

**SUPERVISION OF SHARIA FINANCIAL SERVICE COOPERATIVE IN  
YOGYAKARTA**

**UNDERGRADUATE THESIS**



**This undergraduate thesis is submitted as one of the requirements to obtain  
the degree of Bachelor of Laws  
at the Faculty of Law Universitas Muhammadiyah Yogyakarta**

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**FACULTY OF LAW**

**UNIVERSITAS MUHAMMADIYAH YOGYAKARTA**

**2019**

# APPROVAL PAGE

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## **ABSTRACT**

Historically cooperatives start from the results of spontaneous small business and done by the small people. Low economic ability for small workers to escape suffering. Cooperatives is a part of the three pillars of the economy that participate build people's welfare. In the economic life of the Indonesian nation the cooperative is seen very important. This is evidenced by the legal basis of the cooperative itself, namely the 1945 Constitution Article 33 Paragraph 1. The majority in Indonesia is Muslim, that's why the government of Indonesia need to consider Muslim interest in the development of economic, sharia cooperative is one of the ways of government to cover Muslim who want to join in cooperative with Islamic perspective. Moreover, sharia cooperative is a steady economic, democratic, autonomous, participative, and socially in business operation based on moral principles by considering the halal and haram of a business conducted in accordance with sharia principle. This research discusses how does the supervision of Sharia Cooperative was conducted by Cooperative and Small and Medium Enterprise Office and Sharia Supervisory Board in Yogyakarta. This research is normative and empirical legal research. The data were obtained from law books and journal and also through interview with respondent. Establishment of this cooperative is to meet the needs of its members with a relatively cheaper price, provide convenience for its members who need business capital, and give benefits for its members. Though sharia cooperative run its activity within Islamic perspective, it is not guaranteed to be free from violation.

**Keywords:** *Supervision, Cooperative, Sharia Cooperative,*

## 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.<sup>1</sup> 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.<sup>2</sup> The role and purpose of cooperatives in the development of the Indonesian economy is clearly mentioned in Law no. 25 of 1992 concerning Cooperatives.<sup>3</sup>

Through out 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 communities and cooperatives themselves.<sup>4</sup> According to Prof. Rusdati, cooperative is

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<sup>1</sup> Arifin Sitio, 2001, *Koperasi: Teori dan Praktik*, Jakarta: Erlangga. Page 17

<sup>2</sup> 1945 Constitution Article 33 Paragraph 1. Stated The economy is structured as a joint effort based on the principle of kinship.

<sup>3</sup> Law No. 25 of 1992 on Cooperatives

<sup>4</sup> Agus, Arman. 2009, *Pokok-Pokok Pikiran dan Manajemen Koperasi*, Jakarta: Balai Pustaka. Page 56

a part of the economic system in Indonesia which has a long time as facilities to develop economic democracy in Indonesia.<sup>5</sup>

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, Sharia Financial Services Cooperative (KJKS) is a unique and specific Islamic micro finance identically with Indonesia.

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<sup>5</sup> Universitas Negeri Semarang, "Eksistensi Koperasi di Era Globalisasi", available on <http://unnes.ac.id/berita/eksistensi-koperasi-di-era-globalisasi/>, accessed on March 22th, 2018 at 2.15 pm.

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.<sup>6</sup> 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.<sup>7</sup> For productive enterprises, for example, members will trade the profit-sharing principle (Musyarokah or Mudharobah) whereas for the purchase of transportation equipment or other tools can use the principle of Sale and Purchase (Murabahah).<sup>8</sup> In addition. Sharia cooperatives is run under Islam values that do not rule out the possibility of someone who is not

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<sup>6</sup> 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.

<sup>7</sup> Nur S. Buchori, 2009, *Koperasi Syariah*, Sidoarjo, Masmadia Buana Pustaka, page 87

<sup>8</sup> *Ibid* page 103

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.<sup>9</sup> 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.<sup>10</sup>

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 (*Riba*). 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 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. PROBLEM OF RESEARCH**

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<sup>9</sup> 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.

