

CHAPTER TWO

LITERATURE REVIEW

A. Sharia Supervision

The term of supervision in the Indonesian language is originated from the word beware; so supervision is an activity of watching, in the sense of seeing things carefully. There are no other activities beyond that except to report the results of the supervising activity. While the term supervision in English is called controlling which is translated by the term supervision and control, so that the term controlling has broader meaning than supervision. 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:

1. 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.¹ In the definition 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.²

2. 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 accordance with pre-determined plans. In the definition of supervision by S.P.

¹ Sarwoto, 1978, *Dasar-Dasar Organisasi dan Manajemen*, Jakarta, Ghalia Indonesia, Page 18

² S.P. Siagian, 1994, *Filsafat Administrasi*, Jakarta, PT Gunung Agung, Page 43

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.

3. 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.³

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

“Have you not considered that Allah knows what is in the heavens and what is on the earth? There is in no private conversation three but that He is the fourth of them, nor are there five but that He is the sixth of them - and no less than that and no more except that He is with them [in knowledge] wherever they are. Then He will inform them of what they did, on the Day of Resurrection. Indeed Allah is, of all things, Knowing”⁴

Second, supervision will be more effective if the monitoring system is also done from outside yourself, like from the leadership, which concerns the task delegated, suitability of completion and planning, as explained in the Quran. “Do [as you will], for Allah will see your deeds, and [so, will] His Messenger and the believers. And you will be returned to the Knower of the unseen and the witnessed, and He will inform you of what you used to do.”⁵

The world is increasingly modern with economic developments that have continued to increase without stopping, one of which is no less important in controlling Islamic financial institutions, namely the Sharia supervision system. The supervisory system is the same as the sharia supervisory board (DPS); DPS is an

³ Soekarno K, 1980, *Dasar-dasar Manajemen*, Jakarta: CV. Miswar. Page 32

⁴ QS Al-Mujadalah(58), Verse 7

⁵ QS At-Taubah(9), Verse 105

agency or organization that is in a sharia financial institution and is in charge of controlling, examining and auditing the implementation of DSN decisions in these sharia financial institutions.⁶ The meaning of supervision in Islam is "*hisbah*" which means *ih̄tisab* which is researching, seeing, preventing or holding back as preventing someone from committing wrong actions. Al-Hisbah etymologically means counting, thinking, giving opinions, views and others⁷

In general, sharia supervision for LKS has a high urgency value, because the development of types of financial transactions and trade activities that are so fast and diverse, requires a quick and appropriate attitude to ensure the legality of sharia. The highest Sharia Supervision Institution, in this case, the DSN-MUI has the duty to issue Fatwas to provide the most possible alternative solutions to sharia contracts. The development products produced from these Fatwas are expected to be competitive even superior than those of conventional banks. Without the contemporary fatwas issued by the DSN-MUI, Islamic economics will be attached to outdated imagery because the products are not developing and unable to answer the needs of the times.

B. 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.

1. Definition

⁶ Anwar Ismail, "Sistem Pengawasan Syariah di Lembaga Keuangan Islam", Available on <http://www.depokpos.com/arsip/2016/10/sistem-pengawasan-syariah-di-lembaga-keuangan-islam/> Accessed on November 11st 2018, 8.54 PM

⁷ Neneng Nurhasanah, "Pengawasan Islam Dalam Operasional Lembaga Keuangan Syariah" *MIMBA*. Vol. 29 No.1, ISSN: 0215-5175 EISSN 2303-2499 (Juni 2013), Page. 12

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.⁸ Cooperatives as associations for the 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.⁹ 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”.¹⁰

Nowadays cooperation in Indonesia is growing fast, it is proven by the establishment of sharia cooperation which has a function to improve the welfare of the members in particular and the general public and help build a just economic order according to Islamic principles.

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).

⁸ Arifin Sitio, 2001, *Koperasi: Teori dan Praktik*, Jakarta: Erlangga.

