

# Mobilising Islamic Social Capital: A Study on Cooperatives in Brunei Darussalam

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## Abstract

The cooperative movement has recently seen a resurgence in Brunei Darussalam. However, in its aspirations to become a Zikir nation, efforts should be made to ensure that cooperatives are consistent with the Shari'ah. Therefore, the aim of this paper is to study the operations of selected cooperatives in Brunei Darussalam to assess the Shari'ah compliance of its activities and transactions. This paper will also evaluate several aspects related to cooperatives such as the regulatory environment and human resources. The data is collected through in-depth interviews with the regulator from the cooperative registrar office and selected three cooperatives whose main activities are include providing loans to their members.

**Keywords:** Shari'ah Compliance; Cooperative; Brunei Darussalam.

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## 1. Introduction

Cooperatives are an enduring institution that continues to play an important role in mobilising social capital in many countries all over the world. By pooling resources of individuals or groups to meet common economic, social and cultural objectives, cooperatives contribute to the capital investment, employment and development of their communities' socio-economy (Shabri, Saad & Bakar, 2016). While, credit unions are an alternative financial intermediary which can have a positive impact on the economy through the provision of microfinance. The strength of the cooperative movement through credit unions is illustrated by the World Council of Credit Unions, which has 217 million members

represented by 57 thousand credit unions in 105 countries<sup>1</sup>.

At the basic level, these cooperatives help allocate resources from capital owners or surplus fund units and provide opportunities to entrepreneurs or deficit fund units (Saad, Sawandi & Muhammad, 2016; Saad & Sawandi, 2016). Cooperatives are generally structured on the basis of mutual assistance and risk-sharing which is aligned with Shari'ah principles. However, in dealing with finance, cooperatives can fall foul to activities and operations which are not permissible according to Islamic teachings such as usury or interest (*riba*) or excessive uncertainty (*gharar*) (Zauro, Saad & Sawandi, 2016). Muslims who are

involved in cooperatives should actively strive to ensure that it is managed and operated according to principles that are consistent with the Shari'ah.

The recent resurgence of the cooperative movement in Brunei Darussalam<sup>2</sup> should assist financial inclusion initiatives by providing financial services to those less able. However, in its aspirations to become a *Zikir* nation (Saim, 2013) –a country which upholds Allah's laws, has good moral values among its citizens as well as in its approach to other countries – policymakers and other stakeholders in Brunei should also ensure that this alternative financial intermediary adheres to Shari'ah principles.

The objective of this paper is therefore, to study the operations of selected cooperatives in Brunei Darussalam by assessing the Shari'ah-compliance of its financial activities and transactions. This also includes other aspects related to cooperatives in Brunei Darussalam such as the regulatory environment and human resources. The data is collected through in-depth interviews with the regulator from the cooperative registrar office and selected three cooperatives which main activities are providing loans to their members.

The rest of this paper proceeds as follows: Section 2 describes the literature review on Islamic cooperatives. This is followed in section 3 by a description of cooperatives in Brunei Darussalam. Section 4 will discuss several Shari'ah-compliant financing instruments which can be utilized by cooperatives. The final section concludes and provides some recommendations.

## 2. A Review on Islamic Cooperatives

A wide variety of organizational forms and control mechanisms exist within the cooperative framework. However, the essential characteristic of a cooperative is that it is owned

primarily by customers or depositors through non-negotiable instruments. As community-based organizations, cooperatives are typically locally owned and operated by staff and board of directors who represent the membership and community. However, for Islamic financial cooperatives, local elders and religious leaders are also consulted about the Shari'ah-compliance of the products and services offered to members. Furthermore, Islamic cooperatives are also encouraged to reinvest some portion of their profits into community development initiatives (Al-Muharrami & Hardy, 2013; Saad, Idris, Shaari, Sawandi & Derashid, 2017).

