

Analysis of the Implementation of Mudharabah and Musyarakah Contracts, Transparency, and Member Empowerment in Islamic Cooperatives

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Abstract:

Islamic cooperatives have emerged as alternative microfinance institutions expected to meet the public's demand for a fair, transparent, and Sharia-compliant financing system. However, in practice, the implementation of profit-sharing contracts such as mudharabah and musyarakah still faces various challenges, particularly in terms of member comprehension, profit distribution mechanisms, and the effectiveness of cooperative education programs. This study aims to analyze the application of Sharia contracts in microenterprise financing by Islamic cooperatives and to evaluate members' perceptions and experiences of the system. Employing a qualitative approach with a case study strategy, data were collected through in-depth interviews, direct observation, and document analysis from Islamic cooperatives actively financing micro-entrepreneurs. The findings reveal that members' understanding of Sharia contracts remains limited, transparency in profit-sharing is suboptimal, and cooperative training programs have not reached all members equitably. Although cooperative financing has positively impacted members' business development, such success is not yet fully supported by operational systems aligned with Sharia values. This study contributes conceptually to strengthening community-based Islamic economic theory and offers practical recommendations for cooperative managers and policymakers in designing more equitable, participatory, and sustainable financing systems.

Keywords:

Islamic cooperative, Sharia contract, mudharabah, musyarakah, transparency, profit-sharing, training, economic empowerment.



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INTRODUCTION

Over the past few decades, the global financial system has experienced a significant transformation marked by growing economic inequality, declining trust in conventional financial institutions, and increasing demands for a fairer and more sustainable system. In this context, Islamic economics has emerged as a promising alternative, particularly through sharia-based microfinance institutions such as Islamic cooperatives. In Indonesia, Islamic cooperatives play a crucial role in empowering micro-entrepreneurs, especially among lower-income communities, by promoting the principles of justice, transparency, and blessing (Rizky & Sari, 2022). However, in practice, the application of sharia principles within these cooperatives still faces various structural and cultural challenges that require deeper academic exploration.

The academic and practical urgency of this study arises from the gap between the normative ideals of sharia and the operational realities in the field. Many Islamic cooperatives claim to implement mudharabah and musyarakah contracts, yet their practices often deviate from the principles of fiqh muamalah, particularly regarding transparency in profit-sharing and members' understanding of contractual mechanisms (Hidayat & Firmansyah, 2021). Such inconsistencies can lead to member dissatisfaction, reduce economic empowerment, and undermine the cooperative's integrity as a sharia institution. Therefore, a qualitative case study approach is necessary to capture the lived experiences, perceptions, and challenges faced by Islamic cooperatives in applying profit-sharing contracts.

Conceptually, this research is grounded in Islamic economic theory, which emphasizes the principles of justice ('adl), transparency (shafafiyah), and partnership (syirkah) in financial transactions (Alam & Hasan, 2020). The mudharabah and musyarakah contracts embody these principles by ensuring proportional risk and profit sharing between cooperatives and members. Within the Islamic cooperative context, such contracts serve not only as financial instruments but also as mechanisms for social and spiritual empowerment. By employing a qualitative triangulation method, this study aims to connect the theoretical framework of Islamic economics with empirical findings drawn from interviews, observations, and documentation of cooperative practices.

The primary contribution of this research lies in bridging the gap between Islamic economic theory and the practical implementation of sharia principles in micro-level cooperatives. It provides an empirical analysis of profit-sharing practices with a particular focus on member understanding, transparency, and fairness. Classical thinkers such as Ibn Khaldun and contemporary scholars like Chapra (2019) underscore the importance of justice and blessing in economic activities, serving as key theoretical anchors. While prior studies have largely focused on institutional or regulatory dimensions (Sari & Fauzan, 2021), this research fills the gap by engaging directly with the lived experiences of cooperative members through a participatory and contextual qualitative approach (Rahman & Yusuf, 2022).

In synthesis, this literature review integrates Islamic economic theory, previous empirical findings, and recent methodological trends to construct a comprehensive analytical framework. Transparency, member comprehension, and sharia-compliant financial reporting emerge as critical factors for cooperative success. The identified research gap highlights the need for a deeper exploration of member perceptions and practices regarding profit-sharing contracts. Through a case study-based qualitative approach, this article contributes to advancing micro-Islamic economics literature by providing a more holistic and contextual understanding of the dynamics within Islamic cooperatives.

