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A Comparative Analysis of Islamic and Conventional Cooperative Societies: A Study of Al-Ikhlas and University of Ibadan Workers' Cooperative Investment and Credit Societies

MURITALA KEWUYEMI KAREEM

Abstract

The nature and performance of cooperative societies have encouraged different people to join different cooperatives. Existing studies have examined the impact of cooperatives on people and businesses with scant attention paid to the comparison between Islamic and conventional cooperatives and their financial statuses. A comparison of both is necessary to weigh the relative impact of each on their respective members. Therefore, this study compared Islamic and conventional cooperative societies, using Al-Ikhlas Cooperative Society and University of Ibadan Workers' Cooperative Investment and Credit Society (UI Workers' Cooperative) as a case study. Data comprised the audited annual financial statements of both cooperatives for the period of 5 years, 2014 to 2018. They were analysed, using ratio-based model, CAMEL (Capital, Asset, Management, Efficiency and Liquidity) and growth rate of share capital to measure their performance and operational efficiency. While UI Workers' Cooperative engages in different types of investments, including those prohibited by *Sharī'ah*, Al-Ikhlas invests only in products and services allowed in *Sharī'ah*. **T**he net surplus growth rate of UI Workers' Cooperative (42.12%) was greater than that of Al-Ikhlas society (18.88%). At an average, Al-Ikhlas' capital adequacy ratio (3.65%), members' savings (18.94%) and Management efficiency ratio (91.22%) were higher than those of UI Workers' Cooperative of 2.17%, **7.91%** and 59.78%, respectively. Al-Ikhlas is self-sustaining and growing despite avoiding investments prohibited *Shariah*. By implication, Islamic cooperatives tend to impact more on its members than do conventional cooperatives on its members.

Keywords: Interest-based cooperative, interest-free cooperative, performance, financial ratios, CAMEL model

Introduction

The development of a nation depends on the well-being of its citizens. One of the means by which their welfare can be achieved is through economic empowerment. At the level of economic development, cooperatives have an

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important role to play in mobilising resources for economic progress. The economic well-being is best attained in less developed countries such as Nigeria through cooperative societies because of their less stringent conditions and accessibility to the masses. In fact, cooperative societies are powerful means to economic empowerment of individuals particularly in developing countries. If they are to perform this function effectively and efficiently, their financial performance must be sound. Otherwise, they will not be able to cover their running cost let alone remain in business for long. It is against this background that this study examines financial performance of two different forms of cooperative which is the key to their effectiveness. The effective performance of these societies dictates the well-being of members.

The University of Ibadan Workers' Cooperative Society was formed and registered in 1952 under the Oyo State Ministry of Commerce, Industry and Cooperative with the aim of improving members' welfare. Any member of staff of the university whose appointment is confirmed can join the organisation. The society engages in activities such as trading, giving loan with interest and estate development. The association is guided by the cooperative bye-laws of Oyo State. Al-Ikhlas Cooperative Society is an Islamic cooperative whose name indicates its service. *Ikhlās* is an Arabic word which means sincerity, faithfulness, etc. (Cowan, 1960, p. 255). It means the organisation is faithful to the teachings of Islam. It was established in 2002 by Muslim workers in Oyo State Secretariat, Ibadan, Nigeria. The activities of the society include trading, giving interest-free loans and engaging in investment activities (acquisition of acres of land, cluster farming, etc.) The association is guided by both the teachings of Islam and the cooperative bye-laws of Oyo State.

Literature Review

The word *cooperative* simply means 'doing something together or working together with others towards a shared aim' (Hornby, 2000, p. 323). Cooperatives are usually formed to reduce economic hardship in the society. Extant literature reveals many views on cooperative societies. What is common in the literature is importance of cooperatives in the area of development and well-being. This is well established in the works of Mahmud (2005), Henehan (1997) and Kareem (2019), to mention a few. Cooperatives play a significant role in the mobilization of savings for investment (Nweze, 2003). They provide financial access to financially-excluded people and care for others. This promotes brotherhood and financial inclusion of the poor. They engage in self-help, equity, solidarity, social responsibility and caring. Their members own what might be difficult for them to own individually (Ibrahim, 2001). Islamic cooperatives make use of Islamic financial products so as to have positive impact on their members (Onakoya and Onakoya, 2013). Another view in the literature is that cooperative societies can do better if they use motivation and new technology when transacting their businesses. This will enhance their efficiency in the area of loan request and the service rate (Ohen, Ofen and Arikpo, 2018). Many cooperatives in a formal setting deduct contributions of their members from the source by debiting members' accounts from the company's bursary and crediting their accounts with the cooperatives with the amount deducted. This makes default rate rare if not impossible (Okeefe, 1971). These works did not evaluate and compare both Islamic and conventional cooperatives using Islamic legal texts and CAMEL model as applied in this work.

Employing a combination of stratified and convenience sampling techniques to select 180 respondents in Ilorin Emirate, Mustapha, Aremu and Brimah (2017) compared service quality and customers' satisfaction of interest and non-interest based cooperative societies to establish differences between service quality and satisfaction levels of the two cooperatives. However, the performance of the two cooperatives through their audited annual reports which is actually a function of the service quality and customers' satisfaction was not revealed in the study.

Applying the CAMEL model to evaluate the performance of two major banks of North India: Punjab National Bank and Jammu and Kashmir Bank, and using annual report data from 2001 to 2005, Sangmi and Nasir (2010) revealed that both were financially sound in all the parameters of CAMEL. The financial performance of three listed commercial banks in Botswana was evaluated by Sathyamoorthi, Mapharing, Ndzinge, Tobedza and Wally-Dima (2017, p.142-159) for the period of 2011-2015 applying the CAMEL model. The study found that the selected banks performed well during the study period in terms of most of the parameters of CAMEL model with adequate capital and assets. This has not been applied to the performance of cooperatives in Nigeria let alone using the model to compare the financial statuses of both Islamic and conventional cooperatives. This is the gap this work filled.

Statement of Problem

Conventional and Islamic cooperatives have been viewed by individuals and governments at all levels as a means to reduce poverty and facilitate economic growth and development of a nation. To play this role, their financial positions must be sound. Otherwise, they may close shop within a very short period of their existence. Extant studies have focused largely on the impact of cooperatives on agricultural and non-agricultural businesses with little attention paid to the financial stand of cooperative society which is like livewire in a corporate business as well as cooperative activities. However, not much has been done in the area of examining the financial status of cooperative let alone doing a comparative analysis on conventional cooperative and Islamic cooperative based on our review of literature. This has necessitated examining and comparing the financial performance of the two different forms of cooperative (Islamic and conventional) in Ibadan. Our evaluation of the performances of these two different forms of cooperative will help people when taking decisions to join cooperatives and for cooperative societies to improve on their performances.

