

PATTERN OF SHARIA COMPLIANCE IN KSPPS IN PEKALONGAN CITY (ANALYSIS OF CONSTRAINTS AND SOLUTIONS TO THE DEED OF FINANCING)

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Abstract

This research aims to find out, how is Sharia Compliance KSPPS in Pekalongan City, and the factors causing it in Pekalongan City? The method and approach in this study is a qualitative approach. The qualitative approach is an approach method by capturing social phenomena in the community to be further described in the form of a narrative by revealing the results of the arrests as they are. The results of this research are as follows: first; Sharia compliance discusses the entire process starting from socialization, distribution or application to completion of settlement, in general it has implemented compliance in accordance with sharia principles, although some aspects have not been met. Second; There are patterns of sharia non-compliance from a number of instruments in financing at KSPPS based on three patterns of influence, a) educational perspective: DPS at KSPPS in Pekalongan City still do not have a DPS certificate, customers or members who do not understand and understand clearly related to contracts in sharia financing, managers who do not have an understanding of sharia (muamalah). b) rational perspective: conventional banking facilities and technology are more sophisticated when compared to Islamic banks, the non-applicability of reporting systems and profit sharing in accordance with Islamic principles and Islamic accounting, because they are considered too complicated and difficult for customers. c) the emotional perspective of Muslims who make choices in KSPPS for religious reasons is still small compared to rationality reasons, so they choose conventional banks.

Keywords: *KSPPS; Sharia Financial Institution, Sharia Compliance.*

Abstrak

Penelitian ini bertujuan untuk mengetahui, bagaimana pola kepatuhan syariah KSPPS di Kota Pekalongan, dan faktor penyebabnya. Metode dan pendekatan dalam penelitian ini adalah pendekatan kualitatif. Pendekatan kualitatif merupakan suatu metode pendekatan dengan cara menangkap fenomena-fenomena sosial yang ada di masyarakat untuk selanjutnya diuraikan dalam bentuk narasi dengan mengungkapkan hasil analisis secara apa adanya. Hasil penelitian ini adalah sebagai berikut: pertama; kepatuhan syariah membahas keseluruhan proses mulai dari sosialisasi, pendistribusian atau penerapan hingga penyelesaian permasalahan di KSPPS, secara umum telah menerapkan kepatuhan sesuai dengan prinsip syariah, meskipun beberapa aspek belum terpenuhi. Kedua; terdapat pola kepatuhan dan ketidakpatuhan syariah dari sejumlah instrumen dalam pembiayaan di KSPPS berdasarkan tiga pola pengaruh, a) perspektif pendidikan: DPS pada KSPPS Kota Pekalongan masih belum memiliki sertifikat DPS, nasabah atau anggota yang belum memahami dengan jelas terkait akad dalam pembiayaan syariah, dan pengelola yang belum memahami syariah (muamalah). b) perspektif rasional: fasilitas dan teknologi perbankan konvensional lebih canggih jika dibandingkan dengan bank syariah, tidak diterapkannya sistem pelaporan dan bagi hasil yang sesuai dengan prinsip Islam dan akuntansi Islam, karena dianggap terlalu rumit dan menyulitkan nasabah. c) Sudut pandang emosional umat Islam yang memilih di KSPPS karena alasan agama masih kecil dibandingkan dengan alasan rasionalitas sehingga memilih bank konvensional.

Kata Kunci: *KSPPS; Lembaga Keuangan Syariah, Kepatuhan Syariah.*

Introduction

The Baitul Maal wat-Tamwil (BMT)/Baitut Tamwil Muhammdadiyah (BTM) Sharia Savings and Loans Cooperative (KSPPS) hereinafter referred to as KSPPS BMT/BTM, provides a trend of rapid development in Indonesia. This is evidenced by the proliferation of KSPPS BMT/BTM in Indonesia. Data on the number of KSPPS BMT/BTM until 2020 was recorded as no less than 4000 units throughout Indonesia(Purnamasari, 2020). Other data states that the number of KSSPS BMT/BTM is between 4500 s.d. 5000 units. This amount is much larger when compared to other types of Islamic financial institutions such as Islamic Banks, Sharia Rural Banks, Sharia Insurance, and Sharia Venture Capital(Marjudin, 2018). The following is a comparison of the number of KSPPS BMT/BTM with other Islamic financial institutions as listed in Table 1.

Table 1. Number of Islamic Financial Institutions in Indonesia

Types of Islamic Financial Institutions	Number (Unit)
Islamic Bank	34
Sharia Rural Bank	163
Sharia Insurance	58
Sharia Venture Capital	7
KSPPS BMT/BTM	4500-5000

Source:(Marjudin, 2018)

This number has the potential to continue to grow. The number and growth of the KSPPS BMT/BTM in fact has a positive impact, especially for the Indonesian people in the MSME sector. KSPPS BMT/BTM has been able to boost the Indonesian economy through strengthening MSME funding. This is evidenced by the very large role of Micro, Small and Medium Enterprises (MSMEs) for the Indonesian economy. While large business categories are still in a downward and slowing trend, the development and growth of gross domestic product (GDP) from the MSME aspect is actually quite stable and good. With the government's policy of reducing the final PPH from 1% to 0.5%, it has an impact on MSME business actors so that entrepreneurs do not feel too burdened with taxes. This is what makes people interested in MSME businesses(Dewi, 2017).

Although the role and impact of the existence of KSPPS BMT/BTM in Indonesia is very positive and beneficial for MSMEs. The existence of KSPPS BMT/BTM in fact still leaves problems and obstacles. Problems and constraints contained in KSPPS BMT/BTM, for example (1) lack of capital; (2) weak supervision; (3) lack of human resources; (4) still struggling in the economic/commercial field (Permana & Adhiem, 2019: 109-110). Interestingly, from these various problems and constraints, many studies or research are still focused on the financial aspect an sich. There are still rare studies related to sharia compliance (sharia compliance) in KSPPS BMT/BTM. In fact, sharia compliance is very important in the existence of KSPPS BMT/BTM. This is considering sharia compliance as the spirit or life of the existence of KSPPS BM/BTM. Without sharia compliance, there is no difference between KSPPS BMT/BTM and other conventional financial institutions.

