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FUNDS MOBILIZATION AND UTILIZATION AMONG COOPERATIVE SOCIETIES IN YEWA DIVISION OF OGUN STATE, NIGERIA

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ABSTRACT

Resource mobilization is an essential aspect of the operations of Cooperative societies useful for members' economic and social emancipation. Funds mobilization and its effects on the profitability level of Cooperative business activities in Yewa Division of Ogun State were therefore investigated, using purposive sampling technique in selecting seventeen (17) towns, nine (9) Unions, and twenty-three (23) societies in the three (3) LGAs. Sixty-six (66) Cooperative societies were selected, from which data were sourced and analyzed. Most (65.2%) Cooperative investment activities were in trade and rental services (housing, utensils, plastic chairs and canopies); assemblage and sales of produce commodities (cocoa beans and cashew nuts); industrial production of household consumable (22.7%); and agricultural activities (12.1%). Mean capital worth of investment enterprise was ₦564,394. Bulk of the societies investment funds were derived from members' share capital (₦1,585,101.63); members' ordinary savings (₦794,183.86) and net surpluses on cooperative investments (₦615,762.21); members' loan interest (₦370,138.12); members development levy (₦30,242.21); entrance fees (₦2,651.52); sales of stationery (₦1,049.55); fines from erring members (₦7690.46); sundry donations (₦6820.80); and ₦2,541.97 from sundry sources. Multiple sources of funds were available to cooperative societies for investment activities; with an average gross margin value of ₦2,069,294.04/annum and rate of return to investment (RRI) of 55.24%; confirming profitable cooperative investment enterprises in the study area. The semi-log functional form of the regression model that shows the factors that positively influence net return (surplus) from cooperative investment explained 57% of the total variation in the annual value of cooperative investment earnings. From the result, the worth of cooperative capital investment (10%); labour employment (1%); and amount invested in share capital (1%) would significantly influence annual earnings from cooperative investments. It was therefore recommended that Cooperative societies should further scale up their share investment and loan services to members in order to make more capital available for investment purposes.

Keywords: Funds mobilization; Fund utilization; Cooperative societies; Cooperative investment

DOI:

INTRODUCTION

Cooperative societies are autonomous associations of persons of meagre resources, united voluntarily to meet their common economic and social needs through a jointly owned and democratically controlled enterprise or business. Members of a cooperative society often pool their limited capital resources together for some joint business/ investment activities to provide themselves with goods and services at reduced costs. They are organizations owned by people connected together by similar occupation (e.g. hawkers, artisans and traders); similar concerns (economic and social needs), same work condition, ethics, related work schedule, and compensation (remuneration) environment, among others (Cheruiyot *et al*, 2012). This similarity of work functions, schedule and environment gives a sense of believe and trust among members, hence they can easily elect trusted hands among themselves to serve as stewards (elected board members) over their collective assets and liabilities.

Cooperative societies play important roles in members' socioeconomic transformation. They provide avenues for members to save regularly and then borrow for productive and welfare purposes, guided by the globally enshrined cooperative principles, ethics, and values (Onafowokan, 2013). Financial service (loan to members) is one primary assignment of cooperative societies made possible through funds creation/ mobilization via collective and mutual efforts (pooled resources). Therefore, cooperative societies primarily mobilize sav-shares and accord members' easy access to functional loans as a means of enhancing their socioeconomic well-being, within its operational framework, and ensuring that members receive suitable returns in the form of minimal interest, as well as other accrued benefits. Cooperative societies thus assume the role of funds mobilization from the lower to middle wealth segments of the population and channel them to a similar class of borrowers in the form of investment and consumption loans, at minimal interest rates.

For clear understanding of cooperative business enterprises based on production and distribution of goods, and the effectiveness of their mandatory economic and social services, there are peculiar differences between cooperative business organizations and other forms of profit-driven business organizations. They differ in terms of principles, mode of membership (registration), extent of liability, and risk bearing (Njogu, 2017). As part of cooperative regulatory management policy, Olao (2014) observed that attempts are often made to do away with significant retained profits for the cooperative enterprises, while declaring a substantial proportion of their surpluses (profits) as dividends to members.

