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# **Islamic Boarding Schools And The Development Of Sharia Economy In Indonesia**

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**Abstract:**

Despite these institutional advances, existing studies still focus heavily on formal, state-centered actors, leaving the role of community-based religious institutions largely understudied theoretically. This article addresses this gap by examining the role of Islamic boarding schools (pesantren) in Islamic economic development from the perspective of Islamic political economy and institutional governance. Through conceptual mapping, thematic analysis, and theoretical synthesis, the article reconceptualizes pesantren as non-state actors embedded in the moral, social, and political foundations of the Islamic economic system. The findings demonstrate that pesantren function not only as educational institutions but also as moral infrastructure capable of shaping economic preferences, legitimizing halal practices, and influencing community-based economic behavior. However, this study finds that the limited contribution of pesantren to formal Islamic economic development is not due to normative or theological deficiencies. Rather, it reflects structural constraints arising from weak institutional integration, fragmented governance, and a state-market bias in policy design. The dominance of market-oriented and technocratic approaches has marginalized Islamic boarding schools (pesantren) to a symbolic or instrumental role, resulting in a persistent gap between the ethical aspirations of Islamic economics and their institutional realization. This article contributes to the literature by developing a conceptual framework that positions Islamic boarding schools as intermediary institutions connecting values, markets, and public policy. It argues that the sustainability and inclusiveness of Islamic economic development in Indonesia depend on repositioning Islamic boarding schools within an inclusive governance architecture. Therefore, integrating Islamic boarding schools into halal governance, Islamic social finance, and economic policymaking is not only a policy option but also a structural and normative necessity to preserve the transformative ethos of Islamic economics.

**Keywords:** Islamic Boarding Schools, Development, Sharia Economy In Indonesia

### **Abstrak:**

Terlepas dari kemajuan kelembagaan ini, studi yang ada sebagian besar masih berfokus pada aktor formal yang berpusat pada negara, sehingga peran lembaga keagamaan berbasis komunitas masih kurang dipelajari secara teoritis. Artikel ini mengatasi kesenjangan tersebut dengan meneliti peran pesantren dalam pembangunan ekonomi Islam dari perspektif ekonomi politik Islam dan tata kelola kelembagaan. Melalui pemetaan konseptual, analisis tematik, dan sintesis teoretis, artikel ini merekonseptualisasikan pesantren sebagai aktor non-negara yang tertanam dalam fondasi moral, sosial, dan politik sistem ekonomi Islam. Temuan menunjukkan bahwa pesantren berfungsi tidak hanya sebagai lembaga pendidikan tetapi juga sebagai infrastruktur moral yang mampu membentuk preferensi ekonomi, melegitimasi praktik halal, dan memengaruhi perilaku ekonomi berbasis komunitas. Namun, studi ini menemukan bahwa kontribusi pesantren yang terbatas terhadap pembangunan ekonomi Islam formal bukan disebabkan oleh kekurangan normatif atau teologis. Sebaliknya, hal itu mencerminkan kendala struktural yang timbul dari integrasi kelembagaan yang lemah, tata kelola yang terfragmentasi, dan bias negara-pasar dalam desain kebijakan. Dominasi pendekatan berorientasi pasar dan teknokratis telah memenggiring pesantren ke peran simbolis atau instrumental, sehingga mengakibatkan kesenjangan yang terus-menerus antara aspirasi etis ekonomi Islam dan realisasi kelembagaannya. Artikel ini berkontribusi pada literatur dengan mengembangkan kerangka konseptual yang menempatkan pesantren sebagai lembaga perantara yang menghubungkan nilai-nilai, pasar, dan kebijakan publik. Artikel ini berpendapat bahwa keberlanjutan dan inklusivitas pembangunan ekonomi Islam di Indonesia bergantung pada reposisi pesantren dalam arsitektur tata kelola yang inklusif. Oleh karena itu, mengintegrasikan pesantren ke dalam tata kelola halal, keuangan sosial Islam, dan pembuatan kebijakan ekonomi bukan hanya pilihan kebijakan tetapi juga kebutuhan struktural dan normatif untuk melestarikan etos transformatif ekonomi Islam.

**Kata kunci:** Pesantren, Pembangunan, Ekonomi Syariah di Indonesia

### **INTRODUCTION**

Over the past two decades, the Islamic economy in Indonesia has experienced significant institutional expansion, particularly through the growth of Islamic banking, halal value chains, and Islamic social finance instruments integrated into national development strategies<sup>1</sup>. This expansion reflects a broader global trend where Islamic economics is increasingly positioned not only as a financial alternative but also as a normative framework that addresses issues of inequality, ethical markets, and

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<sup>1</sup> Khaliq Ahmad and Datuk Abdelaziz Berghout, "Islamic Finance and Sustainable Development," 2025.

sustainable development <sup>2</sup>. Contemporary studies emphasize that Islamic economics operates within a moral-institutional nexus, where ethical values, social beliefs, and religious authority play a central role in shaping economic behavior <sup>3</sup>.

