

## EFFECTS OF ISLAMIC FINANCE PRINCIPLES ON COOPERATIVE SOCIETIES IN OSUN STATE NIGERIA

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### ABSTRACT

*The study examines the effects of Islamic finance principles on cooperative societies in Nigeria and its direct impacts among muslim cooperators within various local government areas of Osun State, Nigeria. Conventional finance principles compared to the advancement in both the poor and the rich financial well-being seems retrogressive to the socio-economic status of the populace. A purposive sampling technique was used in selecting 12 Islamic cooperative societies based on the practice of Islamic finance principles in their financial transactions in the study area. Primary data was collected by interview and the respondents' responses were subjected to a descriptive analysis (frequency, percentage, mean and ranking). Secondary data was gotten from Qiyas, Qur'an, Islamic cooperative bye-law, Hadith, Ijmah,, conference paper, magazines and internet. The results of the data analysis revealed that Islamic cooperative societies and their members enjoy a lot of financial opportunities presented by Islamic finance principles without interest dealings. Observation also shows that interest-free loan (Qard hassan), joint venture partnership (Musharakah), trustee partnership (Mudarabah), cost-plus sale (Murabahah) are the mostly practiced Islamic financing contracts at high level while leasing (Ijara), manufacture-sale (Istisna) and deferred-delivery sale (Salam) are the Islamic financing contracts practiced at a low level by the studied Islamic cooperative societies. The main findings of the study show that most of the transaction components of the interviewed Islamic cooperative societies in Osun State, Nigeria are in conformity with the dictates of Islamic finance principles. And the cooperators' financial well-being has being positively impacted through economically viable halal ventures and interest-free loan opportunities. The study recommends more efforts on the practice of Ijara, Istisna and Salam financing contracts by Islamic cooperative societies and urge conventional financial institutions and governments at all levels to adopt and formulate financial policies using Islamic finance principles for a pickup of and a sustainable economic growth amidst the financial setback in many countries caused by global economic meltdown and COVID-19 pandemic.*

**KEYWORDS:** *Cooperative Societies, Islamic Finance and Islamic Principle on Finance*

### INTRODUCTION

Finance is a term for matters regarding the management, creation and study of money and investments (Adam, 2021). Bukola (2020), submitted that Islamic finance is an equity-based, asset-backed, ethical, sustainable, environmentally and socially responsible type of financing which promotes risk sharing, connects the financial sector with the real economy, and emphasizes financial inclusion and social welfare in the economy. According to a 2019 State of Global Islamic Economy report, total Shariah-compliant assets are expected to grow to \$3.5 trillion by 2024. Olayiwola and Hammed (2013) relates that Islamic financial system is a financial activities that is consistent with the principles of Shariah

and its practical application through the development of Islamic economics which is aimed at promoting absolute accountability, transparency, socio-economic justice, everlasting success and bridging the gap between the rich and the poor. Empirical evidence attested to the fact that Islamic financial industry has attracted wider acceptability and presented itself as a viable alternative to conventional financial system of its stability and resilience.

The industry is growing in more than 75 countries with a network of 430 Islamic banks and financial institutions managing assets of more than \$1.3trillion, excluding non-formal cooperative organizations (PGI and Crescent Gateway, 2013). With COVID-19 that growth is expected to slow down but remain positive. In some geographies like the Gulf Cooperation Council (GCC) or Sub-Saharan Africa Islamic banks now compete directly with Western banks to attract Muslim clients Global Finance Magazine, (2021). Intensive efforts have been spent in recent years to harmonize Islamic financial practices, from creating accounting standards for Islamic financial products (through the Accounting and Auditing Organization for Islamic Financial Institutions, AAOIFI), to integration of those standards with global corporate and risk management standards (i.e., Basel Accords i and ii) through the recent Islamic Financial Services Board (IFSB). These efforts are motivated by two objectives, to create a worldwide network of financial markets, including the offshore markets and to integrate the industry more effectively with the international financial system.

