



# THE MOVEMENT OF THE MUHARJAM SAVINGS, LOANS AND SHARIA FINANCING COOPERATIVE (KSPPS) AGAINST USURY PRACTICES IN ENHANCING THE PEOPLE'S ECONOMY BASED ON ISLAMIC ECONOMY

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## ABSTRACT

This study examines the movement carried out by the Muharjam Sharia Savings and Loan Cooperative (KSPPS) against usury practices in an effort to enhance the people's economy based on Islamic economics. The objective of this study is to understand how KSPPS Muharjam plays a role in promoting interest-free financing alternatives and its impact on enhancing the welfare of the community. This study uses a qualitative approach with a case study method, collecting data through observation, documentation and in-depth interviews with cooperative managers, members, and beneficiaries. The findings show that KSPPS Muharjam has successfully implemented Islamic economic principles, such as interest-free financing and profit-sharing systems, which have had a positive impact on community economic empowerment, particularly in the micro and small business sectors. Additionally, this movement has helped reduce dependence on usury-based financing systems that harm the marginalized communities. This study is expected to contribute to the development of a people's economy based on principles of justice, welfare, and sustainability in accordance with the values of Islamic economics.

**Keywords:** KSPPS Muharjam, usury practices; Islamic economics

## 1. INTRODUCTION

In this modern era, where an individual's economic status is often used as a benchmark for success, people are striving to improve society's perception of them by amassing as much wealth as possible, regardless of whether the wealth is obtained through lawful or unlawful means. One example of obtaining wealth unlawfully is through usury (riba) (Imronah & Nursidik, 2022). Usury-based economic practices have become one of the main challenges in building a just economic system, particularly for small and medium-sized communities. Dependence on interest-based financial systems often leads to negative impacts, such as debt traps and worsening economic inequality.

One common example of borrowing and lending involves a trader borrowing money from a moneylender under the condition that the borrower must return the principal amount along with an additional sum. Traders often resort to such transactions because of the ease offered by moneylenders, who do not impose complicated requirements when lending money. Another example is a rice farmer borrowing money from a moneylender to purchase fertilizer and maintain their crops, with the condition that the borrower must repay the principal along with an additional amount in rice (sacks). Besides these examples, conventional financial institutions like banks, multifinance companies, pawnshops, and cooperatives also implement interest-based systems to generate profits.

Riba, defined as an excess amount without any exchange of compensation, is prohibited in the Qur'an and Hadith (Wahbah Az-Zuhaili, 2011). The Qur'an outlines the prohibition of *riba* in several stages.

The first stage merely highlights the negative elements of *riba*, as mentioned in Surah al-Rum [30]:39. The second stage indicates the prohibition of *riba* by condemning the Jewish community for engaging in usurious practices, as stated in Surah al-Nisa' [4]:161. The third stage explicitly prohibits *riba* with a limit on compounding interest (doubled and multiplied), as mentioned in Surah Ali Imran [3]:130. In this context, *riba* refers to debts that, when unpaid by the due date, are extended with the condition of increased repayment. According to Islamic scholars, even if the increment is not compounded, *riba al-nasihah* is still prohibited (Ghofur, 2016). The fourth stage fully bans *riba* in all forms, as declared in Surah al-Baqarah [2]:275.

Apart from these phenomena of *riba*-based economic practices (Prasetiawan & Baedowi, 2023), the *anti-riba* movement or the movement to abandon *riba* has emerged, driven by growing public awareness of its dangers (Wigati, 2022). However, this movement faces limitations, as it has not provided concrete solutions to support the economy through a sharia-based approach.

To address this, the *Koperasi Simpan Pinjam dan Pembiayaan Syariah (KSPPS) Muharjam* was established, offering *riba*-free financing using sharia contracts such as profit-sharing (*mudharabah*), collateral agreements (*rahn*), and cost-plus financing (*murabahah*). This initiative represents an example of Islamic economic movements focusing on community empowerment through a fair and sustainable financing system. By adhering to sharia principles, *KSPPS Muharjam* not only provides an alternative to *riba*-free financing but also actively contributes to improving community welfare, particularly in the micro and small enterprise sectors.

Therefore, this study focuses on the movement led by *Koperasi Simpan Pinjam dan Pembiayaan Syariah (KSPPS) Muharjam* against usurious practices in an effort to enhance community-based economic development through an Islamic economic framework.

## 2. METHODS

Essentially, there are numerous versions and variations regarding the elements of ethics in research. The implementation of these elements is usually tailored specifically to the context of a particular academic environment. However, in general, the following elements are considered universally applicable in every research and scientific writing process, including maintaining honesty, demonstrating humility (*tawādu'*), taking responsibility, being open-minded, exercising diligence, and maintaining objectivity in presentation (UINAM, 2023).

