



## EFFECTS OF COOPERATIVE LOANS ON THE PERFORMANCE OF SMALL-SCALE VARIETY BUSINESSES IN YEWA DIVISION OF OGUN STATE, NIGERIA

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### ABSTRACT

This study assessed the effects of cooperative loans on small scale variety businesses in Yewa division of Ogun State, Nigeria. The study drew a sample of 120 small scale variety business owners through a multi-stage sampling technique and the data obtained were analyzed using the descriptive statistics, budgetary and regression analyses. Result revealed the mean age of the small-scale business owners to be 38.06 years. It was also discovered that most perceived benefit derived from cooperative was the provision of credit. The estimated gross margin of small-scale variety business was ₦70,411.00 while the net income was calculated to be ₦20,983.09. Small scale variety business was profitable at return on investment ROI of 0.385 and profitability index of 0.278. The loan obtained from cooperative significantly affects the income generated from the business. Therefore, Implications were drawn that owners of small-scale variety businesses should involve in cooperatives while the societies should encourage the small-scale variety business owners to participate more in cooperatives through saving to obtain large loan volume that can better their businesses and improve their returns.

**Keywords:** Budgetary analysis, Cooperative, Loan, Profitability, Small-Scale Business, Variety

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### INTRODUCTION

Small-scale businesses are bedeviled by numerous challenges which have limited their growth, development, and their contribution to the economy [1]. The lack of finance has remained one of the biggest impediments to the success of most entrepreneurial ideas and start-ups, as well as growing new ventures. It should be noted that small scale enterprises are faced with different problems which include lack of access to credit, savings and poor investment culture and even some of these small-scale business owners are poor [2].

These economic insufficiency and social inadequacies gave rise to emergence of various cooperative societies among professionals and traders [3]. The formation of cooperative societies makes it easy for these professionals and traders to come together and contribute to finance their businesses [4]. According to [5], Cooperative societies have positively impacted Small and Medium Enterprises (SMEs) particularly in the area of finance intervention; this is because conventional bank sources of finance are often difficult for interested small scale entrepreneurs to access. Therefore, it becomes imperative for cooperative societies to mobilize individual funds for promoting enterprise formation in safeguarding the interest of their members [6].

Despite the merits of cooperatives aforementioned and its provision of mentoring, education and entrepreneurial training for members especially the Small and Medium Scale (SMEs)

business owners that are cooperative members [7], its impact on the promotion of small and medium enterprises in Nigeria has not been deeply explored. Most studies conducted on cooperative societies focused on the membership development thus leaving a considerable knowledge gap regarding its impacts on the small and medium scales enterprises in developing economies; thus, the study will provide useful information on the roles of cooperatives in enhancing the Small and Medium Enterprises (SMEs) in Nigeria.

The main objective of this study was to analyze the effect of cooperative loan on the performance of small-scale variety business owners in Yewa division of Ogun state. The study specifically described the socio-economic characteristics of the small-scale variety business owners, identified the various benefits derived from participating in cooperatives, estimated the profit level of small-scale variety businesses, and determined the factors affecting the income of small-scale variety business owners.

### MATERIALS AND METHODS

#### Study area

The empirical setting for the study is the Yewa division of Ogun State with special focus on small scale variety businesses. Ogun State is located in the South Western part of Nigeria with latitude  $6^{\circ}$  -  $8^{\circ}$ N and longitude  $2^{\circ}$ E and  $5^{\circ}$ E. The study made use of both primary and secondary data. Primary data were collected through oral interview as well as using well- structured

questionnaire to obtain information from the small-scale variety business owners in the study area, while secondary data were sourced from journals, statistical publications, textbooks, article, and the internet.

### Sampling procedure

A Multistage sampling technique was used in selecting the sample size. In the first stage, three (3) Local Government Areas were randomly selected from the division viz Yewa North, Yewa South, and Imeko-Afon. The second stage involved random selection of two towns from each Local Government Area selected from stage one, thus making a total of six (6) towns (Ayetoro, Igbogila, Ilaro, Oke-Odan, Idofa, and Ilara) covered in the survey. The third stage involved random selection of twenty (20) small scale variety business owners from each town making a total of 120 small scale variety businesses owners.

