The Emergence of Islamic Economics and Finance Education in Indonesia

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Islamic banks and finance have appeared over the last two decades in Indonesia and been viewed as having significant growth in terms of numbers of new Islamic banks established in Indonesia. This enlargement is in line with high growth in Islamic economics and finance education. There exist various institutes and universities offering courses related to Islamic economics and finance including Islamic banks. This paper explains the growth and development of Islamic banking and financial industries from 1992 to the 21st century in Indonesia in terms of education, trends, and challenges. However, the rapid development in the global financial markets poses various challenges to Islamic banking particularly in education of Islamic economics and finance in the present era. These issues and challenges need to be addressed very carefully in order to offer ideal human resources in Islamic banks and financial industries and sustain the rapid growth it experienced before. This paper highlights various developments, issues, and challenges confronting the Islamic banking and finance education system to offer recommendation for further improvement.

Keywords: Islamic economics, Islamic finance, education, human resources

Introduction: A Gap Between Industry and Education

The growth of Islamic financial institutions in Indonesia witnessed remarkable and rapid growth. Among the evidence is the growth of Islamic banking assets as of the last 10 years from 2006 until 2016. In 2006, Islamic banking assets amounted IDR26.7 trillion, whereas in 2016 its assets reached IDR216.7 trillion. This means that there was increasing amount to IDR190 trillion (711%). Meanwhile, other sectors of Islamic financial institutions continue to grow from year to year. Total of Islamic financial industries (non-bank) including Islamic insurance (Takaful), Islamic reinsurance, and Islamic financing and leasing has reached 97 units in 2014 and increased significantly in 2016 up to 111 units with the addition of 14 units or approximately 14%. As for the terms of assets in 2014, it reached IDR44.3 trillion then increased to IDR66.732 with amount IDR22 trillion about 50%.

However, the growth of assets and units of Islamic banking and financial industries is not supported by existence of competent human resources in both Islamic banking and financial industries. As evidenced, Islamic
banks which have been established a quarter century ago have 77% directors which are from outside Islamic banks (conventional bank), from 12 Islamic banks with 48 directors there are 37 directors (77%) who are conventional bankers and only 11 directors who are Islamic bankers have experiences in Islamic banks. Even two prominent Islamic banks in Indonesia which are Bank Muamalat and Bank Syariah Mandiri (BSM) have directors who are purely from conventional banks. BSM takes the directors from its conventional bank “Bank Mandiri”, whereas Bank Muamalat takes all the directors from foreign conventional banks.3

Based on the facts above, there are three possibilities. First, distrust from stakeholders about the competence of Islamic bankers. Second, failure of regeneration in Islamic banks, so that competence on management could not be mastered by Islamic banks’ generations. Third, Islamic banks and financial industries are still assumed as financial system and business industries only which avoid Islamic values4. The three aspects above also indicate that role of human resources of Islamic bankings and financial industries which are educated and trained in institutes or universities levels is still more inferior compared to other universities which offer conventional economics and finance. So, it is crucial to rethink educational system on Islamic economics and financial industries in the level of academicians and practitioners in various universities’ system of education.

The Emergence of Islamic Economics and Finance Education

Studies on Islamic economics particularly in Islamic banks and finance came late compared to middle-east countries such as Pakistan, Iran, Saudi, UAE, and Malaysia in southeast. The studies in Indonesia started in the beginning of 2000s, shown by establishments of many institutes of education on Islamic economics and finance. In this stage, the focuses were on principles, transactions, and its application in Islamic banks. For example the study on potentials, preferences, and behaviors on transaction in Islamic banks. Then, it continued to the study on Islamic contemporary economics, aqad, and concept of profit and loss sharing (Karim, 2001; Ibrahim, 2002; Nasution, 2003; Muhammad, 2005) which focused on concept of Islamic finance from theory and practice in Islamic banks and financial industries. In addition, there was also study on market analysis of Islamic banks (Mutasowifin, 2003) and study on analysis and potentials of Islamic banking and financial growth (Sasmitaswi & Cahyadin, 2008). The studies above are in line with the numerous establishment of Islamic banks and financial industries.

Within 2010s the study was focused on Islamic banking system, however there were already various studies and research on Islamic financial system (non-bank). The study on Islamic banks still focused on the development and sustainability of Islamic banks such as studies on Islamic banking performance and its contribution to sustainability of socioeconomic development (Khasanah, 2012; Pratiwi, 2016). In order to keep sustainability of Islamic banks, it requires efficiency (Rahmawati, 2015) and risk management in both operational and sharia compliance (Surifah, 2015; Azifah, 2015). In addition, it also requires alternative strategies in order to develop Islamic banks with strategy on merger scenario of Islamic Banks (Alfarisi, 2015).

