

LEGAL AND ETHICAL EXAMINATION OF THRIFT AND CREDIT SOCIETIES IN ISLAMIC LAW IN NIGERIA

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ABSTRACT

The pursuit of financial sustainability and social development is essential for every individual. However, access to formal financial support remains a persistent challenge due to factors such as lack of collateral, insufficient credit history, and limited funding options. In response, thrift and credit societies in Nigeria have gained significant popularity among the populace, offering practical solutions to financial difficulties while also fostering communal engagement. These societies have thus evolved into effective financial platforms at the grassroots level, addressing both economic and social needs. Given their growing relevance, it is imperative to examine their legal and ethical operations through the lens of Islamic law to ensure that Muslim participation aligns with *Shari'ah* principles. This paper examines the legal and ethical dimensions of thrift and credit societies within the framework of Islamic law. It argues that ensuring compliance with Islamic legal and ethical standards is essential for safeguarding the interests of Muslim participants. This paper employs an analytical legal methodology to assess whether the structures and practices of thrift and credit societies align with Islamic legal and ethical standards. It underscores the necessity of a *Shari'ah*-compliant framework in financial and social dealings. The study concludes that Muslims must consider Islamic legal and ethical guidelines before participating in such financial institutions. Accordingly, it recommends the incorporation of *Shari'ah* principles into the legal and ethical frameworks guiding the operations of thrift and credit societies, thereby reinforcing their legitimacy within

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Islamic law and ensuring their suitability for ethically conscious individuals.

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Introduction

The incorporation of a *Sharī'ah* framework plays a vital role in regulating and standardizing human activities and transactions in accordance with the principles of Islamic law. It ensures that interactions are just, ethical, and aligned with the broader objectives of *Sharī'ah*, thereby safeguarding the rights and interests of all parties involved. In this context, examining the legal and ethical dimensions of thrift and credit societies in Nigeria within the Islamic legal system becomes essential as they continue to gain relevance and acceptance among ethically conscious Muslims. These informal financial institutions which are common across many Muslim communities play a pivotal role in promoting financial inclusion, fostering communal support, and addressing short-term economic needs. Such an assessment enables a thorough understanding of their operations, compliance with Islamic norms, and overall legitimacy particularly for Muslims, and more broadly for individuals committed to ethical financial practices.

Contractual Framework of Thrift and Credit Scheme

The contractual framework of thrift and credit scheme is primarily based on loan agreements among members, as affirmed by classical jurists such as Abū Zur'ah al-'Irāqī and supported by contemporary scholars including Ibn Bāz, Ibn 'Uthaymīn, and Ibn Jibrīn. These scholars maintain that such arrangements are well-rooted in the Islamic principle of financial and social solidarity which is often encouraged, provided they are free from elements of *ribā* (usury) and as such, known as *al-qard at-ta'āwunī* (cooperative loan).¹ In Islamic commercial jurisprudence, a loan contract (*'aqd al-qard*) is a formal agreement in which one party (the lender) gives a specific sum of money or item of value to another party (the borrower), with the expectation of receiving the exact equivalent in return, without any increase or excess. This concept is rooted in the principle of

¹ Abdullah AbdulAzeez al-Jibrin, *Jam'iyyat al-Muwazzafīn*, p. 829 (n.p n.d).

benevolence, not profit-making. Such a loan, when granted without interest or compensation, is known as *al-qard al-ḥasan* (benevolent loan).² The Qur'an promotes this practice as an act of charity and virtue:

If you give Allah a goodly loan, He will multiply it for you and forgive you. And Allah is Most Appreciative, Most Forbearing.³

Therefore, the loan contract is classified under contracts of generosity (*'uqūd al-tabarru'*) as opposed to contracts of exchange (*'uqūd al-mu'āwadah*). This classification implies that the lender is not to derive any monetary or material gain from the transaction⁴ to avoid deviating from its core objective, which is rooted in worship and benevolence.

I. The Ethical Foundation of Lending in Islamic Legal System

The Islamic perspective on lending is not merely legalistic, but deeply ethical and spiritual. Lending without interest (*al-qard al-ḥasan*) is viewed as an act of worship (*'ibādah*) and a means of social solidarity (*ta'āwun*). It promotes financial inclusion by supporting the economically disadvantaged without burdening them with debt cycles.⁵ Islamic ethics, thus emphasize the moral obligation of the lender to facilitate ease (*taysīr*) for the borrower. This is stated in the Qur'an:

And if the debtor is in difficulty, then grant him time until it is easy for him to repay. But if you remit it by way of charity, that is better for you if you only knew.⁶

This verse highlights Islamic law's preference for leniency and compassion in lending over contractual rigidity or legal enforcement. The lender is encouraged to prioritize communal welfare over the interest of individual.

² Mohammad Hashim Kamali, *Islamic Commercial Law: An Analysis of Futures and Options* 217 (Ilmiah Publishers 2000).

³ Qur'an 64:17

⁴ Abdul Rahman I. Doi, *Shari'ah: The Islamic Law* 234 (Ta Ha Publishers 1984).

⁵ Abdul Karim Abdullah, *Islamic Contracts and Business Transactions* 122 (Islamic Finance Press 2019).

