THE SOCIO-ECONOMIC RELEVANCE OF TRADITIONAL THRIFT AND CREDIT ASSOCIATIONS IN CONTEMPORARY NIGERIAN SOCIETY

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ABSTRACT

This paper examined the socio-economic relevance of traditional thrift and credit associations in contemporary Nigerian society. The thrift and credit associations have remained vital in Nigeria, considering the mass poverty ravaging the rural population, and they are also relevant as they have helped many families rise above the poverty line. This paper is conceptual, as secondary data were used. Empirical studies were consulted, and structural-functionalism was employed to understand the subject. The paper concluded that thrift and credit associations have played and continue to play a significant role in the socio-economic development of the rural and urban economies in contemporary Nigeria, given that many cottage industries, petty businesses, and many families have been lifted out of poverty, especially in the rural areas. This study recommended that the government should provide more funds to strengthen the thrift and credit associations to expand their scope to accommodate more members and reduce unemployment and poverty in Nigeria. The paper further recommended that membership in thrift and credit associations be open to vulnerable members of society irrespective of gender, age, and ethnicity.

Keywords: Thrift, Credit and Association

Introduction

Funding is one of the chief challenges usually encountered by small and medium enterprises in Nigeria and Africa. One prominent way entrepreneurs overcome this challenge is by belonging to a thrift and credit association. Traditional thrift and credit associations, often called cooperative societies, are widely spread organizations in developing countries; they are known for their strong commitment to, as well as participation in, the decision-making of their members (Haan, Louter, & Gerard 2003). Thrift societies are organizations where money and materials are contributed to make a profit and interest on the initial investment. Here, members of the society make profits from interest accrued from lending the collected funds. Available literature shows that the earliest form of thrift and credit society was started in Germany by Fredrick Wilhelm

Raifferson in the year 1818; Raifferson is therefore regarded as the father of modern cooperative thrift and credit society (Chukwuemeka, 1989).

Otto (2006), cited in Otto and Ukpere (2011), posited that thrift and credit associations primarily aim to simplify the process of saving for individuals, particularly those with lower incomes. This, in turn, contributes to an excellent pool of funds available for lending to their members. These associations offer loans and credit under more convenient and easily accessible terms compared to the practices employed by commercial banks and contemporary financial institutions.

Oseni, Ogunniyi, &Sanni (2012) posited that thrift and credit associations have existed in Nigeria for many years. However, the exact date of its introduction is not documented, but it is practised in many communities under various names; for instance, the Yorubas call it "Ajo," the Hausas call it "Adashi," and the Igbos call it "Isusu." Godwin (2011), on his part, stated that the origin of cooperative societies in Nigeria is traceable to the traditional thrift collection system.

Conceptualization of Keywords

Generally, thrift connotes the careful management of financial resources or anything that has monetary value in a particular group or society. Eluhaive (2005), cited in Adesina (1998), conceived thrift as a financial practice where credit and other non-financial services and products are granted in a minimal amount to people experiencing poverty to enhance their income level and improve their standard of living. Ogbu (2011) regarded thrift as a financial service needed by the economically poor and micro, small, and medium enterprises. It is pertinent to note that thrift is a financial service rendered to people with low incomes.

Credit, on the other hand, is a term commonly used in the accounting and financial worlds and comes with different meanings. Robinson (2001) viewed credit as a contractual understanding forged between a lender and a borrower. In this dynamic, the lender undertakes to provide the borrower with a designated amount of funds. In return, the borrower agrees to repay the money at a future date with interest on the fund. According to Okpara (2010), credit refers to the value-worthiness of a borrower, which is the ability to pay back a debt by the due date. Nwankwo, Olukotu, and Abah

(2013) posited that credit is the total value available to an individual or corporate borrower from a financial institution.

Anyanwuocha (2010) elucidates that thrift and credit societies are formed by people with the same needs and aim to either save money together or make it possible for them to borrow easily from thrift and credit societies. According to Ibrahim (2001), thrift and credit societies as we know them today began in Germany in the middle of the nineteenth century. Generally, Germany is referred to as the home of credit cooperatives because two prominent citizens were responsible for rural and urban credit cooperatives. Fredrick Wilhelm Raiffersen developed the rural credit cooperative, while Herman SchuhzeDehtzeht developed the urban credit cooperative.