During the administration of Governor Rauf Aregbesola of Osun state, Nigeria, the Osun state N10bn 7years Ijara Sukuk in 2013 was the first to be issued in this segment and appetite for ethical finance in Nigeria increased, and led to three successful issuance in Nigeria with a total of N350bn by the Federal Government of Nigeria from 2017 till date which has been largely oversubscribed.

Nigeria is home to the largest population of Muslims in Sub-Sahara Africa. It accounts for over 90million Muslims. In recent time, Nigeria is opening itself to Islamic financing with hope of establishing a hub for non-interest banking Felix (2018).

Over the past years, Nigerian authorities through the CBN have announced a number of regulatory initiatives that will prepare the landscape for the development of a strong Islamic finance hub. They are:

- Guidelines for the Regulation and Supervision of Institutions Offering Non-Interest Financial Services in Nigeria CAMA, (2004), CBN, Act (2007) and BOFIA, (2020).
- Guidelines on the Regulation and Supervision of Institutions Offering Non-Interest

## **STATEMENT OF THE PROBLEM**

The lack of understanding of Islamic finance principles on Islamic cooperative societies causes serious poverty among the people.

The operation of Islamic financial modes by Islamic cooperative societies as part of Islamic financial institutions guided by divine law – Shariah has not be known by many institutions.

## **RESEARCH QUESTIONS**

What does the future holds for Muslim faithful in circular countries who abide by Islamic financial principles as the world economy shakes from time to time?

What are the effects of Islamic cooperative societies on its members?

## **RESEARCH OBJECTIVE**

To investigate the sources of Islamic finance principles practiced by Islamic Cooperative Societies.

To know the various types of Islamic financing contracts/modes used in financing by Islamic financial institutions such as Islamic Cooperatives, banks and insurance.

To understand how the contracts/modes are used in financing without violating Shari'ah Principles.

## **Research Hypothesis**

The working hypothesis is treated as a conceptual framework.

## **SCOPE OF THE STUDY**

The scope of the study is to investigate the effects of Islamic finance on cooperative societies and how it affects Muslim cooperators in Osun State, Nigeria. Attention was also focused on the sources of Islamic finance principles. The reason for this study is to check and realize the effectiveness of Islamic finance principles on Islamic cooperative societies as regards the financial well-being of Muslim cooperators who chose non-interest Islamic cooperative societies over interest embedded conventional cooperative societies in some local government areas in Osun State, Nigeria.

## **LITERATURE REVIEW**

In the 19th century, the Ottomans introduced Western style banking to the Islamic world to finance their expenditures. While some Islamic jurists approved of modern banking practices, the majority found those practices to be violations of Islamic prohibitions against usury (riba), equivalent to the Hebrew 'ribit' and interpreted in its classical Biblical sense of any interest charge on loans, as opposed to the modern identification of usury with exorbitant interest. Stem, (1982). By the 1970s, theoretical discussions of Islamic finance, which turned juristic in nature; how can Muslims replace conventional financial practices deemed to be interest based with Islamic alternatives. Mid-century literature suggested a profit-and-loss sharing partnership alternative to interest based lending Udoritch (1970).

## **Islamic Finance Dynamics**

### **Components of Islamic Finance include:**

Capital market, Banking sector, Insurance sector, Islamic social financing (cooperative society, interest-free loan and charity).

In Nigeria, non-interest finance started in 2008 when there was a global financial crisis which affected the market. But before 2008, a lot of Islamic (zero-interest) cooperative societies have been springing up across the country among muslim communities skeletal Bukola (2020).

### **Islamic Finance Segments in Nigeria Economy include:**

- Non-interest Banking (2)
- Non-interest Banking windows (3)

- Takaful (Insurance) Companies (4)
- Islamic Ethical Funds (3)
- Non-interest Microfinance (2)
- Islamic Cooperative Societies (Over 100)
- Sovereign Sukuk Issuance (4)

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Over the past years, Nigerian authorities through the CBN have announced a number of regulatory initiatives that will prepare the landscape for the development of a strong Islamic finance hub. They are:

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### **Geographic Distribution of Islamic Finance**

Intensive efforts have been spent in recent years to harmonize Islamic financial practices, from creating accounting standards for Islamic financial products (through the Accounting and Auditing Organization for Islamic Financial Institutions, AAOIFI), to integration of those standards with global corporate and risk management standards (i.e., Basel Accords i and ii) through the recent Islamic Financial Services Board (IFSB). These efforts are motivated by two objectives, to create a worldwide network of financial markets, including the offshore markets and to integrate the industry more effectively with the international financial system.

