Numerical and comparative analysis of savings and loan schemes using cooperative societies, banks and contributory schemes

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ABSTRACT
The needs of man are insatiable and the yearnings and aspirations are always there to satisfy our wants with insufficient and staggering salaries, incomes and financial benefits in work places, business or financial transactions. Most people resolve to save money and take loans from the banks or cooperative societies to satisfy their needs while few others join contribution and shift groups. However, there are sometimes many inherent challenges involved such as risks and apparently, the interest rates are not usually the same with heterogeneous conditions readily attached. To this end, this paper considers the numerical and comparative analysis of savings and loan schemes using some selected cooperative societies, banks and contributory schemes in Ondo West Local Government of Ondo State. Research hypotheses were formulated and pearson product correlation was used for their analysis.
The results show that there is significant difference between loans in cooperative societies and banks; credit shift contributory schemes have better economic relevance and benefits than bank and cooperative society loans if well securely handled and that having savings with cooperative societies has greater advantage over savings account with commercial banks. Recommendations are hereby given to investors, contributors and loan beneficiaries.

Keywords: Contributory Schemes, Credit and Shifts, Loan, Cooperatives, Banks, Interests.

1. INTRODUCTION

Cooperative thrift and credit societies are member-based organizations that help members to address economic problems. They are not banking Institutions because of their goal. The ultimate goal is to encourage thrift among the members and to meet credit needs of people who might otherwise fall prey to loan sharks and other predatory lenders (The Ledger, 2004). Cooperative societies are widely spread organization in developing countries, they are known for strong commitment of, as well as participation in the decision making of their members. These societies mobilize local savings and administer credit to members, thereby encouraging thrift and entrepreneurial activity. When first started, credit unions use relatively unsophisticated administrative practices, so that the costs are very small and most interest income from loans may either be distributed to the members or reinvested in the credit union within a capitalization programme. Consequently, they can be set up in poor communities, where access to means of secure savings and to credit at non-exploitative terms is of greatest importance.

Savings and Loan schemes are important in the provision of financial and banking services to low income households who for economic reasons cannot be covered by the activities of formal banks and financial Institutions. Savings and Loan schemes perform three major functions in relations to its members and general economic development of the country. In particular, these functions are collecting savings from its members, giving loans to its members and giving financial and non-financial advice to its members in order to facilitate Savings and Loan schemes members utilize well the micro credit they have borrowed from Savings and Loan schemes. In some cases, some government and private institutions may also give financial assistance to Savings and Loan schemes in order to enable them give micro credit to their members different activities done by households in both urban and rural areas also mean the existence of different Savings and Loan schemes. Thus we have Savings and Loan schemes for food crop producers, cash crops Savings and Loan schemes, traders Savings and Loan schemes, fishermen Savings and Loan schemes, Teachers Savings and Loan schemes, Armies (e.g. Police) Savings and Loan schemes with the Aim of assisting the Government to reduce high level of poverty and income inequality in the society.

"A Co-operative society, as its name indicates is an institution consisting of a number of individuals who join together to pool their surplus savings for the purpose of eliminating the profits of the bankers or money lenders with a view to distributing the same amongst the depositors and borrowers." The Co-operative Banks Act, of 2007. Co-operative society, in a nutshell, provides financial assistance to the people with small means to protect them from the debt trap of the moneylenders. It is a part of vast and powerful structure of co-operative institutions which are engaged in tasks of production, processing, marketing, distribution, servicing and banking in Nigeria. Co-operative society are often created by persons belonging to the same local or professional community or sharing a common interest. These banks generally provide their members with a wide range of banking and financial services (loans, deposits, banking accounts). Co-operative banks differ from stockholder banks by their organization, their goals, their Values and their governance.