This emphasis on community development initiatives indicates that Islamic cooperatives can help to mobilize social capital by using deposits from member clients to provide productive, consumer, and social loans to other members (Iqbal & Mirakhor, 2011). The mobilization of Islamic social capital, characterized by a desire for Islamic values in production and exchange, helps to promote opportunities for innovative interactions between different sets of agents and forwarding Islamic ethics (Farooqi, 2006).

These Islamic ethics or principles are reflected by the ideology that finance is meant to serve society, and not the exploitation of individuals, as risk is shared between members and the remuneration of depositors is determined ex-post. This means that depositors' returns are variable and dependent on the overall performance of the bank based on the realized difference between revenue and non-interest costs, rather than pre-determined (Al-Muharrami & Hardy, 2013). To the extent that credit unions and Islamic banks adhere to these principles, they can also be seen to be examples of Islamic cooperatives.

The assessment of an Islamic cooperative, like any other Islamic financial institution, can

be measured against the pyramid of *maslahah*, together with the concept of harm prevention (Dusuki & Bouheraoua, 2011). The pyramid of *maslahah* constitutes of three levels in order of importance in terms of the fulfilment of responsibility. The bottom level is the most fundamental responsibility to be fulfilled, which is represented by essentials (*darūriyyah*). The other two categories, namely the complementary (*hājiyyah*) and the embellishments (*taḥsīniyyah*), are less fundamental, but more virtuous and lead to the perfection and well-being of society. Nevertheless, these two categories are structurally subservient and substantively complementary to the *daruriyyah*, without which the pyramid of *maslahah* would be unstable. In addition, the principle of harm prevention is central in the protection of social interest, as it is enshrined in the principles of *maslahah*, particularly in averting social harm. This is based on two major Shari'ah axioms: the removal of hardship (*raf' al-ḥaraj*) and the prevention of harm (*daf' al-ḍarar*). Thus, the mobilization of Islamic social capital by Islamic financial institutions, including Islamic cooperatives, is dependent on the adherence to both the pyramid of *maslahah* and the harm prevention principle.

These social principles are difficult to be implemented by financial intermediaries which operate in the competitive, financial services industry as they can come into conflict with profit-making objectives (Saad et al., 2017). Like its conventional counterparts however, Islamic financial cooperatives typically do not form part of the formal financial sector, even though their activities may overlap. As such, these social principles should be stronger in cooperatives, and even more so in Islamic cooperatives. In Indonesia for example, Seibel (2006) notes that Islamic financial cooperatives

may be registered with the Ministry of Cooperatives or be unregistered; and accordingly, may be placed into the semiformal and the informal financial sector, respectively. However, in a comprehensive study of Islamic microfinance in Indonesia, Seibel (2007) argues that the outreach of Islamic cooperatives in Indonesia is negligible and their overall performance is poor, citing a lack of regulation, supervision and reliable reporting. Furthermore, he also argues that the large majority of Islamic cooperatives is dormant or technically bankrupt. Nevertheless, the presence of Islamic cooperatives should widen the access to financial resources for micro and small scale entrepreneurs (MSE).

Overall, the published literature on Islamic cooperatives appears sparse, with the majority of case studies focused on activities in Indonesia, which is perhaps reflective of its prevalence in the world's most populous Muslim country. Nevertheless, this may not necessarily indicate a lack of similar activities in other Islamic countries, but rather the lack of published work in the area. This paper seeks to add to the literature on Islamic cooperatives by using a case study in Brunei Darussalam through in-depth interviews with both the regulator and several cooperative operators. At the first stage, information was gathered through an interview conducted with a representative of the Department of Cottage Industry/Cooperatives (CIC) at the Ministry of Energy and Industry under the Prime Minister's Office in Brunei Darussalam, to help with sample selection and construction of the questionnaire for the operators for the second stage.