Babagana (2010) postulated that an association is a union of people with like minds, whether professionals, artisans, students, business people, or community members, united by a purpose. Adesina (1998) explains that an association is an organisation where people voluntarily cooperate as human beings based on equality and the promotion of their economic interests. An association is a collection of people with similar backgrounds and aspirations.

Theoretical Framework

Structural-functionalism was deployed in the understanding of the subject. The theory centres around the fundamental concepts of structure and system. It emphasizes the formal organization of societal components and their functional interconnections, all of which contribute to the maintenance requirements of a structured social system. According to this theory, any institution or recurring social activity's function lies in its role in sustaining the larger structural entity. This assumption assigns social systems an internal integration of parts akin to the harmonious functioning of organs within an organism.Structural-functionalism, often referred to as functionalism, views society as a complex system with numerous interconnected parts that collaborate to enhance stability and support. This theory posits that human societies tend to evolve toward increased differentiation, where institutions become progressively specialized in their functions.

This perspective draws inspiration from the ideas of Herbert Spencer (1820–1903), an English philosopher and biologist who likened society to the human body. Spencer argued that, much like the various organs in a bodywork in unison to maintain their function, the different components of

society cooperate to ensure its proper functioning. Spencer identified these societal components as social institutions encompassing patterns of beliefs and behaviours directed at fulfilling social needs. These institutions encompass government, education, family, healthcare, religion, and the economy.

The insights of Émile Durkheim, an early sociologist, further bolstered this viewpoint. Durkheim applied Spencer's theory to elucidate how societies adapt and endure over time. He contended that society constitutes a complex system of interrelated and interdependent parts collaborating to uphold stability. Moreover, Durkheim (1895) believed that shared values, languages, and symbols are the adhesive that binds society together. To study society, he posited that sociologists must look beyond individual actions and focus on social facts—laws, morals, values, religious beliefs, customs, rituals, and all the cultural norms governing social life. These social facts serve various societal functions, such as ensuring order, punishing transgressions, and preserving public safety.

Applying Structural-Functionalism to studying traditional thrift and credit associations in Nigerian society provides a comprehensive lens through which to explore their multifaceted role. This perspective underscores the interconnectedness of these associations with various social structures and the functions they fulfil in maintaining social stability and cohesion.In the context of Nigerian society, these associations emerge as vital institutions with several critical functions like:

i. **Economic Stability:** Traditional thrift and credit associations significantly promote economic stability by fostering a culture of savings and responsible financial management among their members. This, in turn, bolsters financial resilience, reducing susceptibility to economic upheavals.
ii. **Social Cohesion:** These associations are pivotal in nurturing social cohesion within communities. By uniting individuals pursuing shared financial objectives, they strengthen social bonds, cultivate trust among members, and encourage cooperation. Collectively, saving and lending reinforce a sense of shared responsibility and interdependence.
iii. **Community Development:** Beyond individual empowerment, these associations often extend their influence to encompass community development

initiatives. These efforts encompass funding local infrastructure projects, supporting educational endeavours, and providing healthcare services. Such endeavours contribute significantly to the overall advancement and well-being of the project community.

Structural-functionalism provides a valuable framework for comprehending the intricate interactions between traditional thrift and credit associations and the broader Nigerian society. It allows for a detailed examination of the roles played by these associations, revealing their impacts on the overall welfare of society, economic equilibrium, social unity, and the advancement of communities in modern Nigerian society.

Literature Review

In many societies, thrift and credit associations are called "people's banks." These People's Banks emerged from the spontaneous initiative of artisans, small-scale industrialists, and traders who recognized the need to unite locally. Their purpose was to provide mutual assistance, offering financial support to one another, especially when larger banks denied them access to funds (Tombola, 2009, as cited in Ibrahim, 2011).According to Taylor (1974), the concept of credit societies traces back to 1851, when Herman Schulze-Delitsch established the first credit society in Germany. This initiative aimed to provide credit facilities to financially burdened peasant farmers. The modern form of credit societies, as we know them today, took shape in 1917. The French Parliament granted specific cooperative status to these societies through the law of March 13, 1917, which focused on "the organization of credits for small and middle-sized businesses and industry."

