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## Letter of Acceptance

Dear **Mr. Muhammad Abrar**

Thank you for submitting your paper which is entitled “The conversion of Mitra Dhuafa cooperation Bireuen district into shariah scheme: an analysis of Indonesia legal norm and fiqh muamalah” for the AL-MUDHARABAH: Jurnal Ekonomi dan Keuangan Syariah. The reviewer has reviewed your paper and the editor suggested that it is ACCEPTED for publication at Vol.5 No.2, 2024.

Should you have any questions, please feel free to e-mail us at [almudharabah@ar-raniry.ac.id](mailto:almudharabah@ar-raniry.ac.id)

We look forward to hearing from you.

  
Chairul Fahmi  
Managing Editor

جامعة الرانيري

A R - R A N I R Y

## THE CONVERSION OF MITRA DHUAFA COOPERATIVE OF BIREUEN DISTRICT INTO SHARIAH SCHEME: An analysis of Indonesia legal norm and Fiqh Muamalah

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### Abstract

The Aceh government requires all financial institutions to operate based on sharia principles, in its implementation there are still obstacles in the conversion process, such as the Mitra Dhuafa Cooperative in Bireuen Regency. The problem is that sharia principles have not been fully implemented in service products and the separation of capital made by cooperatives from conventional ones which still contain usury. The question in this study is how the implementation of Sharia principles in the Mitra Dhuafa cooperative and what are the obstacles faced in the conversion process. This research uses descriptive analysis method to describe systematically, factually, and accurately about the implementation of sharia conversion in Mitra Dhuafa Cooperative. The approach used is a case study with a qualitative research type. Research data were obtained from primary and secondary sources through literature study and interviews with related parties. Data analysis is carried out by systematically compiling information obtained from interviews, field notes, and other documents so that it can be understood and interpreted properly. The results showed that although Mitra Dhuafa Cooperative has converted to a sharia system, there are still some things that are not fully in accordance with sharia principles, especially in the management of capital and sources of funds and product services that are not fully sharia principles. In the perspective of fiqh muamalah, the management of initial funds after converting to sharia must be clean from the elements of usury and gharar, it is also important for cooperatives to provide education to members to understand how the Islamic banking system. It needs support from various cross-sectors to evaluate the constraints and challenges faced by financial institutions after being converted to sharia.

**Keywords:** Aceh, Cooperative, Mitra Dhuafa and Sharia Principles

## INTRODUCTION

Cooperatives are one of the economic pillars that have a strategic role in improving the welfare of society, especially in the micro and medium economic sectors. In the Indonesian context, cooperatives are based on the principles of people's economy as regulated in Law Number 25 of 1992 concerning Cooperatives.<sup>1</sup> Along with the development of the economic system and the demand for sharia-based finance, many cooperatives have begun to convert from conventional systems to sharia systems in order to fulfil the principles of Islamic economics and respond to the needs of the Muslim community.<sup>2</sup>

The presence of sharia cooperatives aims to improve the welfare of its members and the community, while contributing to building a fair economic system in accordance with Islamic principles. cooperatives play a role in helping to develop the potential and economic capabilities of its members so that living standards can improve. The cooperative also seeks to improve the quality of human resources of its members, to become more trustworthy, professional, and consistent in implementing the principles of Islamic economics.<sup>3</sup>

Islamic cooperatives also play a role in building a national economy based on family principles and economic democracy. As an intermediary between fund owners and fund users, cooperatives ensure that assets can be utilised optimally.

The principle applied to Islamic cooperatives is based on wealth is a trust from Allah SWT and cannot be owned absolutely by any individual. Humans are given the freedom to do business as long as it is in accordance with sharia provisions, with the responsibility as khalifah to prosper the earth and uphold justice. In practice, Islamic cooperatives reject all forms of usury as well as the concentration of the economy in a few people in order to create a fairer system. Islamic cooperatives also adhere to basic principles such as the

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<sup>1</sup> Bambang Agus Windusancono. "Efforts to accelerate the growth of micro, small and medium enterprises (MSMEs) in Indonesia." *Mimbar Administrasi Fisip Untag Semarang*, Vol. 18 No. 1 (2021), p.2.

<sup>2</sup> Muhammad Achyar, Chairul Fahmi, and Riadhus Sholihin, "ISLAMIC LAW REVIEW OF MONOPOLY PRACTICES IN MODERN ECONOMICS," *Al-Mudharabah: Jurnal Ekonomi Dan Keuangan Syariah* 5, no. 2 (2024): 288-308.

<sup>3</sup> Alvi Nur Rasyidah and Sri Wigati. "Introduction of Sharia Cooperative Instruments in Community Economic Empowerment." *Oportunitas: Journal of Economics, Management, Entrepreneurship and Cooperative Education*, Vol. 3 No. 1 (2022), pp. 6.

prohibition of maysir (speculation or gambling), gharar (uncertainty in transactions), ihtikar (monopoly and hoarding), and businesses that violate decency and social norms.<sup>4</sup> The co-operative is also prohibited from engaging in transactions that involve haram goods or are contrary to the interests of the people.<sup>5</sup>

In its operations, Islamic cooperatives must ensure that all business activities are halal, good, and beneficial (thayyib). In addition to obtaining business certification, Islamic cooperatives are also required to follow the provisions of the National Sharia Council of the Indonesian Ulema Council (MUI) and do not conflict with applicable laws and regulations. The products offered by Islamic cooperatives include investment or cooperation, sale and purchase, lease, hiwalah (factoring) services, pawn services, and wadiah (deposit) services.<sup>6</sup> With these principles, Islamic cooperatives aim to create an economic system that is transparent, fair, and in accordance with Islamic guidance.<sup>7</sup>

In a legal context, the legal basis of sharia cooperatives in Indonesia is regulated in the Regulation of the Minister of Cooperatives and Small and Medium Enterprises (KUKM) Number 16/Per/M.KUKM/IX/2015, which regulates the Implementation of Sharia Savings and Loan and Financing Business Activities by Cooperatives. Aceh as an area with the implementation of Islamic Sharia, also implements mandatory rules for every financial institution located in Aceh to be converted in accordance with sharia principles. The conversion is based on Qanun No. 11/2018 on Sharia Financial Institutions (LKS) which requires all financial institutions in Aceh to operate in accordance with Sharia principles.

