

## **Shariah Compliance For Islamic Micro Financing (Exploratory Study of *Baitul Maal Wattamwil* in Indonesia)**

**Rizki Ade Setiawan<sup>a</sup>, Sepky Mardian<sup>b\*</sup>**

<sup>a,b</sup> *Sekolah Tinggi Ekonomi Islam SEBI, Indonesia*

\*[sepky.mardian@sebi.ac.id](mailto:sepky.mardian@sebi.ac.id)

### **Abstract**

*This study aims to analyze and evaluate the supervision of shariah compliance in the Baitul Maal Wattamwil (BMT) in the Depok City. The institutional and system approach is used to see the level of supervision carried out. This study uses primary data through interviews with the shariah supervisory board (SSB) and secondary data in the form of regulations issued by the Ministry of Cooperatives and Small and Medium Enterprises and similar research. This study found that the implementation of sharia supervision through an institutional approach or through a system approach still needed to be improved. In the institutional approach, there are still SSB that have not met the expected qualifications and the coaching process that has not yet run optimally, even though the composition, position, dual position and length of service of SSBs are in accordance with established rules and have been independent in carrying out sharia supervision. Whereas in the system approach carried out by the internal audit function, the external auditor and the Ministry of Cooperatives and Small and Medium Enterprises represented by the Dinas Koperasi have not been running optimally*

---

### **Article Info**

- **Received** : 24<sup>th</sup> January 2021
- **Revised** : 06<sup>th</sup> May 2021
- **Published** : 04<sup>th</sup> June 2021
- **Pages** : 156-170
- **DOI** : 10.33019/ijbe.v5i2.346
- **JEL** : G23, M42
- **Keywords** : *Shariah Compliance, Shariah Supervisory Board, Baitul Maal Wattamwil*



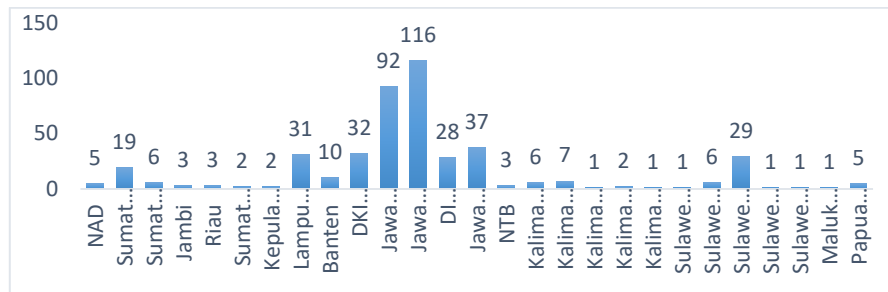
## 1. Introduction

The global economic crisis has relatively little impact on the growth of the Islamic financial industry (Popper, 2013). The Islamic financial industry is deemed able to minimize the impact of the economic crisis (Chapra, 2009). Until the second quarter of 2018, the Islamic finance industry reached assets of 2.19 trillion dollars, an increase of 6.9% from the previous year (Islamic Financial Services Board, 2019). The rise of the Islamic finance industry raises new challenges for Islamic financial service providers. Providers of Islamic financial services are required to carry out every operational activity in accordance with Islamic principles. If a sharia violation occurs, the stakeholders will withdraw and transfer their funds (Chapra and Ahmed, 2002). Therefore, a special job is needed that is able to provide guarantees for stakeholders so that operational activities carried out are truly in accordance with Islamic principles and values. One way is to do Shariah compliance. Sharia compliance is one of the important pillars in Islamic financial services. Sharia compliance is part of the implementation of risk management and embodies a culture of compliance in managing Islamic banking risk (Bonita and Anwar, 2017). The institution that has authority over the implementation of sharia supervision in the Islamic banking system is the Sharia Supervisory Board (SSB) (Undang-Undang No 21, 2008). SSB was chosen as the executor of sharia supervision because they were considered to be able to play an important role in guaranteeing the operational activities of Islamic financial institutions in accordance with Islamic principles (Baehaqi, 2014). Sharia supervision carried out by SSB has developed and is not only specialized in Islamic banking, but is also required in Islamic microfinance institutions (MFIs), such as Baitul Maal Wat Tamwil (BMT) in conducting the implementation of sharia supervision (Peraturan Otoritas Jasa Keuangan Nomor 12/POJK.05/2014, 2014). BMT is an Islamic microfinance institution which raise the funds from the depositors via current or investment deposits and finance to the entrepreneurs with Islamic contracts. BMT is other name of credit union (cooperation) which was known in Indonesia and operates based in Islamic principles.

In its journey, BMT has become an industry that is able to play a central and significant role in providing access to capital for micro-small entrepreneurs (Sakti, 2013). The development of BMT registered in the Induk Koperasi Syariah Baitul Maal Wat Tamwil (INKOPSYAH BMT) from 27 Provinces in Indonesia totals 550 members (Induk Koperasi Syariah, 2018).