<sup>10</sup> Muhammad Syahri Ramdhon, "Cirebon Jadi Tempat Investasi Ilegal, Warga Rugi Hingga lebih dari Rp. 1 Triliyun, Available on <https://regional.kompas.com/read/2016/12/06/15493611/cirebon.jadi.tempat.investasi.ilegal.warga.rugi.hingga.lebih.dari.rp.1.triliun>, accessed on November 11<sup>st</sup>, 2018 at 8.19 PM

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. LITERATURE RIVIEW**

#### **1. Sharia Coopeative**

Most experts mention the definition of controlling equals to supervision so that supervision also includes controlling. Controlling is mean as directing, correcting misdirected activities and straightening in the right direction. The followings are the understanding of supervision given by some experts:

##### **a. Sarwoto**

Supervision is the activity of managers who seek that the work to be done in accordance with the established plan and/or desired results.<sup>11</sup> In the definition, Sarwoto explicitly states the subjects that carry out supervision or have the supervisory function of the manager, as a standard or benchmark to plan the set and / or desired results. While implicitly, the definition of supervision according to Sarwoto states that the purpose of supervision is to make the work executed accordingly. So all the works in question are those of being in implemented not the work that has been completed.<sup>12</sup>

##### **b. S.P. Siagian**

Oversight is a process of observation rather than the exercise of all organizational activities to ensure that all works underway are carried out in

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<sup>11</sup> Sarwoto, 1978, *Dasar-Dasar Organisasi dan Manajemen*, Jakarta, Ghalia Indonesia, Page 18

<sup>12</sup> S.P. Siagian, 1994, *Filsafat Administrasi*, Jakarta, PT Gunung Agung, Page 43

accordance with pre-determined plans. In the definition of supervision by S.P. Siagian it has an important characteristic that the definition of this supervision can only be applied to the supervision of the work in progress but it can not be applied to the work that has been completed.

c. Soekarno K

Supervision is a decisive process of what to do, so that what had been organized is in line with the plan. Soekarno in providing the definition of oversight puts more emphasis on supervision as a decisive process of what to do.<sup>13</sup>

Supervision in Islamic teachings is divided into two things, first, supervision that comes from themselves from *tawhid* and believes to Allah SWT. If someone who believes that Allah SWT watches over His servants, then he will act cautiously as explained in Quran

## 2. Sharia Cooperative

To make it specific, the author will discuss on one kind of the cooperative in Indonesia, namely Cooperative service especially Sharia Financial Service Cooperative which supervised by the Sharia Supervisory Board and the Office of Cooperatives. Before discussing further the author will explain first about what is sharia cooperative.

a. Definition

Cooperative is a part of the economic arrangement, this means that in its activities cooperatives also take part for the achievement of a prosperous economic life, both for people who are members of the association itself and for the surrounding community.<sup>14</sup> Cooperatives as associations for the

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<sup>13</sup> Soekarno K, 1980, Dasar-dasar Manajemen, Jakarta: CV. Miswar. Page 32

<sup>14</sup> Arifin Sitio, 2001, Koperasi: Teori dan Praktik, Jakarta: Erlangga.

common welfare, conduct business and activities in the field of meeting the mutual needs of its members. According to Prof. Rusdati cooperation is a part of the economic system in Indonesia which has a long time as facilities to develop economic democracy in Indonesia.<sup>15</sup> Law No. 25 of 1992 on cooperation explains that Cooperative in Indonesia is a business entity that consists of individual or cooperative legal entity based on the principle of cooperatives as well as a people's economic movement based on the principle of kinship. Based on Margono Djojohadikoesoemo explanation in his book entitled “10 Tahun Koperasi”, cooperation is a group of people who with their own willingness to work together to improve their economy”.<sup>16</sup>