⁶ Qur'an 2:280

II. Principles Governing *al-Qard al-Hasan* in Thrift and Credit Scheme

Al-qard al-ḥasan (benevolent loan) is a voluntary loan without interest, granted to help someone in need. This practice is increasingly adopted by Islamic cooperatives and informal groups, especially in tightly-knitted communities. According to Islamic jurisprudence, the following principles apply to *al-qard al-ḥasan*.⁷

1. **No Expectation of Profit:** Any monetary gain tied to a loan is considered *Ribā*, and thus forbidden.
2. **Repayment in Equal Amount:** Only the exact amount borrowed is to be repaid.
3. **No Conditional Gifts:** A gift or service from the borrower to the lender is only permissible if not pre-agreed.
4. **Optional Extension of Deadline:** If the borrower faces hardship, the lender is encouraged to offer more time.

In practice, however, thrift and credit scheme often include small administrative or service charges, blurring the line between *al-qard al-ḥasan* and interest-bearing loans. Scholars like Sheikh Yusuf Al-Qaradawi emphasizes that charges must be genuinely administrative, not profit-driven to prevent the acquisition of unethical or unlawful gains resulting from *Ribā* (usury), which is prohibited in Islamic law.⁸

III. The Principle of Mutual Benevolence (*ta'āwun*) in Loan Contract

Islamic jurists view loans as a tool for social solidarity, not a profit-generating mechanism. This view is derived from Qur'anic injunctions, such as:

⁷ Wahbah al-Zuhayli, *Financial Transactions in Islamic Jurisprudence* vol. 1, at 416 (Mahmoud A. El-Gamal trans., Dār al-Fikr 2003).

⁸ Yusuf al-Qaradawī, *Bay' al-Murābahah li al-Āmir bi al-Shirā'* 45 (Maktabah Wahbah 1994).

Who is it that will loan Allah a goodly loan so that He may multiply it for him many times over?⁹

This verse serves as a spiritual foundation for Islamic lending. The ideal loan is one made in service to others, without expecting material gain. The Ḥanafī and Mālikī jurists emphasize that *al-qard al-ḥasan* (benevolent loan) is rewardable in the Hereafter, while its misuse (e.g., seeking profit from hardship) incurs spiritual liability.¹⁰

IV. Key Elements of a Loan Contract in Islamic Law

1. **Mutual Consent (*Tarāḍī*)**: Both lender and borrower must voluntarily agree to the terms.
2. **Clarity (*Bayān*)**: The amount and repayment expectations must be clearly defined.
3. **No Excess or Interest (*Ribā*)**: Any form of predetermined increase is prohibited.¹¹

According to the Ḥanafī and Shāfi‘ī schools, even non-monetary benefits (such as favors or exclusive deals) attached to the loan may invalidate the contract if they are stipulated. The Mālikī school, while allowing certain informal benefits, prohibits those which amount to exploitation or create inequality.¹²

V. The Prohibition of *Ribā* and its Implication

The Islamic ban on *Ribā* (usury or interest) is central to understanding loan contracts. The Qur’an sternly warns against it:

Allah has permitted trade and forbidden *Ribā*.¹³
O you who believe! Fear Allah and give up what remains
of your demand for *Ribā*, if you are indeed believers.¹⁴

⁹ Qur’an 2:245

¹⁰ Abdullah Saeed, *Islamic Banking and Interest: A Study of the Prohibition of Ribā and Its Contemporary Interpretation* 85 (Brill 1996).

¹¹ Muhammad Taqī Usmani, *An Introduction to Islamic Finance* 109 (2nd edn, Maktaba Ma’ariful Qur’an 2002)

¹² Zuhayli, *Financial Transactions*, supra note 7, at 350.

¹³ Qur’an 2:275

¹⁴ Qur’an 2:278.

This prohibition directly influences the structure of financial transactions in Islamic communities, especially among Muslims who seek to adhere strictly to *Sharī'ah*-compliant economic practices. This distinction between trade and usury reflects the Islamic worldview, where economic exchange is permissible when linked to real assets and risk sharing, but not when it involves exploitation or guaranteed return on loans. This fundamentally impacts how thrift and credit societies amongst the Muslims are structured, especially those that are attempting to align their practices with Islamic legal norms. As a result, members of thrift cooperatives are encouraged to lend without expecting any excess over the principal. When profit is expected, the transaction must be framed as an investment, not a loan necessitating different contractual model entirely¹⁵ to exploit the parties involved.

VI. Contemporary Debates and Adaptations

Contemporary Islamic finance scholars also have debated whether loan service charges or administrative fees are permissible. While outright interest is unanimously prohibited, some scholars allow administrative costs provided:

1. They are not based on the loan amount or duration.
2. They reflect actual service costs.
3. They are disclosed and agreed upon upfront.¹⁶

VII. Documentation of Contract and Legal Concerns

Applications of Islamic loan contracts necessitate proper documentation in accordance with the Qur'ānic directive in *al-Baqarah*,¹⁷ which instructs believers to record all credit transactions in writing, with witnesses. This serves both legal and ethical purposes protecting the rights of both parties, preventing disputes, and ensuring transparency. Where informal thrift and credit groups often operate based on trust and verbal agreements, this *Sharī'ah* principle is often neglected, leading to disputes and misunderstandings. To preserve

¹⁵ Usmani, *An Introduction to Islamic Finance*, supra note 11, at 35.

¹⁶ *ibid* 110.

