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KNEKS and the Dynamics of Sharia Economic Law Bureaucratization in Indonesia (2016–Present)

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Abstract: This article examines the bureaucratization dynamics of sharia economic law through the role of the National Committee for Islamic Economy and Finance (KNEKS). Employing a qualitative research design with an institutional–legal analysis approach, the study draws on documentary analysis, official policy documents, and in-depth interviews with key informants. The findings demonstrate that, in contrast to the Indonesian Council of Ulama (MUI), which functions as a quasi-legislative body producing normative legal instruments, KNEKS operates primarily as a legal structure that coordinates and harmonizes cross-institutional policies within the sharia economic governance framework. However, the study also reveals a persistent gap between legal structure and legal culture, as KNEKS's institutional positioning has yet to significantly enhance public legal awareness and literacy in sharia economic law. This article contributes to the literature on Islamic legal governance by offering an institutional perspective on bureaucratization processes and highlighting the need for policy formulations that integrate bureaucratic mechanisms with community-based social capital to strengthen legal culture in sharia economic development

Keywords: KNEKS, Bureaucratization, Sharia Economic Law

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Abstrak: *Artikel ini mengkaji dinamika birokratisasi hukum ekonomi syariah melalui peran Komite Nasional Ekonomi dan Keuangan Syariah (KNEKS). Penelitian ini menggunakan desain penelitian kualitatif dengan pendekatan analisis institusional–hukum, dengan sumber data berupa analisis dokumen, kebijakan resmi, serta wawancara mendalam dengan informan kunci. Temuan penelitian menunjukkan bahwa, berbeda dengan Majelis Ulama Indonesia (MUI) yang berfungsi sebagai lembaga kuasi-legislatif penghasil instrumen hukum normatif, KNEKS berperan sebagai struktur hukum yang mengoordinasikan dan menyelaraskan kebijakan lintas institusi dalam tata kelola ekonomi syariah. Namun demikian, penelitian ini juga mengungkap adanya kesenjangan yang berkelanjutan antara struktur hukum dan budaya hukum, karena posisi institusional KNEKS belum secara signifikan meningkatkan kesadaran dan literasi hukum ekonomi syariah di kalangan masyarakat. Artikel ini berkontribusi pada khazanah kajian tata kelola hukum Islam dengan menawarkan perspektif institusional terhadap proses birokratisasi serta menegaskan pentingnya perumusan kebijakan yang mengintegrasikan mekanisme birokrasi dengan modal sosial berbasis komunitas guna memperkuat budaya hukum dalam pengembangan ekonomi syariah.*
Kata kunci: *KNEKS, Birokratisasi, Hukum Ekonomi Syariah*

Introduction

The incorporation of Sharia law into national law in Indonesia,[1] is currently gaining momentum in line with the strengthening of Sharia economic development. This trend should not be viewed solely as a political movement to win votes, as was the case when local governments issued Sharia-inspired regulations: the obligation to wear the hijab, the prohibition of pornography, and others, which tended to be discriminatory. On the contrary, the bureaucratization of Islamic economic law is part of the government's policy to capitalize on the development of Islamic economy, business, and finance. It is not only aimed at legal certainty and administrative order but also at achieving justice in potential legal disputes.[2]

Existing research on the bureaucratization of Islamic economic law in Indonesia generally develops along three main analytical lines. First, a large body of research focuses on the authoritative role of DSN–MUI fatwas,[3] analyzing how religious legal opinions serve as the normative foundation for Islamic economic

[1] Jan Michiel Otto, *Sharia Incorporated : A Comparative Overview of the Legal Systems of Twelve Muslim Countries in Past and Present* (Leiden University Press, 2010).

[2] Asep Saepudin Jahar, "Bureaucratizing Sharia in Modern Indonesia: The Case of Zakat, Waqf and Family Law," *Studia Islamika* 26, no. 2 (2019), p. 2.

[3] Syafiq Hasyim, "The Politics of 'Halal': From Cultural to Structural Shariatisation in Indonesia," *Australian Journal of Asian Law* 22, no. 1 (2022), https://papers.ssrn.com/abstract=4046306.

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practices. Second, some studies interpret bureaucratization as a form of political accommodation, in which the state selectively adopts Islamic norms to respond to the aspirations of Muslims while maintaining institutional control.[4] Third, other scholars conceptualize bureaucratization as legal pragmatism, highlighting how Islamic economic law is implemented primarily to facilitate market expansion and regulatory efficiency rather than to maintain its normative uniqueness.[5] While these streams of literature have provided valuable insights, they tend to operate in parallel rather than in dialogue, leaving unresolved debates regarding the implications of bureaucratization for the relationship between legal authority, state power, and Islamic normative values.

Rather than framing this process as Islamization or the formal enactment of Sharia law,[6] scholars like Alfitri argue that the incorporation of Islamic law into national legislation constitutes a form of Sharia bureaucratization. Within this framework, the Indonesian Ulema Council (MUI), particularly through its Fatwa Commission, operates in a quasi-legislative capacity.[7] This authority allows for the standardization and monopolization of interpretations of Islamic law, particularly in the field of Islamic economics.[8] On the one hand, such an arrangement reflects the state's accommodating strategy toward Muslim constituents and has proven effective in supporting the rapid development of Islamic economic institutions.[9] On the other hand, critics note that this pragmatic approach risks weakening the normative boundaries between Islamic and

[4] Noor Azmah Hidayati, "Politik Akomodasionis Orde Baru Terhadap (Umat) Islam: Telaah Historis Kelahiran Perbankan Syariah," *Millah: Journal of Religious Studies*, 2005, 47–62; Fauzan Ali Rasyid, "Konfigurasi Politik Hukum Ekonomi Syariah Di Indonesia," *Ijtihad: Jurnal Wacana Hukum Islam Dan Kemanusiaan* 16, no. 2 (2016), p. 297–315.

