

Analysis of Members' Understanding of Sharia Contracts in the Operations of the Ukhuwah Bintang Ihsani Sharia Microfinance Cooperative (LKM Syariah)

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ABSTRACT

This study aims to analyze the level of members' understanding of sharia contracts in the operations of the Ukhuwah Bintang Ihsani Sharia Microfinance Institution (LKM Syariah). Understanding of sharia contracts is an important factor in maintaining the institution's compliance with Islamic economic principles. The research method used is a qualitative method with a descriptive approach. Data were collected through in-depth interviews with cooperative administrators and members, direct observation of operational activities, and documentation studies. The results show that members' understanding of sharia contracts is fairly good, particularly in distinguishing between the margin in a *murabahah* contract and interest in the conventional system. Members also understand the legal basis and purpose of contracts such as *mudharabah*, *musyarakah*, and *ijarah*, although a small proportion of members still require further deepening of their knowledge. This finding is in line with the research of Mutmainah (2020), which states that the higher the members' understanding of sharia contracts, the higher the institution's level of sharia compliance. Thus, education and outreach on sharia contracts need to be continuously improved so that the operations of sharia microfinance institutions become increasingly professional and consistent with Islamic values.

Keywords: Sharia Contracts, Members' Understanding, Sharia LKM, Sharia Compliance, Islamic Economics.

INTRODUCTION

The development of sharia microfinance institutions (LKM Syariah) in Indonesia shows an increasingly positive trend along with growing public awareness of the importance of a financial system that is consistent with Islamic principles (Judijanto, 2025). Sharia microfinance institutions have emerged as an alternative solution to the conventional

system, which is considered to contain elements of *riba*, *gharar*, and *maisir* that contradict Islamic teachings (Fadilah et al., 2025). In carrying out their function, LKM Syariah act not only as financing institutions but also as a means of economic empowerment for the community through profit-sharing mechanisms, mutual assistance (*ta'awun*), and social justice. One concrete example of this type of institution is the Ukhuwah Bintang Ihsani Sharia LKM Cooperative, which operates with the aim of helping its members improve their economic welfare based on Islamic values and Islamic brotherhood (*ukhuwah Islamiyah*).

In its operational practice, the sharia cooperative uses various sharia contracts as the basis for each financial transaction. Some commonly used contracts include *mudharabah* (profit sharing), *musyarakah* (capital partnership), *murabahah* (sale and purchase), *ijarah* (leasing), and *qardhul hasan* (benevolent loan) (Sahudi, 2024). These contracts form the legal and ethical foundation for carrying out economic activities that are halal and free from *riba*. Therefore, understanding of sharia contracts is an essential aspect that every cooperative member must possess, so that the economic activities carried out are truly consistent with sharia principles. Without a good understanding of the contracts, members risk misperceiving the concepts of profit, risk, and obligations that arise in each transaction, which can disrupt the harmonization of the cooperative's operations and raise doubts about the validity of its sharia practices (Zahara & Abadi, 2023).

In reality, many members of sharia cooperatives still do not fully understand the types and application of these sharia contracts. A lack of outreach, minimal sharia financial literacy training, and low levels of member education are the main factors causing a gap in understanding between members and administrators. This has an impact on the potential mismatch between the agreed contract and its actual practical implementation. For example, members may understand *murabahah* financing as a conventional interest-based loan system, when in principle the contract is a sale and purchase agreement with a profit margin agreed upon at the outset. Such misunderstanding can create a discrepancy between sharia theory and the economic practice carried out by the cooperative, making it difficult to achieve the sharia cooperative's goal of creating a just and blessed economy (Sofian, 2023).

