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Institutional Framework and Regulatory Challenges in the Development of the Sharia Financial Sector in Indonesia: a Political Economy Perspective

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Abstract

This study aims to examine the institutional framework and regulatory challenges in the development of the Sharia financial sector in Indonesia.The main objectives of this research are to analyze the role of government institutions and regulatory bodies, as well as to identify regulatory barriers, in order to strengthen the institutional framework and support the growth of the Sharia financial sector in Indonesia.This study utilizes qualitative research to analyze the institutional framework and regulatory challenges in Indonesia's Sharia financial sector from a political economy perspective. Data will be gathered from policy documents, legal regulations, government reports, academic publications, case studies, and expert interviews. The analysis will involve content analysis for policy documents and regulations, interview analysis, and descriptive analysis of statistical data on the sector's growth.Overall, the results of the analysis show that through this active participation, the Indonesian government hopes to strengthen Indonesia's image as the global financial center of Shariah and the country's economic position at the international level. Thus, the role of the Indonesian government in the Sharia financial sector is expected to continue to grow, provide greater benefits to Indonesians, and strengthen Indonesia's position at the international level. Increased intensive collaboration between governments, practitioners, and colleges in the form of development programs to produce competent human resources (HRM) finance. Providing stronger policy incentives and support The government needs to provide stronger incentives and policy support to develop Sharia finance in Indonesia. Encourage the development of innovative Sharia financial products.

1. INTRODUCTION

The connection between economics and politics has long been an interesting topic that is studied and debated all over the world. In some cases, economic policies implemented by governments and political decisions made by a country's leaders can significantly influence the overall economic conditions of a country. With the context of the current era of globalization, the relationship between economics and politics has become even more complex due to the many mutual factors that influence it. Understanding the interaction between economics and politics allows us to comprehend how political decisions can impact economic growth, and vice versa, how the economic conditions can influence political decisions.

Politics can influence the economy through various policies and regulations issued by the government, while the economic conditions of a country can influence the dynamics of politics and the stability of the government. The theory of dependency is one of the many explanatory theories regarding the connection between economics and politics (Frank, 2018). The theory of dependency suggests that the economic connection between rich and poor countries is imbalanced. Rich countries often exploit the wealth and resources of poor countries through economic exploitation, which leads to poor countries being unable to develop economically and politically, making them dependent on wealthy nations. In this context, politics plays an important role in organizing and controlling foreign capital flows, managing the power dynamics, and implementing trade policies to prevent exploitative practices and promote sustainable economic development (Maxwell et al., 1997).

Politics and the finance sector are two interrelated aspects in a country. Politics can influence the economic policies implemented by the government, while the finance sector plays an important role in a country's economy. Politically wise policies can strengthen the stability of the finance sector, while the absence of appropriate policies can give rise to systemic risks in the finance sector. One example of the connection between politics and the finance sector is the global financial crisis that occurred in 2008. This crisis was triggered by the housing crisis in the United States (US), which later spread to the rest of the world. Weaknesses in the regulations of the finance sector, as well as inappropriate economic policies by the US government, were significant contributing factors that exacerbated the crisis. Several major financial institutions, such as Lehman Brothers, Bear Stearns, and AIG, experienced bankruptcy, leading to a global financial crisis with a profound impact on the world economy. This incident demonstrates that inappropriate political policies can lead to systemic risks in the finance sector and worsen the economic conditions of a country, or even the world (Kaminsky & Reinhart, 2013).

Politics and the finance sector are interrelated in a country. Politically wise policies can strengthen the stability of the finance sector, while the absence of appropriate policies can give rise to systemic risks in the finance sector. Therefore, it is important for the government to consider the impact of political policies on the finance sector and ensure that the policies implemented can enhance the stability of the finance sector (Levine, 2004). One form of effective financial sector management that has developed is Islamic finance.

The global Sharia finance sector has experienced significant growth in recent years. Global Islamic finance assets reached USD 2.88 trillion in 2020 and are expected to continue increasing in the coming years. The growth of the Islamic finance sector is driven by the increasing market demand and public awareness of financial products and services that adhere to Sharia principles. Countries with rapidly developing Sharia finance sectors include Malaysia, the United Arab Emirates, Saudi Arabia, Qatar, and Indonesia. While the Islamic finance sector is still growing, it continues to show potential as an alternative to conventional finance in the future (Islamic Finance Development Report, 2021).