### Data analysis

Descriptive, budgetary and regression, analytical tools were employed for the analyses as follows:

### Profit level of small-scale variety business owners

The profit level of the small-scale variety business owners was captured using budgetary technique. Following the standard methodology used in [8], [9], and [10], the Gross Margin is defined as;

$$GMI = \sum TR - \sum TVC$$

$$TR = P_{yi} \cdot Y_i \quad ; \quad TVC = P_{xi} \cdot X_i$$

$$TC = TVC + TFC \quad ; \quad NFI = GM - TFC$$

Where:

GMI = Gross Margin Income; TR = Total Revenue (₦);

TVC = Total Variable Cost (₦)

TC = Total Cost (₦); NFI = Net Income (₦);  $P_{yi}$  = Unit Price of Output Produced (₦)

$Y$  = Quantity of Output (Kg);  $P_{xi}$  = Unit Price of Variable Inputs Used (₦);

$X_i$  = Quantity of Variable Inputs (Kg)

$$\text{Rate of return on Investment (RRI)} = \frac{NI}{TC} \times 100$$

$$\text{Rate of Return on Variable Cost (RRVC)} = \frac{(TR - TFC)}{TVC} \times 100$$

$$\text{Operating Ratio (OR)} = \frac{TVC}{TR}$$

### Factors affecting the income of small-scale variety business owners

Following empirical studies of [11, 12], the regression model is specified as thus

$$Y = \alpha + X\beta_i + \varepsilon_i$$

Where  $Y$  is the Income from business (₦),  $X_s$  are the explanatory variables while  $\alpha$ ,  $\beta$ , and  $\varepsilon$  are the intercept, parameter estimate and the error term of  $i$ th small scale variety. The explanatory variables for the model include Monthly sale realized (₦), Start-up capital (₦), Present credit status (₦), Experience in business (years), Age of the small scale variety business owners (years) sex of the small scale variety business owners (female =1; 0 otherwise), household size (number) loan sourced from cooperative (₦) and number of years in cooperative society (years)

## RESULT AND DISCUSSIONS

### Descriptive statistics of the small-scale variety business owners

Table 2 shows the socio-economic characteristics of the small-scale variety business owners.

**Table 2:** Socioeconomic characteristics of small-scale variety business owners

Variables	Frequency n=120	Percentage	Mean
<b>Age (Years)</b>			
21-30	36	30.0	38.06
31-40	40	33.3	
41-50	22	18.3	
51-60	21	17.5	
>60	1	8	
<b>Sex</b>			
Male	13	10.8	89.2
Female	107	89.2	
<b>Marital Status</b>			
Single	15	12.5	79.2
Married	95	79.2	

Divorced	2	1.7	
Widowed	6	5.0	
Separated	2	1.7	
<b>Household Size</b>			
Below 4	7	5.8	
4 - 6	79	65.8	≈ 6persons
7 -10	20	16.7	
Above 10	14	11.6	
<b>Educational Level</b>			
No Formal Education	9	7.5	
Primary Education	31	25.8	7.98 yrs.
Secondary Education	65	54.2	
Tertiary Education	15	12.5	
<b>Business Experience (Years)</b>			
1-15	55	45.8	
16-30	53	44.2	18.12 yrs.
31-50	10	8.3	
>50	2	1.7	
<b>Monthly Income from the business</b>			
<10,0000	7	5.8	
10,000-30,000	86	71.7	₦19,297.92
31000-50000	27	22.5	
<b>Duration of Membership of Cooperatives (Years)</b>			
Non-Members	44	36.7	
1-5	11	9.2	
6-10	45	37.5	9.5yrs.
11-15	11	9.2	
16-20	6	5.0	
>20	3	2.5	

Source: Author's computation based on data from field survey

Table 2 reveals that the mean age, education and monthly income from the business were found to be 38.06 years, 7.98 years and ₦19,297.92 respectively. The findings agree with the assertion of UNESCO [13] indicating capability and strength for business stress but with low level of education. Sex is very important to this study because it indicates the proportion of the gender that involves in small-scale variety businesses. Married female gender constituted a large number of the small-scale variety business owners (89.2%) due to the nature of the occupation; this is in line with Akerele and Adekunmbi [14] reported that married female gender

contribute to income earning capacity of the households, thus improve their standard of living. Results reveal that the mean business experience and being a member of cooperative were 18.2 years and 9.5 years. The more experienced the small-scale variety business owners are the more their ability to make better decisions.

#### Perceived benefits by members of cooperative societies

Results in Table 3 shows the distribution of small-scale business owners according to benefits derived from cooperative societies.

**Table 3:** Benefit enjoyed as a member of cooperative society (N= 120)

Perceived benefits	Frequency	Percentage	Ranking
Provision of credit facilities	75	62.5	1 <sup>st</sup>
Encouraging savings	74	61.7	2 <sup>nd</sup>
Improve standard of living	74	61.7	2 <sup>nd</sup>
Asset acquisition and accumulation	73	60.8	3 <sup>rd</sup>
Advisory Services	73	60.8	3 <sup>rd</sup>
Educational improvement	72	60.0	4 <sup>th</sup>
Improve social status	68	56.7	5 <sup>th</sup>
Job creation	63	52.5	6 <sup>th</sup>
Access to information on business	49	40.8	7 <sup>th</sup>
Skill acquisition	46	38.3	10 <sup>th</sup>

Source: Author's computation based on data from field survey

Obtaining credit facilities ranked first among other benefits and this is not surprising as cooperative in most cases in Nigeria function to boost and cater for the finance of its individual members and small businesses. Skill acquisition through cooperatives activities was ranked least. All these benefits provided by cooperative societies believe to increase the chances of income generation, economic growth, creating market

opportunities, employment creation especially among low income earners thus enhancing sustainable development at long run among members.

