

ISLAMIC LAW REVIEW OF SHARIA FINANCING SCHEMES AT THE ELECTRIC EMPLOYEE COOPERATIVE OF SUBULUSSALAM CITY, INDONESIA

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Abstract

This paper aims to examine three main aspects related to sharia financing at the State electricity company (Perusahaan Listrik Negara PLN) First, what sharia financing is often used in the KOKARLIS cooperative. Second, what are the challenges and obstacles that occur in the management of Islamic financing in cooperatives (KOKARLIS). Third, and how is the legal review in the practice of Islamic financing in cooperatives (KOKARLIS). To answer these three aspects, this research uses a qualitative approach with a descriptive-analytical method. Data collection is done through primary data obtained through interviews, observation, and documentation, as well as secondary data sourced from related references. The results showed that mudharabah and murabahah contracts are the most commonly used types of financing. However, the lack of understanding of cooperative managers, who are mostly PLN employees, is the main challenge, along with the lack of training related to Islamic financing. From the perspective of Islamic law, practices that are not in accordance with sharia rules have the potential to cause gharar, which is contrary to the principle of justice in muamalah. This research emphasises the importance of increasing the capacity of cooperative managers through continuous training and education related to the principles and practices of Islamic financing. With a better understanding, it is expected that Koperasi KOKARLIS can eliminate the risk of sharia deviations, increase member confidence, and become a better model of sharia financial management.

Keywords: *Islamic Law Review, Sharia Financing Scheme, Cooperative*

Abstrak

Tulisan ini bertujuan untuk mengkaji tiga aspek utama yang berkaitan dengan pembiayaan syariah di Perusahaan Listrik Negara (PLN). Pertama, pembiayaan syariah apa saja yang sering digunakan di koperasi KOKARLIS. Kedua, apa saja tantangan dan hambatan yang terjadi dalam pengelolaan pembiayaan syariah di koperasi (KOKARLIS). Ketiga, dan bagaimana tinjauan hukum dalam praktik pembiayaan syariah di koperasi (KOKARLIS). Untuk menjawab ketiga hal tersebut, penelitian ini menggunakan pendekatan kualitatif dengan metode deskriptif analitis. Pengumpulan data dilakukan melalui data primer yang diperoleh melalui wawancara, observasi, dan dokumentasi, serta data sekunder yang bersumber dari referensi terkait. Hasil penelitian menunjukkan bahwa akad mudharabah dan murabahah merupakan jenis pembiayaan yang paling sering digunakan. Namun, kurangnya pemahaman pengelola koperasi yang sebagian besar adalah pegawai PLN menjadi tantangan utama, seiring dengan kurangnya pelatihan terkait pembiayaan syariah. Dari perspektif hukum Islam, praktik yang tidak sesuai dengan aturan syariah berpotensi menimbulkan gharar yang bertentangan dengan prinsip keadilan dalam muamalah. Penelitian ini menekankan pentingnya peningkatan kapasitas pengelola koperasi melalui pelatihan dan edukasi yang berkesinambungan terkait prinsip dan praktik pembiayaan syariah. Dengan pemahaman yang lebih baik, diharapkan Koperasi KOKARLIS dapat mengeliminasi risiko penyimpangan syariah, meningkatkan kepercayaan anggota, dan menjadi model pengelolaan keuangan syariah yang lebih baik.

Kata kunci: *Tinjauan Hukum Islam, Skema Pembiayaan Syariah, Koperasi*

INTRODUCTION

Sharia financing is the provision of money or bills that are equated with based on an agreement or agreement between the cooperative and the financed party to return the money or bill after a certain period of time in exchange for profit sharing. funding mechanism based on Islamic principles, without *usury*, *gharar*, and *maysir*. For example, *Murabahah* (sale and purchase with margin), *Mudharabah* (profit-sharing cooperation), *Musyarakah* (capital cooperation), *Ijarah* (lease), and *Qardhul Hasan* (benevolent loan). The aim is to

create justice and blessings in financial transactions.¹ In practice, Islamic financing has been widely implemented by various cooperatives in Indonesia. The presence of this Islamic financing system makes cooperatives one of the important instruments in supporting economic growth at the community level, while encouraging the creation of justice and blessings in financial transactions.²

