

The Fluctuation in the Regulation of Islamic Cooperatives in Indonesia

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Abstract

Islamic cooperatives in Indonesia was first regulated by the Decree of the State Minister for Cooperatives and Small and Medium Enterprises of the Republic of Indonesia Number: 91/Kep/M.KUKM/IX/2004. This decree provided guidelines for implementing Sharia financial services cooperative business activities. Subsequently, the Minister of State for Cooperatives and Small and Medium Enterprises issued the Regulation concerning Standard Operational Guidelines for the Management of Islamic Financial Services Cooperatives and Cooperative Islamic Financial Services Unit Number: 35.2/PER/M.KUKM/X/2007. These regulations addressed the absence of specific provision regarding Islamic cooperatives in the Cooperative Law Number 25 of 1992. Islamic cooperatives were eventually regulated in the Law Number 17 of 2012 concerning Cooperatives. However, this law was later overturned by the Constitutional Court. The Government later introduced Regulation in Lieu of Law No. 02 of 2022 concerning Job Creation, following the order from the Constitutional Court Decision. This regulation was subsequently enacted as Law Number 6 of 2023 concerning the Stipulation of Government Regulations in lieu of Law Number 2 of 2022 concerning Job Creation. In this normative legal research, the focus was on the application of positive law principles or norms. Statutory approach, conceptual approach, and historical approach were employed to descriptively analyzed legal materials that were collected through a literature search. The frequent changes in regulations created legal uncertainty and hindered the development of Islamic cooperatives in Indonesia. The current regulations at the law and cooperative levels were expected to allow business entities to operate based on Islamic principles, thereby fostering the growth of cooperatives in Indonesia with the largest Muslim population.

Keywords: Management, Cooperatives, Islamic Cooperatives

INTRODUCTION

According to the 2019 data from the International Co-operative Alliance (ICA), cooperatives and cooperative groups globally generate a turnover of USD 2.1 trillion, while providing essential services and infrastructure for societal development. Approximately 12% of people worldwide are members of the 3 million cooperatives, as reported by the ICA. These cooperatives contribute to

sustainable economic growth and provide stable and high-quality employment opportunities, employing around 280 million individuals, which accounts for approximately 10% of the global working population. (Kementerian Koperasi dan Kecil dan Menengah, 2020) Historically, cooperatives have focused on collective efforts and the principles of mutual assistance. Over time, cooperatives have evolved into a global movement, driven by shared values that form the foundation of the movement. These core cooperative values are universal and intrinsic to any cooperative movement. (Kementerian Koperasi dan Kecil dan Menengah, 2020)

The development of national cooperatives in recent years has shown positive progress, contributing to the welfare of members, the community, and promoting equity in the national economy. This is evident in the increasing volume of cooperative business, with figures reaching IDR 67.50 trillion in 2016, witnessing a significant rise of 103% to IDR 137.26 trillion in 2017, followed by a 6.3% increase to IDR 145.86 trillion in 2018, and a further 5.7% increase to IDR 154.14 trillion in 2019. These statistics demonstrate the growing contribution of cooperatives to the economy. On a national level, the rise in business volume can be attributed to the influx of capital, reaching IDR 26.25 trillion in 2016, IDR 66.93 trillion in 2017, IDR 74.90 trillion in 2018, and IDR 70.92 trillion in 2019. External capital investments also played a significant role, amounting to IDR 28.23 trillion in 2016, IDR 61.76 trillion in 2017, IDR 66.22 trillion in 2018, and IDR 81.190 trillion in 2019. Nationally owned assets have also experienced growth, reaching IDR 54.48 trillion in 2016, IDR 128.70 trillion in 2017, IDR 141.13 trillion in 2018, and IDR 152.113 trillion in 2019. From a membership perspective, the number of active cooperative members has witnessed a substantial increase, averaging at 37.98% growth from 11,842,415 people in 2016 to 22,463,738 people in 2019 (Kementerian Koperasi dan Kecil dan Menengah, 2020).