This study employs qualitative research. Qualitative research seeks to uncover meaning, understanding, and insight regarding a case, phenomenon, event, or human life by engaging directly or indirectly with the problem being studied or by interacting with individuals in the

situation or phenomenon. This research also falls under the category of field research. This is because data collection involves directly investigating the object in the field—specifically, the movement of riba-free financing resistance by *Koperasi Simpan Pinjam dan Pembiayaan Syariah (KSPPS) Muharjam* to improve community-based Islamic economic activities. This approach aims to gather clear data and insights related to the issues studied (Musri Yusuf, 2014).

The research is conducted in Kolaka Regency in general and specifically at *Koperasi Simpan Pinjam dan Pembiayaan Syariah (KSPPS) Muharjam*, located on Cumi-Cumi Street, Sea Village, Latambaga District, Kolaka Regency, Southeast Sulawesi Province. The KSPPS is situated in an urban area predominantly populated by communities engaged in the micro, small, and medium enterprise (MSME) sectors.

This study adopts a descriptive qualitative approach using a case study method, which involves an in-depth and focused investigation of a specific case. The case could be an individual, group, organization, event, or phenomenon (Salim, 2012). This approach begins with observing and examining cases or phenomena, analyzing the issues, and interpreting the events. Consequently, the data collected in the field related to the resistance movement against riba-based financing by *Koperasi Simpan Pinjam dan Pembiayaan Syariah (KSPPS) Muharjam* in improving community-based Islamic economy are described, interpreted, analyzed, and concluded to address the research problem.

The data sources for this research are categorized into two types: primary and secondary data (Amiruddin, 2004).

1. Primary Data

Primary data is directly obtained from field studies through observation or interviews with key informants to gather necessary data.

2. Secondary Data

Secondary data is obtained through literature studies aimed at acquiring theoretical foundations from books, mass media (e.g., TV news), online/social media (e.g., Facebook, Instagram, Twitter, YouTube), and print media (e.g., newspapers). This data serves as supplementary support in the research process.

Data collection methods refer to the techniques used to gather data for the study. The methods used in this research are observation, interviews, and documentation.

In qualitative research, the primary instrument is the researcher, who must be validated. Validation involves the researcher's understanding of qualitative research methods, mastery of the subject matter, and readiness—both academically and logistically—to engage with the research object. The researcher functions as a human instrument, determining the focus of the research, selecting data sources, collecting data, evaluating data quality, analyzing data, interpreting findings, and drawing conclusions. Additional tools used by the researcher include:

1. Interview Guidelines

A list of questions or documentation formats used during data collection.

2. Electronic Media

Devices such as cameras, mobile phones, or video and audio recorders, depending on the research needs.

The data management and analysis process involve three stages:

1. Data Reduction

Summarizing, selecting key points, focusing on essential elements, and identifying themes and patterns.

2. Data Presentation

Organizing and structuring information. In qualitative research, this involves narrative text in the form of field notes, matrices, graphs, networks, or charts.

3. Conclusion Drawing

Deriving new findings that were previously unclear. These findings could describe an object, causal relationships, interactions, hypotheses, or theories.

Data analysis is defined as the process of systematically searching and organizing data obtained from interviews, field notes, and documentation by categorizing, synthesizing, and structuring them into patterns for easier understanding.

Qualitative data validity testing in this study uses credibility and confirmability tests.

1. Credibility Test (Trustworthiness)

Techniques include increasing observation persistence, triangulation (data source, technique, and time triangulation), and member checks.

2. Confirmability Test (Objectivity)

Testing confirmability involves linking research results to the processes undertaken. If the results are consistent with the research process, the study meets the confirmability standard. Verification involves seeking input and feedback from others regarding the focus of the research and the necessary data.

### 3. RESULTS AND DISCUSSION

This study demonstrates that the movement against usury practices undertaken by KSPPS Muharjam not only succeeded in creating a sharia-compliant alternative financing system but also contributed significantly to improving community welfare and promoting sustainable economic development.

#### 1. Implementation of Islamic Economic Principles at KSPPS Muharjam

KSPPS Muharjam successfully implemented interest-free financing and a profit-sharing system that fosters fair and mutually beneficial economic interactions between the cooperative and its members. This scheme effectively replaces usury practices, which are often detrimental to society, particularly for the lower-middle class. This implementation reflects the cooperative's commitment to principles of justice, welfare, and sustainable economic development for the community. The following outlines the steps taken by KSPPS Muharjam:

- a. Interest-Free Financing

One of the main pillars of Islamic economics implemented by KSPPS *Muharjam* is the elimination of interest (*riba*). The cooperative replaces interest-based systems with sharia-based contracts, including:

- 1) *Murabahah* (Cost-Plus Financing): The cooperative purchases goods needed by members and sells them back at an agreed-upon profit margin.