Objectives of the study

The study compares Islamic and conventional cooperative societies using Al-Ikhlas and University of Ibadan Workers' Cooperative Investment and Credit Societies as a case study. The audited annual financial statements of both forms of cooperatives were also examined with a view to measuring their performance and operational efficiency.

Other specific objectives include:

- To examine the strengths and weaknesses of both conventional and Islamic cooperatives;
- To examine the activities of both cooperative types
- To find the growth rates of key items in their financial statements;
- To measure their levels of efficiency and productivity.

Methodology

The two cooperative societies whose financial performances are assessed in this work are Al-Ikhlas and University of Ibadan Workers' Cooperative Investment and Credit Societies. These two were selected out of the cooperatives that are situated and are being operated in a formal governmental establishment, using convenient sampling technique. The first represents Islamic cooperatives while the second represents the conventional ones within the same geographical area, Ibadan for a fair comparison. Their audited financial annual accounts from 2014 to 2018 were used because of the availability of relevant data. We also examined Hadith and Qur'an, the primary legal texts of the religion of Islam with a view to defining the scope of Islamic cooperative and noting the Islamic religious facts on cooperative. Analysing financial performance of the two different forms of cooperative will assist their members, would-be members, financial analysts, creditors, the populace, etc. to make informed decisions. The managements of the organisations will also benefit in the sense that they will be able to look for ways of improving the effectiveness and efficiency of their organisations.

The ratio-based model used to evaluate and compare financial performance of both cooperatives is CAMEL. CAMEL which is an acronym for Capital Adequacy(C), Asset Quality (A), Management Efficiency (M), Earnings (E) and Liquidity(L) is employed to examine and compare the operational efficiency of the two cooperatives.

The Camel Model

CAMEL is a famous model used to evaluate financial performance of banks and non-banking institutions such as cooperatives. It was designed by the United States of America Federal Reserve and was first known as the Uniform Financial Institutions Rating System (UFIRS) in 1979 (Uniform Financial Institutions Rating System, 1997). The system is known internationally with the abbreviation CAMEL reflecting the five main assessment areas indicated earlier. It takes into consideration all significant, financial and operational factors in the evaluation of an organisation's performance. The ratios considered under CAMEL in the analyses are presented in the following paragraphs.

Capital Adequacy: This measure refers to the sufficiency of the organisation's equity capital in order to fulfill depositors' demand of their money as and when they require their saved money. It increases existing and potential customers' confidence and reassure them that the organisation will continue its business in a foreseeable future (Kumar, Harsha, Anand, & Dharma, 2012, p. 9-14). It prevents an organisation or a firm from going bankrupt and provides protection against insolvency because firms are expected to have enough capital to absorb unexpected losses. The ratios that show capital adequacy are total capital as a percentage of total assets to total shareholders' funds.

Asset Quality: This indicates the magnitude of risk prevailing in the firm to generate interest income. It also involves the quality of loan (Reddy, 2012, p. 42-45). The firms are concerned with the financial risk on the loans given to their customers. The ratio considered here for the purpose of analysis is total loan as a percentage of total savings/assets.

Management Quality: This indicator evaluates management quality to generate businesses, manage firm's day-to-day businesses and maximize profits. It is also a parameter to identify and measure risks associated with the firm's businesses and the management's ability to identify and control the risks of the credit union's activities (Kabir and Dey, 2012, 16-25). The ratio used in the present study is total advances to total deposits.

Earnings Quality: This represents the amount of earnings as well as the trend in earnings (Olowe, 1997, 49). This measure shows and explains the sustainability and growth in earnings. This is because returns on a firm's asset give the firm the possibility of funding, expansion, remaining competitive and increasing capital. The ratios considered in the present study to understand this parameter are Return on Assets (ROA) and Returns on Equity (ROE)

Liquidity: Liquidity is very important in the sense that insufficiency of funds may not make an organization to meet its present and future needs. Availability and adequacy of funds will make it possible for firms to meet their day-to-day financial obligations (Olowe, 1997, p. 43). Capital funds (Liquid Assets) as a percentage of total assets is calculated to evaluate the liquidity of the two cooperatives. The growth rates of share capital, membership savings, investments, total assets and net surplus indicate the level of liquidity. Growth rate of various items was calculated.

Conceptual Analysis and Stylized Facts

Of all the forms of business organisation such as sole proprietorship, partnership and limited liability companies, cooperative societies are the only ones that cater for the poor. They are jointly formed by individuals to serve the economic interest of the less privileged people in the society through mutual help. Cooperatives need to balance between principles of cooperatives and business objectives. Different authors view cooperative from different perspectives. One of such authors sees cooperative as 'an organisation of people of common interest who came together to protect this interest and utilise this to better the lot of members by engaging in various economically viable venture' (Uthman, 2000, p.1) It is also viewed as an autonomous group of persons united voluntarily to meet their common economic, social and cultural needs or aspirations through a jointly owned and democratically controlled enterprise (ICA, 1995, pp. 85-86). Cooperative is as old as man. However, the formal cooperative was established in Nigeria in Ibadan in 1937 (Strickla Essien, 2000, p.13-20). Members apply for loan whenever they have a need for it. This is one of the major reasons many joined cooperative societies. They get their income through their investments. Islamic cooperatives make use of Islamic financial products such as *murābaḥah* (cost plus mark-up), *ijārah* (leasing) and *muḍarabah* (combination of capital and entrepreneurship) (Kareem, 2012), to mention but a few.

Since no one is self-sufficient, people always need the assistance of others in one way or the other. Therefore, there is need for cooperation. Although Islam encourages cooperation, the cooperation must be done in conformity with the dictates of Allah as contained in the Qur'an. Hence, the conventional cooperative societies are not acceptable in Islam principally because they charge interest on loans (Q2: 275-279). Another reason why the Western oriented cooperative societies are prohibited is that they transact business on products such as alcohol and pork which are not allowed in *Sharī'ah*. The basis for Islamic cooperative is stated in the Qur'an and the Sunnah. 'And help you one another in *al-birr* and *at-taqwā* (righteousness and piety); but do not help one another in sin and transgression. And fear Allah. Verily, Allah is severe in punishment' (Q5:2). The believing men and the believing women are allies of one another. They enjoin what is right and forbid what is wrong…' (Q9:71). The Prophet said: 'Surely believers are like an edifice (in their unity) each part strengthening the other. The Prophet then joined his fingers by way of illustration'. Abu Hurayah said the Prophet said: 'whoever removes a worldly grief for a believer, Allah will remove from him one of his griefs on the Day of Judgement. Whosoever shields a Muslim, Allah will shield him in this world and the next. Allah will aid a slave so long as the slave aids his brother' (Uthman, 2009, p. 37).

