigerian Cooperative Societies Act of 2004, primary cooperatives operate at the community level and must have at least 10 members to be registered with the State Departments of Cooperatives. Whereas the employee-based cooperative societies are usually promoted and supported by employers. More often, the employers support their employee cooperatives by providing financial grant to enable them to broaden their credit capacity for the benefits of their members. Such grants provide revolving credit facility, which help the cooperatives to maintain good liquidity in their credit operations. This principle would be relevant to potential of linking cooperatives to formal financial institutions, particularly microfinance banks, which can provide a strong funding base for cooperative members through on-lending system.

The three major sources of capital to a cooperative society or organization are members, retained surpluses generated by the cooperative business and outsiders, which include banks, suppliers, government or donor agencies (Oluyombo, 2010). Empirically, Agbo & Chidebelu (2010) examined the extent to which cooperative societies had access to the special intervention fund on agriculture administered by the Nigerian Agricultural Cooperative and Rural Development Bank (NACRDB). They found that the operational guidelines of the bank, which among others spell out minimum credit requirement, type of crop grown, approved loan size, and insurance cover affected access to the intervention fund. In a separate study, Aribaba (2012) found that cooperative loans have positive impact on the performance of small-scale business ventures and hence a membership of cooperative society is likely to be beneficial for owners of small ventures.

2.3 Cooperatives in Economic Development

Cooperative societies or movements have had a lot of potentials for growth and development of nations, even though they are more prominent in the developed countries than in the developing countries. The 2014 Global Census on Co-operatives shows that cooperative economy contributes more than 10% of the Gross Domestic Product of New Zealand (20%), Netherlands (18%), France (18%) and Finland(14%). Whereas the cumulative world cooperative assets stood at US$19.8 trillion and they generated US$2.96 trillion in annual revenue through 770,000 offices (United Nations, 2014). The report indicates that there is preponderance of agricultural cooperatives largely in India and China. In the US, cooperatives are visible in important sectors of the economy, including agricultural value chain, electricity generation and distribution, housing, banking and insurance (Oladejo, 2011). Similarly, in the UK, consumer cooperatives controlled a fifth of market share and are pre-eminent in the small supermarket sector (Nwankwo *et al.*, 2012). In Nigeria, government has used cooperatives in achieving a wide range of objectives in the development of the country, especially in agricultural value chain and extension services (Oladejo, 2013).

Cooperative societies are commonly used as a form of enterprise across the world. Cooperatives mobilise local savings and administer credit to members, thereby encouraging thrift and entrepreneurial activity. They have relatively simple administrative processes and transaction costs are small and shared. They provide pragmatic solutions to cooperative members in achieving a goal that is beyond the resources of an individual when working together (Akpan, 2015). There are numerous types of cooperative societies in Nigeria, including agricultural or farmers, marketing, producers, employees, trade or artisans, and credit and thrift (EInA, 2012). The concern in this paper is the credit and thrift cooperatives, which advance the entrepreneurship through provision of finance for start-up capital and growth of microenterprises. Cooperative members often act as micro-entrepreneurs, mostly engaged in informal trading and micro-production activities that require small-size financial capital. These informal venture activities have cumulative great positive impact on the economy. Consequently, the collaborative efforts of the banks and other financial institutions, as well as the government in funding small-scale business ventures can be channelled through the cooperatives system. The principles and spirits of cooperatives are likely to help ensure better loan recovery, reduce risk and cost of intermediation for the lenders (Nwankwo *et al.*, 2012). The cooperatives can complement the efforts of the government, banks and other financial institution in funding microenterprise by providing a vehicle for channelling finance to them. Because the cooperative societies could serve as data base for funds mobilisation from which their members would borrow in line with the principles of cooperatives. More importantly, cooperatives can interface between the lending governments and the banks on one side, and the borrowing small-scale business owners on the other side (Oladejo, 2013). More importantly, the established financing channel will spur growth in the national economy as depicted in figure 1.

