

# **Sharia Knowledge and Funding Utilization of Sharia Cooperatives Member**

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## **ABSTRACT**

Sharia-based cooperatives are becoming a trend in society and are being used as an alternative to financing community businesses. Since usury are strictly prohibited in Islam, Sharia-based cooperatives arise from the transformation between existing cooperative systems. It was established to improve the welfare of its members in accordance with the Islamic principle. This study aims to describe the knowledge and funding utilization of Shariah cooperative members in Painan. Data collected from this study by surveying sharia cooperative members. The result of this study shows that most of the Shariah cooperatives members don't comprehend the Sharia-based cooperatives. Its member not fully utilize the facilities that provide in the sharia based financial institution. Findings, informs that the members join and utilize Shariah financing because of the important word, "Sharia"

**Keywords:** *sharia, Islamic, cooperative, and financing.*

## **1. INTRODUCTION**

National economy is moving immensely fast because of the globalization. Society make use of the financial institution to increase the social welfare. Financial institution also developed through this era. Financial institutions play an important role as a driving force for a country's economy, one of which is to assist business actors in running, expanding and developing their business activities by providing financing [1]. In order to get equal distribution of income and social welfare cause the financial facilities or funds from the financial institution utilized.

To enlarge the business, people increase the capital and employ more work force so as it can increase the social welfare and decrease the unemployment. Likewise, social secondary needs, such as purchasing vehicles and electronic devices can fulfilled. Both business and personal can make use of the financial institution to increase the income and prosperity.

Cooperatives (In Bahasa, it called Koperasi) have long been recognized by the Indonesian as business entities that carry out their business activities based on the principle of kinship.

A cooperative is a business entity whose members are individuals or individuals' cooperative

legal entities based on activities based on principles cooperatives as well as people's economic movements based on the principle of kinship as referred to in the cooperative regulations [2]. Increase the members welfare is the main purpose of the cooperatives, indirectly cooperatives also build the national economics in order to gain the developed, fair, and prosperous society based on Pancasila and the Law [3]. Cooperatives organize and utilize economic resources of its members based on the cooperatives principle and economics objectives to improve standard living of its members.

Generally, cooperatives have an important role in helping the economics development, increasing the business capacity and household economy in particular. Cooperatives as social institutions play an important role in advancing the economy, especially in rural areas. In the development of the rural economy, cooperatives can become a forum for the economic activities of regional communities who are generally of the lower middle class. This middle to the lower-class community is a society that is not accommodated by other business entities. The existence of cooperatives, help the community develop their economic activities and improve their welfare.

There are various types of cooperatives business, there are producer cooperatives, consumer cooperatives, services cooperatives, savings and loan cooperatives. Producer's cooperative provides services in the procurement of production goods. Producer cooperatives consist of small entrepreneurs or small medium entities by carrying out the activities of procuring raw and supporting materials for their members. Consumer cooperatives provide for daily necessities. Buying and selling goods and services is the main activities of consumer cooperatives, therefore it acts as a distributor for producers and consumers. Service cooperatives provide services to its customer. The examples of services cooperative are transport cooperatives, and electricity cooperatives. The last type of cooperatives is savings and loans or credit cooperatives. This type of cooperatives provides savings and loans for their members. Savings and loans cooperatives aim to help its members to provide low interest loans. The loan given is expected to be used for productive efforts and the welfare of its members.

The existence of savings and loan cooperative help the development in economic sector. It also establishes a business that can create jobs, through farming, trading, or other household industries and help to increase the income of the local community. Along with the times, savings and loan cooperatives also continue to transform according to community needs. Nowadays sharia-based cooperatives are becoming a trend in society and are being used as an alternative to financing community businesses that arise from the transformation between existing cooperative systems.

Sharia cooperatives were established to improve mutual welfare between cooperative members in particular and society in general, as well as to participate in building a community-based and equitable community economy and in accordance with Islamic principles. The emergence of sharia cooperatives can be said to be a correction to conventional cooperatives that are considered inconsistent with sharia principles [4].

The concept of establishing a sharia cooperative basically uses the concept of Syirkah Mufawadhoh, which is a business that is jointly established by two or more people, and each of them contributes funds and participates in equal portions. Each member bears each other's rights and obligations, and a

member is not allowed to deposit more capital and get a bigger profit compared to other members [5].

People in Painan who are predominantly Muslim are interested in joining sharia cooperatives because they are economically in need of financing and some companies are afraid of the sin of usury. Sharia cooperatives have many terms that are not commonly used in conventional cooperatives in general. Every activity and transaction in sharia cooperatives is carried out in accordance with Islamic principles. Due to the new development of the Islamic system in cooperatives, many members of Islamic cooperatives do not understand the principles and foundations of Islamic cooperatives.

Based on the description above, this study examines the understanding of Islamic cooperatives members in Painan about Islamic cooperatives. This study aims to describe the knowledge of Islamic cooperative participants regarding Shariaah cooperatives.