⁹ 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

¹⁰ Hendrojogi, Msc., *Koperasi Azas-Azas. Teori, dan Praktek*, PT. Raja Grafindo Persada, Jakarta, 2000, hlm. 21

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.¹¹

Sociologically, sharia cooperatives in Indonesia are often referred to as BMT, because in reality, many Sharia Cooperatives come from the conversion of BMT. However, there is actually a difference between KJKS / UJKS Cooperative with BMT, which is printed on the institution. Sharia cooperative consists of only one institution, that is cooperative which run with Sharia saving and loan cooperative system. Sharia Cooperative is defined as a Sharia Financial Services Cooperative which is a Cooperative who runs the business activities in the areas of financing, investment and savings in accordance with sharia patterns¹²

Sharia Financial Services Business Activity is an activity undertaken to collect funds and distribute through the business of Sharia Financial Services from /and to members of the cooperative concerned, prospective members of the cooperative concerned, other cooperatives and or its members when compared to the type of product between sharia cooperatives and conventional cooperatives, actually almost the same that is related to product savings and loan products. When it is compared to its operational system, Sharia Savings and Loan Cooperative are very different from the conventional cooperative; The cooperative uses conventional system of interest while the Sharia Savings and Loan Cooperative use profit

¹¹ 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.

¹² Ministry Regulation No. 35.3Per/M.KUMKM/X/2007 on The Health Assesment Guidelines of Sharia Financial Service Cooperative and Sharis Financial Service Units

sharing system. Sharia Savings and Loan Cooperatives are also almost the same in their products but there is a difference on its funding product. Funding products or funding for Sharia Savings and Loan Cooperatives is called Deposit, while in Sharia Bank is called Savings.¹³

Sharia Cooperatives cannot also escape from problems such such as organizational and managerial problems, capital, and low quality of human resources so that cooperatives run less innovative, effective, and efficient. In addition, the image of cooperatives in the public is low when compared to other economic institutions.¹⁴ Therefore, cooperatives need to have added value compared to other economic institutions. Strategies that can be done is to innovate the business. The innovation of products or services produced, so that offered by the cooperative is something unique and multiply other business opportunities. To achieve this purpose, cooperatives must master access to capital, markets and technology. If the cooperative can maximize this function, the cooperative will have the ability to increase its business and professional independently, expand its marketing network, and freely partner with other economic institutions.¹⁵

2. Principle

a. The membership are voluntary and open

Someone can not be forced to become a member. He/she can freely choose to be or not to be the member. Similarly, if he/she wants to leave the cooperative, the/she can decide on his/her own as long as it is in accordance

¹³ Triana Sofiani, *Op.Cit* Page. 137

¹⁴ Burhanuddin Yusuf, “Analisis Tingkat Kesehatan Koperasi Syariah”, *Jurnal Bisnis dan Manajemen*, Vol. 6 No. 1. P-ISSN: 2087-2038; E-ISSN:2461-1182 (Aprill 2016) . Page 102 – 103 .

¹⁵ Burhanuddin Yusuf, “Analisis Tingkat Kesehatan Koperasi Syariah”, *Jurnal Bisnis dan Manajemen*, Vol. 6 No. 1, ISSN: 2087-2038, (April 2016) Page 101 - 102

with the provisions of the articles of association and the household budget.¹⁶

Open means that in membership there is no discrimination of any kind.

- b. The management of cooperative is done with democratically.

Democratic management means:

- 1) Meetings of members are the holders of supreme power;
- 2) Cooperative activities are organized by the board;
- 3) The board is selected from members and by members;
- 4) The Board appoint managers and employees upon approval of member;
- 5) The management policy is controlled by members through supervisors;
- 6) Financial reports and other cooperative activities are open and transparent;
and
- 7) One member only has one vote.¹⁷

- c. Provision of Limited Remuneration of Capital

Capital in the cooperative is used for the benefit of members, not just for profit. Therefore, members earn limited interest on capital. The interest is no more than the usual government bank interest rate. Members benefit in other forms, such as participating in member education and can obtain products easily, cheaply and in high quality.¹⁸

- d. Cooperative Education

To improve management capability and implementation of cooperative principles, it is important that members, management and employees of the cooperative are enhanced their understanding, awareness and skills through education. The amount of tuition fees is set by members in member meetings.

¹⁶ Rahmatullah, 2012, "Ekonomi Koperasi", Makassar; Lembaga Penerbitan UNM. Page. 20

¹⁷ Abdul, Rahmat, "Prinsip-Prinsip Koperasi", available on <http://www.kopindo.co.id> Accessed on April 3, 2018, 2.45 PM.

¹⁸ Jochen, Ropke, 2000, "Ekonomi Koperasi: Teori dan Manajemen", Jakarta; Salemba Empat. Page 47.