### **3. Cooperatives in Brunei Darussalam: A Case Study**

Cooperatives play important role in mobilising the social capital. In order to help achieve this

objective, the required minimum number of members to enable a cooperative to be registered was recently increased from 10 to 30 persons. A cooperative must be registered as required by Co-Operative Societies Act under the Laws of Brunei Chapter 84 of 1975, Edition 1984, amended by S 61/2012 Revised Edition 2015. There is a total number of 162 registered cooperatives in Brunei Darussalam as at 25 June 2016, with total paid-up shares of BND\$29,605,792.88. However, only 54 cooperatives are still active in their operations. The cooperatives' contribution to employment is 947 workers; with 776 local workers and 176 foreign workers.

In line with the objective of the current paper, the Shari'ah-compliance of cooperatives that provide loans to their members will be considered. Out of the 54 active cooperatives, only three cooperatives considered providing loans as their main activity. Furthermore, there are also six other cooperatives which considered providing loans as their minor activity. Due to time constraints however, only those which considered providing loans as a main activity will be examined. Furthermore, the name of the cooperatives and their representatives will not be disclosed in order to preserve anonymity.

### 3.1 Cooperative One

The interview was conducted with this cooperative's secretary general and a member of the board of directors of the cooperative, held on 20<sup>th</sup> June 2016 at 1.15 pm – 2.20 pm. This cooperative has been established in 1974 and their membership is currently more than 1,882 persons. The main objective of this cooperative is to help the members to obtain money through loans. As at April 2013, they managed to gather paid up capital of BND\$687,425.00. This involves thousands of members who benefits in terms of investment, loan and bonus which is up to 50% of the profit gained by the cooperative.

The primary objective of this cooperative is to help the members in getting loan. Therefore, the main activity was started by providing loan to the members. The sources of fund is mainly the shares of the member which is minimum BND\$250.00 up to not more than 20% of the total shares of the cooperative and membership fees of BND\$5 collected from each member.

The sources of profits are from loan activities. The maximum amount of loan allowed is BND\$4,000.00 per member at a time (but there were some cases the loan allowed up to BND\$5,000 on case by case basis). The loan must be paid back within 10 months. Every loan would be charged 10%. The repayment is done through salary deduction at the Ministry of Finance. The service of repayment through deduction of salary is being charged at \$4 per person every month.

There is no saving scheme being offered by this cooperative. All the profits from the loan distributed back to the shareholders (including the borrowers as member of the cooperative) and bonus also given to the borrowers.

The cooperative has the intention to practice Shari'ah compliance in its financial activities, as voiced out by the members in the annual general meeting. Efforts by the management to convert it into a Shari'ah-compliant cooperative, were hindered by the lack of understanding of Shari'ah-compliant financial concepts. Although they have some experience in transactions with an Islamic bank, it is not sufficient to understand the Shari'ah concept because bank staffs did not explain the concept in detail. Thus, the desire by the management to follow through on their members requests have not yet materialized due to their lack of knowledge and guidance from authority. Although the cooperative offers financing based on *murabahah* and *bai' al bithamanajil*



concepts in their application form, no trading transaction takes place in practice.

The cooperative also enquired about the eligibility to pay zakat on business after the Annual General Meeting of 2015. However, the advice from the religious authority, Majlis Ugama Islam Brunei (MUIB), was to let the individual members to pay zakat individually as the cooperative has mixture of Muslim and non-Muslim members. Therefore, the cooperative has never paid zakat as a separate entity. Nevertheless, the cooperatives' board of directors insisted that its members pay zakat to fulfil their religious obligations by seeking the assistance from the Islamic bank.

The cooperative itself has recently acquired the use of a current account with an Islamic bank, Bank Islam Brunei Darussalam (BIBD) due to the announcement of the closure of HSBC operations in Brunei. The cooperative had initially sought the use of the conventional bank due to convenient, direct and efficient services compared to other banks. On the other hand, dealing with the Islamic bank was met with several difficulties. It took two months to obtain the cheque book for the BIBD current account, and it was difficult to see the managers even by request, as front line staff were not skilled to deal with the procedures relating to cooperatives. In fact, another conventional bank, Maybank does not accept opening a current account for cooperatives. Additionally, the cooperative also has a savings account with Tabung Amanah Islam Brunei (TAIB) and a fixed deposit account with Bank Islam Brunei Darussalam (BIBD).