The development of Islamic finance in Indonesia has experienced rapid progress in recent years. In the Sharia banking sector, the total assets in Indonesia reached IDR 612 trillion at the end of 2020, accounting for approximately 7.8% of the total assets in the Indonesian banking industry. In 2015, the total assets of Sharia banking only amounted to IDR 244 trillion, or around 5.5% of the total banking assets in Indonesia. Furthermore, the number of Sharia banks in Indonesia continues to increase year by year. By the end of 2020, there were 15 Sharia commercial banks and 7 regional Sharia development banks (BPD) in Indonesia. Additionally, there are 212 Sharia business units (UUS) and 23 Sharia units in conventional commercial banks (OJK, 2021).

Politics and economics, in the context of Islamic finance, are crucial for the growth of the economy and the Islamic banking sector. Since the development of Islamic banking relies on economic (market) aspects, the economic (market) aspect of Sharia banking in Indonesia cannot thrive without strong political support from the government. The political and economic significance related to the government in this research lies in understanding the government's role in the development of the Sharia financial sector in

Indonesia. In the political context, it is essential to analyze how government policies, intergovernmental interactions, and political interests influence the Sharia financial sector. This includes the government's role in policy formulation, regulation of Sharia financial institutions, and the promotion of sectoral growth.

Within the economic context, it is important to understand how the development of the Sharia financial sector contributes to the overall economy, including aspects such as financial inclusion, economic growth, and the stability of the financial system. The government plays a pivotal role in creating an enabling environment for the growth of the Sharia financial sector through fiscal policies, legislative regulations, and infrastructure support. The factors of politics and economics cannot be separated from the development of Islamic banking, starting from the establishment of Islamic finance institutions and the operational framework to the products of Islamic finance and banking. Previous supervision of Sharia institutions was deemed inadequate, prompting Bank Indonesia to transfer the responsibility to OJK.

2. LITERATURE REVIEW

2.1 Theory Capitalism Monetary (Monetary Capitalism Theory)

This theory was put forward by the renowned economic historian Niall Ferguson. According to this theory, modern capitalism is rooted in the modern financial system that developed in Europe during the 17th and 18th centuries. This theory considers that the development of finance and banking, driven by innovation and competition between financial institutions, became a key factor in spurring economic growth in the modern era. The success of modern capitalism cannot be understood without acknowledging the role of money and financial institutions in facilitating trade and investment (Ferguson, 2010). The money and financial institutions that developed during that time allowed investors to move capital more easily and quickly between different sectors. This made it possible for growth and diversification of investments, resulting in increased productivity, innovation, and rapid economic growth. Modern capitalism is not only shaped by innovations in the financial sector but also by the collaboration between financial institutions and governments in creating a stable and profitable economic system.

In this theory, Ferguson explains how monetary and fiscal policies can influence economic growth and how financial crises can impact overall economic stability (Ferguson, 2010). Based on empirical studies, this theory's phenomenon also occurred in Indonesia and the Philippines, referred to as crony capitalism. This phenomenon influenced the post-crisis economies of Indonesia and the Philippines. Crony capitalism refers to a symbiotic relationship between businessmen and politicians, where businessmen receive political support and legal protection from politicians, while politicians gain financial benefits from entrepreneurs. In Indonesia, crony capitalism has influenced economic policies and is closely related to the widespread practice of corruption. In the Philippines, crony capitalism is tightly connected to the consolidation of political power and political crises (Sari, 2016).

2.2 Theory Institutional

According to this theory, institutions and organizations are formed and developed through social interactions and social norms. Social norms are unwritten rules that apply in society and influence individual behavior and actions. When individuals establish an organization or institution, they tend to adhere to the social norms prevailing in society, which leads to the institution becoming more structured and organized. Institutional theory also underscores the significance of legitimacy in institutions. Legitimacy represents the public's belief that an institution or organization has the right to exist and operate.