The Co-operative Banking System in Nigeria is characterized by a relatively comprehensive network to the grass root level. This sector mainly focuses on the local population and micro- banking among middle and low income strata of the society. These banks operate mainly for the benefit of rural areas, these banks are traditionally centered on communities, localities and work place groups and they essentially lend to small borrowers and businesses. Also, co-operative bank is a financial entity which belongs to its members, who are at the same time the owners and the customers of their bank. Co-operative banks are often created by persons belonging to the same local or professional community or sharing a common interest. Cooperative banks generally provide their members with a wide range of banking and financial services (loans, deposits, banking accounts etc.). Co-operative banks differ from stockholder banks by their organization, their goals, their values and their governance. In most countries, they are supervised and controlled by banking authorities and have to respect prudential banking regulations, which put them at a level playing field with stockholder banks. Depending on countries, this control and supervision can be implemented directly by state entities or delegated.
to a co-operative federation or central body. Co-operative banking is retail and commercial banking organized on a co-operative basis. Co-operative banking institutions take deposits and lend money in most parts of the world. Cooperative banking, includes retail banking, as carried out by credit unions, mutual savings and loan associations, building societies and co-operatives, as well as commercial banking services provided by manual organizations (such as co-operative federations) to co-operative businesses. These banks provide most services such as savings and current accounts, safe deposit, loan to private and business customers. For middle class users, for whom a bank is where they can save their money, facilities like Internet banking or phone banking is not very important. Although they are not better than private banks in terms of facilities provided, their interest rates are definitely competitive. However, unlike private banks, the documentation process is lengthy if not stringent and getting a loan approved quickly is rather difficult. The criteria for getting a loan from a cooperative bank are less stringent than for a loan from a commercial bank.

All over Nigeria, it is common to see small contributory savings schemes where market women contribute a daily portion of their trading profit to a collective. What are the characteristics of these groups that make it work and what lessons can corporate Nigeria learn from these groups to ensure that as a group, they maintain high corporate governance standards? In Yoruba, these saving schemes are called Ajo while it is referred to as ‘Adashe’ in the north, and the Ibo word for it is ‘Adashe’. These group savings serve as a source of borrowing in emergencies, a way to grow savings and a means to achieve a communal goal, etc. At the heart of every collective saving scheme is the clan nature of its members (July 16, 2014 Premium Times).

2. STATEMENT OF THE PROBLEM
The needs of man are insatiable and the yearnings and aspirations are always there to satisfy our wants with insufficient and staggering salaries, incomes and financial benefits in work places, business or financial transactions. Most people resolve to save money and take loans from the banks or cooperative societies to satisfy their needs while few others join contribution and shift groups. However, there are sometimes many inherent challenges involved such as risks and apparently, the interest rates are not usually the same with heterogeneous conditions readily attached. To this end, this research work will consider the numerical and comparative analysis of savings and loan schemes using cooperative societies, banks and contributory schemes.

For more than Five decades now, different cooperative societies, banks and contributory schemes have invaded the society in which they have their roles, objectives and mode of operations and the emerging trends of bankruptcy, this work seeks to present the numerical and comparative analysis of savings and loan schemes using some selected cooperative societies, banks and contributory schemes with a view to advise contributors and loan beneficiaries from the research outcome.

3. PURPOSE OF THE STUDY
As the nation is at the verge of improving the economic, financial and poverty alleviation among the citizens, and the emerging trends of bankruptcy, this work seeks to present the numerical and comparative analysis of savings and loan schemes using some selected cooperative societies, banks and contributory schemes with a view to advise contributors and loan beneficiaries from the research outcome.

4. RESEARCH HYPOTHESES
The following null hypotheses will be tested:
1. There is no significant relationship between loans in cooperative societies and banks.
2. Credit thrift Contributory schemes have no better economic relevance and benefits than bank and cooperative society loans.
3. Having savings with cooperative societies has advantage over savings account with commercial banks

5. SIGNIFICANCE OF THE STUDY
This study views the impact of cooperative societies and banks in empowering citizens, their mode of operations and benchmarked against the common contributory schemes and credit shifts as they affect Nigerian citizens. In the first place, this research could help to appraise the relationship between the banking sector and the cooperative societies towards the economic development of the nation.

Secondly, the study could make things clearer to workers, market women and all agencies that have cooperative society to manage and look at some areas of deficiencies in terms of obtaining loans, loan repayment and those involving in ‘ajo’-daily/monthly contributory schemes and credit shifts, to take cognizance in giving their money to just ordinary leader without
competency. Also, the study would make the masses realize the relevance of the cooperative society and local thrift group in the overall development of our national economy. Furthermore, to the educationists and researchers, this could serve as a reference material to them. More so, to the government, this could throw more light on how the government could effectively utilize the roles of the cooperative society and local thrift group in the economic development of the nation. Finally, the study could make the central bank of Nigeria (CBN) realize how to use policy concerning lending rates to strike a good balance or parity between the cooperative society and local thrift group and so, facilitate National Economic Development.