In Indonesia, Islamic financing continues to grow rapidly, especially in the cooperative sector which plays an important role in the economy. Cooperatives are often a solution for people who have difficulty accessing Islamic financing, because Islamic financing offers an inclusive system and is based on Islamic principles as mentioned above. Through this financing, cooperatives can empower their members, especially from small communities, and support the development of MSMEs to encourage more equitable economic growth.³ As said by Muhammad Baqir al-Sadr, Islamic financing must be based on *sharia* principles between the owner of capital (*shahibul mal*) and the manager of capital (*mudharib*). According to him, this system regulates the balance of rights and obligations of both parties without any element of exploitation. This makes Islamic financing a form of transaction that is oriented towards the values of justice in accordance with Islamic law.⁴ According to Karim Syamsuddin, Islamic financing can be the main instrument in improving people's welfare. The focus of Islamic financing on the real sector, such as the development of micro, small, and medium enterprises (MSMEs), allows a significant positive impact on economic growth.⁵ He also stated that Islamic financing is more stable because it does not depend on the conventional

¹ Purnomo, 'The Effect of Profit Sharing Financing Scheme, Provision for Financing Losses, and Cost of Funds on Profit/Loss', *Tabarru' Journal: Islamic Banking and Finance* 3, no. 2 (2020).

² Wahyu Akbar et al., 'Optimisation of Sharia Banking Regulations in Developing the Halal Cosmetic Industry in Indonesia', *Al-Syir'ah Scientific Journal* 22, no. 1 (2024): 1-12, <https://journal.iain-manado.ac.id/index.php/JIS/article/view/2611>.

³ A Devi, 'The Effectiveness of Successful Development of Islamic Cooperatives in Indonesia', *Indonesian Journal of Islamic Economics* 2, no. 1 (2020).

⁴ Muhammad Baqir Shadr, *The Master Book of Islamic Economics: Iqtishaduna* (Jakarta, 2008).

⁵ Chairul Fahmi and Wira Afrina, 'ANALYSIS OF LEGAL ASPECTS ON DEBT TRANSFER FROM CONVENTIONAL BANK TO SHARIA BANK POST THE APPLICATION OF QANUN ACEH NO. 11 OF 2018', *Al-Mudharabah: Journal of Islamic Economics and Finance* 4, no. 1 (23 July 2023): 28-39, <https://www.journal.ar-raniry.ac.id/index.php/mudharabah/article/view/3047>.

financing sector.⁶ And Muhammad Siddiqi stated that Islamic financing is not only orientated towards economic profit, but also on social aspects. He emphasised the importance of social values in Islamic financing, such as helping underprivileged groups through sharia-based financing schemes. In his view, Islamic financing serves as a tool to reduce economic disparities and improve the overall welfare of society.⁷ The challenge in implementing Islamic financing in Indonesia is the lack of public understanding. Therefore, education on Islamic financing is very important so that people can understand and utilise Islamic financing properly. This education is important to build public trust in the Islamic financing system, which is considered more transparent and fair. In terms of regulations, Indonesia has tried to support the development of Islamic financing through more flexible policies and regulations, especially for the community. However, the implementation still needs to be improved, especially in understanding and implementing sharia principles consistently.⁸

Islamic financing according to scholars refers to various practices and principles that are in accordance with Islamic teachings in managing finances. Here are some important aspects regarding scholars' views on Islamic financing first, the basic principles of Islamic financing Scholars agree that all forms of financing in Islam must be free from *riba* (interest), *gharar* (uncertainty), and *maysir* (gambling). This creates a fair and transparent framework in financial transactions.⁹ Second, Fatwas and Regulations The National Sharia Council (DSN) of the Indonesian Ulema Council has issued various fatwas related to Islamic financing, including on *murabahah*¹⁰ and

⁶ Karim Syamsuddin, *Sharia Economics: An Islamic Financial Perspective for MSMEs* (Jakarta, 2020).

