Interest Free Salary-Workers Savings and Credit Co-Operative Society as A Panacea to Economic Hardship Faced By Workers in A Depressed Economy

Nasiru Bello Wailare,
Department of Business Administration,
Kaduna Polytechnic,
Kaduna, Nigeria
nasiruwailare@gmail.com; wailare@yahoo.com

Abstract - The conventional cooperative societies dated back to 1844 were built on interest-based operations, where interest is charged and paid on any financial advance to members and deposits made by members, respectively. Interest based transactions are not only forbidden by the two major religions in Nigeria, but are perceived to be negating the principle of mutual help and economic stability; which cooperatives are out to achieve. This paper examines the operations of interest free cooperative societies formed by salary-workers; with the aim of exploring the concept, objectives, activities, management and sources of funds to such societies. This study uses content analysis. From the review, this study found out that salary-workers stand to enjoy a lot of benefits by forming Interest free co-operative societies. It is therefore concluded that Interest free savings and credit co-operative society is the most appropriate form of co-operative society through which workers used to improve on their savings.

Index terms: interest-free, co-operative societies, panacea, depressed economy.

I. INTRODUCTION

A co-operative society is seen by International Cooperative Alliance I.C.A. (1995) as "an autonomous association of persons united voluntarily in order to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise".

Also, Ibrahim (2012) described co-operative societies as socio-economic business enterprise which is legally incorporated with the same rights and powers as individual or any public/private business enterprise, but they are usually registered under a different law. Moreover, co-operative differ from other forms of businesses in that they are expected to be organized, owned and controlled by those who do their business through them and who alone are entitled to become members. Co-operative differs from state undertakings in that membership is voluntary and the members' authority over the undertakings is exercised directly. Co-operatives are thrown open to all individuals who are likely to benefit from their activities as members and who will have equal voice in running their affairs irrespective of member's contribution to the share capital. Consequently, members bear equitably the full risks and enjoy equitably the full benefits of the undertakings.

Modern co-operative started in 1844 with the formation of the first registered/successful co-operative society 'Rochdale Equitable Pioneers', with 28 members (mostly weavers) working in a textile company in Rochdale town. In Nigeria, the modern movement started in 1935 after the enactment of the co-operative ordinance No. 39 precisely on 3rd December, 1935.

II. OBJECTIVES AND FEATURES OF CO-OPERATIVES

The primary aim of co-operative institutions according to Fauquet (1951) is the improvement of its members' economic problems through the means which it employs and the qualities which it demands of members and develop in them, to achieve a higher purpose. The goal of co-operation is to make men with a sense of both individual and joint responsibility so that they may rise individually to a full personal life and collectively to a full social life. This means, that the objects of co-operative enterprises should be set out not only to achieve the economic interest of their members but, to serve as a training ground where members learn how to work towards improving their socio-economic, political and cultural conditions.

Co-operative have some features which according to Laidlaw (1967) distinguished them from other business organizations. They are:
Groups of people who join together to do something they cannot do very well as individuals

Providers of some services that is necessary or very desirable in the lives of the people.

Providers on the basis of self-help solution to most of their problems.

They do business from the motive of service and not profit making.

III. BENEFITS OF CO-OPERATION

Co-operatives engage in securing for their members services of various kinds at low costs. This may include services of various socio-economic activities in the consolidation of holdings, the administration of credit, provision of consumer goods and services and insurance.

The following are some advantages of co-operative organizations as listed by Musa (2012):

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- The substitution of the profit incentive in business by that of service to humanity of production for consumption.
- A more equitable distribution of wealth
- The breaking up of monopolies and trusts, which operate at expenses of consumer
- The increase of workman's purchasing power on real wages by giving him more and better goods for his money
- The reduction in cost of distributive system by:
  - Elimination of unnecessary middlemen
  - Removal of useless duplication of services
  - Eradication of such practices as misleading advertisement and high pressure salesmanship
  - The elimination of fraudulent practices like adulteration
- The training of people to spend wisely.

IV. SAVINGS AND CREDIT CO-OPERATIVES

Savings and credit co-operative society otherwise called Co-operative Thrift and Loan Society (C.T.L.S) is one of the five major types of co-operative society formed with the main objective of inculcating the idea of thrift and savings as well as providing a cheaper and easier access to credit facilities among members. This type of society is generally formed by salary-workers, petty traders, peasant farmers, craftsmen, artisans, is aimed at providing protection against local merchants, money lenders and financial institutions who have been exploiting the aforementioned groups by charging high prices on essential commodities as well as high interest on loan extended to them.

