

ASSESSMENT OF THE OPERATIONAL PROCEDURE OF THE TRADITIONAL CREDIT AND SAVINGS ASSOCIATIONS IN IMO STATE

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ABSTRACT

This study examined the operational procedure of the traditional credit and savings associations in Imo State. It is aimed at identifying the associations whose operational procedure and organizational structure make linkage with the formal credit market possible without the associations losing their distinctive relevance to the non-corporate sector. A total of 90 respondents was used for the study. Primary data was generated using two sets of questionnaires. One was administered on small-holder farmers. The other questionnaire was administered on the identified credit and savings associations. Data analysis was achieved using descriptive statistics. The identified associations can be categorized into (a) credit and savings associations (CRESAs), (b) traditional savings associations (TRASAs) and special traditional credit and savings associations (SPECRESAs). In terms of operational procedure and organizational structure, the SPECRESAs tended to be most conveniently tailored to be connected to a formal credit delivery mechanism.

Keywords: *savings, credit, formal, informal, linkage*

INTRODUCTION

Background Information

Traditional credit and savings associations are a widespread self-help organization in Nigeria (Ijere and Miller, 1978). They assist members in small-scale capital formation through the mobilization of savings to members. They are made up of people for the purpose of contributing fixed or variable sums of money at regular intervals to meet members' needs. It is a savings and credit club organized among people with trust and confidence in each other and usually living in the same geographical location. In fact wherever people meet frequently, they tend to introduce the isusu club to take care of their financial needs. Several studies have indicated increasing participation of farmers in alternative forms of community-based credit and savings associations (Eboh, 2000; Ejiogu, Eboh, and Okorji, 2002). These associations rely on traditional patterns of social relations and control for their functions (Arua, 1988, Miracle and Cohen, 1980). The traditional basis of some of these associations includes religion, age grade, and occupation.

Informal financial arrangements reduce transaction costs and risks in ways denied to formal institutions (World Bank, 1990). For example, they can mix finance with other businesses. Their activities are outside the review and control of the monetary authorities. Freedom from regulation allows the traditional credit and savings associations greater operational flexibility. The operators rely on their knowledge of one another and on local sanctions to reduce

operational risk. These sanctions are effective hence traditional credit and savings associations are widespread.

Traditional self-help financial associations are effective in financial intermediation in the rural areas. They receive the widest patronage from the small-holder farmers (Arua and Okorji, 1989; Afolabi, 2004). Despite their success in providing financial services, the traditional credit and savings associations have some weaknesses (Mabogunje, 1994). For example, they mostly last for a year at the end of which they disband after a major feast; they usually involve small groups which invariably limit the amount of savings mobilized; the volume to a beneficiary and the total number of beneficiaries are severely limited.

Furthermore, these self help financial credit and savings associations differ on the basis of operational procedure, management and objectives. It is common for more than one variety to be found in a locality. Any institutional intervention initiative intended to reach the resource-poor farmers through the traditional credit and savings associations tends to be crowded out on account of the associations' diffuse nature.

The limitations of the traditional credit and savings associations do not call for completely new institutions. Policy-makers tend to learn more about these associations by studying their operational procedure more closely. Sometimes informal arrangement provides a framework to forge links with formal institutions so as to provide a fuller range of services.

Based on their operational procedure, which of these associations can be linked to an institutionally-backed credit delivery mechanism for improved efficiency? What is the possibility of this linkage without these associations losing their distinctive relevance to the non-corporate sector? This study provides empirical answers to these problem questions.

The broad objective is to assess the operational procedure of the traditional credit and saving associations in Imo State. Specifically the study identified and categorized the traditional credit and savings associations in Imo State; described their organizational structure and operational procedure of the associations; and identified areas of co-operation among the traditional credit and savings associations and between the informal and formal credit markets in the study area.

MATERIALS AND METHODS

Imo State is the study area. It was chosen for the purpose of improving the informal effectiveness of micro credit delivery in the study area. Imo is situated east of the River Niger. It occupies the basin of Imo River from which it takes its name. It is bounded on the east by Abia State, on the South-west by the Rivers State, on the west and north-west by River Niger over which lies Delta State and on the north by Anambra and Enugu States (IMSG, 1992; ISPEDC, 2006).

Small-holder farmers and traditional credit and savings associations in all the three agricultural zones in the state served as the study population. With the assistance of the Extension Agents (EAs) in the three zones, the small-holder farmers were identified. The small-holder farmers in turn assisted in identifying the traditional credit and savings associations in the study area.

