

## THE ROLE OF THE SHARIA SUPERVISORY BOARD IN FORMULATING SHARIA FINANCING POLICIES IN ACCORDANCE WITH SHARIA PRINCIPLES (A STUDY AT KSPPS BMT HARAPAN UMMAT SIDOARJO)

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### Abstract

The role of the Sharia Supervisory Board (DPS) is crucial in ensuring the operational compliance of Islamic financial institutions with Islamic principles, including the Sharia Savings and Loan Cooperative (KSPPS). This study aims to analyze the role of the DPS in formulating sharia financing policies and its effectiveness in ensuring sharia compliance at the BMT Harapan Ummat Sidoarjo KSPPS. This study uses a descriptive qualitative approach with data collection techniques through interviews, observation, and documentation. Data validity is tested using source triangulation involving three key informants: the DPS, the Chair of the Management, and the General Manager. The results show that the DPS plays an active role in formulating financing policies through committee meetings, providing sharia opinions, and preparing accountability reports, so that financing products such as murabahah, mudharabah, and ijarah are in accordance with the DSN-MUI fatwa and sharia principles. However, the effectiveness of supervision is still hampered by limited human resources, low frequency of visits (1-2 times/year), lack of feedback from DSN-MUI, and violations in the implementation of contracts, such as the absence of witnesses at ijab qabul. This study concludes that although the DPS has carried out its functions, optimization of its role is still needed through increased human resource capacity, strengthening of the supervisory system, and closer collaboration with regulators to ensure sustainable sharia compliance.

**Keywords:** Effectiveness of Supervision, KSPPS, Sharia Financing Policy, Sharia Supervisory Board



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## INTRODUCTION

Indonesia is the largest Muslim country in the world, with approximately 80% of its population being Muslim. It has become imperative for its people to develop and implement an alternative economic system after the dominance of capitalist and socialist systems. An economic system based on religious regulations forms an alternative economy (Al-Shodiq, 2005).

The Indonesian people's doubts about conventional financial institutions are often caused by the practice of usury. In response, Islamic financial institutions have emerged as the primary choice for financing and financial management. Their rapid development can now be seen in the proliferation of Islamic cooperatives, Islamic insurance, and Islamic pawnshops.

Baitul Maal Wattamwil (BMT), currently better known as KSPPS, is a form of sharia-based microfinance organization. Baitul Maal manages funds for social purposes, while Baitul Tamwil engages in profit-seeking business activities. This makes BMT an institution that carries out two missions simultaneously: social and business (Manan, 2012).

Sharia cooperatives are microeconomic institutions that have contributed significantly to the recovery of Indonesia's economy, which had collapsed. This organization continues to survive amid the economic and monetary crises that have hit Indonesia. Therefore, financial institutions such as Islamic cooperatives must have the ability to carefully and cautiously observe every economic development, both on a micro and macro scale. Financial institutions such as these are very important for micro and macro business growth (Absor et al., 2019).

The development of cooperatives in Indonesia has been significant, with the number of active units reaching 130,354. Data shows an increase in performance, with a business volume of Rp197.88 trillion in 2022, a growth of 1.96% compared to the previous year, which recorded 127,846 units with a business volume of Rp182.35 trillion (Wiranto, 2024). In a KNEKS-IAEI webinar on the Cooperative Bill, Bagus Aryo revealed that as of December 2022, there were 3,912 KSPPS with 4.6 million members and total assets of Rp20.67 trillion (Saktiawan, 2024).

The establishment of Islamic financial institutions is motivated by two fundamental objectives. First, as a form of obedience to Allah's commands in economic and trade activities. Second, to free Muslims from all practices that contradict Sharia law. The application of Islamic principles in economics is considered important to create stability in both the economic and social spheres of society (Damiri, 2018).