### **Islamic Cooperative Societies**

According to the Nigerian Cooperative Societies Act, (2004), a Cooperative Society is a voluntary association of individuals, united by common bond, who have come together to pursue their economic goals for their own benefits. The Islamic cooperative societies involve coming together to raise halal fund by people of similar ideology and orientation, who contribute their gains in monetary terms to establish a business on profit and loss sharing basis and give loans to members based on mutual understanding without attaching any form of interest Adam (2020). The quest for economic and financial emancipation and to assist the Muslim communities at large in a secular country like Nigeria, led to the formation of Islamic (zero-interest) cooperative societies Abdurahuf (2015). Muslim communities do not associate with interest-base transactions as stated by Allah in the Quran (Q2:276) that “Those who consume interest cannot stand [on the Day of Resurrection] except as one being beaten by Satan into insanity. That is because they say, “Trade is just like interest.” But Allah has permitted trade and has forbidden interest. So who ever has received an admonition from his Lord and desists many have what is past, and his affairs rests with Allah. But who ever returns to [dealing in interest or usury] – those are the companions of the Fire; they will abide eternally therein”. Also, in Q2:279, war is declared on givers and takers of

interest. “And if you do not, then be informed of a war (against you) from Allah and His Messenger. But if you repent, you may have your principal – (thus) you do no wrong, nor are you wronged”.

#### **Objectives of Islamic Finance According to Shari’ah include:**

- Mutual consent in contracts (Uttaradf)
- Fulfilment of contracts and conditions (al-wafa’)
- Prohibition of interest and usury (riba)
- Prohibition of uncertainty (gharar)
- Prohibition fraud (ghish)
- Prohibition of injustice
- Provision of charity
- Protection of wealth
- Equitable distribution of wealth and etcetera.

These objectives of Shariah for Muamalat (transaction) matters makes the Fiqh Muamalat to be disciplined, dynamic, adaptable, accommodating and flexible in nature where people and financial institutions could play their financial roles to a justified extent.

#### **Islamic Finance Modes and Principles**

In an Islamic financial system, guiding rules are derived from the sources of Shariah (Islamic divine law). Shariah has three dimensions, namely; Aqidah (faith and believe), Akhlak (ethics and morality), and Muamalat (transactions). This study focuses on Muamalat aspect of Shariah as relate to Islamic finance. (IIIBF, 2019).

All financial products and services offered by Islamic Financial Institutions must be based on a specific or combination of a number of principles. The principles that are mostly used for operating Islamic cooperative societies are drawn from the following Islamic finance contracts/modes (IIIBF – BUK, 2019).

#### **Islamic Financial Contracts/Modes**

**Islamic Financial contracts/modes recognized here in term of theories/principles acceptable in Islam which includes;** Musharakah, Mudarabah, Murabaha, Ijara, Salam and Qard Hasan.

#### **Musharakah (Joint Venture) Financing Contract**

The principles of Islamic theory of ‘Joint Venture’ Include:

- Musharakah involves partnership in which two or more parties contributes to entrepreneurship and capital.
- An agreement whereby they agree to jointly contribute financial resources to undertake a business venture, and agree to manage the same according to specific terms of the agreement.
- Profits if positive are shared between the parties in accordance to pre-agreed ration.

- Losses if negative are shared strictly in proportion to their respective capital contributions.
- Each party has equal right to discuss business plan, and management.

#### **Mudarabah (Trustee Partnership) Financing Contract**

The principles of Islamic theory of ‘Trustee Partnership’ Include:

- One party provides the capital finance for specific venture to be managed by the other party.
- One party called rabb-al-mal is the owner of the capital while the other party called mudharib, is responsible for management of the business.
- Profits if any, are shared according to pre-agreed ratio.
- Losses if any, are entirely absorbed by the capital provider – the bank or cooperative society.
- Mudarabah may be of two types; restricted or unrestricted.
- Restricted Mudarabah (Mudarabah al-Muqayyada) the owner of capital specifies a particular business in which investments will be undertaken.
- Unrestricted Mudarabah (Mudarabah al-Mutlaqa), however, the manager may invest the capital provided in any business he deems fit.