Cooperatives and thrift societies play a crucial role in enabling access to credit, facilitating the procurement and storage of inputs, and managing the distribution and marketing of products. Additionally, they serve as significant sources of employment, particularly in rural areas, and offer a platform for disadvantaged groups to come together for both social and economic advantages. These organizations are established with a fundamental principle of cooperation, where the primary purpose of providing services to its members rather than focusing on profit generation. According to Momoh and Oso, cited in Akerele, Aihonsu, Ambali, and Oshisanya (2014), a cooperative thrift and loan society (CTLS) is a financial self-

help cooperative that promotes collective saving among its members. The pooled financial resources are then utilized to offer low-cost loans to these members. It's noteworthy that a CTLS operates within a well-defined geographic area, with a mutual connection among all its members. This connection, referred to as the "common bond" of the CTLS, can be established based on factors such as all members residing in the same locality or all members being employed by the same employer.

Over time, credit associations have proliferated across various countries, proving to be highly effective in providing loan facilities and encouraging savings among their members.Yebisi (2014), as referenced in Ibrahim (2011), articulated that cooperatives exhibit inclusivity by being accessible to all individuals capable of utilizing their services, devoid of any social, political, religious, or gender biases. Additionally, Warbasi (1947), as cited by Effiom (2014), projected that cooperatives operate under democratic management principles, affording members equitable voting privileges and an equal chance to engage in the oversight and governance of the collective entity. Usman (2007), on his part, observed that cooperative thrift and credit societies give out loans to their members at a low-interest rate to enable the members to establish businesses or expand existing ones.

The International Cooperative Alliance (ICA) defines a cooperativeas an independent coalition of individuals who willingly come together to fulfil their shared economic, social, and cultural requirements and ambitions by employing a collectively owned and democratically governed venture. This type of enterprise is under its members' voluntary ownership and management, functioning both for them and by them on a nonprofit or cost-centered foundation (UWCC, 2002, as citedby Farouk, David, & David, 2014). In 1895, the International Cooperative Alliance (ICA) was established as a non-governmental organization with the primary mission of cultivating friendly and economic relations among cooperative organizations. Its core aim was to facilitate the exchange of essential information, encompassing news and statistics, on national and international scales. Serving as a unifying entity, the ICA brought together cooperative entities from across the globe, uniting them under a standard banner.

Relevance of thrift/credit associations in Nigeria

The relevance of thrift and credit associations cannot be overemphasized. Thrift and credit associations have

successfully created hope for the unbanked population globally and in Nigeria in particular; they have continued to serve the interests of the rural people, and this is because many community members have gained hope in building their lives from soft loan offers by thrift and credit associations. Many families have been lifted from poverty, and collapsed businesses have been revived (Okpara, 2010). Otto,et al, (2011) further buttress this point by stating that credit cooperatives are the old organizational framework for effectively marshalling people's economic prosperity, especially those with low earnings.

Buden (2001), asserts thrift and credit Society is a secure and profitable savings institution. It actively promotes saving by helping individuals recognize the economic and social advantages of thriftiness while discouraging excessive and unproductive spending. These financial cooperatives empower their members to fulfil their financial service requirements, including savings and credit, at minimal costs and with convenient accessibility through the pooling of limited capital.

Thrift and credit associations have aided the growth of small and medium-scale industries in Nigeria. It has provided its members with soft loans and a flexible repayment regime, primarily aiding the establishment and growth of new and old cottage industries in Nigeria. Muhammed(2014) posited that in societies where acquiring loans has become intricate, individuals often need help fulfilling the prerequisites set forth by financial institutions for loan approval. Cooperatives assist their members in elevating their business endeavours through various provisions. These include extending loans at favourable interest rates, granting access to credit facilities, offering guidance and advisory services, establishing the necessary infrastructure for conducting business activities, and aiding members in accumulating savings to amass sufficient capital for commencing and expanding their ventures.