As observed by Otto and Oroka (2016), savings mobilization and subsequent investment is the key to cooperative growth. Funds mobilisation in cooperative societies takes various approaches, whether internally sourced among members, or externally sourced from donor agencies, as stipulated in their bye-laws. Internally sourced funds from members of the cooperative society include entrance fees, share capital, savings, penalty fee (fines), interest paid on loans, grants, subsidies, donations, deposits from members and non-members, development/special levy and retained earnings/profit, among other sources (Cheruiyot *et al.*, 2012).

While emphasizing the challenges limiting cooperative performance through financial enhancement, Adeniyi (2018) reported the frustration of cooperative societies in their fund creation and mobilization efforts, which is significantly affected by insufficient capitalization, members' dishonesty, fraud, funds misappropriation by the board, and managerial incompetence in enterprise mismanagement. These often affect investment yields and Cooperatives' operational efficiency at promoting members' economic prosperity.

Funds inadequacy has been a major limiting factor in cooperative growth (Chahayo *et al.*, 2013), since members' savings form the bulk of their sustenance funds (Okoli, 2018). In developing nations like Nigeria, members' savings are grossly inadequate due to the generally low income status of most population segments (Yusuf *et al.*, 2009). With this, cooperative societies largely lack the required financial base to perform at optimum level, and are thus limited in running cooperative affairs and in-service delivery to members. Another major challenge to cooperative fund mobilization efforts is limited access to investment credi (Agbo and Chidebelu, 2010).

Unproductive mobilisation strategies and investment options have been identified as major sources of fund loss from cooperative societies, leading business failure and loss of potential outputs; thus aggravating joblessness and deteriorating living standards among cooperative members (Otto and Ukpere, 2011). Other threats include poor cooperative education and non-literacy of the management team (Agbo and Chidebelu, 2010); which account for the unsavoury utilization of mobilized funds, thereby inhibiting timely loan recovery and overall cooperative positioning for optimal performance and substantial growth. Cooperative societies have suffered significant funds losses by engaging in unproductive investments options, leading to resource wastage (Agbo and Sand, 2010; Mwakajunmilo, 2011; Makori *et al.*, 2013).

Akerele and Adekunmbi (2018) raised the issue of non-remittance of loan deductions to the societies' account by the employers of institution-based cooperative societies as a major threat to operational efficiency and growth, which tends to inhibit cooperative funding and ability to meet expected economic responsibilities (especially loan services) to their members. This study had therefore identified sources and utilization of cooperative investment funds; and determined the profit level and factors influencing investment returns to cooperative business enterprises in Yewa division of Ogun State, Nigeria.

The logic of cooperative theory demands that once members begins to identify their individual and collective efforts viz-a-viz their firm's enhanced performance, an atmosphere of cooperative problem-solving takes root. As a result of more organized, efficient and communicative work environment, therefore, improvements in financial services and production technology results from both vertical and horizontal information flow that originates from the process. With heightened satisfaction spreading throughout its membership, members' welfare rating and turnover rate increase, boosting members' interest, which results in sustainable members' task-specific expertise and collective participation within the rank and file of the cooperative business enterprise (Mugambi and Ondabu, 2015). This enhances the easy and continous flow of the fund mobilisation, utilisation, and reinvestment cycle; without jeopardising members' welfare concerns in the form of dividends sharing, cost-basis transactions, and other forms of economic and social benefits.

Adeniyi and Yoloye (2021) deployed three main theories to conceptulise funds/credit creation for the purpose of poverty alleviation among cooperative households; namely, the cost-effect and efficiency theory; the capacity-building theory; and inter-dependency and partnership theory. According to the cost-effect and efficiency theory, cooperative management is aimed at consolidating credit and savings operations together to maximise economic and social benefits returns to the members. These theories admit credit schemes as a form of economic development that is cost-effective, efficient, and relatively easy to manage. The capacity-building theory postulates that cooperative society should be seen as a training ground where members are given the technical know-how on how to save, invest and manage investment resources to bring returns. Credit and savings schemes were widely understood as a basis for other individual and community capacity building forms. It further stressed the school of thought that credit and savings are a means to an end which is expected to increase levels of self-esteem and self-worth of an individual. The inter-dependency and partnership theory holds that cooperative is about mutual trust and thus, it must provide the resource-based support necessary for stability to enhance economic benefits base for an individual. This theory stresses that human beings are sociable, and coming together to support one another towards the provision of assistantship, premised on a business relationship is what they are known for.