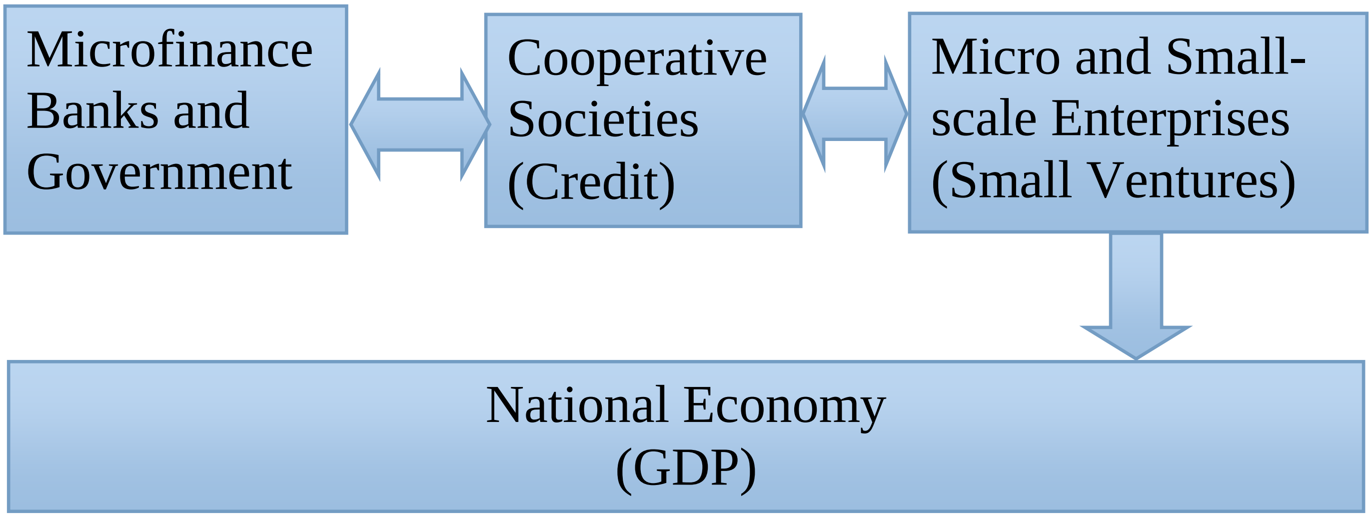

Figure 1: Flow of funds from MFBs and Government Programmes through Cooperatives to Micro and Small-scale Enterprises or Small Ventures (vice versa), as well as the linkage to the national economy (GDP).

Source: Author

As demonstrated in Figure1, the cooperatives can serve as a financing intermediary between MFBs/ government programmes and small-scale enterprises. Since a cooperative is a corporate entity, default is minimised and the safe custody of the funds is guaranteed (Oladejo, 2013). This cooperative model of micro and small-scale enterprise financing is likely to encourage small entrepreneurs to become members of cooperative societies so as to access finance from government intervention funds and microfinance banks (MFBs), as well as other financial institutions. The cooperative financing model is also expected to provide enhance flow of funds to microenterprises for new venture growth and development. Although the cooperatives can play a significant role in credit delivery to the informal sector, particularly to the microenterprises, the Nigerian government has continued to give them a lip service with limited recognition in the development process (Oladejo, 2011).

2.4 Cooperatives as a Means of Microfinancing

The desire for increased financial inclusion in developing countries has precipitated various public policy measures aim at broadening access to financial services to individuals and microenterprises. However, the real path to success is mainly constrained by the financial sector's considerations of lending risks and service profitability, which exclude microenterprises. Thus there is the need to address the problems of service delivery to the excluded individuals and microenterprises towards accelerated attainment of financial inclusion in the economy. From the cooperative perspectives, the literature has shown that the performance of cooperative societies in meeting their expected micro-credit roles in Nigeria is largely constrained by limited and inadequate capital base, poor leadership (Akinwunmi, 2006 cited in Oladejo, 2011), poor accounting and record keeping (Owojori & Oladejo, 2009), lack of mutual training and exposure to modern management techniques (Nwankwo *et al.*, 2012), ambiguous government role in their affairs (Ezekiel, 2014) and the changing dynamics of the world. However, EInA (2012) posits that cooperative society has the potential benefits to its members which can lead to desired outcomes, such as better access to credit and increased microenterprise performance in the form of growth, revenue, profitability and number of employees. More so, the cooperatives can be perceived as distinct organisations within the entrepreneurial value chain (Nwankwo *et al.*, 2012). Because the benefits of cooperatives to members are beyond credit facilities to providing entrepreneurial support in form of technical assistance and fostering networking through social interactions. Besides mundane savings and credits activities, cooperative societies can be enhanced as on-lending microfinance institutions. When cooperative members access credit facility through their cooperatives, there is the tendency to reduce the risk of default (Oladejo, 2013). The cooperatives can also serve as effective mechanisms for dissemination of valuable information on ways to improve small-scale ventures. Since cooperative societies usually have multiple objectives, a business financing cooperative may include business management and monitoring as some of its objectives towards building their entrepreneurial capacity to access markets and formal sources of finance (Akpan, 2015). Hence, cooperatives can be transformed into a formal source of finance by giving them mandate to participate in the microfinance banking for greater financial inclusion in Nigeria. The cooperative model could help to provide a conduit for formal finance to small-scale ventures. Thus, it is important to encourage micro-entrepreneurs and small-scale venture owners to form themselves into cooperative societies in Nigeria. Such cooperative members can pool their resources together and provide loans to members to start-up or expand their ventures. More significantly, the cooperative organisations can serve as intermediaries for on-lending from microfinance banks and other financial institutions.

