

WWJMRD 2017; 3(3): 65-70
www.wwjmr.com
Impact Factor MJIF: 4.25
e-ISSN: 2454-6615

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The impact of interest free co-operative society on human capital development in Oyo state, Nigeria

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Abstract

This study examined the Impact of Interest Free Co-Operative Society on Human Capital Development in Oyo State, Nigeria. This study adopted the stratified sampling technique and the simple random sampling technique. Stratified sampling technique was used to divide Oyo state into three senatorial districts. Two hundred and fifty questionnaires were administered randomly to the members of free interest cooperative societies which were analyzed using Chi-Square. Findings show that 1% increases in Interest Free Co-Operative Society increases the rate of Human Capital Development by 0.46%, there is significant effect of Interest Free Co-Operative Society on Human Capital Development in Oyo state. The entire statistic outcomes Wilks' lambda (0.4619), Pillai's trace (0.5381), Lawley-Hotelling trace (1.1651) and Roy's largest root (1.1651) suggest the positive significant effect of Interest Free Co-Operative Society on Human Capital Development. It is concluded that the Interest Free Co-Operative Society has positive significant impact on Human Capital Development in Oyo state. It is now recommended that government should assist the society financially so that their members will be empowered to boost their business which will ultimately create employment opportunity, and thereby enhance economic growth and development of the state.

Keywords: Interest Free; Co-Operative Society; Human Capital; Oyo State; Development

Introduction

Background to Study

There are a lot of potentials for growth and development that can boost Nigerian economy. The copious and natural resources of the country remain largely unexplored. These have to be harnessed to the fullest for the general well-being of Nigeria in the world economy. Possibly, one important way to the realization of this goal is through the encouragement of cooperative movement. (Ayanwu et al, 1996). People voluntarily joined together to enhance their standard of living. Some joined together to boost their business. In this aspect they formed cooperative societies with the aim of assisting one another and promoting their business. Many cooperatives are established with the aim of making profit through collection of interest on loan issued from their members. Savings are done for two major reasons namely: to finance future consumption needs and to prepare for rainy day, precautionary savings. Though, Thrift and Credit Cooperative Societies were introduced to Nigeria in its secular interest-bearing form. Contrary to this, many cooperative societies against collection of interest on the loan issued for their members but they are financed by collecting equal administrative charges from their members and engaging in other investment in order to cater for their employees and other recurrent expenditures. With this assertion, the money exhausted as interest on loan in non-free interest cooperative societies can be put together in interest free cooperative societies by each member to pursue human capital development. This can be used to provide education and health services to people which are one of the major ways of improving the quality of human resources in the country.

According to Wakeel and Alani (2011), Human capital is recognized as an agent of national development in all countries of the world. Providing education and health services to people is one of the major ways of improving the quality of human resources. Apart from being issues of social concern, both provide an economy with healthy trained human resources required for economic growth and development. In spite of the efforts and resources devoted to combat poverty by the Nigeria government empowerment programs, the problem has remained obstinate. As user-owned organizations, Interest free Cooperatives have been used as a model for individual self-help and empowerment that strengthens bonds leading to

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greater community awareness and involvement as such becomes a vehicle for micro credit delivery without interest on loans issued to their members. There is a dearth of Studies in Nigeria concerning Interest free Cooperatives and Human capital development for poverty eradication. Given the issues raised above, this paper seeks to examine the effect of interest free cooperative on human capital development in Oyo state Nigeria.

Research hypothesis

Ho: Interest free co-operative societies have no significant effect on human capital development in Oyo state.

H₁: Interest free cooperative societies have significant effect on human capital development in Oyo state.

Literature Review

Cooperative Societies

According to Noibi (2012), Cooperative Societies are privately organized non-profit making saving and lending institutions. They accept deposits from members and make loans to needy members rather than to industry. Cooperative societies are referred to as closed societies because they serve their members only. Cooperative is a form of organization in which a group of individuals who have common interest mutually agree to come together to promote their interest in the area of economic activities such as production, distribution or marketing of goods and services as well as provision of other welfare benefits to their members (Ighomereho et al 2012). The international Cooperative Alliance (1995) describe modern Cooperative society as an Association of person united Voluntary to meet their common economics, social and cultural needs and aspiration through a jointly owned and democratically controlled enterprises. International Cooperative Alliance also provided a set of seven principles that practice of cooperative worldwide. These principles are:

