Resolving *Murabahah* Default: Legal Substance, Structure, and Culture in Community-Based Islamic Financial Institutions

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Abstract: *Murābaḥah* default in community based Islamic finance institutions is often managed through non litigation pathways, yet its effectiveness boundaries are rarely assessed through a socio legal lens. This study maps patterns of *murābaḥah* default and the dispute resolution chain at KSPPS Nusa Ummat Sejahtera, Dawe Kudus Branch, then tests legal effectiveness using indicators of legal substance, legal structure, and legal culture. The research adopts a qualitative socio legal case study design, drawing on primary data from interviews with managers and members, and secondary data from internal documents, warning letters, restructuring addenda, and relevant normative references. Findings identify installment payment delay as the dominant default pattern, alongside recurring default after restructuring. The resolution chain proceeds in stages through written warnings, personal approaches, deliberation, internal mediation, restructuring in the form of rescheduling and reconditioning, and collateral based options that seldom escalate to formal forums. The substance test reveals vulnerabilities in members' contract literacy and tensions in practice concerning *wakālah* (agency) and asset ownership. The structure test indicates that internal capacity is sufficiently functional for *ṣulḥ* (amicable settlement), yet remains constrained at the collateral stage and by limited access to external dispute resolution institutions. The culture test shows that kinship-oriented norms accelerate short term settlement but also create tolerance approaching moral hazard and prolong repeated restructuring.
Kewords: *Murābaḥah*, Default, Dispute Resolution, Legal Effectiveness, KSPPS

Abstrak: Wanprestasi *murābaḥah* pada lembaga keuangan syariah berbasis komunitas sering diselesaikan melalui jalur non-litigasi, namun batas efektivitasnya belum banyak diukur secara sosio legal. Kajian ini memetakan pola wanprestasi dan rantai penyelesaian sengketa *murābaḥah* pada KSPPS Nusa Ummat Sejahtera Cabang Dawe Kudus, lalu menguji efektivitas hukum (legal effectiveness) melalui indikator substansi hukum, struktur hukum, dan budaya hukum. Desain penelitian memakai studi kasus kualitatif sosio legal dengan data primer berupa wawancara pengurus dan anggota, serta data sekunder berupa dokumen internal, surat peringatan, addendum restrukturisasi, dan rujukan normatif yang relevan. Temuan menunjukkan keterlambatan angsuran sebagai pola dominan, disertai kecenderungan wanprestasi berulang setelah restrukturisasi. Rantai penyelesaian berjalan bertahap melalui surat peringatan, pendekatan personal, musyawarah,

mediasi internal, restrukturisasi berupa *rescheduling* dan *reconditioning*, serta opsi penanganan jaminan yang jarang berujung ke jalur formal. Uji substansi mengungkap kerentanan pada pemahaman akad dan ketegangan praktik terkait *wakālah* dan kepemilikan barang. Uji struktur menegaskan kemampuan internal koperasi cukup fungsional untuk *ṣulḥ*, namun terbatas pada fase jaminan dan akses lembaga eksternal. Uji budaya hukum memperlihatkan nilai kekeluargaan mempercepat penyelesaian jangka pendek, tetapi membuka ruang toleransi yang mendekati moral-hazard dan memperpanjang restrukturisasi berulang.

Kata kunci: *Murābaḥah*, Wanprestasi, Penyelesaian Sengketa, Efektivitas Hukum, KSPPS

Introduction

Murābaḥah contracts are widely adopted across Islamic financial institutions because the cost-plus margin sale structure provides certainty regarding the nominal amount of the obligation from the outset of the agreement.[1] *Murābaḥah* is a cost-plus sale contract where the seller discloses the purchase cost and adds an agreed profit margin, with payment often made in installments. *Murābaḥah* is also commonly used by Islamic cooperatives that serve members' needs for financing vehicles, land, housing, electronic goods, and home renovations. This asset-based financing character makes discipline in installment payments a fundamental condition for sustaining revolving funds.[2] Default arises when scheduled payments are not fulfilled, and the institution's risk no longer remains limited to the outstanding amount. The cooperative's cash flow stability is put to the test, members' trust may erode, and the space for disputes opens when repeated delays fail to reach a resolution. The most frequently observed manifestation is delayed installment payments, while other issues may arise at the stage of receiving the goods that constitute the object of the *murābaḥah* transaction.[3]

Default resolution practices in community based micro institutions reveal a distinctive dilemma. Contractual certainty calls for firm collection mechanisms and dispute resolution measures, while the cooperative's social structure often requires the maintenance of relationships so that membership endures and conflict does not spread. Internal mechanisms are frequently chosen as the primary pathway because members and managers interact within the same social networks. Decisions on handling arrears are therefore not always perceived as purely legal actions but also as social actions. Vulnerabilities also appear in members' understanding of the contract and in the implementation procedures of *murābaḥah*.[4] Clarity regarding the process of purchasing the goods and the role of *wakālah*

[1] Fauzan Ahmad et al., "The Concept of Murabahah (Buy and Buy) and Its Applications In The Sharia Financial Services Cooperative Pariri Lema Bariri (KJKS Paleba)," *International Journal of Social Service and Research* 2, no. 1 (2022): 10–18, https://doi.org/10.46799/ijssr.v2i1.63.

[2] Ahmad Maulidizen, "Literature Study on Murābaḥah Financing in Islamic Banking in Indonesia," *Economica: Jurnal Ekonomi Islam* 9, no. 1 (2018): 25–49, https://doi.org/10.21580/economica.2018.9.1.2411; M. Kausari Kaidani and Yana Hendriana, "The Impact of Contract Blending on Sharia Compliance and Social Trust in Islamic Banking: Dampak Pencampuran Akad Terhadap Kepatuhan Syariah Dan Kepercayaan Sosial Perbankan Syariah," *Az-Zarqa': Jurnal Hukum Bisnis Islam* 16, no. 1 (2025): 95–114, https://doi.org/10.14421/6nxzw596.

[3] Maulidizen, "Literature Study on Murābaḥah Financing in Islamic Banking in Indonesia."

[4] Saiful Muchlis, "SYARI'AH OPTIMIZATION OF BUSINESS THEORY IN PREVENTING RIBA PRACTICES IN MURABAHAH CONTRACT (Case Study at Muamalat Indonesian Bank)," *International Journal of Islamic Business Ethics* 4, no. 1 (2019): 563, https://doi.org/10.30659/ijibe.4.1.563-581.

(agency) shapes how members understand their payment obligations. Ambiguity at this point may increase members' resistance when payments stall, because the obligation is perceived as not fully fair and transparent from the beginning.[5]

This study focuses on the resolution of *murābaḥah* default cases at KSPPS (*Koperasi Simpan Pinjam dan Pembiayaan Syariah*, Islamic savings and financing cooperative) Nusa Ummat Sejahtera, Dawe Kudus Branch, as an example of a micro-Islamic financial institution that manages *murābaḥah* default through staged procedures. The initial phase proceeds through graduated warning letters, first warning letter after 30 days of delay, the second one after 60 days, and the third warning letter after 90 days or more, accompanied by personal approaches by financing officers to trace the causes of delay and to open opportunities for payment agreements. Internal deliberation (*musyawarah*) and mediation are then conducted with the involvement of the financing manager, legal staff, and the Sharia Supervisory Board. Financing restructuring follows through rescheduling and adjustments to payment terms. In certain conditions, a simulated auction of collateral may emerge as a final option when amicable efforts fail to produce a settlement. Arbitration or proceedings before the Religious Court are positioned as last resort measures and are rarely used, given considerations of preserving social relationships and avoiding open conflict.