Sharia compliance in this case is the basis for the implementation of financial institutions in the form of sharia such as KSPPS BMT/BTM. The problem is that sharia compliance is still not applied to KSPPS BMT/BTM. This can be seen from the problem of weak supervision as described previously. Weak supervision is a big potential for problems or violations of sharia compliance. Considering the key to implementing sharia compliance is strong supervision. Therefore, the non-execution of sharia compliance by KSPPS BMT/BTM certainly causes losses to the community. Considering one of the reasons people use KSPPS BMT/BTM is because there are elements of sharia, especially for the majority Muslim community in Indonesia.

In Pekalongan City, Central Java, there are approximately 17 institutions (Dindagkop and UKM Pekalongan City, 2021). The number is certainly quite a lot on a city-level scale. The large number of KSPPS BMT/BTM must also have guarantees related to the implementation of sharia compliance from KSPPS BMT/BTM in Pekalongan City. This is to ensure that KSPPS BMT/BTM in Pekalongan City runs according to sharia principles so that it does not harm the community.

Table 2. Number of Cooperatives by Type of Business in Pekalongan City

No.	Cooperative Group	Cooperative Name	Number	Date
1	KJKS	KJKS BMT El Sabila Lana	167/BH/XIV.18/V/2010	10 Juni 2010
2	KJKS	KJKS BMT Mulia	165/BH/XIV.18/IV/2010	16/04/2010
3	KJKS	KJKS BTM Melati	163/BH/XIV.18/IV/2010	16-Apr-10
5	KJKS	Gerai Dinar BMT Daarul	181/BH/XIV.18/XI/2011	1-Nov-11
6	KJKS	Mustaqim	141/BH/XIV/18/III/2007	22-Mar-07
7	KSPPS Kop. Simpan Pinjam	Minna Lana KSP Dewan Masjid Indonesia	208/BH/XIV.18/VI/2013	4 Juni 2013
8	KJKS	KJKS BMT El Fairuz	158/BH/XIV.18/XII/09	16-Dec-09
9	KSPPS	KJKS Madani	155/BH/XIV.18/IX/2009	7-Sep-09

10	KSPPS	Mandiri Syariah	182/BH/XIV.18/XI/2011	4-Nov-11
11	KSPPS	BTM Kota		16-Dec-09
12	KSPPS	Pekalongan Maju Sejahtera (MATRA)	157/BH/XIV.18/XII/09	12 Juli 2004
13			180/132/2004	1 Oktober 2004
14	KSPPS	SMNU KJKS BMT	180/135/2004	31 Mei 2008
15	KSPPS	Mandiri Umat	147.a/BH/PAD/XIV.18/V/2008	30-Sep-96
16	KSPPS	KOPENA KSPPS BMT	12227.a/BH/PAD/KWK.11/IX/1996	31-Dec-96
17	KSPPS	Bahtera Mitra Umat	12940.b/BH/PAD/KWK.II/XII/96	21-Nov-99
	KSPPS	Mitra Umat	12594/BH/KWK.I-33/XI/1999	99

Source: Dindagkop and UKM database of Pekalongan City (2021)

Therefore, it is important to conduct research related to the implementation of sharia compliance at KSPPS BMT/BTM in Pekalongan City. Researchers are interested in conducting research with the pattern of Sharia non-compliance in KSPPS in Pekalongan City (Analysis of Constraints and Solutions to Financing Deeds). Researchers in this case will examine the relationship with sharia compliance in KSPPS BMT/BTM in Pekalongan City. After finding the facts on the ground. The researcher then formulates a fair sharia compliance model for KSPPS BMT/BTM. The formulation of the model is in order to contribute to the development of KSPPS BMT/BTM in the aspect of sharia compliance, so that it can be implemented by all parties. To find out a). facts from KSPPS in Pekalongan City in implementing sharia compliance, and b). Knowing the factors that cause sharia compliance in KSPPS in Pekalongan City. Then provide solutions to non-compliance with KSPPS Syariah in Pekalongan City.

Literature Review

Islamic Microfinance and KSPPS

Islamic microfinance institutions are financial institutions that operate in the microfinance sector by following sharia principles and prohibiting usury (interest) based transactions. Islamic microfinance institutions differ from other types of Islamic finance in several ways. First, Islamic microfinance institutions are directed at community welfare and emphasize financial inclusion in poor segments of society. Second, Islamic microfinance institutions recommend allocating loans without collateral (*Qard-al-Hasan*) to micro-entrepreneurs, who often cannot obtain financing from Islamic banks. Third, Islamic microfinance institutions can overcome the high transaction costs associated with the Islamic financial system so that they can be reached by people in lower economic segments. (Hassan, 2021)

Microfinance institutions (MFIs) do tend to charge lower interest rates as compared to money lenders, a relevant concern is whether these interest rates are affordable. Instead, Islamic microfinance institutions (IMFIs) offer interest-free loans or profit-sharing arrangements. (Khan & Bedi, 2022) Based on the interest system, IMFIs operate substantially differently from traditional MFIs. In order to serve the community, IMFIs provide a variety of financing options through a profit-sharing system of leasing, buying and selling, and pure loans (without remuneration). IMFIs operate on a non-riba (interest free) basis. In this context, it was mentioned that IMFIs have certain dangers that they must deal with. Because of the profit-loss sharing agreement between IMFIs and its clients, this particular kind of risk is exclusive to IMFIs. (Mutamimah et al., 2022)

