

Exploring *Mushārahah Mutanāqīshah* for Poverty Alleviation: A Proposal to Islamic Cooperative Societies in Nigeria

*ADEBAYO, Rafiu Ibrahim

**AJANI Murtala Abdus-Salam Adebayo

Abstract

Poverty has been a phenomenon on which researches are carried out from time to time, especially in Nigeria and the developing countries. It has also been confirmed that the cooperative is the best financial institution useful for the eradication of poverty in any given society. But despite the flourish and involvement of the conventional cooperatives in the poverty alleviation programmes organized by various governments, there is still persistence in the increase of poverty incidence in Nigeria. The hope is that the advent of Islamic cooperatives (ICs) in Nigeria will make a change in poverty problem because of the availability of Islamic Financial Products (IFPs) like *mushārahah mutanāqīshah* (MM), among others. The concern of this paper therefore is to examine the poverty instance in Nigeria and how *mushārahah mutanāqīshah* (MM) can be used by numerous Islamic Cooperative Societies (ICSs) can be used to alleviate poverty among the members of ICSs and or generality of the people in the country.

Keywords: *Mushārahah mutanāqīshah*, poverty, poverty alleviation, Islamic cooperative societies, Islamic economy, Nigeria

Introduction:

Nigeria is a blessed country with various natural and human resources which can be used to alleviate poverty. Paradoxically, her citizens are overburdened by high level of poverty despite the fact that she is the seventh largest crude oil producer in the world together with fertile lands and other mineral resources.¹ Various measures to improve the growth and development of economy are being taken by various governments in the country to improve the wellbeing of her citizenry, but the fact is that those policy measures seem not to be yielding the expected results since there is still low level of economic growth, insecurity, high level of poverty, increase mortality and morbidity presumably caused by high level of communicable diseases, bad governance and political instability.²

Fortunately, the conventional cooperatives, which by design and operation are expected to help alleviating poverty by improving the economic wellbeing of their members have also been involved in the various micro-credit mechanisms organized by

*Senior Lecturer, Department of Religions, University of Ilorin, Ilorin, and currently a Visiting Senior Lecturer, Department of Arabic and Islamic Studies, University of Ibadan, Ibadan, Nigeria.

**Doctoral candidate, Department of Religions, University of Ilorin, Ilorin, Nigeria. Currently working on Islamic Cooperative Societies in Yorubaland.

¹ O.J.K. Ogunlade and J.O. Abiola, "Government and Anti-poverty Programme in Nigeria: The Way Forward", in O.O. Oluyombo (ed) *Cooperative Finance in Developing Economies*, 2012 International Year of Cooperatives, (Lagos: Soma Prints Limited, 2012), p.223

² S.O. Ighomareho, et al., "Making Cooperative Effective for Poverty Alleviation and Economic Development in Nigeria", in O.O. Oluyombo (ed) *Cooperative Finance in Developing Economies*, 2012 International Year of Cooperatives, (Lagos: Soma Prints Limited, 2012), p.23

the governments against poverty,³ still the poverty incidence is increasing. Therefore, the inability of those various measures and involvement of the conventional cooperatives to alleviate poverty in Nigeria call for alternative measure with potentiality to alleviate poverty and that measure is suggested to be the use of *mushārah mutanāqishah* (diminishing partnership) in the Islamic cooperative, because it is based on equity participation and used for financing assets like real estates and venture capital financing.⁴ This paper therefore studies the poverty incidence among Nigerians, various measures taken by various governments in alleviating or eradicating poverty and examines *mushārah mutanāqishah* (MM) as one of the Islamic Financial Products (IFPs) capable of alleviating poverty among the Islamic cooperative societies, especially in Yorubaland.

The Islamic Viewpoint on poverty:

The Arabic word “*maskanah*” or “*faqr*”, as used in the Holy Qur’an for poverty occurs about twenty six (26) and (14) times in various forms respectively.⁵ However, the Islamic scholars differ as regard which of the words is more severe when used to denote the poor condition of a person. Ash-Shadhilī opines that *al-Faqīr* (the poor) is a person that possesses little thing that cannot be sufficient for him to live on while *al-Miskīn* (the poor) is also such person that possesses nothing and therefore, is in need more than *al-Faqīr*.⁶ Ibn Kathīr has reported the different opinions of Abī Ḥanīfah, Imam Aḥmad, Ibn Jarīr and other prominent Islamic scholars in respect of the poor condition of the people involved in both words.⁷ Meanwhile, Sayyid Quṭb and Muṣṭafā Al-Murād keep balance as they submit that the people involved in the two words are the same in their poor condition but *al-miskīn* will not reveal his poor condition and will not beg for wealth.⁸ This is contrary to Ibn Jarīr’s view as mentioned by Ibn Kathīr.⁹

Consequently, the Prophet (S.A.W.) has defined *al-miskīn* in the following *ḥadīth* reported by Abu Hurayrah:

ليس المسكين الذى يطوف على الناس ترده اللقمة واللقمتان والتمرة والتمرتان ولكن المسكين الذى لا يجد غنى يغنيه ولا يقطن به فيتصدق عليه ولا يقوم فيسأل الناس.