METHOD

This study employs a qualitative approach with a case study strategy, aiming to gain an in-depth understanding of the implementation practices of mudharabah and musyarakah contracts in Islamic cooperatives, as well as members' perceptions of the profit-sharing system. This approach was selected because it enables the exploration of the social, cultural, and spiritual complexities

inherent in Islamic economic practices at the micro level (Creswell & Poth, 2018). Primary data were obtained through in-depth interviews with cooperative members and managers, direct observation of cooperative activities, and internal documentation such as financial reports and financing contract forms. Secondary data, including academic literature, Islamic cooperative regulations, and publications from Islamic financial institutions, were used to enrich the analysis. Data collection instruments included semi-structured interview guides, participatory observation sheets, and document analysis templates. The inclusion criteria for primary data encompassed informants who had been actively involved in cooperative financing for at least two years, while exclusion criteria applied to members without direct experience in profit-sharing contracts. The unit of analysis in this research consists of individual members and managers engaged in financing processes and decision-making. This approach aligns with the principles of grounded theory, allowing the researcher to develop theoretical insights inductively from field data (Charmaz, 2020).

The data analysis technique employed is thematic analysis, utilizing source, method, and investigator triangulation to enhance the validity and credibility of findings. The analytical process involved three stages: data reduction, thematic categorization, and narrative interpretation of emerging patterns from interviews, observations, and documents (Braun & Clarke, 2021). To support systematic coding and organization of qualitative data, the NVivo 12 software was used as an analytical tool (Zamawe, 2015). Data validity was tested through member checking, peer debriefing, and audit trail techniques to ensure that the researcher’s interpretations were academically accountable (Lincoln & Guba, 1985). The study also adhered to qualitative research ethics principles, including informed consent, respondent anonymity, and the protection of sensitive data (Orb et al., 2001). Through this methodological framework, the research aims to produce findings that are reflective, contextually grounded, and relevant to the development of Islamic cooperatives as microfinance institutions rooted in Islamic values.

RESULTS AND DISCUSSION

Results

Based on data collected through in-depth interviews, direct observations, and documentation from the Islamic cooperative under study, five key themes emerged that reflect the dynamics of mudharabah and musyarakah implementation, as well as aspects of transparency and member empowerment.

Theme	Core Findings
1. Variations in Members’ Understanding of Sharia Contracts	Most members have a limited understanding of mudharabah and musyarakah principles.
2. Discrepancies Between Perceptions and Practices of Profit-Sharing	Members perceive inconsistencies between profits received and business performance.
3. Limited Socialization and Educational Outreach	Education efforts remain technical and inaccessible to members.
4. Technical and Structural Constraints in Training Programs	Budget, manpower, and participation issues hinder training.
5. Impact of Financing on Members’ Welfare	Cooperative financing improves business continuity and growth.

The first theme reveals that most cooperative members have a limited understanding of mudharabah and musyarakah contracts. Many respondents reported that they only became familiar with these terms after joining the cooperative, and even after receiving financing, they still did not fully grasp the distinctions between sharia contracts and conventional loans. As expressed by members such as Andi and Siti, they tended to follow procedures without comprehending the underlying principles of the contracts. This indicates a gap in Sharia financial literacy among cooperative members, consistent with the findings of Abdullah and Saad (2020).

The second theme highlights a mismatch between members' expectations and the actual realization of profit-sharing. Some members felt that their profit-sharing contributions did not correspond to their business performance. For instance, Siti noted that her contribution increased despite a decline in business income, and that no detailed explanation of the nisbah (profit ratio) calculation was provided. Cooperative managers also acknowledged that some members continued to equate profit-sharing with conventional bank interest. This finding aligns with Hidayat and Firmansyah (2021), who observed that misinterpretations of sharia contracts may lead to dissatisfaction and internal conflict within cooperatives.

The third theme pertains to the limited socialization and educational efforts conducted by the cooperative. Although managers reported that contract explanations were provided through forms and oral briefings, members felt that the information remained technical and difficult to understand. Some members stated that they only received leaflets or written notices without sufficient guidance. This suggests that the cooperative's educational approach has not been inclusive or accessible to all members. Fauzi and Ramli (2020) emphasize that transparency and education are essential in building member trust and participation in Islamic financial institutions.