6. THE CONCEPT OF COOPERATIVE SOCIETIES /LOCAL CREDIT AND THRIFT GROUPS

Cooperatives have been defined in diverse ways by various people and writers for different purpose. However some of these definitions in this project work are used in line with the oxford advance learners’ dictionary (2002) defined cooperatives as a group of persons acting and working together with another or either for a common purpose. According to Tongyi (2009) defined cooperative as an association of persons and usually of limited means who voluntarily have joined together to achieve a common economic end through formation of a democratically controlled business organization such persons as associates make equitable contribution to the capital required and accept fair share of benefits and risks of their undertaking.

An autonomous association of persons united voluntarily to meet their economic, social and cultural needs and aspirations through jointly owned and democratically controlled enterprise is conceptualized as a cooperative society (International Co-operative Alliance, 1995). There had been local cooperative societies in Nigeria known as local credit and thrift groups before the advent of modern cooperative movement which began in England. They were variously named by the people (Adedjana, 2011). The Yorubas called it “Ajo” or ‘egbe omo ilu’, Hausas called it “Adashi” while the Igbos called it “Isusu”. The first recognized cooperative society, named Rochdale Equitable Pioneer resulted from the coming together of twenty eight factory workers in Manchester (Encarta, 2009). These early cooperative associations shifted from agriculture to marketing following the shift in the Nigerian economy from agriculture to crude oil in the early 1970’s.

Banks are statutorily vested with the primary responsibility of financial intermediation in order to make funds available to all economic agents. The intermediation process involves moving funds from surplus sectors or units of the economy to deficit sectors or units (Uremadu, 2002; Nnanna, Englama and Odoko, (2004). The extent to which this could be done depends on the level of development of the financial sector as well as the savings habit of the populace. The availability of investible funds is therefore regarded as a necessary starting point for all investments in the economy which will eventually translate into economic growth and development (Uremadu, 2006).

The ‘Ajo or egbe ilu’ as one of the local credit and thrift groups which has their roles in providing finance for development at grass root levels, and according to Adedeji and Olotuah (2012), Akinola (2007) and Oloyede (2005), low income households typically turn to Ajo or egbe ilu’ as an important informal source of capital because they often do not qualify for bank loans due to inadequate collateral, ‘Ajo or egbe ilu’ method which involves contributors from different extended family compounds who may not know one another, which was sometimes prone to cheating by the leader restricted type involving inhabitants of the same compound, for example, an association of wives, an association of children, or based on trade/occupational affiliation. This type has been reported to be of huge success due to accountability on the part of the leader who is usually known to the members, and consequently cases of default are rarely reported. The ‘Ajo or egbe ilu’ system extended to the Caribbean islands during the slave trade and to other African countries like Liberia (Bascom, 1952) and even to major American cities (Siebel, 2004) but the names of their own is just different but having the same mode of operations. A group of people come together to contribute equal amount of money at regular intervals usually weekly, fortnightly, monthly or even on every market day. Each member of the group takes the group contribution in turn until it has gone round everybody, when they recommence contribution. This association enjoys the patronage of market women, petty traders, tradesmen and salary earners. The ‘Ajo or egbe ilu’ association should not be confused with the popular ‘Ajo or egbe ilu’ where a professional collector the ‘Alajo’ goes round to collect people’s contributions usually on daily basis, which are later returned to them, while the collector is paid a commission for his service.

‘Ajo or egbe ilu’ latter is not an association as such, the people who contribute to the ‘Alajo’ need not know one another and in fact cannot, because of the large size of patronage and added to this, is the fact that, the contributions are not fixed but depend on the ability of each client. A notable feature of these traditional associations is that they are loose associations, in the sense that a formal act of incorporation is unknown to customary law and as such they are not recognized by law. The ‘Ajo or egbe ilu’ was remodeled into modern cooperative societies in Western Nigeria in 1935 after British and Indian cooperatives by the colonial administrators because of their belief that the ‘Ajo or egbe ilu’ is fraudulent. This conversion seemed to have heralded the end of the
‘Ajo or egbe ilu’ in some societies today when people of different ethnic backgrounds got involved and loans were granted to members without contributions (Siebel, 2004). However, the ‘Ajo or egbe ilu’ remains an important way of generating income for different forms of development and there are thousands throughout the region in Nigeria. Informal ‘Ajo or egbe ilu’ were found to perform better than cooperatives in a small sample by Seibel (2004), suggesting that some of the benefits of the ‘Ajo or egbe ilu’ may be better suited to the needs of low-income households.