Cooperatives in Indonesia possess distinct characteristics, while being rooted in the widely recognized "Rochdale Principles" that form the basis of cooperative movements worldwide. However, the interpretation, application, and response to these principles may vary across countries over time. Factors such as societal conditions and technological advancements have influenced the cooperative movement to varying degrees. The historical background and aspirations of the Indonesian nation, driven by the pursuit of a just and prosperous society based on Pancasila (the philosophical foundation of Indonesia) and the 1945 Constitution of the Republic

of Indonesia, have shaped the distinctive characteristics of Indonesian cooperatives. Although they share a fundamental similarity with cooperatives in other countries, they differentiate themselves in certain aspects. For the Indonesian nation, which endured a prolonged period of colonialism, cooperatives represent a means to address the hardships faced by the people. Article 33, paragraph (1) of the 1945 Constitution of the Republic of Indonesia states that the economy should be structured as a joint venture based on the principle of kinship. Consequently, cooperative entities align well with the concept of joint ventures rooted in kinship principles. Thus, the presence and role of cooperatives in Indonesia's national economy have a strong constitutional basis, as defined in Article 33 of the 1945 Constitution of the Republic of Indonesia.

The principle of kinship, as outlined in Article 33, paragraph (1) of the 1945 Constitution of the Republic of Indonesia, pertains to the concept of Cooperatives as defined in Law Number 25 of 1992 concerning cooperatives (UU 25/1992). According to this law, cooperatives are defined as "business entities formed by individuals or legal entities, operating based on cooperative principles and serving as a people's economic movement founded on the principle of kinship."

In economics, a cooperative is defined as an association that enables multiple individuals and/or legal entities to collaborate voluntarily in order to undertake collective efforts aimed at enhancing the well-being of its members (Sagimun, 1988).

The primary and immediate objective of cooperatives is to enhance the well-being of their members. In Indonesia, cooperatives also embrace broader and more honorable goals, which include fostering a just and prosperous society based on Pancasila (the state ideology) and the 1945 Constitution of the Republic of Indonesia. Article 3 of Law 25/1992 states that cooperatives strive to advance the welfare of their members and society as a whole, while actively contributing to the establishment of a national economic order that promotes progress, justice, and prosperity in line with Pancasila and the 1945 Constitution (Sagimun, 1988). Unlike conventional private businesses such as firms, partnerships, and companies, cooperatives are not solely driven by profit-seeking motives. While other businesses operate within a capitalist framework, where maximizing profit is their primary objective, cooperatives are fundamentally dedicated to improving the standard of living and advancing their members' well-being. Cooperatives are not profit-oriented economic enterprises; instead, they prioritize the betterment of their members' lives. Mohammad Hatta, known as the father of Indonesian cooperatives and the former vice president of Indonesia, once

remarked that "In cooperatives, members are the soul of the cooperative," underscoring the significance of the cooperative's members and their central role in its functioning and purpose (Swasono, 1983).

Indonesian cooperatives operating within the framework of Pancasila do not seek to engage in competition but rather prioritize collaboration with all individuals and parties (Sagimun, 1988).

Since its inception in 1895, cooperatives in Indonesia have encountered numerous challenges while also accomplishing notable achievements. These challenges encompass the evolving dynamics of economic development, transitions in government policies, changes in laws and regulations, and the presence of business competition. Despite these hurdles, one significant achievement of Indonesian cooperatives has been their contribution to achieving self-sufficiency in rice production. (Siregar, 2020)

In reality, cooperative businesses managed according to Sharia principles have witnessed growth and development within society. These cooperatives have played a crucial role in empowering the economy, particularly among small and micro businesses. Recognizing the significance of these endeavors, the government aims to foster a supportive environment and promote the expansion of business activities based on Sharia principles, particularly those operated through cooperatives. This approach seeks to provide tangible benefits and legal certainty to the community. The establishment of Sharia-compliant cooperatives is expected to enhance economic empowerment programs, particularly among micro, small, and medium enterprises, as well as cooperatives utilizing the Sharia system. Moreover, it aims to promote the adoption of Sharia principles within micro, small, and medium business activities, contributing to both the Indonesian economy and the overall development of a Sharia-based economic ecosystem. Sharia-compliant cooperatives are expected to increase community engagement and participation in Islamic Financial Services Cooperatives.

