



The Effectiveness of Sharia Supervisory Board in Islamic Microfinance Institutions in East Lampung Regency: Between Formal and Substantive Compliance

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ABSTRACT

Abstract: Islamic Microfinance Institutions (LKMS) play a strategic role in empowering the economy of Muslim communities, particularly through the implementation of Sharia principles under the supervision of the Sharia Supervisory Board (DPS). However, the effectiveness of DPS in ensuring Sharia compliance within LKMS still faces various challenges, including regulatory, competency, and infrastructural aspects. This study aims to analyze the effectiveness of the DPS role in two LKMS in East Lampung Regency, namely Baitul Mal wat Tamwil (BMT) Assyafi'iyah Berkah Nasional and Baitul Mal wat Tamwil (BMT) Al-Fath Berkah Bersama. The research adopts a descriptive qualitative approach through case studies and in-depth interviews. The analysis applies Soerjono Soekanto's theory of legal effectiveness, which comprises five factors: legal substance, law enforcement, facilities and infrastructure, community, and legal culture. The findings reveal that both institutions have met formal compliance with regulations, such as periodic supervision and routine reporting to the National Sharia Council (DSN-MUD), yet have not fully achieved substantive effectiveness. The main constraints include the limited number of DPS members compared to the operational scope, the absence of standardized supervisory mechanisms, minimal utilization of online monitoring technology, low levels of Sharia education among members, and a compliance culture that remains largely administrative. This study recommends reconstructing the role of DPS through competency enhancement and certification, strengthening institutional capacity, utilizing real-time reporting technology, and internalizing Sharia values into organizational culture. The findings are expected to serve as a reference for policymakers and practitioners in strengthening Sharia governance in LKMS.

Abstrak: Lembaga Keuangan Mikro Syariah (LKMS) memiliki peran strategis dalam pemberdayaan ekonomi masyarakat Muslim, khususnya melalui penerapan prinsip-prinsip syariah di bawah pengawasan Dewan Pengawas Syariah (DPS). Namun, efektivitas DPS dalam memastikan kepatuhan syariah di lingkungan LKMS masih menghadapi berbagai tantangan, termasuk aspek regulasi, kompetensi, serta sarana dan prasarana. Penelitian ini bertujuan untuk menganalisis efektivitas peran DPS pada dua LKMS di Kabupaten Lampung Timur, yaitu Baitul Mal wat Tamwil (BMT) Assyafi'iyah Berkah Nasional dan Baitul Mal wat Tamwil (BMT) Al-Fath Berkah

Bersama. Penelitian ini menggunakan pendekatan kualitatif deskriptif melalui studi kasus dan wawancara mendalam. Analisis menggunakan teori efektivitas hukum Soerjono Soekanto yang mencakup lima faktor, yaitu substansi hukum, penegak hukum, sarana dan prasarana, masyarakat, serta kebudayaan hukum. Hasil penelitian menunjukkan bahwa kedua lembaga telah memenuhi kepatuhan secara formal terhadap regulasi, seperti pelaksanaan pengawasan secara berkala dan pelaporan rutin kepada Dewan Syariah Nasional-Majelis Ulama Indonesia (DSN-MUI), tetapi belum sepenuhnya mencapai efektivitas secara substantif. Kendala utama meliputi keterbatasan jumlah anggota DPS dibandingkan dengan cakupan operasional lembaga, belum adanya mekanisme pengawasan yang terstandar, minimnya pemanfaatan teknologi pemantauan secara daring, rendahnya tingkat edukasi syariah di kalangan anggota, serta budaya kepatuhan yang masih berorientasi pada aspek administratif. Penelitian ini merekomendasikan rekonstruksi peran DPS melalui peningkatan kompetensi dan sertifikasi, penguatan kapasitas kelembagaan, pemanfaatan teknologi pelaporan secara real-time, serta internalisasi nilai-nilai syariah ke dalam budaya organisasi. Temuan penelitian ini diharapkan dapat menjadi rujukan bagi pembuat kebijakan dan praktisi dalam memperkuat tata kelola syariah pada LKMS.