When an institution or organization is considered illegitimate, its existence becomes questionable and can jeopardize the institution's function and survival. Therefore, institutions and organizations tend to adapt to social norms and demands to gain and maintain legitimacy (Hall & Taylor, 1996). Institutional theory is widely applied in various fields, including management, public policy, and organizational sociology. This theory assists decision-makers within institutions and organizations in comprehending how social norms and the external environment influence organizational decisions and strategies. By considering these factors, institutions and organizations can adapt and develop more effectively in an ever-changing environment (Hall & Taylor, 1996).

Empirical approaches reveal three primary challenges faced by institutional theory: (1) the challenge of local variation, (2) the challenge of the link between institutions and social structures, and (3) the challenge of institutional dynamics and change. First, local variation pertains to the differences that emerge in institutional practices across different regions worldwide. This implies that institutional theory needs to take into account diverse social and cultural contexts in explaining how institutions impact individual and organizational behavior. Institutions are not always static and can evolve over time. Therefore, institutional theory should focus on how institutions can adapt, particularly in the face of rapid social and environmental changes (Suddaby, 2010).

2.3 Theory Hegemony Finance

This theory was proposed by Susan Strange. Financial power, in the form of banking, investment, and money markets, grants authority to advanced industrial countries, international financial institutions such as the IMF and World Bank, and global corporations. Financial power can shape global power dynamics by influencing national and international policies, as well as by exploiting profits from global financial imbalances. In this context, Strange emphasized that financial power can override national policies and affect global economic conditions (Strange, 1989). It is important to highlight that countries and international financial institutions like the IMF and World Bank can influence global financial policies and strengthen financial hegemony.

This power is not static and continues to evolve over time. Several factors can influence financial power, including changes in financial technology, political shifts at the national and international levels, and alterations in financial preferences and interests (Strange, 1989). Empirical studies reveal that financial hegemony has an impact on policy patterns and economic decisions in the European region. The global financial system is currently dominated by Western countries, particularly the United States and European countries that lead the European Union. This financial strength actually signifies the structural weaknesses of the European Union.

Despite numerous efforts to integrate the economies and politics of member countries, the European Union continues to face various challenges, including prolonged financial and political crises. Global financial power undermines the European Union's capacity to achieve its integration objectives, as member states often prioritize their own national interests over shared interests. While the European Union possesses significant financial institutions such as the European Central Bank and the European Investment Bank, these institutions are not sufficiently robust to establish an independent financial power (Durand & Keucheyan, 2015).

3. RESEARCH METHODS

This study is based on qualitative descriptive research. Qualitative research is a type of research that focuses on the quality or the most important aspects of something. The most important aspects of a product or service are presented in the form of events, phenomena, or social symptoms, and the meaning behind these incidents can be used as valuable lessons for developing a theoretical framework. Qualitative research can be conducted to assist in theory development, practical applications, policy formulation, addressing social problems, and taking action (Komariah, 2017).

In descriptive research, a group of circumstances involving humans, objects, situations, thought systems, or recent incidents is examined with the intention of producing systematic, factual, and accurate descriptions of the material or subject being studied (Moh. Nazir, 2014). The objective of qualitative descriptive research is to describe existing phenomena, whether they pertain to natural experiences or human actions and their consequences. This type of research places a greater emphasis on characteristics, quality, and the relationships between different activities (Sukmadinata, 2010).

Data collection techniques employed in this study involve a review of the existing literature. The literature sources used include scientific articles (both national and international journals) and reference books. The data collection methods include studying books, publications, notes, and reports related to the historical context as part of the research methodology (Moh. Nazir, 2014). The process of reading various related literature is essential for gaining insights into the research problem. It is also used to collect secondary data that serves as a basis for comparing theoretical frameworks with practical applications in the field. The secondary data used in this research consist of policy documents, legal regulations, government reports, academic publications, case studies, and interviews with experts.

These secondary data sources are utilized to analyze the institutional framework and regulatory challenges facing the Sharia financial sector in Indonesia. The dataset collected through this methodology is acquired by searching the internet, reviewing various published works, examining the findings of previous research investigations, reviewing class notes, and consulting with other relevant sources (Moh. Nazir, 2014).