- e. Cooperation Between Cooperative
 - 1) Cooperatives can cooperate with other Cooperatives at the local, National or International level.
 - 2) In Indonesia, primary cooperatives can form central and parent at regional and national levels.
- f. The cooperative works for the sustainable development of the environment and its people through a policy agreed upon by the member.¹⁹
- g. Wealth is God's trust that can not be owned by anyone;
- h. Human beings are given freedom of friendship with the provisions of sharia;
- i. Man is the khalifah of Allah and the prosperous on earth;
- j. Uphold justice and reject every form of ribawi and centralization of economic funding resources on a few people or a group of people.²⁰

Based on the cooperative characteristics as described above, it can be interpreted that cooperative has an economic system. As an economic system, cooperative belongs to mixed economy since the socialist element appears dominant in the cooperative by being upheld principles of togetherness and equality of rights and obligations for members cooperative.

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 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.²¹ Cooperatives have a significant role in drawing up joint efforts of people who have limited economic ability. In an

¹⁹ Indra Griha Tofic Isa dan George Pri Hartawan, "Perancangan Aplikasi Koperasi Simpan Pinjam Berbasis Web (Studi Kasus Koperasi Mitra Setia)", *jurnal Ilmu Ekonomi*, Vol. 5, No. 10 (March 2017) Page 149.

²⁰ Triana Sofiani, *Op.Cit* Page 138

²¹ Sugiharsono, "Sistem Ekonomi Koperasi Sebagai Solusi Masalah Perekonomian Indonesia" *Jurnal Ekonomi dan Pendidikan*, Vol. 6 No. 1 (Aprill 2009) , Page 29

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.

Cooperatives in Indonesia do not yet have the ability to perform their roles effectively and strongly. This is because the cooperatives still face the structural obstacles in the mastery of production factors, especially capital. Thus, there is still a need for broader attention by the government so that the existence of cooperatives in Indonesia can be really as a pillar of the economy of Indonesia which is outlined in the 1945 Constitution. Moreover, cooperation has a role as explained in Article 4 of Law No. 25 of 1992 on cooperatives.

3. Kinds of Cooperative

Based on the participation of its members, there are five types of cooperatives as explained on Law No. 25 of 1992:

a. Producer Cooperative

Producer co-operatives are cooperatives whose members are producers. Members of this cooperative are the owner (owner) and user service (user), where in his position as a producer, members of the producer cooperative processing raw materials/inputs into finished good as to produce merchandise, gain a certain amount of profits with transactions and take advantage of marketable trading opportunities, gain some profits with transactions and capitalize on existing market opportunities. Producer co-operatives play a role in the procurement of raw materials, inputs, or production facilities that support member economies so that members feel the benefits of the existence of cooperatives because it can increase the

productivity of member businesses and income.²² This cooperative runs several functions such as:

- 1) Purchasing or procurement of required input members.
- 2) Marketing of output resulting from member's business.
- 3) Joining production or utilization of production facilities.
- 4) Providing a joint marketing office.

b. Customer Cooperative

Consumer cooperatives are cooperatives that carry out activities for members in order to provide goods or services required by members. Consumer co-operatives play a role in enhancing purchasing power so that the member's real income increases. In this cooperative, members have an identity as owner (owner) and as a customer (customer). In the member's position as a consumer, the activity of consuming (including consumption by producers) is the use of consuming goods/services provided by the market. The function of customer cooperative is organizing:

- 1) The purchasing or procurement of goods/services member needs is done on a regular basis efficient, like buying in larger quantities.
- 2) Procurement innovations, such as a source of credit funds with lower interest, including the use of revolving funds, purchases with discounts, purchases with credit

c. Marketing Cooperative

Marketing cooperatives are often called sales co-operatives. The identity of the member as owner and seller or marketer. Marketing cooperatives have a function to accommodate products and services produced

²² Hasmawati novrina, "Pengaruh Ukuran Koperasi dan Jenis Koperasi Terhadap Kualitas Sistem Pengendalian Internal" *ejournal SI Ak Universitas Pendidikan Ganesha*, Vol. 2 No. 1 (May 2014), page 14

by members to further market it to consumers. Member is domiciled as a supplier of goods or services to its cooperative. Thus, for members, the cooperative is the front-runner in the marketing of goods or services of producer members. The success of this marketing function supports the level of business enthusiasm for members to remain in production.