¹⁷ Qur'an 2:282

sanctity of the transaction, there is an imperative recommendations from *Sharī'ah* scholars for:

1. Proper documentation of agreement.
2. When a dispute erupts, a neutral arbitrator should be appointed.
3. Avoidance of non-Shariah compliant issues in contractual arrangement such as unspecified profit-sharing ratio on *Mushārah* contract.¹⁸

VIII. Loan Contracts and Investment Contracts

It is crucial to differentiate between loan contracts (*Qard*) and investment contracts (*Qirād [Mudārahah]*, *Mushārah*, *Murābahah* and the likes) in Islamic finance to avoid non- *Sharī'ah* compliant contract arrangements;

Type	Profit Expectation	Risk Sharing	Sharī'ah Status
<i>Qard</i>	No	Lender bears loss (except in a case negligence on the part of the borrower).	Permissible if interest-free
<i>Mudārahah</i>	Yes	Capital owner bears loss, entrepreneur loses time and labour.	Permissible with conditions
<i>Mushārah</i>	Yes	All parties share profits and losses.	Permissible with conditions
<i>Murābahah</i>	Yes	Financier becomes creditor, while the finance becomes debtor in the contractual arrangement.	Permissible with conditions

¹⁸ Muhammad Ayub, *Understanding Islamic Finance* 85 (John Wiley & Sons 2007).

In thrift and credit societies, this distinction becomes relevant where members expect returns from pooled funds. Any shift from *al-qard al-hasan* to profit-oriented structures must adopt *Sharī'ah*-compliant models like *mudārabah*, *murābahah* or *mushārahah* to avoid *Ribā* violations.¹⁹

Legitimacy of Thrift and Credit Scheme in Islamic Law

The concept of thrift and credit scheme, particularly as practiced in cooperative and informal group settings, aligns in many aspects with Islamic principles provided it adheres strictly to the conditions of *Sharī'ah*. In Islamic jurisprudence, financial practices are assessed based on their compliance with the Qur'ān, *Sunnah*, *Ijmā'* (consensus), and *Qiyās* (juristic analogy), and must avoid *Ribā* (usury), *gharar* (excessive uncertainty), gambling and exploitation (*qimār*) and *zulm* (oppression or injustice).²⁰

I. Permissibility Rooted in Mutual Cooperation (*Ta'āwun*)

Thrift and credit scheme, as a communal arrangement where members contribute and benefit from pooled resources, is anchored in the Islamic concept of *ta'āwun* mutual assistance. The Qur'ān encourages such cooperative initiative;

And cooperate in righteousness and piety, but do not cooperate in sin and aggression.²¹

From this verse, Islamic scholars deduce the permissibility of economic cooperation that promotes mutual financial empowerment and community support. Thrift and credit scheme serves this purpose when managed with transparency, equity, and trust.²²

II. Precedents in Classical Islamic Economic Thought on Thrift and Credit Scheme

Islamic scholars, including Imam Abu Hanifah, Imam Al-Shafi'i, and Imam Malik, recognized informal savings models (although not in their

¹⁹ *ibid* 215.

²⁰ Abdul-Rahman Al-Sa'di, *Tafsir al-Karim al-Rahman* 145 (Darussalam 2002).

²¹ Qur'ān 5:2

²² Kamali, *Islamic Commercial Law*, *supra* note 2, at 17.

modern terminology) under cooperative financial practices especially those based on *al-qard al-hasan* (benevolent loans) and joint trading ventures. These practices reflect the Prophet Muhammad's own engagements in joint capital ventures in Meccan society, such as *mudārabah* partnerships before and after prophethood.²³ This legacy forms the backbone of contemporary Islamic financial systems, legitimizing thrift models that embrace non-exploitative profit generation and manipulate not the unfriendly financial situations of individuals involved.

III. Collective *Ijtihād* (Juristic Exertion) and Contemporary *Fatāwā* on Thrift and Credit Scheme

In the modern context, contemporary Islamic scholars and fatwa-issuing bodies have examined the nature of informal thrift and credit practices and affirmed their *Sharī'ah*-compliance under specific conditions. This is often based on the principle of *Ijtihād* (juristic exertion), particularly where there is no explicit prohibition and the activity promotes communal welfare. For instance, the International Islamic Fiqh Academy (IIFA), of the Organization of Islamic Cooperation (OIC), has recognized rotating savings and cooperative finance schemes as permissible so long as they do not involve interest (*Ribā*) or deception (*gharar*).²⁴ This consensus supports the legitimacy of thrift and credit practices widely adopted by Muslim communities, especially where participants are intentional about Islamic financial ethics. Scholars like Dogarawa views thrift and credit scheme as a grassroots form of Islamic social finance, reinforcing the *maqāṣid* objective of financial inclusion and social justice.²⁵ Musa examines the thrift and credit system as a grassroots model of Islamic financial ethics, emphasizing that its operational basis in mutual trust and non-interest aligns with the prohibition of *ribā*.²⁶ In the same vein, Anwar emphasizes that group-based savings models like rotating thrift

²³ M. Umer Chapra, *Islam and the Economic Challenge* 87 (Islamic Foundation 1992).

²⁴ International Islamic Fiqh Academy, *Resolutions and Recommendations of the Council of the Academy*, Session No. 17 (Amman 2006), Resolution No. 132.

²⁵ Ahmad Bello Dogarawa, 'Promoting Informal Microfinance to Enhance Financial Inclusion in Nigeria' (2010) 6(2) *Journal of Islamic Economics, Banking and Finance* 1.