Compared to other classical firms, production efficiency in cooperative societies suffers two interrelated investment disadvantages, both of which are readily acknowledged by most cooperative proponents. The first concern was about the problem of intra-firm finance or under-investment (Karagu and Okibo, 2014). This tendency arises when the disparity between a member's expected profit share of income and what they could earn by investing outside the society becomes an issue, a counter-productive development which often leads to capital flight from the cooperative investment funds. A second but related under-investment issue is concerned with the skeptical stance of non-member financing agencies to lend funds to cooperative societies. Since they must risk their funds within an organizational framework where they have little control, external financiers are reluctant to lend funds except on terms usually unfavorable to cooperative societies. Cooperative members on their own parts are also reluctant to borrow on terms exceeding their internally regulated interest rates and are therefore wary of relinquishing management control to outside parties who might not share a similar commitment to cooperative forms of business organization.

This study was therefore conducted with the following objectives:

- To identify the sources of funds for Cooperative investments
- To determine the appropriateness of the utilization procedure of funds
- To determine the profit level and factors influencing investment returns to Cooperative business enterprises in Yewa Division of Ogun State, Nigeria.

METHODOLOGY

Study Area

The study was carried out in the Yewa Division of Ogun State, Nigeria comprising five (5) Local Government Areas (LGAs): Yewa North, Yewa South, Imeko/Afon, Ipokia and Ado-Odo/Ota in Ogun West Senatorial District of the State. Ogun State serves as a Gateway to neighbouring Economic Communities of West African States (ECOWAS) countries, sharing boundaries with Benin Republic along Imeko/Afon LGA (over 93km) and Yewa North/Ipokia LGAs (about 107km length). Prominent towns within the Yewa division include Ayetoro, Ilaro, Imeko, Ipokia and Ota, which serve as the headquarter towns for the enclosed LGAs. The general dialects of the Yewa people are Yoruba, Ketu, Ohori, and Eegun; as they also share common interwoven culture and indigenous farming/ cross border trading occupations with the people of Ketu, Kanga, Illikimou, Dirhin and Kobejou of the neighbouring Benin Republic.

Sampling technique and sample size

Multistage purposive sampling technique was used to select the cooperative societies included in this study. In the first stage, Ado-Odo/Ota, Ipokia and Yewa North LGAs were purposefully selected for their locational proximity to Lagos, Republic of Benin boundary communities and Abeokuta, respectively. The inter-boundary connectivity advantage of the selected LGAs was expected to have significant influence on the investment activities of cooperative societies in the selected communities. A list of the existing multi-purpose Cooperative Unions in each of the three LGAs as obtained from Ogun State Ministry of Community Development and Cooperatives was used in subsequent stages to identify the particular towns, cooperative unions and societies across the three LGAs, that were included in the sample. By proportionality, seventeen (17) towns, nine (9) Unions and twenty-three (23) societies were selected in all - Ado-Odo/Ota (7 towns, 4 Unions and 9 societies); Ipokia (4 towns, 2 Unions and 6 societies); and Yewa North (6 towns, 3 Unions and 8 societies); at the subsequent stages. This led to the sixty-six (66) cooperative societies used as sample for this study.

Sources of data

Data for the study were collected from the sampled cooperative societies using questionnaire that was structured to elicit relevant information from management committee. Information obtained bordered mainly on the the financial/investment activities of the cooperative societies; sources of funds, administration of funds, assets and liabilities, among others.