#### **Murabahah (Cost-Plus Sale) Financing Contract**

The principles of Islamic theory of ‘Cost-Plus Sale’ Include:

- The sale of goods at a price which includes a profit margin, as agreed to by both parties.
- This contract is valid on the condition that the price, other costs and the profit margin of the seller are stated at the time of the agreement of sale.
- Client approaches cooperative-vendor and identifies commodity, collects relevant information that includes base price and the mark-up.
- Cooperative acquires the commodity, secures ownership and possession either physically or constructively.
- Cooperative sells commodity, transfers ownership and possession to client at marked-up price.
- Client pays marked-up price in full or in parts over future (known) time period(s).

#### **Ijara (Leasing) Financing Contract**

The principles of Islamic theory of ‘leasing’ Include:

- Ijara implies leasing or hiring of a physical asset.
- A financial institution assumes the role of lessor and allows its client to use a particular asset that it owns.
- The client or lessee is in need of the asset. The client receives the benefits associated with ownership of the asset against payment of predetermined rentals.

- The financial institution acquires ownership upon receiving a request from its client.
- -Ijara rentals are paid in installments over time. The installment payments supposed to cover the cost of the asset and running cost for the financial institution and to provide a fair return on investment.
- In Ijara, the financial institution continues to be the owner through the leasing period while the client receives the benefits of ownership or the benefits of using the asset.
- Risks associated with ownership of the asset remain with the financial institution. And the asset is supposed to revert back to the financial institution at the end of leasing period.
- In Ijara, rentals could be flexible and be made to reflect the changing economic and business conditions.

### **Salam (Deferred-delivery Sale) Financing Contract**

The principles of Islamic theory of ‘deferred-delivery sale’ Include:

- It is a forward sale contract where delivery occurs at a future date in exchange for spot payment of price.
- It was originally designed as a financing mechanism for small scale farmers and traders.
- Under a Salam agreement, a trader in need of short-term funds sells commodity to the financial institution on a deferred delivery basis.
- The trader/client receives full price of the commodity on the spot that serves its financial need at present.
- The client delivers the commodity to the financial institution at a pre-agree future date.
- The financial institution sells the commodity in the market at the prevailing price.
- Since the spot price that the financial institution pays is pegged lower than the expected future price, the transaction should result in a profit for the buyer (financial institution).

### **Istisna (Manufacture-Sale) Financing Contract**

The principles of Islamic theory of ‘Manufacture-Sale’ Include:

- Istisna is a contract of manufacture.
- A seller under an Istisna agreement undertakes to develop or manufacture a commodity with clear specifications for an agreed price and deliver after an agreed period of time.
- The unique feature of Istisna is that nothing may be exchanged on spot or at the time of contracting.
- It is a pure and the only forward contract aloud by Shari’ah where the obligations of both parties relate the future.
- This allows financiers or intermediaries like Islamic banks or Islamic cooperative societies to engage in Istisna by assigning the job of development, manufacture or construction to a third party under a parallel Istisna arrangement.
- The difference between the price received from the client and the price paid to the manufacturer constitutes profit for the financial institution.

- Istisna financial mode is suitable for commercial or residential buildings, industries, roads, aircraft, vehicles, etc.

Thus, the Islamic finance modes are fixed, theoretical and divine in nature because they are injunctions from Almighty God, and are applicable and suitable for all financial systems and management in any part of the World.

Principles of Islamic financial transactions are discussed under Fiqh al-Mu'amalat the understanding of rulings on finance based on Shari'ah. It deals with Shariah rulings as related to the area of business and financial activities that rapidly change from time to time. In order to meet the changing needs of people and rapid development throughout the world, adoption of Islamic financial modes is a necessity.