As a sharia microfinance institution developing within the community, the Ukhuwah Bintang Ihsani Sharia LKM Cooperative bears a great responsibility to ensure that all of its operational activities are consistently grounded in sharia principles. For this to be realized, active participation from all members is required — not only administrative involvement, but also an understanding of the substance of each contract used. Therefore, an analysis of the level of members' understanding of sharia contracts is highly important to conduct. Through this research, it is hoped that the extent of members' sharia literacy can be

identified, as well as the factors that influence their understanding of the contracts applied within the cooperative (Alamsa, 2025).

The results of this study are expected to make a real contribution to improving the quality of education and mentoring for members of the Ukhuwah Bintang Ihsani Sharia LKM Cooperative. In addition, this research is also expected to serve as evaluation material for cooperative administrators in designing more effective outreach and training strategies for sharia contracts, so that all of the cooperative's operational activities are truly consistent with Islamic sharia principles. Thus, this cooperative can become a model sharia microfinance institution that is oriented not only toward economic welfare, but also toward blessings and the value of social justice taught in Islam.

THEORETICAL REVIEW

Theory of Sharia Contracts (Fiqh Muamalah)

In *fiqh muamalah*, the theory of sharia contracts occupies a fundamental position because it forms the basis for the validity of a transaction carried out by individuals or sharia financial institutions. A contract (*akad*) is understood as an *iltizam*, or a binding commitment between two or more parties to carry out an exchange of benefits, ownership, or business cooperation in accordance with sharia provisions. Every contract must fulfill the main pillars and conditions, namely the presence of contracting parties (*al-'aqidain*), a clear and halal object of the contract (*al-ma'qud 'alaih*), and a contract statement (*sighat*) in the form of offer (*ijab*) and acceptance (*qabul*) that indicates agreement without coercion (Romli, 2021).

The core principles of sharia contracts — such as justice, transparency, mutual consent, and the absence of *riba*, *gharar*, and *maisir* — are values that must be upheld so that transactions produce benefit and blessing for all parties. In the practice of sharia financial institutions, including sharia cooperatives, contract theory functions not only as a legal guideline but also as an operational framework for developing products and services. The Ukhuwah Bintang Ihsani Sharia LKM Cooperative applies several types of contracts, such as *murabahah*, *mudharabah*, and *musyarakah*, each with different characteristics and rules. *Murabahah* is a sale and purchase contract with an added profit margin agreed upon at the outset; *mudharabah* is a cooperation contract between the capital owner and the business manager, in which profits are shared according to an agreed ratio; while *musyarakah* is a cooperation contract involving capital contributions from two or more parties, with profits shared based on an agreed ratio and losses shared according to each party's capital share (Dasopang, 2022).

Sharia Cooperative

A sharia cooperative is an economic institution based on the principles of mutual assistance (*ta'awun*), justice, and togetherness (*ukhuwah Islamiyah*), with the aim of improving members' welfare without containing elements of *riba*, *gharar* (uncertainty), and *maisir* (speculation) (Zahara & Abadi, 2023). A sharia cooperative is an economic institution of the community founded on Islamic sharia, with business activities that involve a profit-sharing system and the principle of profit and loss sharing. Meanwhile, according to Law Number 25 of 1992 concerning Cooperatives, a cooperative aims to advance the welfare of its members in particular and society in general. By integrating sharia principles, a sharia cooperative differs fundamentally from a conventional cooperative, particularly in terms of its contracts and financial mechanisms. Every economic activity is carried out on the basis of halal transactions with contracts that are valid under sharia, supervised by a Sharia Supervisory Board, and oriented toward social justice and economic blessing (Resti et al., 2021).