Sharia Financial Institutions (LKS) are institutions engaged in financial services with the basic principles of Sharia. Sharia principles eliminate elements that are prohibited in Islam, such as usury, gharar, and maisir, and

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<sup>4</sup> Siswadi. "The Application of Islamic Values in Non-Bank Financial Institutions (Cooperatives)." *Al-Maqashid: Journal of Economics and Islamic Business*, Vol. 1 No. 2 (2021), p. 20.

<sup>5</sup> Chairul Fahmi, "Revitalisasi Penerapan Hukum Syariat Di Aceh (Kajian Terhadap UU No.11 Tahun 2006)," *Tsaqafah: Jurnal Peradaban Islam* 8, no. 2 (May 3, 2016): 295-309, <https://doi.org/10.21111/tsaqafah.v8i2.27>.

<sup>6</sup> Muhamad Kholid. "Principles of Sharia Economic Law in the Law on Islamic Banking." *Journal of Asy-syari'ah* Vol. 20 No. 2 (2018), pp. 147-148.

<sup>7</sup> Chairul Fahmi, "The Impact of Regulation on Islamic Financial Institutions Toward the Monopolistic Practices in the Banking Industrial in Aceh, Indonesia," *Jurnal Ilmiah Peuradeun* 11, no. 2 (May 30, 2023): 667-86, <https://doi.org/10.26811/peuradeun.v11i2.923>.

replace them with contracts that are in accordance with Islamic law.<sup>8</sup> LKS acts as an intermediary institution that connects parties who have excess funds with parties who need funds through a profit-sharing system, so as to encourage fairer and more sustainable economic growth.

In its implementation, all financial institutions in Aceh, including banks, insurance, pawnshops, and cooperatives, are required to convert from the conventional system to the Shari'ah system. This conversion aims to ensure that all economic transactions in Aceh are in accordance with Shari'ah principles, as well as providing legal certainty for people who want to carry out economic activities in accordance with Islamic teachings.

One of the cooperatives that underwent conversion from a conventional system to a Shariah system is Mitra Dhuafa Cooperative in Bireuen Regency. Mitra Dhuafa Cooperative is one of the cooperative entities that runs economic activities based on community empowerment. During its journey, the cooperative faced challenges and obstacles in the process of converting from a conventional system to a sharia system. This conversion is not just a change in the administrative and operational system, but also involves a matter of legality and conformity with the principles of fiqh muamalah.

This system change is not only driven by internal policies of the cooperative, but also by external policies, such as the Qanun LKS which requires all financial institutions to operate in accordance with Shariah principles. However, in practice, this conversion process did not go perfectly.

In reality, the implementation of the Shari'ah cooperative system in Mitra Dhuafa Cooperative still faces various obstacles. One of the problems that arises is the use of co-operative funds previously managed in the conventional system back into the Shari'ah system. This is contrary to the principle of shariah which requires the purification of funds to be free from usury and non-halal transactions. In reality, there are still cooperative members who do not fully understand the principles of sharia economics, so that the implementation of sharia cooperatives has not run optimally. Another problem is that the service products offered are not fully in accordance with the principles of shariah, as there are still discrepancies in the contracts.<sup>9</sup>

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<sup>8</sup> Neneng Nurhasanah. "Islamic supervision in the operation of Islamic financial institutions." *Mimbar: Journal of Social and Development*, Vol. 29 No. 1 (2013), pp. 12..

<sup>9</sup> Chairul Fahmi, "Analysis Of Legal Aspects On Capital Investment Fraud In Indonesia," *Proceeding of International Conference on Sharia Economic Law (ICoShEL)* 1, no. 1 (September 9, 2024): 79–95.

On the other hand, the principle of cooperative management requires that the system follow the qanun LKS, Mitra Dhuafa Cooperative can be fully implemented in accordance with the principles of Islamic economics. This includes the formulation of Shari'ah-based policies, the development of products that are in accordance with Islamic contracts, and increasing the understanding of cooperative members about the Shari'ah economic system. Thus, Shari'ah cooperatives can function optimally in supporting community welfare and reducing economic disparities.<sup>10</sup>

By considering the above issues, research on the application of Fiqh Muamalah in the conversion process of Mitra Dhuafa Cooperative into a Shari'ah cooperative is important. The research question in this article is to assess the extent of the implementation of Shariah principles in Mitra Dhuafa cooperative and identify the obstacles faced in the conversion process. Through this research, it is hoped that solutions can be found that can strengthen the role of Shari'ah cooperatives in Aceh's economic system more effectively and in accordance with the principles of Islamic principles.

So far, studies related to the sharia system applied to Mitra Dhuafa cooperatives have been studied by many other researchers, but none of them are specifically the same as this research. Based on the results of the review, such as the writing of Zalva Amalia with the aim of this study is to analyse the procedure for applying the murabahah contract to the installment service at the Mitra Dhuafa Cooperative in Lancang Village, Kembang Tanjung District and assess its suitability with sharia principles in the review of fiqh muamalah.<sup>11</sup> Nurul Karila, has also researched a similar study with the topic of the role of the Mitra Dhuafa Cooperative in increasing the economic potential of women in Pasie Raya District, Aceh Jaya, which concluded that this cooperative helps create entrepreneurs and facilitate access to capital, thereby improving the economy of women.<sup>12</sup>

Afila Imro'atun Khasanah, in her research revealed that the mechanism

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<sup>10</sup> 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: Jurnal Ekonomi Dan Keuangan Syariah* 4, no. 1 (July 23, 2023): 28–39.

<sup>11</sup> Zalva Amalia. *Fiqh Muamalah Review of the Application of the Murabahah Agreement on the Installment Service of the Dhuafa Partner Cooperative (Case Study in Lancang Village, Kembang Tanjung District)*. Thesis at the Faculty of Sharia and Law, Ar-Raniry State Islamic University, 2023.