⁷ Muhammad Siddiqi, *Islamic Banking and Finance: Ethical and Social Dimensions*, 2018.

⁸ M Musari, K., & Fathorrazi, *The Islamic Helix Approach, An Islamic Social Finance Partnership Model for Umkm: Lessons Learnt from Indonesia. This Monetary Policy, Islamic Finance, and Islamic Corporate Governance: An International Review*, 2021.

⁹ Fahmi Azizah, Nurul, & Wijaya, 'Implementation of Sharia Principles in Islamic Banking Financing: A Study of Indonesian Islamic Banks', *Indonesian Journal of Islamic Economics* 14, no. 2 (2022): 123-135.

¹⁰ DSN-MUI, 'Fatwa of the National Sharia Council No. 04/DSN-MUI/IV/2000 on Murabahah', *Directory of Supreme Court Decisions*, 2000, 1-6.

*mudharabah*¹¹. These fatwas provide guidelines for Islamic financial institutions to ensure that their practices are in accordance with sharia principles.¹²

Koperasi Karyawan Listrik (KOKARLIS) Kota Subulussalam is a cooperative institution whose members are employees of PLN in the region. Based on its operational data, this cooperative aims to improve the welfare of its members through various sharia-based financial services as mentioned above. However, in practice, there are a number of challenges that affect the implementation of sharia principles in this cooperative.

In general, KOKARLIS Subulussalam tries to apply financing schemes that are in accordance with sharia provisions. However, the application of *murabaha* and *mudharabah* contracts sometimes does not fully comply with the principles set out in Islamic law. Several aspects such as contract transparency, profit sharing, and sharia supervision mechanisms are often a major concern. In addition, limited human resources with competence in Islamic finance also pose a challenge in ensuring sharia-compliant implementation.¹³

Given these conditions, it is important for KOKARLIS to increase education to its members to broaden their understanding of the use of sharia contracts, such as *mudharabah* and *murabahah*, so that they can be applied appropriately and in accordance with the principles of Islamic law.

Based on initial observations, Subulussalam City, where the majority of the population is Muslim, has great potential to develop cooperatives that operate in accordance with sharia principles. However, there are a number of challenges that must be faced, such as the lack of public understanding of Islamic financing products, limited access to Islamic financial services, and the low level of openness and trust in the system. According to data obtained from the Aceh Cooperative Office (2023), around 65% of the Subulussalam community still relies on conventional financing through non-sharia cooperatives. This phenomenon indicates an urgent need, hence the need for researchers to conduct an in-depth and comprehensive study of the

¹¹ DSN-MUI, 'Fatwa of the National Shari'ah Council No. 07/DSN-MUI/IV/2000 on Mudharabah (Qiradh) Financing', *DSN MUI Fatwa Set.*, 2000, 5.

¹² Chairul Fahmi, 'Revitalising the Implementation of Sharia Law in Aceh (A Study of Law No.11 Year 2006)', *TSAQAFAH* 8, no. 2 (30 November 2012): 295-310, <https://doi.org/10.21111/tsaqafah.v8i2.27>.

¹³ Chairul Fahmi and Syarifah Riyani, 'ISLAMIC ECONOMIC ANALYSIS OF THE ACEH SPECIAL AUTONOMY FUND MANAGEMENT', *Wahana Akademika: Journal of Islamic and Social Studies* 11, no. 1 (2024): 89-104, <https://doi.org/10.21580/wa.v11i1.20007>.

effectiveness and implementation of Islamic financing schemes in the area to answer the existing challenges.¹⁴

Researchers chose the Electricity Employees Cooperative (KOKARLIS) in Subulussalam City as the main location with the main focus of this research is what Islamic financing is often used in the cooperative. Then what are the challenges and obstacles that occur in the management of Islamic financing in cooperatives (KOKARLIS). And how is the review of Islamic law in the practice of Islamic financing in cooperatives (KOKARLIS).

