

Enhancing Financial Innovation & Access (EFInA)

Understanding Co-operatives in Nigeria

18 September 2012

Modupe Ladipo
Chief Executive Officer, EFInA

A. About EFInA	3
B. Key Objectives of the Study and Research Methodology	6
C. Understanding the Potential Role of Co-operatives in Promoting Financial Inclusion	9
D. Key Findings from the Study	13
E. Conclusion and Way Forward	24



About EFInA

- ❑ Enhancing Financial Innovation & Access (EFInA) is a financial sector development organization that promotes financial inclusion in Nigeria.
- ❑ EFInA's vision is to be the leader in facilitating the emergence of an all-inclusive and growth-promoting financial system.
- ❑ EFInA is funded by the UK Government's Department for International Development (DFID) and the Bill & Melinda Gates Foundation.
- ❑ EFInA's holistic approach to expanding access to financial services for all, especially for low income households is based on four pillars:
 - **Research:** Providing credible market information on the Nigerian financial sector.
 - **Innovation:** Catalyzing the development of innovative inclusive financial services for the unbanked and under-banked population in Nigeria, through our Innovation Fund.
 - **Advocacy:** Advocating for the development and implementation of policies that create an enabling environment for financial inclusion.
 - **Capacity Building:** Through workshops, study tours and fora, we trigger debate and stimulate discussions on pertinent issues in the financial sector and impart knowledge from organisations that have had success in developing new innovations and business models that drive financial inclusion.

Financial Inclusion: What is it and Why is it Important?

- ❑ Financial inclusion is the provision of a broad range of high quality financial products, such as savings, credit, insurance, payments and pensions, which are **relevant, appropriate** and **affordable** for the entire adult population, and especially the low income segment.
- ❑ Evidence worldwide shows that access to financial services contributes both to economic growth and wealth creation and is therefore key to tackling the ‘poverty’ trap in Nigeria. Access to affordable, safe and reliable financial services provides the necessary lubricant for economic growth and contributes to poverty reduction.
- ❑ Billions of Naira circulate through the informal sector and this has a negative impact on the country’s economic growth and development. The EFInA Access to Financial Services in Nigeria 2010 survey revealed that 23.8 million adults save at home. If 50% of these people were to save N1,000 per month, then up to N143bn could be mobilised in deposits every year.
- ❑ An inclusive financial sector is characterized by the diversity of financial services providers, the level of competition between them, and the legal and regulatory environments that ensure the integrity of the financial sector and access to financial services for all.



Key Objectives of the Study and Research Methodology

Key Objectives of the Study

- ❑ In 2010, it was estimated that there were over 80,000 co-operative groups with over 1.4 million members in 605 local government areas in Nigeria. However, there is little systematic data available on the co-operative sector.
- ❑ The United Nations declared 2012 the ‘Year of Cooperatives’, which gives us a good opportunity to examine co-operatives, and rekindle discussions about a development model that promises high levels of inclusion.
- ❑ EFInA undertook this study to assess the strengths and weaknesses of co-operatives, and to provide evidence on how they can promote financial inclusion and be a significant force in empowering rural communities in Nigeria.
- ❑ The primary objective of this study is to provide comprehensive analysis on co-operatives in Nigeria, by conducting research in 3 states (Enugu, Kebbi and Oyo) where there is active co-operative activity due the large number of traders and farmers.
- ❑ The output from the study will enable us to:
 - Better understand co-operative sizes, operations, sources of funding, governance, internal capacity, members’ needs, growth prospects and existing challenges in the sector.
 - Provide evidence that will enable policy makers and financial service providers to develop a strategy to unlock the potential of co-operatives.

- ❑ EFInA commissioned Ipsos Nigeria to conduct the research.
- ❑ Ipsos conducted both qualitative and quantitative research between March and June 2012.
- ❑ The qualitative phase provided content and the structure for the quantitative phase; whilst the quantitative phase provided evidence-based insights into the co-operative sector in Enugu, Kebbi, Oyo.