- 2) *Rahn* (Pawn): A type of interest-free financing offered in transactions.
- 3) *Ijarah* (Leasing): Members can access services or assets through lease payments over a specified period without interest.

This approach provides an alternative solution for communities, particularly the lower-middle class, who are often burdened by high-interest rates from conventional financial institutions.

#### b. Profit-Sharing System

KSPPS *Muharjam* also implements a profit-sharing system as a replacement for interest. Under this scheme, profits from members' or the cooperative's business activities are distributed according to pre-agreed proportions. This system employs contracts such as:

- 1) *Mudharabah*: The cooperative provides capital, while members contribute labor and expertise. Profits are shared based on an agreed-upon ratio.
- 2) *Musarakah*: A partnership between the cooperative and members, where both contribute capital to run a joint business, with profits divided according to their respective contributions.

This system is considered fairer as risks and profits are shared, fostering mutually beneficial economic interactions.

#### c. Replacing Harmful Usury Practices

Usury practices are often criticized for burdening low-income communities with high-interest rates that are difficult to repay. KSPPS *Muharjam* has successfully replaced these practices through measures such as:

- 1) Providing needs-based financing focused on supporting members' productive ventures, enabling funds to increase their income.
- 2) Tailoring financing schemes to members' repayment capabilities, ensuring affordability and alignment with their financial conditions.

#### d. Sharia Principles as Operational Foundations

This implementation embodies core values in Islamic economics:

- 1) Justice: Preventing exploitation of any party.
- 2) Welfare: Emphasizing benefits for all stakeholders involved.
- 3) Blessings: Operating in compliance with sharia rules provides spiritual value for members.

## 2. Community Economic Empowerment

This initiative contributes positively to improving the economic well-being of cooperative members, particularly in the micro and small business sectors. Access to Sharia-compliant financing helps small entrepreneurs grow their businesses, increase their income, and improve their standard of living.

Economic empowerment is a primary focus of KSPPS *Muharjam* Cooperative, aiming to enhance the welfare of its members, especially in the micro, small, and medium enterprises (MSME) sector. This effort not only supports individual economic growth but also positively

impacts the community as a whole. Below is a detailed explanation of the economic empowerment programs implemented by KSPPS *Muharjam* Cooperative:

a. Access to Sharia-Compliant Financing

KSPPS *Muharjam* Cooperative provides easy access to Sharia-compliant financing tailored to the needs of its members. A straightforward application process enables micro and small business owners to quickly secure business capital.

b. Interest-Free System

The financing scheme employs an interest-free (*riba*-free) system, helping members avoid financial burdens that often hinder small businesses.

c. Support for Micro and Small Entrepreneurs

Support is provided in the following forms:

1) Business Capital Financing: Funds are used for purchasing inventory, production tools, or other business development needs.

2) Business Mentoring: In addition to providing funds, the cooperative offers mentoring to help members better manage their businesses.

d. Training and Education Programs

1) Financial Management: Members receive training on managing their business finances, enabling them to handle income and expenses more efficiently.

2) Business Skills Development: The cooperative conducts training to enhance members' skills in their respective businesses, such as marketing strategies, inventory management, or product development.

e. Strengthening Business Networks

The cooperative facilitates the formation of business communities among its members. These networks provide opportunities for sharing experiences, expanding markets, and establishing business partnerships.

### **3. Positive Impacts of People-Centered Economic Empowerment**

The impacts of people-centered economic empowerment include:

a. Increase in Income

With access to financing and assistance, many cooperative members have successfully increased their income. The business capital obtained is used to expand businesses, increase production, or introduce new products.

b. Improvement in Welfare

With higher income, cooperative members are able to meet their living needs, including education, healthcare, and more decent housing and Women's Empowerment that Many women involved in micro-businesses also benefit from this, enabling them to make a larger contribution to the family economy.

c. Growth of Micro and Small Enterprises

Many small businesses have successfully grown to become more stable and sustainable, creating new jobs for the surrounding community. Business owners are able to compete more effectively in the local market thanks to assistance and access to capital.

d. Reduction in Dependency on Loan Sharks

The Islamic financing programs help communities avoid the high-interest loans from loan sharks, which often worsen their financial conditions.

#### 4. Reduction in Dependency on Usury-Based Systems

KSPPS *Muhajam* has successfully reduced the community's dependency on conventional financial institutions that apply usury-based systems. This was achieved through an educational approach, mentoring, and providing financial services that comply with Islamic principles.