Is not *al-miskīn* (poor), he who walks around the people to get one and two morsels, a date or two, but the poor is that person who lacks sufficient wealth (for his living) and is not recognized (by the people) to be poor not to talk of being given

³ N.J. Nweze, “Poverty, Micro-finance and Cooperative Promotion in Nigeria”, *Nigerian Journal of Cooperative Studies*, (Vol. 1, No. 1, July – December, 2001), p.84

⁴ M. A. Sadique, “Financing Micro and Medium Sized Enterprises Through Decreasing Partnership (*Mushārah Mutanāqishah*): Refining *Sharī’ah* and Banking aspects for Enhanced Applicability”, in M. Obaidullah and H.S.H. Abdul-Latif (eds), *Islamic Finance for Micro and Medium Enterprises*, (IDB and Centre for Islamic Banking, Finance and Management University Brunei Darus Salam, Feb., 2008), p.54

⁵ M. H. Al-Ḥamṣī, *Mufradātul – Qur’ān, Tafṣīrun Wa’-bayyān*, (Damasq: Dārur-Rashīd, nd.), pp.111-172

⁶ A. A. Ash-Shādhilī, *Al-Muqaddimah Al- ‘Izziyyah*, (Al-Qāhirah: np, 2007), p.152

⁷ See the explanation of Qur’an 9 verse 60 concerning the recipients of *Zakāh* in M. A. As-Ṣabūnī, *Mukhtaṣar Tafṣīr Ibn Kathīr*, Volume 3 (Beirut: Dārul-Qur’ān Al-Karīm, 1981), p.150

⁸ Sayyid Quṭb, *Fī-Zilālil-Qur’ān, Part Ten*, (Beirut: Darul Ihyā’it-Turāthil-‘Arabī, 1967 – 1386H), 243 and M. Murād, *Minhāj Al-Mu’min*, (Al-Qāhirah: Dārul-Fajr lit-Turāth, 2001), p.440

⁹ M. A. As-Ṣabūnī, *Mukhtaṣar Tafṣīr Ibn Kathīr*, p.150

Exploring *Mushārah Mutanāqishah* for Poverty Alleviation: A Proposal to Islamic Cooperative Societies in Nigeria

voluntary alms and would not complain (to the people) not to talk of begging. Recorded by Al-Bukhārī.¹⁰

The above definition of *al-miskīn* by the Prophet (S.A.W.) dictates that both *miskīn* and *faqīr* are synonymous but the *faqīr* is general and encompassing since it is mentioned before *miskīn* in the verse that spells out the categories of people to which *Zakāh* (compulsory almsgiving) must be given¹¹ and because generally, every creature is *faqīr* according to the Holy Qur'an 47 verse 38 where Allah says: "... and Allah is free of all wants and it is you that are needy."

Perhaps, the encompassing tendency of *faqr* to denote poverty at all level makes Imām Al-Ghazzālī to submit that anyone who is deprived of wealth to satisfy his want is called *faqīr* and such person will be given one of the five titles based on his attitude towards acquiring wealth to satisfy such want and therefore, attitude such as *Azāhid* (ascetic), *Rāḍiy* (satisfied), *Qāni'* (moderate), *Hāriṣ* (desirous) and *muḍṭar* (compelled by circumstance) will be named against him accordingly.¹²

Originally, the institution of *Zakāh* can be used to determine who is poor or rich in Islam since the Prophet (S.A.W.) commanded Mu'ādh bin Jabal (R.A.) to take *Zakāh* from the wealthy among the people to which he was sent and distribute it to the poor among them.¹³ *Zakāh* as it is known, is not compulsory except on that Muslim who possesses *niṣāb* (minimum amount of property liable to payment of the *Zakāh*). This implies that those who do not possess *niṣāb* are poor and fall within the poverty circle even if their incomes satisfy their basic needs. This is contrary to the Western view of determination of poverty which measures poverty based on the income standard of the people.