[5] Addiarrahman Addiarrahman and Illy Yanti, "Dari Idealisme Ke Pragmatisme: Pergeseran Paradigma dalam Pengembangan Hukum Ekonomi Syariah Di Indonesia," *Al-Manahij: Jurnal Kajian Hukum Islam* 14, no. 2 (2020), p. 191–210; Muhammad Sholihin, "Fatwa antara Makharij Fiqhiyah dan Market Needs: Eklektisisme Pragmatis di balik Fatwa DSN MUI di Indonesia," *Al-Istinbath: Jurnal Hukum Islam* 5, no. 1 May (2020), p. 1.

[6] Hasyim, "The Politics of 'Halal.'"

[7] Alfitri Alfitri, "Bureaucratizing Fatwā in Indonesia: The Council of Indonesian Ulama and Its Quasi-Legislative Power," *Ulumuna* 24, no. 2 (2020), p. 2.

[8] Tim Lindsey, "Monopolising Islam: The Indonesian Ulama Council and State Regulation of the 'Islamic Economy,'" *Bulletin of Indonesian Economic Studies*, Taylor & Francis Group, August 1, 2012, world, https://www.tandfonline.com/doi/abs/10.1080/00074918.2012.694157.

[9] Elsy Renie, "The Urgency of Fatwa in The Law of Sharia Economics in Indonesia," *JURIS (Jurnal Ilmiah Syariah)* 20, no. 2 (2021), p. 201–8; Faizi Zaini and Mohd Sollehudin Bin Shuib, "Fatwa on Sharia Products and Its Role in The Development of Islamic Finance Industry," *Islamadina : Jurnal Pemikiran Islam* 22, no. 2 (2021), p. 189.

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conventional economic practices, raising questions about the substantive integrity of Sharia principles under bureaucratic governance.[10]

However, previous studies have generally overlooked the role of the National Committee for Islamic Economics and Finance (KNEKS) in the broader bureaucratization of Islamic economic law. While the Indonesian Ulema Council (MUI) has been extensively analyzed as a quasi-legislative actor in the production of legal norms, KNEKS represents a different institutional configuration: a state-led body tasked with coordinating, harmonizing, and expediting inter-agency policymaking among ministries and regulatory authorities. This omission represents a significant gap in the literature, as it leaves open the question of how bureaucratization operates beyond norm production and into the realm of policy orchestration, governance integration, and institutional alignment at the national level.

Addressing this gap, this article conceptualizes the bureaucratization of Islamic economic law not only as a legal or political process, but also as a social and cultural phenomenon of the "state of law," where religious norms and economic practices are increasingly regulated within a state-managed system.[11] Drawing on Dominik M. Müller's perspective on the bureaucratization of sharia which views bureaucratization as a dynamic process that goes beyond organizational formalization, this study analyzes the extent to which KNEKS contributes to the institutionalization of Islamic economic law in society.[12] In doing so, this article enriches the existing debate by shifting the analytical focus from fatwa authority and legal pragmatism to inter-institutional coordination and its implications for the legal structure, legal culture, and governance of Islamic economic development.

The research data was sourced from regulations, reports, master plans, official websites, and journal articles that are relevant to the focus of this study. In addition, it was also sourced from in-depth interviews with academic policymakers and practitioners. This study adopts the perspective of Sharia bureaucratization as developed by Dominik M. Müller, who asserts that Islamic bureaucratization is not merely an effort to formalize, expand, and diversify Islamic institutions, but rather a much broader social and cultural phenomenon that transcends organizational boundaries.[13]

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[10] Agus Fakhrina and Abdul Hamid, "Sacralizing the Market? The Role of DSN–MUI in the Legal-Economic Legitimacy of Islamic Banking in Indonesia," *AHKAM : Jurnal Ilmu Syariah* 25, no. 1 (2025), p. 1.

[11] Asep Saepudin Jahar, "Bureaucratizing Sharia in Modern Indonesia."

[12] Dominik M. Müller, "Bureaucratic Islam Compared; Classificatory Power and State-IFIED Religious Meaning-Making in Brunei and Singapore," *Journal of Law and Religion* 33, no. 2 (2018), p. 212–47.

[13] Dominik Müller, *The Bureaucratization of Islam and Its Socio-Legal Dimensions in Southeast Asia: Conceptual Contours of a Research Project*, Max Planck Institute for Social

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Bureaucratization and the formation of legal culture

This research uses the legal system model according to Lawrence M. Friedman. Friedman explains that a legal system cannot be understood solely through the text of laws and regulations, but must be analyzed through three interconnected components: legal structure, legal substance, and legal culture.[14]

The legal structure encompasses all institutions, agencies, and formal mechanisms that enforce the law. It includes the judiciary, the legislature, law enforcement agencies, and administrative bodies that manage the implementation of the law. This legal structure determines how the law is applied, enforced, and upheld. Friedman emphasizes that the legal structure is the "institutional framework" of the law that gives form and stability to the legal system.

Legal substance refers to the rules, norms, and doctrines of law that are valid in a society. This includes laws, government regulations, court decisions, and other policies that are normatively binding. Legal substance determines the content of the law that regulates the behavior of society. Friedman argues that legal substance is dynamic because it is influenced by social, political, economic, and cultural developments.

Legal culture is the most important yet most difficult element to measure. Friedman defines it as the attitudes, values, perceptions, and expectations of society toward the law and legal institutions. In other words, legal culture describes how society understands, accepts, or even rejects existing legal rules. Legal culture influences the extent to which law can function effectively within society, as without public acceptance, law would merely be a set of normative texts lacking social binding power.

Therefore, the success of a legal system depends heavily on the balance and interaction between these three elements. A legal structure without legal substance lacks normative direction, legal substance without a legal structure cannot be enforces, and neither can obtain social legitimacy without a legal culture.[15] Therefore, the success of a legal system depends heavily on the balance and interaction between these three elements. In the Indonesian context, Friedman's legal anatomy framework is often used to analyze national legal dynamics, including Islamic economic law. For example, the legal structure

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Anthropology, 2017, https://pure.mpg.de/rest/items/item_2552995_4/component/file_2554254/content; Müller, "Bureaucratic Islam Compared"; Dominik M. Müller and Kerstin Steiner, "The Bureaucratisation of Islam in Southeast Asia: Transdisciplinary Perspectives," *Journal of Current Southeast Asian Affairs* 37, no. 1 (2018), p. 3–26.