The main advantages of ‘Ajo or egbe ilu’ over formal methods of fund raising are that: It attracts no interest rate, and it affords the recipient the opportunity to obtain larger sums than would have been possible through individual effort; thereby emphasizing the power of collective action. Both systems operate via the power of collective action, and provide much needed capital to low-income earners on an interest free basis.

Lack of legal backing impugns their ability of taking advantage of credit from government or financial institutions. However, native jurisprudence treat these groups as legal entities, distinct from their members, but the leader or its representative, exercises the dominant right of the group in the name of and on behalf of the group. The leader or representative when on a debt recovery drive exercises this function in the name of and on behalf of the group, without questions. Traditional associations as discussed above are not considered as co-operatives in the modern sense, but as associations aimed generally at achieving the same goals as modern co-operative societies as in agricultural production or credit mobilization.

To modern co-operative society, participation is in a simple partnership and it is essentially personal. Any surplus resulting from a trading co-operative, after the usual provision for reinvestment is shared among the members on some equitable basis. It is the emphasis on the provision of services to members, rather than profits to investors which has resulted in co-operatives traditionally regarding themselves as organizations of people and not capital. The central features of a co-operative society are:

1. Voluntary and open membership;
2. Democratic control of the society by its membership;
3. Limited interest in the capital by the members (as opposed to shareholders in a company);
4. Distribution of surplus assets for the purposes of the society under its own rules;
5. A commitment to the education of its members either generally or in relation to the use of their own property;
6. A federalizing tendency to act together with other co-operatives societies.
7. The key concepts formulated on the values and principles and given international ecapitali by the International Labour Organization (ILO) and the International Co-operative Alliance (ICA).

7. RESEARCH DESIGN, INSTRUMENT AND SAMPLE SIZE

This study is designed to cover the population of Adeyemi college of Education cooperative societies, St Joseph cooperative society and selected market women in Ondo West Local Government Area of Ondo State who are involved in credit shift contribution. This scope of the study provides all the information the researcher will use for this research work.

The sum of two hundred questionnaires were administered to Adeyemi College of Education cooperative societies members randomly selected from Adeyemi Staff Cooperative Multipurpose Society, Adeyemi Staff No 1 Cooperative Society and the COEASU-College of Education Academic Staff Union Staff Cooperative Multipurpose Society (ASCOMS), the sum of Fifty (50) questionnaire to St Joseph cooperative society and Fifty (50) questionnaire toMarket Women in Ondo West Local Government Area of Ondo State. Necessary instructions were given to the respondents to facilitate their understanding of each item of the instruments and they were as well encouraged to seek further clarification from the researcher where necessary. The questionnaires were collected back from the respondents after they had responded to all the items.

8. DATA PRESENTATION AND ANALYSIS OF FINDINGS

Data collected are presented on tables and analyzed, using Person product moment correlation (r) equally, data from respective cooperative societies and Banks will be collected and analyzed graphically and statistically with some statistical tools.

All data used for this research were collected through the use of questionnaire. This will help the researcher give clearer information about the data as well as to serve as an eye-opener to the society concerning the saving and loan facilities about the local thrift cooperative societies, cooperative societies and banks. Analysis here will help the reader understand the result arrived at responses in the questionnaire that are tabulated in relation to the question earlier put forward also in the analysis, Agree and strongly agree were added together and represented as AGREE (X), also Disagree and Strongly disagree were added together and represented as DISAGREE (X). The research focused on the numerical and comparative analysis of savings and loan facilities using Numerical and comparative analysis of savings and loan schemes using cooperative societies, banks and contributory schemes, Indian Journal of Arts, 2017, 7(22), 128-136, www.discoveryjournals.com
cooperative societies, Banks and contributory schemes. In order to interpret the data, it was processed using Person product moment correlation \((r)\) because the research is all about relationship between local thrift cooperative society, cooperative society and banks.