d. Cooperative Services

They are cooperatives in which the identity of members is as owners and customers of consumer services and or service producers. As a service consumer, the established cooperative is a service procurement cooperative while as service producer, the established cooperative is a cooperative service producer or service marketing cooperative. As a marketing co-operative, when the cooperative performs the function of marketing the production services of members. In practice it is also known as grouping cooperative based on of business management (business), ie Single Purpose cooperative type (one business) and Multipurpose (many businesses). Cooperative with one business activity, for example saving and loan cooperative (KSP), Milk Producers Cooperative, Cooperative tofu tempe (Primkopti) and so on. Cooperatives with more than one business activity often referred to as cooperative of all-round business. This type of cooperative is for example Cooperative Marketing, where the cooperative carry out the marketing of goods and services.

e. Saving and Loan Cooperative

This cooperative is often also aligned with the name of credit cooperatives, the cooperative organizes savings services and simultaneously provides credit to its members. These services place the cooperative as a

member service to meet the financial service needs for members to become better and more advanced. In this cooperative, the members have a double identity position as the owner (owner) and customers (customers). In the position as a member, customer performs activities of saving and borrowing in the form of credit to the cooperative. Co-operative services to savings members in the form of mandatory savings, voluntary savings and deposits, are a source of capital for cooperatives. The collection of funds from that member into subsequent capital by the cooperative is distributed in the form of loans or credits to members and prospective members. By way of borrowing (KSP) and or Cooperative Savings and Loans (USP) of Cooperatives. That way the cooperative performs the member's intermediation function to be channeled in the form of credit to the member in need. Implementation of savings and loans activities by cooperatives implemented in the form/container savings and loan cooperatives. And also there is Saving and Loan Sharia Cooperative (KSPPS). Sharia Credit and Financing Cooperatives (KSPPS) are unique and specific Indonesian sharia microfinance entities. KSPPS's role in carrying out its functions and roles performs a dual role, namely as a business institution (tamwil) and on the other hand performs a social function, namely collecting, managing and distributing ZISWAF funds (Zakat, infaq, Shodaqoh, and waqf).

ZIS funds in the collection and utilization can be used for the benefit of charity (sociality), however, some KSPPS channel and utilize it more towards empowerment, especially for mustahik micro-entrepreneurs. Meanwhile, specifically for Money Waqf, the collection is social in nature but its management and development must be in the form of "commercial" because

there is a mandate of (waqf giver) to provide benefits from waqf results to be given to maukufalaih (beneficiaries)

4. 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.²³ 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 improve the welfare of members and society in general and carry out to build the order of economy in based on Islamic principles. Based on the objectives, the Sharia Cooperative has the following functions and roles:

- a. To build and develop the potential and ability of members in particular, and society in general, in order to improve their economic social welfare.
- b. To strengthen the quality of human resources of the members, in order to be more trustworthy, professional (*fathonah*), consistent, and consequent (*istiqomah*) in applying Islamic economic principles and principles of Islamic sharia.
- c. To realize and develop a national economy that is a joint effort based on the principles of kinship and economic democracy.
 - 1) As a mediator between funding with the use of funds, in order to achieve optimization utilization of property.

²³ 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

- 2) Strengthen the groups of members, so that it is able to cooperate effectively control the cooperatives.
- 3) Develop and expand employment opportunities.
- 4) Cultivate develop productive efforts of members.²⁴

C. Supervisory Institution for Sharia Cooperative in Indonesia

There are several institutions in Indonesia which are assigned to oversee sharia cooperatives in Indonesia. The Sharia Supervisory Board and the cooperative office are among the agencies authorized to supervise sharia cooperatives;

1. 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.²⁵ 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.²⁶ Indonesia Council of Ulama also states that:

- a. Sharia Supervisory Board is a board that exist in Sharia Financial Institution and supervise the implementation of Sharia National Council Decision (DSN) in that Sharia Financial Institution
- b. Sharia Supervisory Board is appointed and dismissed in Sharia Financial Institution after obtaining a recommendation from DSN.²⁷

²⁴ Triana Sofiani, *Op.Cit.* Page 137

²⁵ Nurul Huda dan Mustafa Edwin Nasution, 2009, *Current Issues Lembaga Keuangan Syari'ah*, Kencana Prenada Media Grup, Jakarta. Page 208.