2.5 Sources of Finance for Micro and Small-scale Ventures

The major sources of finance to the micro and small-scale entrepreneurs or small business ventures are formal and informal sources. The formal sources include banks, government loan agencies and programmes and financial institutions. Whereas the informal sources of finance include business owners', savings, friends, families, rotating-savings-loan or "esusu" and money lenders, as well as cooperative, thrift and credit societies. In developing countries, the informal sources of finance remain the main provider of funding to the micro and small-scale enterprises or small ventures. Among others, the role of the cooperatives in the provision of credit to micro-entrepreneurs and small-scale business owners is well recognised in the literature (Yunus 2008, Narayan & Petesch 2009). Small ventures face serious difficulties in accessing credits from the traditional banking system, which affect the survival and growth of MSMEs mainly due to their higher risk-return profile.

The formal sources of finance for microenterprises and small-scale ventures have been very narrow due mainly to credit requirements, particularly collateral and equity contributions by venture owners. Whereas the informal sources dominated by personal loans from families and friends are drying off as a result of changing business ethos that erode confidence in terms of personal loan repayments. The cooperative society or organisation is becoming a major source of informal credits to households, especially because cooperative and thrift organisations manifest great potentials for micro lending to entrepreneurs and small venture owners. However, the cooperative financing option is inadequate, largely due to their narrow capital base relative to the funding needs of the small businesses (Oladejo, 2013). This couple with the numerous challenges faced by cooperatives, including bad leadership have seriously constrained their ability to effectively meet the credit needs of cooperative members. The challenge of meeting the credit needs of the low-income and the poor segment of the society by the cooperatives has been a major debating issue for decades. The potential impact of cooperatives in the microfinance system is becoming more recognised than ever before as a result of their nature, being pro-poor and equitable in operations (Shylendra, 2011). More significantly, the cooperatives as players in the informal market have greater flexibility in their thrift and credit activities than formal banking institutions, which are closely monitored and regulated by the central bank. Hence, the potential catalytic role of cooperative societies in the financial sector, particularly in the area of micro-credit delivery to the microenterprise and small-scale ventures is really worthy of exploration with a view to generating relevant financial policy.

3. Methodology

This study adopts a literature based approach using multiple sources of literature, including a review of information collected from on-line journal articles, published reports and publications which were fully acknowledged in the references. The study uses content analysis to examine the role of cooperative societies in financing new venture growth and microenterprises through microfinance banks towards creating a robust framework for proper government policy intervention in the cooperative system in Nigeria. The choice of this method is influenced by the need to adequately explain the potentials of cooperative societies as a vehicle for funding microenterprises, or small business ventures in Nigeria.

4. Cooperatives and Microfinance Banking: The Emerging Scenario

Cooperatives primarily refer to the credit cooperatives established under the Nigerian Cooperative Societies Act of 2004. The focus here will be largely on the credit cooperatives, which raise funds among members for the benefit of members in need of financial resources, either for personal consumption or investment in micro and small-scale ventures. Micro-entrepreneurs are poor economic actors and those in petty businesses who characteristically may lack clear rights to land and assets (collateral), mainly living in the rural areas and socially discriminated (Shylendra, 2011). Such group are prone to great difficulties in obtaining credit and other financial services from formal banking institutions, like microfinance banks and commercial banks. The concept of microfinance banks (MFBs) is mainly targeted at such category of households, yet they face difficulties to access finance from such sources. Really what distinguish microfinance from other formal financial products are smallness of loans and savings, absence or reduced emphasis on collateral, and simplicity of operations (CBN, 2011). Microfinance services particularly, those sponsored by government, have adopted the traditional supply-leading phenomenon through subsidised credit approach mainly directed to the agricultural sector and non-farming activities, such as trading, baking, tailoring and carpentry.