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A. INTRODUCTION

The rapid growth of Sharia cooperatives in Indonesia has coincided with the emergence of Islamic microfinance institutions such as *Baitul Mal wat Tamwil* (BMT), pioneered by BMT Bina Insan Kamil in 1992. As community-based financial institutions, BMTs play an important role in economic empowerment through collective membership principles. Legally, Sharia cooperatives operate under Law No. 25 of 1992 on Cooperatives and are guided by Sharia principles, with their main distinction from conventional cooperatives being the prohibition of interest (*riba*) and the emphasis on halal values, justice, and ethical conduct.

According to data from Statistics Indonesia (BPS), there were 130,354 active cooperatives in 2022, marking a 1.96% increase from the previous year's total of 127,846. In the same year, the total business volume of cooperatives reached Rp197.88 trillion (Rizaty, 2023). However, on the other hand, the number of people living in poverty remains high, reaching 26.36 million, or 7.53% of Indonesia's total population (*Persentase Penduduk Miskin September 2022 Naik Menjadi 9,57 Persen*, 2023). In this context, Sharia Financial Service

Cooperatives (KJKS) and Sharia Financial Service Units (UJKS) are expected to serve as instruments for empowering the Muslim community's economy, particularly the lower-middle class, while bridging economic disparities based on Sharia principles.

According to the National Sharia Council–Indonesian Ulema Council (DSN-MUI), a Sharia cooperative is a cooperative established, managed, and operated in accordance with Sharia principles (DSN-MUI No. 141/DSN-MUI/VII/2021 Tentang Pedoman Pendirian Dan Operasional Koperasi Syariah, 2021). The operations of Sharia cooperatives must adhere to Sharia principles under the supervision of the Sharia Supervisory Board (DPS), which operates under the coordination of the National Sharia Council (DSN-MUI), the authoritative body responsible for issuing fatwas and legal guidelines for the financial sector (Peraturan Menteri Koperasi Dan Usaha Kecil Dan Menengah Republik Indonesia, 2015).

Nevertheless, the implementation of supervisory functions by the Sharia Supervisory Board (DPS) still faces significant challenges. Research by Astuti (2021) indicates that there are no standardized reporting and supervisory guidelines among DPS across various Islamic microfinance institutions (LKMS). This has led to inconsistencies in supervisory practices and has made it difficult to evaluate institutional effectiveness. In addition, the absence of performance standardization has also affected the accountability of supervision regarding compliance with DSN fatwas (Astuti, 2015).

Furthermore, research by Hikmah and Oktaviana (2021) in East Java shows that most members of the Sharia Supervisory Board (DPS) do not hold formal certification and face time constraints in carrying out their supervisory duties. This has weakened the implementation of Sharia principles in the operations of Islamic microfinance institutions (LKMS), particularly because DPS members often hold multiple positions or have other commitments that limit the frequency and intensity of supervisory visits (Hikmah & Oktaviana, 2019).

This condition is also evident in East Lampung Regency. According to data from the local Office of Cooperatives, Micro Enterprises, and Manpower dated May 16, 2019, out of 599 registered Islamic microfinance institutions (LKMS),

201 had their licenses revoked due to failure to hold Annual Member Meetings and issues in financial governance. Among the 398 LKMS that remained licensed, only 70 were still actively operating, indicating serious problems in management and Sharia supervision (463 Koperasi Di Lampung Timur Dipastikan Mati Suri, 2019).

Based on this background, it is essential to conduct research on the effectiveness of the Sharia Supervisory Board (DPS) in overseeing the implementation of Sharia contracts in Islamic microfinance institutions (LKMS). The performance of DPS should be assessed not only from a technical perspective but also in terms of their influence and achievements in ensuring institutional compliance with Sharia principles. This study is expected to contribute to strengthening Sharia governance and serve as a reference for evaluating and formulating future policies for the development of LKMS.