<sup>12</sup> Nurul Karila. *Analysis of the Role of Mitra Dhuafa Cooperative (KOMIDA) in Raising the Economic Potential of Women in Pasie Raya District, Aceh Jaya Regency*. Thesis at the Faculty of Sharia and Law, Ar-Raniry State Islamic University, 2022.

of the murabahah bil wakalah contract at Mitra Dhuafa Cooperative is generally in accordance with Sharia principles, but there are discrepancies in the practice of the wakalah contract. According to the regulations, the murabahah contract must be carried out after the goods become the property of the Islamic financial institution (LKS), while at the Mitra Dhuafa Cooperative the sale and purchase is considered complete when the goods are received by the members.<sup>13</sup>

Zahratul Mahfudhah, has also researched the topic of the joint responsibility system in group financing based on the concept of kafalah at the Mitra Dhuafa cooperative, Darussalam cash branch. The results of his research show that this system is in accordance with the concept of kafalah bi al-mal in muamalah fiqh, and the financing of groups provided by the Mitra Dhuafa cooperative has a positive impact on the financial income of members. However, there are obstacles in the implementation of this financing, especially when members obtain excessive loans from various other financial institutions, making it difficult for members to cover the installments when due.<sup>14</sup>

From various previous studies, no one has specifically discussed the issue of conversion of Mitra Dhuafa Cooperative in the perspective of positive law and fiqh muamalah. Previous studies only talked about the application of various contracts in financing at the Mitra Dhuafa cooperative and the role of the cooperative in improving the lives of its members. While the research to be studied focuses on examining how the implementation of Shariah principles in the Mitra Dhuafa cooperative and identifying the obstacles faced in the conversion process.

## RESEARCH METHODS

The research method that the author uses in this research is descriptive analysis method, namely by making a description of the picture systematically factual and accurate regarding the facts about the object that the author

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<sup>13</sup> Afila Imro'atun Khasanah. *Mechanism of Murabahah Bil Wakalah Akad on Business Capital Financing Products (Case Study at Koperasi Mitra Dhuafa Jakarta)*. Sharia Economic Law (Muamalat) Study Programme. Thesis, Faculty of Sharia and Law, Syarif Hidayatullah State Islamic University Jakarta, 2021.

<sup>14</sup> Zahratul Mahfudhah. *Joint Responsibility System in Group Financing based on the Concept of Kafalah (Case study on Koperasi Mitra Dhuafa Darussalam cash branch)*. Diss. UIN Ar-Raniry Banda Aceh, Thesis at the Faculty of Sharia and Law, Ar-Raniry State Islamic University, 2020.

examines.<sup>15</sup> This research uses a case study approach, with a qualitative research type. The main data sources in qualitative research are derived from primary data and secondary data, using data collection techniques with literature study methods and interviews. Data analysis is carried out by the process of systematically searching and compiling data obtained from interviews, field notes and other materials. So that it can be easily understood and the findings can be informed to others.

## RESULTS AND DISCUSSION

### A. Islamic Cooperatives as part of Islamic Financial Institutions

Financial institutions are an important part of a country's economic system. In general, financial institutions can be understood as an entity engaged in finance with the main activities in the form of collecting and distributing funds. This institution has a very strategic role in maintaining the balance of financial flows in the economy, both at the individual, company and government levels.<sup>16</sup>

In practice, financial institutions can function as managers of funds received from the public in the form of deposits or investments, which are then channeled back to other parties who need funds, such as the business world, government, or individuals who want to develop their business or meet consumption needs.<sup>17</sup> So financial institutions act as a liaison between parties who have excess funds (surplus) and parties who need funds (deficit).<sup>18</sup>

This process is known as financial intermediation, where financial institutions function as intermediaries in financial transactions. In their role as intermediary institutions, financial institutions absorb funds from various sectors of the economy, both from households, companies, and governments. The funds collected are then channeled back in the form of loans, credit, or

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<sup>15</sup> 2003037702 Muhammad Siddiq Armia, *Penentuan Metode Pendekatan Penelitian Hukum* (Banda Aceh: Lembaga Kajian Konstitusi Indonesia (LKKI), 2022), <https://repository.ar-raniry.ac.id/id/eprint/22862/>.

<sup>16</sup> Nur Kholidah. *Textbook of Banks and Other Islamic Financial Institutions (Volume 1)*. East Java: NEM Publisher, 2024, pp. 21.

<sup>17</sup> Fauzi Arif Lubis. "Application of Islamic Banking Financial System." *Human Falah: Journal of Islamic Economics and Business*, Vol. 5 No. 2 (2018), pp. 58.

<sup>18</sup> Chairul Fahmi and Syarifah Riyani, "ISLAMIC ECONOMIC ANALYSIS OF THE ACEH SPECIAL AUTONOMY FUND MANAGEMENT," *Wahana Akademika: Jurnal Studi Islam Dan Sosial* 11, no. 1 (July 17, 2024): 89–104, <https://doi.org/10.21580/wa.v11i1.20007>.



investment to sectors in need.<sup>19</sup>

Financial institutions not only play a role in providing funds, but also in encouraging consumption and distribution of goods and services. Through various financial products and services, such as consumer credit, business financing, and investment, financial institutions help individuals and companies achieve their economic goals. They also provide economic stability by ensuring that available funds are utilised optimally and efficiently.<sup>20</sup>

Sharia Financial Institutions (LKS) are financial institutions that operate based on sharia principles, which are rules that are in accordance with Islamic teachings. In practice, LKS eliminates elements prohibited in Islam, such as usury (interest), gharar (uncertainty), and maysir (gambling), and replaces them with mechanisms based on sharia contracts.<sup>21</sup> The Islamic financial system not only functions as a financial intermediary institution but also as an instrument that upholds the values of justice and balance in the economy.

LKS is fundamentally different from conventional financial institutions in various aspects, both in terms of objectives, operational mechanisms, and the scope of their responsibilities. LKS does not solely aim to make a profit, but also to ensure that every transaction carried out provides benefits for all parties involved, while adhering to Islamic ethical principles.