KSPPS *Muhajam* has taken strategic steps to reduce the community's dependence on conventional financial institutions that apply usury-based systems (which are based on interest, considered contrary to Islamic principles). This has been done through a structured and targeted approach to provide alternative solutions in line with Islamic values.

The steps taken by KSPPS *Muhajam* include:

a. Community Education

KSPPS *Muhajam* recognizes the importance of public understanding regarding the dangers and impacts of usury-based systems, both from religious and socio-economic perspectives. Therefore, they hold various educational programs such as seminars, training, and group discussions to increase financial literacy based on Islamic principles. This education also highlights the benefits of using Islamic finance systems, which are fairer, more transparent, and free from exploitation.

b. Personal and Group Mentoring

Not only providing knowledge, KSPPS *Muhajam* also offers intensive mentoring to its members. This mentoring includes financial consultations, preparing Shariah-compliant business plans, and technical guidance for micro and small business owners. Through this support, the community feels more confident in transitioning to Islamic finance systems and moving away from dependence on conventional systems.

c. Provision of Shariah-Compliant Financial Services

The KSPPS *Muhajam* cooperative offers various financial products that comply with Islamic principles, such as *mudharabah* (profit-sharing), *murabahah* (buy and sell with a margin), and *qardhul hasan* (charitable loans). These products are designed to meet the financial needs of the community without involving usury. Furthermore, the easy and transparent application process makes these services attractive to the community.

#### 5. Increased Awareness of Islamic Economic Values

The programs run by KSPPS *Muhajam* Cooperative also enhance the community's understanding of Islamic economic values. This strengthens the collective commitment to shift from the usury-based system to one based on justice and sustainability.

KSPPS *Muhajam* plays a vital role in raising public awareness about Islamic economic values. By organizing various programs and activities, the institution not only focuses on providing

Shariah-compliant financial services but also on education and socialization efforts aimed at building a deep understanding of the Shariah-based economic system. This has a significant impact in strengthening the community's commitment to abandoning the usury-based system and transitioning to a more just, ethical, and sustainable economic system.

Here are the efforts undertaken by KSPPS *Muhajam* to raise public awareness of Islamic economic values:

a. Socialization of Islamic Economic Principles

KSPPS *Muhajam* actively introduces key principles of Islamic economics, such as the prohibition of *riba* (interest), *maysir* (speculation), and *gharar* (uncertainty). They also promote concepts of justice, cooperation, and sustainability in every economic transaction. This socialization is carried out through seminars, workshops, and community discussions involving various segments of society, from small business owners to community leaders.

b. Improvement of Shariah Financial Literacy

Many people still lack an understanding of Islamic economic mechanisms and their benefits. Therefore, KSPPS *Muhajam* organizes training and outreach programs to improve Shariah financial literacy. This program includes explanations of various Shariah contracts, such as *mudharabah* (profit-sharing), *musyarakah* (partnership), and *murabahah* (buying and selling with a margin). By understanding these contracts, the community can see how the Shariah system offers more ethical and transparent economic solutions.

c. Application of Islamic Economics in Daily Life

In addition to theory, KSPPS *Muhajam* encourages the community to apply Islamic economic values in their daily lives. For instance, in business, they are taught the importance of honesty, fair profit-sharing, and avoiding exploitation. This creates an economic culture that is not only profit-oriented but also focused on blessings and mutual well-being.

d. Collective Commitment to Change

The programs at KSPPS *Muhajam* are designed to foster collective awareness that the usury-based system is not only contrary to religious values but also detrimental to society socially and economically. Through this approach, the community is increasingly motivated to transition together to a more just, balanced, and inclusive Islamic economic system.

e. Long-Term Impact

The awareness instilled by KSPPS *Muhajam* not only impacts individuals but also the community as a whole. The community begins to understand that Islamic economics is not solely profit-driven but also aimed at achieving social justice and collective well-being. This collective commitment encourages the creation of a more stable, sustainable economic ecosystem that aligns with Shariah principles.

## DISCUSSION

The results of this research show that the KSPPS *Muhajam* Cooperative plays a strategic role in creating a people-centered economic model based on Islamic values. This movement serves as a concrete example of how community-based institutions can become tools for socio-economic transformation through the application of principles of justice, welfare, and sustainability.



## 1. Relevance to the Global Economic Context

In the global context, the usury-free Islamic economic system is increasingly relevant as a solution to the economic inequalities caused by conventional financial systems. The model implemented by the KSPPS *Muhajjam* cooperative demonstrates that local values can be integrated into global economic strategies to create justice.