A total of 30 respondents were randomly selected from each of the three agricultural zones. These respondents in turn assisted in identifying a total of 31 associations. However, some of the associations were moribund and therefore existed only in name. Some were essentially vigilante groups or dance groups with little or no credit and savings functions. Eventually, 18 traditional credit and savings associations were identified and used for the study.

Data for this study was generated from both primary and secondary sources. Primary data was collected with two sets of questionnaire. One set was administered on the small-holder farmers. The other set was administered on the officials of each of the identified traditional credit and saving associations. Three Extension Agents from each of the three agricultural zones served as enumerators. All the specific objectives were analyzed by using descriptive statistics such as means and percentages.

Results and Discussion

Identification and Categorization of the Different Traditional Credit and Savings Associations

Identification of the Traditional Credit and Savings Associations: Eighteen traditional credit and savings associations were identified. These associations were forged by such ties as titles, religion, age grade, kinship relationship and occupations. Furthermore, the associations were characterized by being on and off. This characteristic was dependent on the level of trust existing among members, the amount of money the members were willing and able to regularly save with the associations. It was also dependent on the number of committed members, and the activities of a particular association at any point in time. The following associations were identified in the study area:

- a. Ezinwanne Weekly Contribution Ndiejezie, Arondizuogu,
- b. Okpuala Children's Meeting Amuro,
- c. Ezegwu/Ebii Family Meeting Umuobike, Ihitte Uboma,
- d. Umunneato Savings, Umuobike, Ihitte Uboma,
- e. Umuduruaku Savings, Umuobike, Ihitte Uboma,
- f. Onuekwu Meeting, Umudim, Ihitte Uboma,
- g. Ndidi Age Grade, Umudim,
- h Nze Title Holders Association, Onicha Uboma,
- i. Umudiani Savings Association, Eziorsu Oguta,
- j. Meeting Tax Amuro,

- k. Fresh Fish Sellers Association, Amuro,
- l. Nzuko Ekpere, St Luke's Church, Eziosu Oguta,
- m. Ebere Meeting, Umudim, Ihite Uboma,
- n Akaeme Ohiauchu Sunday Meeting, Arondizuogu,
- o. Obidiotu Weekly Contribution Ndiejezie,
- p. Otu Owu, Oguta,
- q. Ugoeze Eziosu Farmers Multipurpose Co-operative Society, Oguta, and
- r. Nkpabi Farmers Multipurpose Cooperative Society LTD.

By definition, multipurpose cooperative societies are not traditional credit associations. However, such ancillary services were provided to the members.

Categorization of the Traditional Credit and Savings Associations

The identified credit and savings associations are categorized as follows:

Credit and Savings Associations (CRESAs): These associations, at specified intervals, received sums of money from their members. The periodic contribution may or may not be fixed amount. However, members were advised to stick to an amount they could contribute regularly. At the end of each round of contribution, the money was lent to any interested member at interest rate unanimously agreed.

Any amount not lent was left at the custody of a designated official of the association. At the end of a period which usually coincided with the months of October and November, the money was shared among the members with each receiving an amount equal to that contributed plus the accrued interest. The total interest was shared among the members in proportion to the amount contributed by each member. Associations that could be categorized under CRESAs included the Ezinwanne Weekly Contribution, the Okpuala Children's Meeting, the Ezegwu/Ebii Family Savings, the Umunneato Savings the Umuduruaku Savings, the Onuekwu Meeting, the Ndidi Age Grade, the Nze title Holders Association, Umudiani Savings Association, Eziosu, Oguta, the Meeting tax, the Obidiotu Weekly Contribution and the Otu Owu.

Traditional Savings Associations (TRASAs): These associations met at specified intervals and contributed fixed sums of money. The total contribution in a particular gathering was handed over to a member. This process was repeated until every member of the association had benefited. Examples of TRASA included Fresh Fish Sellers Association, Nzuko Ekpere, the Ebere Meeting., and the Akaeme Ohiauchu Sunday Meeting.

Special Traditional Credit and Savings Associations (SPECRESAs): These were CRESAs or TRASAs which metamorphosed into cooperative societies. The metamorphosis

mainly motivated by the desire to attract government recognition, was achieved by registering with the Divisional Cooperative Officer (DCO) in the Local Government Area (LGA). The DCO then registered the association with the Ministry of Commerce, Owerri, headquarters and a certificate was issued. The following associations fell into this category: the Nkpabi Farmers Multipurpose Cooperative Society and the Ugoeze Eziorsu farmers Multipurpose Society.