- Voluntary and open membership;
- Democratic member control;
- Member economic participation;
- Autonomous and independence;
- Education, Training and information;
- Cooperative and cooperation among cooperators
- Concern for community

International Cooperative Alliance also lay emphasis on cooperative ethics which are forces which lie behind the creation of events, which determine the order of life in a given community or group of people. According to Chilomo (1992) ethics are the embodiments of morals norms and cultural pattern of a given society or a group of people. There are Ethics of Equality, Equity, Liberty, Mutual self-help, social Emancipation, Economy, and Internationalism. Other ethics include Honesty, Humanity Accountabilty, Solidarity, Responsibility fairness, Democracy and Constructiveness. The Rockdale Equitable pioneers of 1844 religiously practiced the principles and had achieved success which made them the first known successful cooperative society in the world. For any Cooperative Society to succeed therefore there is need for such to imbibe the principles and ethics religiously.

Evolution of Financial Cooperatives in Nigeria

In the basis of the 1934 Strickland report cited above, the

colonial administration started to introduce cooperatives in Nigeria in 1935. The most prominent type of cooperatives was the Cooperative Thrift and Credit Societies, which began to growing numbers and membership during the 1940s and 1950s. Growth occurred much more in the Southern parts of Nigeria, where this form of social organization fitted more neatly into the prevailing indigenous value systems, behavioral norms and patterns of decision making, and provided an alternative approach to managing household finances (Marx and Seibel 2012). According to Marx and Seibel (2012), all financial societies were based on the classical, simple financial intermediation model:

Membership rights were granted upon admission as member and purchase of the minimum prescribed share, which obliged the member to make regular savings at meetings. The cooperative would then grant loans to members on a demand basis, with mostly shares and savings as prime collateral, and often by observing a maximum credit limit (MCL) of three times one's savings. Very few societies had their own buildings or offices, and meetings of members were mostly conducted at the residence of the chairperson.

In the late 1940, secondary cooperative societies started to emerge, which were established and controlled by their member societies. Their business model also followed the classical intermediation model of the cooperative sector: member cooperatives had to contribute the share capital of the secondary society and deposit a certain share of their own savings with it. In return, the more creditworthy primary societies could avail of loans from the secondary union, often by applying a similar MCL as in the primary societies. According to our studies carried out in the mid-1980s on the cooperative sector (Seibel and Marx, 1984), the model seems to have worked pretty well up to the 1970s in many areas as the demand for loans was either not very high or artificially suppressed by stiff regulations, as banks were not always around to deposit excess liquidity, and as the entire system was well monitored by cooperative inspectors, most of which were well educated. In fact, the cooperative legislation provided for compulsory audit by the cooperative auditor prior to the distribution of any dividends to members. This provision was apparently strictly enforced until the early 1960s, and the number of cooperative auditors was sufficient to audit many or most societies. Our data on some secondary financial cooperatives in the Western Region, the Delta and the South-East indicate that both primary and secondary societies were functioning relatively well, were able to recover their loans and cover their expenses from self-generated revenues.

Administration of Interest Free Cooperative

Interest-free Cooperative societies, as the name suggests, is the societies organized willingly by interested group of peoples to contribute their money together and borrow needy members on request, members only have to repay the amount borrowed without paying interest. In other words, they only pay the principal. There is no interest rate. However, it's important to remember that there is a difference between subsidized and interest-free loans. Subsidized loans are not interest-free loans since they carry an interest rate. This interest rate is just lower than other loans because it's subsidized (usually by the federal

government). Interest free cooperative had existed in Nigeria formally since 1985 when a non-religious cooperative organization, Onipasan Oreeteebi decided to change her practice from interest based to interest free, since then. Though, interest free cooperative organizations had been performing wonderfully well in many parts of the world such as Canada, Mauritius, Melbourne, Malaysia, United Kingdom and many other countries (Pathfinders2012). The following are the objectives of Interest free cooperative;

- (i) To promote and operate interest free loan facilities for members
- (ii) To encourage members on future savings
- (iii) To give possible assistance to the less privileged
- (iv) To provide assistance to members through different categories of loans without charging interest
- (v) To give support for the promotion and development of Interest free cooperative
- (vi) To undertake self-sustaining ventures that will bring income to care of members and itself