In the graph 1, Central Java is the largest province in the distribution of BMT with a total of 116. Followed by the West Java province with the second highest distribution of BMT with a number of 92. Next to the scope smaller than the province of West Java, namely Depok. Based on data from the Department of Cooperatives and SMEs, Depok City Government until 2018 the number of BMT reaches 76 units (Dinas Koperasi, 2018).





**Graph 1. BMT Distribution in Indonesia**  
*Source: Data processed from www.indukbmt.co.id (2018)*

Behind the development of BMT today there are various kinds of problems that are being faced. Starting from the capital of BMT which is still very limited, the human resources that are owned are not enough to support the sustainability of BMT, regulations that do not support the creation of good macro governance in the BMT industry, conditions of people who are not familiar with BMT, to infrastructure that is still minimal in supporting performance BMT (Sakti, 2013).

Not quite up there, the problem re-emerged in terms of sharia compliance. Bonita & Anwar (2017) stated that the murabahah financing agreement is not yet fully in accordance with Islamic principles because in the murabahah contract there is still a wakalah agreement where BMT Fastabiq Jepara is only in the form of giving money and then the customer is given the right to spend it independently. In another study presented by Susilo & Anam (2018) stated that many BMTs in Jepara Regency did not do it according to the guidance of muamalah fiqh and DSN-MUI fatwa, and they were more concerned with business aspects rather than sharia compliance.

Hasyim (2018) revealed that there are three types of BMTs in Depok City, the first is BMTs with conventional charter and operating according to sharia, second is BMTs with conventional charter and operates not according to sharia, and the third is BMTs with budget basic and operate according to sharia principles. This indicates that the practice of sharia supervision carried out by the Sharia Supervisory Board (SSB) is still not optimal, there are still many BMTs that have not conducted their operational activities in accordance with Islamic principles.

PERMENKOP and UKM Republik Indonesia No. 10/Per/M.KUKM/VI/2016 concerning Microfinance Data Collection, Small and Medium Enterprises, states that the certificate of microfinance number is used as part of microfinance assessment based on compliance with microfinance values and principles. However, of the 76 BMT in the city of Depok, only 14 have been certified as microfinance numbers. That is, only 14 of the number of BMT in Depok that have run their business activities based on applicable regulations.

The oversight is not yet optimal due to the supervision model of the BMT which is weak and convoluted. Supervision practices carried out by SSB are fundamental, so that supervision carried out by SSB must run optimally. But this has not been able to



be done by SSB, because in practice SSB is considered not optimal. Due to the dual positions held by SSB, both as the National Sharia Board and SSB in other institutions, as well as other activities as lecturers or administrators in community organizations (Mulazid, 2016).

SSB is considered as an affiliated party which in its implementation participates in influencing the management of corporate entities directly or indirectly (Undang-Undang No 21, 2008). It can be interpreted that SSB is not a independent in appearance, but is expected to be able to be independent in mind. However, SSB oversees the operations of Islamic entities where they receive incentives or benefits from the entities under their supervision. SSB is considered not willing to lose their position and incentives and monthly allowances received, so only reports good things from the supervised entity (Umam, 2015).

From the various problems above, it can be concluded that there is still weak supervision by SSB that causes irregularities carried out by BMT. Deviations occur due to the lack of optimal Islamic surveillance. The effectiveness of sharia supervision can be carried out if there are operational standards, quality control standards, and sufficient knowledge from SSB in carrying out its supervision. On the other hand busyness outside the task as SSB must be governed by the relevant regulations. Effective supervision can produce opinions that the BMT has run its operations according to Islamic principles. Opinion of sharia compliance will increase public trust in BMT, so that the existence of BMT will increase as well, and BMT will be able to encourage community economic empowerment in the real sector.

## 2. Literature Review

The oversight function in the organization has an important role in the governance structure. This function can be carried out by the board of commissioners, audit committee, and internal audit in the organization. In the governance structure of sharia entities, the role of supervision is also performed by the sharia supervisory board (Garas and Pierce, 2010). The oversight function in organizational governance can be explained in several theories such as agency theory, institutional theory, resource dependence theory, stewardship theory, and managerial hegemony theory (Beasley *et al.*, 2009).

Agency theory and institutional theory further explain the monitoring process carried out. In agency theory, supervisory functions such as audit committees play a role in overseeing management performance. Management as an agent is considered as a party that has more information than the principal (asymmetric information), thus allowing them to work for their personal interests (Fama, 1980; Beasley *et al.*, 2009). In the context of the supervision process, based on agency theory, supervision is carried out actively, strongly and substantively (Beasley *et al.*, 2009).