Analytical techniques

Both descriptive and quantitative techniques were adopted in analyzing the study data. Frequency counts and percentages were used to describe the operational features of the cooperative societies, such as the year of establishment, membership strength, sources of funds/income, as well as their income generating investments. Budgetary analysis was done to determine the level of profitability of the cooperative economic activities and operations (including cost and income levels); frequency, volume and time of loan transactions; sales of acquired/produced stocks, net /net margins/surplus realized; as well as the declared dividends within the business year.

The following accounting estimates and ratios were computed for the sampled cooperative societies, in relation to the adopted procedure:

Total cost (TC) = Total fixed cost (TFC) + Total variable cost (TVC)
Gross Revenue (GR) = Total output (TO) x Unit price of commodity (UP).
Gross Margin (GM) = GR – TVC
Net Income (NI) = GM – TFC

Profitability index = $\frac{NI}{TC} X100$

Rate of return on investment (%) = $\frac{NI}{TC} X100$

Rate of return on variable cost (%) = $\frac{TR - TFC}{TVC} X100$

Operating Ratio = $\frac{TVC}{TR}$

These computed profitability estimates and ratios were compared among the various economic activities of the surveyed cooperative societies.

Determinants of investment returns among cooperative societies

To estimate the factors determining the returns to cooperative investments in economic activities, multiple regression analysis was used. The implicit form of regression model is specified thus:

$$Y_i = f(X_1, X_2, X_3, X_4, X_5, X_6, X_7)$$

where Y_i = Net profit (surplus) from cooperative investments (₦/business year)
X_1 = worth of cooperatives capital investment (₦)
X_2 = membership strength (Number)
X_3 = number of workers in the employ of the cooperative society
X_4 = cooperative investment in shares and stocks (₦)
X_5 = number of years of business operation
X_6 = average interest rate charged on cooperative loans (%)
X_7 = Nature of cooperative investments (trade and services-based = 1, production-based = 0)

$\beta_0, \beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6, \beta_7$ are parameters to be estimated.

Three functional forms of regression model were fitted to the data collected and the best goodness of fit was selected based on established criteria. These functional forms were:

Linear:

$$Y_i = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + U_i$$

Semi-log:

$$\ln Y_i = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + U_i$$

Double log:

$$\ln Y_i = \beta_0 + \beta_1 \ln X_1 + \beta_2 \ln X_2 + \beta_3 \ln X_3 + \beta_4 \ln X_4 + \beta_5 \ln X_5 + \beta_6 \ln X_6 + \beta_7 \ln X_7 + U_i$$

The functional form with the highest number of significant variables, the best goodness of fit and of which variable relationship follows a priori expectation was chosen as the lead equation.

RESULTS AND DISCUSSIONS

Majority (45.5%) of the sampled cooperative societies were cooperative thrift and credit societies; 15.2% were cooperative investment and credit society, while 39.4% were cooperative consumer and credit societies (Table 1). This implies that cooperative thrift and credit society were dominant among cooperative societies in the study area. Average membership strength of the surveyed cooperative societies was 32 members. The societies have established and operated one form of investment enterprise or the other for an average number of 20 years.

Cooperative investment activities in majority (65.2%) of the surveyed societies were based on trade and services, prominent among which were engagement in rental services (housing, utensils, plastic chairs and canopies); assemblage and sales of produce commodities (especially cocoa beans and cashew nuts); as well as educational facilities. Few (22.7%) of the societies were involved in industrial production of household consumable items such as production of sachet table water, while the remaining 12.1% were involved in agricultural activities, mainly crop production and food crop processing. The low patronage observed with agriculture-based investments may likely be connected with the risky nature of agricultural investments, uncontrollable prices of agricultural produce, and the possibility of low return to investment or even loss of investment capital in the case of unexpected crop/livestock failure. The mean capital worth of investment enterprise among the surveyed cooperative societies was ₦564, 394 (Table 1).