The formula of the method used is given below

\[
r = \frac{n\langle\Sigma xy\rangle - \langle\Sigma x\rangle\langle\Sigma y\rangle}{\sqrt{[n\Sigma x^2 - \langle\Sigma x\rangle^2][n\Sigma y^2 - \langle\Sigma y\rangle^2]}}
\]

**Description of the Decision**

The result was calculated at 0.05 \(\alpha\)-level. Also, the rules or implication of Pearson Product Moment Correlation is that if the \(r\)-calculated is \([-1\) and above it simply means there is a perfect relationship between the correlated objects i.e. Local thrift cooperative society, cooperative society and banks

**Hypothesis Testing**

**Hypothesis 1**

\(H_{10}\): There is no significant relationship between loans in cooperative societies and banks

\(H_{11}\): There is significant relationship between loans in cooperative societies and banks.

<table>
<thead>
<tr>
<th>Response</th>
<th>(\Sigma X), (\Sigma Y)</th>
<th>(\Sigma X^2), (\Sigma Y^2)</th>
<th>(\Sigma X \cdot Y)</th>
<th>D</th>
<th>F</th>
<th>(r)-calculated</th>
<th>Decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree (X)</td>
<td>4 8 8</td>
<td>6 6 7 0 2</td>
<td>3 0 8 9 8</td>
<td>3</td>
<td>-</td>
<td>3 . 6 9</td>
<td>Accept H_{10}</td>
</tr>
<tr>
<td>Disagree (Y)</td>
<td>5 1 2</td>
<td>7 1 5 0 2</td>
<td>3 0 8 9 8</td>
<td>3</td>
<td>-</td>
<td>3 . 6 9</td>
<td>Accept H_{11}</td>
</tr>
</tbody>
</table>

**Table 1** The table showing the relationship between loans in cooperative societies and banks

From table 1 above, it is observed that \(r\)-calculated is (-3.69) which is above the implication stated in the description of decision above. Thus, \(H_{10}\) is accepted and \(H_{11}\) is rejected. However, there is no relationship between loans in cooperative societies and banks.

From the research done by the researcher, sixty-five respondents agree that banks are ready to loan to the cooperative society based on interest rates while one hundred and thirty-five disagree to the fact, one hundred and seventy respondents agree to the fact that the only source of income and funding of cooperative society is interest charge on each members without that there will be nothing like cooperative society while thirty respondents disagree to the fact.

Also, one hundred and seventy-four respondents agree that there is business relationship between the bank and cooperative society while twenty six respondent disagree. Only thirty respondents agree that bank loan is easier while one hundred and seventy respondents disagree that obtaining loans in banks is easy. Lastly, forty nine respondents agree that interest on loans in cooperative society is higher compared to local thrift cooperative society while one hundred and fifty one disagree to the fact. Therefore, from the analysis done by the researcher it is agree that loans in cooperative society are not correlated and no significant relationship with that of banks considering the easiness, interest, loan repayment etc of the loan. It is agreed upon that loans in the cooperative society is the best as the benefit is high.

**Hypothesis 2**

\(H_{20}\): Credit thrift Contributory schemes have no better economic relevance and benefits than bank and cooperative society loans.

\(H_{21}\): Credit thrift Contributory schemes have better economic relevance and benefits than bank and cooperative society loans.
Table 2 The table showing the relationship between Credit thrift Contributory schemes economic relevance and benefits over bank and cooperative society loans

From table 2 above, it is observed that r-calculated is (-1.014) which is above the implication stated in the description of decision above. Thus, H30 is accepted and H31 is rejected. However, there is no relationship between Credit thrift Contributory schemes economic relevance and benefits over bank and cooperative society loans. From the research survey, sixty seven respondents prefer credit thrift and contributory scheme to banks and cooperative loan while higher number of one hundred and thirty-three disagree to the fact, eighty-six respondents agree that payment of bank loan is easy compared to cooperative loans and daily contributions while one hundred and fourteen disagreed. One hundred and twenty one respondents agree that contributory schemes which are interest free is very risky while seventy-nine respondents disagree. Lastly, eighty-four respondents agree that credit thrift contributory schemes have better economic relevance and benefits than bank and cooperative society loans while higher number of one hundred and sixteen respondents disagreed to this fact. Therefore, credit thrift cooperative society has no economic relevance and advantage unlike cooperative society and banks in which there are dividends and high money disbursement if the matter arises in borrowing huge amount of money either for business or and economical issues.