microenterprise or small-scale venture has certain influence on the local economy, particularly because it is low capital intensive, hence adds to the national income and employment for every amount of money invested**.** More significantly, the microenterprise provides a platform for entrepreneurial learning and development, where several small entrepreneurs will emerge the future industrialists and business leaders in the country. This precipitated the need for public policy to support the nascent cooperative organisations, especially in providing them a door for accessing development funding through the national microfinance policy framework, and, indeed, the newly established Development Bank of Nigeria (DBN). More recent developments in the microfinance banking have indicated that proper design of appropriate policies would have the potential to generate substantial achievements in the areas of sustainability and greater institutional outreach. The policies need to address critical issues such as creating a favourable policy environment, improving the regulatory and supervisory framework that supports wider micro financial markets. Cooperative societies may be identified as a major microfinance institution because of their widespread, easy accessibility and convenient terms for cooperative borrowers. The Nigerian banking reform has brought some serious challenges to the microenterprises and small-scale ventures in spite of the adoption of microfinance banking policy (Oladejo, 2013). The emerging scenario opened the opportunity for the cooperative financing option to bolster the flow of credits to the low-income group, and, of course, the micro-entrepreneurs and small-scale venture owners, who contribute to the output of the economy. Simultaneously, in the saving mobilisation activities, the cooperative financing model can broaden the microfinance depositor base and make the linkage with savings and investment in national development process. Generally, the members of the cooperative seem to exhibit greater confidence in themselves than working as individuals (Akpan, 2015). They believe that their cooperative actions can lead to desired outcomes, including easy and better access to credit as well as increased microenterprise performance in the form of growth, revenue, profitability and number of jobs. Beside their positive role in the promotion of small-scale business development, the cooperatives too operate as business entities for the benefits of their members.

In Nigeria, there has been a long-drawn effort since the emergence of formal microfinance banks (MFBs) to broaden the delivery of financial services to the low-income group aimed at greater financial inclusion in the country (CBN, 2011). Despite the fact that the CBN requires MFBs to lend at least 80 per cent of their loan portfolio to microenterprises, their impact on credit delivery to MSMEs is still marginal (EFInA, 2012). It is therefore important that a reform in the prevailing framework for MFBs should provide an avenue for the participation of eligible cooperatives in the effective mobilisation of savings and credits for MFBs. The linkage of MFBs with the cooperatives must be seen both in the historical and the emerging context. It is supposed to be a 'win-win' situation both for the cooperative members and the MFBs. The cooperative members will be able to get access to a formal source of finance to fund their micro and small-scale enterprises, whereas the principles of cooperatives or group lending will help to ensure better recovery, reduce risk and cost of intermediation for the microfinance lenders. Cooperatives have been a proven method for credit to the poor and small-scale venture owners, who are the focus of microfinance banking (Oladejo, 2011). It is hoped that cooperatives can accelerate the success of microfinance banks to reach out to the poor and, indeed, the rural economy. The other advantage is the business prospects involved in promoting cooperatives and sustainable cooperative banking in Nigeria in the future. Cooperatives have a potential to bring balance in addressing various development challenges, especially those concerning the negative consequences of microfinance for their members.

The emerging scenario support the integration of cooperative societies into the Microfinance Policy in Nigeria. It is now common that emphasis is being placed in group approach to extending credit to the low-income producers and investors (Tankha, 2002; Oladejo, 2011). The Nigerian Microfinance Policy can adopt a cooperative approach to financing by main-streaming cooperatives to act as a vehicle for saving mobilisation and credit delivery to the low-income group, especially in the rural areas. The Microfinance Policy should provide standard operating Guidelines for cooperative societies that wish to perform financing activities without converting to MFBs for effective monitoring and compliance. The Guidelines should allow the MFBs to extend on-lending banking services to eligible cooperative societies for the benefits of their individual members. The eligibility of cooperatives to serve as accredited medium of on-lending should seek for compliance to certain level of deposit base in terms of member contributions, corporate governance framework, as well as personal guarantees by credible trustees or high-net worth individuals in support of the participating cooperatives. The participating cooperatives should also be required to receive structured capacity building training on entrepreneurship and business development for the leaders and members from regulatory institutions. In this case, the Central Bank of Nigeria may outsource the supervisory role of financial cooperative societies or create a subsidiary organisation that could be responsible for the regulation and supervision of on-lending cooperative societies for stability, accountability and transparency. The main-streaming of cooperative societies to provide microfinance will foster greater credit delivery to the low income group of society, including micro entrepreneurs. The cooperatives access to microfinance funds will enhance their capacity to finance their members through on-lending facilities of MFBs or development institutions like Development Bank of Nigeria (DBN).