4. RESULT AND DISCUSSION

4.2 Regulations Sharia Finance in Indonesia

The regulations for Islamic finance in Indonesia have experienced rapid development, in line with the increasing awareness among the public regarding the importance of transactions in accordance with Sharia principles. In 1999, the Indonesian government began issuing regulations related to Islamic financial products, especially through Bank Indonesia, which released regulations pertaining to Sharia Commercial Banks. Subsequently, in 2008, there was a merger of two financial supervisory institutions, namely the Capital Market Supervisory Agency and the Sharia Financial Institutions Financial Services Authority (OJK), which is now responsible for regulating Islamic finance in Indonesia.

The Indonesian government has implemented various policies to promote the development of Islamic finance in the country. Firstly, the government enacted Law No. 21 of 2008 concerning Sharia Banking. This legislation provides the legal framework for Islamic financial institutions to conduct business activities in Indonesia. Additionally, the government has taken steps to encourage the use of Islamic financial products within society. One method is by providing tax incentives for financial institutions that channel financing based on Sharia principles. Furthermore, the government is actively encouraging Islamic banking to continue developing innovative products that meet the needs of the public. Indonesia is also strengthening its collaboration with other countries in the field of Islamic finance. For instance, Indonesia has signed agreements with Malaysia for cooperation in the development of Islamic finance. Additionally, Indonesia has become a member of the International Sharia Finance Council, headquartered in Jeddah, Saudi Arabia.

Efforts to enhance literacy in Islamic finance are ongoing, with activities such as socialization and training programs designed to increase public understanding of Islamic financial products. The government is also working on an online information system for Islamic finance, making it easily accessible to the public for obtaining necessary information.

The government can support the political economy of the Sharia finance sector in Indonesia through the following actions:

1. Formulating supportive policies, laws, and regulations to streamline the establishment and operation of Sharia financial institutions.
2. Enhancing public awareness and financial literacy through educational campaigns and programs that promote a better understanding of Sharia finance principles and products.
3. Promoting collaboration among Sharia financial institutions, regulators, and stakeholders to encourage innovation and reinforce the sector's infrastructure.
4. Strengthening regulatory and supervisory mechanisms to ensure adherence to Sharia standards, protect consumers, and maintain transparent financial reporting practices.

Regulations in Sharia finance are of great importance because Islamic finance plays a significant role in the Indonesian economy. Sharia finance regulations in Indonesia are overseen by Bank Indonesia and the Financial Services Authority (OJK), both of which are responsible for supervising and regulating the Islamic finance industry. One recent regulation introduced is related to the Guarantee Institutions for Sharia Savings (LPSS), which serves as an institution that guarantees the savings of Islamic bank customers. Additionally, there are regulations regarding electronic Sharia payments that provide public access to a payment system that adheres to Sharia principles (Ulum, 2018). The Islamic finance industry in Indonesia has experienced rapid growth over the past few years, but it still faces several challenges related to regulations and institutional structure.

The government must strengthen these regulations to reduce risks associated with the operations and finances of the Islamic finance industry and promote partnerships between Sharia institutions and conventional finance to scale up the Islamic finance sector in Indonesia. Furthermore, structural and managerial improvements are necessary within Islamic finance institutions to enhance transparency and accountability (Latifah & Nugroho, 2020). In political theory, policy is considered a vital component. In the context of achieving maslahah (public interest), policy is typically used to select and determine what is crucial and optimal for various stakeholders. Policies aim to maintain harmony in organizational, governmental, and personal life. Policy can be defined as the practical and consistently implemented regulations governing the behavior of policy-makers and those who implement these policies (Fikriyah & Yudha Alam, 2021).

4.3 The Urgency of the Government's Role in Sharia Finance in Indonesia

It is a known fact that a significant number of regulations related to Islamic economics were implemented after problems arose. When the first Sharia-compliant bank, Bank Muamalah, was founded in Indonesia in 1992, it did not receive sufficient support from regulators. Muamalah Bank did not experience significant growth in the Sharia banking sector during its initial years. This was due to the absence of firm guarantees and strong institutional support. Significant changes occurred in the banking sector after the enactment of Constitution Number 10 of 1998, which amended Constitution Number 7 of 1992 related to banking. However, for the first six years, support for Islamic banking in Indonesia from the government was considered inadequate.