Institutional theory explains that an organization seeks to gain legitimacy by adapting to changes (environment) that occur (Boxenbaum and Jonsson, 2017; Deephouse *et al.*, 2017). These changes can be made in organizational governance. In the context of governance, the supervision process carried out tends to be the same over time (isomorphism). This isomorphism process occurs because organizations are sometimes bound by rules or regulations that require the implementation of governance with certain standards (coercive isomorphism) or because it mimics competitors in order to compete on the market (mimetic isomorphism) (Boxenbaum and Jonsson, 2017). Based on this theory, the supervision process tends to be done not substantive or ceremonial (Beasley *et al.*, 2009). This act of ceremonial adaptation is called the decoupling process (Boxenbaum and Jonsson, 2017).

### ***Sharia Supervision***

Oversight in Islamic literature is contained in the word "Hisbah" which is a government institution that has a control function, especially in one's behavior related to morals, religion and economy and in general in the collective area or public life in order to uphold justice and truth based on Islamic principles (Jaelani, 2011).

The foundation of al-Hisbah is found in the Qur'an, sura Ali-Imran verse 104 :

وَلْتَكُنْ مِنْكُمْ أُمَّةٌ يَدْعُونَ إِلَى الْخَيْرِ وَيَأْمُرُونَ بِالْمَعْرُوفِ وَيَنْهَوْنَ عَنِ الْمُنْكَرِ وَأُولَئِكَ هُمُ الْمُفْلِحُونَ (ال عمران: ١٠٤)

“Waltakum minkum ummatuy-yad'uuna ilal khairi wa ya'muruuna bil ma'rufi wa yan-hauna 'anil munkari wa ula-ika humul muflihuun”

“And let there be among you a group of people who call for virtue, enjoin (do) the good, and prevent from evil. And they are the lucky people.”(Q.S. Ali Imran [3]:104)

Hisbah practice has been carried out since the time of the Prophet and the time of khulafaurrasyidin (the prophet friends who was appointed as Islam teachings leader. They are 4 person i.e Abu Bakr; Umar ibn Khattab, Utsman ibn Affan and Ali ibn Abi Thalib) and subsequent governments. Where at that time, the Prophet Muhammad himself carried out his function as al-Hisbah, in this case the Prophet Muhammad himself was responsible for carrying out his duties as al-Hisbah or commonly called muhtasib. Where the duty of a muhtasib is evaluating the weight and size of the scales, maintaining fair trade, controlling business practices, conducting audits of illegal contracts, overseeing the free market, and maintaining the needs of the community (Jaelani, 2013).

Sharia compliance is the fulfillment of Islamic values in the IFI based on the fatwa of the Indonesian Ulema Council (MUI) through the Sharia Supervisory Board (SSB) and Bank Indonesia Regulations as a measurement tool in fulfilling Islamic principles both in transactions, products and Islamic bank operations (Mulazid, 2016). Shariah compliance is the main differentiator between IFI and conventional financial institutions. This is explained in the word of Allah SWT in surah Al-Ma'idah verse 48 which means "For every people among you, we have given a clear rule and



guidance". Therefore, it is obligatory for Muslims to apply the established law, namely applying IFI in accordance with Islamic principles.

The implementation of sharia supervision in IFI has been regulated in Law No. 21 2008, where the body or institution that has authority in carrying out sharia supervision in the system of Islamic financial institutions in Indonesia is the Sharia Supervisory Board. SSB is a party that guarantees to the public that the financial institution is in accordance with Islamic principles (Mardian, 2015).

### **Sharia Supervisory Board**

The sharia supervisory board has a role to formulate policies and guidelines that must be implemented by management in each of their operational activities. Another role is in terms of the approval of the product issued and also conducts a sharia review which is an examination to ensure that every activity undertaken by the Islamic Financial Institution does not conflict with Islamic principles (Mardiyah and Mardian, 2016).

Sharia supervisory board must have competence in two qualifications namely qualification in the field of Islamic and financial principles (Mardiyah and Mardian, 2016). In addition, Umam (2015) revealed that the sharia supervisory board must have an understanding in the economic, legal and financial analysis systems in order to ensure sharia supervision is running effectively.

According to Karim, as quoted by Syamsuddin (2011), there are three models of sharia supervision that must be carried out by SSB in the form of SSB organization, namely:

1. Advisory Model, making sharia experts as mere advisers and their position in the organization is as part-time personnel who come to the office if needed.
2. Supervision Model, the existence of sharia supervision conducted by several sharia experts on sharia banks routinely discussing sharia issues with the operational decision makers and financial organizations.
3. The Sharia Department model, the sharia supervision model carried out by the sharia department in charge of full time and supported by technical staff in their sharia supervision tasks.

Yaacob & Donglah (2012) revealed that sharia supervisors must have an independent attitude and must maintain independence of the departments they oversee, so as to build a level of public trust in Islamic financial institutions based on Islamic principles.