The study on Islamic finance also focuses on the potential of community finance (Yunus, 2015), and development of Islamic capital market with Sukuk (Ismail, 2015; Oktaviani, 2015; Supriyanto, 2015; Hamzah, 2015; Mustafida, 2015). In addition, study on other Islamic finance aspects is also developing such as zakat dan

3 Guntur Subagja, Chairman Indostrategic Economic Intelligence pada 29 February 2016.
4 Ibid.
waqf by focusing on waqf accountability and contribution (Ihsan, Sulaiman, Alwi, & Adnan, 2016; Sakti, Thaker, Qoyum, & Qizam, 2016), zakat distribution, impact on poverty, effectiveness and role of zakat (Beik & Arsyianti, 2016; Srinofita, Udiutomo, & Haryadi, 2016; Anis & Kassim, 2016; Talattov, Sanusi, Kusairi, & Shaari, 2016). The study on Islamic economics and finance today begins to focus on integrating Islamic commercial and social finance (Suharto, 2016; Ascarya, 2016).

A Historical Context of Islamic Finance Education

The first institution of education of Islamic bank and finance in Indonesia was established in 1992 named Lembaga Pendidikan Dan Pengembangan Perbankan Syariah (LPPPS), later on it was changed to Muamalat Institute (MI). MI is one of units from Bank Muamalat which focuses on training, consulting, and publication.

At the end of the 20th century (1999) various universities tried to establish study on Islamic economics and finance particularly in Islamic banks, such as Department of Muamalat (Islamic economics) which was established in Darussalam Gontor in 1998, and followed by Tazkia in 1999. Then, in 2014 MI initiated networking in issuing certification on Islamic Banking for bankers.

Table 1
Islamc Economics and Finance Education Institutions in Indonesia

<table>
<thead>
<tr>
<th>Institute name</th>
<th>Year</th>
<th>Address</th>
</tr>
</thead>
<tbody>
<tr>
<td>Muamalat Institute, Bank Muamalat (MIBM)</td>
<td>1992</td>
<td>Jakarta</td>
</tr>
<tr>
<td>Institut Studi Islam Darussalam (ISID) Gontor</td>
<td>1998</td>
<td>Ponorogo</td>
</tr>
<tr>
<td>STEI Tazkia (Tazkia)</td>
<td>1999</td>
<td>Bogor</td>
</tr>
<tr>
<td>Institut Agama Islam Negeri (IAIN) Sumatera Utara</td>
<td>2002</td>
<td>Medan</td>
</tr>
<tr>
<td>Universitas Airlangga (Unair)</td>
<td>2008</td>
<td>Surabaya</td>
</tr>
<tr>
<td>Universitas Muhammadiyah Yogyakarta (UMY)</td>
<td>2009</td>
<td>Yogyakarta</td>
</tr>
<tr>
<td>Institut Pertanian Bogor (IPB)</td>
<td>2010</td>
<td>Bogor</td>
</tr>
<tr>
<td>Universitas Brawijaya (UB)</td>
<td>2011</td>
<td>Malang</td>
</tr>
<tr>
<td>Universitas Indonesia (UI)</td>
<td>2013</td>
<td>Jakarta</td>
</tr>
</tbody>
</table>

Source: Barom et al. with modification and addition.

Education on Islamic economics and finance began since two decades ago. The education was started by Muamalat Institute with training programs from basic level until advance level for academicians and bankers. Hence, interest of Islamic economics and finance education always increased with the growth on Islamic banks and financial industries. However, impact on education of Islamic economics and finance is still far from expectation. The role of human resources produced from several institutes of education of Islamic economics and finance is still inferior.

The Current States of Islamic Finance Education

Since 1999, conventional banks start establishing branches or unit of Islamic bank, such as Bank Syariah Mandiri (BSM) which is one of business units of conventional bank “Bank Mandiri”. Since the establishment of BSM, there have been many conventional banks which offered Islamic services in their banking system called “dual banking system”. Survival of Bank Muamalat as an Islamic bank system in monetary crisis during 1997-1998 causes an increased amount of establishment on Islamic banks in Indonesia. Therefore, the focus of
Islamic economics scholars at the time are more on transaction and its application in Islamic banks than other Islamic financial instruments such as Islamic stock market, sukuk, zakat, and waqf. In addition, the study was concerned on proposing dual banking system; various contemporary transaction and sharia compliance.

Future Challenges for Islamic Economics and Finance Education

According to Waemustafa (2013) there are challenges facing Islamic banks today that are categorized into short- and long-term challenges. In short-term, Islamic banks become more concerned on debt-based finance than equity-base finance (profit-and-loss sharing). However, debt-based instrument is only favorable during good economy condition which will have severe effect during bad economy. While in long-term, Islamic banks find solution to promote profit-and-loss sharing principle. This long-term negative effect may lead to reputation risk and bad image to Islamic banker or worst situation where the unique identity of advocating profit-and-loss sharing of Islamic banking may no longer exist in the near future.

In public finance aspects particularly zakat and waqf, there are gaps between potential and realization. As a country with the largest Moslem population (207 million Moslems or 87% of the population Indonesia has a lot of potentials for collecting an enormous amount of zakat funds. According to research conducted by IDB, BAZNAS, and IPB, the estimation of zakat funds in 2013 is about IDR217 trillion. But, the amount collected is still less about IDR2.17 trillion (only 2%) from total estimated potential zakat funds. The potential of waqf also has unique problem in which there are about IDR590 trillion waqf assets which are idle in Indonesia. This matter is caused by mismanagement (A. Gaus & A. F. A. Gaus, 2008). Therefore, Moslem scholars have to find solution to design strategy in achieving the estimated amount of zakat funds and to manage the idle waqf assets.