V. FUNCTIONS OF SAVINGS AND CREDIT CO-OPERATIVE

Savings and credit co-operatives are formed to provide three major functions to their members namely: Savings, Borrowing and investing Ibrahim (2012).

Savings: Members are encouraged to save their surplus funds in the society for the rainy day. For instance, a worker needs to save towards retirement. In conventional savings and credit co-operatives members will expect financial returns on their savings at the end of the financial year. However, in the operation of the interest free savings and credit co-operatives members will not receive interest on their savings (ordinary or special).nonetheless, when their savings are invested in other business venture, members will share the profit generated from the investment.

Borrowing: Members have the opportunity to borrow when the need arises and such borrowings can be in cash or in kind or both, at the same time. For instance, monthly earnings of workers may not be sufficient to meet a sudden emergency so; they turn to their society for loans instead of going to money lenders or financial institutions.

Investing: Members are encouraged to invest no matter how small in form of share capital to enable the society invest the fund on other business ventures that will generate profit to be shared among the members in accordance with the amount invested by individual members.

VI. INTEREST FREE SALARY-WORKERS SAVINGS AND CREDIT CO-OPERATIVE SOCIETY

Salary-workers interest free co-operative credit and savings society is an extension of the conventional workers savings and credit co-operative society organized and managed by workers whose primary objective is to provide service to members, mostly loan advances without charging interest. It is a new move that will meet the yearnings and aspirations of workers who want to operate their business on an interest free basis.

In accordance with Islamic teachings, Muslims are not permitted to receive or pay interest in their financial transactions. Allah has permitted trade and forbidden interest (riba) in the following verses in the holy Quran:

According to the Quran in Baqra, 2:275-276, "*Allah has made trade lawful. Henceforth, if one obtains from taking interest after receiving the admonition from his Lord, no legal action shall be taken against him. Allah deprives interest of blessing and develops charity and Allah does not like an ungrateful sinful person*".

Also according to Quran in Baqra, 278-279, "*O Believers fear Allah and give up that interest which is still due to you; if you are true believers but if you do not do so, then you are warned of declaration of war against you by Allah and His Messenger"*.

It is important to note that it is not only Islam that frowns at the institution of interest but Christianity is, as well against it: According to

Exodus 22 verse 25, the Bible says: "*If you lend money to a needy fellow-Hebrew, you are not to handle the transaction in an ordinary way with interest"*.

Also, Ezekiel 18 verse 8, the Bible says: *"And grant loans without interest and stays away from sin, is honest and fair when judging others*".

Therefore in line with above Quranic and biblical injunctions, savings and credit co-operatives formed by Muslims and Christians need to operate interest free services to its members. In other words, members can borrow cash from their society without paying interest; they can save money without receiving interest. However, before a conventional thrift and credit co-operative society operate interest free services, its members must agree and resolve to reflect in the byelaws of the society. Members must be prepared to contribute the required capital especially at the initial stage of the society's formation to enable the society meet its basic operational expenses such as administrative charges.

This type of co-operative society started in Bombay-India in 1976 though not fully successful until 1998, when the most popular society called Sahulat Microfinance society was formed (Liewellyn, 2012).

Thereafter, many societies were formed. Formation of an interest free savings and credit co-operative started in Nigeria in the southern part of the country in year 2000 and later in the Northern part in year 2001 when NEPA Dala District Staff Multi-purpose co-operative society limited, Kano; a conventional salary-workers co-operative society that was registered in 1996, decided in an Annual General Meeting held in September, 2001, to amend their bye law to accommodate the new status. With the success of this society recognized nationwide, the idea was receiving attention by many societies who either changed their status or formed a fresh society that operate on interest free basis.

However it is interesting to note that the idea of interest free co-operative is not only supported by Muslims alone even none Muslims are at the fore front of joining with the view of benefiting from its enormous advantages. An example of such is the Rehoboth Christian Interest Free Co-operative Investment and Credit Society, Ibadan. The major benefit of which is providing a means of not only obeying the command of our creator whose blessing will be on our earnings, and avoiding the curse of doing otherwise; it is also a means of maximizing our benefits in our meager incomes by avoiding the unnecessary cost we incur as interest.