The study is positioned within a socio legal approach, focusing on how Islamic financing norms operate in institutional practice and within community culture. The analysis is not directed at assigning moral blame, but at examining the effectiveness of the default resolution measures that are actually implemented. This positioning matters because community based micro institutions face institutional capacity constraints, while dense social ties often encourage flexible settlements.[6] Tensions between contractual discipline and the maintenance of social relationships constitute the main analytical space, particularly when repeated restructuring can preserve social cohesion yet also risk weakening long term compliance.

Two research questions guide the inquiry. The first asks how patterns of *murābaḥah* default and dispute resolution mechanisms are factually implemented at KSPPS Nusa Ummat Sejahtera, Dawe Kudus Branch. The second asks to what extent these non-litigation dispute resolution mechanisms are effective when tested against indicators of legal effectiveness, and which factors strengthen or limit their effectiveness in community based Islamic microfinance institutions.

Research on resolving default under *murābaḥah* contracts within Indonesia's Islamic financial institutions has developed markedly over the last two decades. Academic debate has largely revolved around the relationship between Sharīʿah compliance, legal certainty, and the effectiveness of dispute resolution mechanisms. Hidayah et al. (2023) argue that the complexity of *murābaḥah* default does not arise solely from the debtor's economic conditions, but also from a regulatory framework that allows varied interpretations at the level of implementation.[7] Their analysis positions default as a meeting point between contractual

[5] K.Y.N. Ramadhani, "'Murabahah Financing on Non-Performing Finance in Sharia Commercial Banks in Indonesia,'" *International Journal Od Advanced Management, Economics and Social Change (IJAMESC)* 1, no. 1 (2023): 45.

[6] Anjar Kususiyanah et al., "Operational Permits and Brandings of Savings and Loan Cooperatives and Sharia Financing (KSPPS) in Legal Validity Perspective," *Ijtihad: Jurnal Wacana Hukum Islam Dan Kemanusiaan* 21, no. 1 (2021): 59–78, https://doi.org/10.18326/ijtihad.v21i1.59-78.

[7] N. Hidayah et al., "SHARIA BANKING DISPUTES SETTLEMENT: Analysis of Religious Court Decision in Indonesia," *Al-Risalah: Forum Kajian Hukum Dan Sosial Kemasyarakatan* 23, no. 1 (2023): 75–92, Scopus, https://doi.org/10.30631/alrisalah.v23i1.1347.

norms, institutional practice, and the way legal authorities interpret disputes in Islamic economic transactions.

Interpretive space is particularly visible in litigation pathways. Hidayah et al. (2023) show that the resolution of Islamic banking disputes in Pengadilan Agama (Religious Court) still faces issues of inconsistent judgments, partly because contractual provisions are often general and insufficiently detailed. A significant shift also followed Putusan Mahkamah Konstitusi No. 18/PUU XVII/2019 (Constitutional Court Decision No. 18/PUU XVII/2019), which emphasized the need for an explicit agreement on default within an akta fidusia (fiduciary deed).[8] Arifah and Fidhayanti (2021) contend that this decision reshaped the legal position of the *akta fidusia* within *murābaḥah* arrangements and encouraged stricter preventive measures to maintain a balance between creditor and debtor interests.[9] Debate does not stop at forum selection, since contract design has also been questioned. Lathif (2012) criticizes practices of modifying murābaḥah contracts to meet formal juridical requirements in ways that may blur the substance of the contract. Modifications that appear administratively valid can generate new problems when contractual clauses confront Sharīʿah based principles of justice at the moment default occurs.[10]

Non litigation pathways are often presented as alternatives that better align with the character of Sharīʿah transactions. Elvia et al. (2023) emphasize the role of BASYARNAS (*Badan Arbitrase Syariah Nasional*, National Sharia Arbitration Board) as a strategic forum for resolving Islamic economic disputes, especially when economic dynamics change rapidly.[11] Fithriah et al. (2023) underline accessibility principles in alternative dispute resolution so that mediation and arbitration are genuinely reachable for the parties.[12] Much of this scholarship concentrates on institutional design and normative arguments, while empirical evidence on the use of non-litigation mechanisms in Islamic microfinance institutions remains limited. Sharīʿah compliance studies reinforce the need for a more factual reading. Ibrahim and Salam (2021) identify gaps between Fatwa DSN MUI (National Sharia Council of the Indonesian Ulama Council fatwa) on *murābaḥah* and actual Islamic banking practices, particularly regarding asset ownership and the use of *wakālah* (agency).[13] Conceptual critique by Djumadi et al. (2025) further suggests that formal procedures do not automatically realise *maqāṣid al*

[8] Hidayah et al., "SHARIA BANKING DISPUTES SETTLEMENT: Analysis of Religious Court Decision in Indonesia."

[9] R.N. Arifah and D. Fidhayanti, "LEGAL POSITION OF FIDUCIARY DEEDS IN A MURABAHA CONTRACT FOLLOWING THE INDONESIAN CONSTITUTIONAL COURT DECISION NUMBER 18/PUU-XVII/2019 ON DEFAULT AGREEMENT BY CREDITORS AND DEBTORS," *Jurisdictie: Jurnal Hukum Dan Syariah* 12, no. 2 (2021): 211–27, Scopus, https://doi.org/10.18860/j.v12i2.12570.

[10] Ah. Azharuddin Lathif, "Konsep Dan Aplikasi Akad Murâbahah Pada Perbankan Syariah Di Indonesia," *AHKAM : Jurnal Ilmu Syariah* 12, no. 2 (2013), https://doi.org/10.15408/ajis.v12i2.967.

[11] E.E. Elvia et al., "BASYARNAS AS A PLACE FOR DISPUTE RESOLUTION OF MUSYARAKAH FINANCING IN SHARIA BANKING IN THE DISRUPTION ERA," *El-Mashlahah* 13, no. 1 (2023): 39–56, Scopus, https://doi.org/10.23971/el-mashlahah.v13i1.5345.

[12] N. Fithriah et al., "Implementing Accessibility Principles in Alternative Dispute Resolution for Sharia Economic Disputes in Indonesia," *Jurnal Ilmiah Mizani* 10, no. 2 (2023): 292–301, Scopus, https://doi.org/10.29300/mzn.v10i2.3010.

[13] Azharsyah Ibrahim and Abdul Jalil Salam, "A Comparative Analysis of DSN-MUI Fatwas Regarding Murabahah Contract and the Real Context Application (A Study at Islamic Banking in Aceh)," *Samarah: Jurnal Hukum Keluarga Dan Hukum Islam* 5, no. 1 (2021): 372, https://doi.org/10.22373/sjhk.v5i1.8845.

sharīʿah (higher objectives of Islamic law), such as justice and *maṣlaḥah* (public benefit), both during financing operations and when default must be addressed.[14]

A major limitation in the existing scholarship lies in its dominant focus on Islamic banks and formal dispute resolution mechanisms. Empirical studies on default resolution practices within community based Islamic financial institutions such as KSPPS (*Koperasi Simpan Pinjam dan Pembiayaan Syariah*, Islamic savings and financing cooperative) remain rare, even though grassroots practice often shows the dominance of deliberation (deliberative consensus building - *musyawarah*), internal mediation, and repeated restructuring that is socially accepted but has not been systematically tested in terms of legal effectiveness. The research gap concerns whether such social acceptance corresponds with effective dispute resolution in the sense of compliance with norms, institutional capacity, and a culture of member compliance. This study addresses that gap by positioning *murābaḥah* default resolution in KSPPS as an empirical object of inquiry and by examining non litigation mechanisms not merely as practices that operate, but as practices whose effectiveness must be assessed.