#### **Cost and return structure of small-scale variety businesses**

Budgetary Analysis was estimated to assess the cost and returns of small-scale variety businesses in the study area.

**Table 4:** Cost and return structure of small-scale variety businesses

Items	Average (₦)	% Total
Total revenue	₦75,456.83	
Total Variable Cost (goods sold & Energy used)	₦44,470.07	<b>81.63</b>
Rent	₦1,412.58	
Depreciation on Tables, Generator, Refrigerator& Store	₦8,591.66	
Total Fixed Cost (TFC)	₦10,004.24	<b>18.37</b>
Total Cost (TC)	₦54,474.31	<b>100</b>
<b>Gross Margin (TR-TVC)</b>	<b>₦30,986.76</b>	
<b>Net Income (GM-TFC)</b>	<b>₦20,982.52</b>	
<b>Operating Ratio (TVC/TR)</b>	<b>58.93%</b>	
<b>Rate of Return on Investment (NI/TC×100)</b>	<b>38.52%</b>	
<b>Profitability Index = NI/TR×100%</b>	<b>27.81%</b>	

Source: Author's computation based on data from field survey

The fixed inputs were depreciated using straight line method to determine their annual cost of depreciation. The results in table 3 reveal the gross margin and the net income of the small-scale variety businesses in last production cycle. Total variable cost (₦44,470.07) contributed the highest proportion of the total cost with 81.63%, while fixed cost (₦10,004.24) represents 18.37% of the total cost. The estimated gross margin is ₦30,986.76 while the net income was calculated to be ₦20,982.52. The rate of return on investment and profitability index of the small-scale variety businesses were found to be 38.52% and 27.81% respectively,

indicating that on every ₦1 invested by small scale variety business owners, 38 kobo were realized, while 27kobo was made as profit on every ₦1 realized as revenue. This implies that small scale variety business was profitable in the study area.

#### **Factors affecting the income of small-scale variety business owners**

Multiple linear regressions were used in analyzing the factors affecting the income of small-scale variety business owners in Yewa division of Ogun state.

**Table 5:** Regression analysis of factors affecting the income of the small-scale variety business owners

<i>Variables</i>	<i>Parameters</i>	<i>Coefficient</i>	<i>T-Value</i>	<i>Significant</i>
Constant		13.804	1.538	0.127
Sale Realized	X <sub>1</sub>	0.744	11.521***	0.000
Start-Up Capital	X <sub>2</sub>	0.128	1.421	0.158
Present Credit Status	X <sub>3</sub>	0.218	2.773**	0.004
Experience in Business	X <sub>4</sub>	0.132	1.680*	0.096
Age	X <sub>5</sub>	-0.019	0.280	0.780
Loan Sourced from Cooperative	X <sub>6</sub>	0.169	1.701*	0.092
Years in Cooperative	X <sub>7</sub>	0.085	1.304	0.195
Household Size	X <sub>8</sub>	-0.046	-0.654	0.514
<b>R Square</b>	<b>0.559</b>			
<b>Adjusted R Square</b>	<b>0.527</b>			

\*Sig at 10%, \*\*Sig at 5% and \*\*\*Sig at 1

Table 5 revealed that the adjusted R-squared is 0.527, implying that 52.7% of variation in income (dependent variable) is explained by the independent variables. The F-value of 17.559 showed that these independent variables are jointly significant in explaining the variation in income of the business. The result shows that four variables significantly determined the change in income of the small-scale variety business owners, these are sales realized, present credit status, loan sourced from cooperative and business experience have positive effects on the income of small-scale variety business owners. Table 5 also showed that the greater the sales realized at the end of the month the greater the increase in income of the small-scale variety business owners. The loan obtained from cooperative which is also positively significant to the income from the business implies that, if the business owners increase the rate at which they obtain loan from cooperative and pump it into their business there will be positive increase in the income of the business.

## CONCLUSION AND RECOMMENDATIONS

The study concludes that small-scale variety businesses is profitable in Yewa division and involvement in cooperatives through sources of loan from cooperative societies positively increased the income realized from small scale variety businesses. Implications were drawn that owners of small-scale variety businesses should be involved in cooperatives while the societies should encourage the small-scale variety business owners to participate more in cooperatives through saving to obtain large loan volume that can better their businesses and improve their returns.

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