In the Oguta LGA is the Shell Union. This institution had some cooperative societies in the LGA affiliated to it for the purpose of assisting such societies in their farming activities. Registration as a cooperative society was a condition for affiliation. For example the Ugoeze Eziorsu FMCS is a registered cooperative society. However, the association did not abandon its savings and credit services to members.

Organizational Structure and Operational Procedure of the Association

Organizational Structure: All the associations had officials whose designations come under the following names: President (Chairman), Secretary, Financial Secretary and Treasurer. Others included Provost and Patron. The SPECRESAs had more designations such as Vice President, Assistant Secretary and Auditors. This may be on account of paperwork involved and also for the reasons of satisfying some criteria for registration with the government. Only the Nze Title Holders Association had a patron who acted as a father-figure to the association. Basically, the chairman or the president presided over meetings; the vice president acted in his absence. The secretary recorded the minutes of meetings; the assistant acted in his absence. The financial secretary took record of financial transactions. The treasurer kept the association's money.

Operational Procedure

Regularity of Holding Meetings: The intervals at which the associations held their meetings ranged from weekly to monthly. Majority of the associations held their meetings at weekly intervals. These associations included the Ugoeze Eziorsu Farmers Multipurpose Cooperative Society, the Okpuala Children's Meeting, the Umunneato Savings, the Onuekwu Meeting, the Akaeme Ohiauchu Sunday Meeting, the Ezinne Weekly Contribution, the Obidinotu Weekly Contribution, the Ebere Meeting, the Umuduruaku Savings, the St. Luke's Nzuko Ekere and the Meeting tax. Those that held their meetings at monthly intervals included the Ndidi Age Grade, the Nze Title Holders and the Nkpabi FMCS. The Umudiani Savings and the Fresh Fish Sellers Association held their meetings at four-market days and bi-weekly intervals respectively. With respect to the Ugoeze Eziorsu FMCS, in addition to meeting at weekly intervals, the officials also met with the LGA officials on Tuesdays.

Procedure for Admitting New Members: Each intending member was expected to present a surety who must be a member of the association. In kinship-based associations, for example the Umunneato Savings, an intending member who is not an indigene may join. Such a

member may or may not be physically present at meetings. In such a case, monetary contributions were made by proxy. Intending members were encouraged to join at the beginning of an accounting year. Any applicant who joined midway must pay a sum equal to the savings contributions of the average member. On eventual admission, a new member bought food, drinks and cola and presented same to the association for entertainment. With respect to the FMCSs, intending members must apply formally and the bye-laws explained to the applicant. The Okpuala Children's Meeting, the Nze Title Holders and the Prayer Meeting did not charge fees for registration. All others did. The amount charged for registration ranged from N10-N500.

Savings Generation by the Associations: All the associations served savings functions. Not all of them offered credit services. The savings were generated through periodic contributions made by the members. Majority of the associations (61%) did not contribute a fixed amount while 39% contributed fixed sums of money as savings. The fixed sums contributed ranged from N50 per week per member to N250 per month per member. All the TRASAs contributed fixed sums. This obviously facilitated each member receiving equal amounts in turns.

The Process and the Period of the Year of Obtaining Loans: In the associations where loan services were available, loan applicants stated their intentions to borrow during any of the meetings. Application may be oral or written. For family-based associations, applications were not written. The amount given as loan was not dependent on the amount applied for but on that available for disbursement among competing applicants. If the amount available was equal to that required, then the applicant would receive the amount requested; if not the applicant got what was available. The amount lent was also dependent on the savings contributions of the members. If a member contributed, for instance, N50 per week, the member cannot borrow more than N2, 600 from the association in an accounting year. The calculation was that the applicant could only hope to save a maximum of N2, 600 at that rate in an accounting year.

All the members of CRESAs and SPECRESAs were expected to borrow from their associations within an accounting year. This was with a view to sharing the risks and returns to lending equitably among members. It was also to prevent the moderately rich from turning the associations into an avenue to earn quick money from the interest paid by the poorer members who may have more compelling need to borrow. In the Ezinwanne Weekly Contribution, for instance, if a member did not borrow within an accounting year, that member would pay an amount equal to his periodic savings as fine. The Okpuala Children's Meeting requested loan applicants to present two gallons of palm wine along with application for loan.

Loan was given between June and August each year. An accounting year for most associations started in February. Borrowing took place anytime during the accounting year subject to the availability of funds. However, borrowing tended to stop a month to the end of the accounting year. This was to enable the officials balance accounts preparatory to the end-of -year activities.