**According to the Nigerian Co-operatives Societies Act, primary co-operatives operate at the community level and must have at least 10 members to be registered with the State Departments of Co-operatives.*

***As such, this resulted in two datasets- one for members and one for managers. The views from this presentation are based on both datasets. Managers interviewed did not necessarily manage the co-operatives of members interviewed.*



Understanding the role of co-operatives in promoting financial inclusion

Co-operatives: The Global Context

- ❑ Co-operative movements took shape in the Americas, Europe, Australia and Japan in the 1800's.
- ❑ Many grew from the simple proposition that ordinary people could overcome adversity in the market place by banding together to buy and sell goods at reasonable prices, and quickly realized the added benefits of sharing knowledge among members, promoting inclusion and building social capital.
- ❑ Today, co-operatives cover a range of activities, from small scale agricultural and consumer organisations in Africa to some of the leading agricultural brands and largest financial service providers in North America and Europe.
- ❑ Co-operatives have helped to bring information and services to far flung rural communities; empower workers; and expand financial services, healthcare, education and housing.
- ❑ According to the International Cooperative Alliance (ICA), worldwide, there are more than 800 million people that are members of co-operatives.
- ❑ Co-operatives account for a significant share of GDP in many countries and an especially high share of the agricultural and consumer sectors.
- ❑ Co-operatives are also one of the largest providers of financial intermediation to the poor, serving an estimated 78 million people globally who live on less than \$2 per day.

How Co-operatives in Nigeria are Organized

- ❑ The co-operative sector in Nigeria is organized into:
 - **Primary**, community-based societies (co-operatives)
 - State unions and apexes at the **secondary** level
 - National apex organizations and co-ordinating bodies at the **tertiary** level

The **secondary** level comprises of societies which deliver services at state level (or sometimes a set of states). At this level, several societies may join together to form unions – a group of between 5 and 10 co-operative groups. They typically deliver services such as training and provision of finance. The State Department of Co-operatives (SDC) supervises co-operative activities at the state level.

At the **primary** level are the community-based societies which are legally registered only if they have at least 10 members. They are typically a 'receiving' group and require rudimentary management.

Co-
operatives

The **tertiary** level comprises of organizations at the national level, also termed 'apexes' that work not only on delivery of services but interact, strategize and advocate for the development of the sector. They require specialized skills for their role to be effective.