B. RESEARCH METHODS

The method employed in this study is a descriptive qualitative approach (Miles et al., 2014). It highlights that qualitative data provide a rich and robust source of description and explanation regarding human processes. The qualitative method is a research approach that seeks to portray objects as they are in the field through observation. Meanwhile, the approach employed in this study is a normative-empirical legal research approach, which enables an in-depth exploration of individuals' experiences, perceptions, and interpretations concerning legal pluralism and legal consciousness (A. Muhammad, 2004). This approach was chosen to explore in depth the supervisory practices of the Sharia Supervisory Board (DPS) in Islamic Microfinance Institutions (LKMS) and to assess their effectiveness both formally and substantively. The normative-empirical approach combines normative analysis of the regulations and fatwas governing DPS with empirical investigation through field observations and in-depth interviews, thereby providing a comprehensive picture of Sharia supervisory implementation

Participants

The research participants consist of internal stakeholders from two Islamic Microfinance Institutions (LKMS) selected as case study sites, namely BMT Assyafi'iyah Berkah Nasional and BMT Al-Fath Berkah Bersama in East Lampung Regency. Key informants include members of the Sharia Supervisory Board (DPS) certified by the National Sharia Council–Indonesian Ulema Council (DSN-MUI), LKMS operational managers, and other relevant parties directly involved in the implementation of Sharia supervision. Informants were selected purposively based on their direct involvement and competence in the institution's supervisory functions.

Data Collection

The data collection technique consisted of three stages. First, in-depth interviews were conducted to obtain detailed information regarding supervisory practices, institutional challenges, and perceptions of DPS effectiveness. Second, direct observation was carried out to examine firsthand the supervisory mechanisms, reporting patterns, and interactions between DPS and institutional management. Third, document analysis was performed by reviewing DPS supervisory reports, LKMS operational documents, and relevant regulatory provisions such as DSN-MUI fatwas, Financial Services Authority (OJK) regulations, and the Microfinance Institutions Law.

Data Analysis

All data were analyzed thematically to identify patterns, key issues, and critical factors influencing the effectiveness of the DPS role. In this data analysis technique, the process can be categorized into three stages: data reduction, data presentation, and data verification. The analysis is also linked to Soerjono Soekanto's theory of legal effectiveness, which emphasizes five factors: the substance of the law, law enforcement authorities, infrastructure and facilities, society, and legal culture. This approach enables the study to provide a comprehensive understanding of how the DPS performs its supervisory functions, the extent to which Sharia compliance is achieved, and the challenges that must be addressed to strengthen Sharia governance in LKMS.

C. RESULTS AND DISCUSSION

1. The Role of the Sharia Supervisory Board in Sharia Microfinance Institutions

The research findings indicate that the role of the Sharia Supervisory Board (DPS) in Islamic Microfinance Institutions (LKMS) in East Lampung Regency—specifically at KSPPS BMT Assyafi'iyah Berkah Nasional and BMT Al-Fath Berkah Bersama—has been carried out in accordance with the regulatory framework set forth in DSN-MUI Decree No. Kep-98/MUI/III/2001 and other technical regulations. However, the effectiveness of the supervision remains partial and tends to focus more on formal compliance rather than substantive adherence to Sharia principles.

BMT Assyafi'iyah Berkah Nasional was established in 1995 and has grown into a Sharia Savings and Loan Cooperative (KSPPS) with an extensive branch network. The products offered include savings (wadi'ah and mudharabah) as well as financing (mudharabah, musyarakah, murabahah, ijarah, and ju'alah). One of its largest branches is located in Purbolinggo, with approximately 7,000 members. Supervision is carried out by three members of the Sharia Supervisory Board (DPS) elected through the General Meeting of Members (RUPS). However, its effectiveness is hindered by the wide distribution of branches and the concurrent positions held by some DPS members in other institutions. Although supervisory reports are routinely submitted to the National Sharia Board (DSN) every six months, there has been no specific discussion on new products requiring further study and DSN fatwa approval (Makruf, 2023a).

BMT Al-Fath Berkah Bersama was established in 2001 in the Pekalongan subdistrict, operating on a smaller scale without any branch offices. Its DPS structure consists of two members, also appointed through the General Meeting of Members (RUPS). This arrangement facilitates detailed supervision; however, the DPS's role in proposing institutional development strategies has not yet been fully realized. Supervision reports are submitted to the DSN twice a year, following the same pattern as BMT Assyafi'iyah, meaning that no evaluations of new products have been conducted (Makruf, 2023c).

