

## **OPTIMIZATION OF MUDARABAH INVESTMENT BY ISLAMIC COOPERATIVE SOCIETIES IN OYO STATE**

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**Abstract:** *The Islamic Cooperative Societies (ICS) being non-interest-based cannot be fully operational without investment plans. Most ICSs thus embark on profitable investment using Islamic financial products such as Mudarabah, Murabaha, Ijarah, and a host of others. This work examines how Mudarabah investment could be optimally used by ICSs in Oyo State. The study reveals that Mudarabah which particularly have solid root in Islamic commercial practice is rarely used by Islamic cooperative societies in Oyo state and in fact the world over due to challenges of moral hazards. It thus idealizes ways by which Mudarabah could be utilized to achieve optimum success in Islamic cooperative investment. The paper employs expository method to analyze and converses for ICS's formal adoption of Mudarabah product for investment; promotion of entrepreneurship education among I.C.S. members; the use of financing security and adequate supervision as the hall-mark of achieving a usable model of Mudarabah investment for ICSs.*

**Keywords:** *Mudarabah, investment, Islamic Cooperative Societies, optimization.*

### **INTRODUCTION**

The interest-free disposition of Islamic Cooperatives Societies simply implies their mandatory inclination towards investment. They must embark on profitable investments using one or a combination of Islamic financial products such as *Mudarabah*, *Ijarah*, *Murabaha*, and many others. Observations have shown that many Islamic Cooperative Societies have failed to make adequate use of these products. The use of *Mudarabah* product most especially, have been disregarded by Islamic Cooperative Societies as they embark on investment. *Mudaraba* is a form of Islamic financial contract in which one party (*rabul-mal*) provides capital and the other party (*mudarib*) provides personal effort or entrepreneurial skill to manage the business. A proportionate share of profits arising from the project is distributed according to a predetermined ratio. In case of loss, it is borne by the fund provider while the *Mudarib* will lose his efforts (Ajani, 2016). Different names have been used to depict *Mudarabah* contracts. It is commonly called *Muqaradah* by the Hanafi and Hambali scholars. The Maliki and Shafi' scholars however labeled it as *Qirad* (Buchori, 2009). Be that as it may, *Mudarabah* is a form of silent partnership whereby the *rabul-mal* provide funds and act as a dormant partner and the *mudarib* (entrepreneur) acts as a trustee or a business agent.

Legitimacy of *Mudarabah* in Islamic financial transactions has been established in the Qur'an, Hadith and the *Ijma'* (consensus of Muslim scholars). In Suratul *Muzzamil* (Al-Qur'an-73:2) for example, the permissibility of *Mudarabah* has been mentioned in these words: *And others, travelling the land seeking for Allah's bounty*. This has also been corroborated by the traditions of the prophet reported by Ibn Abbas thus:

When Abbas ibn Abd-al-Muttalib gave his property to someone for *mudarabah* (profit sharing), he stipulated conditions for his partner not to

bring the capital on to sea; not to bring with him the capital crossing a valley; and not to buy livestock with the capital, and if his partner violates the conditions, he should guarantee the loss if it occurred. This condition was brought to the attention of Prophet Muhammad and he approved them. (Abdul Rahman, 2012).

Scholars have therefore relied on these pointers in the Qur'an and Hadith to propose certain conditions of *Mudarabah* in Islamic financial transactions. These conditions are expected to make it workable at all times and circumstances. These conditions include the exchange of *Ijab* and *Qabul* (offer and acceptance) between parties involved; the presence of contracting parties (*Rabbul-mal* and *Mudarib*) and the subject matter as well as laid down conditions for the contract of *Mudarabah*. (AAOIFI 2017). *Mudarabah* have thus evolved as one of the products which are used in modern Islamic financial transactions, most especially, in its banking sector. Meanwhile, it is note-worthy that the contract of *Mudarabah* has become less preferable in the modern financial transactions. Aside from Islamic Cooperative Societies that has failed to fully make use of Islamic financial product of *Mudarabah* for their operations; many Islamic banks also rarely make use of *Mudarabah* product. Most cooperative societies prefer to use the product of *Murabaha*, and sometimes *Ijarah* in their business transactions. This is not unconnected with some of the problems that continuously exist in *Mudarabah* mode of financing.