[14] Lawrence M. Friedman, "Legal Culture and Social Development," *Law & Society Review* 4, no. 1 (1969), p. 29–44; Lawrence M. Friedman, *The Legal System: A Social Science Perspective*, Publications of Russell Sage Foundation (Russell Sage Foundation, 1975).

[15] Friedman, *The Legal System*; David Nelken, "Using Legal Culture: Purposes and Problems," in *Using Legal Culture*, ed. David Nelken, JCL Studies in Comparative Law (Wildy, Simmonds & Hill Publishing, 2012).

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includes institutions such as the DSN-MUI, OJK, and KNEKS; legal substance includes the Islamic Banking Law, the Halal Product Guarantee Law, and other derivative regulations; while legal culture is evident in the extent to which the public understands and uses sharia-based products and services.

Bureaucratization of Sharia Economic Law

The development of Islamic economic law in Indonesia lags behind Islamic business and financial activities. This is closely related to the legal system in Indonesia. Research reveals that countries with a civil law system or a mixture of civil law and Islamic law are less flexible. This is different from countries that implement a common law system, which is faster and more flexible. These differences in legal systems are the primary cause of the slow development of Islamic economic law in Indonesia, which in turn impacts the growth of the Islamic financial industry.[16] Additionally, common law countries are more advanced in technological innovation.[17]

In addition to being related to the legal system, the slow development of Islamic economic law, historically, is closely related to the dynamics of political law in Indonesia. The political approach of accommodation during the early stages of the establishment of Islamic banks in Indonesia served as an entry point for the process of positivizing *fiqh muamalah* into the national legal system.[18] This situation differs from the pre-independence era, when Islamic law had undergone a process of Islamization-acculturation during the Islamic kingdoms and secularization during the colonial period.[19]

In 1999, the government issued Law No. 23 of 1999 on Bank Indonesia, which enabled the central bank to develop sharia monetary instruments. The culmination was the issuance of Law No. 10 of 1998 on Amendments to Law No. 7 of 1992 on Banking, which explicitly recognized the Islamic banking system and became a strong legal foundation for its development in Indonesia.[20] Subsequently, the establishment of Islamic Banking Units by conventional banks became widespread, such as the establishment of Bank Mandiri Syariah (BSM). Concurrently, other financial institutions were also formed, including Sukuk, Mutual Funds, Insurance, Pawnshops, and others. In operational terms, Bank

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[16] Rihab Grassa, "Legal Origin, Institutional Quality, and Islamic Finance Development: Does Shari'a Matter?," *Law and Development Review* 13, no. 2 (2020), p. 345–69; Rihab Grassa and Kaouthar Gazdar, "Law and Islamic Finance: How Legal Origins Affect Islamic Finance Development?," *Borsa Istanbul Review* 14, no. 3 (2014), p. 158–66.

[17] Jun Wen et al., "Legal Origins and Innovation: Global Evidence," *Technological Forecasting and Social Change* 174 (January 2022), p. 121216.

[18] Hidayati, "Politik Akomodasionis Orde Baru Terhadap (Umat) Islam."

[19] Addiarrahman and Yanti, "Dari Idealisme Ke Pragmatisme."

[20] Illy Yanti and Addiarrahman, "Quo Vadis Peradilan Agama Dalam Pengembangan Hukum Ekonomi Syariah Di Indonesia," *Al-Risalah: Forum Kajian Hukum Dan Sosial Kemasyarakatan* 16, no. 02 (2016), p. 255–67.

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Indonesia Regulations and Financial Services Authority (OJK) Regulations serve as guidelines for all Islamic financial institutions.

Accommodation politics is the gateway to the legal process of Islamic economics, strengthening the role of fatwas issued by the National Sharia Council of the Indonesian Ulema Council (DSN MUI). Although not part of the hierarchy of legislation, DSN MUI fatwas are in fact the main reference for the regulation of Islamic financial institutions in Indonesia.[21] From 2000 to 2024, the DSN MUI has issued 160 fatwas.[22] The strong influence of the DSN MUI has made it function like a quasi-legislative body. This role has even expanded beyond fatwas related to Islamic economics to include other issues of Islamic law.[23]

The legalization of Islamic law in the field of Islamic economics and finance has given rise to a number of legal products that were formulated earlier, such as Law No. 38 of 1999 in conjunction with Law No. 23 of 2011 on Zakat Management, as well as Law No. 41 of 2004 on Waqf. According to Asep Saepudin Jahar, these two laws were not intended as a form of Islamization of law in Indonesia, but rather as a process of bureaucratization of Sharia law.[24] From the judicial perspective, the enactment of Law No. 3 of 2006 amending Law No. 7 of 1989 on Religious Courts expanded the jurisdiction of religious courts to include the resolution of sharia economic disputes. Additionally, Law No. 33 of 2014 on Halal Product Guarantees, further strengthened by Law No. 6 of 2023 on Job Creation, has encouraged several local governments to issue local regulations related to halal products, halal tourism, and other related sectors.[25]

Dece Kurniadi explained that KNEKS continues to urge the government to prioritize the Sharia Economic Law in the National Legislation Program. This is intended to make the sharia economy a systemic and binding part of all state institutions.[26] Sutan Emir Hidayat also emphasized that strengthening regulations means strengthening the government's commitment to actively participate in

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[21] Renie, "The Urgency of Fatwa in The Law of Sharia Economics in Indonesia.": Mohamad Anton Athoillah, et, al, The Historicity Of The Economic Verses On Fatwa Of Dsn-Mui About Sharia Electronic Money, *Jurnal Ilmiah Peuradeun,* Vol. 9, No. 1, 2021, p.1-16.

[22] *Fatwa – DSN-MUI*, n.d., accessed January 13, 2025, https://dsnmui.or.id/kategori/fatwa/.

[23] Alfitri, "Bureaucratizing Fatwā in Indonesia."