The data used in this study were taken from the last three years, from 2022 to 2024. This range was chosen to ensure that the data used remains relevant and reflects the current conditions related to the implementation of sharia financing schemes in the PLN Employee Cooperative (KOKARLIS) in Subulussalam. This time span was also considered because 2022 was the initial period of recovery after the COVID-19 pandemic, which significantly affected the economic and operational conditions of the cooperative. By covering this period, the research can provide an overview of recent developments in the implementation of sharia contracts, including *mudharabah* and *murabahah* contracts, and identify the challenges and opportunities faced by cooperatives in effectively implementing sharia principles. This limitation also allows the research to evaluate the impact of recent regulatory or policy changes on cooperative operations.

RESEARCH METHODS

This research uses a qualitative approach with a descriptive-analytical research type. The qualitative approach was chosen because this research aims to find out the phenomenon¹⁵ of the implementation of sharia financing schemes in cooperatives in Subulussalam City, especially from the perspective of Islamic law. Descriptive-analytical research is used to find out the condition of the implementation of sharia financing scheme and analyse it based on the principles of Islamic law.¹⁶

¹⁴ Chairul Fahmi, 'The Impact of Regulation on Islamic Financial Institutions Toward the Monopolistic Practices in the Banking Industry in Aceh, Indonesia', *Peuradeun Scientific Journal* 11, no. 2 (30 May 2023): 667–86, <https://doi.org/10.26811/peuradeun.v11i2.923>.

¹⁵ T. Le, J. K., & Schmid, *Research Methods Innovation Practice. Organisational Research Methods*, 2022.

¹⁶ Muhammad Siddiq-Armia, *Determining Legal Research Methods and Approaches*, ed. Chairul Fahmi (Indonesia: Lembaga Kajian Konstitusi Indonesia (LKKI), 2022).

The data sources in this study include primary data, which is data obtained directly by researchers from the original source. Primary data is often referred to as new data or original data that is up-to-date. To collect primary data, researchers extracted information directly through various methods, such as observation, interviews, and documentation. This approach ensures that the data obtained has high relevance and accuracy in accordance with the research needs. Secondary data is data obtained or collected by researchers from pre-existing sources. This data can be accessed through various references, such as books, reports, and journals. In this research, secondary data serves as relevant supporting material and includes *library research*.¹⁷

RESULTS AND DISCUSSION

A. Overview of Research Sites

Koperasi Karyawan Listrik (KOKARLIS) is a cooperative managed by PLN employees in Subulussalam City, Aceh Province. The cooperative was established with the main objective of improving the welfare of its members through various financial services, including sharia-based financing. As a cooperative under the auspices of the PLN employee community, KOKARLIS has a vision to support the economic needs of its members while providing financial solutions in accordance with sharia principles. By adhering to these values, KOKARLIS strives to be a model cooperative that promotes justice and transparency in all its activities.

The city of Subulussalam, where KOKARLIS operates as well as the research area, is located in the southwestern part of Aceh Province. The city is a developing area with significant economic potential, particularly in the energy, trade and micro, small and medium enterprises (MSMEs) sectors. Subulussalam also serves as the centre of activity for people from surrounding sub-districts, making it a strategic administrative city.

B. Types of Sharia Financing Often Used in Subulussalam KOKARLIS Cooperative

The Electricity Employees Cooperative (KOKARLIS) of Subulussalam City has several types of sharia financing schemes that are applied to meet the

¹⁷Library research is a series of activities related to library data collection methods, reading, and recording and processing research materials.

needs of cooperative members. Some types of Islamic financing schemes that are commonly used include:

1. *Mudharabah*

Mudharabah is giving capital to someone who trades so that he gets a percentage of the profit.¹⁸ The definition of *mudharabah* according to Sayyid Sabiq is an agreement between two parties where one party issues a sum of money (as capital) to the other to trade. The profit is divided according to the agreement.¹⁹ The definition of *mudharabah* according to Wahbah Az-Zuhaili is an agreement in which the owner of the capital gives capital (property) to 'amil (manager) to manage it, and the profits become joint property according to what they agreed. Meanwhile, the loss is only borne by the owner of the capital, 'amil does not bear any losses except for his efforts and work.²⁰ While the definition of *mudharabah* according to DSN fatwa No. 07/DSN-MUI/IV/2000 is *Mudharabah* is financing channeled by LKS to other parties for a productive business. In this financing, LKS as *shahibul maal* (owner of funds) finances 100% of the needs of a project (business), while the entrepreneur (customer) acts as a *mudharib* or business manager.²¹ From the above definition, it can be concluded that the definition of *mudharabah* is a contract between *shahibul mal* and *mudharib* for a certain business with profit sharing according to agreement. The profit stated in the contract is determined in the form of a ratio. If the business is run at a loss, the loss is borne by *shahibul mal* as long as the loss is not due to the negligence of *mudharib*. However, if the loss is caused by the negligence of the *mudharib*, then the *mudharib* must be responsible for the loss.