Conditions for granting loan among the sampled cooperative societies showed that all (100.0%) the cooperative societies required 2 -3 internal guarantors from among the cooperative membership before granting loan to members as a form of social collateral against possible loan defaults as a universal practice among cooperative thrift and credit societies (Oroka, 2016)). However, a few cases of modification of this universal cooperative principle were observed among the surveyed societies. Some (37.9%) of the societies required collateral in the form of fixed assets (mainly land and landed property) as additional guarantee for granting loans to members, especially where large sums of amount are involved, and where the applicant has previous records of loan defaults or delayed re-payments. This implies that having internal guarantors alone may not provide adequate guarantee for loan to members where loan default tendencies are high based on previous records of members' commitment to loan repayment. Apart from this, about 12% of the societies required a tender of court affidavit in addition to member sureties (Table 1).

Majority (50.0%) of the surveyed societies depended fully on members' share capital and savings as a form of guarantee for granting loan to applicants in addition to internal guarantorship. As for the maximum credit limit *vis-a-vis* members' share capital, 95.5% of the cooperative societies granted 2 folds of a member's share capital per loan application while few others (4.5%) granted 3 folds (Table 1). It was however a necessary condition that the total share capital/savings of the internal guarantors must sum up to the

Operational features of cooperative societies in the study area

Table 1: Structural distribution of societies' investment enterprises

Types of cooperative	Frequency	Percentage	Mean value
Cooperative investment and credit society	10	15.2	
Cooperative consumer and credit societies	26	39.4	
Cooperative thrift and credit society	30	45.5	
Total	66	100.0	
Nature of business activities involved in			
Investment based on industrial production	15	22.7	
Investment based on agricultural production	8	12.1	
Investment based on trade and services	43	65.2	
Total	66	100.0	
Worth of cooperative investment (₦)			
< 500,000	21	31.8	
500,000 – 1,000,000	38	57.6	₦564, 394)
> 1,000,000	7	10.6	
Total	66	100.0	
Membership strength			
<15	9	13.6	
15-40	38	57.6	32 members
41-70	17	25.8	
>70	2	3.0	
Total	66	100.0	
Loan repayment period			
3 years	25	37.9	(at 10% average interest rate)
2 years	33	50.0	(at 8% average interest rate)
1 year	8	12.1	(at 6% average interest rate)
Total	66	100.0	
Credit limits in relation to applicant's savings			
2 folds of share capital and savings	63	95.5	(at 8% average interest rate)
3 folds of share capital and savings	3	4.5	(at 8% average interest rate)
Years of cooperative business operation			
< 15 years	4	6.1	
15-30 years	47	71.2	20 years
> 30 years	15	22.7	
Total	66	100.0	

Source: Computed from survey data, 2024.

loan amount in excess of the beneficiaries share capital/savings, which was in tandem with the findings of Onafowokan (2013).

Sources of investment funds to cooperative societies

The bulk of the societies investment funds were derived from members' share capital (₦1,585,101.63); members' ordinary savings (₦794,183.86) and returns (retained earnings) on cooperative investments (₦615,762.21); and interest on loan to members (₦370,138.12) - Table 2. Other sources include interest on loan to members (₦370,138.12); development levy from members (₦30,242.21); entrance fees (₦2,651.52); sales of stationery (₦1,049.55); fines from erring members (₦7690.46); sundry donations (₦6820.80); and other sources (₦2,541.97). Several sources of funds were available to the cooperative societies to expand their investment (Table 2).

Table 2: Descriptive statistics of the sources and utilization of funds to cooperative societies (₦'000/annum)

Item Reference Number	Established sources of cooperative funds	Mean value (₦)	% of total (₦)
a,	Members' share capital	1,585,101.63	44.00
b,	Ordinary savings	794,183.86	22.10
c.	Returns on investment funds	615,762.21	17.12
d.	Interest on loan to members	370,138.12	10.29
e.	Donations	6820.80	0.19
f.	Fines	7690.46	0.21
g.	Sales of stationery	1,049.55	0.03
h.	Entrance fees	2,651.52	0.07
i.	Members' development levies	30,242.21	0.84
j.	Interest on loan to members	177,890.48	4.95
k.	Other sources	2,541.97	0.07
l.	Total	3,594,072.81	100.00
	Established use purpose of Cooperative funds		
*m.	Retained earnings (25% of Net surplus) 788,906.69	197.226.67	
*n.	Education/Training (10% of Net surplus)	78,890.67	
o.	Dividends payment (45% of Net surplus)	355,008.01	
p.	Salaries (5% of Net surplus)	39,445.33	
q.	Maintenance (office equipment)/stationery (3% of Net surplus)	23,667.20	
r.	Cost of sold stocks (10% of Net surplus)	78,890.67	
s.	Others (2% of Net surplus)	15,778.13	