The reason was that the Sharia banking system in Indonesia was governed by state regulations before the enactment of Constitution Number 21 of 2008, which specifically addressed "Sharia Banking." It was only after the passage of this constitution that Islamic banking began to receive political support within the framework of the country's economic laws (Saefuddin, 2019).

The regulatory framework for managing Islamic finance institutions in Indonesia encompasses three main aspects: risk management, Sharia auditing, and Sharia monitoring. Risk management is a fundamental factor in the development of Indonesian Sharia finance because it is crucial for identifying, measuring, controlling, and monitoring emerging risks in operational activities. Various risk factors need to be considered in risk management, such as credit risk, market risk, liquidity risk, operational risk, and reputation risk. Sharia auditing standards that must be adhered to by Islamic finance institutions include those from AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) and IFSB (Islamic Financial Services Board) (Rama, 2015).

The development of Islamic finance is not limited to the banking sector but also extends to non-bank financial institutions, such as waqf institutions. Improving governance in Islamic social and financial matters through the implementation of Constitution Number 41 of 2004 concerning "Waqf" is a means to realize the development of Islamic economics. This has positioned the Indonesian Waqf Board, often referred to as BWI (Badan Wakaf Indonesia), as one of the independent institutions driving the development of Islamic finance. BWI was established with the objective of promoting and advancing waqf in Indonesia, with a focus on enhancing the management of waqf assets. BWI was not established solely to take over and manage waqf assets previously managed by nazhir (waqf asset managers). Instead, its primary goal is to create and advance waqf in Indonesia.

In terms of asset management, BWI initially functioned as an institution providing guidance to the nazhir. The aim is to ensure that waqf funds in Indonesia are used in a constructive and more productive manner, making waqf contributions more beneficial to society. Sharia financial institutions are mandated to operate in accordance with Sharia principles, including principles of fairness, transparency, and openness in providing information. Sharia law serves as the primary foundation for Islamic finance institutions. The regulatory framework for Islamic finance institutions in Indonesia has gone through several stages of development. Initially, the regulations for Islamic finance were separate from those governing conventional financial institutions.

However, with the advancement of Islamic finance institutions, these regulations have become more integrated with conventional financial institution regulations (Irawan, 2018). It is essential to recognize that the main function of the Islamic finance sector is to act as a bridge between those with surplus funds and those in need of financing. The existence of this industry is highly beneficial to society, as it helps Indonesia implement an Islamic economic system, reduces the society's reliance on lenders to support their finances, and provides a platform for local investments. Indonesia's presence in this sector is expected to be a focal point of the country's strength in driving economic growth.

Sharia banking, sharia credit banks, sharia finance cooperatives, sharia pawnshops, sharia insurance, sharia capital markets, and sharia financing companies are among the various Islamic finance entities that are experiencing growth in Indonesia. These entities have the potential to contribute to the overall economy of the country. Islamic finance, particularly for the Muslim population in Indonesia, aligns with current demands and has the potential to evolve into a comprehensive Islamic finance system rather than being an optional secondary choice. The establishment of Islamic finance institutions in Indonesia is evidence of the nation's success in managing its economy in accordance with Sharia principles (Mua, 2022).

The practice of Islamic economics and finance has come a long way, but there is still a journey ahead. Indonesia, at its core, is not a country founded on Islamic Sharia, and the development process involves real struggles and actions in the political strategy. The application of Islamic law is not always codified in the written constitution, laws, and regulations of a country. However, the principles and tenets of Islam have become intertwined with the essence of regulations and legislation in Indonesia. The implementation of these Sharia norms is closely related to the role of government policy. In principle, policy can be viewed as a decision-making process to select the most advantageous course of action from various available alternatives when addressing specific issues (Huda, 2020).