Sharia Contracts in Cooperative Operations

A sharia contract is an agreement between two or more parties to carry out an economic transaction consistent with Islamic principles. In the context of a sharia cooperative, the contract serves as the primary basis for all financial activities, both in fund collection and business financing. According to (Romli, 2021), a contract is a binding agreement that carries legal and moral consequences between the parties, based on an agreement that is valid under sharia. Several contracts commonly used in sharia cooperatives include:

1. **Mudharabah** is a form of cooperation between the capital owner (*shahibul maal*) and the manager (*mudharib*) using a profit-sharing system according to an agreed ratio.
2. **Musyarakah** is a form of cooperation between two or more parties who jointly contribute capital and share both profits and losses.
3. **Murabahah** is a sale and purchase transaction in which the seller discloses the cost price of the goods and the profit margin transparently.
4. **Ijarah** is a leasing contract for the benefit of goods or services in exchange for a certain fee.
5. **Wadiah** is a deposit or safekeeping of funds from members with the cooperative, whose security is guaranteed.
6. **Qardhul Hasan** is a benevolent loan without any additional profit, intended purely for social purposes.

The correct application of contracts ensures that the sharia cooperative's activities run in accordance with the principle of justice and are free from elements of *riba*, *gharar*, and *maisir* (Aprilia, 2025).

Members' Understanding of Sharia Contracts

Members' understanding of sharia contracts refers to the level of knowledge, awareness, and internalization that cooperative members have in recognizing, explaining, and applying the principles of the sharia contracts used in transactions. According to Atmaja, understanding of contracts is one of the main indicators of the success of a sharia financial institution, because it is directly related to sharia compliance. Members who have a good understanding are better able to participate actively, understand their rights and obligations, and avoid practices that contradict Islamic principles. Conversely, low member understanding can lead to misunderstandings regarding the concepts of profit and risk, and even give rise to transaction practices that are not consistent with sharia (Atmajaya et al., 2024).

Factors that influence members' level of understanding include their level of education, their experience transacting with sharia institutions, the intensity of outreach and training conducted by the cooperative, and the role of administrators in providing ongoing sharia financial education. Therefore, sharia education and literacy need to become an important part of the cooperative's programs to ensure that practices align with Islamic values (Safitri et al., 2025).

Sharia LKM Operations

Sharia Microfinance Institutions (LKM Syariah) play a role in providing financial access to small communities not yet served by formal banking institutions. According to the Financial Services Authority (OJK, 2015), LKM Syariah carry out an intermediation function based on sharia principles, namely channeling funds from members to productive business financing through a profit-sharing system and social community activities. LKM Syariah operations encompass savings, financing, and investment activities grounded in valid sharia contracts (Sahudi, 2024).

The Ukhuwah Bintang Ihsani Sharia LKM is one such institution that has adopted a sharia-based cooperative model, focusing on the economic empowerment of small and medium communities. For sharia principles to be genuinely implemented in every activity, members' understanding and awareness of the contracts used become a key factor. With good understanding, it is hoped that the cooperative's operations will run transparently, fairly, and in accordance with sharia.

Conceptual Framework

The conceptual framework of this study illustrates that members' understanding of sharia contracts is the main focus of analysis. This understanding is examined through three types of contracts most frequently used in sharia cooperative activities, namely *murabahah*, *mudharabah*, and *musyarakah* contracts. These three contracts were selected because each represents a different transaction mechanism, so that members' level of knowledge regarding these contracts can provide a clear picture of the extent to which members understand the principles and practice of sharia contracts as a whole. Thus, the better members' understanding of *murabahah*, *mudharabah*, and *musyarakah*, the

better their level of understanding of the basic concepts of sharia contracts applied within the cooperative.



METHOD

This study uses a qualitative research method with a descriptive approach. This approach was used to obtain an in-depth picture of the level of members' understanding of the sharia contracts applied in the operations of the Ukhuwah Bintang Ihsani Sharia LKM Cooperative. Qualitative research was chosen because it is able to explore data holistically and contextually, in accordance with field conditions. Data were collected through in-depth interviews, observation, and documentation.

The informants in this study consisted of cooperative administrators, such as the chairperson, secretary, and treasurer, as well as cooperative members who actively conduct transactions using sharia contracts such as *murabahah*, *mudharabah*, and *musyarakah*. Informants were selected using a purposive sampling technique, namely selecting informants considered to have the best understanding of and direct involvement in the cooperative's operational activities. A total of 8 informants were involved, consisting of 3 core administrators and 5 cooperative members.