Islamic microfinance frequently uses asset-backed financing, in which the funds are linked to real assets like machinery, supplies, or real estate. (Alkhan & Hassan, 2021) In addition to offering financial services, Islamic microfinance seeks to advance social welfare and local economic growth, especially for the underprivileged and disenfranchised. (Akbar & Siti-Nabiha, 2022) Products and services related to Islamic microfinance must adhere to Sharia rules, which forbid interest, uncertainty (*gharar*), gambling (*maysir*), and immoral investing (*haram*). Islamic microfinance organizations frequently provide *Qard al-Hasan* (charitable loans), *Mudarabah* (profit-sharing), *Musharakah* (partnership), and Islamic microinsurance. (Nugroho, 2021) In many Muslim-majority nations and areas, where traditional microfinance would not be socially

or culturally acceptable owing to religious concerns, Islamic microfinance has grown in favor. It adheres to Islamic ethical principles and is a tool for poverty alleviation, marginalized community empowerment, and sustainable economic development promotion.(Ahmad et al., 2020)

Pattern of Sharia Compliance

The tenets and directives outlined in Islamic law (Sharia) are the foundation of the Sharia compliance pattern in Islamic banking and microfinance. These guidelines give an ethical, socially conscious, and Islamically compliant foundation for carrying out financial transactions. The tenets and directives outlined in Islamic law (Sharia) are the foundation of the Sharia compliance pattern in Islamic banking and microfinance. These guidelines give an ethical, socially conscious, and Islamically compliant foundation for carrying out financial transactions.(Djaafar, 2021)

Here are some key elements of the pattern of Sharia compliance:(M. I. Usman, 2022)

1. Prohibition of Interest (*Riba*).

The payment or receiving of interest (*riba*) is expressly forbidden by Sharia. Rather, Islamic finance encourages fee-based transactions, equity participation, and profit-sharing. Instead of offering interest-free loans, Islamic microfinance allows the lender and borrower to split any gains or losses.

2. Sharia Principle Adherence.

Sharia rules, which forbid interest, uncertainty (*gharar*), gambling (*maysir*), and investing in companies that engage in illegal activity (haram), must be followed in all financial transactions and contracts.

3. Fairness and Transparency: Transparency and fairness are key components of Islamic finance, and they should be considered in every transaction. All parties should fully comprehend the terms and conditions of any contracts and agreements, and they should be unambiguous.

4. Asset-Backed Financing: Islamic finance frequently incorporates financing that is secured by real assets. This lowers the possibility of speculation and guarantees that transactions are supported by actual economic activity.

5. Risk-Sharing: Parties to a transaction are urged to share risks in Islamic finance. This implies that the investment or finance arrangement's risks and profits are shared between the lender and the borrower.
6. Ethical Investment: Investment in companies or endeavors deemed immoral or detrimental to society is forbidden by sharia-compliant finance. This covers companies that engage in activities that are illegal under Islamic law, such as gambling, alcohol, tobacco, and other industries.
7. Social Welfare: The goal of Islamic finance is to advance economic growth and social welfare, especially for underprivileged or marginalized groups. Mechanisms like *Qard al-Hasan* (benevolent loans), *Sadaqah* (voluntary charity), and *Zakat* (obligatory almsgiving) are used to accomplish this.
8. Sharia supervision: Sharia supervisory boards or committees, made up of Islamic experts, are frequently present in Islamic financial institutions to guarantee that transactions, goods, and services adhere to Sharia norms.

The conventional financial business and the Islamic financial system are very different. Sharia principles and the theoretical and practical facets of financial business operations are closely related. According to sharia principles, all transactions and activities conducted by Islamic banks must comply with sharia laws and be devoid of *riba*, *gharar*, and *maysir* components. Put another way, adhering to Sharia principles is one of the key differences between the conventional and Sharia financial industries. Additionally, sharia compliance must to be upheld consistently by financial institutions' operations and product offerings. Islamic financial institutions need to be able to guarantee that all of their day-to-day operations, including financing and fund-raising, adhere to Sharia law. Disregarding Sharia precepts might result in bankruptcy or damage to one's reputation. Consumers will stop trusting you, take their money back, and end their contracts. The Islamic financial institutions will forfeit all profits from any contracts or transactions if they are not Sharia compliant since they will all be deemed null and void. (Muryanto, 2023)

Research Method

This type of research consists of doctrinal and non-doctrinal research. The type of doctrinal research is normative juridical research. The type of non-doctrinal research consists of empirical juridical research and sociological juridical research. This study uses a type of empirical juridical research. This type of empirical juridical research emphasizes two things, namely (1) legal aspects or legislation and legal provisions; and (2) facts in the field related to the object of study. This study examines the legal aspects related to KSPPS BMT/BTM in Pekalongan City in implementing sharia compliance. Then the researchers studied and looked for facts in the field related to the implementation of sharia compliance by KSPPS BMT/BTM in Pekalongan City.

The research approach consists of quantitative and qualitative approaches. This study uses a qualitative approach. The qualitative approach is an approach method by capturing social phenomena in the community to be further described in the form of a narrative by revealing the results of the arrests as they are. The qualitative approach used in this study is to capture social phenomena in the community, which are related to the Sharia Savings and Loans Cooperative (KSPPS) BMT/BTM in Pekalongan City in carrying out sharia compliance. The results of the arrest are then described in real terms or what they are in the form of a narrative. Researchers, then also formulate an ideal sharia compliance model on KSPPS BMT/BTM in Pekalongan City. The formulation of the model aims to ensure that all KSPPS BMT/BTM in Pekalongan City implement sharia compliance, because the model formulated is based on justice.

The location of this research was conducted at KPPS BMT/BTM in Pekalongan City. The sampling technique for this research is purposive sampling, namely the selection of samples based on previously known population characteristics (Isnaini, 2022). This study determines the criteria or characteristics of the BTM/BMT KSPPS population as follows, first; Minimum assets of 50 billion, second; Has a Sharia Supervisory Board (DPS), third; has been operating for a minimum of seven (7) years, and fourth; have complete organizational institutions.

The samples taken from KSPPS BTM/BTM that were representative of the population of KSPPS BTM/BMT scattered in Pekalongan City were KSPPS BMT

Bahtera, KSPPS SM NU Pekalongan, KJKS BMT Kopena, KSPPS BMT Mitra Ummah and KSPPS BTM Pekalongan.

