CHAPTER ONE

INTRODUCTION

A. Background

Cooperative movement originally began in Europe in the 19th century, primarily in France and Britain. The Shore Porters Society was claimed as the world's first cooperatives, being established in Aberdeen in 1498. Historically cooperative was provided by spontaneous small business and established by the small people who have low economic ability to escape from suffering. Cooperative is a part of the three pillars of the Indonesian economy that participate in building people's welfare. In the economic life of the Indonesian nation, the cooperative movement can be separated from Mohammad Hatta, the first vice president. He promoted tirelessly the cooperative as the implementation of the 1945 Constitution Article 33 Paragraph 1. The role and purpose of cooperatives in the development of the Indonesian economy is clearly mentioned in Law no. 25 of 1992 concerning Cooperatives.

Throughout the history of cooperatives movement in Indonesia, there have been various challenges and difficult obstacles. Cooperatives formally have been established by the state in the New Order era such as Village Unit Cooperatives but historically cooperatives were first established by village community. Among the problems that arise are the low resources of managers and participation of members. Members of the cooperative have a dual function that is as owner and user so that many cooperatives have fallen and less participation from the member year to year. Those problems attached to stories of the development of cooperative life.

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2 1945 Constitution Article 33 Paragraph 1. Stated The economy is structured as a joint effort based on the principle of kinship.
3 Law No. 25 of 1992 on Cooperatives
According to Prof. Rusdati, cooperative is a part of the economic system in Indonesia which has a long time as facilities to develop economic democracy in Indonesia.

To strengthen the conventional concept of cooperative then the Islamic values were introduced and it becomes Sharia cooperative. Sharia cooperative is a steady economic, democratic, autonomous, participative, and social business operated under Islamic moral principles by considering the halal and haram. The establishment of this cooperative was to meet the needs of its members with a relatively cheaper price; provide convenience for its members who need business capital, and give benefits to its members. The cooperative also aims to improve the welfare of Indonesian society. This is obtained by the division of Time Result of Business (SHU) to its members. The difference between a conventional cooperative and a sharia cooperative is on the system used; there is sharia principle in sharia cooperative.

All contracts used in sharia cooperatives should not contain elements of usury, gharar (uncertainty), and maysyir. Sharia cooperatives, however, also have many problem of contracts that should be used on each product where the selection of the contract is tailored to the needs of customers but must remain in accordance with the principles of sharia.

Sharia Cooperatives began to be discussed by many people when the Baitul Maal Wattamwil (hereafter BMT) in Indonesia was growing up. BMT was first proposed by BMT Bina Insan Kamil in 1992 in Jakarta, which contributes to the economic among micro entrepreneurs, based on regulation on Cooperative and Small and Medium Enterprise Ministry No. 91/KEP/M.KUKM/IX/2004 on instruction for implementing cooperative business activities of sharia financial service cooperative,

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Sharia Financial Services Cooperative (KJKS) is a unique and specific Islamic micro finance identically with Indonesia. Actually, the Sharia Financial Services Cooperative (KJKS) and BMT are the same. The only main difference is that in sharia cooperatives consists of one institution, namely a cooperative run with a Sharia system. Whereas BMT has two legal status--- as Micro Financial Institution and as KJKS or UJKS. BMT as Micro Financial Institution is supervised by Financial Service Authority and regulated under the Law No. 1 of 2013 on Micro Financial Institution, while BMT as a KJKS or UJKS is supervised by Cooperative and Small and Medium Enterprise Minister and regulated by Ministry Decision NO 91 of 2004.

KJKS in carrying out its functions and roles has double roles as a business institution (tamwil) and perform the social function of collecting, managing and channeling ZISWAF (Zakat, Infaq, Shadaqah, Wakaf) funds. In a conventional cooperative, the priority is to seek benefits for the welfare of members, either by cash or by lending money to its members. Those members cannot be seen from the point of view of the money loan and its interest or it is not based on the condition of the money uses. For example, the members who borrow the money for daily consumption (eating and drinking) has the same treatment with other borrowers who are using it for productive business.

In Sharia cooperative, the treatment to the members is different because every transaction (tasharruf) is based on effective use of money whether for financing or daily needs. Both of these are treated differently. For productive enterprises, for example, members will trade the profit-sharing principle (Musyarokah or

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6 Regulation of Cooperative and Small and Medium Enterprise Ministry No.11/PER/M.KUKM/XII/2017 on Implementation of Save Loans Business Activities and Sharia Financing by Cooperative.

7 Nur S. Buchori, 2009, Koperasi Syariah, Sidoarjo, Masmedia Buana Pustaka, page 87
Mudharobah) whereas for the purchase of transportation equipment or other tools can use the principle of Sale and Purchase (Murabahah).\textsuperscript{8}

In addition, Sharia cooperatives is run under Islam values that do not rule out the possibility of someone who is not responsible to use sharia cooperatives to conduct illegal investment activities. To prevent sharia cooperative from unlawful act, sharia cooperative should be supervised by the government, actually, the supervision of sharia cooperative is taking over by regulatory agencies which established by Ministry of Cooperatives and Small and Medium Enterprises.\textsuperscript{9} With the supervision of the government, it is possible that sharia cooperatives will not commit violations, for example in West Java Cirebon, PT CSI conducts its activities through the Sharia Credit and Financing Cooperative (KSPPS) BMT Madani Nusantara and KSPPS Sejahtera Mandiri BMT, which should be in accordance with the principle cooperative, not banking.\textsuperscript{10}

Illegal investment can harm people who have invested more than Rp 1 trillion. The number of PT CSI customers is estimated to be 7,000 with an investment of at least Rp 50 million per person, Cirebon MUI has issued an illegitimate fatwa related to KJKS BMT CSI Madani Nusantara due to usury (Rib\textit{a}).

Nowadays, the number of sharia cooperatives in Indonesia is increasing. Although sharia cooperative is based on Islamic perspective, it should be supervised by the government, so the activity of that cooperatives will match with the regulation which applies in Indonesia. Based on the background above, the author is

\textsuperscript{8} \textit{Ibid} page 103
\textsuperscript{9} Djibril Muhammad, “Pengawasan Koperasi Jasa Keuangan Syariah Ada di Kemenkop” available on http://republika.co.id/berita/ekonomi/syariah-ekonomi/13/05/03/mm84pu-pengawasan-koperasi-jasa-keuangan-syariah-ada-di-kemenkop-ukm., accessed on April 2nd, 2018 at 4.19 pm.
very interested in discussing in details the supervision of sharia cooperatives in Indonesia. The focus is given more on how the supervision of Sharia cooperatives in Indonesia including its supervision system and the authority to supervise Sharia cooperatives activity.

B. Formulation of Problem

1. How does the supervision of Sharia cooperative by cooperative and small and medium enterprise office in Yogyakarta?

2. How does the supervision of Sharia cooperative by sharia supervisory board?

C. Objective of Research

1. To understand what is the definition of Sharia cooperative.

2. To Analyze Some Supervision of Sharia cooperative in Yogyakarta.

D. Benefit of Research

1. Theoretical Aspect;
   The research provides theoretical understanding on analysis how the supervision of sharia cooperation in Indonesia.

2. Practical Aspect;
   To propose the recommendation for better policy in the supervision of sharia cooperation.