The data analysis process was carried out interactively through three stages: data reduction, data presentation, and conclusion drawing, as described by Miles and Huberman. To maintain the validity of the data, the researcher applied source and method triangulation techniques by comparing the results of interviews, observation results, and the cooperative's official documents. Through this method, the study is expected to provide an in-depth understanding of the extent to which members understand sharia contracts and how this understanding affects the implementation of the operations of the Ukhuwah Bintang Ihsani Sharia LKM Cooperative.

RESULTS AND DISCUSSION

Members' Understanding and Application of Sharia Contracts

Based on the results of an interview with informant Arya Afrizal, Marketing Finance officer at the Ukhuwah Bintang Ihsani Sharia LKM Cooperative, it is known that the application of sharia contracts in financing activities has been running well and is tailored to members' needs. In its

operations, the institution uses several types of sharia contracts, such as *murabahah*, *ijarah*, and *mudharabah*.

The *murabahah* contract is applied to financing transactions for consumer goods, such as the purchase of a motorcycle. In its mechanism, the cooperative purchases the goods from a dealer at a certain cost price, then resells them to the member with a profit margin agreed upon at the outset. As a result, there is no element of interest (*riba*), because the cooperative's profit is derived from the sale and purchase margin, not from additional interest on a loan.

Meanwhile, the *ijarah* contract is used for service financing, such as education costs or other administrative needs. In this case, the cooperative provides a service to the member in exchange for an agreed-upon fee. The *mudharabah* contract, on the other hand, is used for productive financing and business cooperation. The profit-sharing system is established at the outset based on an agreement between the cooperative and the member, in accordance with the principles of fairness and transparency in sharia.

These findings show that members' understanding of sharia contracts at the Ukhuwah Bintang Ihsani Sharia LKM is fairly good, particularly in distinguishing between the margin in a *murabahah* contract and the interest system applied at conventional financial institutions. This understanding is an important indicator that education and outreach regarding sharia financial principles have been running quite effectively at the institution. This is in line with the findings of (Harris & Sari, 2023), which state that members' level of understanding of sharia contracts has a significant influence on a microfinance institution's level of sharia compliance. The better members' level of literacy and understanding of contract concepts such as *mudharabah*, *musyarakah*, *murabahah*, and *ijarah*, the smaller the likelihood of practices deviating from Islamic principles, such as elements of *riba*, *gharar*, or *maisir*.

In addition, good understanding also reflects members' awareness of ethical values and responsibility in *muamalah* (economic dealings), which ultimately can strengthen the institution's image and public trust in the Sharia LKM. Therefore, strengthening members' capacity through ongoing training and mentoring is highly necessary so that the implementation of sharia contracts is not only understood theoretically but also applied consistently across all of the financial institution's activities (Saleh et al., 2025).

Risk Management in Financing

In its financing practice, the Ukhuwah Bintang Ihsani Sharia LKM applies financing risk analysis to prevent non-performing financing. This procedure is carried out through several stages: financing application, member eligibility analysis, an approval committee process, and the financing contract itself. Before a contract is approved, the marketing team conducts a thorough analysis of the prospective member's financial condition, the purpose of the financing, and their repayment capacity.

One risk mitigation strategy applied is cooperating with the institutions or foundations where members work, particularly educational institutions such as Yayasan Al Fida Khoirunnaas. This cooperation enables a monthly direct salary deduction system, thereby minimizing the risk of

non-performing financing. This strategy has proven fairly effective, as interview results indicate that the level of non-performing financing at this institution is very low, even though the number of clients reaches into the thousands.