²⁶ Sa'ad Abubakar Musa, *Principles and Practice of Islamic Banking and Finance in Nigeria* (ABU Press 2018).

systems are permissible in Sharī‘ah as long as they avoid *ribā* and *gharar*. He views them as communal expressions of *mushārah* (partnership) and *ta‘āwun* (cooperation).²⁷

IV. Basis for Thrift and Credit Schemes in *Maqāsid al-Sharī‘ah* (Cardinal Objectives of Islamic Law)

The legitimacy of thrift savings in Islam is also rooted in the *maqāsid al-sharī‘ah*, which are the cardinal objectives of Islamic law. These include;

1. Preservation of wealth (*ḥifẓ al-māl*)
2. Promotion of social justice
3. Reduction of economic inequality

According to Imam Al-Ghazali, the preservation of wealth is a core pillar of societal order, and any system that facilitates this, without violating the principles of *Sharī‘ah*, is to be encouraged and protected.²⁸ It is obvious that thrift and credit schemes especially in Muslim communities help in circulating wealth, enabling small business financing, and assisting members during emergencies. These functions are seen as fulfilling the *maqāsid* by promoting financial stability, fairness, and mutual responsibility.²⁹

V. Islamic Ethics and Mutual Accountability

Ethical principles in Islam such as *‘adālah* (justice), *amānah* (trust), and *shūrā* (consultation) underpin the operational integrity of thrift savings. These principles emphasize openness in financial dealings, shared responsibilities, and consensual governance features that are often integrated in well-managed Muslim thrift and credit societies.³⁰ The Prophet Muhammad (peace be upon him) said:

²⁷ Muhammad Anwar, *Islamicity of Banking and Modes of Islamic Banking* (International Institute of Islamic Economics, International Islamic University Islamabad 2003).

²⁸ Muhammad al-Ghazali, *Al-Mustasfa min ‘Ilm al-Usul* vol. 1, 139 (Al-Maktabah al-Tijariyyah 1937).

²⁹ Jasser Auda, *Maqasid Al-Sharī‘ah as Philosophy of Islamic Law: A Systems Approach* 29 (IIIT 2008).

³⁰ Muhammad Nejatullah Siddiqi, *Ethics in Islam: A Framework for Socio-Economic Justice* 45 (The Islamic Foundation 2001).

The Muslims are bound by their conditions, except a condition that makes unlawful what is lawful or makes lawful what is unlawful.”³¹

This Hadīth highlights the contractual agreements in thrift societies are valid, as long as they do not contradict Islamic law, such as charging interest or engaging in deceitful practices.

VI. Community Endorsement and Institutional Support

Many Muslim communities across various countries have endorsed rotating thrift cooperatives and informal savings groups, provided that such operations remain consistent with the principles of *Sharī‘ah*.³² These community-based initiatives are seen as extensions of the Qur’ānic injunction of *ta‘āwun ‘ala al-birr wa al-taqwā* (cooperation in righteousness and piety), fostering solidarity and self-reliance among members.³³ In Nigeria, Muslim scholars and community leaders, particularly within cooperative societies in Lagos and Ilorin, have recognized thrift and credit scheme as ethically valid when they are devoid of *ribā* (interest) and *gharar* (excessive uncertainty).³⁴ Similarly, in Malaysia and Indonesia, the proliferation of Islamic cooperative movements (*koperasi Islam*) has received both governmental and religious endorsement, with Sharī‘ah advisory councils established to oversee compliance.³⁵ In the same vield, Institutions such as the Islamic Development Bank (IsDB) and the Islamic Research and Training Institute (IRTI) have also developed policy frameworks supporting community-based microfinance models that mirror indigenous thrift practices.³⁶ In Pakistan, the State Bank’s Sharī‘ah Advisory Board provides regulatory oversight to ensure that cooperative savings and microfinance programmes comply with Sharī‘ah principles, especially regarding *qard ḥasan* and *mushārah-*

³¹ Abu Dawud, *Sunan Abu Dawud*, no. 3594 (trans. and ed. Muhammad Amin and Muhammad Zubair, Darussalam 2009).

³² Balogun, Is-haq A., ‘An Islamic Perspective on Indigenous Thrift Systems in Nigeria’ (2017) 7(2) *Ilorin Journal of Religious Studies* 21.

³³ Qur’an 5:2.

³⁴ Mohammed Bello Uthman, *Islamic Finance in Nigeria: Problems and Prospects* (Ahmadu Bello University Press 2016) 115.

³⁵ Aidit Ghazali, ‘Islamic Cooperative and Microfinance: A Tool for Economic Empowerment’ (2012) 4(1) *International Journal of Islamic Finance* 45.