According to the author's observations, BMT Assyafi'iyah has two Sharia Supervisory Board (DPS) members who represent the National Sharia Council of the Indonesian Ulema Council (DSN-MUI) to carry out sharia supervision, appointed based on the results of the general meeting of directors and shareholders. Both DPS members are believed to hold sharia supervisory certification, possess strong expertise, embody the qualities of Islamic scholars and sharia economic experts, and demonstrate a high spirit of dedication. However, all of these attributes must be manifested through concrete actions and tangible contributions; without clear evidence, such qualities risk remaining mere ideals.

On the predetermined schedule, at least once every three months, the Sharia Supervisory Board (DPS) conducts supervision of BMT Assyafi'iyah's operations and evaluates its operational activities and products. This enables the DPS to determine whether BMT Assyafi'iyah's operations comply with the fatwas issued by the National Sharia Council (DSN). The DPS also provides opinions based on sharia principles regarding the products and activities carried out by BMT, which are comprehensively documented in BMT's published reports. Furthermore, the DPS analyzes any newly developed products and services that do not yet have corresponding fatwas so that DSN can issue them, and submits sharia monitoring reports to DSN at least twice a year (Makruf, 2023d).

Based on the author's observations, BMT Al-Fath Berkah Bersama has two members of the Sharia Supervisory Board (DPS) who are certified by the National Sharia Council (DSN-MUI) and are well-qualified in both knowledge and experience in sharia principles. Meanwhile, the statement from the Sharia Supervisory Board at BMT Al-Fath Berkah is as follows:

The Sharia Supervisory Board (DPS) of BMT Al-Fath Berkah Bersama conducts Sharia supervision and analysis at least every six months, although supervision is usually carried out monthly to ensure that contracts (akad) and activities comply with Sharia principles. The DPS then provides opinions based on Sharia principles regarding the products and activities of the BMT, which are comprehensively documented in the

BMT's published reports. They also analyze newly innovated products and services that do not yet have a fatwa so that a fatwa can be issued by the DSN. Finally, the DPS submits reports on the results of Sharia monitoring to the DSN at least twice a year (Makruf, 2023b).

The supervisory challenges in the two institutions have different characteristics. In BMT Assyafi'iyah, the main issue lies in the imbalance between the number of DPS members and the number of branches they oversee, which impacts the time, resources, and effectiveness of monitoring. In contrast, in BMT Al-Fath, supervision is easier to carry out due to its smaller operational scope, yet the institution has not demonstrated significant quantitative growth because of limited product innovation and insufficient strategic coordination with the DPS.

In general, both institutions have fulfilled the formal obligations of the DPS, such as conducting periodic supervision, submitting reports to the DSN at least twice a year, and ensuring that contracts comply with sharia principles. However, shortcomings are evident in terms of coordination, product innovation, the absence of standardized supervisory procedures, and inadequate internalization of follow-up measures into institutional development policies. Therefore, the role of the DPS in these two Islamic microfinance institutions can be categorized as formal compliance with regulations that has not yet fully translated into substantive effectiveness in sharia supervision.

2. Effectiveness of the Role of the Sharia Supervisory Board in Islamic Microfinance Institutions

The theory of legal effectiveness proposed by Soerjono Soekanto views the functioning of law in society as being largely determined by the extent to which legal norms can be implemented and obeyed by the legal subjects to whom they are directed. This effectiveness is influenced by five key factors: the substance of the law, law enforcement officers, facilities and infrastructure, society, and legal culture. These five factors are inseparable, as weaknesses in any one of them may diminish the substantive enforceability of the law.

In the context of Islamic Microfinance Institutions (LKMS), the effectiveness of law is closely linked to the application of Sharia principles through the role of the Sharia Supervisory Board (DPS), as normatively

regulated by DSN-MUI Decree No. Kep-98/MUI/III/2001, Bank Indonesia regulations, and technical regulations issued by the Ministry of Cooperatives and SMEs. The DPS is mandated to ensure that all activities, products, and services of the institution comply with DSN-MUI fatwas. Normatively, the legal substance governing the DPS's role is clear. The DSN-MUI Decree and related provisions require the DPS to conduct periodic supervision, provide recommendations for institutional development, report product and operational developments to the DSN at least twice a year, and formulate issues requiring Sharia deliberation.