Behaviours expected of the leaders of cooperative societies are mutual consultation before taking decisions (Q42: 38), avoidance of being harsh-hearted (Q 3: 159), helping the poor, transparency, accountability, justice (Q5:8, Q4:135), sincerity in discharging their responsibility for the sake of Allah (Q76: 9; Q6:162), documentation of loans (Q2: 282), etc. Members of Islamic cooperative are also guided; they should pay their loans as and when due (Sahih al Bukhari, Volume 3, Hadith No. 572); postponement of payment by the rich person is injustice (Uthman, 2009, p. 60). The consequence of not paying debts is depicted in the following Hadith of the Prophet: 'The soul of a believer is attached to his debt, until it is paid on his behalf' (Uthman, 2009, p. 63).

A Comparative Analysis on Islamic and Conventional Cooperatives

Cooperative societies, Islamic and conventional, play an important role in the provision of financial services to individuals, group members and institutions. Most of the time they ensure that loan resources remain in the communities from which the savings were mobilized (Mustapha et al., 2017). Financially excluded people are taken care of by a large number of different forms of cooperatives. Both males and females benefit from cooperatives. They become entrepreneurs and members. Cooperatives are owned and controlled by their members for the benefit of their members rather than making profit for the investors (Zero Interest Multipurpose Cooperative Society, Bye-Laws, Co-operative Societies Law, cap. 35 Laws of Oyo State). The areas where cooperatives benefit their members include alleviation of poverty, improvement on income level and expansion of new and existing business empowerment. Both Islamic and conventional cooperatives are operating in the same society. Conventional and Islamic cooperatives assist their members financially by giving them interest-based or interest-free loans, respectively.

Contributions

Members of cooperatives contribute funds to the purse of the respective cooperatives in the form of savings. This is usually done monthly. The difference lies in the area of returns. Under Islamic cooperative, no additional income is added to the savings (Q2: 275) while interest is added to the amount saved in the conventional cooperative (Co-operative Societies Law, cap. 35 Laws of Oyo State, Nigerian Co-Operative Societies Act). The profits shared by members of Islamic cooperatives are from the profit made on investments and businesses not on their savings, because no interest is received or paid on them.

Loans with Interest

Both types of cooperative grant loans to meet their productive and consumption needs. Conventional cooperatives give loans on interest to their members. The interest on loans is one of the main differences between Islamic and conventional cooperatives. While interest is lawful in conventional cooperative, it is prohibited in Islamic cooperative. The Qur'an and the Sunnah prohibit it in all affairs and transactions. Allah says in the Qur'an: '…Allah has permitted trade and has prohibited *ribā* (interest of all forms) …' (Q2: 275). The Prophet cursed the one who accepted usury, the one who paid it, the one who recorded it, and the two witnesses to it, saying that they were all alike. He also said 'A dirham earned and knowingly devoured by a person from a *ribā* (interest-based) transaction is more heinous in the sight of Allah than thirty-six instances of illicit sexual intercourse' (Uthman, 2009, p. 24-25).

Investments

One of the major sources of income to the cooperative societies-Islamic and conventional -is through investments. Both forms of cooperative invest members' funds in different business ventures. Conventional cooperatives engage in all forms of investments regardless of whether they are allowed or prohibited by *Sharī'ah*. They can invest in commodities as long as they are profitable. However, Islamic cooperatives can only embark on *halāl* business that are not only beneficial to members, but also profitable to the society. They can invest in agricultural products allowed in *Sharī'ah* such as maize, beans, poultry and livestock except animals such as pigs. They cannot invest in pornography, casino, brewery, etc. no matter how highly profitable they are. These products are against the teachings of Islam. It is clearly stated in the Qur'an that Muslims should avoid intoxicants, gambling, etc. Allah says:

> 'O you who believe! Intoxicants and games of chance (gambling) and idolatrous practices and fortune-telling are but a loathsome evil of Satan's doing; avoid it, then, so that you may be graced with good everlasting. By means of intoxicants and gambling, Satan seeks only to sow enmity and hatred among you and turn you away from the remembrance of Allah and from prayer. Will you not then desist?' (Q5: 93-94).

Products and Members' Needs

Both cooperatives assist their members to meet their yearnings by providing them with loans to acquire properties or meet some other needs. This is to make life better for them. For instance, they give members commodities on credit and deduct the cost from their contributions or savings in instalments. In addition, Islamic cooperatives give interest-free loans to interested members to perform acts of *'ibādah* such as Hajj. For instance, University of Ibadan Muslim cooperative has been offering this product of up to ₦1.5 million per person to their members. Islamic cooperatives assist their members to buy foodstuffs on credit during the month of Ramadan to make Ramadan fast easy for their members. They also sell on credit *Ileya* rams (i.e. rams slaughtered during *'īdul adḥā* during the month of Hajj called Dhul Hijjah) in order to make them enjoy the celebration of *'īdul adḥā*. Conventional cooperatives charge interest on the amount used to give commodities or provide services on credit to their members. They will not only pay the actual selling price of the commodities or the services but they will pay a specified interest on the funds. However, Islamic cooperatives have come to alleviate poverty and put smiles on the faces of the poor. It is prohibited to charge interest on loans given to people whether it is in the form of money or commodities. The latter is called *riba al faḍl* (Kareem, 2016, p. 49-52)

Service Quality in Relation to Loan Disbursement

Many cooperatives meet customers' needs on time while some take a long time before a loan beneficiary can obtain loan funds i.e. the processing periods of loans take a long time. Some cooperatives render their services within the promised time. In this area, many Islamic cooperatives use their service quality to get a high level of patronage and commitment from their members. They fulfil this function in line with the Quranic injunctions on fulfilment of promises. 'O you who have believed, why do you say what you do not do? Greatly hateful in the sight of Allah is that you say what you do not do (Q61: 2-3)'. Not only Al-Ikhlas does this quick delivery, many Muslim cooperatives do. For instance, University of Ibadan Muslim Cooperative society is one of those Muslim cooperative societies whose service rate is very high. In fact, it is stated clearly in its 2017 annual accounts on page 3 under loan disbursement. 'This set of executive council succeeded in drastically reducing processing periods of loans that is possible to get our accounts credited on the day we applied for the loan. This is believed to be the least that can be offered to members as long as one is qualified for the loan'. This is to show the extent Islamic cooperatives manage time and use quality service to showcase the injunctions of Islam on time management.