³⁶ Monzer Kahf, *Islamic Finance and Economic Development* (Islamic Research and Training Institute 2006).

based operations.³⁷ Through such endorsement and institutional guidance, informal thrift systems have evolved from mere communal practices into structured, Sharī'ah-compliant financial mechanisms contributing to poverty alleviation and financial inclusion in Muslim societies.³⁸

VII. Key *Fatāwā* and Their Implications on Thrift and Credit Scheme

In response to rising concerns about informal thrift and credit societies adopting quasi-interest models, several Islamic Fiqh councils have issued *fatāwā* declaring:

1. Rotating savings schemes are permissible, provided there is no stipulated gain from the act of lending.
2. Profits from pooled funds must be distributed based on clear agreements, using Sharī'ah-compliant frameworks.
3. Loan defaulters must not be penalized with extra charges only restitution of principal is allowed unless courts enforce compensation for actual loss, not profit.³⁹

Components of Thrift and Credit Scheme in Islamic Law

Islamic thrift and credit schemes as practiced by Muslims, rely on several key individuals or roles. Each person contributes to the integrity, functionality, and *Sharī'ah*-compliance of the system. The structure closely mirrors traditional communal savings systems. Key Individuals Involved in Islamic thrift and credit scheme are as follows:

1. Contributors (*Al-Musāhimūn/Al-Mushārīkūn*)

These are regular members of the thrift group who make periodic financial contributions. They may be traders, artisans, civil servants, or professionals who seek financial support or investment opportunities.

³⁷ Muhammad Anwar, *Islamicity of Banking and Modes of Islamic Banking* (International Institute of Islamic Economics, International Islamic University Islamabad 2003).

³⁸ Habib Ahmed, 'Financing Microenterprises: An Analytical Study from an Islamic Perspective' (2002) 9(2) *Islamic Economic Studies* 27

³⁹ Dar Al-Ifta Egypt, Fatwa No. 3806 (On Rotating Savings Systems) www.dar-alfita.org accessed April 15, 2025.

Their role reflects the *musharakah* concept where members contribute capital and share in profits and losses.⁴⁰

2. Managers or Administrators (*Amin/Al-Wakīl*)

These are individuals responsible for collecting contributions, record keeping, investment decisions, and distribution of profits or capital. In Islamic terms, they are referred to as *wakīl* (agent) or *amīn* (trustee), and their work is often based on a *wakālah* (agency) contract. They are entrusted with managing funds honestly, maintaining transparency, and avoiding self-interest. If the thrift and credit schemes operate under a *mudārabah* model, the administrator is the *mudārib*, who receives capital from the members and uses it to engage in business on behalf of the group.⁴¹

3. Investment Manager or Entrepreneur (*Mudārib*)

These are individuals or groups who are entrusted with investing the pooled thrift funds into legitimate business activities. If the thrift group follows the *mudārabah* model. This person uses pooled funds for business purposes and shares profits with contributors. He or she may be a member with entrepreneurial skills or a third-party entrepreneur. They are expected to manage the funds skillfully and ethically and report returns honestly and profits are shared based on a pre-agreed ratio, while losses (if due to normal business risk) are borne by the contributors.⁴²

4. Financial Secretary (*Muhāsib*)

A member who maintains financial records, tracks contributions, and ensures transparency. In Islamic thrift systems, this individual helps uphold the Qur'ānic directive on contract documentation.⁴³

5. *Sharī'ah* Advisor or Islamic Financial Experts (*Mustashār*)

Sharī'ah advisor should be integrated to ensure their operations are compliant with Islamic financial principles, especially in complex

⁴⁰ Usmani, *An Introduction to Islamic Finance*, supra note 18, at 81.

⁴¹ Ibid 65.

⁴² Ayub, *Understanding Islamic Finance*, supra note 12, at 237.

⁴³ Yusuf al-Qaradawi, *Fiqh al-Zakah* vol. 2, 415 (Mu'assasat al-Risalah 1998).

contracts. These advisors may issue *fatāwā* (legal opinions) or offer informal guidance based on Qur'ānic injunctions and Sunnah. Their involvement strengthens religious confidence and reduces uncertainty among members.⁴⁴

6. Guarantors (*Ḍāminūn*)

In thrift and credit schemes, a guarantor is required to stand surety for a member who applies for loans or project financing to ensure the security of funds. This reflects the Islamic concept of *kafālah* (guarantee), permitted in commercial transactions. In Islamic law, this person is known as a *ḍāmin*, and this act is called *kafālah*.⁴⁵ The guarantor provides financial security for another member but does not benefit materially unless involved in the business.⁴⁶ This role must be entered into voluntarily, and the guarantor should be fully aware of the potential risks. Each of these individuals plays a significant role in the ethical and practical functioning of Islamic thrift and credit societies.

Conditions of Thrift and Credit Scheme in Islamic Law

In Islamic finance, any savings or financial contract must meet a set of *Shari'ah*-compliant conditions to be considered legitimate. Thrift and credit scheme whether structured formally as cooperatives or informally among trusted individuals must align with the principles of fairness, mutual consent, lawful earnings, and free from *Ribā* (interest). These conditions ensure the practice is not only economically beneficial but also ethically acceptable. These conditions are highlighted as follows:

1. Mutual Consent (*Tarāḍī Bayn al-Ṭarafayn*): Any thrift and credit arrangement must be entered into voluntarily, with full mutual consent of the parties involved. There should be no coercion or deception (*gharar*). All contributors must understand the terms of contribution, the use of funds and expected returns or benefits⁴⁷ or else it amounts to consumption of people's wealth unlawfully.

⁴⁴ Muhammad al-Ghazali, *Islam and the Economic Challenge* 142–145 (IIIT 1994).

⁴⁵ Zuhayli, *Financial Transactions*, supra note 12, at 778.

⁴⁶ Monzer Kahf, *Islamic Finance: Principles and Instruments* (Islamic Research and Training Institute, Jeddah 2005).