However, the research findings reveal that there is no standardized mechanism for supervision across all LKMS. As a result, the methods, intensity, and depth of supervision vary between institutions. At BMT Assyafi'iyah, supervision is more focused on reporting aspects, whereas at BMT Al-Fath Berkah Bersama, which operates on a smaller scale, supervision can be more intensive but lacks emphasis on product innovation.

There are various issues faced by BMT, including insufficient understanding of Islamic economics among managers, the Sharia Supervisory Board (DPS), and members; limited capital; low public participation; regulatory and institutional challenges concerning BMT's existence; weak entrepreneurial skills among members; lack of a sense of ownership toward the BMT; as well as suboptimal implementation techniques and management (Anwar et al., 2023). Overlapping and conflicting values within cooperatives operating under extreme organizational conditions present significant governance challenges. Fraud incidents have been shown to disrupt value alignment and undermine institutional trust. These findings indicate the need to harmonize values at the micro level (individual and organizational) with those at the macro level (societal and regulatory) to minimize the potential for fraud (Rahajeng, 2022).

The root problems of Baitul Maal wat Tamwil (BMT) are not merely technical but also stem from value disharmony at various levels. It is necessary to align values at the micro level (individual and organizational) with those at the macro level (societal and regulatory) to preserve institutional integrity, minimize the potential for fraud, and enhance public trust in BMTs. Therefore,

strategic solutions that integrate human resource capacity building, governance reform, and regulatory harmonization are key to ensuring the sustainability of BMTs.

A new scheme is needed to ensure BMT operations remain aligned with Islamic economic law. This includes incorporating administrative fees into unit costs, applying *sadd adz-dzari'ah* to prevent improper contract combinations, executing *murabahah* only after *wakalah* is completed or ownership is transferred to BMT, and replacing flexible *mudharabah* savings with fixed-term hajj or umrah savings (Rizal et al., 2025). There is a need for stronger integration between Islamic sharia principles and Islamic banking practices in Indonesia, along with reforms to ensure that legal rulings deliver proportional justice and maximize social benefits in line with the ethical and utilitarian objectives of the law (Solehudin et al., 2024). Institutional and regulatory reforms are required to ensure that BMT goes beyond formal Sharia compliance by realizing proportional justice and maximizing social benefits, thereby strengthening its role as an ethical, transparent, and socially responsive Islamic financial institution.

The Sharia Supervisory Board (DPS) functions as the “Sharia law enforcer” at the institutional level. The effectiveness of Sharia governance largely depends on the competence, integrity, and number of DPS personnel. At BMT Assyafi'iyah, the number of DPS members is disproportionate to the number of branches spread across various regions, resulting in uneven supervision. Additionally, multiple positions held by DPS members reduce their focus and oversight intensity. At BMT Al-Fath Berkah Bersama, although supervision is easier due to the absence of branches, the DPS performance remains limited to routine inspections without driving more progressive institutional development strategies.

To strengthen governance and compliance in Islamic banking, targeted qualifications, professional certifications, and specialized training for Sharia Supervisory Board (SSB) members and Sharia auditors are necessary, alongside increasing audit staff and conducting on-site Sharia audits when required (Khreis et al., 2025). The influence of dual-board governance on the performance of Islamic Banks (IB) in Indonesia and Malaysia, analyzed through multiple

regression methods, shows that the Board of Directors has a significant positive impact on improving IB performance. As a supervisory body, the Board of Directors ensures that corporate governance is properly implemented, thereby reducing agency cost risks and increasing company profitability. However, the role of the Board of Directors as the embodiment of corporate governance cannot optimally enhance company performance without being complemented by the role of the Sharia Supervisory Board (SSB) in Islamic Banks. These institutions are not only required to generate profits but are also obligated to comply with Islamic legal principles to provide added value for stakeholders (Hijriah et al., 2021).

The Sharia Supervisory Board (SSB) must have a strong understanding of the contextualization of *fiqh mu'āmalāt*, particularly in responding to modern economic realities. At Sidogiri Islamic Boarding School, this is achieved by integrating classical *kitab kuning* with contemporary mu'āmalāt practices through *Bahtsul Masail*, whose outcomes serve as practical guidelines for contracts in Kopontren, Basmalah Stores, and BMT business units (Mustofa et al., 2024).