Fiqh Muamalat :- consists of fixed and flexible Shari'ah rulings. The fixed Shari'ah rulings of Fiqh Muamalat will never change despite of change in conditions, surrounding circumstances or people's behavior and customs. The fixed Shari'ah rulings usually constitute the foundation of Fiqh Muamalat or relate to the objectives of Islamic finance within Shari'ah compliance.

## CONCEPTUAL REVIEW

Islamic finance: A way of doing financial transactions and banking while respecting Islamic divine law (Shari'ah).

Cooperative society: A non-bank financial institution which is an autonomous association of person united voluntarily to meet their common financial and social needs through a jointly owned enterprise.

Islamic Cooperative society: A cooperative society that is based on principles that prohibits risk taking, interest earning, and practice profit and loss sharing according to Shari'ah.

Islamic finance, broadly defined by Chloe (2020), is a way of doing financial transactions and banking while respecting Islamic law or Shariah. Islamic finance relies crucially on three sets of individuals with complementary skills:

Financial professional who are familiar with conventional financial products, as well as the demands for "Islamic" analogues of those products within various Muslim communities around the world

According to Shirley and Robin (2006), Islamic finance is based on a profit and loss sharing structure, which requires that a financial institution invest with a client in order to finance their needs, rather than lending money to the client. Because of the inherent risk involved in an investment, the financial institution is entitled to profit from the financial transactions. Islamic financial institutions employ a panel of Islamic scholars known as Shariah board, to analyze and approve of products compliance with Shariah.

**Shari'ah :- Muhammad**, (1951), explained that shari'ah refers to a code of law or divine injunctions that regulate the conducts of human beings in their individual and collective lives. The objective of Islamic finance in conformity with shari'ah is that all business and financing contracts in the frame work of Islamic finance have to conform with the shari'ah rules with the aim of helping to achieve piety and catering to the well-being of the people in the worldly life as well as in the hereafter or relieving them of hardships.

A cooperative society is an autonomous and voluntary association of individuals who come together with the objective of owning common property, and promoting the economic interest of its members Iyiola (2021). In Nigeria, Cooperative societies are regulated by Nigerian Cooperative Societies Act, 2004 which is a Federal Law that grants power



to the Governor of each State to establish a directorate for cooperatives which will be in charge of registering and regulating cooperatives. Cooperative societies are exempted from the provision of the CAMA, 2004 Aderonke (2020).

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**METHODOLOGY**

This study adopted descriptive method, using a semi-structured interview applied to find out the extent to which Islamic finance principles have effect on Islamic cooperative societies. The semi-structured interview is a face to face conversation where the interviewers (researchers) ask the respondent ( i.e. cooperators) predetermined set of questions in a standardized order. The researcher collects qualitative responses of the cooperators for data analysis. A descriptive design describes the population using the sample in order that all the critical segment of the population is regarded most suitable for this research. The responses of the cooperators, financial experts and Islamic scholars served as sources of primary data while Hadith, Ijmah, Qiyas, Quran, magazines, bye-law and internet served as sources of secondary data for this study.

**Study Area**

Osun state is an inland state in south-western Nigeria. Its capital is Osogbo. It is bounded in the north by Kwara state in the east partly by Ekiti state and partly by Ondo state in the south by Ogun state and in the west by Oyo state. Coordinates; 7 30' N 4 30' E, total area 9,251 km (3,572 sq m ), language : Yoruba, 80% literacy rate as of 2012 website: osunstate.gov.ng (Wikipedia, 2021). Agriculture and trading are the predominant occupation of the people, because of the presence of arable fertile land.

**Population of the Study Area**

The estimated population of Osun state according to the national population commission, Osogbo is 3,416,959 people (2006 national population commission census figure).

### Sampling Procedure and Sampling Size

For the purpose of this study, the targeted population is the entire Islamic cooperative societies in Osun state. The following local government areas were chosen for this study based on their high level of commercial activities. A purposive sampling technique was used to select 12 Islamic cooperative societies in 6 local government areas from Osun State. The local government areas are Osogbo LGA, Egbedore LGA, Iwo LGA, Olorunda LGA, Ede LGA, and Boripe LGA.