Many scholars have identified some of these problems in their works. Some of these problems according to Ahmad (2014) include asymmetric information problems. This occur when the *Mudarib* who have full control of the business and have more information regarding it and its profitability fail to properly inform the *rabbul – mal* who remain the chief financier of the business. This eventually breeds lack of trust between the two parties and kill the interest of a *Mudarib* in future *Mudarabah* contracts. Zaman (2013) further reveals that a *Mudarib* may fail to neither reveal the level of risk and profitability of a project nor report the appropriate outcome of the business. He may also under report or reduce the declared profit as a result of dishonesty on his part, thereby denying the financier's access to his full share of the profit.

Khalil, et al., (2002) while attempting to examine *Mudarabah* contract in Islamic cooperative institution in Malaysia decried its under-utilization. They further opine that *Mudarabah* contract should be embraced in order to replace interest-based financial instruments being used in cooperative activities. Many of the Islamic cooperatives in Malaysia, according to them, have lost their capability of enhancing empowerment and economic development due to their failure to adopt *Mudarabah* instrument. This is however a world-wide phenomenon which also affect Islamic Cooperative Societies in Nigeria and Oyo State in particular. This work will assess the extent to which *Mudarabah* could be used by Islamic Cooperative Societies in Oyo State. It will examine the purpose of investment in ICSs by showcasing the *Mudarabah* investment of Aonullah Interest-Free Cooperative Investment and Credit Society Limited (AIFCICSL), Oyo and The Polytechnic Ibadan Muslim Staff Interest Free Cooperative Investment and Credit Limited (PIMISIFCICL). The work will further analyze the ways by which ICSs could adopt *Mudarabah* model for their investments.

## ISLAMIC COOPERATIVE SOCIETIES IN OYO STATE

The term cooperative is derived from the word cooperation which is also derived from the Latin word “co-operari”, where the word “co “ means “with” and “operari” means “to work”. Cooperation thus means working together. So those who want to work together with some common economic objectives can form an alliance to establish a “cooperative society” (Gartler, 2001). Cooperative society is therefore a voluntary association of persons who work together

to promote their economic interest (Taimini, 1997). While writing on the purpose and objectives of cooperative society, Olayinka et al., (2016) posit that cooperative societies are established to rescue people from daunting development challenges, low income earning and unemployment. This therefore accounts for the reasons why many people now form cooperative societies in form of self-help and grassroots strategy for empowerment and community development across the world.

Abdulrazaq (2021) citing the International Labour Organization (ILO) fact sheet buttressed that the number of cooperative societies have grown tremendously around the world. There are about 800 million members in over 1000 countries. Even though this statistics does not exclude cooperative societies in Africa, the 'ILO' posits that there are few studies on cooperatives in sub-Sahara Africa and Nigeria in particular. Ajani and Adebayo (2018) assert that there were various indigenous modes of cooperatives before the advent of the conventional system in Nigeria. Cooperation for economic reason began with the formation of the Ibadan Agricultural society and Agege Planters Union in 1904 and 1907 respectively. This brought about the formation of the first cooperative movements in Nigeria- the Gbedun cooperative produce and marketing society limited which was founded in 1937. Subsequent cooperatives were then formed across the states in Nigeria. Meanwhile, the perceived failure of conventional cooperative societies to meet their required standard of economic transactions spur many Muslims to establish what is now known as Islamic Cooperative Societies. Many of the conventional cooperatives are often driven by profit motives and such profits are earned from interest levied. In the operation of Islamic Cooperative Societies, interest is forbidden. Members are provided with interest-free loans (qard hasan) and the cooperative ventures into shari'ah compliant investments. This is because the Islamic economic system prohibits interest, be it simple or compound. At the same time it encourages business and investment among members. These among many other reasons are the factors that spur Muslims to establish Islamic cooperative societies.