Novelty of this article is articulated in two dimensions. Empirical novelty lies in a detailed mapping of *murābaḥah* default patterns and the resolution chain that is actually implemented within a community based micro institution, a setting that is frequently overlooked in banking-oriented scholarship. Analytical novelty lies in testing the effectiveness of non-litigation resolution using a legal effectiveness framework, so assessment does not stop at social acceptability but also considers medium term implications for contractual discipline. The research objectives focus on mapping default patterns, mapping the resolution mechanisms employed, and assessing factors that strengthen and limit the effectiveness of those mechanisms.

The theoretical framework applies legal effectiveness theory through three dimensions, namely legal substance, legal structure, and legal culture, as analytical tools for testing field findings. A socio legal approach is employed to read the relationship between contract norms, KSPPS institutional capacity, and members' social practices, so the explanation does not collapse into normative evaluation detached from lived reality.[15] The research method uses a qualitative socio legal case study at KSPPS Nusa Ummat Sejahtera, Dawe Kudus Branch. Primary data were obtained through interviews with managers and members who experienced default, alongside observations of deliberation (*musyawarah*) or internal mediation processes when available. Secondary data were drawn from internal documents such as warning letters, restructuring addenda, and records of problematic financing, together with relevant normative references. Data analysis was conducted through thematic coding that grouped forms of default, resolution mechanisms, and final outcomes, then tested these findings through indicators of legal substance, legal structure, and legal culture.

Results and Discussion

Murābaḥah Default Patterns and Their Resolution at KSPPS Nusa Ummat

Field data indicate that delayed installment payments constitute the most dominant pattern of *murābaḥah* default at KSPPS Nusa Ummat Sejahtera, Dawe Kudus Branch. Delays appear

[14] Djumadi et al., "Critical Review of *MurÁbaḥah* Financing in Contemporary Islamic Banking: A *MaqĀṣid al-Sharīʿah* Perspective," *MILRev: Metro Islamic Law Review* 4, no. 2 (2025): 1152–88, https://doi.org/10.32332/milrev.v4i2.11087.

[15] Max Travers and Reza Banakar, *Theory and Method in Socio-Legal Research* (Hart Publishing, 2005), 392.

in stages, beginning with arrears exceeding one month and continuing into two months and three months or more. This staged delay is not treated merely as a time difference in payment, but is used as an indicator to determine the next handling phase and to decide whether resolution can rely on a personal approach or must proceed to internal deliberation (deliberative consensus building). Default patterns also emerge at the early phase of the transaction, particularly in relation to the receipt of goods. Objections to the goods received, or delays in receiving the goods, can prevent the contractual relationship from stabilising even though a dispute has already formed. This situation shows that problems do not always begin with an inability to pay, but may originate from technical issues in the sale and purchase process that later affect the member's willingness to fulfil installment obligations.[16]

Two features of the financing practice are closely linked to the space in which disputes emerge. *Murābaḥah* practice at this branch does not require a down payment. The procurement process also leaves room for representation through *wakālah* (agency), especially at the stage of paying for the goods, so that members may act as the party making payment after funds are disbursed. A no down payment arrangement broadens access to financing, yet it also increases the risk margin when a change in repayment capacity occurs from the outset. *Wakālah* at the payment stage accelerates operational processes, but it also requires procedural clarity and member understanding so that conflicting interpretations do not arise regarding who controls the goods and who bears responsibility for the procurement stages until the goods are received. Recorded drivers of default tend to be related to members' economic pressures. Declining repayment capacity, reduced turnover, and household economic burdens frequently accompany payment delays. Members engaged in small scale business activities are particularly exposed to income fluctuations that quickly affect installment discipline, especially when business cash flow is unstable and household needs compete for priority.[17]

KSPPS Nusa Ummat Sejahtera, Dawe Kudus Branch positions non litigation resolution as the primary pathway. The mechanism proceeds in stages through written warnings, personal approaches, deliberation and internal mediation, financing restructuring, and then collateral handling options. Formal pathways such as sharia arbitration and litigation in Pengadilan Agama (Religious Court) remain recognized as options, yet they are not placed as the first choice. Warning letters function as instruments to confirm the stage of handling delay. First warning letter is issued when delays reach thirty days, the second warning letter at sixty days, and the third warning letter at ninety days or more. The warning stage does not operate rigidly as an administrative procedure alone. Financing officers conduct personal approaches before and during the warning stage to seek clarification regarding the causes of delay and to open opportunities for resolution without harsher escalation. This approach aims to maintain communication, test the member's good faith, and assess the feasibility of formulating a realistic payment plan.[18]

Deliberation and internal mediation are conducted when the warning stages fail to return installments to normal conditions. Mediation meetings are held at the branch office and involve internal actors who hold decision making roles as well as compliance oversight functions. The financing manager assesses the feasibility of resolution and formulates the handling measures. Staff responsible for legal aspects support the recording of agreements and strengthen the administrative basis of the settlement. Dewan Pengawas Syariah (Sharia

[16] A A, "Interview with Account Officer KSPPS Nusa Ummat Sejahtera, Dawe, Kudus," 2025.
[17] A A, "Interview with Account Officer KSPPS Nusa Ummat Sejahtera, Dawe, Kudus," 2025.
[18] B B, "Interview with Account Officer KSPPS Nusa Ummat Sejahtera, Dawe, Kudus," 2025.

Supervisory Board) serves as a normative supervisor so that resolution steps remain aligned with foundational principles of Islamic financing. Deliberation is directed toward agreements that can be implemented, safeguarding *ukhuwah* (social and religious fraternity), and considering *maṣlaḥah* (public benefit) for both the cooperative and the member.[19]

Financing restructuring becomes the subsequent step when a member is considered to still have a commitment to fulfil obligations, while repayment capacity requires adjustment. Restructuring forms include rescheduling through tenor extension, reconditioning through margin reduction, and restructuring which may be accompanied by collateral arrangements. Addendum of restructuring is used to record these changes as a binding agreement so that adjustments do not remain purely verbal. A simulated auction and collateral seizure may emerge as options after a handling period fails to produce resolution. A six months period is identified as a time marker that leads toward these options. Such steps are understood as the final stage within the internal pathway, particularly when delays no longer show prospects for recovery. Sharia arbitration through LAPS Syariah (Sharia Alternative Dispute Resolution Institution) or BASYARNAS (Badan Arbitrase Syariah Nasional, National Sharia Arbitration Board), as well as proceedings in Pengadilan Agama (Religious Court), are recorded as last resort options when internal resolution cannot be achieved.[20]

Dispute resolution outputs are visible through documentary products and changes in handling status. Warning letters operate as escalation markers as well as evidence that the cooperative has implemented staged handling in accordance with the delay period. Deliberation agreements produce payment plans or settlement commitments mutually agreed upon. The restructuring addendum becomes a key document that records tenor changes, margin changes, or collateral arrangements as outcomes of restructuring. Final outcomes can be observed in three tendencies. Settlement through payment occurs when members regain the ability to fulfil obligations after personal approaches or deliberation. Settlement through restructuring occurs when normal payment has not recovered and the cooperative chooses to recalibrate obligations to remain affordable. Escalation toward collateral handling occurs when resolution cannot be achieved within the specified time frame, while formal pathways through sharia arbitration or Religious Court remain positioned at the last layer among the available options.[21]