The Sources of Fund for Interest free cooperative society include the following:

- 1 Savings Deposit- This shall be based on individual ability to contribute on monthly basis, balance of which dictates the amount of general loan collected by a member.
- 2 Special Deposit- This is the special target savings of member for future needs, collectable by the member on demand. The fund is no loanable.
- 3 Investment fund- This is a fund dedicated for investment purposes at amount convenient for each member. Dividend is normally paid annually based on individual's balance in the investment fund at the year end from the Profit realised on investment and trading activities
- 4 Building fund- This is a fund contributable by members at agreed equal amount to ensure that society has a building of her own in future.
- 5 Membership administrative charge- This is the equal amount paid by each member for administrative development per month.

Empirical Review

Odo et al (2016) investigate the effect of human capital development and economic growth in Nigeria through the application of Johansen co integration techniques. The result reveal that there is significant long-run relationship between human capital development and economic growth in Nigeria and to retain the continuous long run relationship with GDP and human capital development, effort should be made to harmonize the activities in the health and education sector with much attention on funding. The harmonization of the activities in these two sectors will have long run effect on the economy. According to Alabi, Alabi and Ahiawodzi (2007), the frustrations of accessing credit facilities from formal systems compel the poor and informal business entrepreneurs to resort to different nonbanking and informal arrangements to access funds for their operations. This has serious implications for a country like Nigeria where the economy is largely characterized by micro and small businesses as observed Basu et al (2004). Kareem et al. (2012), examined the impact of co-operative societies on capital formation using a case study of

Temidere-co-operative and Thrift-society, Ijebu-ode, Ogun state. The study adopted a non-parametric method of analysis which involved Chi-Square method, descriptive statistics and correlation analysis to achieve. Based on the research findings, it was concluded that co-operative societies have effect on member's welfare and the role of co-operative society in poverty reduction and capital formation cannot be overlooked in the development process of any country particularly the less developed countries like Nigeria.

Alufohai (2006) worked on the sustainability rates of co-operatives and NGOs in farm credit delivery in Edo and Delta states in Nigeria. The subsidy Dependence Indices (SDI) and the capital formation rates were determined using both primary and secondary data obtained from 80 and 20 purposely selected cooperatives and NGOs respectively, based on their involvement in farm credit delivery. A well-structured questionnaire was used to obtain the primary data from the 100 organizations selected from a comprehensive list from the ministry of commerce and industry as well as corporate Affairs Commission. Both descriptive and quantitative statistics as well as financial analysis were employed in analyzing the data. The results showed low capital formation rate of 0.1815 and 0.123 for cooperatives and NGOs respectively. Cooperatives had zero SDI having no subsidies throughout the period while NGOs had an SDI of 0.7642 which is considered too high for them to sustain the credit delivery function on the withdrawal of subsidies. Though with low loan volumes, the study showed cooperatives more likely to sustain the credit delivery function than the NGOs, but they may need to improve their capital formation rate.

Oladejo 2011 examined the micro finance reforms of the Nigerian Government and the role that cooperative societies can play with a view to providing solutions to the problems. The study adopts largely an exploratory methodology and submitted that appropriate legal frameworks be put in place to ensure that cooperative methods are fully integrated in to the microfinance policy framework. Analysis of the information obtained revealed the unutilized capacity and potentials of cooperative societies that have contributed to the growth of other countries of the world. Oladejo 2011 therefore advises government to ensure that the Microfinance banks are made to relate with the poor and low income group through the cooperative societies for sustainable growth and development.

Oladejo and Oyedele (2014) assessed the effect of Cooperative Societies and Microfinance banks (MFBs) relationship on credit delivery efficiency in Nigeria. The data collected though the questionnaires and interview. Chi square was used to test the hypothesis on the perception of 138 selected members of Cooperatives and staff of Microfinance banks (MFBs) in Osun state. The result of the Analysis and Chi square test confirmed positive effect of the synergy between Cooperatives and MFBs on credit delivery efficiency. The study suggests development of policy framework that would recognize the synergy of Cooperatives and MFBs and as such that there is a formal business relationship between them as a matter of policy. This is expected to stimulate growth of SMEs for sustainable development.