Bank Rakyat (2018) describes Islamic cooperative activities as a conversion of conventional cooperative by using the concept of 'shirka Mufawadah which depicts that all parties contribute fund in the same portion as well as equally participate in managing the affairs of the cooperative society. He suggests that no member of Islamic cooperative is allowed to inject bigger amount into his cooperative savings account like other cooperative societies. This clause of equal amount of shares is however not a uniform practice among Islamic Cooperative Societies in Nigeria where members are at liberty to contribute shares and savings according to their capacities. A more detailed and comprehensive definition which suits the Nigeria experience was suggested by Ajani and Adebayo (2018) while writing on the sources and expenditures of funds in the Islamic cooperative society in Nigeria, thus:

Islamic Cooperative Society is a prototype of conventional cooperative in which the Muslims come together with the aim of subjecting conventional cooperative practices to the dictates of Shariah so as to accomplish their individual and collective duties by pooling their resources together to fulfill their economic, social and cultural needs and aspiration through a jointly owned enterprises using shari'ah principles.

This definition has therefore revealed that the main objective of establishing Islamic Cooperative Societies is to Islamize the entire operations and practice of conventional cooperative societies. By making cooperative shari'ah compliant, Muslims will be able to participate and enjoy the benefits of cooperative movement without jeopardizing their religious

beliefs and practices. Muslims will also become free to adopt Islamic financial practices and regulations which are believed to be more ethical, development driven and naturally suitable for human social and economic growth. Based on this, Buchori (2009) stated the six major characteristics of Islamic cooperative societies thus:

- i. Acknowledgement of members' ownership right in business capital
- ii. Prohibiting interest-based transactions
- iii. Promoting functional institutions of zakat, infaq, sadaqah and waqf
- iv. Operating based on profit motives that are shari'ah- compliant
- v. embarking on ethical and halal economic endeavours only and
- vi. Acknowledging members' common and equal rights

These are general features that are equally applicable to Islamic Cooperative Societies in Oyo State. It is not easy to give the exact number of Islamic cooperative societies in Oyo State because many of them have failed to register with the government. Adesina (2011) asserts that Maasha-Allah Society of Nigeria is the first registered Islamic Cooperative Society in Oyo State. This society was established on the 17th of May, 1992 with nine (9) members. It was initially established for the salary earners only with the aim of giving them the opportunity to acquire property which they could not get by means of their salary alone. The emergence of Mash-Allah thus spurred many others to establish Islamic cooperatives across most of the thirty three local Governments in Oyo State. The formation of the National Council for Islamic Credit and Savings Scheme (NACICASS) Free-Interest Multipurpose Cooperative Union Limited, Ibadan, Oyo State has provided some reliable data about registered Islamic cooperatives Societies in Oyo State. Even though few of the registered Islamic cooperatives are yet to join the union, the number of affiliated registered ICSs have grown to more than forty (40) and have equally expanded from Ibadan to other zones of Oyo State like Oyo, Ogbomoso, Okeho, Iganna, Eruwa, Saki, Igbeti and so on. The aim of the union is to be a global and role model union of Islamic Credit and Savings Scheme with the goal to eradicate abject poverty and break anti-faith financial barriers through the instrument of Islamic micro-financial inclusion of the masses while adopting synergies of non-interest structure, human capital and pool of material resources (Ajani, 2016).

Most ICSs in Oyo State works towards promoting economic interest of their members by giving them interest free loan and to encourage in members the spirit and practice of thrift, mutual help and self-help. Membership rights are granted to anyone who joins a cooperative society upon his admission just like in the conventional cooperatives. Beside this every member is made to subscribe to share and investment funds through which the cooperatives engage in investment plans. Profit from such investments are given to members as dividends at the Annual General Meetings (AGMs).

## **INVESTMENT PLANS OF ISLAMIC COOPERATIVE SOCIETIES**

Few scholars have written about investment practices of Islamic Cooperative Societies with emphasis on the use of Islamic financial product. Azeez (2018) discussed the prospects of using Islamic financial products by small businesses. He observed that financing small businesses is a catalyst to economic development of any developing nation and that micro-finance banks have been used in this regard to provide short term loan to prospective small business owners. This interest-based loan, the writer notes, is a threat to Muslims' faith. Muslims are forbidden to engage in interest based transactions. He therefore investigated the viability of Islamic Bank products for financing small businesses and probes their potency for enhancing socio-economic impact on small scale entrepreneurship in Nigeria. He recommends the use of Islamic financial products such as Partnership-Based financing which include

Musharakah (Active partnership) and Mudarabah (passive partnership); Sale-Based Financial instruments such as Murabahah, Bay'salam, Istisna' as well as Lease-Based financial instrument which is known as Ijarah. Even though the author recommends the use of these products for small businesses, they could also be used by Islamic Cooperative Societies that are investment oriented.