Resolving Default from the Perspective of Legal Substance

Strength in the legal substance of *murābaḥah* financing at KSPPS Nusa Ummat Sejahtera Cabang Dawe is visible from the pre contract stage. Internal procedures place the purchase price from the supplier, the selling price to members, the repayment period, the amount of down payment, supplier appointment, collateral, and other conditions as the objects of the financing committee's decision. Certainty in these elements keeps members' obligations away from open ended interpretation and anchors them in figures, schedules, and conditions that can be verified. Legal certainty that arises from clarity in contractual elements matters because default disputes at the micro level rarely begin with abstract normative debate, but

[19] B B, "Interview with Account Officer KSPPS Nusa Ummat Sejahtera, Dawe, Kudus," 2025.
[20] A A, "Interview with Account Officer KSPPS Nusa Ummat Sejahtera, Dawe, Kudus," 2025.
[21] B B, "Interview with Account Officer KSPPS Nusa Ummat Sejahtera, Dawe, Kudus," 2025.

with practical questions about the amount of installments, due dates, and the consequences of delay.[22]

Handling default also shows that legal substance does not stop at the contract, but continues through operational indicators of delay. Daily warning letters, followed by first warning letter at 30 days of delay, the second warning letter at 60 days, and the third one at 90 days or more, then simulated auction, together with a six months marker that leads deliberation (deliberative consensus building) toward an auction process, form a chain of actions that is relatively measurable. This time-based structure signals that default is not declared solely through unilateral assessment, but through parameters that members can understand from the outset. Several legal studies on fiduciary security after Constitutional Court Decision Number 18/PUU XVII/2019) emphasize that default should not be determined unilaterally by the creditor, that default indicators and implementation mechanisms need to be agreed, and that execution procedures should avoid unilateral action that leads to self -help enforcement.[23] The tiered SP pattern at KSPPS Nusa Ummat Cabang Dawe can be read as an effort to align internal practice with that prudential principle, although the final stage still requires strong procedural legitimacy once collateral is involved.

The term *taṭwīl* (delaying an obligation) is used to name delays understood as postponing duties, particularly when the debtor is actually able to pay. Mentioning *taṭwīl* places default not only as a breach of contract, but also as an ethical issue in *muʿāmalah* (Islamic commercial dealings).[24] The practical value of this term depends on the institution's capacity to translate it into boundaries that members can recognize, since assessments of "able" and "unable" can easily produce interpretive dispute if not tied to indicators. Several discussions of fatwa DSN MUI (National Sharia Council of the Indonesian Ulama Council fatwa) regarding sanctions for capable customers who delay payment emphasize the principle of *taʿẓīr* (discretionary punishment) for discipline, exceptions for force majeure, and the channeling of penalty funds to social purposes.[25] This framework is relevant for assessing whether discipline at branch level follows a consistent Sharīʿah logic rather than merely adding administrative pressure.

The most sensitive substance test lies in the status of goods as the object of sale and purchase and the sequence of asset ownership, especially when *wakālah* (agency) may appear in practice. One of officer account states that KSPPS Nusa Ummat does not use a *wakālah* contract and that the purchase of goods is fully conducted by KSPPS Nusa Ummat. Another part states that members are not required to pay down payment because KSPPS Nusa

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[22] Kevin Agatha Purba et al., "LEGAL CERTAINTY REGARDING COLLECTION RELATED TO GUARANTEES IN TERMS OF MOTOR VEHICLE FINANCING BASED ON OJK REGULATION NO. 22 OF 2023," *INTERNATIONAL JOURNAL OF SOCIAL, POLICY AND LAW (IJoSPL)* 5, no. 3 (2024), https://doi.org/10.8888/ijospl.v5i3.173.

[23] Arifah and Fidhayanti, "LEGAL POSITION OF FIDUCIARY DEEDS IN A MURABAHA CONTRACT FOLLOWING THE INDONESIAN CONSTITUTIONAL COURT DECISION NUMBER 18/PUU-XVII/2019 ON DEFAULT AGREEMENT BY CREDITORS AND DEBTORS."

[24] Haerul Akmal and Mohammad Hanief Sirajulhuda, "Tinjauan Fiqh Muamalah Terhadap Transaksi Multi Akad Dalam Fatwa DSN-MUI Tentang Pembiayaan Likuiditas Jangka Pendek Syariah," *Al-Istinbath : Jurnal Hukum Islam* 4, no. 2 (2019): 195, https://doi.org/10.29240/jhi.v4i2.922; M. Abdullah, "Shari'ah, Ethical Wealth and SDGs: A Maqasid Perspective," in *Islamic Wealth and the SDGs: Global Strategies for Socio-Economic Impact* (2021), Scopus, https://doi.org/10.1007/978-3-030-65313-2_4.

[25] Ibrahim and Salam, "A Comparative Analysis of DSN-MUI Fatwas Regarding Murabahah Contract and the Real Context Application (A Study at Islamic Banking in Aceh)"; Ike Nur Fauziyah et al., "Implementasi Fatwa Dsn No. 119 Tahun 2018 Tentang Pembiayaan Ultra Mikro: Studi di KSPPS BMT Bahtera Pekalongan," *el hisbah: Journal of Islamic Economic Law* 1, no. 2 (2021): 175–86, https://doi.org/10.28918/el_hisbah.v1i2.4439.

Ummat provides funds and delegates members to make the payment. These two statements create a vulnerability because a shift from delivering goods to delivering money can easily make *murābaḥah* perceived as a loan. Several studies on the application of fatwa DSN MUI to *murābaḥah bil wakālah* (*murābaḥah* with agency) highlight a similar pattern, the contract is concluded first, the institution disburses funds, and the delivery of goods as a sign of institutional ownership does not occur in a real and visible manner. A frequent consequence is the customer's sense that the transaction is not different from conventional credit practice because what is received is money rather than goods.[26] The substance test in the case study at KSPPS Nusa Ummat needs to treat this tension as a matter of transaction model rather than merely a difference in explanation, since the legitimacy of the claim and the legitimacy of actions over collateral are strongly influenced by whether *murābaḥah* genuinely operates as a goods based sale.

Refusal or delayed receipt of goods adds an important dimension to legal substance. The recorded case shows that goods had been ordered from the supplier and payment had proceeded, but a member refused to accept the goods because the specifications were perceived as inconsistent, followed by reluctance to pay the initial installments. Verification showed that the specifications matched the documents, while the member acknowledged misunderstanding the brochure. This event shows that *murābaḥah* disputes can emerge before installment discipline becomes the main issue. Effective legal substance at this stage requires product specifications that are genuinely understood by the member, a clear clarification mechanism, and strengthened evidence that the transaction object conforms to the agreement. Liquidity risk borne by the cooperative when goods are held back further confirms that weakness at the goods stage will spill over into the payment stage. [27]

Rescheduling, reconditioning, and restructuring demonstrate substantive flexibility in responding to declining repayment capacity. Tenor extension, margin adjustment, and an addendum restructuring addendum are positioned as recovery pathways so that cooperative member relations remain protected while problematic financing is contained. This flexibility supports *maslahah* (public benefit), yet its limits need to be read strictly so that restructuring does not become a routine that removes the binding force of obligations. Several discussions of fatwa DSN MUI on rescheduling place key conditions, schedule changes should not become a gateway to increasing the remaining obligation, cost transparency must be maintained, and agreements must be clear.[28] This concern is relevant because findings at KSPPS Nusa Ummat Dawe branch also show recurring default after restructuring, so effectiveness in legal substance cannot be measured merely by the presence of restructuring options, but by the capacity of restructuring to restore payment discipline and close the space for moral hazard.