The management once suggested to use *takaful* to provide security for their loans. However, there was very low response from the cooperatives' members. Therefore, the cooperative has not taken any *takaful* or insurance as loan security. Nevertheless, the

problem of default payment has only occurred for deceased cases. In this case, the balance of loan after deducting dividend and bonus will be waived if the heirs are not able to pay.

In terms of human resources, managerial skilled workers are very much needed by the cooperative. Currently, the management consists of old pioneer members who work by themselves with the support of a few clerks and office assistants. These workers make use of an inventory which currently consists of three typewriter machines and one old personal computer laid idle. Nevertheless, these old pioneer members have built a reputation of being honest and committed in doing their works, which is to their advantage. Admittedly, the members of the board do not have much knowledge of Islamic finance. Thus, the lack of available training on Islamic finance and transactions is a gap that needs to be addressed by relevant training providers in order to ensure that the cooperative operates in a Sharī'ah-compliant manner.

In addition, the cooperative plans to diversify by venturing into other revenue-generating activities such as a canteen, distributing of food products, as well as investments in real estate or property. This would require hiring qualified managers to lead the management team in handling the day to day running of the operations.

### 3.2 Cooperative Two

The interview with the secretary general of this cooperative was held on 21<sup>st</sup> June 2016 at 12.15pm – 1.15pm. This cooperative was established in 1979 and the paid-up capital from shares is worth BND\$62,480. However, the cooperative managed to buy some fixed asset and has some cash at bank. With only 16 members, the cooperative manages to generate a profit on average of more than BND\$72 thousand per year with an average dividend of

20%. Although one member is around 30 years old, most of the members are elderly businessmen and businesswomen; contractors and retailers. The aim of the cooperative is to support the local Malay contractors and entrepreneurs. It started with truck rental service to the members who were sending sand to the clients from the sand quarry. Therefore, the main activities are leasing and loan. However, at the later stage, sand quarry was lease out to other contractor.

The main source of fund was from cooperative shares and the government loan scheme. The government loan scheme with a minimum service charge of 2.5% has already been fully repaid. The cooperative used to have accounts with conventional banks, namely the HSBC Bank and the Standard Chartered Bank which were in existence prior to the emergence of Islamic banks in Brunei Darussalam. However, the cooperative currently conducts its banking operations with BIBD.

The interviewee stressed that they need guidance and training on Sharī'ah-compliant cooperative management. The board of directors are also stressed their desire to conduct their business in compliance with the Sharī'ah. With regards to zakat, the cooperative always pays zakat on business every year.

The loan provided by the cooperative to its members is on the basis of *qardhasan*, which is a benevolent loan without any charges. The approval of these loans are on the basis of consideration by the board of directors. It does not require any securities as any default payments will be repaid from the dividend distributed to the members every year.

The default payment cases due to deceased of the members have been waived. The challenge faced by the new generation of management is that some of the assets of the cooperative could not be traced as the old

members have passed away and no proper record keeping was implemented.

This cooperative has a very noble objective to help each other among a very small number of members. In the future, they wish to assist young new entrepreneurs in obtaining start-up capital for their businesses. This is among the aspirations of the older generation members of the cooperative. Other future plans were stated as follows:

- i. To explore new business as Islamic insurance or *takaful* agent
- ii. To diversify the businesses; buying properties, retailing businesses etc.
- iii. To open membership to more interested parties as the new regulation of cooperative required the minimum number of members must be at least 30 persons.

### 3.3 Cooperative Three

The interview with the secretary general of this cooperative was held on 21<sup>st</sup> June 2016 at 1.35pm – 2.40pm. The mobilization of social capital was organized by the founder committee members by setting up a petrol station project to serve the locality. The petrol station project required a large amount of capital, which was fulfilled by the cooperative.