In order to make justification for about 113 million Nigerians living in relative poverty conditions as confirmed by the Nigeria Bureau of Statistics, this study will limit poverty to the ability to satisfy only a small portion of one's wants like residential properties and financial activities and to satisfy other wants. This is because the use of *Zakāh* to determine the relative poverty conditions of Nigerians will increase the figure of those in poverty circle tremendously above 113 million according to our observation, since those who are regarded as being gainfully employed and considered rich according to Nigeria philosophy may be categorized among the poor in Islam and therefore they fall among the recipients of *Zakāh*.

Poverty and Poverty Alleviation Programmes in Nigeria:

The National Population Commission (NPC) put the population of Nigeria people to 167 million. The figure is based on a reference of the last two censuses conducted in 1991 and 2006.¹⁴ Accordingly, the Nigeria Bureau of Statistics confirms that 112.519 million Nigerians live in relative poverty conditions. Based on geographical zone, the North-west and North-east recorded the highest rates of poverty in 2010 with

¹⁰ M. I. Al-Bukhārī, *Ṣaḥīḥ Al-Bukhārī, Volume One*, (Istanbul: Dārul Fikr, 2005 – 1426 A. H.), p.132

¹¹ See the Holy Qur'an 9:60 for details concerning those people to whom *Zakāh* must be given.

¹² M. A. Al-Ghazālī, *Iḥyā'u 'Ulumid-Dīn*, Volume II, (Al-Qāhirah: Dāru Ibn Al-Haytham, 2004), pp.1558 – 1559

¹³ M. I. Al-Bukhārī, *Ṣaḥīḥ Al-Bukhārī*, p.136

¹⁴ www.channelstv.com/.../thereare-167-million-people-in-nige... (Accessed on the 29th of March, 2013)

77.7 percent and 76.3 percent respectively, while the south-west geographical zone recorded the lowest at 59.1 percent. Among the 36 states of the federation, Sokoto State had the highest poverty rate of 86.4 percent while Niger state had the lowest at 43.6 percent.¹⁵ The incidence of poverty in Nigeria was put at 28.8% in 1980, 46.3% in 1985, 42.7% in 1992, 65.6% in 1996, 54.4% in 2008,¹⁶ 69% in 2010 and might have risen slightly to about 71.5% in 2011.¹⁷

The result of the above is the decline in life expectancy of Nigerians which has steadily declined to the level of 52 or 50 years in 1996/1997, and infant and under 5 mortality rates are among the highest in the world while education and literacy levels are below expectation and have been falling.¹⁸ In another development – life expectancy indicator, Nigeria is ranked 155th out of the world's 177 countries, infant mortality 148th among 173 countries. This has been related to low-ranking in income per capita.¹⁹

Poverty od our started per se during the colonial era when the colonial masters exploited the Nigeria mineral resources for export and for servicing the British industries. This made them not to pay attention to food production for the local population. After the independence in 1960, the Regional Governments, instead of re-investing the surplus funds they got from agriculture on the agriculture, they used it to develop the urban areas. This brought about structure imbalance and poor condition of living in the rural areas, then migration to urban areas and eventually reduction in labour force of the rural areas while those who could not migrate engaged in smuggling of the produce across the border for better prices than they got from the Commodity Boards.²⁰

Unfortunately, the reform measures which the policy makers intended to take in the early 1970s on agriculture seemed to be distorted by the emergence of crude petroleum which replaced agriculture in the foreign exchange earnings. It is more unfortunate that these foreign exchange earnings from petroleum exports, instead of using them for agricultural development, were used to import agricultural produce like palm oil from even Malaysia that got her palm oil seeds from Nigeria shortly after independence.²¹ Today, Malaysia is the largest exporter of palm oil in the world since she makes shipment of about 60% of palm oil to some parts of the world.²²

Meanwhile, various programmes have been established by different governments in Nigeria aimed at alleviating poverty and improving the living conditions of Nigerians. Among these programmes were Operation Feed the Nation (OFN), Green Revolution, Austerity Measures, loan from the International Monetary Fund (IMF), Structural Adjustment Programme (SAP), reduction of subsidies and deregulation,

¹⁵ Ifeanyi Onuba at www.punchng.com/businesseconomy/112-5-million-nigerians-live-in-poverty-nbs/. Accessed on the 29th march, 2013.

¹⁶ www.krepublishers.com/.../JHE-40-2-189-12-2266-Fapojuw-O-E-T... (Accessed on the 29th March, 2013).