The fourth theme identifies technical and structural challenges in conducting member training programs. Cooperative managers reported that training was ideally scheduled every three months, but actual implementation was hindered by budget constraints, limited resource persons, and low member participation. Interviewed members stated that training sessions were often theoretical and failed to address their practical needs. Moreover, such programs tended to target only active members or those with larger businesses, while small-scale entrepreneurs were frequently excluded. These findings echo those of Nurhayati and Wasilah (2022), who argue that Islamic cooperative training must be designed in a participatory and contextual manner to enhance member literacy and capacity equitably.

The fifth theme indicates that Islamic cooperative financing has a positive impact on members' business continuity and growth. Most respondents stated that they were able to start or expand their businesses thanks to cooperative financing. For example, Andi and Siti successfully opened a food stall and a home-based bakery using cooperative capital. However, this positive impact is often overshadowed by a lack of clarity in profit-sharing mechanisms, which creates psychological and financial burdens for members. Cooperative managers mentioned that they have begun adjusting nisbah rates based on business performance to enhance flexibility and fairness. Hasan and Ali (2021) also found that sharia-based financing can improve economic welfare when supported by transparent and accountable systems.

In addition to these five main themes, several sub-themes emerged that reinforce the findings, such as the need for digital reporting systems, the importance of intensive mentoring during the early stages of financing, and the development of simple and accessible educational modules. Cooperative managers reported that they are currently developing an information system using WhatsApp Broadcast and member financial dashboards to enhance transparency and information access. This initiative aligns with Alam and Hasan (2020), who emphasize the role of digitalization in improving the efficiency and accountability of Islamic microfinance institutions.

Overall, the findings suggest that the implementation of mudharabah and musyarakah contracts in Islamic cooperatives continues to face challenges in member understanding, profit-sharing transparency, and training effectiveness. Nevertheless, there is significant potential for member economic empowerment if cooperatives can improve their educational systems, reporting mechanisms, and internal communication. These results contribute to the growing body of literature on Islamic cooperatives and provide an empirical foundation for developing fairer and more beneficial policies and practices within sharia-based microfinance institutions.

Discussion

The findings of this study affirm that the implementation of mudharabah and musyarakah contracts in Islamic cooperatives has not yet fully reflected the core principles of Sharia such as justice ('adl), transparency (shafafiyah), and partnership (syirkah). The main findings indicate that members' understanding of Sharia-based contracts remains limited, the profit-sharing mechanism is not yet fully transparent, and the cooperative's training and educational programs are not optimally executed. These results directly correspond to the research problem, which emphasizes the effectiveness and fairness of profit-sharing systems in promoting members' welfare. The discrepancy between members' expectations and the actual distribution of profits reveals a gap in the application of Sharia principles that should serve as the foundation of Islamic cooperative practice (Kurniawan et al., 2025).

Within the framework of Islamic economic theory, the findings suggest that the principles of syirkah (partnership) and 'adl (justice) have not yet been fully internalized in cooperative operations. Ideally, mudharabah and musyarakah contracts should embody mutually beneficial partnerships; however, in practice, cooperatives often dominate the determination of profit ratios (nisbah) and the evaluation of members' business performance. This contradicts the essence of musyarakah, which requires active participation and equality among all contracting parties (Alam & Hasan, 2020). The absence of accurate reporting systems and limited Sharia financial literacy further reinforces the assumption that cooperatives have not fully adopted the principle of shafafiyah (transparency) in their operations (Fauzi & Ramli, 2020).

When compared with prior studies, these findings align with Nurhayati and Wasilah (2022), who observed that Indonesian Islamic cooperatives continue to face challenges concerning transparency and accountability. However, this study extends the literature by exploring members' perceptions directly a perspective that remains underrepresented in previous research. While Abdullah and Saad (2020) addressed financial literacy issues, they did not explicitly connect them

with financing experiences. This study, in contrast, demonstrates that low literacy levels directly contribute to dissatisfaction and confusion in profit-sharing practices. Meanwhile, Sari and Fauzan (2021) focused on institutional aspects, whereas this research emphasizes the micro-level dynamics between cooperatives and their members.