Methodology

This study adopted the stratified sampling technique and the simple random sampling technique. The stratified sampling technique was used to divide Oyo state into three senatorial districts while the simple random sampling technique was used to draw 10 samples from each

senatorial district made up fifty sampled interest free Cooperative societies. Two fifty questionnaires were administered randomly to the members of free interest cooperative societies which were analyzed using Chi-Square and Multivariate Analysis of Variance and Covariance (MANOVA).

Table 1: Distribution of responses on the effect of Interest Free Co-Operative Society on Human Capital Development in Oyo state

S/N	Question	SA	A	U	D	SD
1	interest free cooperative society promotes capital formation by mobilizing the idle savings from surplus units to deficit unit	53 (21.2%)	131 (52.4%)	8 (3.2)	42 (16.8%)	16 (6.4%)
2	It Promotes the poor and low income group which enhance economic growth and development	40 (16.0%)	132 (52.8%)	16 (6.4%)	45 (18.0%)	17 (6.8%)
3	Interest free cooperative society develops human capital and Improves social well being as well as standard of living of its members	29 (11.6%)	144 (57.7%)	7 (2.8%)	62 (24.8%)	8 (3.2%)
4	Larger percentage of members of Cooperatives benefitted enormously from the society	15 (6.0%)	155 (62.0%)	11 (4.4%)	53 (21.2%)	16 (6.4%)
5	Interest free cooperative eases saving mobilization and financial intermediation	28 (11.2%)	67 (26.8%)	25 (10%)	122 (48.8%)	8 (3.2%)
6	Free interest cooperative provides educational financial assistance to their members	26 (10.4%)	167 (66.8%)	14 (5.6%)	35 (14.0%)	8 (3.2%)
7	Responses to loan repayment is impressive	2 (0.8%)	134 (53.6%)	9 (3.6%)	89 (35.6%)	16 (6.4%)

Note: - The bracket figures indicate the percentage and figures not bracket indicate frequency. Source: - Authors' field survey (2017).

From table above, 21.2% of the respondents strongly agree that interest free cooperative society promotes capital formation by mobilizing the idle savings from surplus units to deficit unit, 52.4% agree, 3.2% were not sure, 16.8% disagree, and 6.4% strongly disagree. This indicates that interest free cooperative society promotes capital formation by mobilizing the idle savings from surplus units to deficit unit

Furthermore, 16% of the respondents strongly agree that interest free cooperative society promotes the poor and low income group which enhance improve economic growth and development, 52.8% agree, 6.4% not sure, 18.0% disagree and 6.8% strongly disagreed. This indicates that Interest free cooperative society promotes the poor and low income group which enhance improve economic growth and development.

In addition, 11.6% of the respondents strongly agree that interest free cooperative society Interest free cooperative society develops human capital and Improves social well-being as well as standard of living of the members, 57.7% agree, 2.8% were not sure, 24.8% disagree, and 3.2% strongly disagree. This indicates that interest free cooperative society Interest free cooperative society develops human capital and Improves social well-being as well as standard of living of the members.

Moreover, 6% of the respondents strongly agree that larger percentage of members of Cooperatives benefitted

enormously from interest free cooperative society , 62% agree, 4.4% were not sure, 21.2% disagree, and 6.4% strongly disagree. This indicates that larger percentage of members of Cooperatives benefitted enormously from interest free cooperative society.

More so, 48.8% of the respondents strongly agree that interest free cooperative society Free interest cooperative eases saving mobilization and financial intermediation, 26.8% agree, 10% were not sure, 11.2% disagree and 3.2% strongly disagreed. This implies that free interest cooperative eases saving mobilization and financial intermediation.

However, 10.4% of the respondents strongly agree that free interest cooperative provides educational financial assistance to their members, 66.8% agree, 5.6% were not sure, 14.0% disagree and 3.2% strongly disagreed. This implies free interest cooperative provides educational financial assistance to their members.