¹⁷ Growthpodia.pps. (Accessed on the 10th June, 2013)

¹⁸ N.J. Nweze, p.74

¹⁹ Nigeria-census History at www.mongabay.com/history/nigeria/nigeria-census_history.html. (Accessed on the 28th of March, 2013)

²⁰ O. Olashore, *Challenges of Nigeria's Economic Reform*, (Ibadan: Fountain Publication, 1991), pp.8 – 13

²¹ O. Olashore, *Challenges of Nigeria's Economic Reform*,

²² www.agricorner.com. (Assessed on 17th January, 2014)

Exploring *Mushārahah Mutanāqīshah* for Poverty Alleviation: A Proposal to Islamic Cooperative Societies in Nigeria

commercialization and privatization etc.²³ Other programmes include development plans which were followed up with poverty alleviation related goals. These include the establishment of institutions like the Industrial Training Centres in Oshogbo, Zaria, Owerri and several trade centres, River Basin Development Authority (RBDA), Agricultural Development Programme (ADP), Agricultural Credit Guarantee Scheme (ACGS), Family Support Programme (FSP), Directorate of Food and Rural Infrastructure (DFRI), National Directorate of Employment (NDE), Better Life Programme (BLP), Poverty Alleviation Programme (PAP), National Poverty Eradication Programme (NAPEP), National Poverty Eradication Council (NAPEC), etc. All these programmes and others are aimed at increasing per capita income, even distribution of income, reduction of level of unemployment, increasing the supply of high level manpower.²⁴

Another economic measure taken by various governments to deal with poverty are establishment of various micro-finance institutions. These institutions provide such services as the provision of small loans, saving facilities and other financial services designed appropriately for people excluded from conventional financial services on account of low income, lack of collateral, illiteracy, etc.²⁵ among these micro-finance institutions are the People's Bank of Nigeria, Community Banks, Family Economic Advancement Programme (FEAP) and the use of cooperatives.²⁶

Involvement of the Cooperatives in the Poverty Alleviation Programmes:

In order to involve cooperative societies in micro-credit mechanism against poverty, the federal government established Family Economic Advancement Programme through the cooperatives. The programme is designed to encourage producers of goods and services to form cooperatives for the purpose of obtaining loan from the government, encourage the design and manufacture of plants, machinery and equipment, and to create employment opportunity through the establishment of enterprises and pilot projects. Consequently, not less than 1,000 cooperative societies were registered in some states.²⁷ Apart from this, the conventional cooperative societies do participate in other anti-poverty programmes of the government such as PAP, NAPEP, etc.²⁸

However, most of these anti-poverty programmes of the various governments have not been successful possibly because the systems are always based on cheap credit to the poor in the cooperatives. These credits are also owned and controlled by the government, an indication that the programmes only focus on credit rather than deposits. It means the programmes do not encourage savings and credit delivery functions known with the cooperatives, as the attention of the members and cooperatives has been shifted from participatory to dependence on the government. While it is believed that the huge amount of money released by the government for these anti-poverty programmes could not serve the purpose for which it is released, one is also skeptical whether or not the

²³ www.agricorner.com. p.14

²⁴ O.J.K. Ogunlade and J.O. Abiola, "Government and Anti-poverty....", pp.22 – 25

²⁵ N.J. Nweze, p.78

²⁶ N.J. Nweze, pp.79 – 87

²⁷ N.J. Nweze, p.84

²⁸ Y.L. Olaleye, "Strategies of Cooperative Societies in Poverty Alleviation Among Urban Dweller Communities in Ibadan, Oyo State, Nigeria", *The Social Sciences Medwell Journals*, 2007, 366, she got the number and names of Cooperatives Societies she needed for her work from the state NAPEP.

government makes efforts to get back the money released for these programmes from the beneficiaries.²⁹

Furthermore, Marx and Seibel observe that the ability of the conventional cooperatives to provide meaningful services to their members and have impact on their income, assets and business prospect is less than marginal.³⁰ This is due to inability of the state administrators to serve, guide, advise, monitor, supervise and audit the cooperatives like before. More importantly, the national apex body of financial cooperatives, the National Association of Cooperatives Credit Unions of Nigeria (NACCUN), is no more and this seems to have impact on the credit cooperatives.³¹ It is believed that these programmes would succeed if NACCUN is existing, and it is allowed by the government to play its role of educating both the staff and the members on how to improve the existing savings and credit cooperatives.