2. *Murabahah*

Murabahah is a *mashdar* from the word *ribhun* which means ziyadah/tambah²². In connection with the provision of this profit can be done in two forms first, profit based on the presentation of the price

¹⁸ Abdullah Al-Muslih, *Fikih Ekonomi Keuangan Islam* (Jakarta: Darul Haq, 2004).

¹⁹ Sayyid Sabiq, *Fiqhus Sunnah Volume 4* (Jakarta : Darul Fath, 2004).

²⁰ Wahbah Az-Zuhaili, *Fiqh Islam Wa Adillatuhu Volume 5* (Jakarta: Gema Insani, 2011).

²¹ DSN-MUI, 'Fatwa of the National Shari'ah Council No. 07/DSN-MUI/IV/2000 on *Mudharabah (Qiradh) Financing*'.

²² Rozalinda, *Sharia Financial Management: Theory and Practice* (Jakarta: Raja Grafindo Persada, 2016).

second, profit based on the amount of the price, for example 10% or 20%. While the definition of *murabahah* in terms is if the seller mentions the purchase price to the buyer, then he requires a certain amount of profit.²³ *Murabahah* according to Sayyid Sabiq is selling goods at the purchase price plus a certain profit.²⁴ *Murabahah* according to Wahbah Az-Zuhaili is selling goods at a clear price, so it can be practised in buying and selling transactions.²⁵ *Murabahah* according to Adiwarman A Karim is a sale and purchase agreement of goods by stating the acquisition price and profit (margin) agreed upon by the seller and buyer.²⁶

3. **Ijarah**

According to Sayyid Sabiq in *Fiqh Sunnah*, *al ijarah* comes from the word *al-ajru* (wage) which means *al-iwadh* (compensation). According to the understanding of *shara'* *ijarah* means a contract for transferring the right to use goods or services followed by payment of wages or rental fees without being accompanied by a transfer of property rights.²⁷ Hanfiyah scholars argue that *ijarah* is a contract or a benefit with a substitute. Meanwhile, the Shafi'iyah scholars argue that *ijarah* is a contract for a benefit that contains a certain purpose and is permissible, and accepts a substitute or permissibility with a certain substitute. The Malikiyyah and Hambali scholars stated that *ijarah* is making property of a permissible benefit within a certain time with a substitute.²⁸ According to DSN MUI fatwa No. 09/DSN-MUI/IV/2000 concerning financing *Ijarah*, *Ijarah* is an agreement to transfer the right to use (benefits) of a good or service for a certain time through rental / fee payments, without being followed by the transfer of ownership of the goods themselves. Thus, the *ijarah* contract does not have a change

²³ Hadi and Syafii, *Fikih Muamalah: A Comprehensive Study of Concepts and Practices* (Jakarta: Kencana, 2017).

²⁴ Sayyid Sabiq, *Fiqh Sunnah Volume III* (Jakarta: Pena Pundi Aksara, 2009).

²⁵ Wahbah Az-Zuhaili, *Fiqh Islam Wa Adillatuhu Volume 4* (Jakarta: Gema Insani, 2011).

²⁶ Adiwarman A Karim, *Islamic Banking: Fiqh and Financial Analysis* (Jakarta: PT RajaGrafindo Persada, 2011).

²⁷ Nurhayati and Wasilah, *Islamic Accounting in Indonesia*, 3rd ed. (Jakarta: Salemba Empat, 2013).