Result and Discussion

1. Sharia Compliance

According to Bank Indonesia Regulation (PBI) No. 13/2/PBI/2011 concerning the Implementation of the Compliance Function of Commercial Banks, the word compliance means values, behaviors, and actions that support the creation of compliance with Bank Indonesia regulations and applicable laws and regulations, including the principles of sharia in Sharia Commercial Banks (BUS) and Sharia Business Units (UUS). (Susilo, 2017)

In general, the basic concept of sharia compliance has a function as an implementer and manager of sharia compliance risk, (Biancone & Radwan, 2016) which ensures that the policies, system provisions and procedures carried out by Islamic banking are in accordance with the provisions of the legislation, the government, the MUI fatwa and the application of the law that has been set out in the international standard (Sukardi, 2012). So that, sharia compliance is an absolute requirement that must be met by financial institutions that carry out business activities based on sharia principles, in addition to the existence of guarantees regarding the fulfillment of sharia compliance can also increase the trust of customers and stakeholders. (Kasim & Bukido, 2018)

The standard of sharia compliance in Indonesia is the conformity of the activities of sharia financial institutions both operationally and their products to the DSN-MUI fatwa, while the legal basis for sharia compliance for BMTs in Indonesia are: (Nurhisam, 2016) 1). DSN-MUI Decree; DSN - MUI Decree No. 03/2000 concerning Implementation Guidelines for Determining DPS Members at Sharia Financial Institutions, 2). MUI Decree Kep-98/MUI/2001 concerning the composition of the DPS; Indonesian Ulema Council Organizational Regulation No. Kep-407/MUI/IV/2016 concerning the Articles of Association and Bylaws of the National Sharia Council of the Indonesian Ulema Council. 3). Ministry of Cooperatives and SMEs RI; Minister of Cooperatives and SMEs Regulation No. 1 of 2017 concerning the Implementation of Sharia Savings and Loans and Financing Business Activities by Cooperatives. 4). Regulation of the Minister of Cooperatives and Small and Medium Enterprises of the Republic of Indonesia No. 16/Per/M.UMKM/IX/2015 concerning the Implementation of

Sharia Savings and Loans and Financing Business Activities by Cooperatives (Pebruary & Anam, 2018) 5). Regulation of the Minister of Cooperatives and Small and Medium Enterprises of the Republic of Indonesia No. 35.2/Per/M.UKM/X/2007 concerning Standard Operational Management of Sharia Financial Cooperatives and Sharia Financial Services Unit.6). Regulation of the Deputy for Supervision of the Ministry of Cooperatives and Small and Medium Enterprises of the Republic of Indonesia Number 07 of 2016 concerning Guidelines for the Health Assessment of Savings and Loans Cooperatives and Sharia Financing of Cooperatives According to the Regulation of the Deputy for Supervision of the Ministry of Cooperatives and Small and Medium Enterprises of the Republic of Indonesia Number 07 of 2016 concerning Assessment Guidelines There are 10 standards in assessing sharia compliance in a sharia cooperative, namely:

The contract is carried out in accordance with sharia procedures, as evidenced by the record of the results of the Sharia Supervisory Board's assessment. 1). Placement of funds in Islamic banks, evidenced by reports on the use of funds. 2). The existence of the Sharia Supervisory Board, as evidenced by the Decree of the appointment of the Sharia Supervisory Board. 3). The composition of equity and financing comes from Islamic financial institutions, as evidenced by reports on sources of funds. 4). Group meetings attended by management, supervisors, Sharia Supervisory Board, managers, founding employees and members which are held regularly, as evidenced by the attendance list and agenda of group meetings. 5). KJKS/KSPPS management has a certificate of Islamic financial institution management education issued by a competent party, evidenced by a certificate. 6). The frequency of the meeting of the Sharia Supervisory Board to discuss the accuracy of the financing pattern carried out by the manager in 1 year, as evidenced by the attendance list and the agenda of the Sharia Supervisory Board meeting. 7). In overcoming problem financing, a sharia approach is used, confirmation with problematic mudharib. 8). The increase in ZIS deposits, as evidenced by reports of receipt of ZIS deposits from members. 9). The increasing understanding of members of the advantages of the sharia system from time to time is evidenced by reports of increased mudharib participation in KJKS.

Then 10). The relationship between Sharia Supervision, Supervision Model, Sharia Supervisory Board, and Sharia Compliance. 11). Sharia supervision must be carried out by an authorized institution, namely the Sharia Supervisory Board (DPS). In the supervision process, DPS must eliminate problems that hinder sharia compliance in BMT, namely independence, consistency and competence, so that DPS requires an appropriate supervision model so that sharia compliance is achieved.

Sharia compliance is part of the implementation of the risk management framework and creates a culture of compliance in managing the risks of Islamic banking and non-bank sharia financial institutions. Sharia compliance also has international standards that are prepared and set by the Islamic Financial Service Board (IFSB) where sharia compliance is part of corporate governance. (IFSB, 2009)

Sharia compliance is a manifestation of the fulfillment of all sharia principles in institutions that have the characteristics, integrity and credibility in Islamic banks and non-bank Islamic financial institutions. Where the compliance culture is the values, behaviors and actions that support the creation of sharia bank compliance with all Bank Indonesia regulations.(Usanti & Shomad, 2022)

In general, the basic concept of the compliance function is to function as an implementer and manager of compliance risk in coordination with the work unit in risk management. The compliance function performs preventive supervisory duties and is an important element in the management and operations of Islamic banks, capital markets, sharia insurance, sharia pawnshops and non-bank sharia financial institutions (sharia financial services cooperatives).(Ilhami, 2009)

This is done to ensure that the policies, provisions, systems and procedures carried out by Islamic banking and non-bank Islamic financial institutions are in accordance with the provisions and laws and regulations of Bank Indonesia, the Government, Bapepam-LK, MUI Fatwa, and legal stipulations. which has been set in international standards IFSB, AAOIFI, Sharia Supervisory Board (SSB).(R. Usman, 2022)

The element that has the authority and authority in supervising sharia compliance is the Sharia Supervisory Board (DPS). The Sharia Supervisory Board (DPS) completes the supervisory duties assigned by the commissioners, where sharia compliance is

increasingly important due to requests from customers to be innovative and business-oriented in offering new instruments and products and to ensure compliance with Islamic Law. (Ilhami, 2009)

The Sharia Supervisory Board (DPS) consists of sharia experts who oversee the activities and operations of financial institutions to ensure compliance with sharia principles. The sharia board carries out great duties and responsibilities and functions as part of the stakeholders, because they are the protectors of the rights of investors and entrepreneurs who place confidence and trust in financial institutions. The existence of the Sharia Supervisory Board has five characteristics in corporate governance, namely independence, confidentiality, competence, consistency and openness. (Kurrohman, 2017)

The implementation of the compliance function must emphasize the active role of all elements of the organization consisting of directors in charge of compliance functions in Islamic banks and non-bank Islamic financial institutions, heads of compliance units and compliance work units to manage compliance risk. Compliance is a shared responsibility carried out by all bank employees from superiors to subordinates (top-down).