Members' understanding of the contract becomes the final determinant of the practical force of legal substance. Findings indicate that some members do not understand the content of the *murābaḥah* contract and equate it with an interest-based loan, then reject the consequences of default and reject collateral seizure because it is considered not Islamic. This situation marks a gap between normative documents and social acceptance of norms.

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[26] Ibrahim and Salam, "A Comparative Analysis of DSN-MUI Fatwas Regarding Murabahah Contract and the Real Context Application (A Study at Islamic Banking in Aceh)."

[27] S. Arifin et al., "Legal Framework for Resolving Local Government Loan Defaults in Indonesia: A Comparative Study of Positive and Islamic Law," *Jurnal Ilmiah Mizani* 12, no. 1 (2025): 359–75, Scopus, https://doi.org/10.29300/mzn.v12i1.7971.

[28] Ibrahim and Salam, "A Comparative Analysis of DSN-MUI Fatwas Regarding Murabahah Contract and the Real Context Application (A Study at Islamic Banking in Aceh)."

Legal substance functions effectively when members understand why *murābaḥah* is positioned as a sale, understand the role of collateral as risk mitigation, and understand that warning letters serve as escalation markers with limits. Strong family-oriented culture can accelerate mediation, yet social tolerance can also reduce normative firmness when delays are treated as normal and always open to renegotiation. Evaluation of effectiveness from the perspective of legal substance ultimately needs to bring together three elements, clarity of contractual components, firmness of default indicators, and members' comprehension of the meaning of obligations, because these elements shape whether non litigation resolution merely dampens short term conflict or also supports longer term contractual discipline.

Resolving Default from the Perspective of Legal Structure

Legal structure in the resolution of *murābaḥah* default at KSPPS Nusa Ummat Sejahtera Cabang Dawe operates primarily through internal arrangements rather than through external institutions. The role of the Account Officer in early screening, the financing manager as the operational decision maker, legal staff as administrative and juridical support, and Dewan Pengawas Syariah (Sharia Supervisory Board) as the guide for Sharīʿah compliance form a relatively clear chain of work. Internal mediation becomes the central node because this forum brings managers and members together to seek a way out before more severe measures are taken. This pattern shows that the structure that functions is not a judicial structure, but an institutional structure of the cooperative that is layered yet remains simple.

That internal capacity operates in a proportional manner, yet signs of professional limitation remain visible. KSPPS Nusa Ummat has not established a dedicated internal legal unit, so dispute handling relies on the financing manager and Account Officer rather than on legal personnel prepared specifically for litigation or arbitration. This point matters because the quality of legal structure is not determined only by the existence of procedures, but also by implementers' competence, workload, and the ability to prepare documents that can withstand scrutiny if a dispute moves into a formal arena.[29] The absence of a specialized legal unit tends to make the institution prioritize steps that can be managed internally while avoiding escalation that requires higher technical capacity.

Dewan Pengawas Syariah (Sharia Supervisory Board) adds a distinctive dimension to the legal structure of a sharia cooperative. DPS oversight is positioned to ensure that resolution decisions remain aligned with *fiqh muʿāmalah* and Fatwa DSN MUI (National Sharia Council of the Indonesian Ulama Council fatwa), especially when mediation leads to restructuring. Its strength lies in normative legitimacy. Decisions taken by the financing manager and related staff receive Sharīʿah justification that is more readily accepted by members because DPS is understood as a moral and religious authority. Structural success at this point depends on the depth of DPS involvement. Involvement that is merely symbolic risks producing decisions that are administratively neat yet weak in substantive compliance, particularly in sensitive areas such as collateral, penalty, or contract changes.[30]

Formal pathways available at the national level do not automatically become realistic pathways at the micro level. Religious Court holds authority over Islamic economic cases,

[29] Muhammad Tahir Mansoori, "General Principles of Business Contracts in Islamic Law," in *Institutional Islamic Economics and Finance*, 1st ed., by Ahsan Shafiq (Routledge, 2022), https://doi.org/10.4324/9781003227649-3.

[30] Alvi Aulia Shofyani et al., "Perbandingan Keberagaman Dewan Pengawas Syariah Pada Bank Umum Syariah Indonesia Dan Malaysia," *Al-Musthofa: Journal of Sharia Economics* 6, no. 1 (2023): 17–34, https://doi.org/10.58518/al-musthofa.v6i1.1674.

supported by normative instruments such as *Kompilasi Hukum Ekonomi Syariah* (Compilation of Sharia Economic Law) designed to assist judges in finding more consistent references, alongside recognition of Fatwa DSN MUI as an important reference in dispute resolution. Several studies on Islamic economic adjudication indicate that Indonesian Supreme Court has pursued facility strengthening, capacity building for judges, and the development of procedural and substantive frameworks so that Islamic economic cases can be handled in a simple and low-cost manner.[31] This perspective suggests that the formal structure has in fact been prepared. Problems for micro institutions often lie in the distance between the availability of formal structures and the ability to access them. Cost, time, and the risk of social conflict make formal pathways appear "too far" for cases that can initially still be restored through negotiation.[32]

Access limitations also arise in alternative pathways such as LAPS Syariah and BASYARNAS. Information from the data indicates that the role of LAPS Syariah has not actively reached the Kudus area, while a formal referral mechanism to bring cases to sharia arbitration institutions has not yet been established. External structures therefore exist at the regulatory level, but they do not operate as an accessible "door" for the cooperative and its members. The impact is visible in repeated choices, internal mediation continues to be extended because no institutional bridge is readily available when mediation reaches a deadlock.[33]

The greatest tension within the legal structure appears at the stage of collateral execution. Simulated auctions or seizure are positioned as last resort options, not because there is no normative basis, but because local social structures impose costly reputational consequences and conflict risks. The cooperative's internal structure tends to delay harsh measures so that social relationships do not fracture. A further risk emerges when delay persists for too long. An overly tolerant process can weaken the coercive force of the structure because members learn that institutional pressure can always be renegotiated. Prudential principles in positive law also encourage restraint. Constitutional Court Decision Number 18/PUU XVII/2019 affirms that default cannot be declared unilaterally by the creditor, that collateral execution requires either an agreement on default or a court decision when the debtor refuses to surrender the collateral object voluntarily, and that acts of self-help enforcement are prohibited.[34] Such caution is understandable, yet its consequences need to be considered, because postponement without a firm escalation map will blur the boundary between mediation as a recovery instrument and mediation as an endless repetition. [35]

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[31] Hasanudin et al., "The Contestation of Legal Foundations in the Resolution of Islamic Economic Disputes in Religious Courts," *Al-Manahij: Jurnal Kajian Hukum Islam*, 2024, 271–88, https://doi.org/10.24090/mnh.v18i2.11934.