What marred these programmes most is that they are interest rate controlled system, whereas interest or usury is prohibited in all revealed religions, Judaism, Christianity and Islam.³² The Qur'an explicitly mentions that any economic Programme which involves in interest rate will not succeed.³³

Mushārahah Mutanāqīshah (MM):

Mushārahah mutanāqīshah is a newly developed mode of Islamic Financial Product which is mostly discussed by Islamic scholars in relation to the Islamic Banking System whereas it is also relevant to the ICS.³⁴ According to Osmani and Abdullah, *mushārahah mutanāqīshah* has been in existence since 1995, but the Kuwait Finance house firstly operated it in Malaysia in 2006. They argue further that this Islamic Financial Product is a combination of three contracts which are *mushārahah* (partnership), *'ijārah* (lease) and *bay'* (sale) and that it (*mushārahah mutanāqīshah*) has been invented through the gradual development of Islamic Banking Products.³⁵

MM is a type of partnership between two partners in which one of them is a financier because he has greater share. The two shares are combined for the joint purchase of assets like residential building or a venture of which the ownership will be transferred to the partner with little share at the end, on the assurance that he will be purchasing the share of the financier instalmentally or in units in addition to the payment

²⁹ The Researchers observe that those who got loan from the People's Bank in 1990s have not paid it back to the Bank and they are not willing to do so. Also, nobody has persuaded them to pay it back either willingly or by force. It is on this basis that we believe that the same thing is happening to other anti-poverty programmes' loans given to individual or society.

³⁰ M.T. Marx and H.D. Siebel, "The Evolution of Financial Cooperatives in Nigeria, Do They Have a Place in Financial Interdenomination?" in O.O. Oluyombo (ed.), *Cooperative Finance in Developing Economies*, 2012 International Year of Cooperatives, (Lagos: Soma Prints Limited, 2012), p.16

³¹ M.T. Marx and H.D. Siebel,

³² See H.Y. Mabera, *Islamic Banking and Sharī'ah Law in the Bible*, (Kaduna: Sarumedia Publishers, 2011), pp.13 – 18

³³ Al-Quran, Al-Baqarah:275–276

³⁴ Y. Tanko, *A Brief About Business in Islamic Banking*, (Kano: Darul Ummah for Publishing Agency, 2011), pp.100–101

³⁵ N. M. Osmani and M. F. Abdullah, "*Mushārahah Mutanāqīshah Home Financing: A Review of Literatures and Practices of Islamic Banks in Malaysia*", *International Review of Business Research Papers*, (Volume 6, Number 2, July 2010), p.273

of rental due for using the financier's share in the property and proportion of allottable profit as agreed upon between them in case of venture. According to this concept, there will be financier, which is the Islamic Cooperative Society (ICS) and a client, who is a member of the ICS. Both of them can either participate in the joint ownership of a property or equipment, or in a joint commercial enterprise. The ICS is expected to have larger share while the interested member in any of the projects is expected to have a little share. The two shares are combined and used to get the required project for the client. However, the ICS's share is further divided into a number of units and it is understood that the client will purchase the units of the ICS's share one by one periodically, thus increasing his own share until all the units of the ICS's shares are purchased by him and the ownership of the property or the equipment or the commercial enterprise is transferred to him.³⁶

Basis for *Mushārahah Mutanāqīshah* (MM):

Some of proponents of the MM established its legality on the basic contract that forms its core as *Shirkatul-'aqd* (partnership by joint contract) on which basis they argue that it can be applied to a large variety of projects like purchase of assets such as machinery, factories, houses and large scale enterprises. Other proponents of this mode of partnership opine that it is based on *Shirkatul-milk* (partnership by joint ownership) when used for the acquirement of assets such as real estate, however, it takes the form of *Shirkatul-'aqd* when used to finance ventures that are based on assets, with some necessary guidelines to be observed.³⁷

The fact that business transaction is generally permitted in Islam suggests the legality of *mushārahah mutanāqīshah* (MM), because it is also a type of business transaction between partners and partnership business is also allowed in Islam accordingly. Though the MM is a newly developed partnership, hence it cannot be found in the economic books of the early Islamic scholars. However, this does not make it illegal. According to al-'Uthaymīn, the fact that the early Islamic scholars mentioned the types of *Shirkah* (partnership business) does not mean that it should be limited to those types only because other types, which may be very difficult to apply based on the types mentioned by the early scholars, may come up later therefore the later types (like the MM) cannot be said to be Islamically illegal because originally partnership is legal.³⁸

Application of *Mushārahah Mutanāqīshah* to House Purchase:

An ICS member who does not have adequate fund approaches the ICS who agrees to participate with him in purchasing the required house. For example, twenty percent (20%) of the house price is paid by the member and eighty percent (80%) of the price is paid by the ICS which indicates the quantity of shares of each of them respectively. After the purchase of the house jointly, the member uses the house for his residential requirement and pays rent to the ICS for using its share in the property. Equally, the ICS's share is further divided into eight equal units, each unit representing 10% ownership of the house. The member also promises the ICS to purchase one unit after each three months, and after the first three months he would have purchased one unit of the ICS's share by paying one-tenth ($\frac{1}{10}^{\text{th}}$) of the price of the house which reduces