Various regulations in laws and Bank Indonesia Regulations (PBI) have been stipulated as regulations for the development of Islamic banking in Indonesia, such as Law No. 21 of 2008 concerning Islamic Banking, which more firmly and integratively regulates Islamic banking in Indonesia. (Triyanta, 2009)

In particular, the legal framework for sharia compliance has also been established by Bank Indonesia, through Bank Indonesia Regulation Number 13/2/PBI/2011 concerning the Implementation of the Compliance Function of Commercial Banks (Kurrohman, 2017).

2. The Effectiveness of the Sharia Compliance Function

To carry out effectiveness in sharia compliance, several efforts are needed, namely protective, namely ensuring the creation of bank compliance with applicable policies, provisions and regulations through analysis in the fields of finance, accounting,

operations and other activities in the examination (on-site) and supervision (off-site); Constructive, namely maintaining the level of efficient use of resources and maximum effectiveness of results through suggestions for improvement and objective information to conduct reviews at all levels of management; Consultative, namely providing recommendations that are useful for all management as a policy improvement in order to achieve organizational goals through identification of all possible risks and deviations to improve and increase the efficiency of the use of resources and funds, so that deviations can be detected.(Wulpiah, 2017)

This is done to provide a sense of security to stakeholders, support the creation of good corporate governance in all work units, and continuously improve professionalism in order to detect irregularities that occur. This has a significant role for the growth of the sharia market share, including product development and innovation and is a part of the research and development function as well as brand experience that is able to provide intense insight to the public about sharia products. The management style must also value creativity and value the emergence of new ideas.(Sukardi, 2012)

3. Formulation of Sharia Compliance Pattern

In principle, the agreement or contract is an important element for assessing compliance with sharia principles with the contract being part of the part that determines whether it is haram or halal in a transaction. On the other hand, the definition of a contract is something that is carried out based on a bond between two or more parties through consent and acceptance based on the guidelines or principles of Islamic law, and has juridical consequences for the parties and the object of the agreement.(Asro & Kholid, 2011)

Based on the importance and necessity of a contract, the contract must meet the basic principles of the contract.(Ridwan, 2004) namely; one, mutual liking or mutual liking (*riḍ ā*); second, transparency of objects and transactions; third, documentation or writing of transactions signed by each fourth party; can't be wrong.

There are forms of agreements or sharia contracts in sharia cooperatives which are divided into two types, namely distribution of funds/financing, collection of

funds/savings and contracts consisting of Mudharabah. Mudharabah itself is a contract related to the accumulation of funds that positions the depositor of funds to become shahibul Mal and Islamic financial institutions are positioned to be mudarib with the principles of fund management and also the trust of the muḍārib who has been given funds by the owner of the capital, the manager's obligation is to provide a ratio to Sāhibul Māl, with an agreement at the beginning. There are various types of Muḍārabah contract distributions, namely; Muḍ ārabah mukhayyadah is a special deposit and, in its implementation, usually takes the form of a special savings product for qurban, aqiqah, hajj umrah, marriage, etc., while Muḍārabah mutlaqah is an ordinary category of savings and time deposits. Meanwhile, pure deposit to the sharia cooperative from āhibul Māl is called wadī,ah if, this is a deposit that must be guarded and must be returned at any time when the custodian wants it to take it.(Sumiyanto, 2008) Meanwhile, musharakah is a transaction carried out by two or more people in the investment of funds to carry out certain business activities through distribution in accordance with sharia principles in the form if it is successfully divided together and if it suffers a loss it is also divided together. mandatory savings and principal savings.(Buchori, 2012)

Agreements or contracts that exist in the financing of funds or distribution of funds are divided into four types, namely cooperation (syirkah), buying and selling (albai'), virtue products and multi-service products. Buying and selling (al-bai,.) is financing or distribution of funds which is embodied in the form of buying and selling. Regarding this, there are three contract models, namely Isti nā, Murāba ah, and Salām, . And also buying and selling Murāba ah etmologically is Ribh which means profit, profit or addition in murabaha, the seller must express the cost (cost) and the transaction occurs after adding the agreed profit. Syirkah (cooperation) is a collaboration between sharia cooperatives and members in the form of Muḍārabah and Musyārah contracts. Also related to Multi-Service Products, such as contracts, namely Ijārah and Ijārah Muntahiyah bi al-Tamlīk (IMBT). Namely leasing which ends with the sale and purchase of objects, the ownership of the transaction object can be through buying and selling or it can also be through a grant or free. While related to Virtue Products, which are the provision of bills or funds equivalent to that based on an agreement or agreement between the lender and the

borrower which requires the borrower to pay off his debt within a certain time. Without any conditions that were agreed upon at the beginning, while the difference is that the source of funds is al-Qar alḥ asan and al-Qar is kalua al-Qar alḥ asan the source of funds is from ZIS while al-Qar comes from cooperative capital and profits.(Buchori, 2012)

Implementation in the supervision of Islamic financial institutions or in sharia business activities is carried out by the Sharia Supervisory Board. This Sharia Supervisory Board is a party related to or affiliated with a sharia financial institution and is part of the sharia financial institution that supervises compliance with sharia principles. So that in practice every Islamic financial institution in the form of cooperatives or banks that use sharia labels must have a Sharia Supervisory Board. In accordance with the DSN MUI fatwa. The Sharia Supervisory Board must provide the results of the sharia supervision report in one budget period at least twice to the Board of Directors in the institution as well as to the MUI DSN.(Muhammad, 2011)