[32] Ibrahim Siregar, "PENYELESAIAN SENGKETA WAKAF DI INDONESIA: Pendekatan Sejarah Sosial Hukum Islam," *MIQOT: Jurnal Ilmu-Ilmu Keislaman* 36, no. 1 (2012), https://doi.org/10.30821/miqot.v36i1.111.

[33] Elvia et al., "BASYARNAS AS A PLACE FOR DISPUTE RESOLUTION OF MUSYARAKAH FINANCING IN SHARIA BANKING IN THE DISRUPTION ERA."

[34] Arifah and Fidhayanti, "LEGAL POSITION OF FIDUCIARY DEEDS IN A MURABAHA CONTRACT FOLLOWING THE INDONESIAN CONSTITUTIONAL COURT DECISION NUMBER 18/PUU-XVII/2019 ON DEFAULT AGREEMENT BY CREDITORS AND DEBTORS."

[35] Mulyadi Muslim Arif Andika, Afriyanti, Ulyadi, "Non Performing Financing dan Strategi Penanganannya Pada Akad Murabahah diKSPPS Risalatuna Berkah Sejahtera," *RISALAH IQTISADIYAH: Journal of Sharia Economics* 4, no. 1 (2025): 14.

Liquidity pressure narrows the room for maneuver of the internal legal structure. Limited cooperative reserves make high-cost legal steps unattractive. Repeated negotiation is selected so that working capital is not locked into prolonged disputes, although this choice simultaneously opens the possibility of repeated restructuring. The logic of managing problematic financing ultimately enters the dispute resolution space. A legal structure that should affirm certainty and compliance confronts a risk management structure that demands flexibility to protect the portfolio.[36] This condition explains why restructuring is placed as the primary strategy, with rescheduling, reconditioning, and restructuring used to prevent non-performing financing from becoming permanent. Testing structural effectiveness therefore needs to read restructuring as a rational institutional decision in a micro cooperative, while also recognizing it as a vulnerability when restructuring becomes a pattern rather than an exception.[37]

The quality of legal structure is ultimately reflected in the capacity to build a consistent escalation route. The sequence from first warning letter to the third one, followed by *musyawarah* (deliberative consensus building), restructuring, and simulated auction indicates that such a route exists. Its weak points lie in two matters. First, the absence of a dedicated legal unit makes the escalation route difficult to support with orderly documentation and a mature evidentiary strategy when cases must be taken to external institutions. Second, limited operational linkages with LAPS Syariah or BASYARNAS cause escalation to stop at the internal boundary, so a structure that should be layered becomes effectively single layered. This institutional configuration may still be effective for recoverable payment delays, yet effectiveness declines when facing recurring default, collateral refusal, or disputes concerning the validity of default agreements. Improving structure at branch level often concerns not adding more rules, but strengthening implementers' capacity, building realistic referral channels to sharia dispute resolution institutions, and clarifying the boundary at which mediation ends and formal processes begin.

The Resolving Default from the Perspective of Legal Culture

Legal culture places the resolution of *murābaḥah* default in a space that is not fully "law" in the formal sense. Attitudes, habits, and the way members evaluate obligations often carry more weight than the strictness or flexibility of written rules. Friedman's framework is useful here because legal culture is understood as public attitudes and responses to law and the legal system in operation, rather than merely knowledge of articles or fatwa.[38] The choice of KSPPS Nusa Ummat Cabang Dawe to prioritize a family oriented pathway and to treat *musyawarah* (deliberative consensus building) as the main entry point indicates that social acceptance of the process is treated as equally important as the final outcome, especially

[36] Syarifah Lisa Andriati Margaretha Yeremia Claudia, Mahmul Siregar, Maria Kaban, "Komparansi Penyelesaian Sengketa Wanprestasi Perkreditan Atau Pembiayaan Melalui Pengadilan Pada Perbankan Konvensional Dan Perbankan Syariah," *Locus Journal of Academic Literature Review* 3, no. 1 (2024): 128–29.

[37] Yudi Siyamto, "Perkembangan Kualitas Pembiayaan Bank Syariah Di Indonesia: Tren Kategori Dan Non-Performing Financing 2015–2024," *Jurnal Ilmiah Keuangan Akuntansi Bisnis* 4, no. 2 (2025): 747–58, https://doi.org/10.53088/jikab.v4i2.224.

[38] Hasanudin et al., "The Contestation of Legal Foundations in the Resolution of Islamic Economic Disputes in Religious Courts."

because cooperative member relations are not anonymous relations but relationships among people who know one another within the same social space.[39]

Ukhuwah (social and religious fraternity) and *maṣlaḥah* (public benefit) form a moral logic that calms conflict. Internal deliberation is not directed toward "punishment", but toward finding a way out that is perceived as win-win solution, while restructuring is used as a compromise so that members retain room to recover and the cooperative retains a recovery opportunity. This pattern also aligns with the cooperative's distinctive social capital. Membership based on closeness and trust makes negotiation easier to initiate, and members tend to come when called because they still feel they are within their own community rather than in a dispute space that threatens dignity.[40] Such strength produces short term effectiveness, the atmosphere does not deteriorate quickly, emotions can be contained, and gradual repayment becomes more realistic for micro businesses with fluctuating income.

The same culture can become a weak point when family-oriented values are read as a "guarantee of unlimited tolerance". Members postpone obligations because they assume the cooperative will accommodate delays, and warning stages are not always taken seriously. This situation approaches a moral hazard dynamic. Delay is no longer understood as a deviation that must be promptly restored, but as a normal variation within cooperative member relations. The cooperative may avoid harsh sanctions at the beginning in order to preserve relationships, yet overly flexible social relations reshape members' expectations. Time markers and formal stages become less effective when daily culture sends a different message, that negotiation is always available, while harsh consequences can be avoided simply by attending and providing reasons.

Weak legal culture is also visible in the way members interpret the contract. Limited financial literacy and limited understanding of sharia law lead some members to view *murābaḥah* as an interest based money loan, and the consequences of default are then perceived as actions that are not Islamic, including when collateral is addressed. This resistance is not only a terminological misunderstanding. Legal culture is formed through senses of fairness, normality, and propriety. Members who feel from the beginning that the transaction is not readable as a goods-based sale tend to feel oppressed when they are asked to bear consequences. Such resistance undermines effectiveness because deliberation-based resolution requires a minimum recognition that the obligation is valid and appropriately collectible. When that recognition is absent, mediation turns into an arena of moral debate rather than a productive negotiation space.[41]

Social capital also has a fragile side. Distrust can emerge from negative stories from friends or family and can shape members' behavior from the outset, even before installment problems develop. The episode of refusing goods due to excessive expectations and miscommunication on specifications shows how strong social perception can be toward the

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[39] Aziza Mutifani Hidayah and Abdul Mujib, "Aspek Hukum Pengawasan Pembiayaan Koperasi Syariah Oleh Otoritas Jasa Keuangan Dan Kementerian Koperasi Dan Usaha Kecil Menengah," *Adzkiya : Jurnal Hukum Dan Ekonomi Syariah* 11, no. 1 (2023): 51, https://doi.org/10.32332/adzkiya.v11i1.6243.

[40] Am Hasan Ali, "Community-Based Economic Development and Partnership Cooperation: The Economics Strategy for Prosperity of the Ummah," *Samarah: Jurnal Hukum Keluarga Dan Hukum Islam* 8, no. 2 (2024): 1280, https://doi.org/10.22373/sjhk.v8i2.22925; Cinantya Kumaratih and Tulus Sartono, "Cooperative Law Policy: Historical Study Of Cooperative Settings In Indonesia," *Jurnal Hukum Prasada* 7, no. 1 (2020): 34–44, https://doi.org/10.22225/jhp.7.1.1267.34-44.