One of the most significant developments in Sharia finance in Indonesia is the presence of the National Committee for Sharia Economics and Finance (KNEKS). This institution launched the Indonesian Sharia Economic Masterplan (MEKSI) for the period 2019-2024. MEKSI is structured into four stages and is outlined as follows (KNKS, 2018):

1. Enhancing the strength of the halal value chain by entering promising and competitive industries.
2. Strengthening the Islamic finance sector by implementing the existing master plan laid out in the Architectural Masterplan for Indonesian Sharia Finance (MAKSI).
3. Empowering micro, small, and medium-sized businesses (MSMEs) as the primary force behind the expansion of the halal value chain.
4. Advancing the digital economy and financial industry to accelerate the implementation of other initiatives significantly.

4.4 Opportunities and Challenges Sharia Finance in Indonesia

Sharia banking, sharia insurance, and various sectors of the national sharia finance industry all hold very promising prospects at the moment. This is applicable to both of these areas. The assets owned by the sharia finance industry continue to exhibit significant and consistent growth. It is anticipated that there is still significant potential for expansion in sharia banking, sharia insurance, and related industries in the coming years. The current market share of sharia banking is approximately 4 percent, and it is estimated to increase to 5 percent in the next year.

This forecast is based on the ongoing development of the Islamic finance industry, particularly in regions like Aceh, which have adopted the system of Islamic banking for all banks. West Nusa Tenggara is also planning to follow suit in the coming years (Suadi, 2018). Given the untapped potential of the country, Indonesia offers an ideal environment for the expansion of sharia economics. Indonesia's participation in various international organizations, such as the G20, APEC, and MEA, is just one example of the possibilities. Moreover, Indonesia boasts the largest Muslim population in the world. The country has a long history of development, having experienced both socialist and capitalist systems, providing a foundation for an economic system based on religious and cultural identity. In addition, the construction of the state constitution and the implementation of the Pancasila economic theory align with Islamic economics principles.

In the regional context, Islamic finance industry in the MEA era faces various challenges, including increased competition, regulatory changes, and market constraints. The industry is expected to address these challenges by enhancing the quality of its products and services, diversifying its business operations, and seizing opportunities such as the growing public demand for Islamic financial products and the vast market potential in the ASEAN region. The industry can capitalize on these opportunities by developing innovative products tailored to meet market needs. To strengthen the Islamic finance sector in the MEA era, strategies such as improving the quality of the workforce, developing essential infrastructure, and enhancing inter-agency cooperation within the ASEAN region can be employed. With these strategies, the Islamic finance industry is expected to compete effectively with conventional financial sectors in the ASEAN region. Government support, in the form of adequate infrastructure provision, clear regulations, and high-quality workforce training, is essential for fostering the growth of the Islamic finance industry (Pamuji & Supandi, 2021).

The role of Sharia finance in a corresponding country within the ASEAN region aligns with the theory of hegemony proposed by Susan Strange. Financial power among ASEAN countries contributes positively to the development of Islamic finance, which can subsequently influence national and international policies, forming connections to global financial power. The significance of this role is particularly influenced by the positions of Indonesia and Malaysia.

According to the researchers' analysis, there are four sub-sectors of Sharia-based financial institutions in Indonesia:

a. Sharia Banking: The Sharia banking market in Indonesia is rapidly growing, offering opportunities for the development of Islamic finance. Strengthening the Islamic banking sector with a focus on financing and other banking services, improving service quality, and building public trust can open up wider development opportunities.
b. Sharia Insurance: The insurance sector in Indonesia also holds significant potential. In an increasingly complex and dynamic environment, Sharia insurance can provide safe and reliable financial solutions for society. The development of more innovative Sharia insurance products with precise targeting to meet societal needs is crucial.
c. Sharia Capital Market: Sharia capital markets also offer significant potential in Indonesia. These markets can serve as a source of long-term financing for Sharia-based companies. Developing Sharia capital markets involves enhancing regulations and improving public understanding of Sharia investments.
d. Sharia Fintech Development: Sharia fintech presents significant opportunities for development in Indonesia, particularly in the digitalization era. Sharia fintech can provide more accessible, fast, and efficient financial solutions. Expanding the range and diversity of Sharia fintech offerings is essential to reach a broader segment of the population. Regulatory enhancements are also needed to ensure the safety and quality of Sharia fintech services.