³⁶ Y. Tanko, *A Brief About Business in Islamic Banking*, pp.100–101

³⁷ M. A. Sadiq, "Financing Micro Medium Sized Enterprises ..." pp.55–56

³⁸ M. S. Al-'Uthaymīn, *Al-Jami' li-Aḥkāmū Fiqhus-Sunnah, Part III*, (Egypt: Dar Al-Ghad Al-Gadeed, 2007 – 1428 A. H.), pp.111–112

the ICS's share from 80% to 70%. Consequently, the rent payable to the ICS is also reduced to that extent. This suggests that at the end of each subsequent three months, the member would have purchased more units of the ICS's share of the house, while his own share increases, that of the ICS decreases, and at the same time his rent due also reduces to various proportions at each three months. It is clear that through these processes, the member would have purchased the whole share of the ICS within two years thereby decreasing the ICS's share to zero and increasing that of the member to 100%.³⁹

Mushārahah Mutanāqishah for Purchase of commercial Vehicle:

An ICS member, who does not have adequate fund to purchase bus to be used for transport services, can approach the ICS for joint purchase of the bus. He then contributes the twenty percent (20%) of the cost of the vehicle while the ICS contributes eighty percent (80%). After the purchase of the vehicle, the member uses it to provide transport services to the passengers whereby he earns the net income of #5,000 daily. It is also expected that they agree that 80% (#4,000) of the fare be going to the ICS's purse daily while 20% (#1,000) goes to the member. At the same time, the ICS's share of the vehicle is further divided into eight units to be bought by the member, each unit at the end of every three months. It is obvious that the ICS's share reduces at the end of each three months while that of the member increases, leading to reduction in daily fare share of the ICS. After two years, the member would have bought all the ICS's share making him to become the full owner of the vehicle while the ICS would have recovered its original investment along with the income in form of fare allotted to it every day.⁴⁰

The Use of *Mushārahah Mutanāqishah* for Conducting a Business:

A member of an ICS, who is a businessman but has no required funds for that business, approaches his ICS for joint partnership in such business. The ICS agrees to participate with him for a specific period of say two years and invests sixty percent (60%) of the business while the subscribed member provides forty percent (40%) and the business starts. Both of them expressly agree on the proportion of profit allocable to each of them and at the same time, the ICS's share in the business is divided into six equal units to be gradually bought by the subscribed member until after two years when he becomes the full owner of the business. In this situation, the ICS gains all its investments back through the purchase of the units of its shares by the subscribed member along with the periodical profits.⁴¹

Islamic Ruling on *Mushārahah Mutanāqishah*:

The following transactions should take place in the *mushārahah mutanāqishah*

1. Creation of joint ownership in the project.
2. Giving the share of the ICS to the subscribed member on rent in case of house purchase, on net income of the fare in case of vehicle purchase and on profit (which is not fixed) in case of the business.
3. Promise from the subscribed member to purchase the units of the ICS's share.
4. Actual purchase of the units at different stages.
5. Adjustment of the rental/fare based on the remaining share of the ICS in the concerned project e.g. housing and vehicle projects respectively.⁴²

³⁹ M. S. Al-'Uthaymīn, pp.101–102

⁴⁰ M. S. Al-'Uthaymīn, pp.102–103

⁴¹ M. S. Al-'Uthaymīn, pp.103–104

⁴² M. S. Al-'Uthaymīn, p.104

All the above transactions in the *mushārahah mutanāqishah* are allowed by the *Shari'ah* (Islamic law) with the emphasis that the first three transactions should not be combined in a single arrangement. Also, each one of them should not be made a condition for the other, because it is a settled rule in the Islamic legal system that one transaction cannot be made a precondition for another. This suggests that instead of making two transactions conditional to each other, there should be one sided promise from the subscribed member to take share of the ICS on lease and pay the agreed rent or agreed net income from the fare in case of vehicle and agreed profit proportion in case of business. He should also promise to purchase different units of the ICS's share in the concerned project, at different stages.⁴³

However, it should be noted that promise to do something constitutes moral obligation on the promisor which cannot be enforced through the courts of law. Meanwhile, there are some Muslim jurists who declared that promises are enforceable and that the court of law can force the promisor to fulfill his promise, especially in the context of commercial activities.⁴⁴ But in Nigeria, consideration is given to the cooperatives not to settle the cooperative issues in the law court. Should there be any case concerning the cooperative and its member, the case will be referred to the officer in charge of the cooperative at the State Ministry of Trade, Investment and Cooperative. It is confirmed that if such case is brought to a competent law court, the Judge of that court will refer the disputants to the Ministry in charge of cooperative for settlement. It is also confirmed that the Ministry is vested with such power to settle such cases in the cooperative.⁴⁵ Therefore, *mushārahah mutanāqishah* is practicable among the ICSs in Nigeria.