Penalty

When loan users fail to pay back money as and when due, they pay extra interest in the conventional cooperative. In case of delay in payment by a loan user in Islamic cooperatives, they will not be asked to pay extra charges. They may be denied of other opportunities from the cooperative. If penalty is imposed on a defaulter, the money realized from the fine cannot be used by Islamic cooperative. It has to be spent for the poor (Q2:172, 267, 280; Q 5:88; Q20:18).

Guiding Rules

Conventional cooperatives are based on man-made laws while the teachings of Islam as contained in the Qur'an and the Sunnah guide the operation of Islamic cooperatives. U.I. workers' cooperative is conducted in line with cooperative rules and regulations of Oyo State, Nigeria, while Al-Ikhlas follows the dictates of Islam as in the Qur'an, the Sunnah and other secondary sources of Islam. In addition, it also uses relevant cooperative laws of Oyo State that are not against the teachings of Islam (Annual Reports of the two cooperatives).

Profit or Loss Sharing Arrangements

Islamic cooperative is a body that operates according to the Islamic law (*Sharī'ah*). In Islam, it is required that both lenders and borrowers share both profit and loss in an equitable manner. The method of acquiring and distributing wealth in the economy must be fair to achieve true productivity (Zamir, Iqbal and Abbas, 2012). In the conventional cooperatives, profits and loss are not always shared because they do not venture into partnership arrangement. If they take loans from a member or any other third party, they pay interest instead of sharing profit or loss. They share profit realized from excess interest received and paid on savings. If profits are also made from their businesses, they share them. But if loss is incurred, they do not share it among their members. However, in Islamic cooperative, when a partnership is developed with another party, they agree on a predetermined rate in case profit is made or loss is incurred. The partner may be a member of the cooperative or another cooperative or any other third party. If the partnership is on the basis of *muḍārabah* product the profit is shared between the cooperative and the other partner. If loss is incurred and the other partner who is involved in the business is not negligent, the Islamic cooperative will bear the loss. But if the finance user is negligent, he or she bears the loss. As regards *mushārakah* product where both of them contribute both capital and labour, they share the profit realized based on the agreed percentage while the loss is borne based on their ratios of capital.

Financial Performance Analysis

This study used accounting ratios to analyse the performance of the two cooperative societies. Ratios can be defined as the relationship between two figures (Olowe, 1997, p. 38-55). Accounting ratios are used in the interpretation of financial statements and they provide means by which various items in the financial account statement are compared with other items. In this study, the key ratios under the following sub-headings and CAMEL as discussed earlier are considered.

Growth Rate of Membership Size

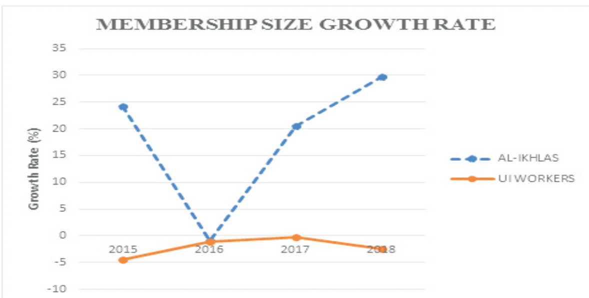
This section provides the empirical evidence of the membership size and growth rate of the two co-operative societies. It can be deduced from table 1 that while the non-interest (Al-Ikhlas) cooperative society's membership size continues to increase on the average of 18.37% for the 5-year period, the interest-based UI Workers' Cooperative society's membership size declined all through the years at an average decline rate of 2.08%. Figure 1 depicts the graphical trend analysis of the membership growth rate.

Table 1: Membership Size and its Growth Rate

	AL-IKHLAS		UI WORKERS	
Year	MEMBERSHIP SIZE	MEMBERSHIP SIZE GROWTH RATE	MEMBERSHIP SIZE	MEMBERSHIP SIZE GROWTH RATE
2014	1056	-	1862	-
2015	1312	24.24	1778	(4.51)
2016	1300	(0.91)	1758	(1.12)
2017	1566	20.46	1753	(0.28)
2018	2031	29.69	1711	(2.40)
Minimum	1056	(0.91)	1711	(4.51)
Maximum	2031	29.69	1862	(0.28)
Mean	1453	18.37	1772.4	(2.08)
Standard Deviation	330.98	11.61	49.83	1.59

Source: Calculated by the author from Annual Reports of the two cooperatives.

Figure 1: Membership Size Growth Rate



Growth Rate of Share Capital

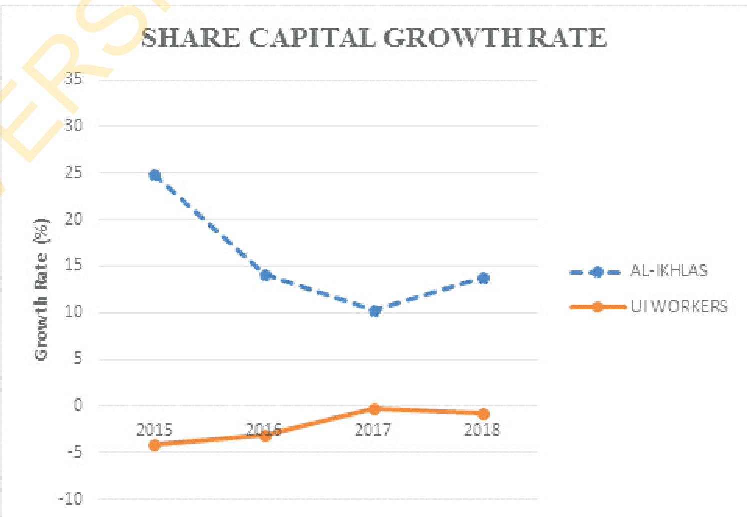
In this section, the empirical evidence of the two societies' share capitals and their growth rates is provided. Share capital refers to the money paid or required to be paid by the members for the conduct of the operation of the cooperative. From table 2, it can be deduced that the share capital of Al-Ikhlas grew on the average of 15.77% over the period under consideration while that of UI Workers' Cooperative reduced all through the period at an average rate of 2.05%. This can be justified by the decline in its membership size.