[41] Yulius Dharma et al., "The Influence of Financial Literacy and Islamic Business Ethics on Investment in Islamic Financial Instruments: The Mediating Role of Risk Attitude and the Moderating Role of Religious Knowledge," *Journal of Ecohumanism* 3, no. 8 (2024): 264–82, https://doi.org/10.62754/joe.v3i8.4729.

cooperative, perception that can override contract documents and administrative verification. Legal culture at this point operates as a collective reputation. A strong reputation accelerates recovery, while a damaged reputation makes every procedure read as suspicion. A cooperative that carries a mission of avoiding *riba* (usury) and positions financing as a medium of da'wah (religious outreach) gains cultural advantage because members feel they share a religious path, yet such advantage still demands consistency in practice so that symbols do not become disappointment.[42]

Patterns of seeking justice through formal pathways are also strongly shaped by culture. A study on the sharia economic justice system explains that legal culture is closely linked to public compliance with law and influences how often people choose to seek justice through courts.[43] The choice of KSPPS Nusa Ummat Cabang Dawe to place deliberation as the priority and to position formal pathways as the last option aligns with such cultural tendencies. Open conflict in formal arenas is seen as costly in terms of cost, time, and social impact. Dense local culture means open disputes can spread into neighbor relations, extended family relations, and even other economic relations. This social rationality explains why internal resolution is maintained, and it also explains why normative pressure from outside is often ineffective when it does not align with the community's sense of security.

A healthy legal culture should be able to balance social compassion with contractual discipline. *Taṭwīl* (delaying an obligation) provides ethical language to distinguish delays caused by real hardship and delays that are strategic.[44] KSPPS Nusa Ummat Cabang Dawe relies on personal communication to explore the causes of delay and then provides restructuring space for members whose businesses are declining. Weakness emerges when tolerance is not tied to standards that are jointly understood. Members learn that delay can always be renegotiated, while the cooperative postpones firm steps because it fears breaking social relations. Legal culture at this stage creates a cycle. The cooperative softens to maintain harmony, harmony is read as leniency, leniency produces repeated delays, and the cooperative softens again because cutting ties becomes increasingly difficult.

The distinction between short term compliance and long-term contractual discipline becomes the main test point. Deliberation often succeeds in reducing conflict and maintaining good relations, yet success needs to be measured by whether a habit of repayment is established after the first restructuring, not only by whether meetings proceed peacefully. A legal culture that supports effectiveness will encourage members to feel ashamed to delay without reason, to feel responsible for revolving funds, and to maintain shared *amanah* (trust). A weak legal culture will encourage members to normalize arrears and shift risk burdens to the cooperative. Findings regarding low awareness of contractual obligations and the assumption that the cooperative will always accommodate delays indicate clear tasks. Strengthening legal culture is not sufficient through adding procedures, but requires building shared understanding about the meaning of the contract, tolerance limits, and social responsibility for members' funds that are rotated back into the community.

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[42] Donal McKillop et al., "Cooperative Financial Institutions: A Review of the Literature," *International Review of Financial Analysis* 71 (October 2020): 101520, https://doi.org/10.1016/j.irfa.2020.101520.

[43] Hasanudin et al., "The Contestation of Legal Foundations in the Resolution of Islamic Economic Disputes in Religious Courts."

[44] Sami M. Abbasi et al., "Islamic Economics: Foundations and Practices," *International Journal of Social Economics* 16, no. 5 (1989): 5–17, https://doi.org/10.1108/03068298910367215; Aaron Z. Pitluck, "Beyond Debt and Equity: Dissecting the Red Herring and a Path Forward for Normative Critiques of Finance," *Focaal* 2022, no. 93 (2022): 60–74, https://doi.org/10.3167/fcl.2022.930105.

Limits of Effectiveness in Non-Litigation Resolution

The non-litigation resolution mechanism at Cabang Dawe rests on the assumption that most defaults can still be recovered through communication, the reordering of obligations, and reinforcement of social commitment. This assumption is reasonable for community based micro institutions because cooperative member relations are not situated at an anonymous distance, but within a shared social space where people know one another. Effectiveness nonetheless has limits that can be traced from the staged handling practices, from recurring default patterns, and from the point at which disputes reach collateral and the rejection of obligations.[45]

Early phase installment delays constitute the most responsive area for non-litigation efforts. Graduated warning stages provide a relatively safe correction space because the problem burden has not yet accumulated and members remain in a position where payment recovery is still possible. Daily warning letters, first warning letter at 30 days, the second one at 60 days, and the third is at 90 days or more offer a framework that can be read as an escalation signal. The cooperative can still rely on personal approaches to assess the causes of delay and to test members' good faith without transforming the dispute into open conflict. A shorter time span allows social shame to function, and a sense of responsibility toward collective funds can still be mobilized as a moral argument. This condition aligns with the logic of *taṭwīl* (delaying an obligation), which stresses that postponement must be differentiated between inability to pay and strategic delay, because a fair response cannot be uniform.[46]

The first restructuring often becomes an effective point for non-litigation, especially when the main causes of default are linked to declining business turnover, household economic pressure, or economic disruption that reduces cash flow. Rescheduling through tenor extension and reconditioning through margin reduction provide breathing space without severing relations.[47] The restructuring addendum provides written form that helps clarify that relief is not neglect, but a new agreement with a schedule and targets. Restructuring at this early phase becomes effective when the adjustment is genuinely realistic, members understand its consequences, and the cooperative maintains discipline in its stages. The principle emphasized in DSN MUI discussions on rescheduling sets an important safeguard. Adjustments should not become a gateway to non-transparent increases in obligations, agreements need to be clear, and costs must be real.[48] This safeguard helps keep restructuring as a recovery instrument rather than a postponement instrument.

A first limit of non-litigation appears when restructuring turns into a repeated pattern. Recurring default after rescheduling indicates two possibilities that are equally serious. Repayment capacity has not recovered, so the first restructuring does not address

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[45] Ansori Ansori, "Position of Fatwa in Islamic Law: The Effectiveness of MUI, NU, and Muhammadiyah Fatwas," *Ijtihad : Jurnal Wacana Hukum Islam Dan Kemanusiaan* 22, no. 1 (2022): 53–72, https://doi.org/10.18326/ijtihad.v22i1.53-72.

[46] Ibrahim and Salam, "A Comparative Analysis of DSN-MUI Fatwas Regarding Murabahah Contract and the Real Context Application (A Study at Islamic Banking in Aceh)."

[47] A. Syah, "Critical Review of Murābaḥah Financing in Contemporary Islamic Banking: A Maqāṣid al-Sharīʿah Perspective," *MILRev: Metro Islamic Law Review* 4, no. 2 (2025): 1152–88, Scopus, https://doi.org/10.32332/milrev.v4i2.11087; I.Z. Asyiqin and F.F. Alfurqon, "Musyarakah Mutanaqisah: Strengthening Islamic Financing in Indonesia and Addressing Murabahah Vulnerabilities," *Jurnal Media Hukum* 31, no. 1 (2024): 1–18, Scopus, https://doi.org/10.18196/jmh.v31i1.20897.