Sharia cooperative is more familiar by the name Cooperative Financial Services of Sharia (KJKS), Cooperative Financial Services of Sharia is cooperatives whose business activities are engaged in the field financing, investment, and savings in accordance with the pattern of profit sharing (sharia). Sharia Finance Service Units is a business unit in a Cooperative whose business activities engaged in financing, investment, and savings in accordance with the pattern for the result (sharia), as part of cooperative business activity concerned. Sharia cooperatives are business entities consisting of persons or entities cooperative law based on its activities based on sharia principles as well as a people's economic movement based on the principle of kinship.<sup>17</sup>

In addition, the principle of supreme authority is in the hands of members as well as a centralized principle of democratic power. On the other

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<sup>15</sup> Universitas Negeri Semarang, “Eksistensi Koperasi di Era Globalisasi”, available on <http://unnes.ac.id/berita/eksistensi-koperasi-di-era-globalisasi/>, accessed on March 22th, 2018 at 2.15 PM

<sup>16</sup> Hendrojogi, Msc., *Koperasi Azas-Azas. Teori, dan Praktek*, PT. Raja Grafindo Persada, Jakarta, 2000, hlm. 21

<sup>17</sup> Triana Sofiani, “Konstruksi Norma Hukum Koperasi Syariah dalam Kerangka Sistem Hukum Koperasi Nasional”, *Jurnal Hukum Islam*, Vol. 12 No.1, ISSN : 1829-7382 (December, 2014), Page 136.

hand, the liberal element is also seen in the cooperative with the recognition of the principle of justice. Voluntary principles can also be interpreted as freedom to conduct economic activities within the cooperative.<sup>18</sup> Cooperatives have a significant role in drawing up joint efforts of people who have limited economic ability. In an effort to promote the position of the people who have limited economic capacity, the Government of Indonesia is concerned with the growth and development of cooperative societies because cooperatives in the economic system is a pillar.

b. Kinds of Cooperative

- 1) Producer Cooperative
- 2) Customer Cooperative
- 3) Marketing Cooperative
- 4) Cooperative Services
- 5) Saving and Loan Cooperative

c. Purpose

In running its activity, the cooperative has a purpose for the welfare of members regardless of the form of cooperation because the legal basis used is a culture of mutual cooperation and the same fate as a joint, by not abandoning the basic principles of cooperatives and the conditions that must be fulfilled.<sup>19</sup> Cooperatives aim to promote the welfare of members in particular and society in general and participate in building the order of the National economy in order to realize an advanced, just and prosperous society based on Pancasila and the 1945 Constitution. While the purpose of Sharia Cooperatives is to

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<sup>18</sup> Sugiharsono, "Sistem Ekonomi Koperasi Sebagai Solusi Masalah Perekonomian Indonesia" *Jurnal Ekonomi dan Pendidikan*, Vol. 6 No. 1 (April 2009), Page 29

<sup>19</sup> Aminullah Assegaf, Analisis Faktor-faktor yang Memengaruhi Permintaan Tenaga Listrik Konsumen Sektor Sosial PT Perusahaan Listrik Negara (Persero), *Jurnal Ekonomi*, Vol. 4, No. 2, ISSN 1978-9998 (Desember 2011) Page. 46

improve the welfare of members and society in general and carry out to build the order of economy in based on Islamic principles

### **3. Supervisory Institution for Sharia Cooperative in Indonesia**

#### a) Sharia Supervisory Board

According to Abu Moamer, the definition of Sharia Supervisory Board is the institution used for ensuring that sharia banks work within the bounds of Islamic law, knowing the framework and boundaries of sharia, and investing or increasing capacity within these limits.<sup>20</sup> Meanwhile, AAOIFI Governance Standard (Organization of Accounting and Audit for Sharia Financial Institutions) defines DPS as an independent institution which consists of muamalah fiqh experts.