Table 2: Share Capital and Its Growth Rate

Year	AL-IKHLAS		UI WORKERS	
	Share Capital (in million Naira)	Share Capital Growth Rate (%)	Share Capital (in million Naira)	Share Capital Growth Rate (%)
2014	4.47	-	10.10	-
2015	5.58	24.82	9.69	(4.09)
2016	6.37	14.22	9.39	(3.06)
2017	7.02	10.25	9.37	(0.27)
2018	7.99	13.81	9.29	(0.78)
Minimum	4.47	10.25	9.29	(4.09)
Maximum	7.99	24.82	10.10	(0.27)
Mean	6.29	15.77	9.57	(2.05)
Standard Deviation	1.21	5.45	0.30	1.58

Source: Source: Calculated by the author from Annual Reports of the two cooperatives.

Figure 2: Share Capital Growth Rate



Growth Rate of Membership Savings

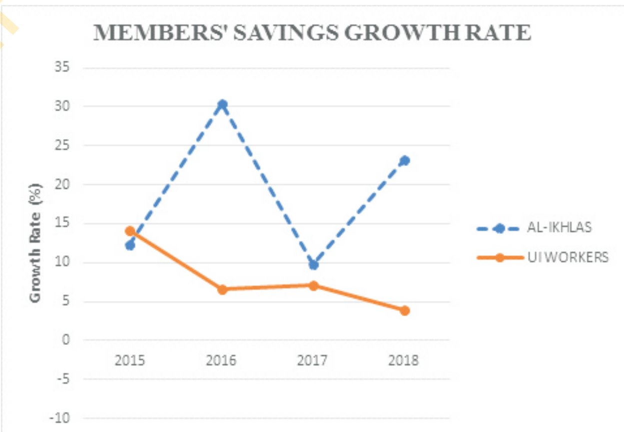
Table 3 depicts the growth rate of members' savings. For UI Workers' Cooperative society, members' savings has been increasing but at a declining rate. This is depicted in its growth rate which stood at 14.11% in 2015 to 3.84% in 2018 with a mean rate of 9.91% over the 5-year period. For Al-Ikhlas cooperative society, the average growth rate of members' saving for the five-year period was 18.94% with the peak growth of over 30% witnessed in 2016. Other socio-economic factors in Nigeria such as increased inflation and economic depression that are external to the activities of the cooperative societies might have led to the fluctuations of members' savings.

Table 3: Growth Rate of Membership Savings

	AL-IKHLAS		UI WORKERS	
Year	Member Savings (in million Naira)	Member Savings Growth Rate (%)	Member Savings (in million Naira)	Member Savings Growth Rate (%)
2014	84.31	-	317.59	-
2015	94.73	12.36	362.40	14.11
2016	123.59	30.46	386.12	6.55
2017	135.70	9.80	413.69	7.14
2018	167.08	23.13	429.59	3.84
Minimum	84.31	9.80	317.59	3.84
Maximum	167.08	30.46	429.59	14.11
Mean	121.08	18.94	381.88	7.91
Standard Deviation	29.61	8.32	39.55	3.79

Source: Calculated by the author from Annual Reports of the two cooperatives.

Figure 3: Growth Rate of Membership Savings



Growth Rate of Investment

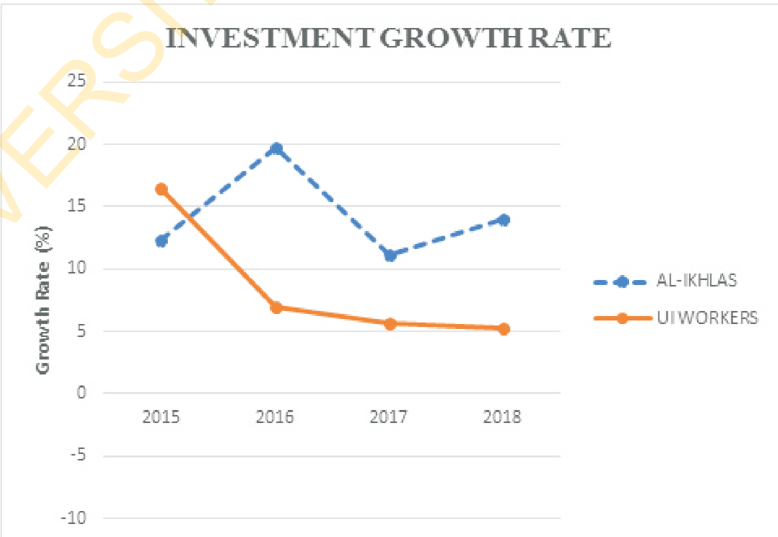
Table 4 depicts the analysis of the investment embarked upon by the two cooperative societies on the average. Investment by the cooperative society (Al-Ikhlas and UI Workers' Cooperative) for the 5-year period grew by 14.33% and 8.6%, respectively. While the growth rate of investment in UI Workers' Cooperative declined steadily over the years, that of Al Ikhlas has been fluctuating with a steady growth between 2016 and 2018.

Table 4: Growth rate of Investment

Year	AL-IKHLAS		UI WORKERS	
	Investment (in million Naira)	Investment Growth Rate (%)	Investment (in million Naira)	Investment Growth Rate (%)
2014	13.76	-	100.16	-
2015	15.46	12.36	116.62	16.43
2016	18.52	19.78	124.79	7.01
2017	20.58	11.11	131.89	5.69
2018	23.47	14.06	138.86	5.29
Minimum	13.76	11.11	100.16	5.29
Maximum	23.47	19.78	138.86	16.43
Mean	18.36	14.33	122.46	8.60
Standard Deviation	3.48	3.32	13.38	4.56

Source: Calculated by the author from Annual Reports of the two cooperatives.