### **3. Research Methods**

This study uses a descriptive approach. This study describes the practice of sharia supervision carried out by SSB and implementing the sharia supervision function at the Baitul Maal Wattamwil (BMT) in Depok City. The data used are primary data in the form of interviews conducted to the sharia supervisory board and sharia oversight





function executor at the BMT in Depok. For secondary data obtained through literature related to sharia supervision, and from the official website of the Department of Cooperatives and SMEs throughout the City of Depok.

The population in this study is the Sharia Supervisory Board and Sharia oversight function executor who conducts surveillance activities on BMTs that have been registered in the administration of the Office of Cooperatives and SMEs in the City of Depok in 2018. Based on purposive sampling, obtained a sample of 5 BMTs with a total DPS of 5 people to conduct interviews . The limitations of this sample are also caused by the reluctance of prospective speakers. The sample in this study was 5 BMTs who were willing to use their Sharia Supervisory Board to be interviewed with the following interviewees:

**Table 1. List of Interviewee**

| No | Name    | BMT   | Position | Time       | Duration   | Location      |
|----|---------|-------|----------|------------|------------|---------------|
| 1. | Mr. AN  | BMT A | SSB      | 11-05-2019 | 40 minutes | Univ in Depok |
| 2. | Mr. S   | BMT B | SSB      | 27-05-2019 | 59 minutes | BMT Office    |
| 3. | Mr. TRY | BMT C | SSB      | 03-07-2019 | 35 minutes | Univ in Depok |
| 4. | Mrs. N  | BMT D | Vice SSB | 27-07-2019 | 33 minutes | BMT Office    |
| 5. | Mrs. NN | BMT E | Vice SSB | 29-07-2019 | 22 minutes | BMT Office    |

**Source: collected by authors**

From the table 1, it can be concluded that the interview was conducted to 2 people other than SSB, this was due to the difficulty in accessing the interview to the SSB in question. Nevertheless, 2 people other than the SSB have understood the implementation of sharia supervision conducted by the SSB where they work.

## **4. Results**

### ***Sharia Supervision Implementation in BMTs (Institutional Approach)***

#### **1. Composition and Qualifications of the Sharia Supervisory Board**

In article 15 paragraph 2 PERMENKOP No. 11 / PER / M.KUKM / XII / 2017 revealed that SSB in BMT consists of at least 2 (two) people and 1 (one) person is required to have a certificate from DSN-MUI. In addition, to make the sharia supervision effective, SSB is expected to meet the specified qualifications. AAOIFI in Governance Standards for Islamic Financial Institutions (GSIFI) No. Paragraph 2 states that SSB is required to not only possess muamalah fiqh knowledge, but must also have knowledge in Islamic finance.

However, not all SSBs from BMTs in Depok city have knowledge in these fields simultaneously, there are still many BMTs that raise SSB only because of their character and popularity in the community, not because of their scientific mastery in these fields. (Syamsuddin, 2011). This can be seen in the following table:

**Table 2. SSB Members**



| No | Name of Microfinance                                      | SSB members | SSB names |
|----|---|-------------|-----------|
| 1. | Koperasi Simpan Pinjam Syariah BMT Muamalah Mandiri Depok | 2 people    | SSB1      |
|    |   |             | SSB2      |
| 2. | Koperasi Jasa Keuangan Syariah Berkah Sejahtera Madani    | 1 people    | SSB3      |
| 3. | Koperasi Syariah BMT Bina Usaha Sejahtera                 | 2 people    | SSB4      |
|    |   |             | SSB5      |
| 4. | Koperasi Serba Usaha Syariah Huwaiza                      | 2 people    | SSB6      |
|    |   |             | SSB7      |
| 5. | Koperasi Jasa Keuangan Syariah Berkah Madani Cimanggis    | 2 people    | SSB8      |
|    |   |             | SSB9      |

In the table 2, where only 1 person has knowledge in the field simultaneously when viewed from an educational background. This is because the procedure for establishing SSB in BMT is still limited to the management's choice which then gets approval from the annual member meeting. After being approved, a letter of determination is made and valid as SSB. In addition to the competencies that must be fulfilled, other requirements to become a SSB in BMT are contained in PERMENKOP No. 11/PER/M.KUKM/XII/2017 where SSB in BMT are required to have at least 2 people and 1 person must have an education certificate and training issued by DSN-MUI.

Table 3. Possession of a Training Certificate

| No | SSM members name | Certificate Ownership |
|----|------------------|-----------------------|
| 1. | SSB1             | Certified             |
|    | SSB2             | Certified             |
| 2. | SSB3             | Certified             |
| 3. | SSB4             | Certified             |
|    | SSB5             | Not Certified         |
| 4. | SSB6             | Certified             |
|    | SSB7             | Not Certified         |
| 5. | SSB8             | Certified             |
|    | SSB9             | Certified             |

Of all respondents interviewed having the same interview results, that is, all SSBs in BMT already have training certificates held by DSN-MUI.