Meanwhile, to measure how far the compliance of Sharia Principles is implemented or complied with by KJKS/UJKS/KSPPS in sharia financial institutions, especially basic cooperatives or under the Ministerial Regulation of KUMKM Number 35.3Per/M.KUMKM/X/2007. So that using sharia principles or whether or not this sharia cooperative is compliant is determined by the criteria for which there are criteria, including; First, the agreement or contract must be carried out in accordance with sharia methods, this can be proven by records of assessments that have been carried out by the Sharia Supervisory Board. Second, the placement or deposit of funds from cooperative institutions is placed in Islamic banking, this must also be shown by reports on the use of existing funds. Third, the composition and financing of equity participation must be sourced from Islamic financial institutions, as evidenced by a report on the origin of the funds. Fourth, the existence of the Sharia Supervisory Board, shown by the evidence of the decision letter on the appointment of the Sharia Supervisory Board. Fifth, group meetings are held periodically which are attended by the Manager, employees, management, supervisors, Sharia Supervisory Board, members and founders, as evidenced by the minutes, agenda and attendance list of the meeting.

Sixth, within one year the Sharia Supervisory Board must hold a meeting to discuss the accuracy of the distribution or financing pattern that has been carried out by financial institutions. Then as evidence of the implementation of monitoring activities from the board concerned together with the management and directors of sharia institutions, there is a DPS meeting agenda, minutes and attendance lists. Seventh, in the settlement of non-performing financing using a sharia approach, namely by confirming the muḍārib who is experiencing problems. Eighth, the frequency of increasing deposit of funds originating from infaq and shodaqoh (ZIS) comes from members. Ninth, there is an increase in the understanding of members from time to time about the advantages of the sharia system. This is indicated by the increasing participation of managers (muḍ ārib) in the KSPPS/KJKS of sharia cooperatives, and tenth, the management of the duties, authorities, and responsibilities of the Sharia Supervisory Board.

The duties and authorities of the DPS are as follows. (1), conduct a study on new services and products for which there is no fatwa so that sharia cooperatives have attended Islamic financial institution management education, which must be proven through certificates. (2), Conducting an assessment of sharia aspects against operational standards or operational guidelines, as well as on products that have been issued. (3), Provide opinions and descriptions of the sharia aspect on the overall implementation of the report publication. (4) Guarantee and provide certainty and supervise the conformity of sharia cooperative operational activities to the fatwa issued by the MUI DSN so far.(Muhammad, 2011)

4. KSPPS Profile in Pekalongan City

Institutional Profile

Islamic microfinance institutions (KSPPS) in Pekalongan City have close links in ideological and sociological aspects. Ideologically, KSPPS was born from the reality of a religious organization. This KSPPS usually forms the characteristics of financial institutions such as SMNU KSPPS, BTM KSPPS and the like. This type of financial institution's management structure is dominated by specific religious figures who come

from the organization of the religious period. This is what strengthens how the institution must operate in accordance with its religious provisions.

As for the sociological aspect, the established KSPPS sees the reality of a social, state and community environment phenomenon. KSPPS was born because they felt they wanted to play an active role in helping, helping community members to be free from moneylenders, usury and the like. Based on this reality, they formed financial institutions such as KSPPS BMT, Kospin Syariah and the like. Financial institutions like this are not dominant in their management structure by specific religious figures, but some come from government bureaucrats and other general public figures.

Seeing the above reality, Islamic financial institutions that are created by carrying the characteristics of these two things will work in accordance with religious mandates. They will of course implement all the processes of their activities in accordance with the principles and norms of the Islamic religion. In another reality, they will interact muamalah with individual MSMEs and MSMEs in the Muslim community. Therefore, from every corner in Pekalongan City including the market, there are a number of KSPPS around it, both KSPPS BMT and KSPPS Kospin.

KSPPS Sharia Compliance in Pekalongan City

Based on the compliance of sharia principles which are assessed from their behavior in KSPPS or KSPPS in Pekalongan City, it refers to attachment 3 of the Regulation of the State Minister of Cooperatives and Small and Medium Enterprises Number. 35.3/Per/M.KUKM/X/2007 dated October 8, 2007 concerning Guidelines for the Implementation of Health Assessment of Sharia Financial Services Cooperatives and Sharia Financial Services Units of Cooperatives, the contents of which are as follows: Criteria for health assessment of KJKS BMT include: a). The contract is carried out according to sharia procedures, the assessment of the contract carried out at KJKS-BMT must be in accordance with sharia. This also does not escape the supervision of the Sharia Supervisory Board. Then from some field data obtained, all KSPPS in Pekalonga City already have DPS, b). To find out whether the contract implemented at KJKS-BMT is in accordance with sharia procedures, it needs to be proven by records of the results of the

assessment from the Sharia Supervisory Board, data obtained from all field results of all KSPPS related to sharia products are known and to the knowledge of DPS, including the results of the contracts.

While related to c). Placement of funds in Islamic banks and the composition of equity participation and financing comes from Islamic financial institutions, this is evidenced by reports on sources of funds. Not all KSPPS in Pekalongan City place their money in LKS, this is done due to better facilities, technology, and services, as evidenced by some KSPPS depositing their money at BCA, whose notes are conventional banks. Even though the order is that every KJKS-BMT always cooperates with Islamic banks for the placement of funds. Each KJKS-BMT may not place their funds in other than Islamic banks, because this will affect the halalness of the flowing funds. To prove the placement of funds in a sharia bank, the KJKS-BMT must be able to show a report on the use of funds circulating in it.