#### b) Small and Medium Enterprise Cooperative office

Small and Medium Enterprise Cooperative office has the duty to carry out the affairs of the Regional Government in the field of Cooperatives, Micro, Small and Medium Enterprises. To carry out the task the service has a function:

- a. Prepare and Control in the field of cooperative, micro enterprice, small and medium enterprise;
- b. Formulate the technical policy in the field of cooperative, micro enterprice, small and medium enterprise;
- c. Implement the cooperative cooperation, micro enterprice, small and medium enterprise;
- d. Give provision, coaching, protection, marketing and development of cooperatives, micro, small and medium enterprises;
- e. Implement the general services in the field of cooperatives, micro, small and medium enterprises;

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<sup>20</sup> Nurul Huda dan Mustafa Edwin Nasution, 2009, *Current Issues Lembaga Keuangan Syari'ah*, Kencana Prenada Media Grup, Jakarta. Page 208.

- f. Provide facilitation in the field of cooperatives, micro, regency small and medium enterprises;
  - g. Empower the resources and partners in the field of cooperatives, micro, small and medium enterprises;
  - h. Implement the administrative activities; and
  - i. Implement other duties granted by the Governor in accordance with the duties and functions.<sup>21</sup>
- j. The type of this research is an empirical legal research with the Indonesian law approach.<sup>22</sup> The source is from secondary data taken from literature: journals, books, etc.
- k. The purpose of empirical legal research means that research using empirical fact is obtaining through interviews and real behavior performed through direct observation.

## **E. RESEARCH METHOD**

The type of this research is an empirical legal research with the Indonesian law approach.<sup>23</sup> The source is from secondary data taken from literature: journals, books, etc. The purpose of empirical legal research means that research using empirical fact is obtaining through interviews and real behavior performed through direct observation. The data used in this research were primary and secondary data. The primary data were obtained from an interview some respondent. The writer conducted interviews to some respondent involved directly in the area of sharia cooperative in

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<sup>21</sup> Murdawati Candrayani, “profil dinas koperasi usaha mikro, kecil dan menengah” <http://diskopumkm.jogjaprov.go.id/publik/profil/#> accessed on April 10<sup>th</sup>, 2018 2.23 pm

<sup>22</sup> Johnny Ibrahim, 2006, *Teori dan Metodologi Penelitian Hukum Normatif*, Malang: Bayu Media, page 302.

<sup>23</sup> Johnny Ibrahim, 2006, *Teori dan Metodologi Penelitian Hukum Normatif*, Malang: Bayu Media, page 302.

Yogyakarta. The method of collecting data in this research was through library research by literature learning.

The data were taken from reading, analyzing and making a conclusion from related documents such as convention, covenant, law books, legal journals, books and others related to the main problem as the object of this research and also the data taken by interviewing some respondent who capable with this research. The data were analyzed systematically through a descriptive qualitative approach. Systematically means the data were analysed on the basis of Constitution, legislation, and other theories which are related to the issue on supervision of Sharia Cooperative by Sharia Supervisory Board and Small and Medium Enterprise Service.

## **F. FINDING AND ANALYSIS**

### **1. The Supervision of Sharia Cooperative by Cooperative and Small and Medium Enterprise Office Yogyakarta.**

Cooperative supervision is the efforts made by cooperative supervisors, sharia supervisory boards, the government, cooperative movements, and the community so that the organization and business of the KJKS are properly organized in accordance with the applicable laws.<sup>24</sup> The position of the Ministry of Cooperative and Small and Medium Enterprise is to implement the element of the government with the task of assisting the President to coordinate policy formulation and coordination of the implementation of cooperative and small and medium empowerment policies in Indonesia.

#### **a. The Role of Cooperative and Small and Medium Enterprise Office of Yogyakarta in Supervise Sharia Cooperative.**

Supervisors are elected by the Member Meeting to oversee the implementation of Annual Member Meeting decisions and also ideology. The

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<sup>24</sup> Ministerial Regulation of Small and Medium Enterprise Ministry No. 16/Per/M.KUKM/IX/2015 on Regarding the Implementation of Savings and Loan Business Activities and Sharia financing by the Cooperative.

duty of the supervisor is not to find fault but to keep the activities carried out by the cooperative in accordance with the ideology, cooperative AD / ART and the decision of the Member Meeting. Supervision is carried out by the deputy for supervision. The duty of Deputy for Supervision is to organize policy formulation, coordinate and synchronize policy implementation in the fields of:

- 1) Improved compliance with laws and regulations
- 2) Institutional examination of cooperatives
- 3) Examination of savings and loan business
- 4) Enforcement
- 5) Health assessment of savings and loan business

**b. The Coordination of Implementation of Supervision**

Cooperative and small and medium enterprise also do Coordination with some institution to support the supervision of sharia cooperative, Coordination of the implementation of Cooperative supervision is carried out jointly by:

- 1) Police
- 2) Attorney
- 3) Controlling of Financial Transaction Analysis Center (PPATK)

Table 3.

**List of Sharia Cooperatives Disbanded By Small and Medium Enterprise Service of Yogyakarta<sup>25</sup>**

No.	Name	Legal Entity	Address
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<sup>25</sup> Data from Cooperative and Small and Medium Enterprise Service of Yogyakarta

		<b>Nomor</b>	<b>Establish</b>	
1	Koperasi Syariah Syafa	064/KD/AD/I/2010	6 Januari 2010	Jl. Mrican UH 7/335, Giwangan, Kec. Umbulharjo, Kota Yogyakarta, D.I. Yogyakarta
2	Syariah Amanah	023/KD/AD/III/2005	31 Maret 2005	Jl. Kusumanegara (Bank BNI), Semaki, Kec. Umbulharjo, Kota Yogyakarta, D.I. Yogyakarta
3	KSU Syariah BMT Eldata	17/BH/KPTS/V/2008	3 Mei 2008	Notoprajan NG II/2/3, Notoprajan, Kec. Ngampilan, Kota Yogyakarta, D.I. Yogyakarta
4	KSU Syariah Jogja Prima Sejahtera	26/BH/KPTS/XII/2007	19 Desember 2007	Jl. Kusumanegara No 224, Umbulharjo, Kec. Umbulharjo, Kota Yogyakarta, D.I. Yogyakarta

For the purposes of creditor and the members of the Cooperative against the dissolution of the Cooperative, resolution of dissolution is performed. The settlement was carried out immediately after the dissolution of the Cooperative decision issued. The resolver is responsible to the power of member meeting in terms of projected appointed by the meeting of members and to the Government in terms of the resolver was appointed by the Government.

## **2. The Supervision of Sharia Cooperative by Sharia Supervisory Board**

### **a. The Urgency of Supervision of Sharia Supervisory Board**

As an important organ in Sharia Cooperative business, Sharia Supervisory Board specifically does not yet have the arrangements as in the financial bank institution, as regulated in Law No. 21 of 2008 concerning Sharia banking. The existence of Sharia Supervisory Board in sharia business

is organized by Sharia Cooperative and regulated in the Minister of Cooperatives and Small and Medium Enterprises Regulation,<sup>26</sup> such as the arrangement in the Minister of Cooperatives and Small and Medium Enterprises Decree No. 91 of 2004, but in this decision, it is still possible not to have DPS. In Regulation of the Minister of Small and Medium Enterprises Number 16 of 2015 concerning the Implementation of Savings and Loans and Sharia Financing requires all sharia cooperatives to run sharia microfinance businesses to have Sharia Supervisory Board in each head office. The number of Sharia Supervisory Board (DPS) Sharia Cooperatives is at least 2 people and half have DSN-MUI certification.

**b. The Duty and Authority of Sharia Supervisory Board**

The duty of DPS is to discuss the problems and business transactions and they determined that transaction or problem was appropriate or not in accordance with sharia. While among the authorities of DPS are:

- 1) To provide sharia guidelines to banks for the deployment of funds, distribution of funds, and other bank activities.
- 2) To make improvements if a product being run is considered not in accordance with sharia.<sup>27</sup>

Basically, Sharia Supervisory Board has several duties, Government officials who responsible in Cooperative sectors to carry out the coaching of Sharia Financial Services Cooperative and Sharia Financial Services Units Cooperatives. In carrying out their duties DPS has a mechanism of work. And

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<sup>26</sup> Abdul Mujib, "Dewan Pengawas Syaria pada Lembaga keuangan Mikro Syaria di Jawa Tengah" *Az Zaqra'* Vol. 9 No. 1. (Agustus 2017). Page 136.