How Co-operatives in Nigeria Operate

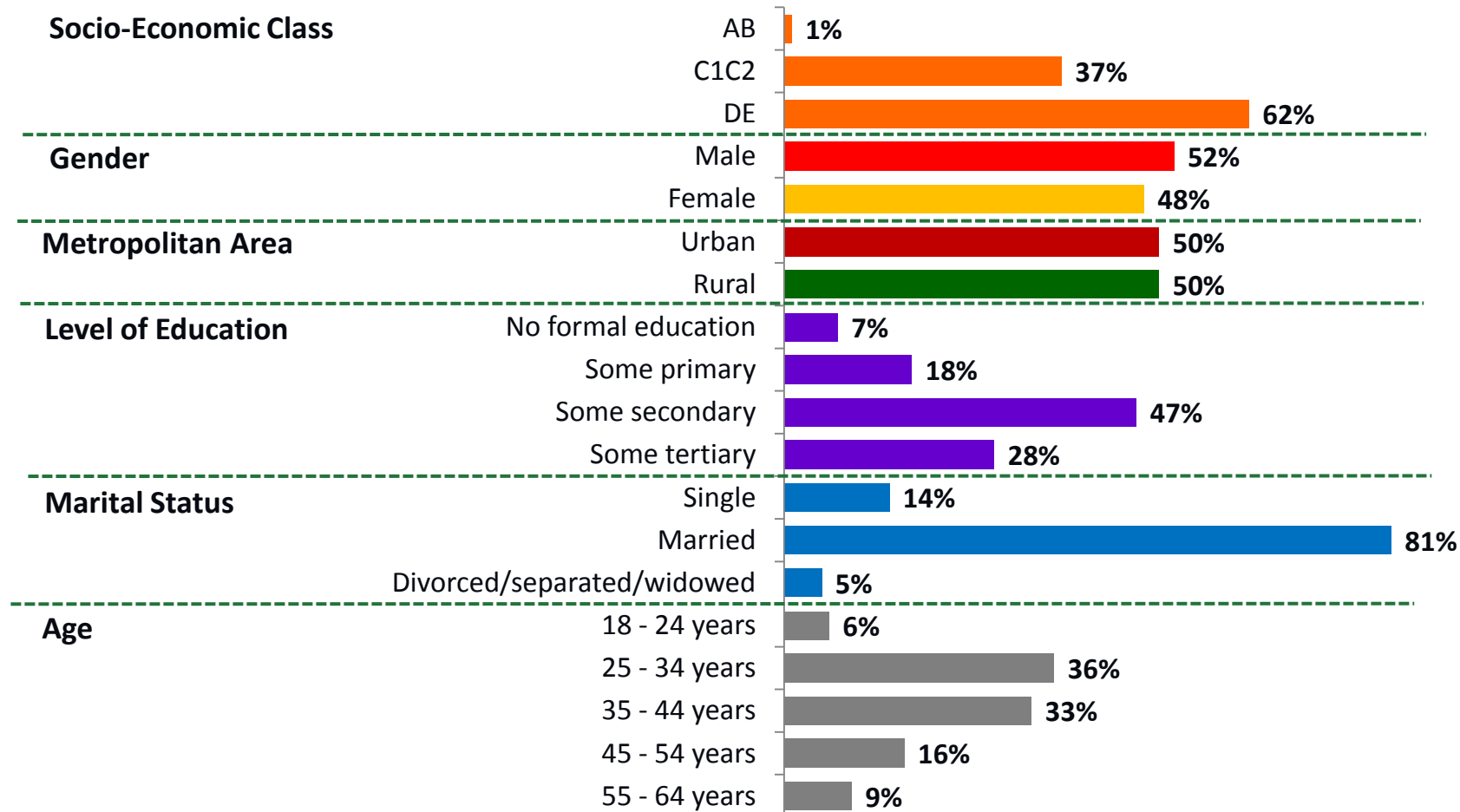
- ❑ Co-operatives are expected to register with the State Department of Co-operatives (SDC).
- ❑ There is typically a registration fee to join a co-operative. The study showed that the average joining fee across all 3 states was N1,434.
- ❑ They hold regular weekly or monthly meetings to discuss and make collective decisions concerning the co-operative.
“Whenever we come for meetings, they will read the last minute[s] and also the income generated at the last meeting, this means they are carrying everybody along, nothing is hidden.” – Female FGD Group, 35-50, Oyo
- ❑ Although decisions are made collectively, elected managers are responsible for the general running of affairs and management of finances. A manager may be voted out, if members are dissatisfied with his/her performance.
“We normally do elections and our leaders will emerge...sometimes when we see that you are doing well, we will retain you in your position but if you don’t do well, we will sack you ‘ozugbo’ (immediately)” – Female FGD Group, 22-34, Enugu
- ❑ Members make regular contributions (usually at meetings). There is a general belief that the more members there are, the more money the co-operative can mobilize.
“We need more members to be aware so that we can generate more funds for ourselves. You know when we are more we achieve more.” – Female FGD Group, 22-34, Enugu
- ❑ Co-operatives interviewed for this study are generally multi-purpose in their approach i.e. their sustainability and success depends on their ability to partake in other activities.
“We cannot always depend on our contributions, we do buy things and sell [them], the profit on it will be shared to us at the end of the year.” – Male FGD Group, 22 – 34, Kebbi



Key Findings from the Study

Demographic Profile of Co-operative Members Interviewed

- ☐ 700 members of co-operatives were interviewed in the 3 states, of which:
 - 200 were interviewed in Enugu
 - 200 were interviewed in Kebbi
 - 300 were interviewed in Oyo



Key Differences between the Co-operatives in Enugu, Kebbi and Oyo

There were minimal differences in the composition of co-operatives across the three states. However:

Gender

- Gender differences were prevalent in Kebbi as a result of co-operative legislation in the state which is only being revised to allow the participation of women in co-operative activities.
 - Of the 200 respondents interviewed in Kebbi, 44 (22%) were women

SEC Classification

- Co-operative members in the C1 category were mostly in Enugu. Enugu co-operative members are established in their businesses and are seeking to enlarge their capital base and satisfy their clientele.
- In Ibadan, there was more of a mixture of C2 and D members. They have stable businesses and aim to become more comfortable.
- Majority of co-operative members in Birnin-Kebbi fell within the D & E classes. Co-operative activities are noted to be low and the financial contributions are also very low.

Registration Fees

- Registration fees ranged from N200 to N500 in Kebbi and N2,000 to N4,000 in Enugu and Oyo.