Cooperative membership requires a minimum share of BND\$250, and seconded by a guarantor who is an existing member of the cooperative. The cooperative has recorded an increasing number of members. This growth was spurred by loan facilities which attract more members to join the cooperative. The loans, limited to a maximum of BND\$4,000, are provided in order to help the members meet their respective needs.

Interestingly, the requirement for a loan is to have savings at least up to 100 months. With the minimum savings amount of BND\$50 per month, this means the minimum saving

accumulated per member after 100 months will be at least BND\$5,000. This will automatically become the security for their loans. Other than saving, the dividends and bonuses received by the members could also be used as security.

There is a high demand for loan facilities from the cooperatives' members. This has translated into high returns for the cooperative, which is in turn shared back with the borrowers in the form of a bonus. Since the borrowers are also the owner of the cooperative, profit from any business activity will be received in the form of dividend. The loan is secured by insurance which is covered as part of the charges on the loan.

Despite the intention of the cooperatives' members and its management to run the businesses in a Sharī'ah-compliant mode, the interviewee stated that the cooperative does not have any suitable asset to be used as a trading instrument in a *Murabahah* contract. Therefore, alternative instruments are needed. The finding shows that the loan product is still using conventional loan with minimum interest charges. The cooperatives' board of directors and members also do not know how to use other alternative instruments. Nevertheless, they stated a desire to learn and accept advice or training from relevant agencies. Furthermore, they also requested for advice from MUIB regarding zakat obligations.

The cooperatives' future plan is to diversify by exploring different kinds of businesses such as transportation, tent rental, etc. Among the challenges faced by this cooperative are (i) to prepare the financial record and statement on-time, (ii) shortage of knowledge and skilled man power, (iii) difficult to get committed local workers.

Overall, the three cooperatives interviewed have revealed a willingness to conduct their operations in a Sharī'ah-compliant mode.

However, several constraints impede their ability to become fully Sharī'ah-compliant. These clearest constraint for cooperatives to operate in a Sharī'ah-compliant manner is their lack of knowledge and understanding of Islamic finance, particularly in terms of Sharī'ah-compliant financing contracts. The next section will briefly describe different Sharī'ah-compliant financing contracts that can be used by cooperatives in providing financing to their members.

#### **4. Sharī'ah-Compliant Instruments for Cooperatives Financing Products**

The main aim of the cooperatives interviewed is to help their members with a small financial loan. However, the form of financing offered by the cooperatives can be structured in a way that is compliant to the Sharī'ah. This will enable the cooperative to better serve the different needs of its Muslim members. These Sharī'ah contracts are important as Islamic teachings prohibit making profit on interest from loans.

Potential Islamic instruments to replace interest-bearing loan schemes offered by cooperatives are briefly described below (ISRA, 2016; Zauro, Saad & Sawandi, 2016).

##### **(i) Contract: Qard Hasan**

*Qard Hasan* is an interest-free loan which is the ideal mode of financing in Islam. It is also consistent with the spirit of a cooperative which is that of mutual cooperation and assistance (*ta'awun*)<sup>3</sup>.

The *modus operandi* for *qardhasan* financing would be as follows:

The cooperative would lend money to the member, who would pay back their loan to the cooperative within a period of time specified by the contract. The installments and payment period must be specified in the contract, and the

total amount of repayment is the same amount of the original loan. No extra payment should be collected in addition to the amount of the original loan. However, the cooperative can charge an administration fee for costs incurred in addition to *takaful* if necessary. This administrative fee should be fixed, irrespective of the amount of the loan.

**(ii) Contract: *mudharabah*.**

This is a partnership contract which is for clients who require funds to run a specific project, such as hawker stalls/*tamu/pasarmalam*, boat-making, food-processing, handicraft producer, etc. Generally, the cooperative acts as a silent partner who only provides funds to the venture.