The relevance of Islamic ethics to cooperative principles is reflected within the following aspects (Darmawan & Haryanto, 2020).

1. Open membership
2. One member, one vote
3. Priority on service quality
4. Restriction on interest and capital

5. Distribution of profits in proportion to member contributions.

In alignment with Islamic ethics and cooperative principles, this aspect forms a strong foundation, particularly considering Indonesia with the largest Muslim population. This advantage positions cooperatives favorably when compared to other business entities.

At present, the establishment of Islamic cooperatives is governed by a range of laws and regulations, primarily through Ministerial Regulations and Ministerial Decrees. However, this normative framework gives rise to legal issues, specifically concerning the presence of legal uncertainty (*rechtsonzekerheid*) regarding the legal forms, establishment procedures, validation, promotion, and supervision of Sharia-compliant cooperatives (Sofiani, 2014).

The regulation of Islamic cooperatives in Indonesia was initially introduced in 2004 through a Ministerial Regulation, primarily concentrating on the realm of Islamic financial services cooperatives. However, these regulations have frequently undergone modifications, leading to uncertainty and hindered progress in the development of Islamic cooperatives. It is crucial for the government to allocate more attention to this sector, considering its significance.

This research focuses on two main objectives in light of the previously mentioned concerns. The first objective is to analyze the historical progression and transformations of Sharia cooperative law in Indonesia, tracing its development over time. The second objective is to investigate the present-day regulatory framework that governs the operations of Islamic cooperatives in Indonesia, examining the existing arrangements and guidelines that shape their functioning.

RESEARCH METHOD

This normative legal research focused on analyzing the application of positive law principles or norms (Ibrahim, 2005). The research approach involved conducting a literature research to examine relevant laws and regulations using both a statutory and conceptual approach. A historical approach was also utilized to enhance the analysis and offer solutions to the research problems. Legal materials were collected through a literature search and subsequently subjected to descriptive analysis.

RESULTS

In 2004, the Government of Indonesia, under the leadership of the Minister of Cooperatives and Small and Medium Enterprises, issued the initial regulations for Islamic cooperatives. This was accomplished through the issuance of the Decree of the Minister of Cooperatives and Small and Medium Enterprises of the Republic of Indonesia Number: 91/Kep/M.KUKM/IX/2004, which provided the Implementation Guidelines for Sharia Financial Services Cooperative Business Activities. Similar to the first cooperative in the world, which originated as a savings and loan cooperative, Islamic cooperatives in Indonesia have evolved from sharia financial service cooperatives known as KJKS. These cooperatives engage in financing, investment, and savings activities based on profit-sharing (shariah) principles.

The emergence of Islamic Financial Services Cooperatives as part of the Islamic economic movement in Indonesia was driven by the aim of addressing economic challenges and providing an alternative to conventional financial institutions operating under a capitalist economic system (Pusporini et al., 2023). As a cooperative institution, KJKS serves multiple purposes, functioning as a platform for economic empowerment, an educational tool, a means of promoting business efficiency, and fostering member independence. (Pusporini et al., 2023)