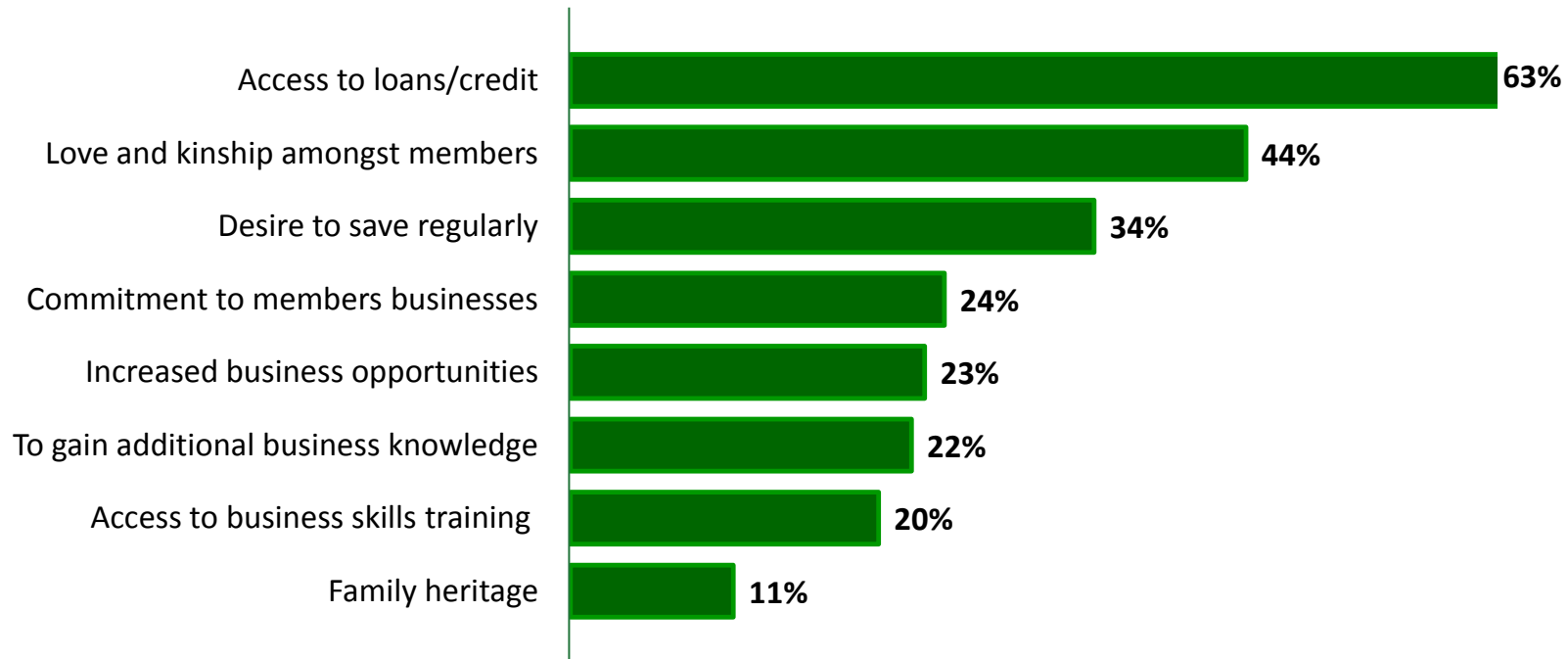
Weekly/Monthly Contributions

- In Kebbi, monthly/weekly contribution ranged from N50 to N500; contribution in Oyo was between N500 to N2,000, while Enugu was between N2,000 to N20,000.

Members' Motivations for Joining Co-operatives

- ❑ 436 (62%) of the members interviewed stated 'access to loans and credit' as the main motivation for joining a co-operative society, of which:
 - 235 (54%) lived in rural areas
 - 232 (53%) were women
- ❑ The main motivation for joining co-operatives varied by state as follows:
 - For those who lived in Oyo (60%) was 'access to loans'
 - For those who lived in Kebbi (32%) was 'love and kinship amongst members'
 - For those who lived in Enugu (60%) was 'desire to save regularly'