⁴⁷ Zuhayli, *Financial Transactions*, supra note 45, at 431.

O you who have believed, do not consume one another's wealth unjustly but only [in lawful] business by mutual consent.⁴⁸

2. Clear Contractual Terms (*Bayān wa Sharṭ*): Contracts or agreements within the thrift and credit scheme should be clearly stated and preferably documented, particularly in terms of amount to be contributed and frequency, duration of the saving cycle, conditions for withdrawal and procedures for investment and profit sharing.⁴⁹ This is supported by the Qur'anic command for written documentation in financial matters;

...Write it down...Let a scribe write [it] between you in justice...⁵⁰

3. Absence of *Ribā* (Interest): A fundamental Islamic condition is the prohibition of interest, which means that any fixed return or increment on the amount contributed or loaned is not allowed.

...Allah has permitted trade and forbidden *Ribā*.⁵¹

Thrift and credit scheme must instead operate on profit and loss sharing (PLS), fee-for-service (*ujrah*) in managing savings and permissible markups in trade-based models (e.g., *murābahah*)⁵²

4. Absence of Ambiguity (*Gharar*): Any element of excessive uncertainty in the thrift and credit scheme contract is not allowed. For example, unclear terms of contribution or repayment, unverified investment ventures and unwritten verbal agreements subject to dispute. *Sharī'ah* requires all financial dealings to be clear and unambiguous to avoid conflict.⁵³

5. Absence of Unethical Practices: Any thrift system should not favor certain members over others unfairly, nor should it exploit members through excessive penalties, mismanagement, or fraud. *Sharī'ah*

⁴⁸ Qur'an 4:29

⁴⁹ Usmani, *An Introduction to Islamic Finance*, supra note 40, at 73.

⁵⁰ Qur'an 2:282

⁵¹ Qur'an 2:275

⁵² Ibid., at 35

⁵³ Ibid., at 27.

requires all financial dealings to be clear and unambiguous to avoid conflict.⁵⁴

6. Transparency and Trust (*Shafāfiyyah* and *Thiqah*): Trust and honesty are key values in Islamic economics. Members must deal with one another truthfully, and the organizer must handle funds as an *amānah* (trust). Misuse or misappropriation of funds is a grave sin.⁵⁵ Prophet Muhammad said,

He who deceives us is not one of us.⁵⁶

7. Written Agreements: Documenting the terms of the savings scheme including contribution cycles, withdrawal rules, and distribution fulfills the Qur'ānic injunction of writing contracts. This enhances transparency and avoids disputes, especially important in informal thrift and credit settings where trust is high, but clarity is sometimes lacking.

...Do not fail to write it down: whether it be small or big, it is juster in the sight of Allah...⁵⁷

For thrift and credit scheme to be Islamically valid, the entire system; its structure, contributors, investments, and withdrawals must adhere to *Sharī'ah* principles. Muslims who engage in such systems often do so as a means of maintaining both financial discipline and religious integrity. Adhering to these conditions not only strengthens the trust within the cooperative but also ensures divine reward and societal harmony.

Management of Thrift and Credit Societies' Funds

Thrift and credit societies' money represents pooled contributions from individuals or groups, intended for later redistribution, investment, or mutual assistance. In Islamic financial practice, the method to be adopted in managing the money is managed must comply with ethical

⁵⁴ Mahmoud A. El-Gamal, *Islamic Finance: Law, Economics, and Practice* 46 (Cambridge Univ. Press, New York 2006).

⁵⁵ Kamali, *Islamic Commercial Law*, supra note 22, at 72.

⁵⁶ Muslim ibn al-Ḥajjāj, *Ṣaḥīḥ Muslim*, bk. 1, ḥadīth 102 (Abdul Hamid Siddiqui trans., Dār al-Kutub al-ʿIlmiyyah, Beirut, n.d.).

⁵⁷ Qur'an 2:282

guidelines and legal rulings (*ahkām al-mu‘āmalāt*), ensuring that it is handled with justice, transparency, and sense of responsibility. The management of these funds require the following factors:

1. Trusteeship (*Amānah*): In Islamic law, managing other people's money is a sacred trust (*amānah*). Those in charge whether individuals, committees, or coordinators must not misuse the funds or derive personal benefit without explicit consent of the parties involved.

Verily! Allah commands that you should render back the trusts to those, to whom they are due...⁵⁸

The administrator or treasurer is expected to maintain accurate records, ensure safety of deposits and refrain from mixing personal and collective funds.⁵⁹

2. Transparency and Record-Keeping (*al-Kitābah wa al-Ḥisāb*): Islam legal system emphasizes documenting financial transactions. Proper management requires clear recording of contributions (who pays, how much, how often), disbursements (when, to whom, for what purpose) and investments (if any), along with expected risk and returns.⁶⁰

O you who have believed, when you contract a debt for a specified term, write it down...⁶¹

This ensures trust among members and prevents disputes.

3. Ethical Investment of Funds: If thrift money is intended for investment or growth, then it must not be invested in businesses involving interest (*Ribā*), gambling (*maysir*), alcohol, or any other *ḥarām* industries, it should follow Islamic investment models like:

- *Muḍārabah*: Capital provider and entrepreneur share profit (as per ratio) while loss is borne by the capital provider.
- *Mushārah*: Partners jointly invest and share profits/losses proportionately.