The MFBs and cooperatives need to develop synergy in the area of savings mobilisation and credit delivery to the low-income group through a beneficial working framework. The cooperatives could provide avenues for the flow of member savings into the MFBs and in turn the banks could avail wholesale credit to the cooperatives for the benefits of their interested members through cooperative mechanism. In this wise, instead of dealing with individuals, the MFBs will have to deal with a cooperative entity, which in turn will manage the disbursement and collection of repayments to its members in a usual cooperative manner (Oladejo & Oyedele, 2014). However, the integration of cooperatives into the microfinance banking framework should not preclude the MFBs from providing direct banking services to the public.

The Nigerian Microfinance Policy should accommodate other institutions, such as cooperatives, which can be a major player offering the mobilisation of savings and credits to the micro entrepreneurs both in the rural areas and the urban centres. Many new forms of relationships are emerging among MFBs and the cooperatives as well as government financing programmes leverage on each others strength. Despite such new developments the penetration of microfinance banking remains low with significant huge gaps to be filled and this call for further changes in microfinance space for greater financial inclusions. The government (at federal, state and local levels) should initiate incentive based measures that will encourage cooperatives to become more inclusive in their workings, including drive for universal membership. Such measures could include the provision of subsidy or concessionary loan to foster interest of the poor to subscribe to the share capital of the cooperatives. The linkage of cooperatives with MFBs has the potential benefits of strengthening the cooperative savings mobilisation and lending activities, and promoting bankable projects for financing by MFBs in the country. This supports the view of Oladejo and Oyedele (2014), who propose a synergy between cooperative societies and the MFBs through a cooperative model. Such synergy will foster the ability of MFBs to mobilise savings for lending through cooperative model (Oluyombo, 2010).

5. Challenges in Nigeria's Cooperative Financing

The desire for increased financial inclusion in developing countries such as Nigeria is mainly constrained by various factors in the financial environment, which need to be addressed for effective financial service delivery to the excluded individuals and small-scale business ventures in the economy. This study has noted the need to elevate the status of cooperative societies for proper recognition as a vehicle for financing new venture growth and microenterprises in Nigeria. It identified the core problems that would constitute the focal points for support to cooperative societies in enhancing their role in microfinance banking in Nigeria, which include:

5.1 Financial problems — the capital base of cooperatives remained very narrow relying largely on periodic contributions of cooperative members, which is relatively small when compared to the need of small-scale business ventures (Oladejo, 2013). The cooperative societies also are not immune from the vagaries of microfinance providers, because of their lowly capital base, which affects their ability to supply meaningful credits to members (Oluyombo, 2010) .

5.2 Structural problems — the cooperatives are organised as an informal self-help group rather than a formal and well regulated entities. Therefore, they suffer from inherent weaknesses arising from their structural formation as social, voluntary and democratic entities. These constrained them from imposing strict measures and disciplines on themselves and prefer to act on common consent, hence negatively affect their adherence to the principles of good governance (accountability and transparency) to members and the society at large. The structural problems vis-a-vis the nature of cooperative members bring about noxious believe in the official circles that cooperatives are for the poor and the low strata of the society. The poor perceptions of government officials on cooperatives affect their attitudes to resist reforms that favour cooperative societies due to the lack confidence in cooperatives (Nwankwo *et al.*, 2012; Oladejo, 2013).

5.3 Regulation problems — these relate to the regulatory environment for cooperative societies, particularly relating to financial flows to cooperatives for the ultimate benefits of their members, including micro and small-scale entrepreneurs. The cooperative and banking laws and regulations top the list of such major constraints in regulations. Thus, the regulatory and supervisory framework need be institutionalised and strengthened for effective monitoring and regulation of cooperatives, particularly those in thrift and credit activities towards sustainability and greater protection of members and the public interest. It is important that regulation relating to cooperatives goes beyond mere registration and monitoring by government ministries.