In the era of globalization, economic inequality has become one of the greatest challenges faced by the global community. The conventional interest-based financial system (*riba*) often contributes significantly to this inequality. This system tends to benefit those with greater access to capital, while groups with limited access are often trapped in burdensome debt cycles. In this context, the Islamic economic system offers a more just and inclusive alternative, making it even more relevant amidst the dynamics of the global economy.

As a Shariah microfinance institution, KSPPS *Muhajjam* has practically implemented the principles of Islamic economics. This approach is not only locally relevant but also holds great potential for adaptation on a global scale. The following is a detailed explanation of the relevance of the Islamic economic system applied by KSPPS *Muhajjam* in the context of the global economy:

### a. A Solution to Economic Inequality

The Islamic economic system focuses on the principles of justice, balance, and the equitable distribution of wealth. Through mechanisms based on profit-sharing, such as *mudharabah* (investment partnership) and *musyarakah* (business collaboration), Islamic economics fosters mutually beneficial relationships between capital owners and entrepreneurs. This contrasts with the usury-based system, which often burdens the borrower. In a global context, this approach can help bridge the gap between developed and developing countries and address issues of poverty.

### b. Sustainability in the Global Economy

The global economy today faces sustainability challenges, both environmental and social. Conventional financial systems often focus on short-term profits without considering long-term impacts. In contrast, the Islamic economic system applied by KSPPS *Muhajjam* prioritizes sustainability values. For example, Shariah-compliant financing encourages ethical investments, such as supporting environmentally friendly micro and small enterprises with positive social impacts.

### c. Integration of Local Values into Global Strategies

The model applied by KSPPS *Muhajjam* shows that local values, such as mutual cooperation (*gotong royong*), justice, and blessings, can be integrated into global economic strategies. In practice, KSPPS *Muhajjam* supports the local community by providing easy, Shariah-compliant financial access, free from exploitation. This approach demonstrates that blending local values with universal Islamic economic principles can create an inclusive and globally relevant system.

### d. Enhancing Economic Stability

Usury-based financial systems often lead to global financial crises due to their speculative and unstable nature. In contrast, Islamic economics encourages asset-backed transactions and productive cooperation. This creates greater economic stability. For example, Shariah-compliant financing ensures that borrowed funds are used for productive economic activities, thereby reducing the risk of default and systemic impacts on the economy.

e. Relevance to Ethical-Based Economic Trends

There is a global trend increasingly leaning toward ethics-based economics and sustainable finance, such as ESG (Environmental, Social, and Governance). The principles of Islamic economics align strongly with this trend, as they prioritize justice, social welfare, and environmental preservation. The model implemented by KSPPS *Muhajam* serves as a concrete example of how these values can be practically operated at the community level, with the potential for broader adoption.

## 2. Sustainability of the Local Economy

This movement not only provides financing solutions but also supports the sustainability of the local economy by strengthening micro and small enterprises. This step contributes to reducing poverty and income inequality at the community level.

The following is a detailed explanation of how the KSPPS *Muhajam* Cooperative supports the sustainability of the local economy:

a. Support for Micro and Small Enterprises

KSPPS *Muhajam* understands that micro and small enterprises (MSEs) are the backbone of the local economy. However, MSEs often face significant obstacles in accessing capital due to limited assets that can be used as collateral. Through the implemented Shariah financial system, KSPPS *Muhajam* provides financing that is easily accessible to MSE entrepreneurs without involving interest (*riba*). The types of financing offered include:

- 1) *Murabaha* Contract – Financing for the purchase of capital goods or raw materials with a fixed profit margin.
- 2) *Mudharabah* Contract – A profit-sharing scheme that allows MSE entrepreneurs to run their businesses without the pressure of fixed payments.
- 3) *Rahn* Contract – Financing for pawn transactions.

With these schemes, MSE entrepreneurs can increase their production capacity and expand their market reach.

b. Community-Based Economic Empowerment

In addition to providing financing, KSPPS *Muhajam* is also actively empowering the community through business training and mentoring programs. This empowerment program includes:

- 1) Financial management training to help entrepreneurs manage income and expenses more efficiently.
- 2) Marketing mentoring to expand the reach of local products to regional and national levels.
- 3) Technical skill development in the production of goods and services.