One of the primary challenges faced by Sharia finance in Indonesia is the low level of financial literacy among the general population. In addition, inadequate government policies pose a challenge to the development of Islamic finance institutions in Indonesia. Hence, it is necessary to make efforts to improve financial literacy among the public and enhance the role of the government in developing Islamic finance institutions in Indonesia (Irawan, 2018). Moreover, there is a deficiency of human resources and experts in Islamic banking, contributing to delays in the policy-making process for Islamic finance institutions. This shortage of human resources and experts in Sharia banking is observed at all levels, including policy makers, practitioners, and academics. Developing human resources in the field of Islamic banking is of paramount importance.

This entails the training of individuals with broad knowledge of banking, a deep understanding of the application of Sharia principles in banking practice, and a strong commitment to their implementation (Syafi'i, 2001). In the policy formulation process for Islamic finance institutions, one of the restrictive elements to be considered is the lack of public understanding of Islamic banking, which serves as the primary institution for Islamic finance in Indonesia. Consequently, due to limited awareness, the level of public participation is low. Bridging the knowledge gap among the general public about Islamic banking requires socialization efforts (Rodoni & Hamid, 2008).

5. CLOSING

5.1 Conclusion

Based on the analysis of the discussed phenomena, several conclusions can be drawn:

a. The political economy plays a crucial role in the Sharia finance sector in Indonesia, determined by productive and progressive policies.
b. Regarding regulatory aspects, the Islamic finance sector in Indonesia requires innovative and appropriate rules to align with the global Islamic finance development. Practical conditions should also be considered.
c. In terms of institutional development, there is a need for a more balanced and advanced approach between banking and non-banking financial institutions.
d. Key challenges in the development of the political economy within the Sharia finance sector in Indonesia include issues related to human resources, crony capitalism, and low financial literacy among the general population.
e. Opportunities for the development of Indonesian Sharia finance include a significant Muslim population, economic development in regional areas, continued international collaboration, and support from regulatory initiatives like MEKSI and MAKSI for the halal industry in Indonesia.

Through active participation, the Indonesian government aims to strengthen Indonesia's position as a global center for Islamic finance and enhance the country's standing on the international stage. To optimize the government's role in supporting the Sharia finance sector, the following actions are required:

a. Ensure policy consistency to provide stability and certainty, boosting investor confidence and sector growth.
b. Strengthen regulatory frameworks, focusing on areas such as consumer protection, Sharia compliance, and financial reporting transparency.
c. Foster collaboration with stakeholders, including Sharia financial institutions, regulators, academics, and civil society, through discussion forums and open dialogues to enhance policy formulation and issue resolution within the Sharia finance sector.

By optimizing the government's role with consistent policies, strengthened regulations, and collaborative engagement with stakeholders, the Sharia finance sector can achieve enhanced growth, make substantial contributions to the economy, and promote inclusive economic development in Indonesia.

5.2 Suggestion

Certainly, here are some suggestions to enhance the role of political economy in the Islamic finance sector in Indonesia:

a. Promote Mass Literacy in Sharia Finance: The government can make a concentrated effort to improve the literacy of Sharia finance among the general population. This can be achieved by optimizing the role of the Sharia Economic and Financial Regional Committee (KDEKS) and supporting their initiatives.
b. Foster Intensive Collaboration: Encourage close collaboration between the government, industry practitioners, and top-tier universities to develop programs that produce highly competent Sharia financial human resources (HR). This collaboration can help bridge the skills gap and ensure a skilled workforce.
c. Provide Strong Incentives and Support: The government should offer robust policies and incentives to foster the growth of Islamic finance in Indonesia. This can include clear permitting processes, favorable fiscal and non-fiscal incentives, and regulations that facilitate the development of the Islamic finance industry.
d. Promote Innovative Sharia Finance Products: Drive the development of innovative Islamic finance products to meet the growing and complex needs of the

market. Innovative products can attract public interest and strengthen Indonesia's position in the global Sharia financial market.

By implementing these suggestions, the government can play a more substantial role in advancing the Islamic finance sector, fostering economic growth, and promoting financial inclusion in Indonesia.

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