Figure 4: Growth Rate of Investment



Growth in Cooperative Size

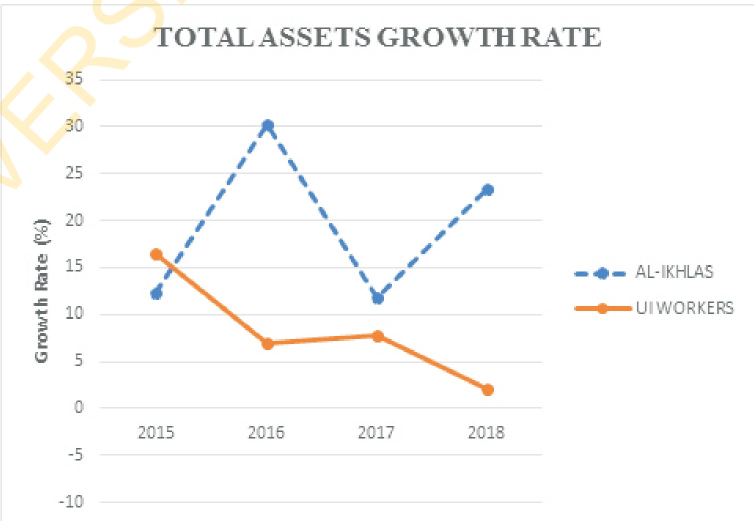
The cooperative society size is measured by the society's total asset size. Size is a major influence on financial performance; hence, the growth rate of the society's size is also a major parameter in this comparative study. The total asset size of Al-Ikhlas Cooperative Society increased steadily over the 5-year period with an average growth rate of 19.48% though the growth rate fluctuated over the period. UI Workers' Cooperative increased at a declining rate with an average growth rate of 8.32% i.e. the growth rate fluctuated over the period.

Table 5: Growth in Cooperative Size (Total Assets)

Year	AL-IKHLAS		UI WORKERS	
	Total Assets (in million Naira)	Total Assets Growth Rate (%)	Total Assets (in million Naira)	Total Assets Growth Rate (%)
2014	120.81	-	466.15	-
2015	135.74	12.36	542.72	16.43
2016	176.89	30.31	580.74	7.01
2017	197.87	11.86	625.58	7.72
2018	244.18	23.40	639.00	2.14
Minimum	120.81	11.86	466.15	2.14
Maximum	244.18	30.31	639.00	16.43
Mean	175.10	19.48	570.84	8.32
Standard Deviation	44.25	7.77	62.44	5.15

Source: Calculated by the author from Annual Reports of the two cooperatives.

Figure 5: Growth in Cooperative Size (Total Assets)



Growth in Cooperative Net Surplus

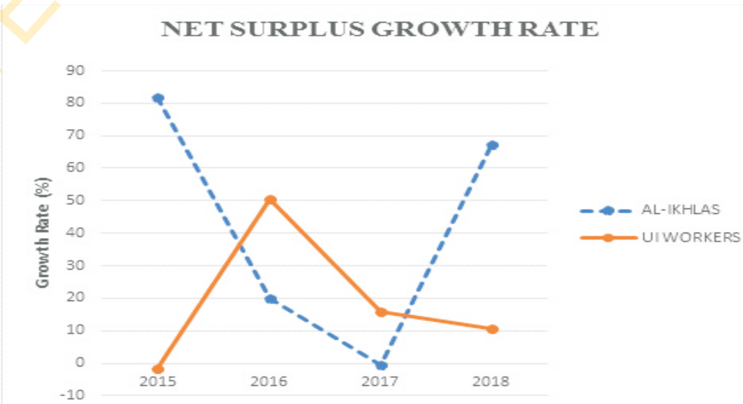
Cooperative societies' net surplus is very important to their members because they are paid dividends from the net surplus declared by the societies. Also, using the net surplus to expand the cooperatives is a very economical and non-expensive way of finding money to run the cooperative business. From this study, it can be deduced that both cooperative societies witnessed an upward trend in their net surplus during the period under review with an average growth rate of about 42.1% and 18.8% for Al-Ikhlas and UI Workers' Cooperative societies, respectively. The growth rates for UI workers' and Al-Ikhlas cooperatives fluctuated over the period, reaching their peaks at 50.63% of growth rate in 2016 and 81.9% growth rate in 2015, respectively.

Table 6: Growth in Cooperative Net Surplus

	AL-IKHLAS		UI WORKERS	
Year	Net Surplus (in million Naira)	Net Surplus Growth Rate (%)	Net Surplus (in million Naira)	Net Surplus Growth Rate (%)
2014	2.60	-	14.37	-
2015	4.74	81.97	14.13	(1.64)
2016	5.68	19.81	21.28	50.63
2017	5.65	(0.49)	24.67	15.93
2018	9.44	67.17	27.29	10.61
Minimum	2.60	(0.49)	14.13	(1.64)
Maximum	9.44	81.97	27.29	50.63
Mean	5.62	42.12	20.35	18.88
Standard Deviation	2.21	33.65	5.33	19.41

Source: Calculated by the author from Annual Reports of the two cooperatives.

Figure 6: Growth in Cooperative Net Surplus



Capital Adequacy

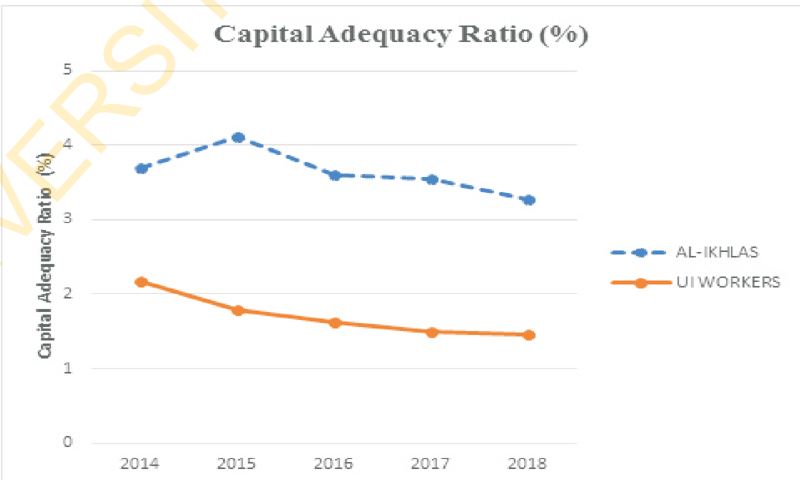
This is measured by the equity to total assets. This variable identifies the contributions of the shareholders in financing the total asset. The higher the value the better it is. This ratio is required to maintain members' confidence and prevent the cooperative society from going bankrupt. The ratio reflects the overall financial condition and also the ability of the management of the cooperative society to meet the need for additional capital. Al-Ikhlas cooperative society has succeeded in maintaining capital adequacy ratio at an average of 3.65% over the five-year period while the capital adequacy ratio of UI Workers' Cooperative has been falling over the years with an average of 2.17% for the five-year period.