This approach ensures that the financing provided does not stop at capital provision but also creates sustainable capabilities for entrepreneurs to grow.

c. Contribution to Poverty Reduction

By supporting MSEs, KSPPS *Muhajam* contributes to creating new jobs at the local level. This has a direct impact on reducing unemployment and poverty rates. When MSEs grow, they not only increase the income of business owners but also provide job opportunities for other members of the community.

d. Addressing Income Inequality

Income inequality is often an issue in society, especially when access to financial resources is limited to only a few groups. KSPPS *Muharjam* strives to address this issue by providing inclusive financial services. Through the Shariah approach, all members of society, including marginalized groups, have equal opportunities to access financing.

e. Building Local Economic Independence

This movement also aims to create economic independence at the community level. By providing continuous support to MSE entrepreneurs, KSPPS *Muharjam* helps create a local economic ecosystem that is not dependent on conventional financial institutions or external aid. This ecosystem allows for greater circulation of money within the community, thereby strengthening the local economy.

f. Long-Term Impact on Sustainability

By promoting the growth of MSEs and creating an inclusive economic ecosystem, KSPPS *Muharjam* not only provides short-term solutions but also builds the foundation for a sustainable economy. This aligns with the Sustainable Development Goals (SDGs), which include poverty alleviation, income inequality reduction, and inclusive economic growth.

Through its support for micro and small enterprises, KSPPS *Muharjam* plays a key role in achieving local economic sustainability. By providing Shariah-based financing, training, and mentoring, KSPPS *Muharjam* helps reduce poverty, address income inequality, and build economic independence at the community level. This approach not only creates short-term benefits but also ensures that local economic growth can be sustained in the future.

### 3. Challenges and Opportunities

KSPPS *Muharjam*, as a Sharia-based financial institution, plays a significant role in promoting the sustainability of the local economy and reducing dependence on the usury-based system. However, the journey toward achieving these goals is not without various challenges. On the other hand, the successes that have been achieved present great opportunities to expand its impact, both locally and nationally.

Here is a detailed explanation of the challenges and opportunities faced by KSPPS *Muharjam*.

#### Challenges Faced:

a. Lack of Sharia Financial Literacy

One of the main obstacles is the public's lack of understanding of Sharia economic and financial principles. Many people still perceive the Sharia financial system as similar to the conventional system, only with different terminology. This leads to low public trust in transitioning to the Sharia system. The solution offered is that KSPPS *Muharjam* continues to work on improving Sharia financial literacy through socialization, training, and intensive mentoring. These programs aim to provide a deep understanding of the benefits and ethics of the Sharia system, as well as its differences from the conventional system.

b. Limited Resources

As a microfinance institution, KSPPS *Muharjam* faces challenges in terms of financial, operational, and human resources. These limitations restrict the cooperative's ability to reach more members, especially in remote areas. The solution offered to overcome this challenge is that

KSPPS *Muhajam* continues to innovate in managing available resources, such as partnering with strategic partners from both the government and private sectors. Additionally, digital technology is being adopted to expand service coverage without requiring significant physical resources.

c. Competition with Conventional Financial Institutions

Conventional financial institutions, with their extensive networks and large capital, are the main competitors of KSPPS *Muhajam*. Their products, which appear more flexible, often become the preferred choice for the public, especially for those who do not understand Sharia principles. The solution offered is that KSPPS *Muhajam* offers value-added services, such as financing with business mentoring, which focuses not only on profit but also on the success of its members. This creates a competitive advantage that is difficult for conventional institutions to match.

**Opportunities Faced:**

a. Expansion of the Cooperative Movement Model to Other Areas

The success of KSPPS *Muhajam* in creating an inclusive Shariah financial ecosystem presents a great opportunity for the expansion of this model to other regions. By adapting its approach to local characteristics, the cooperative movement model of KSPPS *Muhajam* could serve as a solution for other communities facing similar challenges. The expansion strategy includes forming partnerships with local institutions, providing training to potential cooperative managers in new areas, and adopting technology to simplify implementation in various regions.

b. Increase in Demand for Sharia Finance

Global awareness of the importance of an ethical and sustainable economy is on the rise. The Shariah economic system, which prioritizes justice, sustainability, and transparency, has become increasingly attractive to society, including non-Muslims. This trend creates opportunities for KSPPS *Muhajam* to expand its membership base by educating the public on the benefits of Sharia economics, not only from a religious perspective but also from a social and economic standpoint, as well as developing more innovative financial products to appeal to a wider audience.

c. Support from the Government and Sharia Financial Institutions

The government and various Sharia financial institutions are increasingly paying attention to the development of Sharia-based microfinance. Support in the form of favorable regulations, funding, and strategic partnerships presents a significant opportunity for KSPPS *Muhajam* to increase its capacity. The cooperative can take advantage of government programs, such as funding for micro and small enterprises (MSEs) or training for Sharia cooperatives, and form collaborations with large Sharia financial institutions to expand financing access.

d. Digital Transformation

The development of digital technology presents great opportunities for KSPPS *Muhajam* to expand its reach and operational efficiency. Digital platforms can be used to simplify the financing process, manage members, and promote Sharia finance. This includes developing mobile applications to facilitate interaction with members and improving access to information and education through digital platforms.