In order to enhance the role of KJKS, the Minister of Cooperatives and Small and Medium Enterprises issued a regulation during that time, known as the Regulation of the State Minister for Cooperatives and Small and Medium Enterprises Concerning Standard Operational Guidelines for the Management of Islamic Financial Services Cooperatives and Cooperative Islamic Financial Services Units, with the number: 35.2/PER/M.KUKM/X/2007. This regulation primarily focuses on the governance of Islamic cooperatives involved in financial services. It provides guidelines for cooperatives engaged in financing, investment, and savings based on profit-sharing (sharia) principles, as well as for cooperative Islamic financial service units that operate within the cooperative's business activities. The Ministerial Regulation establishes Management Operational Standards (SOP) for Islamic financial services cooperatives (KJKS) and cooperative Islamic financial services units (UJKS). These standards encompass the structure of tasks, work procedures, management systems, and work standards in the institutional, business, and financial domains. They serve as a reference and guide for cooperative management or KJKS/UJKS cooperative business units to ensure the provision of excellent services to their members and other

users. In Article 1, Number 9 of the Ministerial Regulation, the organization of KJKS is defined to comprise Member Meetings, Management, and the Sharia Supervisory Board. The inclusion of a sharia supervisory board in cooperative organizations is intended to uphold the sharia principles of Islamic cooperatives. Article 1, Number 8 of this Ministerial Regulation stipulates that the Sharia Supervisory Board in KJKS and UJKS Cooperatives is elected by the cooperative members and consists of knowledgeable religious scholars in sharia. They are responsible for fulfilling the functions and duties of sharia supervisors within the cooperative, including providing responses or interpretations of fatwas issued by the National Sharia Council.

The evolution of Islamic cooperative arrangements often encounters changes due to their integration with general cooperative arrangements under the existing legal framework. Currently, the primary law governing cooperatives in Indonesia is Law Number 25 of 1992 concerning Cooperatives. However, this law does not specifically address the regulations pertaining to Islamic cooperatives.

The regulation of Islamic cooperatives in Indonesia at the legal level was introduced for the first time through Law No. 17 of 2012 concerning Cooperatives. This law aimed to establish specific regulations for Islamic cooperatives, with the intent of strengthening their legal entity status. While the law does not directly define the concept of Islamic cooperatives, it does mention in Article 1, point 16 that savings and loan activities can be conducted both conventionally and in accordance with sharia principles. In addition, Article 87 states that cooperatives can engage in business activities based on sharia economic principles, which would be further regulated through government regulations. However, the Constitutional Court, through Decision Number 28/PUU-XI/2013 dated May 28, 2014, nullified Law No. 17 of 2012 concerning Cooperatives. The court ruled that the law was contradictory to the 1945 Constitution of the Republic of Indonesia and lacked binding legal force. As a result, Law Number 25 of 1992 concerning Cooperatives remained in effect until a new law is enacted to replace it.

The resurgence of cooperatives' identity is crucial in light of the increasing liberalization of the domestic market during the era of free trade. This shift legalizes the rise of intense competition among economic actors vying for market share, particularly by leveraging their comparative advantages. When discussing market share, it is important to establish a connection between this aspect and the utilization of organizational identity, which can facilitate an effective combination

of key components: (a) the products/services being offered, (b) the activities involved in producing those products or serving the members' needs, and (c) the target consumers. By incorporating the characteristics of cooperative organizations, the process of restoring cooperatives to their identity becomes an essential step in the practice of achieving success in the future. (Rasyidi, 2018)

Cooperatives serve as fundamental pillars of the Indonesian economy, and it is crucial to preserve their existence. These cooperative business entities differ from non-cooperative ones in several aspects: A. Institutional aspects, namely: 1. In terms of membership, 2. Viewed from the meeting of members, 3. Viewed from the management of the board of directors, 4. Viewed from the board of commissioners, 5. Viewed from management, 6. Viewed from education. B. Business aspects, namely: 1. Purpose, 2. Capital, 3. Legal entity, 4. Aspects of profit (Itang, 2016).