⁵⁸ Qur'an 4:58

⁵⁹ Usmani, *An Introduction to Islamic Finance*, supra note 49, at 101.

⁶⁰ Kahf, *Islamic Finance: Principles and Instruments*, supra note 46, at 65.

⁶¹ Qur'an 2:282

- *Murābaḥah*: Cost-plus sale where the commodity is purchased and resold with a disclosed profit margin.⁶²

4. Due Service Charges: Any service charge or administrative fee deducted from thrift funds must be reasonable, transparent, and based on actual costs incurred. Excessive or interest-like charges are prohibited.⁶³

Do not consume one another's wealth unjustly or send it [in bribery] to the rulers in order that [they might aid] you...⁶⁴

5. Equitable Distribution and Non-Discrimination: When the savings are disbursed whether as loans, profits, or mutual aid, the process must be fair and non-discriminatory, based on pre-agreed criteria and without favoring certain individuals based on status or influence.⁶⁵ All members are equal participants and beneficiaries under *Sharī'ah*-based thrift system.

6. Dispute Resolution Mechanism: A *Sharī'ah*-compliant thrift group must have clear, ethical methods for resolving disputes, including; arbitration within the group or consultation with a local *Imam*, scholar, or *Sharī'ah* advisor or reference to documented agreements in the circumstances of financial disputes.⁶⁶ This reflects the Islamic principle of *ṣulḥ* (reconciliation).

7. Periodic Auditing: For accountability, periodic reviews or audits (even informal ones) help maintain financial transparency, integrity of operations and confidence among members.⁶⁷ For instance, the *Al-Nūr Islamic Thrift Association* in Lagos conducts quarterly internal audits to review members' contributions, profit-sharing allocations, and the disbursement of *al-qard al-ḥasan* loans. This system not only prevents

⁶² Habib Ahmed, *Islamic Banking and Finance: Fundamentals and Contemporary Issues* 122 (Islamic Development Bank, Jeddah 2011).

⁶³ Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), *Shari'ah Standards* 133 (3d ed. 2015).

⁶⁴ Qur'an 2:188

⁶⁵ Chapra, *Islam and the Economic Challenge*, supra note 23, at 146.

⁶⁶ al-Qaradawi, *Fiqh al-Zakāh*, supra note 26, at 212.

⁶⁷ Zamir Iqbal & Abbas Mirakhor, *An Introduction to Islamic Finance: Theory and Practice* 172 (Wiley, Singapore 2011).

financial irregularities but also reinforces members' trust in the cooperative's leadership.⁶⁸

8. *Sharī'ah* Advisory Committee: Islamic thrift and credit societies must operate under Islamic commercial framework, appointing *Sharī'ah* advisors or form *Sharī'ah* compliance committees. These bodies vet financial activities to ensure compliance with Islamic law, educate members on ethical savings and investment practices and issue legal rulings (*fatāwā*) on questionable transactions.⁶⁹ This structure mirrors models used in Islamic banks and adds legitimacy and confidence to the thrift institution.

9. Collective Responsibility and Consultation (*Shūrā*): Islamic finance encourages consultation (*shūrā*) in decision-making, especially on matters involving collective wealth. Managers of thrift funds are expected to seek member input on critical financial decisions, organize regular meetings to present financial statements and avoid unilateral decisions regarding investments or disbursements. This participatory model reflects transparency, prevents exploitation and promotes communal harmony.⁷⁰

...and consult them in affairs. Then when you have taken a decision, put your trust in Allah...⁷¹

10. Islamic Ethical Codes of Accountability: Accountability in Islamic thrift and credit settings is not only financial but also moral. Managers are spiritually and legally accountable for mishandling of funds, delays in disbursement without cause and favoritism or nepotism. Violations are considered breaches of trust (*khiyānah*), a serious ethical offence in Islamic legal system.⁷²

⁶⁸ *Al-Nūr Islamic Thrift Association* (hypothetical example based on common practices among Muslim thrift groups in Lagos State); see Ahmad Bello Dogarawa, *Introduction to Islamic Finance* (Zaria: Ahmadu Bello University Press, 2011).

⁶⁹ AAOIFI, *Shari'ah Standards for Islamic Financial Institutions*, supra note 63, at 19.

⁷⁰ Habib Ahmed & Tariqullah Khan, *Islamic Financial Services and Risk Management* 103 (Islamic Research & Training Inst., Jeddah 2001).

⁷¹ Qur'an 3:159

⁷² M. Umer Chapra, *The Future of Economics: An Islamic Perspective*, 174 (Islamic Found 2000).

Indeed, Allah commands you to render trusts to whom they are due and when you judge between people to judge with justice...⁷³

Thrift and credit societies can provide members with both financial stability and religious peace of mind, while fostering brotherhood and economic empowerment if thrift funds are managed transparently and ethically.

Benefitting from Thrift and Credit Societies' Funds

In Islamic finance, any financial benefit accrued must be tied to legitimate work, transparent agreement, and *Sharī'ah*-compliant activities. Coordinators of thrift and credit societies; those who collect contributions, record payments, manage accounts, and disburse funds may derive benefit from their efforts, but only under specific Islamic conditions as elucidated below:

1. Legitimate Compensation for Service ('*Ujrah al-Khidmah*):

Islamic legal system permits payment for services rendered. If a coordinator spends time and effort managing members' savings, he or she is entitled to compensation provided it is agreed upon beforehand.⁷⁴ This is supported by the principle: "The workers are entitled to their wages"⁷⁵ And as such, payment (*'ujrah*) must be clear, fixed, and mutually agreed at the beginning of the contract. For instance, the group may agree to pay the coordinator a monthly stipend, or allow a fixed service fee per member, as long as it does not turn into interest-based earnings.