5.4 Governance and Capacity problems — these revolve around lack of capacity building and good cooperative governance, which continuously constrained the growth of cooperative societies in Nigeria. The issue of leadership is a serious challenge to the cooperatives, because bad leadership has hamstrung the development of cooperative societies in Nigeria (Dimelu, Enwelu, Attah & Emodi, 2014). There is an apparent loss of confidence among members about the integrity and steadfastness of the leaders and patrons of cooperatives due mainly to prevalent cases of corruption and lack of transparency and accountability in the conduct of their affairs (Oladejo, 2013). Members are hesitant to commit their resources to the cooperative movement, perhaps due to lack of trust on the leadership and poor orientation of cooperative societies as instrument for accessing external and government support services and finance. Other major challenges include governance and managerial issues, as well as apparent lack of government interest in cooperative development (Nwankwo *et al.*, 2012).

6. Way Forward

Despite the numerous challenges, cooperative societies have significant roles to play in financing new venture growth and microenterprises, as well as the delivery of government policy interventions to microenterprises and small-scale ventures in Nigeria. It is thus noted that government should be more supportive to cooperatives by eliminating policies that might be inimical to their existence (Nweze, 2001). The role of the cooperatives can be enhanced by creating a robust policy framework which will foster linkages between them and microfinance banking institutions. The following critical areas need to be addressed to facilitate the adoption of cooperatives in the Nigerian Microfinance Policy as a vehicle for saving mobilisation and credit delivery to the microenterprises and small-scale entrepreneurs, especially in rural areas.

6.1 Cooperative financing - cooperatives can play a significant role in the promotion of members' businesses, particularly by providing linkages between the financial institutions and their members. Consequently, the cooperatives can provide both debt and equity capital to members/enterprises. The debt financing or capital could come in the form of a loan to members/entrepreneurs, who will repay the loan with interest over a set period of time. The equity financing or capital could be provided in the form of equity or share ownership in business venture or enterprise, which often translates into a share of the profits of the venture or enterprise. In this wise, the cooperative may invest in relatively well established micro and small-scale ventures, either as a simple co-owners or a 'venture capitalist' to share in the growth and prospects of the enterprise. It is therefore imperative to devise methods to broaden the deposit base or lending capacity of cooperatives. Hence, the need to explore the viability of linking cooperatives with banking institutions, particularly the microfinance banks (MFBs) for inflows of loanable funds to members for consumption and investments in small businesses (Oluyombo, 2010; Nwankwo *et al.*, 2012). More so, government needs to assist cooperatives by providing budgetary financial grants or development finance to the sector, perhaps through the Development Bank of Nigeria. This is because other sources of funding to cooperative system are unrealisable due mainly to negative attitude toward cooperatives and, indeed, lack of appropriate financial schemes for cooperatives and their individual members, who would normally not qualify for bank loans, even at micro banking level. This no doubt support the need for policy framework that could facilitate the flow of developmental funds and microfinance through cooperative system to the low income group in the country.

6.2 Legal and regulatory reforms - this study hypotheses a framework where the cooperatives can participate in greater micro-lending activities by getting institutionalised as appendages of microfinance banking institutions in Nigeria. Beside maintaining their original concept, the cooperatives should transform as an instrument for mobilising savings and providing expanded credits to members by accessing huge on-lending loans from formal microfinance banking institutions and government special small credit programmes. The government should revise the legal and the regulatory framework of cooperative societies in Nigeria to give a mandate to cooperatives to act as microfinance channel and a link between the formal financial institutions, particularly microfinance and development banks. This will ensure that the cooperative societies in Nigeria provide veritable means of disbursement and repayment of loans, hence increase the flow of funds to members. The CBN should establish a regulatory agency (National Credit Cooperative Agency) to regulate and supervise credit cooperative societies in line with best practices. The Agency will enable the CBN to properly regulate the credit cooperatives with minimal stress in view of its other enormous regulatory and surveillance responsibility over the formal banking institutions. The focus of the Agency should include corporate governance and risk management frameworks, savings and credit management process, and institutional development.