The *modus operandi* for *mudharabah* financing would be as follows:

It involves two contracting parties (ISRA, 2015). The cooperative acts as the capital provider or *rabb al-mal* who finances the client as the entrepreneur or the *mudarib*, with capital for a specified period of time with an agreement to share the profit at a pre-determined rate. If the partnership yields a profit, it would be shared by the *rabb al-mal* and the *mudarib* according to the pre-determined rate. However, if the investment yielded a loss, it would be borne by the cooperative as the capital provider. The client would only suffer from the loss of his time and effort, unless the losses were due to the clients' negligence, willful wrong doing or breach of contract.

**(iii) Contract: *Musharakah*.**

This is also a partnership contract that can be used by the cooperative and the client, in which all parties, provides capital to the venture. Furthermore, profits and losses are shared according to a pre-determined rate. All capital providers have a right to the management of the

venture, although the cooperative may choose not to exercise this right.

The *modus operandi* for *musharakah* financing would be as follows:

In *musharakah* financing, both the cooperative and the client provides capital for the project or venture. Profits are shared according to a pre-determined ratio, whereas losses are shared according to their initial equity participation.

Therefore, if the partnership yields a profit, it would be shared by the cooperative and the client according to a pre-determined rate. However, if the investment yielded a loss, it would be divided according to the proportion of the capital invested into the venture.

**(iv) Contract: *Murabahah*.**

*Murabahah* is a cost-plus sale, and as a mode of financing consists of two sales which are generally permissible in Islam, one at spot payment and the other at deferred payment. It is also known as *bay' al-bithaman 'ajil* (BBA).

The *modus operandi* for *murabahah* financing would be as follows:

In the first stage, the cooperative would buy an agreed-upon asset at a known price as requested by the customer. In the second stage, this asset would then be sold to the customer at an agreed mark-up price paid in installments within a period of time specified by the contract.

**(v) Contract: *Ijarahthumma al-bay'***

*Ijarahthumma al-bay'* as a mode of financing also consists of two sales which are generally permissible in Islam, wherein the lease in the first stage is considered the sale of usufruct or right to use.

The *modus operandi* of *ijarahthumma al-bay'* would be in the following form:

In the first stage, the cooperative would lease an asset to the client. In exchange, the



client agrees to pay rent for the asset at stated intervals. At the end of the lease contract, the ownership of the asset would be transferred to the customer through a sales contract.

#### **(vi) Contract: *Salam***

*Salam* is a forward financing transaction which allows the client to obtain funds in exchange for the specified future delivery of products or commodities. *Salam* is a special type of sale contract in Islam, which is made permissible only upon the adherence of strict rules. For example, the products or commodities must be commonly in existence in the marketplace to ensure that the client can procure them in the event of non-delivery. Furthermore, the payment for future delivery must be paid in full at spot price, to ensure that it is not tantamount to a debt for debt which is prohibited in Islam.

#### **Modus operandi for *Salam* Financing:**

The cooperative would buy a specified product or commodity for future delivery at spot payment from the client who is a producer or a farmer.

Alternatively, a parallel *salam* could also be utilized in which two *salam* contracts are used concurrently for the same product or commodity. In the first *salam* contract, the cooperative buys a specific product or commodity for future delivery at spot payment from the client. In the second *salam* contract, the client buys a specific product or commodity at spot payment from a third party for future delivery which is less than the period specified in the first *salam* contract. Thus, completion of the second *salam* sale will enable the first *salam* sale to be completed. However, the two contracts cannot be made contingent upon the other. Furthermore, a parallel *salam* is only permitted with the presence of an independent, third party in one of the two *salam* contracts.

In both cases, the client is able to obtain immediate financing to fund his or her specified venture, whereas the cooperative is permitted to profit from the mark-up in exchange for business risk.

