

**COOPERATIVE SOCIETY CREDIT SCHEME AND PERFORMANCE OF SMALL
AND MEDIUM ENTERPRISES IN OYO STATE, NIGERIA**

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**A THESIS SUBMITTED TO THE DEPARTMENT OF MANAGEMENT AND
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ACCOUNTING**

2016

CERTIFICATION

This is to certify that AWOSILE, Kunle Oladimeji carried out this research work under my supervision in the Department of Management and Accounting, Faculty of Administration, Obafemi Awolowo University, Ile-Ife Nigeria.

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Dr. E. Y. Akinkoye

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DEDICATION

This thesis is dedicated to GOD ALMIGHTY, the source and sustainer of life, for his grace, wisdom and strength, which has made this programme a success. All glory be to God.

OBAFEMI AWOLOWO UNIVERSITY

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ABSTRACT

The study examined other various sources of funds available to SMEs in Oyo State; analyzed the effects of cooperative societies' credit scheme on SMEs performance in the State; and analyzed the challenges associated with cooperative society credit scheme in Oyo State. These were with a view to highlight the roles of cooperative societies in the development and growth of Small and Medium Enterprises in Oyo State.

Primary and secondary data were used for this study. Structured questionnaire was used to capture the primary data while secondary data was obtained from the annual financial reports of cooperative societies. The study purposively selected the total number of 150 owners of SMEs that are members of registered cooperative society from the three senatorial districts in the study area. 150 questionnaires were administered but 123 were returned which represents 82% response rate. In-depth interview was also conducted on the few selected respondents. Data obtained were analyzed using ordinary least square and simple percentages.

The results showed that the other sources of fund available to SMEs were commercial bank loan, trade credit, family fund, government intervention fund and fund from relatives (21%), aside from cooperative loan (66%) and personal savings (13%). The result also indicated that cooperative society credit scheme has a significant effect on SMEs on return on asset ($t=3.71$, $p<0.01$); meaning that there is positive effect credit scheme on the performance. Lastly, major challenge being encountered by the respondents is the restriction on the amount of money the SMEs owners could access from the cooperative society which is depicted by 91% of the respondents while other challenges are short repayment period and queuing for loan due to insufficient fund (9%).

The study concluded that cooperative society credit scheme have significant effect on the performance of Small and Medium Enterprises in Oyo State.

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CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Today, in an era when many people feel powerless to change their lives, cooperatives represent a strong, vibrant, and viable economic alternative. Cooperatives are formed to meet peoples' mutual needs. They are based on the powerful idea that together, a group of people can achieve goals that none of them could achieve alone.

For over 160 years now, cooperative society has been an effective way for people to exert control over their economic livelihoods (Oladejo, 2011). It provides a unique tool for achieving one or more economic goals in an increasingly competitive global economy. As governments around the world cut services and withdraw from regulating markets, cooperatives are being considered useful mechanisms to manage risk for members in farmer's society or other similar cooperative society. In most developing economies, emphasis is placed on cooperative society development due to its economic primacy and contribution to economic growth as well as economic welfare of the host community. However, the establishment, practice and adoption of cooperative society among small and medium scale business traders in Nigeria are still very low. This is due to the fact that many people are not aware of the mechanism and role of cooperative society in funding small and medium enterprises.

Today, there are Cooperative societies that have been set up by private initiative i.e. group of people seeking a common economic goal and hoping in the long run to improve their

economic status which in turn serves as a source of finance for their SMEs (Godwin 2011). Also, there is a serious campaign by the government and ongoing debate among the policy makers on the need for the establishment and practice of cooperative society as a source of finance to small and medium scale enterprises. 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. Cooperatives continue to serve this mission today- often by providing affordable and equitable access to microfinance services.

In Nigeria today, the economy is characterized largely with the dominance of Small and Medium scale business. SMEs are found in various sectors such as commerce and industry, services, agriculture, manufacturing etc. The historical background of SMEs in Nigeria can be traced back to 1946. Central bank of Nigeria's monetary policy circular no 27 of 1998 define small and medium scale enterprises (excluding general commerce) as enterprises in which total investment (including land and working capital) did not exceed ₦500,000 and ₦1,000,000 respectively and/or the annual turnover did not exceed ₦0.5million and ₦1.2million respectively. It is noteworthy to say that SMEs is one of the modern strategies the underdeveloped countries are employing to break into the "league" of developed countries. Fasua (2006:85) categorized firewood supply, plantain production, restaurant services, small scale poultry raising, daycare services, home laundry services as small scale business while soap production, hair/body cream production, chemical production, commercial poultry, professional practices (law, accountancy, education), food and beverages production falls into medium scale enterprises. All these aforementioned business needs fund to successfully carry out their operations and to remain in existence.

The importance of finance to this category of business cannot be over-emphasized. Financing business from time immemorial has been recognized as the heart of business. It is the pivot on which the wheel of business rotates. Cognizance has also been taken of the critical, central and pivotal role that finance, be it micro or otherwise, plays in linking the business with economic system. Return on investment is an important element in judging the economic efficiency of each business either small or medium. Ashaolu and Fajemisin (2002) posited that until an entrepreneur identifies the ways of raising fund for financing his enterprise or the money to keep the existing enterprise alive, his plans may best be described as wishful thinking. A business regardless of its size must be able to know the sources of funds available to it as it expands. This becomes so pertinent in order to compare cost and ensure minimization of cost of funds.

Thus, cooperative society as a business entity is usually considered as a tool in which SMEs can harness in financing their business. Various government policies on micro financing recognizes the importance of the Cooperative society play in the distribution of capital to the SMEs due to its organization, rate of interest, procedure in accessing its loan is less cumbersome in comparison with other sources of fund for SMEs. Cooperative society, as a source of micro financing, also provides access to savings and credits to individual or group without discrimination so as to empower those SMEs to become self-reliant and successful in their various businesses.

Against this background, this research examines the financing scheme of Cooperative Societies credit scheme and the performance of Small and Medium Enterprises (SMEs) in South Western Nigeria with a view to throwing some light on the nature and features of cooperatives, the

benefits and the formation and management of cooperative societies and how it generates funds for lending to its members and how such funds assist in the performance of SMEs. The research

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