**4. Recommendations for Strengthening Sharia Financial Literacy**

Strengthening Sharia financial literacy is a strategic effort to improve the public's understanding of the principles, products, and benefits of the Sharia-based financial system. Currently, Sharia financial literacy in Indonesia is still relatively low compared to conventional

financial literacy. This condition is one of the factors that hinder the development of the Sharia finance industry, including institutions such as Sharia Saving and Loan Cooperatives (KSPPS).

Therefore, the recommendations for strengthening Sharia financial literacy can be implemented through several steps as follows:

a. Training Programs

Intensive training activities organized by Sharia financial institutions or relevant parties can provide in-depth understanding to the public and business owners. These programs cover the introduction of basic Islamic economics concepts, managing finances according to Sharia, and utilizing Sharia products for individual and business needs.

b. Seminars and Public Discussions

Seminars involving academics, practitioners, and the community can serve as an effective medium for disseminating information about the advantages of Sharia finance. Topics such as halal financing, zakat management, waqf, and Sharia investment can attract public interest and encourage them to understand its benefits.

c. Publications and Media Information

Disseminating information through print, digital, or social media is crucial in expanding the reach of literacy. Publications in the form of guidebooks, educational articles, videos, and infographics can reach various segments of society, both in urban and rural areas. Engaging and easy-to-understand information will help build public awareness about the importance of Sharia finance.

d. Collaboration with Educational Institutions

Introducing Sharia finance in schools and universities, both through formal curricula and extracurricular activities, can instill understanding at an early age among the younger generation. This collaboration can also involve training teachers or lecturers about Sharia finance concepts.

e. Community-Based Approach

Community-based education, such as religious study groups, small business groups, or cooperatives, can provide more personalized and locally relevant understanding. This approach is more effective in building awareness among grassroots communities. By integrating these steps, society will not only understand Sharia financial principles but will also be increasingly motivated to adopt them in daily life. This will ultimately support the growth of a more inclusive and sustainable Islamic-based economy.

## **5. Collaboration with Stakeholders**

Collaboration between cooperatives, the government, and other Islamic financial institutions needs to be expanded to support the sustainability of this movement. Close collaboration between various stakeholders is one of the key factors in strengthening and supporting the sustainability of Sharia cooperatives, such as Sharia Saving and Loan Cooperatives (KSPPS). The stakeholders involved include the cooperatives themselves, the government, Islamic financial institutions, as well as other parties such as academics, society, and non-governmental organizations (NGOs). This collaboration is needed to ensure that the development of Sharia finance progresses holistically and has a wide-reaching impact.

Here is a detailed explanation of the importance of this collaboration:

a. Cooperatives as the Main Drivers

Cooperatives are the main actors in this movement because they are at the forefront in serving the community. However, cooperatives often face challenges such as limited human resources, access to funding, and operational capacity. Therefore, support from other stakeholders is essential to strengthen the cooperative's position as an inclusive and sustainable provider of Sharia financial services.

b. The Role of the Government

The government plays a strategic role in creating a conducive environment through regulations, supervision, and incentives. For example:

1) Regulations and Policies:

The government can issue policies that support the development of Sharia cooperatives, including simplifying licensing, legal protection, and operational supervision.

2) Financial Incentives:

Interest subsidies or Sharia-based revolving funds can be provided to help cooperatives increase their capacity.

3) Educational and Socialization Programs:

The government can facilitate Sharia financial literacy through national campaigns.

c. Islamic Financial Institutions

Institutions such as Sharia banks, Sharia insurance, and Islamic microfinance institutions can become partners for cooperatives in terms of financing and investment. Islamic financial institutions can provide funds to cooperatives to expand their services. Training and capacity-building: By sharing expertise and experience, these institutions can help cooperatives develop more innovative and competitive products. **\*\*Technology and Digitalization\*\*** support in the development of Sharia-based fintech can enhance the efficiency and reach of cooperatives.

d. Academics and NGO

Academics can play a role in providing research and developing effective business models for Sharia cooperatives. NGOs can assist in community empowerment, especially in remote areas that are difficult to reach by cooperatives and the government.

e. Society and Local Communities

Collaboration will not succeed without the active participation of society as the main users of cooperative services. Through a community-based approach, cooperatives can better understand local needs and design products that are suitable.