Today, studies on Islamic banking and finance are trying to integrate Islamic commercial and social finance. This effort could be found in the unique concept of Baitul Maal wa Tamwil (BMT). This concept contains bait-maal focusing on collecting and distributing social funds and bait-tamwil which concerns on business and investment. However, this unique concept focuses more on “tamwil” aspect than “maal” in practice. Therefore, it needs some strategic planning to maximize benefit from the application of both “maal” and “tamwil” in BMT concept.

Lack of Spirit of Sharia Orientation

The importance of Islamic bank is on its implementation of Islamic principles in banking and financial transaction. This implementation is more concerned on the aspect of corporate culture and worldview of bankers than on financial transaction. Therefore, the implementation of Islamic values’ spirit is based on the spirit and worldview of managers.

Islamic banks and financial industries in Indonesia today are facing big problems on qualification of directors. Directors of Islamic bank are conventional bankers (about 77% of Islamic banks’ directors) who do not have experience in managing Islamic banks before (Yoga, 2016). This means the directors do not have sufficient understanding on Islamic banking and finance. Therefore, it is difficult to conclude that they have strong spirit of Islamic values in developing Islamic banks and finance. According to Amin (2011), Islamic banks today need

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6 Survey conducted by IDB, BAZNAS and FE IPB.
human resources which master not only knowledge required but they also need to have spirit on Islamic values. If human resources on Islamic bank and finance have spirit on Islamic values, it will be easy to develop Islamic banks and finance in the present.

Islamic banks and financial industry nowadays are more concerned on achieving profit in order to satisfy stakeholders of Islamic bank and finance’s industries. This further leads Islamic bank and financial industries to compete in gaining maximum profit without any attention to mashlahah and falah anymore. In addition, with this problem Islamic bank and financial industries would be tempted to try various transactions (interest and debt based) which have sharia risk compliance in order to achieve profit. If then, it could be sure that there is no difference between Islamic and conventional bank and financial industries. So, the spirit of Moslem scholars in founding Islamic bank and financial concept as an alternative from conventional system will be disregarded.

**Shortage on Islamic Economics and Finance Education**

The competence of human resources graduated from institutes of Islamic bank and finance education doesn’t meet the requirement of Islamic bank and financial industries. The graduates are assumed to have good understanding on fiqh and Islamic economics and finance theory, but they are lack of the practical management and business aspect. Since financial industries are concerned on maximizing profit, it is important to accept those who can assist in achieving profit and sustainability for the industries.

The studies on Islamic economics and finance today are more concerned on theoretical aspect. It is quite difficult to find institutes on Islamic economics and finance which provide more time for students to study and practice application of contemporary issues on Islamic economics and finance. In addition, the studies are not focused on and synchronized with the contemporary problems faced by Islamic banking and finance. For example, many people could not really understand how to differentiate between Islamic bank and conventional bank in practice. This means, both of the institutes on Islamic bank and finance education and the industries have the same problem in promoting Islamic bank and finance to the people.

Limited practice facilities for students of institutes for Islamic banking and finance education become additional problem in providing good and qualified human resources. The practice facilities such as laboratory are not adequate yet to engage comprehensive experience in real practice at financial industries. So, it would be difficult to provide students who are able to achieve the ideal competence with sufficient and maximum experience to manage operational of Islamic banking and finance. Meanwhile, contemporary problems of Islamic bank and finance practice which are faced by the industries need to be solved quickly in academic area of studies.

Qualified human resources in Islamic economics education are still a problem for institutes teaching Islamic economics (Barom, Yusop, Haneef, & Mohammed, 2013). In addition, lecturers’ knowledge and experience on contemporary issues of Islamic banking and finance are still limited. This is caused by miscommunication of the scholars (including lecturers and students) with the Islamic banking and financial industries. This makes the involvement of scholars to the industries still limited and their knowledge and experience not well-developed. Finally, they could not develop the theory based on the practice in Islamic bank and financial industries.

**Conclusion: Action Planning**

The institutes of Islamic banking and finance education today should work together with Islamic banking
and finance industries focusing on application of Islamic banking and finance concepts. This will ensure development of Islamic banking and finance teachers especially in contemporary transactions which are faced by Islamic bank and financial industries. On the other side, when the scholars are involved in Islamic bank and financial industries, they could find and propose wise strategies and approaches in solving some problems in practicing Islamic banking and finance. For example the industry could reduce monitoring cost in mudharabah projects by working together with the institutes as supervisor of the project. The institutes should provide staffs and students to monitor and assist the project.

The institutes should also establish independent financial project under the department of faculty which will function as financial institution such as Islamic bank or BMT in micro-finance level. Then, the institution could manage the rotation of managers of that financial institution from students of department of Islamic economics or Islamic finance. The students should have expensive experience in practicing Islamic economics and finance not only in laboratory but also in real activities. From these activities, students’ competence in management and business could be developed and examined.

**References**


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