#### **(vii) Contract: *Istisna'***

*Istisna'* is a contract of manufacture. As a mode of financing, it is generally used as a long-term contract whereby one party undertakes to manufacture, build or construct a specified asset, with an obligation from the manufacturer or producer to deliver them to the customer upon completion. In practice, the *istisna'* contract provides flexibility as payment can be made in installments linked to the project completion, at delivery or after project completion.

The modus operandi for *istisna'* financing would be as follows:

The client could undertake to manufacture, build or construct a specified asset with the cooperative agreeing to pay the client at known intervals.

Alternatively, a parallel *istisna'* contract could be utilized in which two *istisna'* contracts are used concurrently. Firstly, the cooperative makes an order for the client to build, manufacture or construct at asset for an agreed-upon price and known delivery period as stated in the *istisna'* contract. Concurrently, the client enters into another *istisna'* contract with a third party by requesting the asset to be built, manufactured or constructed at a specified period which is less than the first *istisna'* contract. Again, completion of the second *istisna'* sale will enable the first *istisna'* sale to be completed. However, the two contracts cannot be made contingent upon the other. Furthermore, a parallel *istisna'* is only permitted with the presence of an independent, third party in one of the two *istisna'* contracts.

Overall, there are currently many Shari'ah contracts used in contemporary Islamic finance that can be utilized by cooperatives to ensure their transactions and operations Shari'ah-compliant. However, in order to truly reflect the true principles of an Islamic cooperative, priority should be given to risk sharing contracts which can better realize the Maqāsid al-Shari'ah or objectives of Islamic law (Soualhi, 2015).

## 5. Conclusion and Recommendations

Theoretically, cooperatives are structured on the basis of risk-sharing and mutual assistance, which reflects the true spirit of Islam. As such, it can play an important role in mobilizing social capital. Furthermore, it can also improve financial access to those on low incomes and hence help assist poverty alleviation efforts. In order to embrace these ideals, cooperatives need to ensure their activities and transactions are conducted, not just in compliance with the Shari'ah, but also in the spirit of Maqāsid al-Shari'ah.

The interviews with selected cooperatives in Brunei Darussalam have indicated that there is a desire to practice Shari'ah-compliant transactions and products offered to cooperatives' members. However, this has proved to be difficult to implement in practice, as cooperatives are in need of training, guidance and advice from the relevant authorities. Therefore, there is a gap that can be filled by relevant private or governmental agencies.

The Department of Cottage Industry/Cooperatives (CIC) under the Ministry of Energy and Industry at the Prime Minister's Office is the main government agency directly involved in handling the registration and auditing the cooperatives in Brunei Darussalam. A Shari'ah supervisory committee could be formed under the purview of the CIC to issue

regulations and guidelines to Shari'ah-compliant cooperatives.

Education or training can also be provided by relevant training agencies, educational institutes or even the CIC. Among the relevant training or courses that can possibly be offered for the benefit of the cooperatives includes topics on Islamic finance, Shari'ah-compliant business transactions, Shari'ah-compliant financial transactions, as well as the concept of Islamic cooperatives, especially to those which provide financing as their major or minor activities. Cooperatives, as well as their membership, need to be guided in understanding the terms and conditions of the Shari'ah-compliant products as well as the payment of zakat.

Other than lacking of knowledge, the cooperatives are also facing difficulties in obtaining skilled human resource. Cooperatives require skilled manpower to manage and run their projects. Most of the cooperatives are managed by old pioneer members which consist of pensioners between the ages of 60 to 85 years old. Although the older generation have a stronger bond and have built up a more credible reputation, the younger generation might have new ideas and ways with advanced information technology skills which can stimulate the development of the cooperatives.

Governance is of vital importance to fulfill the purpose for which the cooperative was established. Effective governance includes the provision and delivery of products and services as demanded by the members of the cooperative. The collective wish or voice of the members, which can be expressed annually in a general meeting, must be fulfilled. In the desire to become an Islamic cooperative, the management of the cooperative must ensure that their activities and transactions are conducted in a Shari'ah-compliant manner. This would in

turn lead to the effective mobilization of Islamic social capital.

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