This cycle of savings among members leads to capital accumulation, fostering investments that contribute to economic growth. This virtuous cycle serves to augment the operations of the cooperative members' businesses. Given their inherent characteristics, cooperative organizations serve as potent instruments for community development. They empower the establishment of economic self-reliance and civil society by generating opportunities such as small-scale

enterprises, facilitating homeownership, and supporting the education of children and dependents (Muhammed, 2014). Modern small and medium industries in Nigeria owe their grandeur to the activities of thrift and credit associations in Nigeria. Hence, though relegated to the background in recent times, thrift and credit associations are significant to the socio-economic growth of a modern economy. Adesina (1998) said establishing thrift and credit societies has many benefits for individual members and society as a whole. This is why more people are joining, and many new thrift and credit associations are springing up in towns and villages.

The following are some of the benefits that accrue to being a member of a thrift and credit association:

1. Easy Borrowing System: The first benefit a member will obtain from any cooperative society is the ease of obtaining a loan. Members are only expected to contribute and save with the association for some time.
2. Provision for emergency spending: Money needed for an emergency can easily be provided for members by a thrift society. Emergency situations and the need for urgent cash often arise, and thrift and credit societies are usually handy to assist their members. Businessmen and women and traders often need money to boost their trades, and farmers too need money to buy seedlings and maintain their farms and families.
3. The easiest way to save: A cooperative society provides the easiest way for an individual to save. Their proximity to members makes saving easy and accessible.
4. Cheap prices of goods: Warbasi (1947), cited by Effiom (2014), posited that cooperative societies sell goods at low prices. They buy goods directly from the manufacturers at wholesale prices and sell them to their members at prices lower than the prevailing market prices.

According to Usman (2007), thrift and credit associations eradicate isolation and loneliness. Credit associations create platforms where members interact with other members of the group.

THRIFT AND CREDIT ASSOCIATIONS' CHALLENGES IN NIGERIA

Many challenges confront the development of thrift and credit associations in Nigeria. Over the years, the government has intervened by injecting credit into the

cooperative sub-sector. One prominent intervention was the transformation of the Nigerian Agricultural Bank Limited into the Nigerian Agricultural and Cooperative Bank Ltd. to give impetus to cooperative activities in Nigeria. (CBN Annual Report, 1976). In the year 2000, the Nigerian government officially changed the name of the Nigerian Agricultural and Cooperative Bank Limited to the Nigerian Agricultural Cooperative and Rural Development Bank Limited (FGN Budget, 2000). Moreover, to further show commitment in this direction, the Federal Government in 2005 domiciled ₦50 billion with the Nigerian Agricultural Cooperative and Rural Development Bank Limited to lend to cooperatives and other farmers' organizations at concessionary interest rates.

As mentioned earlier, thrift and credit associations in Nigeria have continued to face challenges, and prominent among them is funding. Usman (2007) states that cooperative societies require capital to operate effectively because funds are needed to pay wages and other operating costs and to purchase equipment. Another challenge confronting thrift and credit associations is the inability of members to repay the loan given to them or managers of funds absconding with depositors' funds. The low financial status of members is another major challenge confronting traditional thrift and credit associations in Nigeria. Members are not able to meet their financial obligations to the association.

CONCLUSION

This paper concluded that the thrift and credit societies have contributed to the social and economic growth of many cottage industries and petty businesses and have succeeded in lifting many families from poverty, especially in rural areas. This paper's position is that the thrift and credit society should be retained and modified to suit current realities.

RECOMMENDATION

Having reviewed the various literature and positions, this paper recommends the following:

1. The government and well-meaning Nigerians should provide more funds to strengthen the thrift and credit associations to expand their scope, accommodate more members, and reduce unemployment and poverty in Nigeria.

2. Membership in thrift and credit associations should be open to vulnerable members irrespective of gender, age, ethnicity, or disability.
3. As a matter of priority, the government should review the thrift and cooperative laws to meet cooperatives' current needs and aspirations.

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