[24] Qosim Arsadani et al., "The Progressiveness of Sharia Economic Fatwas: Direction of Islamic Legal Thoughts within NU and Muhammadiyah," *AHKAM : Jurnal Ilmu Syariah* 24, no. 1 (2024), p. 1; A. S. Jahar, "Bureaucratizing Sharia in Modern Indonesia: The Case of Zakat, Waqf and Family Law. Studia Islamika, 26 (2), 2019, p. 207–245.

[25] Addiarrahman and Illy Yanti, "Halal Industry in Javanese Culture: Yogyakarta Regional Government Policy in Obtaining Its Economic Values," *Inferensi* 16, no. 1 (2022), p. 151–74.

[26] Interview with D. Kurniadi, August 2025)

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developing the Islamic economy in Indonesia. Of course, the goal is to achieve mutual prosperity and welfare.[27]

Yusdani emphasizes that there are two central issues in the bureaucratization of Islamic economic law in Indonesia.[28] First, there is a tendency toward pragmatism within the DSN-MUI, which causes the fatwas it issues to be problematic to implement. Second, bureaucratization can lead to the weakening of civil society, particularly indigenous communities that possess local wisdom in various aspects, including economic, social, cultural, and others. Research reveals that this pragmatism occurs due to the loose framework of the ijtihad methodology.[29]

The State of Islamic Economic and Finance before KNEKS

The development of Islamic economics in Indonesia began to take shape with the establishment of Bank Muamalat Indonesia (BMI) in 1991. Additionally, this was a response to the October 1988 Policy Package (Pakto 88), which granted greater freedom for the establishment of private banks. This momentum was seized by the Indonesian Muslim Intellectuals Association (ICMI) and other Muslim leaders to establish the first Islamic bank in Indonesia, the Islamic Bank of Indonesia.[30]

Hefner explains that the establishment of banks based on Islamic values, including other Islamic financial institutions, faces challenges from state bureaucracy and market interests.[31] On the one hand, state regulations lag behind, while the market changes rapidly. Although established in 1991, specific regulations governing Islamic banks were only enacted in 2008, namely Law No. 21 of 2008 on Islamic Banking. This situation, according to Bachtiar Effendy, underscores that Islamic banks cannot replace the functions of conventional banking.[32]

Empirically, this is evidenced by the low market share of Islamic banking. In 2002, Bank Indonesia noted that the market share of Islamic banking after a

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[27] Sutan Emir Hidayat, "Urgensi Perda Ekonomi Syariah Di Indonesia," Oktober 2021.

[28] Yusdani, "Dinamika Pengembangan Hukum Ekonomi Syariah Di Indonesia," January 13, 2025.

[29] Addiarrahman and Yanti, "Dari Idealisme Ke Pragmatisme"; Sholihin, "Fatwa antara Makharij Fiqhiyah dan Market Needs."

[30] Shofwan Al Banna Choiruzzad, "More Gain, More Pain: The Development of Indonesia's Islamic Economy Movement (1980s–2012)," *Indonesia*, no. 95 (2013), p. 125.

[31] Robert W. Hefner, *Islamizing Capitalism: On the Founding of Indonesia's First Islamic Bank* (2003).

[32] Bahtiar Effendy, "Islamic Economic Institutions in Indonesia: A Religio-Political Perspective," *Islam in Southeast Asia: Political, Social and Strategic Challenges for the 21st Century*, no. 11 (2005), p. 64.

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decade had reached 5%. This shows excellent performance.[33] However, by 2011, this market share had dropped to 3.2%. Research revealed that this situation was caused by low customer literacy regarding Islamic banking services and the government's weak commitment to supporting the development of the Islamic finance and banking industry.[34] Additionally, it was also caused by a lack of competent human resources in this field.[35]

Furthermore, other studies have also revealed that even though Islamic banks in Indonesia, in general, have failed to achieve their social objectives. This means that most Islamic banks pursue social objectives in an accommodative manner; accepting and doing whatever is necessary.[36] However, it cannot be denied that the existence of Islamic banks, both in the short and long term, has a positive impact on economic growth.[37] Regionally, the presence of both conventional and Islamic Rural Credit Banks (BPR) contributes positively to regional economic performance.[38]

Regardless, issues such as competition, limited human resources, low literacy rates, insufficient capital, and, most importantly, the government's commitment to developing Islamic finance, as well as other obstacles, remain central issues that require serious attention. This is despite the enormous potential of Islamic finance, which has been proven empirically. This situation prompted the Directorate of Islamic Banking at Bank Indonesia and the Capital Market and Financial Institutions Supervisory Agency to request the National Development Planning Agency (Bappenas) to develop the Master Plan for the Architecture of Islamic Finance in Indonesia (MAKSI). More than 10 years after the request was made, Bappenas finally launched MAKSI in 2015.[39]

One of MAKSI's important recommendations is to establish a National Sharia Finance Committee through a Presidential Decree. This committee will act

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[33] M. Luthfi Hamidi and Andrew C. Worthington, "Islamic Banking in Indonesia: Emergence, Growth, and Prospects," in *Growth and Emerging Prospects of International Islamic Banking* (IGI Global Scientific Publishing, 2020).

[34] Mutiara Dewi Sari et al., "Perkembangan Perbankan Syariah Di Indonesia: Suatu Tinjauan," *Jurnal Aplikasi Bisnis* 3, no. 2 (2013), p. 120–38.

[35] Rifki Ismal, "Islamic Banking in Indonesia: Lessons Learned," *Kertas Kerja Dalam Multiyear Expert Meeting on Services, Development and Trade: The Regulatory and Institutional Dimension. United Nations Conference on Trade and Development (UNCTAD), Geneva*, 2011.

[36] Luthfi Hamidi and Andrew C. Worthington, "How Social Is Islamic Banking?," *Society and Business Review* 16, no. 1 (2020), p. 51–70.

[37] Muhamad Abduh and Mohd Azmi Omar, "Islamic Banking and Economic Growth: The Indonesian Experience," *International Journal of Islamic and Middle Eastern Finance and Management* 5, no. 1 (2012), p. 35–47.

[38] Iwan Setiawan et al., "The Contribution of Islamic and Conventional Rural Banks to Indonesia's Regional Economic Growth," *International Journal of Islamic and Middle Eastern Finance and Management*, ahead of print, August 12, 2025.