6.3 Strengthening cooperative governance - most cooperative societies are in crisis regarding their operations, loans disbursement and repayment system mainly as a result of poor governance framework. Hence, instilling the culture of good corporate governance in the practice and operations of cooperatives will not only ensure orderliness and efficiency in the operations of the cooperative but it will enhance the credibility of the cooperative in securing loans for its members and collaboration with other governmental and non-government agencies. The cooperative society should adhere to the basic principles of corporate governance, namely, accountability, transparency, predictability and participation. The entrenchment of good corporate governance will increase the trust and competence of the cooperative members and that of the microfinance institutions in dealing with the cooperative societies.

6.4 Capacity building - it is important that the emerging scenario recognises the need to develop the capacity of the cooperative members. The cooperative society should not only seek to provide funds to members alone but have capacity building plans to train them, particularly in small business management and development. The aim is to empower cooperative members with technical skills and latest development to improve their entrepreneurial skills and productivity levels. This will further improve their capacity and productivity, such that the repayment of loans will be guaranteed. The SMEDAN, which is charged with the role of capacity building in the MSME or small business sector, and the CBN for the microfinance banks should collaborate with other development agencies to design appropriate capacity building programmes for cooperative officials and members.

7. Lessons for Effective Cooperative Societies in Nigeria

The activities of cooperative societies in Nigeria have been limited by the nature of policies and the perception of the basic functions of the cooperative society, which seem to be restricted to poverty alleviation and rural development programme as against microfinance channel to microenterprises and small-scale ventures. This scenario has hampered the efficient functioning of cooperatives in Nigeria. However, this study contends that with appropriate framework the cooperatives will function more as a microfinance channel to microenterprises and small-scale venture owners that will ultimately result to poverty alleviation and rural development. Its proposition thus lies in the significance to raise a public policy that will expand the financial operations of cooperative societies to provide intermediary functions between microfinance banks and cooperative members. It is apt to review the cooperative experiences in some selected countries and their transformation into other forms of institutions over the years. From such experiences, Nigeria may adapt a successful cooperative model that will suit her socio-economic environment.

7.1 Grameen bank in Bangladesh

A classic role of cooperatives in microfinance is in the operations of Grameen Bank (GB) in Bangladesh, which evolved from the early 1970s. The monumental growth of GB was as a result of a successful experiment involving the issuance micro-loans worth $27 to 42 destitute women that used the loans to engage in microenterprises (Satgar, 2003). The GB provides alternative banking model for the poor and small-scale venture owners by removing collateral requirements and developing a banking system based on mutual trust, accountability, participation and creativity. The GB lending system is based on the voluntary formation of small groups of five people to provide mutual, morally binding group guarantees in lieu of the collateral required by conventional banks. It operates using modality of collective guarantees, close supervision and peer pressure from other members of the Grameen group. Such micro-credit issued to small groups, enables them the opportunity to engage in microenterprises and small-scale ventures, as well as empowers them to escape from the vicious poverty cycle. The GB model has been very successful as a bank for the poor. This made Satgar (2003) to argue that the success of the GB lending approach indicates that a number of challenges to credit to the poor and low-income group can be addressed. These include the ability of the poor to identify viable microenterprises, save and repay loans, because the small group method adopted by Grameen Bank has been very successful in funding microenterprises and small-scale ventures mainly owned by poor women. In addition, Dunford (2006) contends that many microfinance programmes in Bangladesh are reaching large numbers of the very poor while fully covering their costs.

7.2 Microfinance in India

The cooperative movement is the foundation for microfinance in India. The evolution of the Indian microfinance focuses on poverty alleviation in rural areas, which drives the policies and operations of microfinance in the country. It also manifests the predominance of both State and Non-Governmental Organisations (NGOs) in the delivery of microfinance services. The Indian government enacted the Cooperative Societies Act in 1904 aimed to extend the credit in the villages under government sponsorship. The rural credit cooperatives became a strong pillar for the provision of financial services to the agrarian poor through mobilising savings from the few resources of the poor and providing them to those in needs of credits. The independent government of India found it expedient to capitalise on the potentials of credit cooperatives in credit supply to the rural poor, and to regulate money lending and promote rural credit cooperatives as an alternative to money lenders (Shylendra, 2011). The government approach was supply-driven through the provision of subsidised credit by state controlled or directed institutions to rural population. The failure of the credit cooperatives to meet the expectation of the populace caused the Indian government to introduce some fundamental changes in microfinance institutional delivery. These include the introduction of state driven rural finance programme through national banks and the emergence of NGOs in microfinance space in 1969. Consequently, two forms or models of microfinance emerged in India: the Self help Group (SHG)-Bank Linkage programme (SBLP) promoted by National Bank for Agriculture and Rural