Strengthening the legal framework of BMT requires legal certainty that ensures recognition, protection, and support for its role, particularly for micro and small enterprises (Prasada et al., 2020). This must be complemented by spiritual leadership grounded in three core values: *īmān*, *Islam*, and *ihsān*, which shape discipline, honesty, accountability, and ethical conduct through a work culture inspired by the Prophet's qualities of *ṣiddīq*, *amānah*, *tablīgh*, and *faṭānah* (H. Muhammad et al., 2019).

The sustainability of BMT requires the integration of three key dimensions: the professionalization of governance through competency enhancement and effective oversight, the contextualization of *fiqh al-mu'āmalāt* to bridge classical texts with modern economic realities, and the strengthening of spiritual leadership grounded in the values of *īmān* (faith), *Islam*, and *iḥsān* (ethical excellence). These three dimensions complement one another in building an institutional governance framework that is not only competitive and accountable but also aligned with Islamic ethical principles and oriented toward achieving the

maqāṣid al-sharī'ah. In doing so, BMT can function as a sustainable Islamic financial institution while remaining relevant to the needs of modern society.

The effectiveness of the law is also strongly influenced by the availability of supervisory infrastructure and facilities. DPS supervision still relies on physical visits, which face challenges related to distance and time, especially in institutions with extensive branch networks. The absence of digital monitoring systems or online supervisory dashboards makes the evaluation of Sharia compliance manual and periodic rather than real-time. This situation results in delays in detecting violations of Sharia principles.

Companies and policymakers should enhance their understanding of board composition to promote the implementation of sustainability-oriented reporting strategies (Wijayanti & Setiawan, 2023). The true potential of Islamic social finance remains significantly constrained by weak regulatory and policy environments (Uddin & Mohiuddin, 2020). Therefore, synergy between strengthening corporate governance and regulatory reform becomes key to establishing an economic system that is competitive, equitable, and aligned with the goals of sustainable development.

The societal factor in the theory of legal effectiveness relates to the level of understanding and awareness among the parties involved. In this study, cooperative members and operational managers of LKMS do not fully comprehend Sharia principles in depth. No systematic education or socialization programs were found from the DPS to the members, resulting in Sharia compliance that tends to be formal, following the rules due to administrative obligations rather than based on full understanding and awareness of Sharia values.

The most significant dimension for enhancing the effectiveness of Sharia auditors and DPS members in Islamic banks is knowledge of accounting and finance, which ranks highest with an average score of 4.29, a standard deviation of 0.43, and a very high assessment level. This study indicates that supervisory capacity over bank operations improves when DPS members and Sharia auditors possess strong understanding of non-conventional financial knowledge, thereby fostering greater trust among stakeholders and owners (Khreis et al., 2025).

Enhancing human resource competencies in internal auditing, particularly in understanding contracts (*aqd*) and practices in Islamic banking (R. Muhammad et al., 2025). Sharia governance factors significantly influence the financial performance of Islamic banks. Specifically, DPS independence, the competence of Sharia committee members, gender diversity, and the size of the Sharia committee positively affect bank performance. These findings contribute to the ongoing debate on corporate governance in Islamic banks and offer practical implications for policymakers and banking executives (Mkadmi & Benali, 2025).

The Sharia Supervisory Board (DPS) is an independent body composed of experts in *mu'āmalāt* Sharia who also possess knowledge in banking within Islamic financial institutions. It is tasked with overseeing the implementation of National Sharia Council (DSN) decisions within these institutions. The DPS plays a crucial and strategic role in ensuring the application of Sharia principles in Islamic banking. It is responsible for ensuring that all products and procedures of the Islamic bank comply with Sharia principles (Adinugroho et al., 2023). The size and independence of the Sharia Supervisory Board (DPS) influence the performance of Islamic banks, with board size having a positive impact on performance (Kismawadi, 2025). Effective performance by the Sharia Supervisory Board (DPS) naturally influences the development of products that comply with Islamic principles, which is the primary reason individuals choose to save at BMT, followed by service quality, recommendations from friends, and location factors (Wijaya et al., 2020).