Then (10) Muslim cooperators were selected at random from each of the Islamic cooperative Societies, making the total respondents 120 cooperators and interview questions were administered. The sampling technique made sure that to be part of the sampling size the respondent must be a full time muslim cooperator.

**Table 1: Percentage distribution of respondents according to Islamic cooperative societies interviewed in selected LGAs in Osun State, Nigeria**

Name of Islamic Cooperative Societies.	Frequency	Percentage (%)
Islamic College Osogbo (Staff) Al-Qayyum Cooperative Investment and Credit Limited	10	10.0
Deenu-Nashiat Islamic Cooperative Society of Nigeria	10	10.0
Al-Sakinat Islamic Cooperative Society.	10	10.0
Olorunda LG (Staff) Islamic Cooperative Society	10	10.0
NACOMYO Islamic Cooperative Society	10	10.0
Equity Muslim MultiPurpose Cooperative Society	10	10.0
Osogbo Ridwanullahi Islamic Cooperative and Credit Society	10	10.0
Federal Polytechnic Ede (Non-interest) Islamic Cooperative Society	10	10.0
Al-Birr Islamic Cooperative Society	10	10.0
Ayatullahi Islamic Cooperative Society	10	10.0
Al-Amana Islamic Cooperative Investment and Credit Society	10	10.0
Ire College of Education (Staff) Islamic Cooperative Society	10	10.0
<b>Total</b>	<b>120</b>	<b>100.0</b>

Source: Field Survey, 2021

### Validity and Reliability of the Instrument

77.55 FAX (1989) stressed that content validity involves a determination of whether or not that the behavior being tested represents a fair sample of the universe of behavior to be measured. According to Oladele (1990), reliability is the consistency, accuracy and trust worthiness of a measuring instrument or score obtained. That is how far the same test or a similar test would give the same result if it could be done again in different occasions. Robson (2011), contends that semi-structured interview is qualitative research method employ in survey research, if further in-dept exploration of an issue is required.

Based on the above fact, the contents of the interview questions used for the collection of data for this work were properly checked and validated and found reliable by experts in the field.

### Administration of the Instrument

The questionnaires were administered to 12 different Islamic cooperative societies which are selected from 6 different local government areas in Osun State. Ten (10) Muslim cooperators in each of the Islamic cooperative societies were interviewed making a total of 120 respondents. This shall help test the research study. After which responses collation shall be made and be analyzed.

### Measurement of Variables

Dependent variables were measured in this study. The dependent Variables are:

- Sources of Islamic finance principles among Islamic cooperative societies.
- Financing contracts/modes used among Islamic cooperative societies.
- Sources of profit making among interest-free Islamic cooperative societies.
- Effects of Islamic finance principles on Islamic cooperative society'

### RESULTS AND DISCUSSIONS

This chapter focuses on the analysis of the data collected from the respondents through the interview administered and it include the discussion of findings. The findings are presented in mean and ranking distribution. Literature appraisal is also taken into consideration to make a retroactive references to the research questions and observations by comparing the findings of this work with the work of already existing knowledge, views and theories that is, literature related to this area of study. The interpretation of the findings of this research work and the discussion that follows are directed to the specific objectives of the study.

**Table 2: Ranking Distribution of the Sources of Islamic Finance Principles Practice by Islamic Cooperative Societies According to Respondents**

Sources of Islamic Finance Principles Practiced by Islamic Cooperative Societies.	Mean	Ranking
Ijmah: The consensus opinion of muslim jurists on rulings concerning a specific issue of human behavior.	0.40	3
Past experience	0.04	5
Quran: The divine injunctions of God on specific issue of human behavior.	0.72	1
Government policies	0.02	6
Qiyas: The analogical reasoning of a single and a particular Islamic jurist on rulings concerning a specific issue of human behavior.	0.36	4
Hadith: The sayings and doings of prophet Muhammad on specific matter of human behavior.	0.51	2

**Source:** Field Survey, 2021.

Table 2 shows that based on ranking in order of importance, Islamic cooperative societies source their finance principles from Qur'an, Hadith and Ijmah majorly.