Also, 6.4% of the respondents strongly agree that Responses to loan repayment is impressive in interest free cooperative society, 53.6% agree, 3.6% were not sure, 35.6% disagree and 0.8% strongly disagree. This indicates that responses to loan repayment is impressive interest free cooperative society

Test of Hypotheses

Table 2: Analysis of the significant relationship between Interest Free Co-Operative Society and Human Capital Development by Chi – square

S/N	Relationship	Pearson chi-square	Pr (value)	Remark
1	q1 by q2	330.2901	0.000	Significant
2	q1 by q3	347.7476	0.000	Significant
3	q1 by q4	278.5342	0.000	Significant
4	q1 by q5	201.8566	0.000	Significant
5	q1 by q6	284.8318	0.000	Significant
6	q1 by q7	214.7320	0.000	Significant
7	q2 by q3	296.1702	0.000	Significant
8	q2 by q4	275.5862	0.000	Significant
9	q2 by q5	276.9839	0.000	Significant

10	q2 by q6	348.9402	0.000	Significant
11	q2 by q7	340.7541	0.000	Significant
12	q3 by q4	276.7944	0.000	Significant
13	q3 by q5	448.1250	0.000	Significant
14	q3 by q6	469.7188	0.000	Significant
15	q3 by q7	232.9858	0.000	Significant
16	q4 by q5	257.4284	0.000	Significant
17	q4 by q6	215.4124	0.000	Significant
18	q4 by q7	329.3398	0.000	Significant
19	q5 by q6	274.5702	0.000	Significant
20	q5 by q7	283.9375	0.000	Significant
21	q6 by q7	306.8144	0.000	Significant

Decision: From table 2, minimum Pearson chi-square calculated ($\chi^2 - \text{cal}$) is 201.8566 and the maximum Pearson chi-square calculated is 469.7188. Chi – square tabulated ($\chi^2 - \text{tab}$) is 37.566 at 0.01 level of significance. Since ($\chi^2 - \text{cal}$) are greater than ($\chi^2 - \text{tab}$) which make all the figures

to be highly significant with probability of Pr (value) equal to 0.000. Collectively, the null hypothesis is rejected. Therefore the alternative hypothesis is accepted that there is significant effect of Interest Free Co-Operative Society on Human Capital Development in Oyo state.

Table 3: Analysis of the significant relationship between Interest Free Co-Operative Society and Human Capital Development by MANOVA

Source	Statistic		Df	F(df1,	df2)	F	Prob>F
Interest Free Co-Operative Society	W	0.4619	4	4.0	245.0	71.36	0.0000 e
	P	0.5381		4.0	245.0	71.36	0.0000 e
	R	1.1651		4.0	245.0	71.36	0.0000 e
	L	1.1651		4.0	245.0	71.36	0.0000 e
Residual			245	Number of obs = 250			
Total			249				

Dependent variable = Human Capital Development. Source: MANOVA using STATA 12

W = Wilks' lambda, L = Lawley-Hotelling trace, P = Pillai's trace, R = Roy's largest root
e = exact, a = approximate, u = upper bound on F

To confirm the significant effect of Interest Free Co-Operative Society on Human Capital Development by the outcome of Chi-square stated above, the multivariate analysis of variance and covariance (MANOVA) was also employed. From table 3 above, according to Wilks' lambda (W) statistic, 1% increases in Interest Free Co-Operative Society increases the rate of Human Capital Development by 0.46%. Also, with reference to Pillai's trace statistic, 1% increase in Interest Free Co-Operative Society increases the rate of Human Capital Development by 0.53%. in addition, with the outcome of Lawley-Hotelling trace (L) and Roy's largest root (R) statistic, 1% Interest Free Co-Operative Society also increases the rate of Human Capital Development by 1.16%. The entire statistic outcomes suggest the positive significant effect of Interest Free Co-Operative Society on Human Capital Development. This also supported by F statistic and probability of F (Prob>F) equal to 0.0000e. An increase in Interest Free Co-Operative Society enhances Human Capital Development positively.

Summary and Conclusion

This study examined the Impact of Interest Free Co-Operative Society on Human Capital Development in Oyo State, Nigeria. Stratified sampling technique was used to divide Oyo state into three senatorial districts. Two fifty questionnaires were administered randomly to the members of interest free cooperative societies which were analyzed using Chi-Square. Findings show that there is significant effect of Interest Free Co-Operative Society on Human Capital Development in Oyo state. The entire statistic outcomes suggest the positive significant effect of Interest Free Co-Operative Society on Human Capital Development.

It is concluded that the Interest Free Co-Operative Society

has positive significant impact on Human Capital Development in Oyo state. It is now recommended that government should assist the society financially so that their members will be empowered to boost their business which will ultimately create employment opportunity, and thereby enhance economic growth and development of the state.

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