Sharia Savings and Loan Cooperatives (KSPPS) are known for their unique approach to financial management. The most striking feature of sharia financial institutions is the application of sharia contracts to various products, both savings and financing. Without exception, all Islamic financial institutions such as Islamic Banks, Islamic Pawnshops, Islamic Insurance, and KSPPS have a Sharia Supervisory Board (DPS) whose task is to ensure sharia compliance in savings and financing products (Farikhah, 2018).

The Indonesian Ulema Council (MUI) has stipulated that Islamic Financial Institutions (LKS) must be under the supervision of a Sharia Supervisory Board (DPS) to ensure that their operations are in accordance with Islamic principles. According to DSN-MUI Regulation No. 3 of 2000, the DPS is part of the relevant LKS and is appointed based on the approval of the DSN.

In fact, the rules established by the National Sharia Council (DSN) regarding guidelines for the appointment of Sharia Supervisory Board (DPS) members No. 3 of 2000 must be implemented by Sharia Financial Institutions. One of the rules stipulated is that every Sharia Financial Institution (LKS) must have DPS members who conduct regular supervision and report to the DSN at least twice a year. The Sharia Supervisory Board (DPS) aims to ensure, provide advice and recommendations to the Board of Directors, and supervise the activities of Sharia Financial Institutions (LKS) to ensure they comply with sharia principles, as risks are inevitable. Therefore, what must be done is to try to reduce these risks by minimizing them.

Thus, in order to prevent deviations from sharia principles and to provide greater certainty or security for users of Sharia Financial Institutions (LKS), the DSN-MUI's decision is very important.

Decision Number 03 of 2000 from the DSN MUI concerning the Implementation of the Appointment of Sharia Supervisory Board Members in Sharia Financial Organizations and the Minister of Cooperatives and SMEs issued Decree No.16/Per/M.KUM/IX/2015 in 2015 concerning the Implementation of Savings and Loan Activities and Sharia Financing by Cooperatives. One of the requirements for Islamic financial service cooperatives is to have a Supervisory Board, as stipulated in this decree (Damiri, 2018).

One of the duties and functions of the Sharia Supervisory Board is to supervise and oversee the operational activities of Islamic Savings and Loan Cooperatives (KSPPS) in accordance with sharia principles. To carry out these duties and authorities in the Sharia Supervisory Board, strong scientific and operational competency standards in the field of Sharia Supervisory Boards (DPS) are required. Therefore, sharia supervisors need to have operational and supervisory powers attached to financial operations, including religious motivation and institutional supervision.

However, there are still several cases of KSPPS in the field that violate or do not fully comply with sharia principles. In addition to the obstacle of the DPS not yet playing an optimal role, most KSPPS do not or have not yet met the requirements to become members of the DPS as stipulated in DSN-MUI Decree No. 3 of 2000.

Therefore, this study specifically aims to: (1) Analyze the role of the Sharia Supervisory Board (DPS) in the process of formulating sharia financing policies at KSPPS BMT Harapan Ummat Sidoarjo, and (2) Assess the effectiveness of the DPS in ensuring that sharia financing policies comply with sharia principles. By answering these questions, this study is expected to provide practical contributions to strengthening sharia governance at the KSPPS level and theoretical contributions to the development of literature on the effectiveness of sharia supervision in microfinance institutions.

## RESEARCH METHOD

This study uses a qualitative descriptive approach to describe in depth the role and effectiveness of the Sharia Supervisory Board (DPS) at KSPPS BMT Harapan Ummat Sidoarjo. The research was conducted at the KSPPS BMT Harapan Ummat Sidoarjo office from February to March 2025, focusing on the process of developing sharia financing policies and the supervisory mechanisms applied.

The research subjects consisted of three key informants, namely members of the Sharia Supervisory Board, the Chair of the Management, and the General Manager of KSPPS. Data collection was carried out using three main techniques: in-depth interviews using structured interview guidelines, direct observation of business processes and contract documents, and documentation studies of annual reports, DPS certificates, and organizational structures. The main instrument in this study was the researcher himself, assisted by interview guidelines and observation sheets.