²⁸ Rachmat Syafi'i, *Fiqh Muamalah* (Bandung: CV Pustaka Setia, 2001).

in ownership, but only the transfer of the right to use from the renter to the tenant.²⁹

4. Musyarakah

Musyarakah is derived from the word *al-syirkah* which means *al-ikhtilath* (mixing) or the alliance of two or more things, so that each of them is difficult to distinguish. Such as fellowship of property rights or business partnerships. Etymologically, *musyarakah* is a merger, mixture or union. *Musyarakah* means partnership or in English is called *partnership*. *Musyarakah* is a cooperation contract that occurs between capital owners (*musyarakah partners*) to combine capital and conduct business together in a partnership, with a profit sharing ratio according to the agreement, while losses are borne proportionally according to capital contributions.

5. Qardul Hasan

The definition of *qardhul hasan* according to the language there are two syllables *qardhu* means pieces of property given to the borrower or *muqaridh* while the word *hasan* means goodness. The fiqh experts define *qardh* according to shara' law as follows: First, the Hanafi Madhhab defines *qardh* as property that you hand over or lend to someone in the hope that you get a return of goods in accordance with the loaned goods, because in the science of *qardh* it must be in accordance with objects that have similarities. Second, the Maliki Madzhab defines if a gives a loan to another party something that has the value of the property owned solely to prioritise interests, in the sense that it does not want a loan that is not lawful, with the promise of the capital giver on condition that it does not differ from the object or loan given. Third, the Hambali Madzhab defines *qardhul hasan* as handing over property to someone who can take advantage or benefit from the loan and return it in return. Fourth, the Shafi'i school of thought defines *qardhul hasan* as an agreement made specifically by the lender to transfer ownership of his property to the borrower, and the borrower promises to immediately return all the items borrowed. Fifth, according to

²⁹ Dewan Syariah Nasional - Majelis Ulama Indonesia, 'Fatwa Dewan Syariah Nasional - Majelis Ulama Indonesia Tentang Pembiayaan Ijarah No: 09/DSN-MUI/IV/2000', *Dewan Syariah Nasional MUI*, 2000, 1-4.

Muhammad Muslehudin *qardhul hasan* is a type of loan contract used for the purpose of lending funds. The loan must be returned according to the initial value of the loan because if it is exceeded then it is usury which is strictly prohibited. According to the Indonesian DSN Fatwa, first, Islamic financial institutions must play a role in social institutions that can improve the Muslim economy to the maximum. Second, the means of economic improvement carried out by Islamic financial institutions in channeling funds through the principle of *qardhul hasan*, namely a loan or receivable contract to the borrower of funds, provided that the borrower of funds is obliged to return the funds that have been given to Islamic financial institutions at an agreed time.

C. Challenges and Barriers to Islamic Financing in Cooperatives (KOKARLIS)

In Subulussalam city, there is an increasing trend in the use of sharia financing systems by KOKARLIS cooperatives although the majority of people still rely on conventional financing through non-sharia cooperatives for their business capital needs. This phenomenon indicates that the understanding and application of the principles of sharia contracts in cooperatives is still very limited. Many cooperatives tend to maintain financing patterns that resemble conventional financial practices. Therefore, efforts to educate and strengthen Islamic financial literacy are needed to improve the understanding and application of Islamic contracts more widely and appropriately among cooperatives and the general public.

1. Obstacles in the implementation of Islamic financing

Based on interviews with cooperative managers, it was revealed that although they have implemented the Islamic financing system, their in-depth understanding of the working mechanism and legal basis of the financing is still limited. As expressed by one of the cooperative managers, "We have indeed used *mudharabah* and *murabahah* financing, but honestly we do not fully understand the workings and legal basis of this financing. Sometimes we just follow the existing procedures without really understanding the meaning of the contracts used. All we know is the profit-sharing and sale and purchase system, but how to calculate it according to sharia, we don't really understand.

This phenomenon shows that although cooperatives in Subulussalam city have started to implement sharia financing, the level of understanding of

the management regarding sharia principles and rules is still low. Many administrators use sharia contracts such as *mudharabah* and *murabahah*, but do not fully understand the differences between the two contracts and the procedures for applying them in accordance with sharia principles.