Mufutau, et al., (2021) also examine the effects of Islamic financial principles on cooperative societies in Nigeria and its direct impacts on Muslim cooperators within various local government areas of Osun State, Nigeria. Conventional financial principles the authors revealed, is repugnant to socio-economic needs of the populace. Their finding revealed that Islamic Cooperative Societies and their members enjoy a lot of financial opportunities presented by Islamic financial principles which is being operated without interest dealings. Observation by these authors also reveals that interest-free loan (Qard Hassan), joint venture partnership (Musharakah), trustee partnership (Mudarabah), cost-plus sale (Murabahah) are the most commonly practiced Islamic financing contracts. While leasing (Ijarah), manufacture-sale (Istisna') and deferred-delivery sale (Salam) have not been adequately utilized by the sampled Islamic cooperative societies. Other findings of the study show that most of the transactions of Islamic Cooperative Societies in Osun State are in conformity with the dictates of Islamic financial principles and that cooperators' financial well-being has been positively impacted through economically viable halal ventures and interest-free loan opportunities. The authors recommend more efforts on the practice of Ijarah, 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 products in order to ensure a sustainable economic growth amidst the financial setback in many countries caused by global economic meltdown and COVID-19 pandemic. These authors neither examine how these products could be used nor particularly assess the use of Mudarabah by ICSs.

Norsilawati, et al., (2019) however observe the development of Mudarabah contract and practice in Islamic Cooperative Institutions (ICI) in Malaysia in order to theoretically establish Mudarabah contract model for ICI in Malaysia. The study is a qualitative-based research which use literature reviews, documents and content analysis approach to document, understand and analyse the structure, process and practice of Mudarabah contract in ICI in Malaysia. Their findings reveal that most ICSs in Malaysia do not use the product of Mudarabah due to challenges of moral hazards. They recommend that ICIs should employ shuratic process in their operations. They recommend the institution of a committee comprising the representatives of the rabbul-mal and the mudarib to supervise the investment. This process the authors claim would afford the ICIs the opportunity to monitor Mudarabah investment rather than staying dormant during the period of the contract.

This present study is directed towards the study of Mudarabah contracts and the extent to which it could be optimally utilized for Islamic Cooperative investments in Oyo State. The study as earlier indicated, will seek to establish a usable template of Mudarabah contract for Islamic Cooperative investments in Oyo State.

## **MEANING AND PURPOSE OF INVESTMENT IN ISLAMIC COOPERATIVE SOCIETIES**

Investment is the commitment of funds with a short-term or long-term time framework, the objective being to secure additional income and growth in the value of funds of an investor. Investment expert have identified the types of investors to include individual investor and institutional investor. Individual investor usually invests on his own, usually in small quantities



while the institutional investor is the organization that invests usually on a large scale. The institutional investor is not the beneficiary of profits of investment, but the organization on behalf of which it has invested (Abel, 2016). Generally, individual and institutional investor's reward for investment comes through interest taking, dividends or appreciation in the value of the principal capital. In Islamic investment however, interest taking as a gain of investment is prohibited. Profit or dividend taking in Islamic investment is geared towards supporting investors' regular income and to cater for their needs during lean period. The rate of return is also meant to cover the risk of inflation which gradually deplete idle savings, relief the burden of taxation on regular income earners and provide job opportunities as well as income for people upon their retirement (Fisher, 2016) the benefits of investment is not limited to individual gains, it is a catalyst for overall economic development. In the long term, current investment determines the economy's future productive capacity and ultimately, a growth in the standard of living.