Hypothesis 3

H30: Having savings with cooperative societies has advantage over savings account with commercial banks
H31: Having savings with cooperative societies has no advantage over savings account with commercial banks.

<table>
<thead>
<tr>
<th>Response</th>
<th>$\sum X$, $\sum Y$, $\sum X^2$, $\sum Y^2$</th>
<th>$\sum X$, $\sum Y$, $\sum X^2$, $\sum Y^2$</th>
<th>$D$, $F$, r-calculated</th>
<th>Decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree(X)</td>
<td>4 9 8 6 7 1 4 2 3 2 4 5 8</td>
<td>2</td>
<td>-1.348</td>
<td>Accept H60</td>
</tr>
<tr>
<td>Disagree(Y)</td>
<td>3 0 2 2 7 9 4 2 3 2 4 5 8</td>
<td>2</td>
<td>-1.348</td>
<td></td>
</tr>
</tbody>
</table>

Table 3 The table showing the relationship between having savings with cooperative societies advantage over savings account with commercial banks.

From table 3 above, it is observed that r-calculated is (-1.348) which is above the implication stated in the description of decision above. Thus, H30 is accepted and H31 is rejected. However, Having savings with cooperative societies has advantage over savings account with commercial banks. From the analysis above, one hundred and twenty-three respondents agree that there is high advantages on contributory schemes over bank/cooperative loans while seventy-three disagree, one hundred and eight respondents agree that bank loans are more reliable and dependable than contributory schemes and cooperative loans while ninety-two disagree. Also, one hundred and eighty-two agreed that having savings with cooperative societies has more advantages and dividend over savings account with commercial banks. Lastly, eighty-five respondents agree that dividends margin of cooperative to bank saving is very negligible while one hundred and fifteen disagree to this fact. Therefore, having savings with cooperative society has a lot of benefits in terms of dividends, low interest rates, easy to pay back, easy to obtain loans for salary earners and even business woman/man so as to boost the economic situation of the society at large.

9. RECOMMENDATIONS

Having carried out this study and discovered that there are differences between cooperative societies, local thrift cooperative society and banks, the researcher therefore, proffered the following recommendations;

1. Based on the performances of the Cooperative Societies and dividends readily shared by members and the relief in terms of loan repayment, it is recommended that viable cooperative societies should be established by well-meaning groups and membership full participation should be encouraged.
2. Contributory schemes/credit and shift schemes should be encouraged among interest groups who shared utmost honesty and transparency. Though it has some inherent risks but if well managed and coordinated, it has better economic advantage as no interest rate is usually being charged.
3. The banks should make interest rate for micro credit accruing to salary earners and business women/men very maximum so that they can maximally exploit this incentive for economic growth.

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4. Most importantly, cooperative bank which is functioning in Nigeria before jointly merged to commercial banks should also be revisited by appropriate quarters because of their modus operandi and their interest rates which will be controlled and managed by the apex bank, CBN because some people don’t join cooperative society all because of some leaders fraudulent practices.

5. As the nation works towards attaining vision 2020 goals, it is instructive that any cooperative society that wants to be set up must pass through due process like registration from the appropriate commissions, keep the mode of operation, proper and competent audit of the ledger account time to time and maintain the standard of the interest rates and trust worthy of the coordinators of the cooperative societies.

10. CONCLUSION

Low interest rates and members remuneration like dividends and others enjoyment should be the society benefit in saving money to any sector like cooperative society, banks, etc so the they must put in place all due process so that the salary earners, business men/women will continue to patronize them. Towards this end, it is the conclusions of the study that the cooperative society is the independent variables which determines the progress and boost the economy of the society nowadays which serves as the dependent variable of the study. It is expedient of the government to revisit cooperative banks that has been devalued in Nigeria so that cooperative society will hide under the regulatory bodies like Central Bank of Nigeria, the proposed Cooperative Bank Regulatory Agency, The Nigerian Deposit Insurance Corporation and Asset Management Corporation of Nigeria should collaborate together and form a strong network of supervision of the bank.

REFERENCE