Then related to the appointment of DPS that KSPPS must have or d). The existence of the Sharia Supervisory Board, as evidenced by the Decree on the Appointment of the Sharia Supervisory Board. All KSPPS in Pekalongan City do it while with e). Group meetings attended by management, supervisors, Sharia Supervisory Board, Managers, Founding Employees and members which are held regularly, as evidenced by the attendance list and agenda for group meetings, not all KSPPS meet regularly;

"Studies or discussions on sharia, for example the results of the DSN-MUI fatwa on new sharia products, or new problems that arise in the community, which should be reviewed regularly for the Sharia Supervisory Board, have not been carried out so far" (HP. Personal Interview, 20 October 2021)

Related to management, f). The management of KJKS/UJKS Cooperatives has a certificate of Islamic financial institution management education issued by a competent party as evidenced by a certificate, from the field data obtained not all Managers including DPS have a certificate from a competent party, this also greatly affects the performance of the institution as well.

Then by how many do the meeting, g). The frequency of the meeting of the Sharia Supervisory Board to discuss the accuracy of the financing pattern carried out by the

manager in 1 year, as evidenced by the attendance list and the agenda of the Sharia Supervisory Board meeting, is still not carried out regularly, constrained by busyness and other problems.

In overcoming h). Non-performing financing uses a confirmed sharia approach with problematic mudharib and increasing ZIS deposits from members, as evidenced by reports of receipt of ZIS deposits from members. It is running well, while the problem is i). Increased member understanding of the advantages of the sharia system from time to time, this is evidenced by reports of increased mudharib participation in cooperative KJKS/UJKS, from all KSPPS in Pekalongan always provide information and socialization on every activity such as family gatherings, annual member meetings (RAT).) etc. This is done continuously.

5. KSPPS Sharia Non-compliance Pattern and its causal factors in Pekalongan City

Analysis of Perspective Educational Patterns

Educational This perspective shows that a person has a perspective according to his education. This perspective is an important thing in human life. Humans develop and grow through the educational process, both formal, informal and non-formal. Education is always carried out regardless of the status of humans in this world.

Education always occurs in human life, whether poor or rich, good or bad, disabled or not disabled, kings or ordinary people, and others and humans of any religion, including atheist humans, always undergo education. Therefore, Atmaja's idea (Septoyadi et al., 2021) is right which states that humans are educational creatures (*homo educatum*).

An educational perspective can be a useful guide for our teaching in psychiatry. However, formal training on teaching in psychiatry rarely and rarely includes the study of educational perspectives or the theory underlying teaching. Using a modified case-based format, the authors present three different criticisms of the teaching of a hypothetical faculty member from a behavioral learning perspective. Feedback from faculty with cognitive perspectives, social learning, and interpersonal inspiration is

provided. The value and application of understanding the educational perspective in teaching is discussed

In addition to these opinions, it is also important to know how Islamic and Western science according to Kuntowijoyo (Inayati & Pratama, 2022) states that: First, Muslims need a system of science (science) to meet the needs of both material and spiritual needs. Meanwhile, the modern science system contains Western values that are not in accordance with Islamic values. Second, sociologically, Muslims who live in geographical areas and have a different culture from the West clearly need a different scientific system. Third, Muslims have never has an Islamic civilization where science develops in accordance with the values and needs of Muslims. Now Muslims are living earnestly to recreate the science of Islamic civilization which is Islamic as well.

The financing process carried out can also be analyzed using Shari'a Compliance dimensions such as no usury, gharar, maysir, carrying out customer mandates, contracts according to sharia principles, sharia accounting standards, working environment according to sharia, and there are parties who supervise each operation. The following are the results of the Sharia Compliance survey based on the socialization stage, the distribution process stage and the completion of financing from a total of 8 KSPPS in Pekalongan City.

From several interviews regarding aspects of the pattern of educational perspectives, there are some obtained from the results excavated in the field, such as by adding knowledge either through discussion activities, studies and scientific meetings about sharia products, this is still a lot of people who do not do it;

"Studies or discussions on sharia, for example the results of the DSN-MUI fatwa on new sharia products, or new problems that arise in the community, which should be reviewed regularly for the Sharia Supervisory Board, have not been carried out so far" (HP. Personal Interview, 20 October 2021)

Also in terms of mentoring and reporting, in mudharabah contracts, many customers just take it easy, don't want to be bothered or have trouble with their bookkeeping reports, so sometimes the determination is almost similar to the

conventional concept which does not take pictures of the ups and downs of customers' incomes;

"Members who use mudharabah financing products, there are still many who are not honest in accordance with their income, what happens if they (mudharib) experience a lot of profits they do not dare to be honest, on the grounds that they have not been able to make financial reports in good accounting, while if they (mudharib) suffer losses which they report immediately, and have not been able to provide detailed financial reports". (HP. Personal Interview, 20 October 2021)

In addition to having education for both members, managers, administrators and so on related to sharia compliance, there must be understanding, compliance and professionalism as supervisors as well as DPS, especially for DPS, each member of DPS in order to carry out their roles and functions must have the control and understanding of sharia. , then DPS must have attended DPS training as evidenced by the existence of a DPS certificate, but the facts on the ground do not yet have a DPS certificate;

"Pekalongan City, through the trade and cooperative offices, often certifies DPS for LKS, especially BTM/BMT in Pekalongan City, which is funded from special allocation funds (DAK) in 2019, this has the hope that DPS-DPS in Pekalongan City will be certified , the aim is to minimize the occurrence of sharia non-compliance" (Nugroho Hepi Kuncoro, S.E, Head of Cooperatives and SMEs of Pekalongan City, Personal interview, 29 September 2021).

However, of all DPS in Pekalongan City, they also have not been able to take certification education as DPS, meaning that some KSPPS do not yet have a certified DPS, even though the certificate does not guarantee that DPS is an expert and understands sharia products or concepts in LKS.

"Praise be to god, in our BMT all DPS have been certified, of the three DPS all have DPS certificates, but in other sharia cooperatives, there are still many DPS that do not have DPS certificates"

The things above are also obstacles and problems in the practice of carrying out sharia compliance, as well as managers who have a background from sharing graduates whose education is not sharia economic law, sharia banking, sharia economics, funds or who have an understanding of sharia, although this has not been done yet. certainly guarantees someone understands about muamalah or sharia.