One of the main characteristics of LKS is the application of the profit-sharing system as an alternative to the interest system used in conventional financial institutions. With the profit-sharing principle, risks and profits in a business are shared fairly between those who provide funds and those who manage funds. This is different from the interest system which is fixed and does not consider the condition of the business run by the borrower.<sup>22</sup>

LKS uses various muamalah contracts in its operations, such as mudharabah (cooperation between capital owners and business managers), musyarakah (partnership between two or more parties in a business with profit sharing according to agreement), murabahah (sale and purchase with an agreed profit margin), and other contracts that are in accordance with

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<sup>19</sup> Rahmat Ilyas. "Capital Management of Islamic Banks." *BISNIS: Journal of Islamic Business and Management*, Vol. 5 No. 2 (2018), pp. 324.

<sup>20</sup> Chairul Fahmi and Peter-Tobias Stoll, "Measuring WTO Approaches in Resolving Palm Oil and Biofuel Trade Disputes from Indonesia," *BESTUUR* 12, no. 2 (December 31, 2024), <https://doi.org/10.20961/bestuur.v12i2.94203>.

<sup>21</sup> Arief Budiono. "The application of sharia principles in Islamic financial institutions." *Law and Justice*, Vol. 2 No. 1 (2017), pp. 55.

<sup>22</sup> Dudi Badruzaman. "Implementation of Shari'ah Economic Law in Islamic Financial Institutions." *Maro*, Vol. 2 No. 2 (2019), pp. 83.

sharia.

As a financial intermediary institution, LKS has a strategic role in promoting economic growth. Its existence allows individuals or companies that lack funds to still obtain access to financing to develop their business without having to be entangled in the practice of usury which is prohibited in Islam. Thus, LKS not only plays a role in providing financial services but also contributes to creating a fairer and more sustainable economic system.

Islamic Financial Institutions are financial institutions that are based on the principles of Islamic law in carrying out their activities.<sup>23</sup> The existence of this institution is inseparable from the initiative of Muslims who want to present a financial system that is in accordance with Islamic teachings, especially in terms of prohibiting usury, speculation, and transactions that contain elements of gharar (uncertainty).

The forerunner of Sharia Financial Institutions internationally began in 1973, when Islamic countries incorporated in the Organisation of the Islamic Conference (OIC) held a meeting in Benghazi, Libya.<sup>24</sup> During the conference, it was agreed on the need for a financial institution that could support the economic development of Islamic countries in accordance with sharia principles. As a follow-up to this agreement, on 20 October 1975, the Islamic Development Bank (IDB) was established with an initial capital of 2 billion Islamic dinars. The establishment of the IDB became an important milestone in the development of the global Islamic financial system. The IDB not only functions as a development bank, but also inspires various Islamic countries to start developing sharia-based banking and financial systems. Countries such as Saudi Arabia, Dubai, Egypt, and several other Islamic countries began to establish Islamic banks to meet the needs of Muslims in Islamic transactions.

In Indonesia, the forerunner of Islamic banking began to appear with the existence of Article 6 in Government Regulation Number 72 of 1992 concerning Banks Based on Profit Sharing Principles, which regulates financial or banking institutions. Although this regulation does not explicitly mention the term "Islamic bank" or "Islamic financial institution", the article regulates that financial institutions can provide financing for customers based on profit-

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<sup>23</sup> Triana Sofiana. "Construction of Sharia Cooperative Legal Norms in the Framework of the National Cooperative Legal System." *Journal of Islamic Law*, Vol. 12 No. 2 (2014), pp. 136.

<sup>24</sup> Muhammad Syafi'. "Socialisation of Murabahah Products (Micro Business Financing) Bank Syariah Mandiri Jember Branch to Dasa Wisma Management Alam Hijau Housing RT. 04 Sempusari Jember." *Mujtama': Journal of Community Service*, Vol. 1 No. 1 (2021), pp. 11.

sharing principles. This is an early indication that sharia-based financial systems are gaining recognition in Indonesia.<sup>25</sup>

An important momentum in the history of Islamic finance in Indonesia occurred in 1992, with the establishment of the first Islamic bank in Indonesia, Bank Muamalat Indonesia (BMI). BMI is present as a bank that applies sharia principles in its operations, by promoting a profit-sharing system as an alternative to the interest system that applies in conventional banks.<sup>26</sup> The presence of BMI became a pioneer in the Islamic financial industry in Indonesia, thus encouraging the growth of other Islamic financial institutions in the following years.<sup>27</sup>

Law Number 21 Year 2008 on Islamic Banking is the main legal basis governing Islamic financial institutions in Indonesia, especially banks that operate based on sharia principles. This law was enacted on 16 July 2008 and became the foundation for the development and supervision of the Islamic banking system in Indonesia.<sup>28</sup>

The law is the legal basis that regulates the implementation of a banking system based on sharia principles in Indonesia. In this regulation, it is affirmed that Islamic banking must operate in accordance with Islamic values which include the prohibition of *riba* (interest), *gharar* (uncertainty), and *maysir* (speculation). These principles aim to create a financial system that is fair, transparent, and orientated towards the common good. This law is based on economic democracy and the precautionary principle. Economic democracy focuses on equitable financial distribution, so that every layer of society has the same opportunity to gain access to Islamic banking services. Meanwhile, the precautionary principle requires every Islamic financial institution to operate with good risk management, ensure financial stability,

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<sup>25</sup> Rachmadi Usman. *Legal aspects of Islamic banking in Indonesia*. Jakarta: Sinar Grafika, 2022, p. 105.

<sup>26</sup> Mohammad Ghazali, Muhammad Ulul Azmi, and Wahyu Nugroho. "The Development of Islamic Banks in Southeast Asia: A Historical Study." *Falah: Journal of Islamic Economics*, Vol. 4 No. 1 (2019), pp. 45.