This condition indicates an urgent need to improve knowledge capacity through training and education programmes on Islamic financing. With a better understanding of sharia contracts and their underlying principles, the implementation of sharia financing in cooperatives can run optimally and in accordance with Islamic law.

This lack of understanding can lead to the application of sharia financing that is not optimal, potentially resulting in sharia principles not being implemented correctly. Therefore, increasing the literacy and capability of cooperative administrators and MSME players is the main challenge so that they can utilise Islamic financing effectively and in accordance with Islamic law.

2. Openness, trust and limited access to Islamic financing in Subulussalam city

Based on an interview with a small businessman in Subulussalam city, he explained that "although in theory sharia financing offers fairer and interest-free principles, business people tend to prefer conventional loans through non-sharia cooperatives that use interest." This choice is based on the assumption that the conventional system is easier to understand, transparent and the process is faster. This choice is based on the assumption that the conventional system is easier to understand, more transparent and faster to process. In the conventional system, interest is calculated automatically so it does not require in-depth understanding from the borrower, in contrast to Islamic financing which requires knowledge of the concept of contracts and profit-sharing mechanisms.

The low public trust in Islamic financial institutions is also influenced by the lack of ability of cooperative members in managing sharia-based financing. This leads to a lack of clarity in the application of sharia principles, so that people feel less confident in the consistency and transparency of the system. This factor also reinforces people's preference to continue using the conventional system that they have long known.

Then the limitations of access and infrastructure that support Islamic financing. Based on interviews with MSME players, it is known "that most

Islamic financial institutions are located outside their area, making it difficult to reach. In addition, these institutions are not fully supported by adequate digital technology facilities." As a result, the process of applying for and disbursing financing becomes longer and more complicated compared to conventional loans, which are more practical.

The combination of low trust, lack of understanding and limited access is a major challenge in the implementation of Islamic financing in Subulussalam city. To overcome this problem, several strategic steps are needed, namely:

1. Public education on the principles, mechanisms, and long-term benefits of Islamic financing is needed to increase understanding and trust.
2. Expansion of the network of Islamic financial institutions to remote areas as well as the development of digital technology to accelerate the process of applying for and disbursing financing
3. Training for co-operative members in managing sharia financing to ensure the system is more transparent, consistent and in accordance with sharia principles.

With the implementation of these steps, it is hoped that Islamic financing in the KOKARLIS cooperative can become a more relevant and attractive alternative for small businesses and MSMEs in the city of Subulussalam

D. Islamic Law Review of Sharia Financing Practices

In the perspective of Islamic law, Islamic financing is based on the rules of the Qur'an and the sunnah of the prophet Muhammad SAW, and the *ijtihad* of the scholars to ensure that every all financial transactions do not contain any prohibited elements, such as *usury*, *gharar* (uncertainty), and *maysir* (gambling). However, the application of sharia financing in cooperatives (KOKARLIS) in the city of Subulussalam has obstacles and challenges, which will be described in terms of Islamic law review as follows:

1. Lack of understanding of KOKARLIS cooperative members

Islamic financing is one of the financial instruments based on sharia principles. In the context of cooperatives in Subulussalam city, the interview results show that although sharia contracts such as *mudharabah* and *murabahah* have been implemented, the level of understanding of the management of the mechanism and legal basis of Islamic financing is still limited. One of the cooperative administrators revealed that they only follow the existing

procedures without really understanding the meaning of the contract and how to implement it in accordance with sharia principles.

According to Islamic law, the implementation of Islamic financing must fulfil three main aspects: first, the clarity of the contract; second, the suitability of transaction principles with sharia; third, fairness in profit sharing or pricing. In a *mudharabah* contract, profit sharing must be determined in advance based on mutual agreement, without any elements of *usury* or uncertainty. Meanwhile, in the *murabahah* contract, Islamic financial institutions act as sellers who provide transparent profit margins to buyers. These two contracts require in-depth understanding so that their implementation is in accordance with sharia principles.