<sup>27</sup> Karnaen Perwataanmadja and Muhammad syafii Antonio, 2004, *Apa dan Bagaimana Bank Islam*, Yogyakarta, Dhana Bakti Wafaf: Page 23

they have to obey with that mechanism; this is the mechanism which explained in the Guidelines of DSN, namely:

- 1) Do the periodic Supervision to Sharia Financial Institution which takeover under themselves
- 2) Oblige to submit proposals for the development of sharia financial institutions to the leaders of the institutions concerned and to the DSN.
- 3) Report the progress of product and operational of sharia financial institution under their supervision to DSN at least twice a year.
- 4) Formulate the problems which required the discussion of DSN.

### **3. The Procedure of Supervision by Sharia Supervisory Board**

In conducting supervision, DPS can implement through these three procedural supervisions with the following explanation:

- a. The procedures or step of supervision planning at this step is DPS made plans related to the step supervision that will be a carried out. This step is important and most basic stage because the results in this step will be the reference and guidelines for DPS in carrying out supervision of LKS (*Lembaga Keuangan Sharia*). Supervision planning is adjusted to the scope of DPS supervision;
- b. To carry out procedures, prepare and review audit work papers, this stage is the operational step of the first step. At this step, the job of DPS accordingly with plans that have been made to make it easier supervision, then in this step DPS can do one form of supervision by conducting a review inspection paperwork.
- c. Documenting the conclusion and report, this step is the final step which is the step archiving that needs to be done by DPS. This is important so that any development of supervision can be monitored as material for job evaluation

and consideration in determining the supervision model to be carried out in the future.

Beside conducting routine supervision, sharia supervisory board can also do direct report if there is an activity which violates the fathwa of DSN. If the sharia cooperative in running their activity is not in line with the fathwa of DSN the sharia supervisory board can give the report to Cooperative and small and medium enterprise office without having to wait for the annual report and small and medium enterprise office will give the sanction.

## **G. CONCLUSION AND RECOMENDATION**

### **1. Conclusion**

#### **a. Supervision by Cooperative and Small and Medium Enterprise office**

There are three aspects that supervised by Cooperative and Small and Medium Enterprise office namely financial audit, compliance audit, and management audit. Supervision and inspection of cooperatives are activities carried out by officials in charge of cooperatives to supervise and examine cooperatives so that activities are carried out properly accordingly with statutory regulations (The Regulation of the Minister of Cooperatives and Small and Medium Enterprises of the Republic of Indonesia No. 17/Per/M.Kukm/IX/2015 concerning Cooperative Supervision). Health assessments of Islamic Financial Services Cooperatives and Sharia Financial Services Units are carried out by Sharia Financial Cooperatives and Islamic Financial Services Unit health appraisers who meet the requirements of the Cooperative and Small and Medium Enterprises at the Central, Provincial and Regency / City levels.

#### **b. Supervision by Sharia Supervisory Board**

Supervision of sharia compliance in Islamic financial institutions is very important to be done and it cannot be separated from the role of the function of Islamic financial institutions in serving the community. Sharia Supervisory Board has two scopes in supervising KJKS: Organizational Structure and Financed Business Operation. The Sharia Supervisory Board is in charge to supervise the implementation of the business activities of the Sharia Financial

Services / Sharia Financial Services Unit based on sharia principles and reporting the results of its supervision to the officials.

## **2. Recommendation**

The author hopes in the future there will be a clear regulation regulate on sharia cooperative specifically, so the supervision of sharia cooperative can be done well. For the better supervision The sharia supervisory board must be certified to prove their quality as a representative from Ulama Indonesia Council, if sharia supervisory board has certificate its mean that they have capacity in the field of supervision, if the supervisory itself is good, so the level of compliance of sharia financial service cooperative will increase.

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