In the cooperative societies generally, members subscribe funds for investment. Members contribute the surplus of their money for the purpose of improving their economy. To realize this objective, a part of this fund is allocated for investments. The segmentation of investment funds in Islamic cooperative societies are based on the mutual agreement of subscribers. Norsilawati et al., (2019) has particularly identified some investment funds which Islamic Cooperative Societies adopt as they embark on investment. They include equity fund which can be invested in the shares of joint stock companies whose operation is based on profit making rather than interest. Another fund which may be subscribed for is ijarah fund which is used for the purchase of assets, such as real estate, motor vehicles, buildings, shopping complex, event centers, and so on, for rentals. And profits accrued from these investments become part of the sources of income for the cooperative. Others include murabahah fund, as well as Mudarabah fund which have always been partially used by Islamic Cooperative Societies. It is crucial at this point to give few illustrations about the extent of the use of Mudarabah contract in Islamic cooperative investment with the aim examining how it could be optimally used by ICSs in Oyo State. One of such examples could be found in the Gas Investment of Aonullah Interest-Free Cooperative Investment and Credit Society Limited (AIFCICSL), Oyo.

#### **INVESTMENT OF AONULLAH INTEREST FREE COOPERATIVE INVESTMENT AND CREDIT SOCIETY LIMITED, (AIFCICSL), OYO**

Aonullah Interest Free Cooperative Investment and Credit Society Limited was founded in February 2001. It is an institution-based ICS being operated under the auspices of the Muslim Community of the Federal College of Education (Special), Oyo. It increased its investment fund which stood at #16,858,680 in 2019 to #24, 587,710 in 2020. The sum of #7,729,030 which was raised from special subscriptions from members was thus committed to its gas investment. A summary of annual financial reports presented in its Annual General Meeting (AGM) for the year 2020 indicate a sharp increase in the ICS's net operating profit from #4,515,074.02 in 2019 to #5,216,360.20 in 2020 due to its gain from the gas investment. And this eventually formed part of the dividend of #2,458,771 shared among members in 2020 financial year. (Aonullah, 2020 AGM Reports). The financial statement of Aonullah is quite explicit in this regard:

##### **AONULLAH INTEREST FREE COOPERATIVE INVESTMENT AND CREDIT SOCIETY LIMITED**

##### **FINANCIAL STATEMENT FOR THE YEAR ENDED 31<sup>ST</sup> MARCH, 2020 INVESTMENT TRADING ACCOUNT**

Investment Fund	2018 16,858,680.00	2019 20,897,050.00	2020 24,587,710.00
*TURNOVER			
Credit Sales	31153325.00	26,812,375.02	37,314,664.20

Cash Sales	437,815.00	115,075.00	208,910.00
Gas Sales		<b>7,298,830.00</b>	<b>5,573,035.00</b>
Seasonal Sales	2,766,450.00	2,629,500.00	2,551,900.00
Commodity Forms Sold	108,400.00	119,300.00	195,200.00
Suppliers Registration	0.00	0.00	0.00
	<b>*34,465,990.00</b>	<b>*36,975,080.02</b>	<b>*45,843,709.20</b>
<b>Cost of Sales</b>			
Opening Stock	480,451.50	32,000.00	14,700
Good Purchased	28,746,360.00	23,227,360.00	33,166,685.00
Land Purchased (Opening)		1,623,684.20	1,623,684.20
<b>*Gas Purchased</b>	0.00	<b>6,725,846.00</b>	<b>5,030,064.00</b>
Seasonal Purchased	2,511,320.00	2,464,500.00	2,390,00
Closing Stock (Goods)	-32,000.00	-14,700.00	0.00
Closing Stock (Land)	1,623,684.20 <b>33329815.70</b>	1,623,684.20 <b>32,435,006.00</b>	1,623,684.20 <b>40,602,349.00</b>
<b>*Gross Operating Profit</b>	<b>*2,759,858.50</b>	<b>*4,540,074.02</b>	<b>*5,241,360.20</b>
Account and Audit Expenses	-35,000.00	-25,000.00	-25,000.00
<b>*Net Operating Profit</b>	<b>*2,724,858.50</b>	<b>*4,515,074.02</b>	<b>*5,216,360.20</b>
<b>Appropriation</b>			
5% Honorarium	136,242.93	<b>225,753.00</b>	<b>260,818.01</b>
DCE Fund	544,971.70	903,014.80	1,043,272.04
<b>*Dividend Payable</b>	<b>*1,685,775.88</b>	<b>*2,089,705.00</b>	<b>*2,458,771.00</b>
Net Investment Income	357,775.88	1,296,600.52	1,453,499.15

((Aonullah, 2020 AGM Reports))

This table is the summary of financial statement of Aonullah Interest-Free Cooperative Investmnt and Credit Society Limited (AIFCICSL), Oyo for her 2018, 2019 and 2020 financial years. The table indicates an increase in her investment fund from #16,858,680.00 in 2018 to #24, 587,710.00 in 2020. For the years under review, these funds were expended on some investment plans with focus on purchase of land for sale, purchase of properties for sale and gas investment. Discussion will focus more on her gas investment since it is the only business conducted using *Mudarabah* Model.