²⁶ Neneng Nur Hasanah, "Optimalisasi Peran Dewan Pengawas Syaiah di Lembaga Keuangan Syariah", *Syiar Hukum*. Vol. 8 No. 3, ISSN:2086-5449 (November 2011), Pages 209 – 210.

²⁷ DSN-MUI, No: Kep-98/MUI/III/2001

DPS based on AAOIFI (Accounting and Auditing Organization of Islamic Financial Institutions) has provided standards for DPS, composition, and other aspects related such as regulations, reports and so on. Sharia institutions should be free institutions comprised of scholars which deal with science and Islamic law. DPS can also be composed of other experts in the field of sharia financial institutions with knowledge the science of Islamic law relating to commercial transactions. DPS mandated by the task of directing, researching and supervising activities Islamic financial institutions to ensure that it complies with the rules and principles of sharia.²⁸

According to Small and Medium Enterprise Sharia Supervisory Board, DPS is a council which elected through the decision of the meeting of members who perform the duties and functions as the supervisor of sharia.²⁹

2. Small and Medium Enterprise Cooperative Office

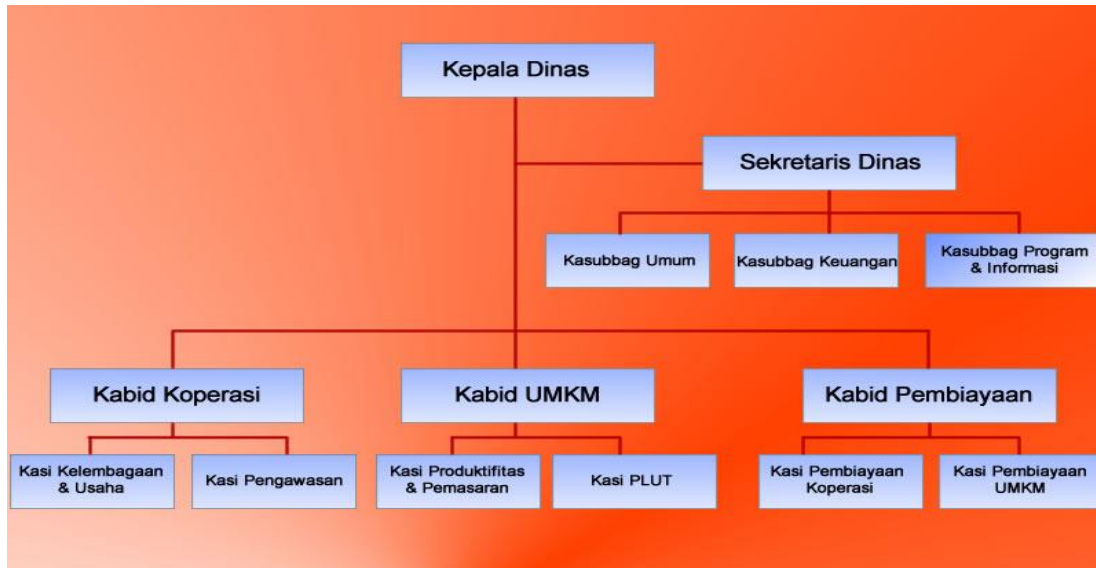
Table 1.

²⁸ Muhammad Ayub, 2009 "Understanding Islamic Finance", PT Gramedia Pustaka Utama, Jakarta. page 52.

²⁹ Regulation of Small and Medium Enterprise Ministry No.11/PER/M.KUKM/XII/2017 on Implementation of Save Loans Business Activities and Sharia Financing by Cooperative.

Organization Structure of Small and Medium Enterprise Service of Yogyakarta

Sources: *diskop umkm diy.*



- a. Prepare and Control in the field of cooperative, micro enterprise, small and medium enterprise;
- b. Formulate the technical policy in the field of cooperative, micro enterprise, small and medium enterprise;
- c. Implement the cooperative cooperation, micro enterprise, 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;
- 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.³⁰

³⁰ Murdawati Candrayani, “profil dinas koperasi usaha mikro, kecil dan menengah” <http://diskopumkm.jogjaprovo.go.id/publik/profil/#> accessed on April 10th, 2018 2.23 pm