In order to achieve the goal of establishing the Indonesian State Government and realizing a prosperous, just, and prosperous Indonesian society based on Pancasila and the 1945 Constitution of the Republic of Indonesia, the State needs to make various efforts to fulfill citizens' rights to work and a decent living for humanity through job creation. It is hoped that job creation will be able to absorb the widest possible Indonesian workforce. To support this, it is necessary to adjust various regulatory aspects related to facilitation, protection, and empowerment of cooperatives and micro, small, and medium enterprises, improvement of the investment ecosystem, and acceleration of national strategic projects, including increasing the protection and welfare of workers. The arrangements for these matters are scattered in various regulations which are considered unable to meet the legal requirements for accelerating job creation. Therefore, changes need to be made, and with this in mind, it is necessary to make legal breakthroughs that can be considered as solutions to various problems covered by several laws, consolidating them into one comprehensive law. Ultimately, the establishment of a law on job creation is required.

The journey towards the enactment of the Law on Job Creation began with the introduction of Law Number 11 of 2020 on November 2, 2020. This law, published in the State Gazette of the Republic of Indonesia in 2020 under Number 245 as a supplement to Number 6573, attracted significant attention, particularly regarding its formation process. Subsequently, on November 3, 2021, the Constitutional Court made a decision, numbered 91/PUU-XVIII/2020, regarding the Law on Job Creation. The decision concluded that the establishment of Law Number 11 of 2020 was in contradiction with the 1945 Constitution of the Republic of Indonesia. As a result, the law's legal

force was not binding until amendments were made within a two-year period from the announcement of the decision. However, until the amendments are implemented within the specified timeframe and necessary improvements are made, Law Number 11 of 2020 remains valid.

As a follow-up to the Constitutional Court Decision Number 9L IPUU-X\lIII/2020, the government has made the following actions.

- a. Stipulating the Law Number 13 of 2022 as the Second Amendment to Law Number 12 of 2011, which pertains to the formation of laws and regulations. This amendment specifically addresses the inclusion of the omnibus method in drafting laws, providing clear guidelines and procedures for its implementation. The omnibus method ensures that the preparation of statutory regulations adheres to certain standards and established methodologies. Moreover, it emphasizes the importance of meaningful public participation in the formulation of laws and regulations.
- b. Enhancing meaningful participation that encompasses three key components: the right to be heard, the right to have one's opinion considered, and the right to receive an explanation or response to the given opinion (the right to be explained). In line with this, the Central Government has established the Job Creation Law Task Force, which is responsible for accelerating the dissemination of Law Number 11 of 2020 concerning Job Creation. The task force's primary function is to facilitate the process of socializing the provisions of the aforementioned law. Collaborating with ministries/agencies, regional governments, and stakeholders, the Job Creation Law Task Force has conducted socialization initiatives in various regions, aiming to enhance public comprehension and awareness of Law Number 11 of 2020 concerning Job Creation.
- c. Correcting the technical writing errors in Law Number 11 of 2020, including incomplete letters, inaccurate references to articles or paragraphs, typos, and/or titles or sequential numbers of chapters, sections, paragraphs, articles, paragraphs, or items that are not appropriate and non- substantial.

In addition to addressing the Constitutional Court's decision in Number 91/PUU-XVIII/2020, the Government Regulation in lieu of the Law on Job Creation also revises the general provisions formulated in sector-specific laws that were enacted prior to the implementation of Law Number

12 of 2011 on the Formation of Legislation. The revision primarily focuses on improving the formulation of general provisions, including the definition of terms, abbreviations or acronyms, and matters of a general nature. It is important to note that the provisions in sector-specific laws that are not amended in the Government Regulation in lieu of the Law on Job Creation should be interpreted in line with the amendments made by the said Government Regulation in lieu of the Law on Job Creation. The Constitutional Court's Ruling Number 138/PUU-VII/2009 states that Indonesia's current situation meets the criteria for a compelling crisis, warranting the enactment of Government Regulations in lieu of Laws. These following regulations are implemented to address the crisis effectively, including the case of the Government Regulation in lieu of the Law on Job Creation.

- a. Due to the urgent need to resolve legal issues based on the Law;
- b. The required law does not exist, resulting in a legal vacuum or inadequacy of the existing law; and
- c. The legal vacuum cannot be addressed by the usual procedural law-making process, which requires a considerable amount of time, while the urgent situation requires prompt resolution and certainty.