[39] Tim Peyusun Bappenas, *Masterplan Arsitektur Keuangan Syariah Indonesia* (Bappenas, 2015).

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as a national leading institution to achieve the vision of sharia finance and will oversee the implementation of the Master Plan. This recommendation emphasizes that the pace of sharia economic development, which focuses on sharia banking and financial institutions, is not sufficient to be driven solely by *civil society.* Although the Indonesian Ulema Council (MUI) has the capacity to "monopolize" the legislative process for Islamic economic law,[40] a non-structural institution formed by the government is needed to coordinate ministries and other state agencies in advancing Islamic finance.

In addition, MAKSI also recommends announcing government policies to support Islamic finance by providing an equal business climate for Islamic financial institutions. These policies encourage government agencies and state-owned enterprises to place some of their funds in Islamic financial institutions, offer Islamic financial products to their staff for receiving salaries in Islamic bank accounts, and provide benefits such as Islamic pension funds and takaful protection, and other products.[41]

KNEKS: History and its Contributions

As mentioned earlier, the establishment of the National Sharia Finance Committee (KNKS) was recommended by MAKSI. The government issued Presidential Regulation No. 91 of 2016 on KNKS on November 8, 2016, and it was officially launched by President Joko Widodo at the State Palace on July 27, 2017. Since the issuance of the Presidential Regulation, the KNKS has played a crucial role in "orchestrating" the planning and implementation of Islamic finance development in Indonesia.[42]

The existence of MAKSI and KNKS marked a turning point in the approach to developing the Islamic economy in Indonesia. Previously, civil society organizations such as MUI, ICMI, and MES played an important role in the initial process of establishing Islamic banks, followed by other financial institutions. The MUI subsequently established the National Sharia Council of the Indonesian Ulema Council (DSN-MUI) as a quasi-legislative body whose role is crucial in the legislative process of Islamic economic law.[43] However, the absence of a national vision in the Islamic finance industry, lack of coordination among

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[40] Fakhrina and Hamid, "Sacralizing the Market?"; Nur Sillaturohmah Handayani et al., "The Strategic Role of DSN-MUI in Developing Islamic Economic Law," *AL-IKTISAB: Journal of Islamic Economic Law* 7, no. 1 (2023), p. 1; Abdurrohman Kasdi, "Contribution of National Sharia Council Fatwa of Indonesian Council of Ulama (DSN-MUI) in The Islamic Economic Development in Indonesia," *Iqtishadia: Jurnal Kajian Ekonomi Dan Bisnis Islam* 11, no. 1 (2018), p. 47–64.

[41] Tim Peyusun Bappenas, *Masterplan Arsitektur Keuangan Syariah Indonesia*.

[42] Interview with D. Kurniadi, August 2025

[43] Fakhrina and Hamid, "Sacralizing the Market?"; Kasdi, "Contribution of National Sharia Council Fatwa of Indonesian Council of Ulama (DSN-MUI) in The Islamic Economic Development in Indonesia"; Lindsey, "Monopolising Islam."

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stakeholders, and the absence of national leadership to unify policy direction have caused the legislative process to face practical challenges, such as competition, literacy, human resource limitations, and others. Indeed, Bank Indonesia had previously formulated the Blueprint for the Development of Islamic Banking in Indonesia and the Grand Strategy for the Development of the Islamic Banking Market. However, these documents were not sufficiently effective in unifying the vision across stakeholders. It is at this point that the KNKS plays its strategic role.

To expand the landscape of Islamic economic development, KNKS has developed the Indonesian Islamic Economic Master Plan (MEKSI) 2019-2024. Through this master plan, KNKS is not only focusing on the Islamic finance industry but on Islamic economics in general, such as halal product industries, Islamic finance, and Islamic social sectors, as well as other Islamic business activities like the digital economy. To this end, the government issued Presidential Regulation No. 28 of 2020 on the National Committee for Islamic Economy and Finance (KNEKS) on February 7, 2020, and it was enacted on February 10, 2020.

The primary task of KNEKS is to "accelerate, expand, and advance the development of Islamic economy and finance in order to strengthen national economic resilience." With this mandate, KNEKS carries out its functions in providing recommendations, coordination, synchronization, and synergy in the formulation and implementation of strategic policy direction plans and programs in the Islamic economy and finance sector; formulating and providing recommendations on the resolution of issues, as well as monitoring and evaluating the Islamic economy and finance sector.[44]

The position of KNEKS as a non-structural, independent institution in carrying out its duties and functions has become a new epicenter in the formulation of Islamic economic policy in Indonesia. Structurally, the President and Vice President directly serve as Chair and Vice Chair. The Minister of Finance acts as Secretary and member, alongside additional members comprising representatives from various ministries and state agencies, the Indonesia Ulema Council (MUI), and the Indonesian Chamber of Commerce and Industry (KADIN).[45]

Indonesian Sharia Economy Master Plan (MEKSI) 2019-2024

The purpose of developing the MEKSI is to serve as a guideline for the development of the Islamic economy, thereby significantly contributing to the improvement of public welfare. The main vision of the MEKSI is "An independent, prosperous, and civilized Indonesia as a leading global center for the

[44] PERPRES No. 28 Tahun 2020
[45] Database Peraturan | JDIH BPK, "PERPRES No. 28 Tahun 2020."

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Islamic economy".[46] To achieve this, the KNKS has formulated four main strategies, namely:

1. Strengthening the Halal Value Chain

Based on the SGEI report, Indonesia currently ranks third among countries with the largest growth in *the halal industry*. The first and second positions are occupied by Malaysia and Saudi Arabia. However, Indonesia's indicator score lags far behind Malaysia and Saudi Arabia. Indonesia scored 80.1, while Malaysia scored 193.2 and Saudi Arabia scored 93.6.