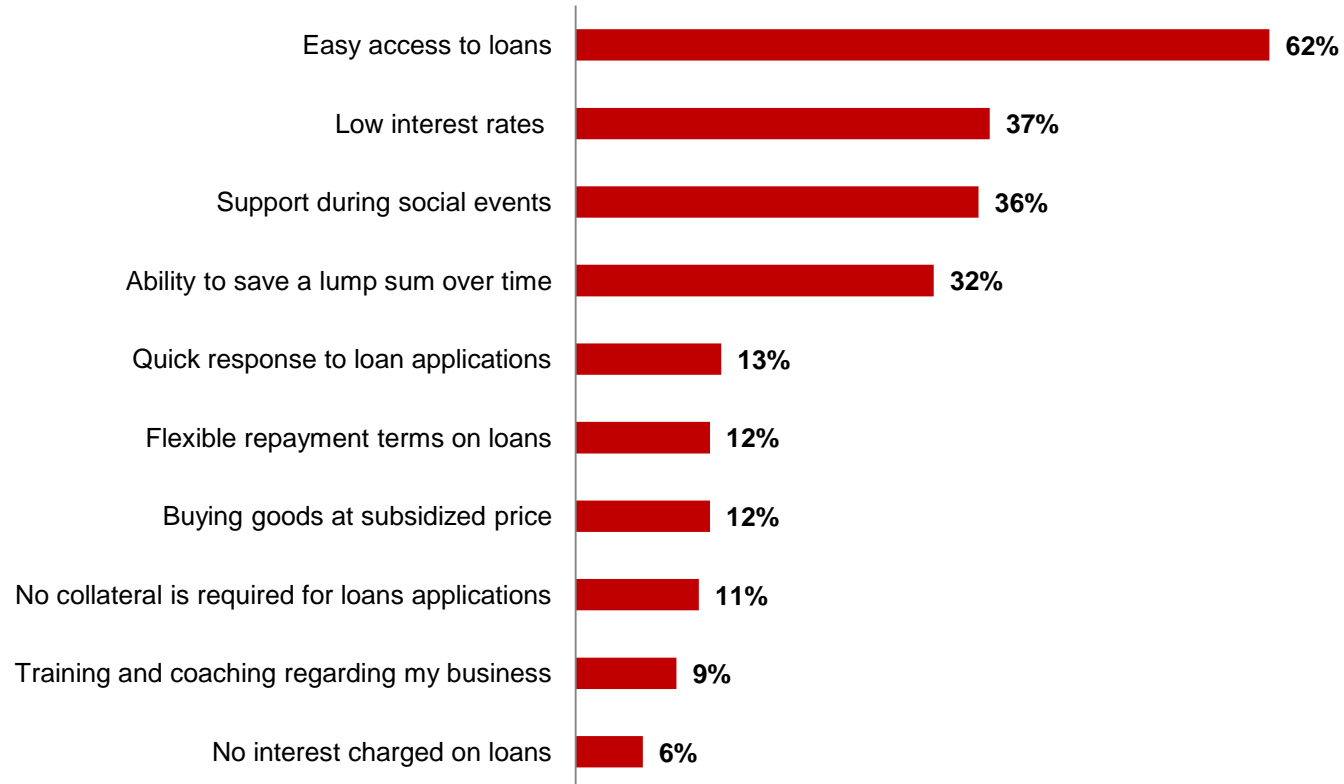
Motivations for joining co-operatives



Benefits of Membership of Co-operatives

- ❑ The top three benefits of belonging to a co-operative were:
 - Easy access to loans
 - Low interest rate on loans
 - Support during social events