The Government introduced the Regulation in Lieu of Law No. 02 of 2022 concerning Job Creation, which was promulgated in Jakarta on December 30, 2022, by President Joko Widodo. This regulation was officially published in the State Gazette of the Republic of Indonesia in 2022 under Number 238. Subsequently, the Regulation in Lieu of Law underwent further proceedings and was enacted as Law Number 6 of 2023. This transition occurred on March 31, 2023, and the Law was published in the State Gazette of the Republic of Indonesia in 2023 under Number 41.

The provision regarding Islamic cooperatives in Law Number 11 of 2020 concerning Job Creation was initially modified by the Regulation in Lieu of Law No. 02 of 2022 concerning Job Creation. Subsequently, it was reinstated in the form of Law Number 6 of 2023 concerning the Stipulation of Government Regulations in Lieu of Laws Number 2 of 2022 concerning Job Creation. The provisions related to Islamic cooperatives can be found in Chapter V, which addresses the facilitation, protection, and empowerment of cooperatives, micro, small, and medium enterprises. Specifically, Part Two focuses on cooperatives and includes Article 86. This article modifies certain provisions in Law Number 25 of 1992 concerning Cooperatives, as published in the State

Gazette of the Republic of Indonesia in 1992 under Number 116, Supplement to the State Gazette of the Republic of Indonesia under Number 3502 as follows.

- Point 3

The provision of Article 21 is amended and reads as follows:

Article 21

(1) *PerPointt organisasi Koperasi terdiri atas: a. Rapat Anggota; b. Pengurus; dan c. Pengawas.*

(The organizational structure of a Cooperative consists of: a. General Meeting of Members; b. Board of Directors; and c. Board of Supervisors)

(2) *Selain memiliki perPointt organisasi Koperasi sebagaimana dimaksud pada ayat (1), Koperasi yang menjalankan kegiatan usaha berdasarkan prinsip syariah wajib memiliki dewan pengawas syariah.*

(In addition to the organizational structure of a Cooperative as referred to in paragraph (1), a Cooperative that conducts business activities based on Sharia principles must have a Sharia Supervisory Board.

- Point 6. Between Article 44 and Article 45, the following additional Article 44A, was inserted as follows.

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Article 44A

(1) *Koperasi dapat menjalankan kegiatan usaha berdasarkan prinsip syariah.*
(Cooperatives may conduct business activities based on Sharia principles).

(2) *Koperasi sebagaimana dimaksud pada ayat (1) harus mempunyai dewan pengawas syariah.* *(Cooperatives as referred to in paragraph (1) must have a Sharia Supervisory Board)*

(3) *Dewan pengawas syariah sebagaimana dimaksud pada ayat (2) terdiri atas 1 (satu) orang atau lebih yang memahami syariah dan diPointt oleh*

Rapat Anggota. (The Sharia Supervisory Board as referred to in paragraph (2) consists of one or more individuals who have an understanding of Sharia and are appointed by the General Meeting of Members).

(4) *Dewan pengawas syariah sebagaimana dimaksud pada ayat (2) bertugas memberikan nasihat dan saran kepada Pengurus serta mengawasi kegiatan Koperasi agar sesuai dengan prinsip syariah.* (The Sharia Supervisory Board as referred to in paragraph (2) is responsible for providing advice and recommendations to the Board of Directors and overseeing the Cooperative's activities to ensure compliance with Sharia principles).

(5) *Dewan pengawas syariah sebagaimana dimaksud pada ayat (2) selanjutnya mendapatkan pembinaan atau pengembangan kapasitas oleh Pemerintah Pusat dan/atau Dewan Syariah Nasional Majelis Ulama Indonesia.* (The Sharia Supervisory Board as referred to in paragraph (2) shall receive guidance or capacity development from the Central Government and/or the National Sharia Council of the Indonesian Ulema Council).