Table 1. Global Islamic Economy Report Indicator Scores

No	Country	GIEI	Islamic Finance	Halal Food	Muslim-Friendly Travel	Modest Fashion	Media & Recreation	Halal Pharmaceuticals & Cosmetics
1	Malaysia	193.5	408.7	128.0	99.4	73.6	74.4	73.9
2	Saudi Arabia	93.6	194.9	48.5	99.7	34.3	37.5	34.3
3	Indonesia	80.1	92.2	94.4	60.7	66.3	52.4	58.6

Source: SGEI 2023/24

Indonesia's enormous potential is the basis for making Indonesia a Global Halal Hub. This is done by: establishing halal hubs in various regions, taking into account the comparative advantages of each region; developing effective halal standards that are accepted worldwide; promoting a halal lifestyle; offering incentive programs to investors who support the development of the halal value chain industry; and establishing an international halal center.[47]

2. Strengthening Islamic Finance

Strengthening the Islamic finance sector is a continuation of the implementation of the Indonesian Islamic Finance Master Plan (MAKSI) and is an integral part of both the MAKSI work program and this master plan. The main focus of this second strategy is to make the Islamic finance sector the main driving force for the development of the halal value chain or industry in Indonesia. Concurrently, this strategy also aims to expand the scope and increase the volume of banking and Islamic financial institutions, particularly those related to the halal production sector. The core programs to achieve this strategy include the Islamic Banking and Financial Institutions Development:[48]

[46] Tim Penyusun, *Masterplan Ekonomi Syariah Indonesia 2019-2024* (Badan Perencanaan Pembangunan Nasional, 2018).

[47] Tim Penyusun, *Masterplan Ekonomi Syariah Indonesia 2019-2024*.

[48] Tim Penyusun, *Masterplan Ekonomi Syariah Indonesia 2019-2024*.

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a. Establishing a national halal fund to support the growth of the halal industry and accelerate the development of halal production centers oriented toward exports.
b. Establishing the Islamic Inclusive Financial Services Board (IIFSB) based in Indonesia as a global center for the development of Islamic social finance.
c. Integration of the ZISWAF, fiscal, and commercial sectors to enhance their reach and inclusiveness in serving all segments of production
d. Development of a framework and indicators for monetary, macroprudential, and macroeconomic policies.
e. Establishment of a State-Owned Islamic Bank

3. Strengthening Micro, Small, and Medium Enterprises

Micro, small, and medium enterprises (MSMEs) are the economic sector with the largest number of actors in Indonesia, even though the scale of each actor's business is relatively small. This sector absorbs more than 80 percent of the national workforce, thus having great potential to strengthen the halal value chain. MSMEs also play a central role in the halal industry ecosystem, so strengthening this sector will directly impact the development of the halal industry and drive key indicators such as equity, improved welfare, and national economic independence. Therefore, the strategy to strengthen MSMEs focuses on the following four main programs:[49]

a. Establishing an education program for micro businesses.
b. Integrated financing facilities for SMEs.
c. Development of an SME database.
d. Establishment of an MSME literacy program.

4. Utilization and Strengthening of the Digital Economy

The global halal industry is integrated into the value chains of several key global sectors, such as food, fashion, and pharmaceuticals. These three sectors are highly competitive and are the mainstay of various multinational companies. To improve competitiveness and resilience in the face of global competition, the national halal industry needs to implement digital strategies, both in terms of financing and marketing. The utilization of digital economy and platforms can also support various strategies simultaneously, including strengthening SMEs, developing the halal value chain, and increasing production scale and rankings in global reports. Considering these factors, the main program designed includes the following:

[49] Tim Penyusun, *Masterplan Ekonomi Syariah Indonesia 2019-2024*.

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a. Halal marketplaces and sharia financing systems.
b. Establishment of an incubator facility that can facilitate the growth of startup companies that can strengthen the national halal value chain and have global reach.
c. An integrated information system for halal product traceability.

Master Plan of Indonesia Halal Industry 2023-2029

Following the successful implementation of MEKSI, on October 26, 2023, KNEKS launched the Master Plan of Indonesia Halal Industry (MPIHI) 2023-2029. This Master Plan serves as a strategic policy framework for the development of the halal economy, as outlined in MEKSI. Additionally, the development of the MPIHI represents the government's serious effort to maximize the potential of the halal supply chain industry in Indonesia. The halal industry development strategy outlined in the MPIHI is as follows:[50]

First, Increasing Productivity and Competitiveness. This strategy is implemented through four main programs: strengthening the halal value chain, developing superior human resources, strengthening halal industry players (including I/MSMEs and Islamic boarding schools), and increasing research and innovation. *Second*, Implementing and Strengthening Policies and Regulations. This strategy includes two main programs: strengthening the halal industry through policy and regulatory support, and implementing a halal product assurance system (certification and traceability).

Third, Strengthening Finance and Infrastructure. This strategy includes three main programs: inclusive Islamic financial support, strengthening halal industry infrastructure, and developing indicators and databases for the halal industry by national data authorities. Fourth, Halal Brand and Awareness Strengthening. This strategy is implemented through two main programs: increasing social preference and halal lifestyle through promotion and education, and establishing international economic diplomacy in the halal industry.

Development of the Islamic Economy and Finance Post-KNEKS

The establishment of the National Sharia Finance Committee (KNKS) on November 8, 2016, and its transformation into the National Sharia Economy and Finance Committee (KNEKS) on February 10, 2020, marked a phase of more structured policy coordination across authorities. KNEKS has become an institution capable of orchestrating policies for the development of Islamic economy and finance.[51] The shift in mandate from a focus on 'finance' to 'economy and finance' expands the scope to include the development of the halal

[50] Tim Penyusun, "Master Plan Industri Halal Indonesia 2023-2029," KNEKS & Bappenas, 2023.
[51] Interview with D. Kurniadi, August 2025.

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ecosystem, integration of SMEs, and Islamic social finance innovation (ZISWAF).