## 2. Position and Independence of the Sharia Supervisory Board





SSB legally has its own position in reporting the results of its supervision to the Government, in this case the Minister of Cooperatives and Small and Medium Enterprises. Mentioned in Article 15 PERMENKOP No. 11 / PER / M.KUKM / XII / 2017, that SSB has the duty to supervise all microfinance operational activities based on sharia principles and report the results of their supervision to officials. The position of SSB becomes strong in the face of the internal management of BMT, because the report will be the main consideration for authorized officials to impose sanctions.

The placement of SSB is in a position parallel to the Board of Commissioners aimed at ensuring the effectiveness of giving opinions (Nurhasanah, 2013). This means that SSB can be free or independent in providing direction or input to the Directors of BMTs in sharia aspects. Even though SSB is within the microfinance organizational structure, SSB only carries out its duties as a supervisory and there is no overlapping of interests which results in the SSB being not independent. This is reinforced by the opinion of Mr. S who said that:

*"Structurally, SSB is indeed included in the organizational structure of BMTs, which is at the supervisory level. And SSB received incentives and salaries from BMTs that they supervised. If you can say, SSB is like a referee, so it does not side with any party. "*

In addition, SSB is considered not to want to lose his position and incentives or benefits received, so only to report good things from the supervised entity (Umam, 2015). But this is contrary to the results of the interview with Ms. NN:

*"As SSB who oversee our microfinance, they are paid, the amount of which has been adjusted based on the AD/ART. The amount of SSB salaries was also seen from the ability of our microfinances to pay and the SSB transport we paid. Even so, if something goes wrong in the process of carrying out supervision by the microfinance, the SSB will continue to blame and will be a record to assess the opinions that will be issued later. "*

From the discussion above it can be concluded that although SSB's position in BMTs is included in the organizational structure and receives monthly salary or incentives, SSB in BMTs in Depok remain independent in implementing sharia supervision.

### **3. Dual and Length of Position of Sharia Supervisory Board**

The activity of SSB will affect how effective the monitoring process is carried out. Seeing these conditions, the dual position carried out by SSB is the most important issue. Because it is not uncommon to find SSB still holding concurrent positions so that the SSB is negligent in carrying out its duties as a sharia supervisor at an Islamic financial institution. Seeing this condition is still tolerated because of the support of regulations that allow for SSB to hold concurrent positions. At least there are some rules which allow SSB to double the position:



Table 4. Regulations related to Double Position of SSB

| No | Regulations                                  | Issues   |
|----|--|--|
| 1. | Fatwa DSN-MUI/2000                           | SSB can take up to a maximum of 4 IFI positions both banks and non-banks. In addition, SSB can also hold concurrent positions of up to two (2) members as DSN-MUI. |
| 2. | PBI No. 11/3/2009                            | SSB members can hold concurrent positions of at most 4 other IFIs.   |
| 3. | PBI No. 11/10/2009                           | SSB can only hold concurrent positions of at most 4 other IFIs.  |
| 4. | PERMENKOP dan UKM No. 11/PER/M.KUKM/XII/2017 | SSB can hold concurrent positions at other BMT but there is no maximum limit yet.  |

Of all SSBs in BMT in the city of Depok, they have concurrently served as SSB of other Islamic financial institutions and also as a lecturer in several universities. Mr. Try as a member of the SSB interviewed revealed that there were no rules regarding the limitations of SSB in microfinances in concurrent positions in other IFIs, but ideally SSB should focus on just 1 microfinance to be more effective and maximal in carrying out their duties. This is in line with a study conducted by Mardian (2015) that concurrent positions held by SSB in several Islamic financial institutions will affect the effectiveness level of SSB performance in a Islamic financial institution so that it cannot fully implement the supervision process.

In addition to dual positions which are an important issue, the length of time SSB's position in Islamic financial institutions is part of other important issues. Minister of Cooperatives and SME Regulation No. 11 / PER / M.KUKM / XII / 2017 article 15 paragraph 4 states that SSB is set for a term of 2 (two) years and can be extended based on the decision of a member meeting. However, the majority of SSBs in BMT in Depok are not set for a term of office of 2 (two) years. Most of the SSB in BMT in Depok are more in following the management period. There are no regulations that fully regulate the limitations of the old working time to become a SSB in BMTs resulting in a conflict of interest between SSB and BMTs and will reduce the DPS's independent attitude towards the relevant BMTs. This is in line with research conducted by Mardian (2015) which revealed that the independent attitude of an SSB would decrease along with the length of SSB's tenure.

#### 4. Implementation of Sharia Supervisory Board Oversight



The implementation of sharia supervision in BMTs carried out ends at the opinion that will be issued by SSB at the annual member meeting. Normally SSB issues an Shariah compliance opinion once a year. Before issuing the opinion, SSB will carry out a number of processes that must be carried out by SSB itself, starting from the new approval process that will be issued by the microfinance itself and the review process of the products that have been applied.