*Funds use purposes are statutory in their percentage magnitude as stipulated by the regulatory government agency; Others in that category are discretionary

Source: Computed from survey data, 2024

Profitability analysis of cooperative investments

With an average gross margin value of ₦2,069,294.04/annum, and rate of return to investment (RRI) of 55.24% (Table 3), Cooperative investment enterprises in the study area were profitable and worthwhile given the scale of operation involved.

Table 3: Profitability analysis of cooperative investments (₦'000/annum)

Parameters	Mean value (₦'000/ annum)	% of total
Total fixed cost	1,280,387.35	89.65
Total variable cost	147,842.54	10.35
Total cost	1,428,229.89	100.00
Total revenue	2,217,136.58	
Gross margin	2,069,294.04	
Net profit (surplus)	788,906.69	
Profitability index	0.5524	
RRI	55.24%	
RRVC	6.3361	
OPRAT	6.67%	

Source: Computed from survey data, 2024.

Determinants of investment returns among cooperative societies

Net income of the cooperative investment is best estimated using the semi-log functional form of the estimated equation, which explained 56.8% of the determinants of net surplus from cooperative investments (Table 4). Factors that influenced a positive change in the cooperative return to the sampled cooperative societies were the worth of capital invested (10%); labour employment (1%); and amount investment in share capital (1%).

Table 4: Regression estimates of the factors determining net returns from investment capital

Variables	Linear	t-value	Semi-log	t-value	Cobb-Douglass	t-value
Constant	5.546 (0.340)	16.363***	6.667 (9.449)	0.7056	3.994*** (1.174)	3.402
Worth of cooperative capital investment (X_1)	0.010 (1.731)	0.0058	3.13E^{-007} (1.632)	1.9179*	0.113 (0.435)	0.2598
Membership strength (X_2)	4.5379 (1.372)	3.3075***	0.427 (1.454)	0.2937	0.400 (0.837)	0.4779
Labour employment (X_3)	0.138 (1.016)	0.1358	8.73E^{-007} (0.188)	4.6436***	0.302 (1.369)	0.2206
Investment in share capital (X_4)	0.023 (2.509)	0.0097	5.41E^{-007} (1.792)	3.0190***	0.924 (2.760)	0.3348
Number of years of operation (X_5)	6.0789 (0.278)	21.866***	0.136 (1.622)	0.0838	0.232 (0.564)	0.4113
Interest rate charged on loan (X_6)	0.183 (0.447)	0.4094	3.89E^{-005} (2.789)	1.3948	0.010 (0.044)	0.2273
Nature of economic activities (X_7)	4.8420 (0.295)	16.4136***	0.023 (2.509)	0.0092	0.010 (1.731)	0.0058
R^2	0.350		0.660		0.435	
$\overline{R^2}$	0.271		0.568		0.378	

Source: Computed from survey data, 2024
(figures in parentheses are the standard error values)

CONCLUSION

The study focused on funds management and its effect on the profitability level of cooperative societies in Yewa North local Government Area.

All the Cooperative Societies required signatories before granting loan to members. This might be a kind of measure against default in loan payment.

Majority of the respondents gave collateral as other forms of guarantee for obtaining loan from these societies.

Members' signatories are not enough guarantee for loans granted to members but added collateral were required for granting loan to members in the study area.

RECOMMENDATIONS

Cooperative societies do not grant loan without adequate collateral from members to ensure non default in the repayment of loan.

It is therefore recommended that the executive members of the societies should strictly comply with the approved guidelines for disbursing loans to intending beneficiaries to safeguard the cooperative societies.

Cooperative societies should scale up the aspect of their funds mobilization that comes from interest on members' loan and on their share capital investment efforts, in order to further make more funds available as loan funds and other economic services to members.

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