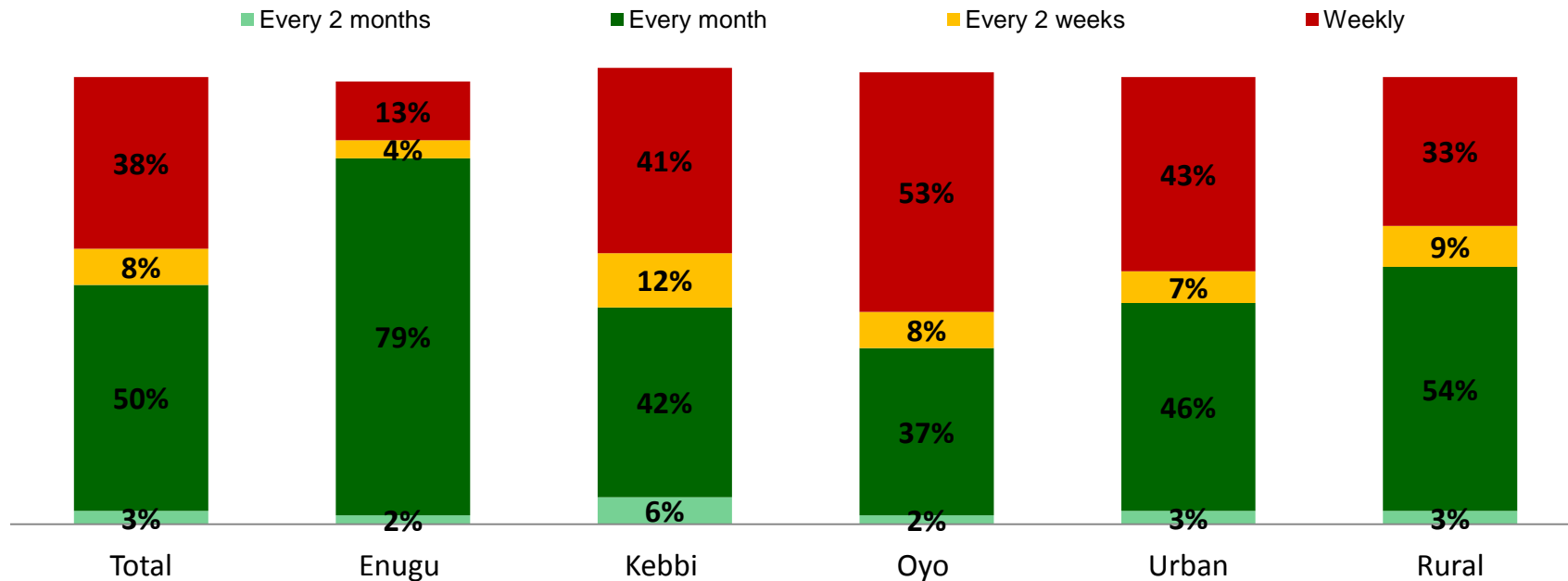
Benefits of membership



Frequency of Contribution

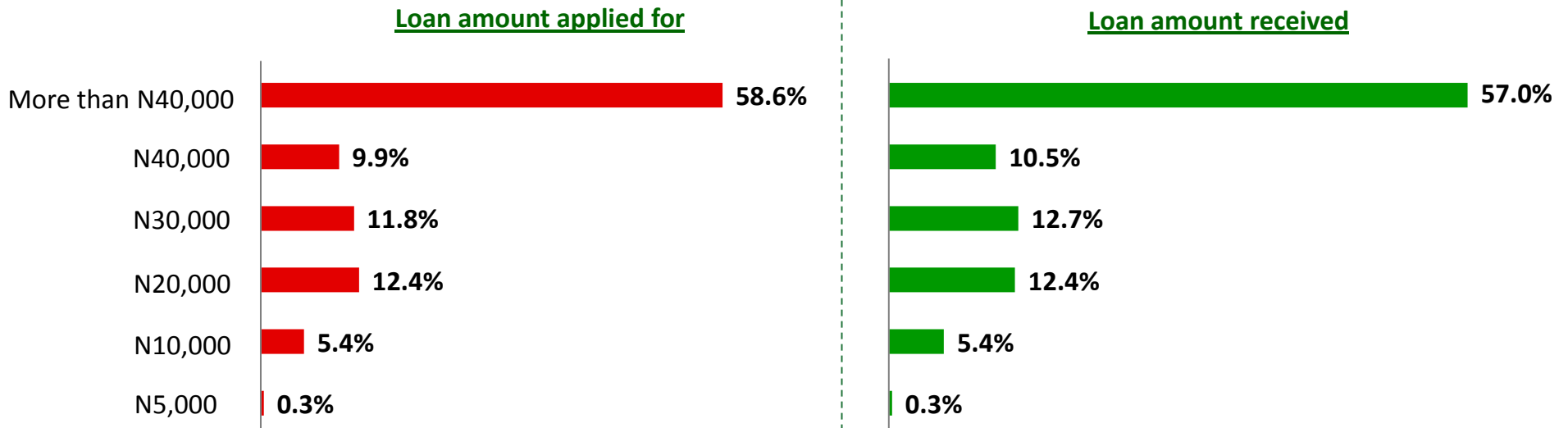
- ☐ 692 of the 700 members interviewed make contributions, of these:
 - 346 (50%) contribute monthly
 - 262 (38%) contribute weekly
 - 55 (8%) contribute fortnightly
 - 29 (3%) contribute every two months

- ☐ The amount members' contribute ranged from N200 to N500,000



- ❑ The key source of funds for co-operatives is **members' contribution**, which was confirmed by 90% of managers interviewed.
- ❑ 124 of the 150 managers interviewed stated that their co-operatives maintain bank accounts. However, the qualitative phase revealed that co-operative managers tend to keep the money themselves, which often results in various forms of mismanagement.
- ❑ Contributions are used for the general running costs and for investment.
- ❑ The total amount contributed annually by the 692 members who make regular contributions based on an average annual contribution of N29,301 per member was N243,316,080.