Based on the above, the first two transactions (joint purchase and the contract of lease in the residential building, or proportional share of the income generated through the services of the vehicle/profit from the business) may be joined in one document whereby the ICS agrees to lease/release its share (as the case may be) after joint purchase to the subscribed member because it is allowed in *ijārah* (lease contract) whereby sale contract can be effected for a future date. At the same time, sale must be effected by the exchange of offer and acceptance at that particular date when each unit is purchased, as it is also preferable that the value of the project should be considered when purchasing each unit. It is also permissible to agree on a particular price in the promise of purchase, signed by the subscribed member particularly in the case of building project.⁴⁶

The Problem with *Mushārahah Mutanāqishah*:

One of the problems of this Islamic Financial Product in relation to the ICSs in Nigeria is that both the ICSs and its members have little or no knowledge about it since

⁴³ M.T. Usmani, *An Introduction to Islamic Finance, Part One*, (Lagos: Ad-daawat-ul-Islamiyah Book Centre and S.A. Aminu Publication, 1999), p.87

⁴⁴ M.T. Usmani, pp.87–88

⁴⁵ I.A. Adeyemo, *The Role of Government in Cooperative Administration*, A Paper Presented at A Day Workshop Organized by Pathfinders Group International and Crescent Gateway in Collaboration with National Council for Islamic Credit and Savings Schemes (NACICASS) held at the Federal Cooperative College, Eleyele, Ibadan on October 5th, 2013, p. 40 and an answer given by the presenter to a question raised by a participant concerning disputes of debt payments in the Cooperatives.

⁴⁶ M.T. Usmani, *An Introduction to Islamic Finance Part One*, p.90

there is no single ICS that is operating it. This is based on studies and findings in which out of about seventy five (75) ICSs interviewed in Yorubaland, none of them is operating *mushārah mutanāqishah*.

Another problem is that the product requires huge amount of money to finance big projects like commercial businesses, construction of estates and big machines, whereas the ICSs in Yorubaland consist of mostly poor people and getting no grant from either the government or philanthropists and so solely depend on themselves in managing their affairs.

Lack of fundamental parent body for the ICSs in each of the Yoruba speaking South-Western Nigeria States is another major problem in this product. It will be very difficult for the government in each state to relate directly with each ICS independently in participating in *mushārah mutanāqishah* schemes successfully. Although, the product is purely partnership in which the profits are shared among the partners on the pre-determined proportional ratio in relation to the investment of each partner and loss is also shared based on the capital contributed by each partner, the loss that may likely set-in in the process of this product also constitutes problem. For example, the house may be engulfed by fire or collapse, the vehicle may develop fault or be stolen and the business may collapse or yield no profit.

The Gain of ICS in *Mushārah Mutanāqishah*:

Though the member in the ICS enjoys acquisition of residential building, commercial enterprise or vehicle for commercial use as the case may be in the *mushārah mutanāqishah*, he/she also enjoys part of his/her share in the monthly payment of rent he made. The ICS on the other hand apart from helping her member to satisfy his/her socio-economic need, she also enjoys the recovering of her share fully, as she also enjoys the monthly rental dues from the member as profit. For example, a member in the ICS who has two hundred thousand Naira (#200,000) only (20% cost of a residential building) applies for the construction of such building which costs one million Naira (#1,000,000) only. The ICS adds her own share of 80% which is eight hundred thousand Naira (#800,000) only. The two shares are added together and used for the procurement of the required residential house for that member accordingly. The agreement as well as the promise and other ingredients of *Shari'ah* in the *mushārah mutanāqishah* are strictly observed by the two partners concerned. The *mushārah mutanāqishah* account processes as regard the rent apportionment and share purchase transactions between the ICS and the member, showing the gains of each of them are as follow respectively.