## 2. METHODS

This study is a descriptive one aiming to provide deeper knowledge on the Sharia-based cooperation members in Painan. Data for this study were collected during Sharia corporation training for Shariah cooperative in Painan by conducting a survey, interview and a discussion. The purposive sampling technique was used with the criteria members who participated in the training conducted by the Department of Accounting from Universitas Negeri Padang. The responses collected were analyzed descriptively and supplemented by explanations provided by the participants during the discussion.

## 3. RESULT AND DISCUSSION

The respond collected from 35 sharia-based cooperatives members participating in sharia cooperatives training shows based on the demographics shows in Table 1.

**Table 1.** Gender of the participants

	<b>Total</b>	<b>%</b>
Gender		
Female	19	0,54
Male	16	0,46
Total	35	100%

**Table 2.** Gender and Income of the participant

	<b>Total</b>	<b>%</b>
Income/month		
,< Rp2.000.000	5	0,14
Rp2.000.000- Rp4.000.000	7	0,2
Rp4.000.000- Rp6.000.000	15	0,42
Rp6.000.000- Rp8.000.000	6	0,17
>Rp8.000.000	2	0,05
Total	35	100

Participant of this study is 56% female and 46% male. Most of the participant have income per month in the range Rp4.000.000-Rp6.000.000, the percentage shows 42%. There is 17% participant who has income per month between Rp6.000.000-Rp8.000.000. Next, in the Table 2 shows 20% of participants have an income between Rp2.000.000-Rp4.000.000 per months. The percentage of participants that have an income per months above Rp8.000.000 and bellow Rp2.000.000 each 5% and 14%.

Based on the participant respond, generally, analysis shows that the members know about the shariah is usury free. Particularly, the participant who are members and the management do not know how to run best practice the sharia-based corporation.

### ***3.1. The difference between Islamic and conventional cooperatives***

Even after attending the training, not all participant get the point of the difference Islamic and conventional cooperatives. About three-quarter participant can differentiate between them. Both conventional and Islamic cooperation has the same goals in works as a team work, help each other, do democracy in common good. These major philosophy and ethics that highlight the ideas of both cooperatives supported and given in the Moslem guideline, Holy Qur'an. Based on the interview and discussion with the participant of the training, participant respond the conventional cooperatives use interest in running the business but sharia cooperatives, not. The sharia cooperatives exercise the profit sharing with its members.

Based on the respond of survey conducted in this research, a small number of participants

described cooperatives are economic structures with social characteristics that combine economic and social values in them and this is in line with the muamalah aspect where there are aspects of fulfilling needs (muamalah maliah) and aspects related to social life (muamalah al-adabiah). Then, they respond Islamic teachings strongly recommend the importance of musyarawah to reach a consensus, attitudes and steps in trying to do something. This is also reflected in members' meetings which are always held at least once a year in a cooperative known as Rapat Anggota Tahunan (RAT) which is the highest forum for deliberation.

Even almost of the participant can differentiate between Islamic and conventional cooperatives, but they still cannot point out the important things in the sharia, including sharia cooperatives. This important word is "akad" which means agreement. In the cooperatives, akad according to the term contract, it is a transaction or agreement between someone (who gives up) and another person (who receives) for the performance of an act.

### ***3.2. Sharia principle***

The participant who is the member of the sharia cooperatives has limited knowledge about the sharia principle. Most of them respond the sharia principle only not using the interest (excess in loan / debt payments calculated from the loan principal), because it is usury, which is haram, with the argument. After attending the training, participant still cannot describe how sharia conduct activities, the associations and the distribution of funds according to sharia. The use of funds for things that are permissible and lawful, it is haram if the funds are used for what is prohibited / forbidden in Islam.

Most of the participant did describe about sharia cooperatives improve the welfare of members in particular and society in general according to Islamic norms and morals. Participate in building a just economic potential of society by means of Islamic Hospitality or silaturahmi in accordance with Islamic sharia. Equitable distribution of income and wealth among members based on their contribution. Personal freedom in social benefit which is based on the understanding that humans were created only to submit to Allah (God).

### ***3.3. The difference in interest and profit sharing***

The knowledge of the participants about profit sharing are very limited. Most of the participant respond of the differentiation between interest and profit sharing in general. Usually, when borrowing money from a financial institution borrower will be charged interest per month and are required to pay it. The interest system at conventional system is often considered usury or additional taking as a condition that must be paid by the borrower to the financial institution in addition to the principal loan. The interest has various types, such as flat interest, fixed interest, annuity interest, effective interest, etc. All of them have their own calculations when applying for loan loans.

Like interest, the financial institution also gives profit sharing to borrower as remuneration and the amount of money paid to the borrower if he has a loan from the financial institution. Profit sharing has a more different system when compared to interest. The reason is, this system is run with the Islamic principle. Deeply, the participant not describing the types of contracts in the profit sharing. Like interest, profit sharing also has several schemes, such as profit sharing, gross profit sharing and revenue sharing. The participants describe this in the simple way, "interest is the fee you have to pay when borrowing money and you can also earn interest when you lend money".