There are at least two sharia supervision processes that can be carried out by SSB, namely ex-ante and ex-post. Ex-ante supervision is supervision to ensure compliance with sharia principles for operational standards and products issued by microfinances. Whereas ex-post supervision is supervision through regular evaluations of new and existing Islamic savings and financing products (PERMENKOP dan UKM Republik Indonesia No. 11/Per/M.KUKM/XII/2017). The ex-ante supervision process is explained in the interview to Mr. AN as follows:

*"In the case of new product approval, it must be head to head between the management and supervisors, not employees with SSB. The management held a meeting with SSB and explained related to the new product regarding the purpose and characteristics of the new product and what contract was used. After that, SSB will give an opinion on the new product proposed by the management."*

In the ex-ante supervision process carried out by SSB, it should be assisted by special departments such as Div. Compliance or Div. Shariah compliance to optimize the ex-ante supervision process. However, this has not yet proceeded due to the lack of a special department within the BMT to conduct an analysis of new products so that only SSB did it. After ex-ante supervision has been carried out.

On ex-post supervision, SSB will conduct sampling of all existing products to be tested for sharia compliance. This was revealed by Mr. S:

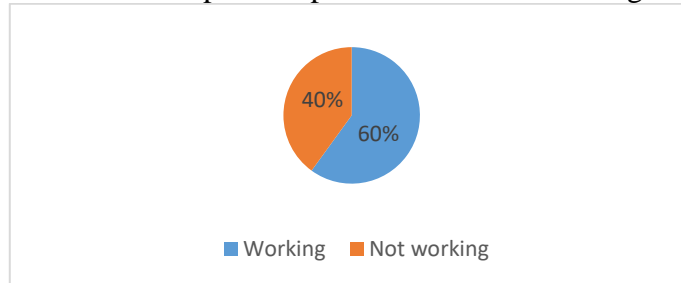
*"In the process of checking all products in the BMT, SSB will conduct a random sample test of all existing products."*

In the sampling process, SSB will see whether it is in accordance with Islamic principles, practices carried out by managers. If in practice there is a discrepancy with Islamic principles, the SSB will provide notes and explanations. The problem re-emerged in a study conducted by Hasyim (2018) which revealed that there are three types of BMTs in Depok, first, BMTs with conventional articles of association and operate according to Islamic principles; second, BMT with conventional articles of association and operate not in accordance with Islamic principles; and third, microfinances with a constitution and operate according to Islamic principles. Therefore, the role of SSB in conducting education or coaching is not only for employees, but also for all microfinance organization instruments including microfinance members as well. This is to prevent the capital given by members is halal and tayyib.



The process of coaching in BMT in the city of Depok can be seen in the following graph. In Graph 2 it can be concluded that only 60% of the coaching process in BMT in Depok can work. The other 40% isn't working yet.

Graph 2. Implementation of Coaching



### ***Sharia Supervision Implementation in BMTs (Systems Approach)***

The implementation of sharia supervision is part of the implementation of Good Corporate Governance. In realizing this, it is the responsibility of the stakeholders of the BMT itself. Referring to the alternative research, the sharia supervision system in microfinances is divided into two, namely internal supervision and external supervision.

### ***Analysis of the Internal Control System at the BMTs related to Shariah Compliance***

SSB is a part of the internal supervisor of BMTs that oversees every course of activities to be in accordance with sharia principles. To streamline the role of SSB in BMTs, the SSB can be assisted by other internal supervisors such as internal audit or compliance functions to ensure that internal supervision runs well. The supervision findings that have been carried out by the internal audit related to sharia aspects will be analyzed again by the SSB to determine the quality of the implementation of Islamic principles. Therefore, the implementation of the sharia supervision function in BMTs must be supported by human resources who have the ability and understanding of microfinances, accounting and finance (PERMENKOP dan UKM Republik Indonesia No. 17/Per/M.KUKM/IX/2015).

However, the condition of internal supervision of BMTs in terms of sharia has not been optimal. Interviews conducted to all respondents revealed that the BMTs that were supervised did not have an internal audit or Div. Compliance in supporting SSB performance (STEI SEBI, 2019). This was expressed by Mr. AN as a SSB:

*"In the microfinance where I oversee does not have an internal audit."*

This is in accordance with research conducted by Nurhasanah (2013) which states that HR is the cause of the ineffectiveness of sharia supervision conducted by SSB on Islamic financial institutions.

### ***Analysis of the External Supervision System in BMTs related to Shariah Compliance***



External supervision systems related to sharia aspects include External Auditors and the Ministry of Cooperatives and SMEs as full regulatory holders of microfinances in Indonesia. AAOIFI in Auditing Standard for Islamic Financial Institutions No.4 revealed that auditors are expected to conduct compliance tests with sharia rules and principles and ensure that management has adhered to the interest-free principle as determined by SSB.