<sup>27</sup> Iwandi Iwandi, Rustam Efendi, and Chairul Fahmi, "THE CONCEPT OF FRANCHISING IN THE INDONESIAN'S CIVIL LAW AND ISLAM," *Al-Mudharabah: Jurnal Ekonomi Dan Keuangan Syariah* 4, no. 2 (September 29, 2023): 14-39, <https://doi.org/10.22373/al-mudharabah.v5i2.3409>.

<sup>28</sup> Ahmad Luqman Hakim and Irfa Munandar, "THE LEGALITY OF MURABAHAH CONTRACTS SYSTEM IN ISLAMIC FINANCING INSTITUTIONS: An Analysis of Muḥammad Bin Ṣāliḥ Al-Uṣaimīn's Thought," *JURISTA: Jurnal Hukum Dan Keadilan* 7, no. 1 (2023): 24-36, <https://doi.org/10.1234/jurista.v7i1.66>.

and protect customer interests.<sup>29</sup>

The main function of Islamic banking as stipulated in this law is as an intermediary institution that collects funds from the public and redistributes them in the form of financing in accordance with sharia principles. Not only that, Islamic banks also play a role in improving the national economy through support for productive sectors and partnership-based economic empowerment.<sup>30</sup> Islamic banking not only functions as a financial institution, but also as a means to realise social justice and welfare that is evenly distributed throughout society.<sup>31</sup>

The main objective of this regulation is to ensure that the Islamic financial system can develop in a healthy, strong, and highly competitive manner. Through the application of sharia principles in banking activities, it is expected to create a more stable and inclusive financial system, which can support national development in a sustainable manner. With the increase in economic justice, togetherness in business, and equitable distribution of welfare, the Islamic banking system is expected to make a real contribution to the overall economic progress of Indonesia. In general, Islamic Financial Institutions are divided into two main categories, namely:<sup>32</sup>

1. Bank-Based Islamic Financial Institutions. This type of financial institution includes Islamic banks that operate on sharia principles, both in the form of Islamic Commercial Banks (BUS) and Islamic Business Units (UUS) owned by conventional banks. These Islamic banks provide various services such as savings, financing, and investment in accordance with sharia provisions.
2. Non-bank Islamic financial institutions that operate based on sharia principles, such as Baitul Maal wat Tamwil (BMT), Islamic insurance, Islamic pawnshops, Islamic Cooperatives, Islamic capital markets, and Islamic mutual funds. These institutions have an important role in

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<sup>29</sup> Puja Ansari and Intan Quratul Aini, "Implementation of DSN-MUI Fatwa Number 108/DSN-MUI/X/2016 Concerning Halal Tourism at Tuan Tapa Tourism, South Aceh," *AJIEL - Ar-Raniry Journal of Islamic Economic Law* 1, no. 1 (June 30, 2024): 54–75.

<sup>30</sup> Dewi Sukma Kristianti. "Integration of Sharia Principles in the Intermediation Function of Islamic Financial Institutions." *Undang: Journal of Law* Vol. 3 No. 2 (2020), pp. 322.

<sup>31</sup> Neilul Masyitah et al., "Factors of Exchange of Waqf Property According to Positive Law and Islamic Law in Indonesia: A Case Study in Pidie District of Aceh Province," *AJIEL - Ar-Raniry Journal of Islamic Economic Law* 1, no. 2 (December 1, 2024): 97–118.

<sup>32</sup> Andri Soemitra. *Islamic banks & financial institutions*. Jakarta: Prenada Media, 2017, p. 59.

supporting the community's economy, especially in providing wider access to financial services in accordance with Islamic principles.

Financial institutions have an important role in the economic system as a link between those who have excess funds and those who need funds. Through the financial intermediation process, these institutions help channel funds in the form of loans, credits, or investments so as to support economic growth and financial stability.

Sharia Financial Institutions (LKS) are present as an alternative to the conventional financial system based on Islamic principles. In its operations, LKS avoids elements of usury, gharar, and maysir, and replaces them with a profit-sharing system and sharia contracts such as mudharabah, musyarakah, and murabahah. With this approach, LKS does not only aim to make a profit, but also ensures justice and economic balance for all parties involved.

One form of LKS implementation is the presence of Cooperatives as an economic solution based on justice and shared prosperity. Unlike conventional cooperatives, this cooperative is based on Islamic economic principles that emphasise honesty, transparency, and social care. Its existence is not just for financial gain, but also carries moral values in every economic activity.

As an economic institution that operates based on the fatwa of the National Sharia Council (DSN) of the Indonesian Ulema Council (MUI), Islamic Cooperatives must comply with the stipulated sharia provisions. One of the main guidelines that form the basis of its operations is Fatwa Number 141/DSN-MUI/VIII/2021, which regulates various aspects, from establishment, institutions, to capital and business activities. By adhering to these rules, Sharia cooperatives ensure that every transaction and decision made is in line with Islamic ethics and free from usury, gharar (uncertainty), and harmful speculation.<sup>33</sup>

Sharia cooperatives are not only a platform for collective business, but also a symbol of justice in the economy. Every member of the cooperative has equal rights in decision-making and in enjoying the results of the business. There is no distinction based on social or economic background. This system reflects the principle of equality, where the common welfare is prioritised over

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<sup>33</sup> Iwandi Iwandi, Rustam Efendi, and Chairul Fahmi, "THE CONCEPT OF FRANCHISING IN THE INDONESIAN'S CIVIL LAW AND ISLAM," *Al-Mudharabah: Jurnal Ekonomi Dan Keuangan Syariah* 4, no. 2 (September 29, 2023): 14–39, <https://doi.org/10.22373/al-mudharabah.v5i2.3409>.

the interests of a few individuals.<sup>34</sup>

One of the main principles that distinguishes Sharia cooperatives from conventional financial institutions is the prohibition of usury. In the Islamic economic system, usury is considered a form of exploitation that can harm the weaker party. In every transaction and financing system, Sharia cooperatives avoid interest and replace it with a profit-sharing scheme that is fairer and more beneficial to all parties. Transparency and accountability are important cornerstones of cooperative operations. Every member has the right to obtain clear information about the financial condition and policies taken by the cooperative management. With this openness, trust between members can be maintained, and the practice of abuse of authority can be minimised.<sup>35</sup>

Sharia cooperatives also show their concern for the community by integrating various social programmes in their activities. Entrepreneurship training, interest-free business capital assistance, and other social activities are part of the cooperative's efforts to empower the community's economy. In this way, the cooperative not only helps its members, but also participates in creating a fairer economic environment.