Table 7: Capital Adequacy

	AL-IKHLAS			UI WORKERS		
Year	Net Capital Funds (in million Naira)	Total Assets (in million Naira)	Capital Adequacy Ratio (%)	Net Capital Funds (in million Naira)	Total Assets (in million Naira)	Capital Adequacy Ratio (%)
2014	4.47	120.81	3.70	10.10	466.15	2.17
2015	5.58	135.74	4.11	9.69	542.72	1.79
2016	6.37	176.89	3.60	9.39	580.74	1.62
2017	7.02	197.87	3.55	9.37	625.58	1.50
2018	7.99	244.18	3.27	9.29	639.00	1.45
Minimum	4.47	120.81	3.27	9.29	466.15	1.45
Maximum	7.99	244.18	4.11	10.10	639.00	2.17
Mean	6.29	175.10	3.65	9.57	570.84	1.70
Standard Deviation	1.21	44.25	0.27	0.30	62.44	0.26

Source: Calculated by the author from Annual Reports of the two cooperatives.

Figure 7: Capital Adequacy



Management Quality/Efficiency

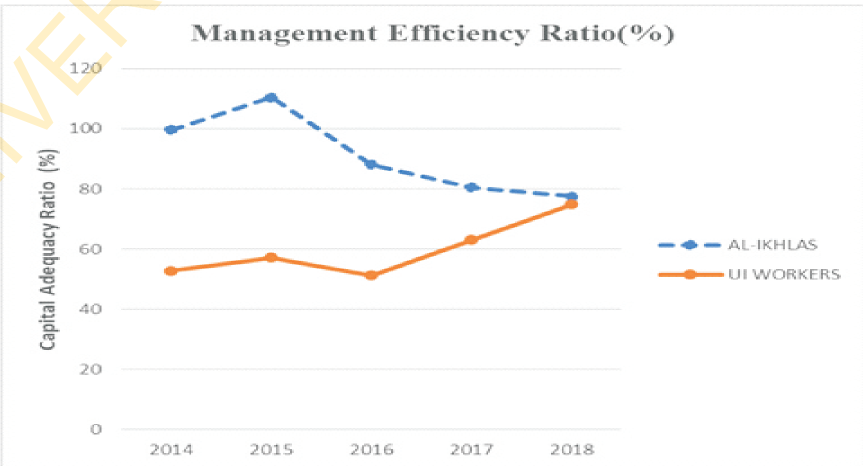
This ratio is used to measure the level of efficiency and productivity for the society's management to utilize the members' saving and other funds for the society. High ratio symbolizes more management efficiency. It was calculated as Total Outstanding Loans to Member's Savings. It is a variable that helps to measure the survival and growth of the society. It provides appropriate measure through which cost profitability can be improved. Table 8 shows that management efficiency ratio of Al-Ikhlas which stood at an average of 91.22% was higher than that of UI Workers' Cooperative which stood at an average of 59.78%.

Table 8: Management Quality/Efficiency

Year	AL-IKHLAS			UI WORKERS		
	Total Loan Outstanding (in million Naira)	Member Savings (in million Naira)	Management Efficiency Ratio (%)	Total Loan Outstanding (in million Naira)	Member Savings (in million Naira)	Management Efficiency Ratio (%)
2014	83.98	84.31	99.61	167.39	317.59	52.71
2015	104.58	94.73	110.40	206.93	362.40	57.10
2016	108.85	123.59	88.07	197.64	386.12	51.19
2017	109.30	135.70	80.54	261.07	413.69	63.11
2018	129.47	167.08	77.49	321.40	429.59	74.82
Minimum	83.98	84.31	77.49	167.39	317.59	51.19
Maximum	129.47	167.08	110.40	321.40	429.59	74.82
Mean	107.23	121.08	91.22	230.89	381.88	59.78
Standard Deviation	14.48	29.61	12.25	54.43	39.55	8.58

Source: Calculated by the author from Annual Reports of the two cooperatives.

Figure 8: Management Quality/Efficiency



Earnings Quality

Profitability is considered as one of the most popular performance indicators. This indicator shows if the cooperative society is being managed well. That is, it shows the effectiveness of the cooperative society's management. In measuring profitability, two main ratios will be adopted - Return on Asset and Return on Equity

Return on Asset

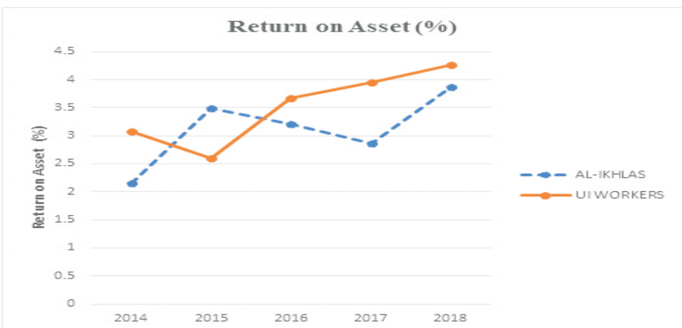
This is the percentage of Net Profit to Total Assets. It shows how well the management of the cooperative society is able to utilize its assets to generate profits. High return on asset ratio indicates a better performance. Table 9 shows that returns on asset ratio of Al-Ikhlas which stood at an average of 3.12% was lower than that of U.I. workers cooperative society which stood at an average of 3.51%.

Table 9: Returns on Asset

	AL-IKHLAS			UI WORKERS		
Year	Net Surplus (in million Naira)	Total Assets (in million Naira)	Return on Asset (%)	Net Surplus (in million Naira)	Total Assets (in million Naira)	Return on Asset (%)
2014	2.60	120.81	2.16	14.37	466.15	3.08
2015	4.74	135.74	3.49	14.13	542.72	2.60
2016	5.68	176.89	3.21	21.28	580.74	3.66
2017	5.65	197.87	2.85	24.67	625.58	3.94
2018	9.44	244.18	3.87	27.29	639.00	4.27
Minimum	2.60	120.81	2.16	14.13	466.15	2.60
Maximum	9.44	244.18	3.87	27.29	639.00	4.27
Mean	5.62	175.10	3.12	20.35	570.84	3.51
Standard Deviation	2.21	44.25	0.58	5.33	62.44	0.60

Source: Calculated by the author from Annual Reports of the two cooperatives.