The collected data were analyzed using Miles and Huberman's interactive model, which includes data reduction, data presentation, and conclusion drawing. To ensure data validity, the researcher applied source triangulation techniques by comparing information from the three different informants. The analysis process was carried out continuously during and after data collection until comprehensive findings were obtained regarding the role and effectiveness of the DPS in maintaining sharia compliance.

## RESULTS AND DISCUSSION

### **The Role of the DPS in the Formulation of Sharia Financing Policies**

The findings reveal that the Sharia Supervisory Board (DPS) of KSPPS BMT Harapan Ummat plays an active and multi-faceted role in the formulation of sharia financing policies. This role is manifested through three main mechanisms. First, the DPS is directly involved in financing committee meetings, which are also attended by administrators, supervisors, and managers. In this forum, the DPS acts as the guardian of sharia compliance by ensuring that every policy and contract, such as murabahah, mudharabah, musyarakah, and ijarah, meets the standards derived from the Qur'an, Hadith, and DSN-MUI fatwas, particularly Fatwa No. 141.

Second, the DPS has the authority to provide Sharia opinions on every new financing product before it is launched. This process involves an in-depth review of the contract structure, transaction objectives, and legal implications to ensure compliance with Sharia principles. Third, the DPS is tasked with compiling annual accountability reports as part of the Sharia audit mechanism. This report should be a tool of accountability not only to members at the Annual Member Meeting (RAT) but also to the DSN-MUI.

Academically, these findings reinforce the theory that defines the DPS as an independent institution that functions as a gatekeeper (Ascarya, 2011). The practice at KSPPS BMT Harapan Ummat shows the implementation of the DPS's duties as mandated in DSN-MUI Decrees No. 2 and 3 of 2000, particularly in terms of active supervision and provision of advice. However, these findings also confirm (Farikhah, 2018) research, which identified that DPS participation in meetings is often constrained by time limitations, especially when DPS members also hold positions in other institutions. This indicates structural challenges in optimizing the role of the DPS at the micro KSPPS level.

### **Effectiveness of Supervision and Identification of Gaps**

Although the formal role of the DPS has been carried out, its effectiveness in ensuring comprehensive sharia compliance shows mixed results. On the one hand, the DPS has proven to be effective in identifying specific violations in the implementation of contracts. Findings in the field reveal discrepancies between the recommended contracts and those implemented, for example, the use of murabahah contracts when mudharabah contracts should be used for certain financing characteristics. In addition, the DPS also found crucial procedural weaknesses, such as the absence of witnesses in the ijab qabul process, which could threaten the sharia validity of transactions.

However, this effectiveness is overshadowed by several significant operational limitations. The low frequency of supervision, only 1-2 times a year, means that supervision cannot be carried out in depth and on an ongoing basis. The supervision carried out also tends to be superficial (visible) and is not supported by comprehensive document audits. Furthermore, the disconnected reporting system is a critical weakness; DPS accountability reports are never sent to DSN-MUI due to the lack of feedback from this authority. In fact, during routine inspections, DSN-MUI often inquires about the existence of these reports.

These findings of ineffectiveness contribute to academic discussions on the factors that influence DPS performance. Human resource limitations, including dual positions and limited understanding among managers, which were also identified by (Lubis, 2021), appear to be the root of the problem. The failure to submit reports to the DSN-MUI reflects weak vertical accountability in the national sharia supervision system, a gap that has not been widely revealed in previous studies. Thus, this study not only maps the gap between theory and practice but also highlights the fragility in the sharia supervision chain at the micro level.

### **The Context of Sharia Principles in Decision Making**

A more in-depth analysis shows that the role of the DPS in policy making can be mapped within the framework of broader sharia principles, which contribute academically to understanding the integration of Islamic values in the governance of financial institutions.