The principle of prohibiting speculation and gharar is also an important guideline in conducting business. Sharia cooperatives do not engage in unclear or high-risk investments that could harm members. Instead, the cooperative only invests in sectors that have real value benefits and are in accordance with Islamic ethics. With this principle, the cooperative not only maintains the financial stability of its members but also helps to create a healthier and safer economic climate.

## **B. The Conversion System at Mitra Dhuafa Cooperative in the Context of the Rules of National Law and Qanun**

Mitra Dhuafa Cooperative is a financial institution oriented towards community economic empowerment, especially in supporting the welfare of its members through cooperative principles. Along with the increasing awareness of the importance of the Islamic financial system, Mitra Dhuafa Cooperative took a strategic step to convert from a conventional system to a sharia system. This conversion was carried out with reference to the applicable

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<sup>34</sup> Dewi Tenty Septi Artiany. *Creative Economy Co-operative Product Collective Brand*. Bandung: Alumni Publishers, 2018, pp. 67.

<sup>35</sup> Yoga Permana and Fauzatul Laily Nisa. "The Concept of Justice in the Perspective of Islamic Economics." *Darussalam Journal of Sharia Economics*, Vol. 5 No. 2 (2024), pp. 81.

regulations, namely Law Number 21 of 2008 concerning Sharia Banking and Aceh Qanun Number 11 of 2018 concerning Sharia Financial Institutions (LKS).

Law 21/2008 regulates the basic principles in Islamic banking, which include the prohibition of usury, gharar, and maisir practices.<sup>36</sup> In this context, Mitra Dhuafa Cooperative adjusted all of its products and services to comply with sharia principles. One of the first steps in this conversion was to change the financing system from an interest-based scheme to one based on sharia contracts, such as murabahah, mudharabah, and musyarakah.

The conversion process also refers to Aceh Qanun No. 11/2018, which requires all financial institutions in Aceh to implement the sharia system. This requires Mitra Dhuafa Cooperative to make operational adjustments, including the establishment of a Sharia Supervisory Board (DPS) responsible for ensuring sharia compliance in every transaction. This DPS has an important role in overseeing the implementation of sharia principles within the cooperative.

Based on the Minister of Cooperatives and SMEs Regulation No. 16/2015 on the Implementation of Sharia Savings and Loan and Financing Business Activities by Cooperatives, cooperatives that wish to operate based on sharia principles must fulfil several institutional requirements.<sup>37</sup> First, the change in the status of a cooperative to a sharia cooperative must be approved by the members' meeting. Second, this change in business activities must be done through an amendment to the articles of association, in which the cooperative must include that all of its business activities are only based on sharia principles before being submitted to the Minister. Third, after changing its business to a sharia cooperative, the cooperative cannot revert back to a conventional cooperative form.

Fourth, sharia cooperatives are required to have a Sharia Supervisory Board consisting of a minimum of two people, where at least half of the board members must be certified by the National Sharia Council of the Indonesian Council of Ulama (DSN-MUI). Fifth, the process of converting a cooperative into a sharia cooperative has a maximum time limit of one year after the cooperative has obtained approval from the Minister of Cooperatives and

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<sup>36</sup> Muhamad Kholid. "Principles of Sharia Economic Law in the Law on Islamic Banking." *Journal of Asy-syari'ah* Vol. 20 No. 2 (2018), pp. 147-148.

<sup>37</sup> Farid Hidayat. "Alternative Supervisory System in Sharia Savings and Loan Cooperatives (KSPPS) in Realising Shariah Compliance." *Journal of Mahkamah: Studies in Legal Science and Islamic Law*, Vol. 1 No. 2 (2016), pp. 383.

SMEs.

According to Riski Maulana, in relation to the implementation of Aceh's Qanun No. 11/2018 on Sharia Financial Institutions (LKS) which requires all cooperatives operating in Aceh to convert to the Sharia system within three years of its enactment, the Office has sent letters to all cooperatives to make the conversion immediately. The main difference between conventional and sharia cooperatives lies in the contracts used. Each cooperative is required to have a Sharia Supervisory Board (DPS) with a minimum number of two people, one of whom must have a certificate issued by the Indonesian Ulema Council (MUI) as one of the requirements for conversion.<sup>38</sup>

In the course of the conversion, Koperasi Mitra Dhuafa conducted socialisation to members and other stakeholders. This socialisation aims to provide a comprehensive understanding of the Islamic financial system and the benefits derived from its implementation. In addition, the cooperative also conducted training for employees so that they understand the basic concepts of Islamic banking and are able to apply them in their daily operational activities.

This socialisation in reality faces many challenges as well, such as many cooperative administrators who misunderstand the principles of Sharia, assuming that the application of Sharia principles means the prohibition of interest and profit. This is actually a misconception, as co-operatives still need to earn income in order to cover their operational costs. Without income, the co-operative could go bankrupt.<sup>39</sup>

One of the main challenges in the conversion process is adjusting the profit system from interest-based to fee-based income. To address this, Mitra Dhuafa Cooperative is working with a sharia information system provider to develop a platform that complies with sharia principles.

According to Irmayani, the banking system at Mitra Dhuafa Cooperative is still not fully implementing sharia principles. This is reflected in the lack of clarity in the management of initial funds after conversion to a sharia system. Then in the service products offered, not all are fully in accordance with sharia provisions.<sup>40</sup>

In line with Irmayani, Tajuddin explained that cooperatives that switch

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<sup>38</sup> Riski Maulana, Administrative Staff at Mitra Dhuafa Cooperative Bireun Branch, interview on 3 February 2025.

<sup>39</sup> Riski Maulana, Administrative Staff at Mitra Dhuafa Cooperative Bireun Branch, interview on 3 February 2025.