Figure 9: Returns on Asset



Return on Equity

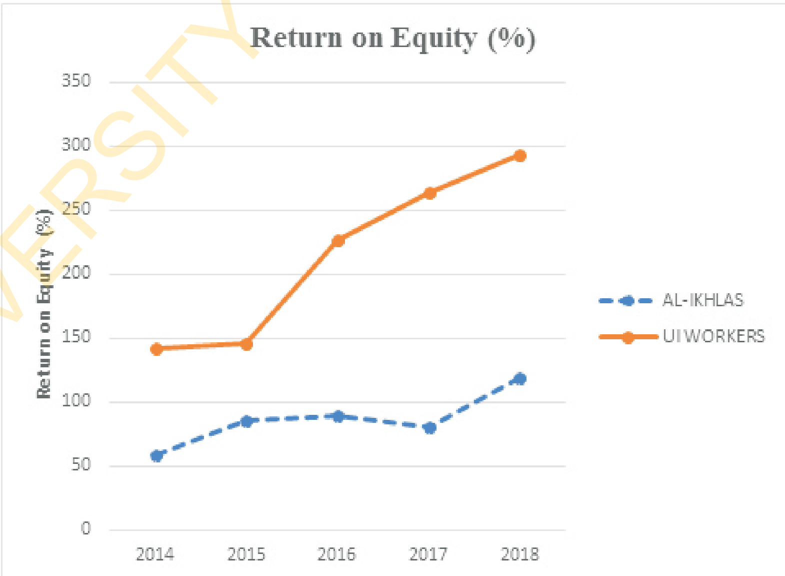
Return on Equity is calculated as net profit as a percentage of equity capital. It indicates how much the cooperative society earns on its equity investment. Table 10 reveals that returns on equity ratio of Al-Ikhlas which stood at an average of 86.18.22% was far lower than that of UI Workers' Cooperative which stood at an average of 214.32%.

Table 10: Return on Equity

Year	AL-IKHLAS			UI WORKERS		
	Net Surplus (in million Naira)	Share Capital (in million Naira)	Return on Equity (%)	Net Surplus (in million Naira)	Share Capital (in million Naira)	Return on Equity (%)
2014	2.60	4.47	58.27	14.37	10.10	142.20
2015	4.74	5.58	84.95	14.13	9.69	145.82
2016	5.68	6.37	89.11	21.28	9.39	226.58
2017	5.65	7.02	80.43	24.67	9.37	263.38
2018	9.44	7.99	118.14	27.29	9.29	293.61
Minimum	2.60	4.47	58.27	14.13	9.29	142.20
Maximum	9.44	7.99	118.14	27.29	10.10	293.61
Mean	5.62	6.29	86.18	20.35	9.57	214.32
Standard Deviation	2.21	1.21	19.20	5.33	0.30	61.22

Source: Calculated by the author from Annual Reports of the two cooperatives.

Figure 10: Returns on Equity



Findings

The study revealed that the share capital of Al-Ikhlas grew on the average of 15.77% over the period under consideration while that of UI Workers reduced all through the period at an average rate of 2.05%. This can be justified by the decline in its membership size.

As regards UI Workers' Cooperative society, members' savings has been increasing but at a declining rate. This is depicted in its growth rate which stood at 14.11% in 2015 to 3.84% in 2018 with a mean rate of 9.91% over the 5-year period. For Al-Ikhlas Cooperative Society, the average growth rate of members' saving for the five-year period was 18.94% with the peak growth of over 30% witnessed in 2016.

Both cooperative societies witnessed an upward trend in their net surplus during the period under review with an average growth rate of about 42.1% and 18.8% for Al-Ikhlas and UI Workers' cooperative societies, respectively. While the growth rate for UI Workers' cooperative increased at a declining rate, that of Al-Ikhlas has been fluctuating, reaching its peak at 81.9% growth in 2015.

Al-Ikhlas Cooperative Society has succeeded in maintaining capital adequacy ratio at an average of 3.65% over the five-year period while the capital adequacy ratio of UI Workers' cooperative has been falling over the years with an average of 2.17% for the five-year period. Management efficiency ratio of Al-Ikhlas which stood at an average of 91.22% was higher than that of U.I. workers cooperative society which stood at an average of 59.78%.

Conclusion

Although both conventional and Islamic cooperatives are similar in their operations in many areas such as taking contributions from members and investing their funds, they differ greatly in the areas of giving loans. It is clear from our explanations that while the former favours loans with interest, the latter i.e. Islamic cooperative cannot take or charge interest on its loans. Islamic cooperative cannot invest in products and services that are not in tandem with *Sharī'ah* such as pigs, pornography, casino and brewery, no matter how highly profitable they are while conventional cooperative can invest in products and services that are constitutionally allowed. Although cooperatives' goal is not basically to generate profit for their members because of owner/user relationship, profit cannot be discarded from its objective if it is to be sustained. Islamic cooperative society has demonstrated a competitive position with the conventional cooperative in terms of its performance. Financial indicators place Al- Ikhlas at a higher pedestal than UI Workers' Cooperative in most parameters of CAMEL except under returns on assets and equity as depicted in our analyses where UI Workers' Cooperative performed better than Al-Ikhlas. It is noted that Islamic cooperative societies can cope and compete favourably in todays' market place because of the quality of its services in the areas of timely processing of loans and giving interest-free loans for productive and consumption purposes.

Recommendation

Al-Ikhlas cooperative should increase its investments in businesses that will increase its returns on its assets and equity so as to increase its profits and dividends to its members. Islamic cooperatives generally should invest heavily their savings since that is the only avenue where they can realise profits compared to conventional cooperatives that realise returns from both their loans and investments. It is recommended that the management of UI Workers' Cooperative should improve on the profitability of the society. This can be done by minimising its operating expenses. Part of the profit should be used as retained earnings which will be ploughed back into the business. UI workers' Cooperative society should look for ways to increase/retain its members in order to increase its share capital. Both cooperatives need to improve on their internal control system by making them effective and efficient with a view to preventing misappropriation of members' funds. Muslim cooperatives should increase the use of Islamic financial products because they can enhance their performance and promote justice, brotherhood and financial inclusion. Members particularly officers of the cooperative society should be trained and retrained to enable them conduct the affairs of the cooperative in line with the dictates of Islam and the country's relevant rules. It is recommended that further studies can be conducted on the performance of cooperatives that are not situated in the formal governmental establishments.

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