### ***3.4. The difference between Islamic savings and saving in conventional system***

Most of the participant respond the main differences between Islamic savings and saving in the conventional system is name. Even the participant join the training about the sharia generally, the respond is less accurate. Actually, the contract (akad) is the key that distinguishes sharia and conventional from the point of view of religious provisions. Sharia savings apply a different contract from conventional savings. The contracts used by sharia are quite diverse. This variety of contracts is intended so that the contracts are made in accordance with the objectives and nature of financial transactions. In general, there are two types of contracts: mudharabah and wadiah contracts.

Based on interview with the participant, akad, like mudaraba is uncommon word for them. Even

the participant is the sharia cooperatives member and some are the administrator, most of the words that usually use in the sharia system is uncommon for them.

### ***3.5. Sharia akad***

Participant describe akad in general meaning, which is "contract" between the customer and the financial institution. They could not answer, and discussed about the type of sharia akad further. There are two types of contracts, generally. The first one is mudaraba, which customers place money in the Islamic financial institution with the intention of being manage. The financial institution shared the returns on investment. Akad mudaraba is also divided in several types, but they are not discussed in this research. Islamic guides how someone should manage their money. Therefore, financial institution should manage and invest the funds from its customer in halal industries that comply with sharia principles. The financial institution is free to manage the fund without any restrictions. The important things is some akad between the customer and the bank can be profitable but it can also be a loss. Another type of akad save funds in the Islamic financial institution does not have intention to gain profit sharing and also do not subject to administrative burdens.

Participant's knowledge of the sharia cooperatives system is verry narrow both the member and the manager (administrator). It is also akad (mudlarabah) that investor and the entrepreneur are free to determine the ratio of profit and loss. This concept is good and does not violate Shari'a rules, but at the macro level, when this concept is applied, the tendency of the weaker party (the customer) is to become a victim of the strong (entrepreneur) so that it tends to exploitation. This kind of problem makes it difficult for Syaria financial institution to fully enforce the mudlarabah principle in the macro scope, due to the difficulty of supervising business actors. In contrast to conventional financial institution, which directly targets the company a certain level of return on business. However, a system such as conventional financial institution is not possible for Islamic banks to implement because it is clear that it is usury, due to the existence of an advance requirement.

### 3.6. Sharia funding

Most of the participant could describe the sharia funding. Provision of funds or equivalent claims based on approval or agreement. Activities to provide funds for investment or capital cooperation between the cooperative and its members, prospective members, other cooperatives and / or members, which obliges the recipient of the financing to pay off the principal of the financing received to the cooperative in accordance with the contract accompanied by payment of a share of the revenue or profit from the activity financed or the use of the said financing

### 3.7. Sharia Supervisory Board or Dewan Pengawas Syariah (DPS)

All of the participant did not know about the existence of DPS in cooperatives. The information about sharia supervisory board is given in the training. By knowing that there is a board who supervised the Islamic based financial institution, customer feel saver to utilize the facilities in the Islamic financial institution. DPS is selected by the meeting members. The DPS members consist of at least two people and at least one person must have a Sharia Supervisory Board education and training certificate from the DSN-MUI and / or a certificate of competency standards issued by a professional certification body that has obtained a license in accordance with the provisions of the government regulations. DPS appointed from outside the board members for a term of two years and can be extended based on the decision of a member meeting. DPS is responsible to the member meeting and reports task reports to DSN-MUI at least once a year.

The institutions who developed sharia cooperatives in Indonesia to increase the small medium entities are ministry of cooperatives, local government, Islamic financial institutions (including in this case banking institutions, nonbanking and sharia cooperatives), small medium entities, community, Sharia advisor (Majelis Ulama Indonesia), and academics.

Most of the cooperative's member use the funds from cooperatives to consumption needs. The members who runs business and can borrow funds in order to maximize their market do not get used to use sharia cooperatives facilities.

## 4. CONCLUSION

This study aims to describe deeper insights on sharia-based cooperation knowledge of sharia cooperation member in Painan, West Sumatera, Indonesia. Descriptive method used in this study to describe the sharia cooperatives member as an individual on a particular characteristic, they sharia knowledge. Survey, discuss and interview is conducted to collect the data. The results show that the sharia cooperatives member and manager (administrator) do not comprehend the principle of the sharia system. It can be concluded that the cooperatives member join the sharia cooperatives because halal, free from usury, and obey their believing, Qur'an and God. "Sharia" is the important words, without arguing the cooperatives its self is running according to Islamic principal or not. From the respond of the participant, the findings is sharia cooperatives is not running as it should. This is an unfortunate situation, because if entities want to get best practice shariah cooperatives, all of its member and manager or administrator should comprehend about the Islamic principle in the cooperative.

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