<sup>40</sup> Irmayani, Member of Mitra Dhuafa Cooperative Bireun Branch, interview on 5 February 2025



from conventional systems to sharia systems have challenges in separating capital from sources that contain usury (interest). Most of the co-operative's capital is collected from the Residual Results of Operations (SHU), which is the profit earned by the co-operative after running business activities. However, when a co-operative switches to sharia principles, capital derived from activities that contain usury or are not in accordance with sharia principles can no longer be used, causing the co-operative's capital reserves to decrease.<sup>41</sup>

The data above shows that there are still challenges in realising the sharia system in Mitra Dhuafa Cooperative, where the challenges faced are that there are still many members who do not understand the concept of sharia cooperatives, the service products are still not fully sharia, and the management of initial funds is still wrong and not in accordance with sharia principles.

The service products offered by the cooperative are; a. General Financing provides access to unsecured funds with a simple process and continuous assistance. b. Financing ARTA helps members obtain quality household appliances and electricity facilities, including new connections or adding power. c. Micro Business Financing supports the development of members' businesses with greater capital, especially for those who have been joining for a long time. d. Education Bailout Funds help children's school fees. Education Bailout Fund helps members' children's school fees so that they can continue their education. e. Sanitation Loan is used to improve clean water and sanitation facilities in order to improve family health. f. Home and Business Renovation Financing provides solutions for members who want to repair or rebuild their homes and businesses. g. Farm Loan allows farmers to pay instalments. Agricultural Loan allows farmers to pay instalments after the harvest period, so they can focus on farming without the burden of weekly instalments.<sup>42</sup>

In terms of fund raising, Mitra Dhuafa Cooperative adopts sharia savings and deposit schemes based on wadiah and mudharabah contracts. The wadiah contract is used for savings products with the principle of entrustment, while the mudharabah contract is applied to deposit products that allow members to get profit sharing according to a pre-agreed ratio.

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<sup>41</sup> Tajuddin, Member of Mitra Dhuafa Cooperative Bireun Branch, interview on 5 February 2025

<sup>42</sup> Riski Maulana, Administrative Staff at Mitra Dhuafa Cooperative Bireun Branch, interview on 3 February 2025.

Funds collection for the cooperative consists of principal savings, mandatory savings, voluntary savings, retirement savings, holiday savings and qurban savings.

Funds that have been collected from members at Mitra Dhuafa Cooperative will be channelled, by providing credit to small communities and the informal sector using the Grameen Bank method. This method is a microfinance programme specifically designed to help the poor, especially those living in rural areas. The programme focuses on providing loans that can help improve the economic welfare of those in need in rural areas.<sup>43</sup>

For financing cooperatives apply various sharia schemes according to the needs of their members. The murabahah agreement is used for financing consumptive goods, where the co-operative buys the goods the members need and resells them with an agreed profit margin. Meanwhile, musyarakah and mudharabah contracts are applied in business financing, where the cooperative and members share capital and profits based on an initial agreement. In an effort to increase member trust, Mitra Dhuafa Cooperative collaborates with other Islamic financial institutions in fund management. This collaboration aims to ensure that the funds collected and disbursed are truly managed in accordance with sharia principles and are supervised by the competent authorities.

In carrying out its operational activities, the cooperative also pays attention to aspects of transparency and accountability.<sup>44</sup> The cooperative's financial statements are prepared based on sharia accounting standards set by the Indonesian Institute of Accountants (IAI) and audited periodically by sharia auditors. This is done to ensure that all co-operative transactions are in accordance with sharia provisions.

The conversion also implies changes to the cooperative's internal policies, including in the aspects of governance and organisational structure. These changes include adjustments to the sharia risk management system as well as the enforcement of the precautionary principle in the co-operative's operations in order to maintain financial stability.

From a legal perspective, Mitra Dhuafa Cooperative amended its articles of association and by-laws to reflect sharia principles in the

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<sup>43</sup> Riski Maulana, Administrative Staff at Mitra Dhuafa Cooperative Bireun Branch, interview on 3 February 2025.

<sup>44</sup> Nada Annisa, Setia Fitri Alviana Ningrum, and Ersi Sisdianto. "Financial Ratio Analysis of Sharia Cooperatives." *Scientific Journal of Economics and Management*, Vol. 2 No. 5 (2024), pp. 104.

cooperative's business activities. These changes were ratified through the cooperative members' meeting as the highest authority in decision-making.<sup>45</sup>

In its implementation, the cooperative also faces challenges in building an integrated sharia business ecosystem. To overcome this, the cooperative collaborates with various institutions that have a similar vision in developing a sharia-based economy, including local governments and academics competent in the field of Islamic economics.<sup>46</sup>

As part of its sustainability strategy, Mitra Dhuafa Cooperative also introduced an Islamic financial literacy programme to its members. This programme aims to improve people's understanding of sharia financial concepts and provide skills in managing finances more effectively and in accordance with Islamic law.<sup>47</sup>

The conversion process not only impacts the internal system of the cooperative, but also the mindset and work culture of the co-operative's employees and members. With this change, it is expected that a collective awareness of the importance of carrying out halal and blessed economic transactions will be formed. The success of this conversion process is also inseparable from the support of the government and regulators, who provide guidance and supervision in ensuring that the cooperative truly implements sharia principles as a whole.

In the long run, the conversion is expected to increase the competitiveness of Mitra Dhuafa Cooperative in the Islamic finance industry. With more people interested in sharia transactions, the co-operative has a great opportunity to grow and expand its reach. In addition, the social impact of this conversion is also a major concern. By implementing the sharia system, the cooperative is expected to provide wider benefits to the community, including in improving economic welfare and building a more inclusive and equitable financial system.

### **C. Fiqh Muamalah Review of the conversion of Mitra Dhuafa Cooperative in Bireuen Regency**

In its implementation, the Mitra Dhuafa cooperative in Bireuen Regency is still facing various problems and obstacles that need more

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<sup>45</sup> Riski Maulana, Administrative Staff at Mitra Dhuafa Cooperative Bireun Branch, interview on 3 February 2025.