First, the principle of Tawhid is manifested when every policy decision is always linked to Islamic law, transforming economic activities into a form of worship. Second, the principle of Justice ('Adl) is overseen by the DPS through a transparent profit-sharing mechanism, ensuring that no party is disadvantaged. Third, the principle of Maslahah is the main consideration of the DPS in assessing whether a financing policy brings real benefits to members and the wider community, not just financial gains for the institution.

Fourth, the principles of Trustworthiness and Transparency are implemented through financial reports submitted at the Annual General Meeting, although there are still weaknesses in external reporting. Fifth, the prohibition of Riba, Gharar, and Maysir is the main focus in the DPS's review of contracts. Sixth, the principle of Shura is alive in the deliberation mechanism of the financing committee, where the DPS, administrators, and managers sit together to discuss policies. Finally, consistency with Maqasid al-Shariah is evident when the DPS ensures that policies are not only halal but also contribute to the preservation of religion, life, intellect, property, and offspring.

This contextualization enriches the literature by showing that the role of the DPS is not limited to technical-legalistic oversight, but also as a guardian of values that ensures all of the institution's economic activities are integrated with maqasid al-shariah. This finding is in line with (Chapra, 2000) view on the importance of ethical values in Islamic economics, but this study provides empirical evidence of how these values are operationalized through a formal supervisory structure.

### **Implications and Challenges Ahead**

The findings of this study have important implications for the development of micro Islamic financial institution governance theory. First, this study reveals that the existence of DPS alone is not sufficient to ensure optimal sharia compliance. Supporting factors such as human resource capacity, management commitment, and an integrative supervisory system with regulators play a crucial role. Second, this study highlights the need to redefine the relationship between DPS at the micro level and DSN-MUI as the macro authority. The absence of feedback from DSN-MUI creates a vacuum that can weaken the effectiveness of the entire supervisory system.

Academically, this study contributes by providing an analytical framework that combines a normative approach (sharia principles) with an empirical approach (practices in the field) in evaluating the role of DPS. Findings on procedural violations, such as the absence of witnesses in *ijab qabul*, provide a new perspective that threats to sharia compliance come not only from complex contract errors, but also from negligence in basic procedures that are fundamental.

Key limitations in the effectiveness of DPS, such as low visit frequency and slow response to product innovations (as in the case of precious metal financing, which does not yet have clear regulations), indicate that the DPS supervision model for micro KSPPS may need adjustment. A possible model to be developed is risk-based supervision, which focuses limited

resources on areas most vulnerable to sharia violations. Thus, this study not only documents the problems but also opens up space for innovation in a more adaptive sharia supervision model for microfinance institutions.

## CONCLUSION

Based on the results of the study, it can be concluded that the Sharia Supervisory Board (DPS) at KSPPS BMT Harapan Ummat Sidoarjo has carried out its formal role in formulating sharia financing policies through committee meetings, providing sharia opinions, and preparing reports to ensure compliance with sharia principles such as tauhid, justice, masalah, amanah, transparency, prohibition of riba, gharar, maysir, syura, and maqasid al-shariah, which are sourced from the Qur'an, Hadith, and DSN-MUI fatwas. However, its effectiveness in ensuring comprehensive sharia compliance is still not optimal. The main findings reveal that although the DPS has succeeded in identifying specific violations such as contract inconsistencies and the absence of witnesses in *ijab qabul*, its role is limited by low supervision frequency, human resource constraints including dual positions, and a broken reporting chain to the DSN-MUI. Thus, this study successfully answers the research question by showing the gap between the ideal role and the actual implementation of the DPS at the microfinance institution level.

Practically, these findings imply that fulfilling structural obligations by having a DPS alone is not sufficient without being supported by adequate human resource capacity, a sustainable monitoring system, and strong synergy with sharia regulators. Theoretically, this study enriches the discourse on sharia governance by showing that the effectiveness of supervision is greatly influenced by non-technical factors at the micro level. The limitation of this study lies in its scope, which is limited to a single case study. Therefore, future research could expand the scope by using a comparative approach between several KSPPS or exploring more effective DPS supervision models for microfinance institutions.

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