The integration of individual competency enhancement, institutional governance, and Sharia compliance is key to the sustainability and competitiveness of BMT. The expertise of the Sharia Supervisory Board and Sharia auditors in accounting, finance, and contract understanding strengthens supervisory effectiveness and public trust. Good governance—through independence, diversity, and professionalism—has also been shown to improve financial performance. Meanwhile, Sharia compliance remains the primary factor in public confidence in Sharia-compliant products. The synergy of these three aspects ensures that Islamic banking remains credible, competitive, and sustainable.

Legal culture within Islamic Microfinance Institutions (LKMS) is a crucial factor. A strong legal culture encourages institutions not merely to comply with procedures but also to internalize Sharia values in every decision-making process. The study's findings indicate that in both BMTs, the compliance culture remains oriented toward fulfilling administrative obligations, such as semiannual reporting, without a clear feedback loop to translate supervisory findings into continuous improvement policies.

There are several issues within the supervisory bodies of Islamic banks that result in suboptimal oversight and potential legal risks for the banks. The independent and inefficient functioning of the DPS, the Sharia Compliance Directorate, and the OJK creates overlaps in the supervision of Islamic banks. It is recommended to amend the Republic of Indonesia Law No. 21 of 2008 on Islamic Banking by granting the DPS attributive authority to impose sanctions on Islamic banks found to violate Sharia compliance principles, as well as to establish OJK regulations regarding Islamic banking audit instruments (Yusmad et al., 2024).

The reconstruction of the Sharia Supervisory Board (DPS) encompasses four strategies: repositioning DPS as a strategic body for Sharia compliance and managerial support; optimizing its functions through competency development, expanded supervision, and effective coordination; strengthening its institutional structure and synergy with OJK and DSN-MUI; and refining the Islamic legal framework to align with developments in Islamic banking. Together, these strategies aim to enhance supervision, ensure stronger Sharia compliance, and build public trust (Mahipal & Wahyudin, 2024). With these measures, it is expected that supervisory effectiveness will improve, Sharia compliance will be better ensured, and public trust in Islamic banking will be strengthened.

Based on the five factors in the legal effectiveness theory, it can be concluded that the implementation of the DPS role at BMT Assyafi'iyah and BMT Al-Fath Berkah Bersama has met formal regulatory compliance; however, its legal effectiveness remains partial. The main obstacles include: the limited number of DPS members relative to the operational scale of the institutions, the absence of standardized national supervision and reporting procedures,

insufficient supporting facilities—particularly digital monitoring technology, minimal Sharia education for members and operational managers, and a Sharia compliance culture that remains administrative rather than substantive.

Weak supervision in Islamic banking stems from fragmented and inefficient oversight by the Sharia Supervisory Board (DPS), Compliance Directorate, and OJK, leading to overlapping roles and legal risks. To address this, supervisory reconstruction is needed through amendments to Law No. 21 of 2008 granting sanctioning authority to the DPS, supported by OJK regulations on Sharia audit instruments. This reform is reinforced by repositioning the DPS strategically, optimizing its functions through competency and coordination, strengthening institutional synergy with OJK and DSN-MUI, and updating the Islamic legal framework.

Similarly, improving legal effectiveness in supervising Sharia Microfinance Institutions (LKMS) requires adjusting DPS membership to operational needs, enhancing capacity through training and certification, developing integrated technology-based reporting systems, and embedding Sharia values into organizational culture, enabling the DPS to serve both as supervisors and guidance agents ensuring sustainable Sharia compliance.

D. CONCLUSIONS AND SUGGESTIONS

This study concludes that SSB supervision in Islamic Microfinance Institutions (IMFIs) remains largely formalistic, constrained by institutional limitations, weak compliance culture, and misalignment between Sharia principles, governance, and practical needs, posing legal risks and undermining public trust. To address these challenges, the study recommends strengthening SSB capacity through certification, training, and adequate staffing; implementing regulatory and institutional reforms with standardized supervision and stronger synergy among SSB, OJK, and DSN-MUI; utilizing technology for real-time monitoring; and reinforcing the internalization of Sharia values through contextualized *fiqh al-mu'āmalāt* and spiritual leadership to ensure sustainable and credible Sharia compliance.

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