In practice, not all BMT in Depok have audited financial statements conducted by an External Auditor. This is because there are still BMT that are not yet required to be audited by external auditors from public accounting firms. Minister of Cooperatives and SME Regulation No. 11 / PER / M.KUKM / XII / 2017 chapter IX concerning soundness assessment in which BMT that have assets of at least Rp. 5,000,000,000 in one accounting year must be audited by a public accountant.

The following is the status of the audit by an external auditor from the public accounting office of the BMT in Depok:

Table 5. Audit Status

| No | Name of Cooperation                                       | Status    |
|----|---|-----------|
| 1. | Koperasi Simpan Pinjam Syariah BMT Muamalah Mandiri Depok | Unaudited |
| 2. | Koperasi Jasa Keuangan Syariah Berkah Sejahtera Madani    | Audited   |
| 3. | Koperasi Syariah BMT Bina Usaha Sejahtera                 | Unaudited |
| 4. | Koperasi Serba Usaha Syariah Huwaiza                      | Audited   |
| 5. | Koperasi Jasa Keuangan Syariah Berkah Madani Cimanggis    | Audited   |

In addition to external auditors, the Ministry of Cooperatives and SMEs as regulators of microfinances throughout Indonesia. Where the Ministry of Cooperatives and SMEs has the authority to revoke business licenses by BMTs if there are violations of sharia compliance (PERMENKOP dan UKM Republik Indonesia No. 11/Per/M.KUKM/XII/2017, 2017). The Ministry of Cooperatives and SMEs surrenders supervisory authority to microfinance officials, namely the Cooperative Office at the provincial and city / district levels. But in reality, the supervision conducted by the Cooperative Office has not touched the aspects of sharia compliance.

## 5. Conclusion and Suggestion

From the above study it can be concluded that overall the implementation of sharia supervision in BMTs throughout Depok through an institutional approach and a system approach still needs to be improved. In terms of the institutional approach, supervision carried out by SSB has met the standards set both in composition, qualifications, dual and length of office and has been independent in carrying out



sharia supervision functions. However, the qualifications and guidance process carried out by SSB is still far from what was expected.

The internal control system is only carried out by SSB who cannot full-time supervise BMT. This is due to the absence of an internal audit division in helping SSB realize the Shariah compliance function. Whereas in the external supervision system there is no coordination between SSB and the External Auditor in carrying out the fulfillment of the sharia compliance function as well as the role of the Ministry of Cooperatives and Small and Medium Enterprises through representatives of the City / Regency level Cooperative Office who are more passive in implementing the sharia supervision function in microfinances. These findings will inform the managers and owner of BMTs to increase the SSB function and regular supervision. Also the management of BMTs have to be open-minded to the SSB supervision for the next best performance and shariah compliance. The further studies are expected to extend the informants with different region and the issue are analyzed with mixing the data collection (i.e questionnaire and interview, etc) to support the discussion.

## References

1. Baehaqi, A. (2014) 'Usulan Model Sistem Pengawasan Syariah Pada Perbankan Syariah Di Indonesia', *jurnal Dinamika Akuntansi Dan Bisnis*, Vol. 1(2), pp. 119–133.
2. Beasley, M. S. *et al.* (2009) 'The audit committee oversight process', *Contemporary Accounting Research*. Wiley Online Library, 26(1), pp. 65–122.
3. Bonita, S. D. and Anwar, A. Z. (2017) 'Implementasi Syariah Compliance pada Akad Murabahah dan Ijarah ( Studi Kasus pada KSPPS BMT Fastabiq Jepara )', *Jurnal Ekonomi Syariah Indonesia*, VII(2).
4. Boxenbaum, E. and Jonsson, S. (2017) 'Isomorphism, diffusion and decoupling: Concept evolution and theoretical challenges', in *The Sage handbook of organizational institutionalism*. 2nd Editio. London: Sage Publications London, pp. 79–104.
5. Chapra, M. U. (2009) 'The global financial crisis: Can Islamic finance help?', *International Financial Crisis*, 01(4), pp. 27–38.
6. Chapra, M. U. and Ahmed, H. (2002) 'Corporate governance of Islamic Financial Institutions', *Occasional Paper No. 6, Islamic Research and Training Institute/ Islamic Development Bank, Jeddah*, pp. 1–188. doi: 10.1002/jcaf.20374.
7. Deephouse, D. L. *et al.* (2017) 'Organizational legitimacy: Six key questions', in *The SAGE handbook of organizational institutionalism*. Sage Thousand Oaks, CA, pp. 27–54.
8. Dinas Koperasi (2018) *Data Koperasi Aktif. Kementerian Koperasi dan Usaha Kecil Menengah*.
9. Fama, E. F. (1980) 'Agency Problems and the Theory of the Firm', *Journal of political economy*. The University of Chicago Press, 88(2), pp. 288–307.
10. Garas, S. N. and Pierce, C. (2010) 'Shari'a Supervision of Islamic Financial Institutions', *Journal of Financial Regulation and Compliance*, 18(4). doi: 10.1108/13581981011093695.
11. Hasyim, H. (2018) 'Regulasi dan Eksistensi Koperasi Syariah di Kota Depok', *Jurnal Ekonomi dan Bisnis Islam Ad-Deenar*, 2(02).
12. Induk Koperasi Syariah (2018) *Anggota BMT Se Indonesia*.
13. Islamic Financial Services Board (2019) *Islamic Financial Services Industry Stability*