Conditions in the city of Subulussalam show that the implementation is not optimal, which can be caused by the low sharia literacy of the cooperative management. This phenomenon can lead to several problems. First, financing practices that are not fully in accordance with sharia principles can lead to the loss of the essence of the sharia contract itself. Second, the board's lack of understanding of the legal basis and mechanism of the contract can affect public confidence in the Islamic financing system. As a result, business actors tend to return to the conventional system which they consider simpler and easier to understand.

From the perspective of Islamic law, financing practices that are not in accordance with the sharia creed can be categorised as *gharar* (uncertainty) or even *ghuluw* (deviation), which is contrary to the principle of justice in muamalah. Therefore, a good understanding of the legal and technical basis of sharia financing is an absolute requirement in its implementation.

2. Regulatory Challenges and Obstacles in Islamic Financing

The practice of Islamic financing in Subulussalam city has significant challenges in its implementation, although in principle, Islamic financing is based on the values of justice and balance according to Islamic law. Based on interviews with small business owners, it was revealed that the majority of people tend to choose conventional loans over Islamic financing. This shows that there is a disconnect between the theory and practice of Islamic financing in the community.

In Islamic law, financing aims to avoid *riba* (interest), *gharar* (uncertainty), and *maysir* (speculation). However, the low level of public trust in Islamic financial institutions, as explained in the interviews, can be

attributed to the lack of public understanding of these concepts. In Islamic law, understanding contracts and intentions is fundamental to ensuring the validity of financial transactions.

In addition, limited access to Islamic financial institutions is another barrier that is relevant in the context of Islamic law. In Islam, convenience and affordability are part of *maqasid sharia* (the purpose of sharia) to provide benefits to the community. The lack of Islamic financial institution networks in remote areas and the lack of digital technology support can be considered not in accordance with the principle of *tas-hil* (convenience) advocated by sharia.

Furthermore, the limited capacity of cooperative managers to consistently apply sharia principles is also an important concern. The unclear application of sharia principles can lead to transactions that are not in accordance with Islamic law, such as the emergence of *gharar* practices. Therefore, in Islamic law, it is important to ensure that the actors of financial institutions have the competence to understand and implement sharia principles correctly.

To overcome these challenges and ensure that sharia financing practices in Subulussalam city are in accordance with Islamic law, several strategic steps can be taken. First, sharia education to the community second, expansion of access and digital technology third, training for sharia cooperative managers fourth, supervision by sharia authorities.

With the implementation of these steps, it is expected that the practice of Islamic financing in Subulussalam city can run in accordance with the principles of Islamic law and become an inclusive solution to the needs of small businesses and MSMEs. Implementation that is consistent with Islamic law will also increase public confidence in Islamic financial institutions, thus supporting sustainable economic growth

CONCLUSIONS

Financing carried out by PLN employee cooperatives (KOKARLIS) in Subulussalam has used various contracts in accordance with the Islamic economic system, such as *mudharabah*, *murabahah*, *musyarakah*, *ijarah*, and *qardul hasan*. However, this research is more focused on financing based on *mudharabah* and *murabahah* contracts. In practice, there are a number of significant obstacles, especially related to the understanding of cooperative managers of the sharia principles that are the main basis for the application of

these contracts. This shows the need to increase sharia literacy for managers so that the implementation of *mudharabah* and *murabahah* financing can run more optimally with sharia provisions. From the perspective of Islamic law, financing practices that are not in accordance with sharia principles can lead to *gharar* (uncertainty), which is contrary to the basic principles of justice in muamalah. This uncertainty not only has the potential to harm cooperative members, but can also reduce public trust in sharia-based financial institutions. Therefore, a good understanding of the legal basis, technical implementation, and governance of sharia financing contracts is an absolute requirement that must be met by cooperative managers. As an improvement effort, continuous training and education is needed for cooperative managers on the principles of Islamic economics and the proper implementation of sharia contracts. Thus, KOKARLIS cooperatives can improve compliance with sharia rules, eliminate the risk of violating Islamic law, and realise justice in every transaction made. Success in this case will not only have a positive impact on the development of the cooperative itself, but can also be a good model for other Islamic financial institutions in the Subulussalam area and in Indonesia in general.

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