**Benefits of Collaboration is Efficiency and Effectiveness:** Collaboration avoids duplication of efforts and maximizes resources, **Increased Operational Scale** With financial and technical support from partners, cooperatives can reach more members. **Long-Term Sustainability** Through collaboration, cooperatives can strengthen their competitiveness, making them more resilient in the face of economic challenges. Thus, by expanding and strengthening this collaboration, Sharia cooperatives will not only grow but also make a significant contribution to improving public welfare and the growth of an Islamic-based economy.

## 6. Product and Service Innovation

Innovation in Sharia-based products and services is a crucial element in supporting the growth of Sharia financial institutions, including cooperatives like Sharia Saving and Loan Cooperatives (KSPPS). With the ever-evolving needs of society, diverse products and services are essential to ensure that cooperatives remain relevant and competitive. This innovation also aims to expand access to Sharia services for various segments of society, both individuals and businesses. Here is a comprehensive explanation of the importance of this innovation and how steps can be taken:

### a. The Importance of Sharia Product and Service Innovation

**Addressing Diverse Needs** Each member of society has different financial needs, ranging from basic needs like savings to more complex needs like business financing and investment. Diverse products allow cooperatives to serve all these segments. **Increasing Competitiveness** With the growing number of conventional and Sharia financial institutions, product innovation helps cooperatives maintain and attract more members. **Adhering to Sharia Principles** Innovation must also ensure that every product adheres to Sharia principles, such as the prohibition of usury (*riba*), uncertainty (*gharar*), and speculation (*maysir*).

### b. Examples of Sharia-Based Product Development

#### 1) Sharia Savings and Investments

Savings products with *wadiah* (trust) or *mudharabah* (profit-sharing) contracts can be offered to members. Additionally, Sharia-based investments, such as Sharia mutual funds or sukuk, can be options for members who wish to grow their funds.

#### 2) Sharia Financing

Products such as *murabaha* (buying and selling with profit margin), *ijarah* (leasing), or *musharakah* (partnership) can be designed for both consumption and productive needs. For example, financing for micro-business capital or house purchases.

#### 3) Sharia Social Products

Services such as managing *zakat*, *infaq*, *sadaqah*, and *waqf* (social funds) can be part of the cooperative's offerings, while also strengthening the socio-economic aspect of the community.

#### 4) Sharia Insurance

Offering Sharia-compliant insurance products (*takaful*) as financial protection for members facing risks.

### c. Service Innovation for Ease and Accessibility

#### 1) Digitalization of Services:

Developing digital applications or platforms that make it easier for members to conduct transactions, such as payments, financing applications, and financial reporting.

#### 2) Mobile Services:

Providing mobile cooperative services that reach remote areas, allowing rural communities to access Sharia financial services without having to visit a cooperative office.

- 3) Mentoring and Education:  
Providing mentoring services for members, such as training on Sharia financial management and educating them about the benefits of the offered products.
- d. Challenges in Sharia Product and Service Innovation
  - 1) Limited Resources: Cooperatives often face financial and expertise limitations when developing new products.
  - 2) Market Acceptance: Education and socialization are needed to ensure that the public understands and is interested in new Sharia products.
  - 3) Sharia Compliance: Each product must undergo strict supervision by the Sharia Supervisory Board to ensure compliance with Sharia principles.
- e. Strategies to Encourage Innovation
  - 1) Collaboration with Islamic Financial Institutions: Cooperating with Sharia banks or Sharia fintech to adopt more advanced models and technologies.
  - 2) Research and Development (R&D): Conducting studies to understand members' needs and identify innovation opportunities.
  - 3) Human Resource Training: Enhancing the cooperative's human resources to create and manage innovative products that comply with Sharia principles.
- f. Benefits of Product and Service Innovation
  - 1) Increased Member Trust: Relevant and high-quality products will increase member satisfaction and loyalty.
  - 2) Larger Economic Impact: With products that meet needs, cooperatives can promote microeconomic growth and create new job opportunities.
  - 3) Achieving Sharia Objectives (Maqashid Sharia): Innovations focused on societal welfare will support the core objectives of Islamic economics, which are justice, prosperity, and sustainability.

With the right Sharia-based product and service innovations, cooperatives can meet the increasingly diverse needs of society while becoming a major driver of improving economic welfare based on Islam.

#### **4. CONCLUSION**

The research findings indicate that KSPPS *Muhajjam* has successfully implemented Islamic economic principles, such as interest-free financing and a profit-sharing system, which have positively impacted community economic empowerment, particularly in the micro and small business sectors. Furthermore, this movement has effectively addressed dependence on usury-based financing systems that disadvantage low-income communities. This study is expected to contribute to the development of a people-centered economy based on the principles of justice, welfare, and sustainability in line with Islamic economic values.



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