Rational Pattern Perspective

Rationality becomes confusing when it can mean many things, such as impartiality, reasoning, logic, and purpose. And furthermore, the rational decisions made are sometimes not always as expected. This difference in rational understanding also occurs between fellow social scientists.(Arif & Amalia, 2010) Where rationality is a controversial topic and there is no clear, straightforward, and clear definition that can be generally accepted by all parties.

In modern economic theory literature, an economic actor is assumed to be rational based on the following criteria(Arif & Amalia, 2010) Everyone always knows what they want and want. Decisions are taken based on considerations of tradition, values and have clear reasons and arguments. Every decision taken by the individual must lead to the quantification of the final decision in monetary units. In the production model of capitalism, rationality means satisfaction that can be achieved by the principle of efficiency and the economic goal itself. The behavior of a rational individual in achieving satisfaction based on material self-interest will lead to the act of social goods that are useful for the benefit of the elect can be said to be rational. if the choice as a whole can be explained by the terms of the relationship consistent with the preferred choice with the definition of the appearance of the preferred choice. which can be quantified towards maximizing some ideas of the general welfare.

Rationality, Between Immanence and Transcendence

The thing that must be changed regarding the way the view responds to rationality is the emergence of a transformation towards transcendence which should be based on

humans as a whole, although the important weakness is that it is still normative it's just a matter of how the formulation is grounded in that perspective. (Asro & Kholid, 2011)

From Self Interest to Social Interest (Regigiun Alturistem)/ Social Consideration

Individual humans must prioritize life with self-interest, living here is not solely a particular life of me (a life that considers myself and is separated from other people). Rather, the life of this principle refers to the life of the universal I, I am natural, or in short anyone's account, or more precisely, the self in self-interest must be read as a transcendental-universal entity and not just me or him who particular. Self-interest is the principle of *conatus essendi*, which is contrary to Thomas Hobbes' *conatus essendi*, who tends to pursue his own interests even at the expense of the interests of others. (Sony, 1996)

Extended Time Horizon

In Islam. (1) time is not limited only to the present, but expands on the horizon (2) time is very important and very valuable, the value of time depends on how someone uses his time the more productive someone uses it, the more value he gets, for each person a day is 24 hours, but the value of the time will vary of course, of course this can be measured, one of which is monetary where everyone will always be oriented to it. (Karim, 2015) This is as the response to the question as follows:

The financing process carried out can also be analyzed using Shari'a Compliance dimensions such as no usury, *gharar*, *maysir*, carrying out customer mandates, contracts according to sharia principles, sharia accounting standards, working environment according to sharia, and there are parties who supervise each operation. The following are the results of the Sharia Compliance survey based on the socialization stage, the distribution process stage and the financing settlement of a total of 8 KSPPS in Pekalongan City.

Meanwhile, from the findings in the field related to extracting this data, the implications of rationality in sharia compliance can be proven by the reasons for members or customers who choose sharia contracts or products in LKS or sharia cooperatives, the

basic reason for choosing LKS or sharia cooperatives because it is more profitable when compared to conventional financial institutions.

Not only by customers, but by KPPS in saving and investing in capital instead of LKS or Islamic banks but instead at BCA, this is done because of the facilities, technology, services and conveniences that BCA has provided to BMT/BTM so far. Also in the aspect of bookkeeping or reporting for managers, it turns out that there are still many managers in the use of computerization that still have difficulties in implementing modern sharia contracts, such as IMBT, MMQ, and others.

Perspective Emotional Pattern

The financing process carried out can also be analyzed using Shari'a Compliance dimensions such as no usury, gharar, maysir, carrying out customer mandates, contracts according to sharia principles, sharia accounting standards, working environment according to sharia, and there are parties who supervise each operation. The following are the results of the Sharia Compliance survey based on the socialization stage, the distribution process and financing settlement stages from a total of 8 KSPPS in Pekalongan City:

In addition to the above, in collecting this data, from the results of interviews conducted, most of the members or KSPPS are Muslim, they choose LKS because they are motivated by the form of worshipping Allah swt or want to become Muslim individuals who are kaffah, including in mu'alah, must use the principles which is shari'a in order to worship Allah SWT. This means that in doing economics or doing muamalah, one must also use sharia principles to avoid usury, maisyir, tadelis, and things that are prohibited by Islam.

Conclusion

The results of the above discussion about the pattern of sharia non-compliance in KSPPS or KSPPS in Pekalongan City are as follows: *First*, Sharia compliance discusses the entire process starting from socialization, distribution or implementation until the settlement is complete. The financing process that meets Shari'a can be explored from 20

(twenty) instruments through perception interviews and questionnaires, so the financing activities at KSPPS in Pekalongan City when referring to attachment 3 of the Regulation of the Minister of State for Cooperatives and Small and Medium Enterprises Number. 35.3/Per/M.KUKM/X/2007 dated October 8, 2007 concerning Guidelines for the Implementation of Health Assessment of Sharia Financial Services Cooperatives and Cooperative Sharia Financial Services Units, in general, have implemented compliance in accordance with sharia principles, although in some aspects it has not been fulfilled.

Second; The pattern of sharia non-compliance from a number of instruments in financing at KSPPS or KSPPS there are several patterns that can be drawn a common thread, namely there are three patterns of sharia non-compliance which are indicated to be not in accordance with sharia provisions, there are three patterns of influence, namely the first perspective: educational perspective (1) DPS on There are still many KSPPS in Pekalongan City that do not have a DPS certificate from a competent institution, (2). Customers or members who do not understand and understand clearly related to contracts in sharia financing, so that customer perceptions equate Islamic financing with conventional loans, (3). Managers who do not have an understanding of sharia (muamalah). Second; rational perspective, (1). Conventional banking facilities and technology are more sophisticated when compared to Islamic banks, (2). The non-applicability of reporting systems and profit sharing in accordance with Islamic principles and Islamic accounting, because they are considered too complicated and difficult for customers. Third: the emotional perspective of Muslims who make choices in KSPPS for religious reasons is still small compared to rationality reasons, so they choose conventional banks.

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