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VII. OPERATIONS OF A REGISTERED INTEREST-FREE SAVINGS AND CREDIT CO-OPERATIVE SOCIETY

In accordance with co-operative principles the supreme authority in a co-operative society is vested on the entire membership of the society. The members exercise the power of control through three major organs of a co-operative society's administration. They are:

- General meeting
- Management committee
- Shurah committee.

General Meeting: This consists of all the members or their representatives. It is the supreme body and the source of all authority and power within the co-operative organization. There are three types of General meeting:

- Annual General Meeting (AGM) : This type of meeting is convened only once in a year for the purpose of :
  - Election and removal of the members of the executive committee/
  - Examination, approval or rejection of the annual financial report
  - Disposal of trading surpluses (if any)
  - Taking final decision on admission or expulsion of members.
  - Adoption of the bye laws and its amendments.
- Ordinary General Meeting (OGM) : This type of meeting is convened by the Exco to discuss emergency issues as contained in the bye law.
- Special General Meeting (SGM) : This type of meeting is convened by the Director of Co-operative or his representative, or a given proportion of members(as specified in the bye law) for the purpose of discussing emergency matters.

Management Committee: This consists of elected representatives from the members, entrusted with the responsibility of the day-to-day running of the affairs of the society. The Executive Committee otherwise called Exco, consist of the principal officers of the society namely: President, Vice president, Secretary general, Assistant secretary general, Treasurer, Ex-officio member and Public Relations Officer.

The duties and responsibilities of each of the officers are clearly spelt out in the society's bye law.

Sub-committees are also formed as standing committees such as Loan committee, Investment or Business committee, etc; and sometimes as ad hoc committees, to carry out some duties as may be spelt out by the Exco.

Shurah Committee: This consists of five member committee selected by the congress whose main job is to monitor and check the shari'ah compliance as well as the conduct of the Investment/Business committee.

VIII. SOURCES OF FUNDS TO INTEREST FREE CO-OPERATIVES

The following are the major sources of finance available to the society:

- Members' ordinary savings usually deducted from members salaries at source,
- Members share capital paid at once on registration or installment,
- Members' monthly non refundable subscription which is a monthly compulsory contribution deducted from members salary along with savings,
- Grants and donations from members, government agencies NGOs and other donor agencies,
- Proceeds from business compliant transactions and
- Sales of forms to members.

IX. ACTIVITIES OF AN INTEREST FREE SAVINGS AND CREDIT CO-OPERATIVES

- Provision of credit facilities to its members such as:
- Long term loan to be repaid in 12 months
- Short term loan to be repaid in 3 months
- Emergency Loan to be repaid in one month
- Commodity loan to be repaid in three months
- Murahaba (cost plus) loan as a substitute to long term loan
- The society will also invest/extend the following ventures and services
- Mudarabah (sleeping partnership)
- Ijarah (manufacturing business)
- Education special savings

X. CONCLUSION AND RECOMMENDATIONS

Savings and credit is the most appropriate form of co-operative movement through which people of small and medium income such as salary-workers will use to improve on their savings and have easy access to financial advances both for short and long term purposes. Apart from thrift and credit function, the movement can engage in retail business as well as any other economic activity that will meet the economic and social needs of its members, thereby becoming multi-purpose. The fear that cooperative societies cannot survive without charging interest has long been allayed with the formation and successful operations of such societies by salary-workers in many parts of Nigeria.

XI. RECOMMENDATIONS FOR SUCCESSFUL OPERATION OF SALARY-WORKERS INTEREST-FREE SAVINGS AND CREDIT CO-OPERATIVE SOCIETY

- Members must be committed to the objectives of forming the society
- Avoid any business that is not shari'ah compliant
- Emphasis on loan in kind and not in cash
- Suspending any form of long-term loan until the society is financially sound (newly formed societies only)
- Maximum credit limit of each member must be fixed and revised from time to time
- Emphasis on service to members as against profit maximization

In addition to above, government support and assistance are absolutely required at all levels, in order to create conducive environment for interest free cooperative credit society to function/ for instance, there is the need for a review of the cooperative laws and regulations, in order to facilitate the operations of the interest free cooperatives, just as done in the banking sector.

There is also the need for collaborative efforts between the financial institutions rendering interest free services such as Jaiz Bank,

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Stanbic Bank and Keystone Bank, with salary-workers interest free cooperative societies; in the areas of technical assistance and support.

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