Advancing Loan to Non-members: Not all the associations advanced loans to non-members. The reason was that recovery may be difficult if not impossible. The following associations stated that they advanced loans to non-members: the Ezinwanne Weekly Contribution, the Okpuala Children's Meeting, the Onuekwu Meeting and the Nze Title Holders association. Furthermore, other CRESAs did not particularly prohibit loans to non-members. However the interests and needs of members must be served first. Then, if any money remained and if any request came from non-members, they were considered on their merits.

In lending to non-members, certain conditions commonly applied: the applicant must be guaranteed by an active member and the interest charged was more than that paid by a member. A non-member could also borrow by proxy through a member. In such a case the member would have conceded his turn to the non-member. The association may not be aware of the arrangement between the member and the non-member. It should be pointed out that borrowing by a non-member through a member is different from borrowing by a non-member using a member as a surety.

The loan term for members and non-members was the same. The loan term could be as short as 1 month. On the other hand it must not be longer than an association's accounting year. A borrower was allowed to have the loan until members were ready to come together to share their savings. At the end of an accounting year, the borrower paid all the interest that had accumulated over the period. Borrowers who repaid before the end of the accounting year could borrow again if they so desired but must repay in full on or before the end of the accounting year when all principal and interest were repaid.

Utilization of Banking Services by the Associations: Only the SPECRESAs had bank accounts. Other associations stated that they did not keep money in the bank. Some of the reasons given for not keeping money in the bank included: no money for banking as contributions were lent out almost immediately they were made; the savings were too slim to be deposited in a bank; banking procedures took time and that most of the rural based banks were either distressed or liquidated.

Methods of Loans Repayment: Repayment was effected through two methods. One was that loans were non-amortized as principal and interest (where interest was applicable) were

repaid en block on the expiration of the loan term. The other method which involved repayment of principal and interest (where interest was applicable) was affected in instalments through the periodic savings contribution over the loan term.

Repayment en block was generally applicable to borrowers who were not members of the association. This was affected whenever the borrower was ready to do so or at the end of the loan term at the longest. In the event of default, the association held the guarantor of the non-member borrower responsible.

With respect to the second method, on receipt of the loan, the borrowers continued to pay their periodic savings contribution, for the remaining accounting year. At the end of the loan term, any outstanding amount was then repaid en block. No grace period was given and inability to repay in full at the end was usually met with forceful confiscation and subsequent auctioning of the defaulter's valuable property. On the other hand, some defaulter-members of the association had to borrow again from another source in order to pay back the outstanding loans.

Co-operation among the Traditional Credit and Savings Association and Between Informal and Formal Credit Markets

CO-operation among the Credit and Savings Associations: There was no form of co-operation or collaboration among the associations. However, the Eziorsu FMCS held periodic general meetings with other registered FMCS under the umbrella of the Shell Union. Shell Union co-ordinates the activities of some registered FMCS in the Ohaji/Egbema and the Oguta LGAs where the Shell Petroleum Development Company operates.

Borrowing money from other associations for on-lending to members was not observed. This arrangement is obviously outside the range of activities of the associations.

Co-operation between Informal and Formal Credit Markets

No collaboration was observed between the associations and the formal credit market. The formal credit markets extended their services to individuals or registered co-operative societies. Most of these registered co-operative societies are donor-driven. They fizzle out or go dormant when such government-sponsored credit programmes are no more.

Conclusion and Recommendations

The operational procedures were as varied as the traditional credit and savings associations. The organizational structures were tailored to the range of activities of the associations. There neither existed any form of collaboration among the associations nor between the associations and the formal credit markets. However, the periodic meeting among SPECRESAs coordinated by the Shell Union in the Ohaji/Egbema and Oguta Local Government Areas is a donor-

driven arrangement as opposed to a market-driven initiative. Donnor-driven government-sponsored programmes tend to fizzle out or go dormant with time. All considered, the SPECRECSAs tend to be most conveniently tailored to be connected to a formal credit delivery mechanism while still retaining their remarkable relevance to the non-corporate sector.

On the basis of the findings, the following recommendation is made: The concept of rural institutions development should be animated by the Imo State government through the Agricultural Development Programme. The Agricultural Development Programme should mobilize the associations by organizing periodic meetings with these associations at the community, LGAs, zonal and state levels. This arrangement would place the associations on the road to growth, development and sustainability. It will also provide the framework for any formal intervention programmes. Obviously, such a setup will provide a basis for cooperation among the traditional credit and savings associations and between the informal and the formal credit markets.

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