Post-KNKS/KNEKS policy coordination goes hand in hand with the consolidation of Islamic banking institutions as mandated by Law No. 21 of 2008 on Islamic Banking. This culminated in the merger to form Bank Syariah Indonesia (BSI) in 2021, and the conversion or *spin-off* of Regional Credit Banks (BPD) from conventional to Islamic banking. This step is aimed at improving scale, efficiency, and competitiveness. Research indicates that the policy of spinning off Islamic business units does not automatically improve performance, while mergers or conversions are considered more effective as corporate actions.[52] Studies also demonstrate that strengthened regulations play a positive role in accelerating the growth of Islamic banks.[53]

Furthermore, since 2020, Indonesia has expanded its innovation of Cash Waqf–Linked Sukuk (CWLS) and the Integration of Islamic Social-Commercial Finance (IISCF) model for development financing and MSME empowerment.[54] Research reveals that IISCF is a key approach to deepening intermediation and social impact, while CWLS studies identify implementation barriers that need to be addressed.[55] Young people's interest in cash endowments.[56] Aldeen provides a sociological foundation for strengthening programmes such as CWLS. This demonstrates the potential for combining social and commercial instruments to strengthen the Islamic finance ecosystem.

Digital acceleration in Indonesian Islamic banks increased significantly during the KNEKS period. A data-based study from 2010 to 2022 shows that bank and market characteristics influence the decision to adopt digital services; the pandemic has been a driver of accelerated adoption. Other research highlights thatfactors such as performance expectations, ease of use, habits, and spiritual motivation influence millennials' intentions to use Islamic banking digital

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[52] Irwan Trinugroho et al., "Is Spin-off Policy an Effective Way to Improve Performance of Islamic Banks? Evidence from Indonesia," *Research in International Business and Finance* 56 (April 2021), p. 101352.

[53] Nur Dyah Nastiti and Rahmatina Awaliah Kasri, "The Role of Banking Regulation in the Development of Islamic Banking Financing in Indonesia," *International Journal of Islamic and Middle Eastern Finance and Management* 12, no. 5 (2019), p. 643–62.

[54] Tika Widiastuti et al., "Developing an Integrated Model of Islamic Social Finance: Toward an Effective Governance Framework," *Heliyon* 8, no. 9 (2022), p. e10383.

[55] Ascarya Ascarya et al., "Developing Cash Waqf Models for Baitul Maal Wat Tamwil as Integrated Islamic Social and Commercial Microfinance," *Journal of Islamic Accounting and Business Research* 14, no. 5 (2022), p. 699–717; Rindawati Maulina et al., "The Integration of Islamic Social and Commercial Finance (IISCF), p. Systematic Literature Review, Bibliometric Analysis, Conceptual Framework, and Future Research Opportunities," *Heliyon* 9, no. 11 (2023), p. e21612.

[56] Khaled Nour Aldeen et al., "Cash Waqf from the Millennials' Perspective: A Case of Indonesia," *ISRA International Journal of Islamic Finance* 14, no. 1 (2021), p. 20–37.

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services.[57] Additionally, Islamic fintech, as a rapidly growing sector post-2019 (payments, P2P lending, crowdfunding*)*,[58] requires a more mature regulatory framework and risk management system, which is one of the priorities of the KNEKS.[59]

As a committee that also oversees the Islamic economy sector, KNEKS encourages the integration of Islamic financing with the halal sector (food, fashion, pharmaceuticals) and expands marketing through digital platforms. Recent studies indicate the urgency of a digital strategy to penetrate the global market.[60] This indicates that the KNKS/KNEKS era brings more coordinated policy coordination, banking structure consolidation, innovation in instruments, accelerated digitalization of services, and the integration of financing with the halal value chain. Research demonstrates that the combination of institutional consolidation, market innovation, and digital transformation has become the primary driver of strengthening Indonesia's Islamic ecosystem post-2016.

The process of bureaucratization of Sharia law is not merely an effort to incorporate Islamic legal rules into Islamic law. More than that, it is also an effort at institutionalization. Through this process, Sharia rules, such as those in economic activities that have been embedded in Muslim social life, require legal certainty.[61] At this point, KNEKS is projected to become the driving force behind the formation of a Sharia ecosystem that can accelerate the development of the Sharia economy in Indonesia. Therefore, the existence of KNEKS is an integral part of the bureaucratization of Sharia law, which is no less important than other institutions such as the Indonesian Ulema Council (MUI), Sharia Financial Institutions, and others.

The results of the study indicate that the existence of the National Committee for Sharia Economics and Finance (KNEKS) plays a strategic role in promoting the bureaucratization of sharia economic law in Indonesia. KNEKS

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[57] Manggi Habir and Siwage Dharma Negara, *The Digital Transformation of Indonesia's Banking Sector: Current Trends and Future Prospects*, 2023, no. No. 78 (2023), https://www.iseas.edu.sg/articles-commentaries/iseas-perspective/2023-78-the-digital-transformation-of-indonesias-banking-sector-current-trends-and-future-prospects-by-manggi-habir-and-siwage-dharma-negara/; Darwis Harahap et al., "The Islamic Banking Customers' Intention To Use Digital Banking Services: An Indonesian Study," *Journal of Islamic Monetary Economics and Finance* 9, no. 3 (2023), p. 533–58,

[58] Irni Rahmayani Johan, "Tackling the Challenges of Financial Inclusion and Illegal Lending in Indonesia," *ISEAS Perspective*, 2022; Mohammad Yunies Edward et al., "Success Factors for Peer-to-Peer Lending for SMEs: Evidence from Indonesia," *Investment Management and Financial Innovations* 20, no. 2 (2023), p. 16–25.

[59] Yuliani Dwi Lestari et al., "The Development of National *Waqf* Index in Indonesia: A Fuzzy AHP Approach," *Heliyon* 9, no. 5 (2023), p. e15783.

[60] Moh Agus Nugroho et al., "Factors Driving the Growth of the Halal Industry in Top GIEI Countries: The Role of Domestic Investment, FDI and Economic Freedom," *Journal of Islamic Marketing*, ahead of print, 2025.

[61] Asep Saepudin Jahar, "Bureaucratizing Sharia in Modern Indonesia."

has successfully integrated various state institutions, such as Bank Indonesia, the Financial Services Authority, and the Ministry of Finance, to accelerate the process of developing a master plan that supports the sharia ecosystem[62] which emphasizes that the effectiveness of law is greatly influenced by the existence of institutions capable of performing coordination and implementation functions. Thus, KNEKS can be understood as an instrument that strengthens the structural dimension of Islamic economic law in Indonesia. This bureaucratization process has created space for institutions such as the National Sharia Council-MUI (DSN-MUI) and KNEKS to play an important role, even though they are not law enforcement agencies in the classical sense.