The gas investment is operated based on the principle of *Mudarabah*. The members' investment funds were channeled to the business and the profits were shared between the management and the ICS based on pre-agreed ratio. The investors (*rabbul mal*) received their share of the profit through dividend while the ICS managers (*Mudarib*) received their share in form of honorarium

and allowances which amount to 5% of the profit. The 2020 AGM reports also indicate that the honorarium increased from #136,242 in 2019 to #235,753 as a result of ICS's addition of gas investment in its operation. The honorarium further surged to #260,818.01 in 2020 indicating the profitability of the *Mudarabah* investment. Another example could be showcased in the investment of The Polytechnic Ibadan Muslim Staff Interest Free Cooperative Investment and Credit Limited (PIMSIFCICL)

#### **INVESTMENT OF THE POLYTECHNIC IBADAN MUSLIM STAFF INTEREST FREE COOPERATIVE INVESTMENT AND CREDIT LIMITED (PIMSIFCICL)**

The Polytechnic Ibadan Muslim Staff Interest Free Cooperative Investment and Credit Limited was established in August, 2009. It is an institution-based ICS which was established by members of the Muslim Community of the Polytechnic, Ibadan. The ICS Along with its other activities engage in investments with the aim of enhancing members' welfare. It increased its investment fund which stood at #1, 524,000 in 2019 to #2, and 524,000 in 2020. The sum of #1000, 000 which was raised from special subscriptions from members was wholly committed to its *Mudarabah* investment in the *Baytul Mal* of the National Council for Islamic Credit and Savings Scheme (NACICASS) Free-Interest Multipurpose Cooperative Union Limited, Ibadan, Oyo State. A summary of the Cooperatives' four years statistical data of Income and Expenditure account is quite explicit in this regard.

#### **FOUR YEARS STATISTICAL DATA OF THE POLYTECHNIC IBADAN MUSLIM STAFF INTEREST FREE COOPERATIVE INVESTMENT AND CREDIT LIMITED**

	2017	2018	2019	2020
Membership Drive	69	74	113	140
	#	#	#	#
Share Capital	613,000	1,088,000	1,601,000	1,610,000
Investment Fund	574,000	977,000	1,524,000	2,524,000
Savings	8,055,609.28	13,405,396.36	18,771,073.32	27,494,743.57
Loan Issued	9,633,000	19,610,000	22,027,800	30,847,000
Loan Repayment	4,845.800	15,145,087	22,153,500	24,438,800
Outstanding Loan	5,454,800	9,919,712.50	9,794,012.50	16,202,212.50
Business Profit	235,048.00	613,412.00	585,017.50	967,986.00
Dividend	134,000	393,562.69	435,896.99	680,100.09

(PIMSIFCICL 2020 Annual General Meeting Report).

This table is a four years statistical data of The Polytechnic Ibadan Muslim Staff Interest Free Cooperative Investment and Credit Limited (PIMSIFCICL). The data covers a summary of her



financial statement for the year 2017, 2018, 2019 and 2020. The table indicates an increase in membership drive from 69 members in 2017 to 140 members in 2020. The ICS's share capital which stood at #613,000 in 2017 increased to #6,610,000.00 in 2020.

This data also indicates a steady appreciation of investment fund as well as business profit within four years. Investment fund which stood at #575,000 in 2017 appreciates to #2,217,000 in 2020 due to effective mobilization of fund. Consequently, business profit which also stood at #235, 048 in 2017 appreciate to #967,986 in 2020. Sharable dividend therefore recorded a significant increase from 134,000 in 2017 to 680,600.09 in 2020. The 21 percent profit from the Cooperative's *Mudarabah* investment is the notable reason for this gain. (PIMSIFICIL 2020 Annual General Meeting Report).