Table 2 also reveals that Islamic finance principles could be sourced from Qiyas. Past experience and government policies has little influence on Islamic finance principles.

Relating the above results of this work with other muslim scholars findings, Muhammad (1952) concludes that the sources of rules dealing with economic aspects of human beings are the Holy Quran and sunnah. In addition to the Quran and sunnah, Ijmah, Qiyas and Ijtihad provide a hierarchical framework of sources of rules governing Islamic economic and finance.

MIFC, (2014), agreed that with Islamic finance in-built principles that support financial stability, inclusiveness and economic development, Islamic finance lends itself from well to catalyzing and promoting real economic.

**Table 3: Ranking Distribution of Islamic Finance Contracts/Modes used in Financing by Islamic Cooperative Societies According to Respondents**

Islamic Finance Contracts/Modes use in Financing by Islamic Cooperative Societies	Mean	Ranking
Salam financing contract (Deterred-delivery sale contract)	0.18	6
Mudarabah' financing contract (trustee partnership contract)	0.73	3
'istisna' financing contract (manufacture-sale contract)	0.13	7
'Musharakah' financing contract ( Joint venture contract)	0.86	2
'Ijarah' financing contract (leasing contract)	0.21	5
'murabahah' financing contract (cost-plus sale contract)	0.66	4
'Qard Hassan' financing contract ( interest- free loan)	1.00	1

**Source:** Field Survey, 2021.

Table 3 shows that based on ranking in order of mostly use Islamic finance contracts/modes, the cooperative societies under investigation finance their financial activities using qard hassan, musharakah, mudarabah and murabahah Islamic finance contracts.

Table 3 also reveals that the Islamic cooperative societies employ sparingly and at a low level exploit ijarah, salam and istisna finance contracts. This could be because they are more technical to operation.

The muslim cooperators use interest-free loan in financing their needs as an alternative to interest-based conventional cooperative societies, as stated in the Holy Quran and Hadith

The use of musharakah and mudarabah encourage profit and loss sharing. According to Shirley and Robin (2006), Islamic finance is based on a profit and loss sharing structure. Table 4 further reveals that none of the stated contracts involve interest given or taking. In support of the findings, Jamaldeen. (2012), that shariah prohibits business transactions based on interest. And that interest is prohibited by islam because it create societal injustice, in a riba-based transaction the owner of the wealth gets return without making any effort, and the borrower carries all the risk. All these contracts tend towards the cooperators helping each other financially. Hadith narrative credited to Imam Ahmad ibn Hambal and Imam Abu Daud states that God will always help his servant for as long as he helps others.

**Table 4: Ranking Distribution of Sources of Profit Making by Islamic Cooperative Society that Practice Interest-Free Transactions According to Respondents**

Sources of Profit Making by zero-Interest Islamic Cooperative Societies.	Mean	Ranking
Loan bond form	0.96	2
Membership registration form	1.00	1
Fair returns on business investments	0.68	3
Dividend from shares	0.52	4
Rental fee	0.32	8
Adverts	0.45	6
Donations	0.48	5
Others forms	0.38	7

**Source:** Field Survey, 2021.

Table 4 shows that based on ranking in order of profit in-flow, Islamic (interest-free) cooperative societies make profit mostly from membership registration form, loan bond form and fair returns from halal investments. In addition, profits are also generated from dividends on shares, donations and adverts. According to Mirakhor and Zaidi (2007),

islamic banking and non-banking financial institutions promote profit and loss sharing concept and is used in the banking system to comply with it shariah principles, which strictly prohibit interest.

**Table 5: Ranking Distribution of Effects of Islamic Finance Principles on Islamic Cooperative Society's Members According to Respondents**

Effects of Islamic Finance Principles on Islamic Cooperative Society's Members	Mean	Ranking
Buy food stuff and pay in installments	0.58	5
Buy textiles and in installments	0.52	6
Obtain interest-free loan	1.00	1
Buy plots of land and pay in installments	0.84	2
Buy motorcycle and pay in installments	0.47	7
Receive devidends on shares	0.43	9
Receive profits on joint ventures	0.60	4
Home financing	0.34	11
Receive profits on partnership business.	0.37	10
Buy home appliance, phones and other electronic and pay In installment	0.44	8
Receive charity	0.69	3

**Source:** Field Survey, 2021.

Table 5 shows that based on ranking distribution of effects of Islamic finance principles on Islamic cooperative society's members, the members of the cooperative societies under investigation have access to zero-interest loans, easy acquisition of plot of land, guaranteed food stuff security, easy access to textile materials because of the opportunity to pay in installments without riba (interest).