<sup>46</sup> Riski Maulana, Administrative Staff at Mitra Dhuafa Cooperative Bireun Branch, interview on 3 February 2025.

<sup>47</sup> Riski Maulana, Administrative Staff at Mitra Dhuafa Cooperative Bireun Branch, interview on 3 February 2025.

attention, especially in the process of converting the cooperative which is expected to be fully in accordance with sharia principles. One of the main problems found is that the product services provided by the cooperative are still not fully in accordance with sharia provisions. Although the cooperatives are trying to implement sharia principles, in practice, the products offered, such as financing or savings, are often not free from elements that are contrary to Islamic law, such as usury and gharar (uncertainty)

The issue of segregating capital from usury-containing sources has been a major problem in this co-operative transition. Most of the capital of Mitra Dhuafa cooperative has been raised from the Sisa Hasil Usaha (SHU), which is the profit earned by the cooperative after running its business activities. This SHU was initially obtained from transactions that were not fully compliant with sharia principles, where part of the business results came from sources that contain usury or interest. When the cooperative switches to sharia principles, this causes difficulties, because capital derived from business activities that contain usury can no longer be used for the continuity of the cooperative.

The separation of usury capital from halal capital is very important. If not done carefully, this can lead to a significant reduction in the amount of the co-operative's capital reserves. Most of the co-operative capital available so far has come from activities involving interest transactions or interest-bearing loans, which in Islam are considered haram. Therefore, when the co-operative switches to a pure sharia system, all sources of capital that contain usury must be separated and no longer used. This naturally reduces the amount of capital reserves available to the co-operative, potentially limiting its ability to properly run its operations.

Regarding the service products offered, the principal and compulsory savings of co-operative members should not use the wadiah contract, which means entrustment. In the context of cooperative savings, if the contract used is *wadiah yad dhamanah* (entrustment that may be used by the trustee, in this case the cooperative),<sup>48</sup> then the cooperative is fully responsible for the funds deposited and may use them, meaning that the funds belong entirely to the cooperative members and must be returned.

In fiqh there is a rule that if the entrusted goods may be used by the

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<sup>48</sup> Vina Marlina, and Nanang Sobarna. "Implementation of the Wadi'ah Agreement in Sharia Savings and Loan and Financing Cooperatives." *Koaliansi: Cooperative Journal*, Vol. 2 No. 2 (2023), pp. 69-82.

entrustee, then the contract changes to qard or loan.<sup>49</sup> This means that the principal and mandatory savings funds in cooperatives that use the *wadiah yad dhamanah* contract are basically considered as loans from members to cooperatives. But in its provisions at Mitra Dhuafa Cooperative, principal deposits cannot be withdrawn by cooperative members.

This phenomenon adds to the challenges in the co-operative conversion process. In addition to the issue of capital separation, there is also the challenge of finding new sources of capital that comply with sharia principles. Sharia financing requires cooperatives to transact in a way that does not involve usury, such as using sharia-compliant contracts like murabahah, mudharabah, and musyarakah. However, finding a source of funds that is halal and sufficient for the needs of the cooperative often requires more time and effort, thus disrupting the smooth operation of the cooperative in the short term.

Another issue is the difficulty in educating co-operative members about sharia principles and the importance of segregating halal capital. Many co-operative members do not fully understand sharia concepts in economics, so they may still be stuck in a misconception or find the changes difficult.

On the other hand, the move to shift cooperatives from a conventional system to a sharia system does require time and careful adjustment, both in terms of organisational structure, policies, and applicable regulations. In addition to separating capital that contains usury, cooperatives also need to change the entire pattern of transactions carried out to comply with sharia provisions. This includes agreements with third parties that may have previously used interest as the basis of calculation.

With all these challenges, the conversion of Mitra Dhuafa cooperative into a cooperative that fully operates under sharia principles requires strong support from various parties. Co-operative managers, scholars, and sharia economists need to work together to provide the right direction and solutions so that this conversion can run smoothly and the co-operative can continue to function as an economic institution that provides benefits to the poor. Over time, it is hoped that the cooperative can operate under pure sharia principles and have a major positive impact on the economic welfare of the people of Bireuen Regency.

To achieve this goal, Mitra Dhuafa cooperative needs to strengthen integrity and transparency in every decision and transaction made. This will provide greater trust to members and the community at large, which in turn

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<sup>49</sup> Nurul Ichsan. "Islamic Bank Agreements." *Asy-Syir'ah: Journal of Shariah Science and Law*, Vol. 50 No. 2 (2016). pp. 399-423.

can increase the participation and success of the cooperative in realising broader social and economic goals. The government also needs to provide attention in the form of policies and regulations that support the transformation of cooperatives for the better.

In exploring the potential that exists within the surrounding community to support cooperative funding through halal instruments. With a more sharia-based concept, cooperatives can open up opportunities to increase community involvement in the management of cooperatives in a more equitable and sustainable manner. In the future, this is expected to create a stronger cooperative model, that not only pays attention to aspects of economic profit, but also maintains social sustainability for poor members.

## CONCLUSION

Financial institutions have an important role in the economic system as a link between those who have excess funds and those who need funds through the financial intermediation process. Islamic Financial Institutions (LKS) are present as an alternative to the conventional financial system based on Islamic principles, avoiding elements of usury, gharar, and maysir, and replacing them with a profit-sharing system and sharia contracts such as mudharabah, musyarakah, and murabahah. LKS is not only profit-orientated but also ensures justice and economic balance for all parties involved.

Mitra Dhuafa Cooperative is transforming from a conventional system to a sharia system in accordance with the regulations in Law Number 21 of 2008 on Sharia Banking as well as Aceh Qanun Number 11 of 2018 on Sharia Financial Institutions (LKS). The conversion included changes to financing contracts, the establishment of a Sharia Supervisory Board, as well as operational and governance adjustments according to sharia principles. The main challenges included lack of understanding among members, separation of capital from usury sources, and adjustment of service products to the contract. To overcome this, the cooperative conducted socialisation, training, and cooperation with financial institutions.

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