Nevertheless, some cases of non-performing financing were still found — for example, when a member working as a teacher leaves or resigns from the foundation, causing the source of the salary deduction to stop. In such cases, the cooperative conducts direct follow-up with the member or their family to find a resolution. This shows that although the risk management system is already functioning, further strengthening is still needed in the analysis of prospective members and in diversifying collateral to minimize potential future losses.

This finding is consistent with the research of (Azzahra, 2025), which states that the effectiveness of risk management at sharia microfinance institutions depends heavily on the initial financing analysis system and the personal relationship between the manager and the client. In the context of the Ukhuwah Bintang Ihsani Sharia LKM, a trust-based financing approach is an important element in maintaining the sustainability of the relationship between the institution and its members. The social closeness formed through direct interaction and intensive communication allows managers to better understand members' character, business capacity, and level of honesty. This has implications for wiser financing decisions with minimal risk of default.

In addition, a financing analysis system carried out personally and grounded in sharia principles helps ensure that every transaction is consistent with the provisions of the contract, such as *murabahah*, *mudharabah*, or *musyarakah*. Thus, strong social relationships not only play a role in building mutual trust but also strengthen commitment to sharia compliance and moral responsibility among the parties involved. Therefore, a trust-based financing strategy combined with a deep understanding of sharia contracts can serve as an effective model for strengthening risk management and maintaining the sustainability of sharia microfinance institutions (Marbun et al., 2022).

Effectiveness of Sharia Contracts in LKM Operations

The interview results also revealed that the application of sharia contracts at the Ukhuwah Bintang Ihsani LKM functions not only as a legal instrument for transactions but also as a value system that fosters a sense of justice, trustworthiness, and social responsibility. The institution ensures that every contract carried out has transparency in price and margin, as well as an agreement approved by both parties.

This reflects a commitment to the principles of justice (*'adl*) and trustworthiness (*amanah*), which are the main pillars of Islamic economics. The institution has also implemented a wage and salary system consistent with the regional minimum wage (UMK) and government regulations, indicating alignment between sharia principles and compliance with positive law. This research finding is consistent with the results of the study by (Putri, 2025), which states that sharia microfinance institutions that apply contracts based on the principles of transparency and fairness have a higher level of member trust and are better able to maintain the institution's operational stability.

Overall, the results of the study show that members' understanding of sharia contracts at the Ukhuwah Bintang Ihsani Sharia LKM Cooperative falls within the fairly good to high category. This is inseparable from the existence of an informal education system from administrators to members, as well as real practices consistent with sharia principles. The application of *murabahah*, *ijarah*, and *mudharabah* contracts is carried out not only administratively but also accompanied by an awareness of Islamic values, such as honesty, justice, and social responsibility. The risk management carried out by the cooperative also shows a good level of effectiveness, although weaknesses remain in dealing with certain conditions, such as members resigning from their workplace. Overall, however, cooperation with foundations and the salary deduction system have been able to significantly reduce the level of non-performing financing.

Thus, it can be concluded that members' level of understanding of sharia contracts has a positive effect on the effectiveness of the cooperative's operations, particularly in maintaining compliance with sharia principles and financing stability. To improve service quality, the cooperative is advised to enhance its sharia literacy programs and contract training for new members, so that their understanding of the Islamic financial system being implemented becomes increasingly comprehensive (Hasibuan et al., 2022).

CONCLUSION

Based on the results of the study, it can be concluded that the level of members' understanding of sharia contracts at the Ukhuwah Bintang Ihsani Sharia LKM is fairly good and plays an important role in maintaining compliance with sharia principles. Members are able to clearly distinguish between the margin system in a *murabahah* contract and interest at conventional institutions, indicating adequate sharia financial literacy. This understanding also helps drive operational practices at the institution that are consistent with Islamic values and minimizes the potential for deviations such as *riba*, *gharar*, and *maisir*. Therefore, ongoing education and mentoring for members need to continue so that understanding and application of sharia contracts can become increasingly optimal in supporting the sustainability of the Sharia LKM's operations in a sharia-compliant and professional manner.

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