A careful perusal of the above *Mudarabah* arrangements reveals a one-sided application of this product- the ICS members representing the *rabul-mal* (investor) and the ICS managers being the *mudarib* (entrepreneur). The engagement of entrepreneurs among members or non-members to serve as active partner (*mudarib*) who shares investment profits with the ICS (*rabul-mal*) based on pre-agreed ratio is always generally discountenanced by ICS due to certain observable problems. The entrepreneur who have full control of the business and have more information regarding it may fail to neither reveal the level of risk and profitability of a project nor report the appropriate outcome of the business to the ICS. He may also under report or reduce the declared profit as a result of dishonesty on his part, thereby denying the ICS's access to its full share of the profit. Many Islamic Cooperative Societies have thus lost their capability of enhancing empowerment and economic development due to their failure to adopt *Mudarabah* instrument. The main focus of this present study therefore is to seek a usable model of *Mudarabah* contract for Islamic cooperative investments in Oyo State and Nigeria at large. Such models could be idealized under the following headings:

## **ADOPTION OF MUDARABAH CONTRACT IN ISLAMIC COOPERATIVE INVESTMENT**

Islamic cooperative societies who wish to embark on *Mudarabah* investment need to specify this in their bye-law or business plan. It has in fact been established that Islamic cooperatives can operate an exclusive *Mudarabah* model of cooperative society among other models such as *Wakalah* and *Musharaka* (Akanni, 2019). In the *Mudarabah* model, the Islamic Cooperative represented by the management are the *Mudaribs* (entrepreneurs) while the members are the *rabul-mal* (financiers). The sharing formula of accrued profit is determined by mutual consent of the two parties before the take-off of the contract. Such cooperative would then invest massively on behalf of the members. The management members in this arrangement are seasoned, experienced and reliable entrepreneurs and their main task is to carry out profitable investment on behalf of the members. Gains are shared among the two at a pre-agreed ratio, and loss, if it occurs is born by the financiers. An exemption to this arrangement is when the loss occurs as a result of an established neglect or fault on the part of the entrepreneurs, in which case, the entrepreneurs becomes liable and therefore bear certain fraction of the loss. The contract should however spell out such clause and how the loss would be mutually shared.

In another dimension, the ICS represented by the management and the members who operate *Musharakah* model of cooperative and in which all members are neighbours to one another, engages in *Mudarabah* contract with entrepreneurs. The ICS and the entrepreneurs would then share the profit accrued from the business based on pre- agreed ratio. If a *Mudarib* (entrepreneur) is a member of I.C.S., he would have the advantage of taking a share of the profit as a *Mudarib*. At the same time, he is entitled to a dividend accruable to the I.C.S. members through its Joint *Mudarabah* Contracts.

## PREFERENCE FOR MEMBERS IN MUDARABAH CONTRACT

Islamic cooperatives need to select and engage in *Mudarabah* investments with entrepreneurs among their members. The preference for entrepreneurs among members would give room for effective monitoring and prevent contract failure. Conditions such as regularity and punctuality in I.C.S. meetings and fulfillment of other obligations could be given to an intending *Mudarib* among members. Such condition would then be maintained throughout the period of the contract. The choice of entrepreneurs should however not be a screen against other members who are not investment oriented. One of the many functions of Islamic cooperative societies is to give orientation to members on the importance of investment and the need to avoid over-dependence on loan for consumption. It has in fact been stressed that Islamic cooperative is and should be a business enterprise (Akanni, 2019). Therefore an option in this regard is provision of entrepreneurship education for members.

## PROMOTING ENTREPRENEURSHIP EDUCATION AMONG MEMBERS

The incessant appetite of I.C.S. members for burrowing should be discouraged through provision of adequate entrepreneurial education and training for members. The world economic forum (WEF, 2008) has in fact asserts that entrepreneurial skills, attitudes and behaviours can and should be learned. And that like education, it is a life-long experience. This is hinged on the fact that many Small and Medium Enterprises in Nigeria have high mortality rates and are bedeviled by gross underperformance due to low level of entrepreneurial education and training which limits their ability to plan and invest appropriately. Garegnani, (2018) summarizes this by alluding that “the difference in earnings between people relates to the differences in access to entrepreneurial education and training”. In as much as I.C.S. orientates members to become investment conscious, it must equally give entrepreneurial education and training to enable them plan and implement innovative investment plans and survive in the world of business.