Rent Apportionment Table

Let the rent be #10,000 per month in which the share of the ICS is 80% at the beginning while that of the member is 20%

	ICS's Share	Member's Share
1 st quarter, 1 st year	Share% - 80% #8,000 x 3 months = #24,000	Share% - 20% #2,000 x 3 months = #6,000
2 nd quarter, 1 st year	Share% - 70% #7,000 x 3 months = #21,000	Share% - 30% #3,000 x 3 months = #9,000

Exploring *Mushārahah Mutanāqishah* for Poverty Alleviation: A Proposal to Islamic Cooperative Societies in Nigeria

3 rd quarter, 1 st year	Share% - 60% #6,000 x 3 months = #18,000	Share% - 40% #4,000 x 3 months = #12,000
4 th quarter, 1 st year	Share% - 50% #5,000 x 3 months = #15,000	Share% - 50% #5,000 x 3 months = #15,000
1 st quarter, 2 nd year	Share% - 40% #4,000 x 3 months = #12,000	Share% - 60% #6,000 x 3 months = #18,000
2 nd quarter, 2 nd year	Share% - 30% #3,000 x 3 months = #9,000	Share% - 70% #7,000 x 3 months = #21,000
3 rd quarter, 2 nd year	Share% - 20% #2,000 x 3 months = #6,000	Share% - 80% #8,000 x 3 months = #24,000
4 th quarter, 2 nd year	Share% - 10% #1,000 x 3 months = #3,000	Share% - 90% #9,000 x 3 months = #27,000
	ICS's gain = #108,000	Member's gain = #132,000

Share Purchase table

	ICS's Share	Member's Share Purchase	ICS's Share Balance
1 st quarter, 1 st year	#800,000	#100,000	#700,000
2 nd quarter, 1 st year	#700,000	#100,000	#600,000
3 rd quarter, 1 st year	#600,000	#100,000	#500,000
4 th quarter, 1 st year	#500,000	#100,000	#400,000
1 st quarter, 2 nd year	#400,000	#100,000	#300,000
2 nd quarter, 2 nd year	#300,000	#100,000	#200,000
3 rd quarter, 2 nd year	#200,000	#100,000	#100,000
4 th quarter, 2 nd year	#100,000	#100,000	#0

The share of the ICS is divided into eight (8) units with each unit representing 10%. Each unit therefore represents one hundred thousand Naira (#100,000) only which is purchased quarterly. It is also expected that all ICS's share units are bought by the member within two (2) years which indicates the termination of the *mushārahah mutanāqishah* scheme between the ICS and the member and full transfer of ownership of the residential building to the member.

Government, ICSs and the Use *Mushārahah Mutanāqīshah*:

If poverty alleviation means provision of sufficient income for living, especially provision of basic needs and services like food and accommodation through job creation, then, *mushārahah mutanāqīshah* is a good option of Islamic Financial Product that can be used through the cooperatives for poverty alleviation programmes. This is because it is based on equity participation and can be used for financing assets and venture capital financing with ease.

Government can release grants to the ICS to operate *mushārahah mutanāqīshah* and other Islamic Financial Products by encouraging the ICSs to form a parent body at the state level. The grants will then be released through this parent body for effective utilization. It is also expected that the membership of the parent body should be experts in the field of Islamic economy, Islamic *Shari'ah*, experts in the business and banking/accounting system, coupled with sincerity and commitment to manage the grants for better results on the parts of government, cooperatives and their members. However, interested members who wish to engage in *mushārahah mutanāqīshah* should apply and the fund in form of share should be released and added to the applicant's share to form joint partnerships with the government represented by the ICSs and verification should be made by the parent body concerning the implications of the project the concerned members apply for. In addition, adequate education regarding the *mushārahah mutanāqīshah* in relation to the project applied for should be given to the parties concerned. This is to ensure that the transactions contained in the type of project applied for are carried out based on the required ingredients of *shari'ah* in *mushārahah mutanāqīshah*.

Conclusion:

The use of *mushārahah mutanāqīshah* in the Islamic cooperatives if adopted has the potentialities to alleviate poverty from the ICSs' members. It is therefore hopeful that operating *mushārahah mutanāqīshah* in the cooperatives will contribute positively to the poverty alleviation programmes of the cooperatives and those of the government in Nigeria. Based on the above assertions, it is recommended that the ICSs in Nigeria should attach great importance to the Islamic Financial Product of *mushārahah mutanāqīshah* because of its potentiality to provide assets, commercial enterprises which tend to alleviate poverty within their members. Members should also be educated on the technicalities and advantages of this Islamic Financial Product.

The government in every state in Nigeria should be persuaded to understand that there are some Islamic Financial Products like the one under discussion which can serve as alternatives to unsuccessful various anti-poverty programmes in use. Government should also be educated on the need to promote other Islamic Financial Products which are helpful in eradicating poverty from the society. The Islamic cooperators should also organize seminars, symposia, workshops and conferences by inviting experts in Islamic economic system to educate the masses on the ICSs and Islamic Financial Products, especially in the area that can help in alleviating poverty.