The finding also reveals that the cooperators acquire means of transportation in addition with home comforts such as home appliances, phones and electronics through installments. Moreso, table 5 reveals the opportunity of earning money through profits sharing from joint venture, partnership businesses and dividends from shares, thereby enhancing the socio-economic and financial well-being of the cooperators through justified means presented by Islamic finance principles.

Comparing the above results of this work with other scholars' findings. Olayiwola, and Hammed (2013), explained that Islamic financial system is a financial activities that is consistent with the principles of shariah and its practical application through the development of Islamic economics is aimed at promoting absolute accountability, transparency, socio-economic justice, everlasting success and bridging the gap between the rich and the poor. According to Mirakhor and Zaidi (2007), islamic banking and non-banking financial institutions promote profit and loss sharing concept and is used in the banking system to comply with shariah principles, which strictly prohibit interest.

## SUMMARY

The purpose of this research work was to investigate the effects of Islamic finance principles on Nigerian Islamic cooperative societies among muslim cooperators in Osun State, Nigeria. It was anticipated that the results of the findings would help to know, understand and adopt the various Islamic finance contracts by various banking and non-banking financial institutions in an attempt to increase the socio-economic status of muslims and non-muslims alike. And thereby leading to a better quality of life of the populace. More so, there is the awareness of the sources of Islamic finance principles by Islamic cooperative society from the Holy Qur'an, Hadith, Ijmah and Qiyas.

Chapter one of this study gives a brief introduction to the key role of Islamic finance in the development of human civilization. Chapter two presents the review of related literature and conceptual framework in which clarification of confusion about Islamic finance, its principles sources, financing contract sources and objectives were reviewed. Chapter three highlights the study area, source of data, sampling method and sampling size, instrument for data collection, validity and reliability of the instrument, method of data analysis and measurement of variables. Chapter four focuses on data analysis, results interpretation and discussion of the findings including literature appraisal to compare the findings of this work with the findings of other scholars in the same field of study.

## **CONCLUSIONS**

Based on the findings of the research, the researchers concluded that Islamic finance principles provide enormous financial opportunities among Islamic cooperative societies. And also, that Islamic finance principles have positive effects on Nigeria cooperative societies and their cooperators. And also, that Islamic financing contracts are guaranteed and reliable financing contracts. Muslim cooperators find it easy and in obedient to God financing their socio-economic activities through Islamic cooperative societies without engaging in interest-based transactions. Sincerely speaking, the concept of interest on financial transactions run counter to common reasoning because in most cases it usually have negative effects people by its burden on multiply.

## **RECOMMENDATIONS**

Considering the observations made by this study, the researchers propose the following recommendations which could prevent the Muslims from falling into the hands of interest-based and non-shari'ah compliant banking and non-banking financial institutions that have spread and deep-rooted in circular countries like Nigeria.

- Conventional financial institutions and governments at all levels are urged to adopt and formulate financial policies using Islamic finance principles for a pickup of and a sustainable economic growth amidst the financial setback in many countries caused by global economic meltdown and COVID-19 pandemic.
- Islamic finance education should be included in the Nigerian secondary school education curriculum in order to facilitate the understanding, adoption and application of Islamic finance principles in Nigerian financial system on a large scale, which will propel the financial well-being of Nigerian citizens to a higher level.
- Islamic finance programmes and campaign should be brought to the door step of the Muslim communities through Islamic social organizations.
- Islamic jurists need to study the challenges in the implementation of Islamic finance principles by Islamic cooperative societies in circular state.
- Islamic cooperative societies should gather more knowledge of the operations of Istisna, Ijara and Salam Islamic financing contracts so as to explore them better.

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