- ❑ 314 (44.9%) of the members interviewed had applied for a loan from their co-operative, of which:
 - 184 (58.6%) had applied for more than N40,000.
- ❑ Majority of the respondents last received their loans between 3 to 6 months prior to the study.
- ❑ The average period between applying and receiving a loan was between 1 and 2 weeks. Members in rural areas typically wait for more than a month before the loan is disbursed.
- ❑ The pay back period for loans is typically between 10 months and 1 year.
- ❑ In 2011, 3,679 loans were given by the co-operatives of the 150 managers interviewed. Using an average loan size of N33,236 this equates to a total loan portfolio of N122.4 million.



Loans

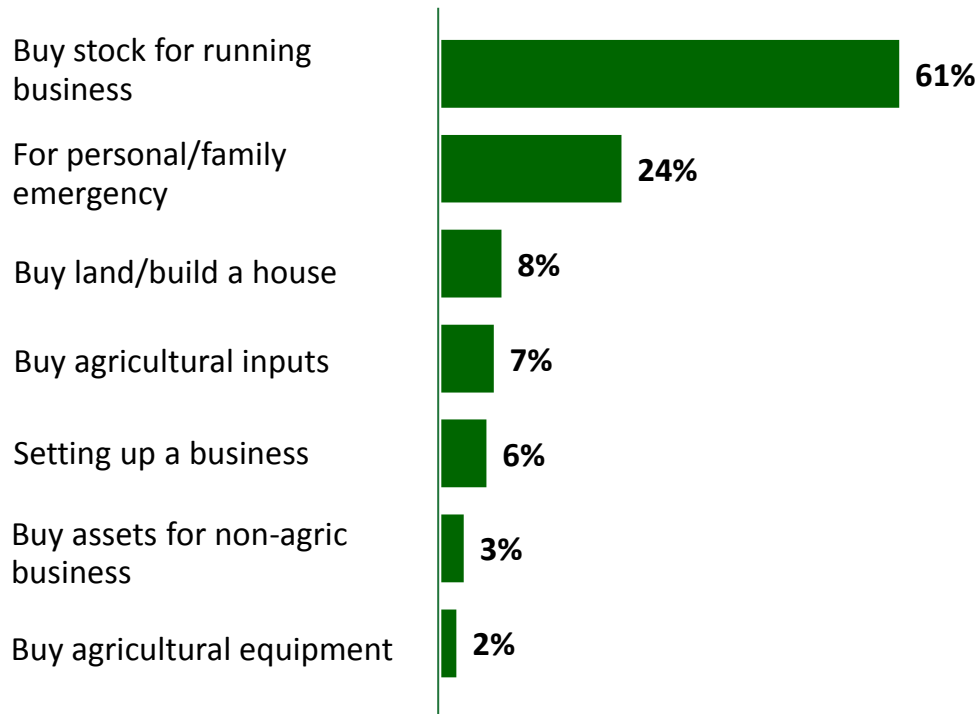
- ❑ 131 (42%) respondents who took loans still have outstanding loans to their co-operative societies. The amount outstanding ranges from N40,000 to N60,000.
- ❑ The most frequent amount borrowed was N50,000 and the highest amount borrowed was N1.2 million.

	Enugu	Kebbi	Oyo	Total
Total number of borrowers	49	37	228	314
Amount Received (N)				
Minimum	6,000	6,000	5,000	5,000
Maximum	600,000	1,000,000	1,200,000	1,200,000