2. Administrative Charges (Not *Ribā*): Some thrift and credit scheme agents collect a small daily or monthly commission (e.g., ₦100 out of ₦3,000). From an Islamic standpoint, this is permissible if it is a fee for collection service, not a charge on loaned money. The key condition is that the fee must not increase with time or loan duration, as that

⁷³ Qur'an 4:58

⁷⁴ Imam Malik, *Al-Muwatta'*, Book of Sales and Contracts, chapter on Agents; Al-Shafi'i, *Al-Umm*, vol. 3, Kitab al-Mu'amalat; Al-Nawawi, *Al-Majmu' Sharh al-Muhadhdhab*, vol. 9, p. 420; Ibn Qudamah, *Al-Mughni*, vol. 5, Kitab al-Mu'amalat, pp. 275–277.

⁷⁵ Yahya ibn Sharaf al-Nawawī, *Riyāḍ al-Ṣāliḥīn: Gardens of the Righteous*, bk. 3, ḥadīth 1073 (Muhammad Zafrulla Khan trans., Dār al-Qalam, Damascus, 2001).

would tantamount to *ribā*. Scholars liken this to *ijarah* contracts where payment is for service, not money lent.⁷⁶ The following are the supporting references from collective fatwā and standards

- a. **AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions):** AAOIFI Shari'ah Standard No. 6: *Ijarah* permits charging a fee for services rendered, including collection or administration, provided it is agreed in advance and does not increase over time like interest.⁷⁷
- b. **OIC Fiqh Academy:** Resolution No. 145 (18th Session, Jeddah, 2008) emphasizes that administrative fees for managing funds or services are permissible, as long as they are fixed and not linked to the amount of money lent.⁷⁸
- c. **International Fiqh Academy, Jeddah:** Confirms that any service-related fee in microfinance or cooperative savings schemes is Shari'ah-compliant if it represents remuneration for actual effort, not a percentage on loans or deposits that would constitute *ribā*.⁷⁹

3. No Benefit from Idle Funds: Coordinators are not allowed to use pooled funds for personal gain without prior consent. For instance, they should not invest or lend the group's money for personal return unless there is mutual agreement, and the benefit is shared, or they bear the full risk, as in a *muḍārabah* contract. However, using other people's money without their permission for personal benefit constitutes *ghasb* (usurpation), which is strictly forbidden.⁸⁰

4. Permissibility of Joint Investment: Where coordinators are also members of the thrift, they may benefit from joint investment profits like any other member. If their contribution is pooled with others' and

⁷⁶ Usmani, *An Introduction to Islamic Finance*, supra note 59, at 88.

⁷⁷ AAOIFI, *Shari'ah Standard No. 6: Ijarah*, Accounting and Auditing Organization for Islamic Financial Institutions, 2010

⁷⁸ OIC Fiqh Academy, Resolution No. 145, 18th Session, Jeddah, 2008

⁷⁹ International Fiqh Academy, *Shari'ah Guidelines on Microfinance*, Jeddah, 2012.

⁸⁰ Zuhayli, *Financial Transactions*, supra note 47, at 187.

invested, they share profits based on capital input not by virtue of their position.⁸¹

Based on the above discussion, coordinators of thrift and credit schemes, from the Islamic law standpoint, may benefit from the funds they manage, but only within the ethical and contractual boundaries of *Sharī'ah*. Compensation must reflect just work, avoid interest, and be transparent to all parties. These guidelines preserve the spiritual and communal integrity of Muslim thrift systems and align them with Islamic economic justice.

Conclusion

This study underscores the necessity of evaluating the legal and ethical dimensions of thrift and credit societies through the lens of Islamic law. As these societies continue to serve as vital platforms for financial integration, social cooperation promoting communal engagements at the grassroots level, it becomes increasingly important to ensure that their operations align with *Sharī'ah* principles. Recognizing their legitimacy within the Islamic legal framework not only reinforces their relevance but also guarantees that Muslim participants engage in practices that uphold the ethical standards and values prescribed by Islam.

Recommendations

Based on the examination of the legal and ethical dimensions of thrift and credit societies from an Islamic law perspective, the following recommendations are proposed:

1. Thrift and credit societies should formally incorporate a legal and ethical framework grounded in Islamic law to ensure that all operations, financial contracts, and governance structures are consistent with *Sharī'ah* principles.
2. Organizers, coordinators, and members of these societies should be provided with continuous education and orientation

⁸¹ Zakariyyah AbdulRaheem, Ethics and Oversight in Lagos Muslim Thrift Societies, 4 J. Islamic Econ. Sys. 22, 22 (2022).

on Islamic financial principles to promote awareness, compliance, and ethical consciousness in line with *Sharī'ah*.

It is recommended that thrift and credit societies establish *Sharī'ah* advisory services or consult experts to oversee their operations. This will help ensure that contracts are *Sharī'ah*-compliant, governance is ethically grounded, and financial risks are managed in accordance with Islamic jurisprudence.