*Report 2019*. Kuala Lumpur, Malaysia.

14. Jaelani, A. (2011) 'Hisbah dan Market Mechanism: The Morality Study of Market Participants in Islamic Economic Perspective', *Munich Personal RePEc Archive*, (69526). doi: 10.3109/15368378209040332.
15. Jaelani, A. (2013) *Institusi Pasar dan Hisbah: Teori Pasar dalam Sejarah Pemikiran Ekonomi Islam*. Cirebon: Syari'ah Nurjati Press.
16. Mardian, S. (2015) 'Tingkat Kepatuhan Syariah di Lembaga Keuangan Syariah', *Jurnal Akuntamsi dan Keuangan Islam*, 3(1), pp. 57–68.
17. Mardiyah, Q. and Mardian, S. (2016) 'Praktik Audit Syariah Di Lembaga Keuangan Syariah Indonesia', *Jurnal Akuntabilitas*, 8(1). doi: 10.15408/akt.v8i1.2758.
18. Mulazid, A. S. (2016) 'Pelaksanaan Sharia Compliance Pada Bank Syariah (Studi Kasus Pada Bank Syariah Mandiri, Jakarta)', *Journal of Madania*, 20(95), pp. 37–54. doi: 10.1128/JB.187.4.1254-1265.2005.
19. Nurhasanah, N. (2013) 'Pengawasan Islam dalam Operasional Lembaga Keuangan Syariah', *Jurnal MIMBAR*, 29(1), pp. 11–18.
20. Peraturan Otoritas Jasa Keuangan Nomor 12/POJK.05/2014 (2014) *Peraturan Otoritas Jasa Keuangan Nomor 12/POJK.05/2014 Tentang Perizinan Usaha Dan Kelembagaan Lembaga Keuangan Mikro*.
21. PERMENKOP dan UKM Republik Indonesia No. 10/Per/M.KUKM/VI/2016 (2016) 'Pendataan Koperasi, Usaha Kecil dan Menengah'.
22. PERMENKOP dan UKM Republik Indonesia No. 11/Per/M.KUKM/XII/2017 (2017) 'Pelaksanaan Kegiatan Usaha Simpan Pinjam dan Pembiayaan Syariah Oleh Koperasi', pp. 1–47.
23. PERMENKOP dan UKM Republik Indonesia No. 17/Per/M.KUKM/IX/2015 (2015) *Pengawasan Koperasi*.
24. Popper, N. (2013) 'Islamic banks stuffed with cash, explore partnership in West', *The New York Times*.
25. Sakti, A. (2013) 'Pemetaan Kondisi Dan Potensi BMT : Kemitraan dalam rangka Memperluas Pasar & Jangkauan Pelayanan Bank Syariah kepada Usaha Mikro', *Jurnal Al-Muzara'ah*, 1(1), pp. 1–18.
26. STEI SEBI (2019) *Hasil Wawancara DPS dan Pelaksana Fungsi Pengawasan Syariah*. Depok.
27. Susilo, E. and Anam, A. K. (2018) 'Sharia Compliance Akad Berbasis Natural Uncertainty Contract (NUC) Lembaga Keuangan Mikro Syariah Di Kabupaten Jepara', *Journal of Islamic Economics*, 2(1), pp. 20–37.
28. Syamsuddin, H. (2011) *Optimalisasi Pengawasan Syariah di BMT (Tinjauan Regulasi & Analisa)*. Karanganyar, Jawa Tengah.
29. Umam, K. (2015) 'Urgensi Standarisasi Dewan Pengawas Syariah dalam Meningkatkan Kualitas Audit Kepatuhan Syariah', *Jurnal Perhimpunan Mahasiswa Hukum Indomesia*, 1(2), pp. 115–138.
30. Undang-Undang No 21 (2008) *Undang-Undang No 21 Tahun 2008 Tentang Perbankan Syariah*.
31. Yaacob, H. and Donglah, N. K. (2012) 'Shari ' ah Audit in Islamic Financial Institutions : The Postgraduates ' Perspective', *International Journal of Economics and Finance*, 4(12). doi: 10.5539/ijef.v4n12p224.