The scientific contribution of this article lies in its participatory approach that integrates both members' and administrators' perspectives within a single analytical framework. By employing a case study strategy and triangulation techniques, the research offers a more contextual and reflective understanding of Islamic cooperative practices. It enriches the micro-level Islamic economics literature by highlighting the need for integration between Sharia values and members' practical needs. The findings support the notion that Islamic cooperatives should not only function as financing institutions but also as agents of social and spiritual empowerment (Hasan & Ali, 2021).

The main limitations of this study lie in its geographically restricted scope and relatively small number of informants. Although the qualitative approach allows for deep exploration, the findings cannot yet be generalized to all Islamic cooperatives in Indonesia. Moreover, time and resource constraints prevented longitudinal observation and training sessions. The researcher also encountered difficulties in obtaining complete internal documents from cooperatives, limiting the analysis of accountability and financial reporting. These challenges are consistent with those identified by Zamawe (2015) in community-based qualitative studies.

The implications of these findings are particularly relevant for cooperative managers, policymakers, and Islamic economics scholars. For cooperative managers, there is a need to strengthen business reporting systems, enhance member literacy through thematic training, and develop accessible digital information systems. For policymakers, the study underscores the necessity of regulations promoting transparency and member participation in determining nisbah ratios and evaluating financing outcomes. Research by Rahman and Yusuf (2022) highlights that community-based educational approaches are more effective in improving Sharia financial literacy. Therefore, cooperative training policies should be designed inclusively and contextually.

Recommendations for future research include expanding geographical coverage, employing longitudinal methods to observe changes in members' perceptions over time, and integrating quantitative approaches to objectively measure the economic impact of financing. Annizar and Junarsin (2025) suggest that quantitative analysis of financing risk and cooperative performance can complement qualitative insights in understanding Islamic cooperative dynamics. Additionally, comparative studies across regions could provide a broader understanding of the variations and challenges in cooperative practices.

From a theoretical standpoint, this article reinforces the relevance of Islamic economic theory in explaining Sharia-based microfinance practices. The findings demonstrate that Sharia principles are not merely normative ideals but also have measurable practical implications, as reflected in members' lived experiences. Chapra (2020) emphasizes the need to integrate spiritual values with economic efficiency, an idea mirrored in this study's finding that cooperatives embodying justice and

transparency tend to gain greater member trust. Thus, this article contributes to the development of partnership theory in Islamic economics, grounded in community-based practice.

CONCLUSION

This study successfully reveals that the implementation of mudharabah and musyarakah contracts within Islamic cooperatives continues to face fundamental challenges in members' understanding, profit-sharing transparency, and the effectiveness of educational programs. The findings indicate that most members have yet to fully comprehend the Sharia principles underlying financing contracts, resulting in a mismatch between expectations and the actual realization of profit distribution. The lack of detailed explanations regarding the nisbah mechanism, limited training opportunities, and the absence of accountable reporting systems have collectively hindered the realization of justice ('adl) and blessing (barakah) in the practice of Islamic cooperatives. Although cooperative financing has been proven to generate positive impacts on members' micro-enterprises, these achievements are not yet fully supported by operational systems aligned with Sharia values.

Theoretically, this article reinforces the relevance of Islamic economic approaches in explaining the dynamics of community-based microfinance institutions. The concepts of partnership (syirkah) and justice ('adl) in Sharia contracts are shown to have significant practical implications for members' perceptions and participation in cooperative activities. Practically, this article contributes to designing empowerment strategies for Islamic cooperatives that are more inclusive, transparent, and grounded in Sharia financial literacy. The participatory approach employed in this study also offers an evaluative model that can be adopted by other cooperatives to assess the effectiveness of their financing schemes and profit-sharing systems. Conceptually, this article proposes the integration of normative Sharia principles with the operational needs of cooperatives as a foundation for developing sustainable Islamic cooperative institutions.

For future practice and research development, it is recommended that Islamic cooperatives adopt digital reporting systems accessible directly to members, develop contextual and easy-to-understand educational modules, and actively involve members in determining nisbah ratios and evaluating financing performance. Future studies may expand geographical coverage, employ longitudinal approaches to observe changes in members' perceptions over time, and integrate quantitative analyses to more objectively measure the impact of financing on economic welfare. Through these efforts, Islamic cooperatives can evolve into financial institutions that prioritize not only profitability but also social justice and community empowerment (pemberdayaan umat).

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