The role of the National Committee on Islamic Economics and Finance (KNEKS) in shaping the culture of Islamic economic law in Indonesia cannot be separated from the dynamics of the bureaucratization of Islamic law and the interaction between state institutions and non-state institutions.[63] Additionally, research reveals that the transformation of Islamic law is not limited to the regulatory level but also encompasses how legal values are internalized into societal life.[64] The presence of KNEKS as a coordinating body accelerates the integration of Islamic economic law into the legal culture of society by promoting more systematic, measurable, and integrated policies. The existence of KNEKS strengthens the bridge between formal state regulations and the needs of Muslim communities for an economic system that is in accordance with Sharia.

This study also found a gap between structural development and the legal culture of society. Although KNEKS has facilitated the creation of various regulations and policies, the level of legal literacy and public understanding of sharia principles remains relatively low. Meanwhile, financial literacy has proven to be a key determinant in encouraging public participation in the use of sharia financial products and services. Adequate literacy levels not only enhance awareness but also contribute to the growth of the micro, small, and medium enterprise (MSME) sector, which serves as the backbone of the national economy.[65]

The latest data shows that in 2024, the Islamic financial literacy index in Indonesia will only reach 39.11%. This means that only 39 out of every 100

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[62] Friedman, *The Legal System*.

[63] Nur Taufiq Sanusi et al., "Political Configuration of Islamic Law in Legal Development in Indonesia," *Jurnal Adabiyah* 23, no. 1 (2023), p. 49–65.

[64] A. Malthuf Siroj et al., "Transformation and Future Challenges of Islamic Law in Indonesia," *Al-Istinbath: Jurnal Hukum Islam* 8, no. 1 (2023), p. 95–116.

[65] Ahmad Abbas et al., "Earnings Growth, Marketability and the Role of Islamic Financial Literacy and Inclusion in Indonesia," *Journal of Islamic Accounting and Business Research* 14, no. 7 (2022), p. 1088–105, world; Masrizal et al., "The Effect of Islamic Financial Literacy on Business Performance with Emphasis on the Role of Islamic Financial Inclusion: Case Study in Indonesia," *Journal of Islamic Marketing* ahead-of-print, no. ahead-of-print (2024).

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individuals aged 15–79 have adequate understanding of Islamic finance. This contrasts with the conventional financial literacy index, which stands at 65.8%. The low level of Islamic financial literacy aligns with the low Islamic financial inclusion index, which stands at 12.88%. As a result, only approximately 12 out of 100 individuals in the productive age group utilize Islamic financial services. In contrast, conventional financial inclusion is significantly higher, at 73.55%.[66]

This study has several limitations that should be noted. First, the analysis focuses more on the role of KNEKS at the structural and policy levels, and therefore does not explore in depth the *grassroots* dynamics in society, such as the response of local communities to sharia literacy. This is in line with research which states that there is a gap between national sharia economic policies and their acceptance at the local level.[67] Second, the legal culture indicators used are relatively limited to literacy aspects, whereas Friedman emphasizes that legal culture also encompasses behavioral patterns, customs, and public *trust* in legal institutions.[68]

Based on these limitations, further research can be directed at several important aspects. First, field research is needed to explore the perceptions and attitudes of people in various regions toward sharia economic regulations, so that the cultural dimension of law can be measured more comprehensively. Second, comparative studies between regions with active KDEKS and regions that do not yet have KDEKS can provide a clearer picture of the effectiveness of KNEKS institutions at the local level. Third, longitudinal research is needed to assess the sustainability of sharia bureaucratization, whether it can truly change community economic behavior in the long term or is merely a top-down structural program. Thus, future academic contributions can better balance analysis between structure, substance, and legal culture as formulated by Friedman.

Conclusion

This study shows that the existence of the National Committee for Sharia Economics and Finance (KNEKS) plays a strategic role in the bureaucratization of sharia economic law in Indonesia. KNEKS functions not only as a policy coordinator but also as a catalyst in building an ecosystem that enables integration between regulations, industry, and community needs. This bureaucratization

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[66] Tim Penyusun, *Survei Nasional Literasi dan Inklusi Keuangan (SNLIK) 2024* (Otoritas Jasa Keuangan & Badan Pusat Statistik, 2024).

[67] Miftakhul Khasanah et al., "Determinants of Islamic Financial Literacy Index: Comparison Based on Ethnographic Studies in Yogyakarta, Indonesia," *Afkaruna: Indonesian Interdisciplinary Journal of Islamic Studies* 18, no. 1 (2022), p. 185–206, https://doi.org/10.18196/afkaruna.v18i1.12584; Erika Takidah and Salina Kassim, "Determinants of Islamic Financial Inclusion in Indonesia: A Demand-Side Analysis," *Journal of Islamic Finance* 10, no. 2 (2021), p. 38–52.

[68] Friedman, "Legal Culture and Social Development."

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process is evident in KNEKS' efforts to institutionalize Islamic economic policies through formal regulations, the development of roadmaps, and coordination across ministries and agencies. However, the dynamics of bureaucratization of Islamic economic law also present a number of challenges. First, bureaucratization often results in *a gap* between macro policies and social realities at the grassroots level. This indicates that the legal structure established through formal institutional mechanisms still requires strengthening of legal culture in society to ensure that policies do not merely remain at the administrative level. Second, there is a need to align national regulations with more adaptive Islamic financial practices that can respond to market dynamics and innovations in the global halal industry. Thus, the existence of KNEKS can be understood as an important instrument in the institutionalization of Islamic economic law in Indonesia. However, its effectiveness greatly depends on the ability of this institution to bridge the gap between bureaucracy, regulations, and public aspirations. Looking ahead, a more integrated, participatory, and adaptive approach is needed to ensure that the bureaucratization of Islamic economic law truly strengthens national competitiveness while also achieving equitable economic inclusion.

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Interview

Interview with D. Kurniadi, August 2025.