[48] Ibrahim and Salam, "A Comparative Analysis of DSN-MUI Fatwas Regarding Murabahah Contract and the Real Context Application (A Study at Islamic Banking in Aceh)."

the root problem. Willingness to pay begins to weaken because members read restructuring as a routine that is always available. An overly flexible family-oriented culture can accelerate the second shift because social tolerance produces an expectation that obligations can be renegotiated without limit. This condition causes deliberation (deliberative consensus building) to lose its corrective function and to become a social ritual that postpones decision making. Warning stages may continue to operate, yet the meaning of escalation weakens when members do not see a difference in consequences after the third warning letter is exceeded.

A second limit emerges when default enters the category of strategic delay. Delay accompanied by refusal to negotiate a reasonable schedule or refusal to comply with restructuring agreements indicates that social instruments are no longer sufficient.[49] Ethical language such as *taṭwīl* becomes relevant at this point because postponement is no longer merely a symptom of economic hardship, but a choice that erodes revolving funds. Strengthening discipline at this stage often requires a firmer structural signal because a family-oriented approach no longer produces corrective effect.

A third limit arises when the dispute relates to the object of *murābaḥah*, particularly in cases of refusal to accept goods or claims of specification mismatch. Deliberation can reduce emotion, yet it does not always resolve conflict when members believe the basis of obligation is invalid or when the transaction is perceived as closer to a money loan than a goods-based sale. Studies on *murābaḥah bil wakālah* notes that the perception of "only receiving money" easily emerges when the ownership sequence and the handover of goods are not clearly readable.[50] Such conditions disrupt the substantive legitimacy of the contract. Fragile legitimacy makes non-litigation resolution vulnerable to circularity because debate no longer centers on payment schedules, but on whether the obligation is appropriately collectible.

The hardest boundary of non-litigation lies at the collateral stage. Simulated auction is described as a final option after certain stages, including a six months marker leading toward the auction phase. This stage indicates that the cooperative has established an internal boundary line. That boundary may not be easy to apply because collateral touches social dignity and conflict risk. Decisions to restrain action often appear because cooperative reputation is at stake within a dense community. Positive law also encourages caution. Constitutional Court Decision Number 18/PUU XVII/2019 delivers a strong message. Default should not be determined unilaterally, collateral execution requires either an agreement on default or a court decision when the debtor does not surrender the object voluntarily, and acts of self-help enforcement are prohibited.[51] This norm confirms that non litigation has a procedural boundary when collateral is to be executed, because execution without legitimacy can shift disputes from the social domain into criminal processes or new civil disputes.

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[49] Ahmad et al., "The Concept of Murabahah (Buy and Buy) and Its Applications In The Sharia Financial Services Cooperative Pariri Lema Bariri (KJKS Paleba)."

[50] Ibrahim and Salam, "A Comparative Analysis of DSN-MUI Fatwas Regarding Murabahah Contract and the Real Context Application (A Study at Islamic Banking in Aceh)"; Asyiqin and Alfurqon, "Musyarakah Mutanaqisah: Strengthening Islamic Financing in Indonesia and Addressing Murabahah Vulnerabilities"; Muchlis, "SYARI'AH OPTIMIZATION OF BUSINESS THEORY IN PREVENTING RIBA PRACTICES IN MURABAHAH CONTRACT (Case Study at Muamalat Indonesian Bank)."

[51] Arifah and Fidhayanti, "LEGAL POSITION OF FIDUCIARY DEEDS IN A MURABAHA CONTRACT FOLLOWING THE INDONESIAN CONSTITUTIONAL COURT DECISION NUMBER 18/PUU-XVII/2019 ON DEFAULT AGREEMENT BY CREDITORS AND DEBTORS."

Escalation criteria can be read from three practical markers. The first concerns whether stages from the first waning letter to the third one are completed, especially when the third warning letter is exceeded without payment improvement. The second concerns failure of the first restructuring accompanied by recurring default, because this pattern signals that the recovery approach no longer works or is no longer trusted. The third concerns members' refusal of collateral action or refusal to acknowledge default, because this point requires formal legitimacy in order to avoid self-help enforcement. Sharia arbitration or Religious Court exists as a normatively available space, yet these pathways become relevant precisely when the three markers appear together, because non litigation at that point tends to produce repetitive meetings without behavioral change.[52]
Effectiveness of non-litigation in community based micro financial institutions is therefore strongest at the early recovery phase, most fragile in the phase of repeated restructuring, and most limited at the collateral stage. This boundary measure has analytical value for reading dispute resolution not as a moral choice that is always superior, but as an institutional strategy that needs to be tied to clear escalation indicators so that family-oriented settlement remains a social strength without becoming a moral hazard space that reproduces recurring default.

Conclusion

Patterns of *murābaḥah* default at KSPPS Nusa Ummat Sejahtera Cabang Dawe Kudus are dominated by delayed installment payments. Delays develop in stages and generate handling stages that also operate in a tiered manner. Recurring default after restructuring becomes a salient pattern, particularly when adjustments do not address the underlying decline in repayment capacity or when relief is interpreted as a routine practice. The source of problems does not always originate from delayed installments. Refusal to accept goods or delayed receipt of goods also appears as a trigger of disputes at the early phase and later affects willingness to fulfil payment obligations. The resolution mechanism implemented in practice relies on non-litigation pathways through staged warning letters, personal approaches, deliberation (deliberative consensus building) and internal mediation, followed by restructuring in the forms of rescheduling, reconditioning, and restructuring recorded in an addendum. Simulated auction and collateral related steps are positioned as the end of the handling chain, while arbitration or formal litigation remains a last resort option that is rarely used.

Effectiveness of non-litigation resolution can be read through legal substance, legal structure, and legal culture. Legal substance shows strength in the existence of handling stages and in the clarity of obligations based on installment schedules, while vulnerabilities appear when the *murābaḥah* model at the goods purchase stage is not understood uniformly, especially when elements of *wakālah* (agency) appear in practice. Legal structure shows internal capacity that is sufficiently functional for mediation and restructuring, supported by Dewan Pengawas Syariah (Sharia Supervisory Board) as normative oversight, yet the same structure encounters limits at the collateral stage and in access to external dispute resolution institutions. Legal culture strengthens short term effectiveness through family-oriented values that reduce conflict escalation, while also opening tolerance space that can develop into moral hazard and prolong repeated restructuring. Boundaries of non-litigation effectiveness become clear when the third warning letter is exceeded without improvement,

[52] Ali, "Community-Based Economic Development and Partnership Cooperation."

when the first restructuring fails and recurs, and when members refuse to acknowledge default or reject collateral consequences. This point indicates the need for firm escalation indicators so that deliberation remains a social strength without eroding contractual discipline.

Limitations of the study lie in a single branch case study design, so findings are not directed toward generalization across all KSPPS. Limited access to quantitative data on problematic financing and restructuring histories also constrains the ability to measure trends statistically, especially regarding restructuring success rates and the frequency of recurring default. Future research can be directed toward comparative studies across KSPPS with different community characteristics to test the role of family oriented legal culture and internal structural capacity in dispute resolution effectiveness. Deeper analysis of problematic financing data is also needed so that repeated restructuring patterns can be mapped with greater precision. Further study on access to Islamic dispute resolution institutions at the regional level is important to assess whether barriers to formal pathways stem from institutional design, cost, literacy, or service distance, and to examine how a realistic escalation design can be constructed for micro institutions.

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