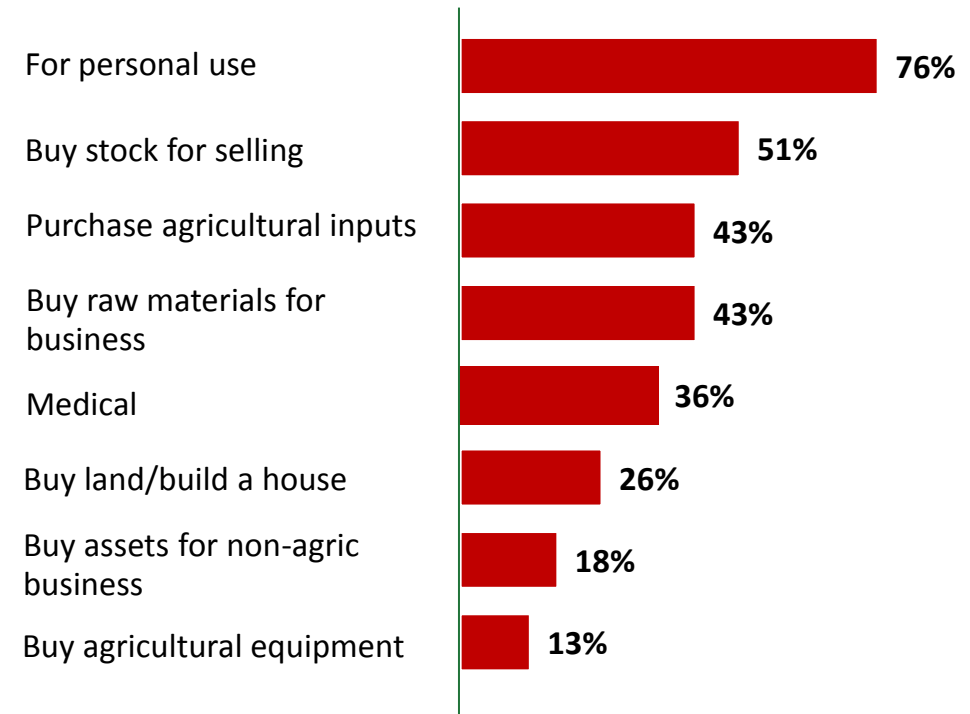
Usage of Loans

- ☐ Generally, loans/credit received are used for business development and personal reasons.
 - 61% of members said they took loans for business development
 - 24% of members said they took loans to deal with personal/family emergencies

Members' perspective



Managers' perspective



Key Challenges

Regulatory

- Poor database maintenance of registered co-operative societies.
- Inconsistencies in government policies and regulations towards co-operatives.

“Government should come up with policies that will help us.” – Male FGD, 35-50, Enugu

Funding

- Lack of adequate capital to finance major projects or grant loan requests restricts members’ ambitions.

Capacity building

- Many co-operatives have failed due to the Executives lacking managerial skills to run the societies’ affairs.

“Another thing is poor management, sometimes there may be unscrupulous elements that may want to mismanage the funds of the co-operative society.” – IDI respondent

Default on loan repayments

- Members often do not pay back their loans on time and this depletes the cash or funds available to manage the societies’ affairs.

Awareness

- Members of the public are not well informed about the activities of the co-operative sector; hence few new members elect to join.

“We need more members to be aware so that we can generate more funds for ourselves. You know when we are more we achieve more” – Female FGD, 22-34, Enugu



Conclusion & Way Forward

Conclusion

- ❑ There is a core and dedicated following of co-operatives in the Enugu, Kebbi and Oyo states, which is probably replicated across Nigeria.
- ❑ Members regularly save and have a real demand for loans. Therefore, there is potential for co-operatives to make a bigger impact amongst those who are financially un-banked or under-served.
- ❑ The co-operative sector can provide potential linkages with formal financial service providers which can be mutually beneficial.
- ❑ Co-operatives can provide a successful model for the uptake of a range of financial products:
 - For Deposit Money Banks and Microfinance Banks: products such as for individual & group savings and individual & group loans; can be designed to suit lower income groups, especially in rural areas.
 - For insurance companies: 24% of members said they took loans to deal with personal/family emergency, so relevant microinsurance products would be well received.
- ❑ Co-operatives can be used as an effective delivery channel for financial products:
 - Collection point for **insurance premiums** on behalf of their members'
 - Collection point for **pension contributions** on behalf of their members'
 - Some of their suitable members (especially those in rural areas) can be trained to become **agents**, and contributions/loan repayments can be made via mobile money

- ❑ For co-operatives to successfully promote financial inclusion, there is a need to:
 - Revise current regulatory environment such as reviewing the stringent conditions for registration, to accelerate growth and provide added comfort to financial service providers in engaging with the sector.
 - Improve managerial capacity by strengthening the co-operative colleges to build managerial and sectoral capacity of co-operative members and managers.
 - Address the transparency and trust issues amongst co-operative members.
 - Adopt an effective consumer education and awareness campaign on the values and benefits of co-operatives.

Coming Soon!
**EFInA Access to Financial
Services in Nigeria 2012 survey**

Thank you

www.efina.org