The training of prospective entrepreneurs among members should be extended to include book-keeping skills. Entrepreneurs’ financial statement is one of the basic requirements for granting business loan even in conventional banks. The reliance on financial records is to determine a business’s performance; its track records and its level of profitability. It would also promote transparency as the investment progresses. *Mudarabah* investment has in fact appears impracticable due to most entrepreneurs’ lack of accounting records. Accounting record of a *Mudarib* for a certain number of months could be examined to determine its worthiness for *Mudarabah* investment. Accounting record is also a tool by which investment could be properly managed, supervised and audited to ensure optimum performance. It would prevent fraud and cheating and promote transparency in *Mudarabah* investment.

### Optimizing *Mudarabah* Investment through Financing Security

Collateral and third-party guarantee are two main forms of financing security which Islamic Cooperatives may adopt before entering into *Mudarabah* contract with a *Mudarib*. In order to feel secured from possible default or negligence of a *Mudarib* due to moral hazards, Islamic Cooperative can hold any of his valuable assets, titles and other forms of assurances like land titles, gold, *shariah* compliant debentures, *sukuk* certificates, *shariah* compliant share certificates or *takaful* (Islamic insurance) certificates as collaterals. Third party guarantor from among the members, an institution or reputable company may also be required to write to the ICS acknowledging support as guarantor of the *Mudarib*. These forms of financing security are used as buffer to fall upon in the event of default on the part of a *Mudarib*. It would also promote a *Mudarib*’s proper commitment to the contract.

Although it has been argued that strict use of financing security resembles cut-throat measures being used in conventional institutions and that it may jeopardize ICS’s objective of

brotherhood through an extension of adequate business fund to its poor members, (Ahmad,2014) it must be equally known that it is required to ensure safety of members' investment funds. To balance these two extremes, the ICS may adopt strict financing security for non-members. It may then (over time) limit such conditions for members to one of the two forms of financing security base on his track records of exhibiting high level of trust and performance. This notwithstanding, the ICS need to institute effective supervision of *Mudarabah* investment to further protect it against issues of moral hazard and negligence on the part of the entrepreneurs.

### **Supervision of *Mudarabah* Investment**

The formation of *shurah* has been recommended by some scholars to aid effective management of *Mudarabah* contract between the *rabbul-mal* and the *Mudarib* (Muhamad et al., 2013, Norsilawati et al., 2019). It is also asserted that a *shura* committee that is drawn from among the two parties would ensure effective monitoring and auditing of transactions in a *Mudarabah* contract. (Muhamad et al., 2013). But the complexity of establishing a *shurah* may jeopardize the independence of a *Mudarib* and affect his concentration on the investment. Hence the use of supervisors by ICS could be a preferable alternative. The investment committee of ICS could be saddled with the responsibility of monitoring the ICS *Mudarabah* investments. Such members should themselves comprise of experts in Islamic commercial transactions, investment experts and *shariah* auditors. They could be trained in this regard by Islamic cooperatives that chose to engage in investments. Part of their job is to review the *Mudarib*'s track record before the contract and ascertain his viability for the partnership. Their role would further include close supervision of *Mudarabah* investment in order to ensure its success. Needless to say that the contract should stipulate a certain fraction of the profit as wages for investment committee or any of their members assigned for such assignment. The general practice of volunteering services (*Fi-sabilillah*) has been known to breed lack of commitment by members of ICSs. It is not a gain-saying that those who invest their time and energy in any project are deserving of adequate reward for such contribution.

### **CONCLUSION**

The sheer under-utilization of *Mudarabah* mode of investment by Islamic cooperative society in Oyo state is a world-wide phenomenon. This situation has persisted despite the product's potency for enhancing Job creation and economic development. This work has therefore established ways by which *Mudarabah* contract could be optimized in Islamic cooperative investment. A full utilization of the two modes of *Mudarabah* contract; promotion of entrepreneurial education among ICS members; the use of financing security of collateral and guarantor as well as adequate supervision of *Mudarabah* investment by Islamic cooperative societies will certainly enhance its use in ICSs' investment plan. It would help to checkmate the problem of moral hazards that usually affects its implementation and promote profitable Investments in Islamic cooperative activities.

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