Development (NABARD) and the Non-Government Organisations (NGO)/Microfinance Institutions (MFI) model. The SBLP model was launched in 1992 by NABARD as a financial intermediation programme involving SHGs and certain formal financial institutions, including cooperatives that provide savings and credit services to the poor through informal groups linked to them (Shylendra, 2011). The term SHG refers to a form of Accumulating Saving and Credit Association (ASCA) promoted by government agencies, NGOs or banks. The SHGs manage and lend their accumulated savings and externally leveraged funds to their members (Tankha, 2002). Whereas under the NGOs/MFI microfinance model, other forms of MFIs, provide savings and credit services directly to the poor mobilised through informal groups. It is significant to note that in both models there is a role for informal groups in the microfinance operations.

7.3 BancoSol in Bolivia

Banco Solidario (BancoSol) is one of the two largest Bolivian microfinance institutions. A rare example of main-streaming microfinance into formal financial system is BancoSol in Bolivia, which evolved as a leading microfinance bank in Latin America. It began as an NGO or a charity in 1986, and became a full-pledged commercial bank specialised in microfinance in 1992 with a mission to provide financial services and opportunity to individuals and companies in low-income sectors throughout Bolivia. Beside microfinance banking services, BancoSol provides education programmes for clients on basic business skills, such as marketing, accounting, client servicing and retention, as well as music education programmes. Just like Grameen Bank model, the bank rely on group method of lending in which the group's members cross-guarantee each other's loans as collateral. Whereas, in enforcing the group method, BancoSol will not accept any payment from a group or any individual in the group unless the payment is enough to cover the entire amount owed by the whole group, group members are enlisted to monitor each other (Gonzalez-Vega, Schreiner, Meyer, Rodriguez, & Navajas, 1996). Bolivia has one of the highest micro-credit penetration rates in the world. By 2011, microfinance banks and institutions accounted for 31 per cent of all financial system lending, and offered almost US$2.4bn in loans, representing 10 per cent of the nation's GDP, and serving more than 6 per cent of the population (Koenigsfest, 2012).

Nigeria is endowed in business opportunities for small and large enterprises. The opportunities are abound in several areas of the economy, including huge markets, human capacity or strong labour, and a vibrant young population with great potentials. Although Nigeria has a major financial system in Africa, there is the need to devise an innovative framework for small business financing. Because institutional environment determines the success of any financing system. Indeed, from the experiences of Bangladesh and Bolivia, it can be deduced that it is feasible for cooperative societies to participate in microfinance banking system in Nigeria. The cooperatives can transform into a veritable vehicle for providing savings and credit services directly to the poor and low-income group, who may engage in microenterprises and small-scale business ventures. The cooperatives will stand as an intermediary between microenterprises and microfinance banks, and perhaps other financial institutions. It is therefore imperative that Nigerian government should draw useful lessons from successful countries to exploit the potentials of cooperative societies in financing microenterprises and small-scale business ventures towards achieving greater financial inclusion and higher standards of living for the citizenry.

8. Conclusion

The reforms in the Nigerian financial sector has embraced microfinance as a veritable means for increasing financial inclusions through the provision of banking services to the poor and low-income group of the society, particularly microenterprise or small venture owners. This study visualises the importance to mainstream the cooperative societies in the emerging microfinance system towards attaining financial inclusion in Nigeria. In view of their strategic position in the society, the cooperative societies can contribute in achieving accelerated financial inclusions, and financial services to the small-scale entrepreneurs, by integrating them into the Microfinance Policy Framework. The cooperatives could contribute both as a channel of savings and credit mobilisation, as well as promoters of microfinance banks (MFBs) for the benefits of their members. Also they can act as an intermediary between MFBs and cooperative members in providing a seamless means of accessing loans and loans repayment at a reduced cost and risks to both parties. The role would enable the cooperative societies to serve as a viable means of funding microenterprises and small-scale ventures in the country. More significantly, it will also empower the cooperatives to build capacity towards introduction of cooperative banking in Nigeria. Therefore, there is the need for public policy intervention in the cooperative system in for greater delivery of financial services and government interventions to the small business sector in Nigeria.

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