(6) *Ketentuan lebih lanjut mengenai Koperasi yang menjalankan kegiatan usaha berdasarkan prinsip syariah diatur dalam Peraturan Pemerintah.* (Further provisions regarding Cooperatives that conduct business activities based on Sharia principles shall be regulated in Government Regulations).

The regulation stated in Article 44A, paragraph (1) offers cooperatives the opportunity to conduct their business operations based on Sharia principles, which is no longer limited to cooperatives involved in Sharia financial services. This expansion allows Islamic cooperatives in various other business sectors, such as buying and selling, production, marketing, food and beverages, and more, to operate in accordance with Sharia principles.

In addition to the provisions outlined in Article 21 and Article 44A, it is crucial for cooperative entities that engage in business activities based on Sharia principles to establish a Sharia supervisory board alongside other organizational instruments, namely the members' meeting,

management, and supervisors. This requirement holds significant importance as it ensures that Islamic cooperatives uphold their Sharia principles across all aspects of their operations.

Islamic cooperatives are essentially conventional cooperatives that have been transformed by incorporating deliberation principles aligned with Islamic law and the economic practices exemplified by the Prophet Muhammad and his companions (Azryan et al., 2023). These cooperatives operate based on Sharia principles, which are derived from the principles of Islamic law and are guided by fatwas (religious rulings) issued by the National Sharia Council of the Indonesian Ulema Council (DSN MUI) (Sobarna, 2023).

The definition of cooperatives is now primarily focused on highlighting them as a specific type of business entity. As a result, strict regulatory principles are applied to cooperative organizations to ensure efficiency (Suhartono, 2011). It is anticipated that regulating Islamic cooperatives at the legal level will provide a stronger foundation and legal certainty for these entities in their business transactions within Indonesia. Clarity regarding responsibilities, establishment processes, supervision, and regulations will enhance public confidence in establishing and collaborating with Islamic cooperatives in the future.

CONCLUSION

Based on the information provided, it can be concluded that Islamic cooperatives are not specifically regulated in the currently valid law concerning cooperatives, which is Law No. 25 of 1992. The regulation of Islamic cooperatives in Indonesia began in 2004 with the issuance of Ministerial Decree No. 91/Kep/M.KUKM/IX/2004 by the Minister of State Cooperatives and Small and Medium Enterprises. This decree provided guidelines for the implementation of sharia financial services cooperative business activities. In order to further clarify and support these guidelines, the Minister of Cooperatives and Small and Medium Enterprises later issued a regulation, namely the Regulation of the State Minister for Cooperatives and Small and Medium Enterprises, numbered 35.2/PER/M.KUKM/X/2007.

At the legal level, the regulation of Islamic cooperatives was initially introduced in Law Number 17 of 2012 concerning Cooperatives. This law superseded and replaced Law Number 25 of 1992 concerning Cooperatives, which was in effect at that time. However, the Constitutional Court invalidated Law Number 17 of 2012 through Decision Number 28/PUU-XI/2013 on May 28,

2014. As a result, Law Number 25 of 1992 concerning Cooperatives was reinstated and remained in force.

In 2020, the government introduced a significant legal development with the enactment of Law Number 11 of 2020 concerning Job Creation, which included provisions regarding Islamic cooperatives. However, this law was later invalidated with conditions by the Constitutional Court through Decision Number 91/PUU-XVIII/2020 on November 3, 2021. In order to comply with the Constitutional Court's decision, the government issued Regulation in Lieu of Law No. 02 of 2022 concerning Job Creation in 2022, which was subsequently converted into Law through Law Number 6 of 2023 concerning the Establishment of Government Regulations in Lieu of Laws Number 2 of 2022 concerning Job Creation. Regarding Islamic cooperatives, the Job Creation Law amended Article 21 and introduced Article 44A into Law Number 25 of 1992 concerning Cooperatives. As a result, the legal status of Islamic cooperatives is now stronger as they are regulated at the level of law. Islamic cooperatives have the ability to conduct business operations based on sharia principles, extending beyond the scope of Islamic financial services cooperatives.

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