In this moral-institutional concept, Islamic boarding schools (pesantren) occupy a unique position as socio-religious institutions that have long been established and embedded in local communities <sup>4</sup>. Beyond its educational function, Islamic boarding schools contribute to the transmission of religious norms, social discipline, and collective economic practices among Muslim communities <sup>5</sup>. Recent empirical studies have shown that Islamic boarding schools influence community-based economic initiatives, halal awareness, and grassroots Islamic entrepreneurship, positioning them as influential actors in the Islamic socio-economic ecosystem in Indonesia <sup>6</sup>. As a result, Islamic boarding schools are increasingly recognized as part of the social infrastructure that supports the spread of Islamic economic values at the grassroots level <sup>7</sup>.

Despite growing recognition of the social influence of Islamic boarding schools, the dominant literature on Islamic economics in Indonesia still focuses heavily on formal, state-centered institutions, such as Islamic financial regulators, halal certification bodies, and Islamic commercial banks <sup>8</sup>. This institutional bias has led to an analytical gap regarding how non-state religious institutions contribute to the governance and sustainability of the Islamic economic system <sup>9</sup>. Although Islamic boarding schools are often mentioned in discussions about community empowerment and development,

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<sup>2</sup> Khadar Ahmed Dirie, Md Mahmudul Alam, and Selamah Maamor, "Islamic Social Finance for Achieving Sustainable Development Goals: A Systematic Literature Review and Future Research Agenda," *International Journal of Ethics and Systems* 40, no. 4 (2024): 676–98.

<sup>3</sup> (Zaman, 2020)

<sup>4</sup> Ronald A Lukens-Bull, "Women Pushing the Limits: Gender Debates in Islamic Higher Education," in *Islamic Higher Education in Indonesia: Continuity and Conflict* (Springer, 2013), 87–109.

<sup>5</sup> Azyumardi Azra, "Pesantren Dan Transformasi Sosial," *Studia Islamika* 27, no. 1 (2020).

<sup>6</sup> Ali Fahmi Hudaefi and Irfan Syauqi Beik, "Kewirausahaan Islam Berbasis Petani," *Jurnal Akuntansi Dan Riset Bisnis Islam* 12, no. 5 (2021).

<sup>7</sup> Kementerian Perencanaan Pembangunan Nasional and Badan Perencanaan Pembangunan Nasional, "Masterplan Ekonomi Syariah Indonesia 2019-2024," *Jakarta: Kementerian Perencanaan Pembangunan Nasional*. Hal, 2018, 23–24.

<sup>8</sup> Ahmad Alkhamees, "The Impact of Shari'ah Governance Practices on Shari'ah Compliance in Contemporary Islamic Finance," *Journal of Banking Regulation* 14, no. 2 (2013): 134–63.

<sup>9</sup> David Levi-Faur, "From 'Big Government' to 'Big Governance'?", 2012.

their structural role in the political economy of Islamic economics remains understudied theoretically.

Moreover, most existing studies approach Islamic boarding schools through a normative or developmental lens, emphasizing moral education and poverty alleviation while ignoring issues of power, institutional coordination, and policy influence <sup>10</sup>. Engagement with international political economy, governance, and institutional theory to explain how Islamic boarding schools interact with markets and the state in shaping Islamic economic outcomes is still limited <sup>11</sup>. Consequently, the absence of a robust analytical framework has led to a fragmented understanding of the position of Islamic boarding schools within Indonesia's evolving Islamic economic architecture <sup>12</sup>.

This study seeks to fill in and conceptualize Islamic boarding schools as non-state actors embedded within a broader framework of Islamic political economy and institutional governance <sup>13</sup>. By integrating insights from international literature with the Indonesian context, this study aims to go beyond normative descriptions and offer a structural explanation of the role of Islamic boarding schools in Islamic economic development <sup>14</sup>. The research The Role of Islamic Boarding Schools in the Development of Sharia Economy in Indonesia<sup>15</sup> explains that Islamic boarding schools have an important role in the sharia economy, so this research goes further by analyzing how Islamic Boarding Schools institutionally develop the sharia economy through education, entrepreneurship, and economic institutions.

The main argument of this article is that the limited contribution of Islamic boarding schools to formal Islamic economic development is not rooted in normative or theological deficiencies, but rather in weak institutional integration and governance design. Addressing this gap is crucial for advancing a more inclusive and sustainable

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<sup>10</sup> M. Zulkhibri, "Rethinking Islamic Economics," *Journal of Economic Methodology* 28, no. 4 (2021).

<sup>11</sup> (Mavelli, 2020)

<sup>12</sup> Douglass C North, "Understanding the Process of Economic Change," in *Understanding the Process of Economic Change* (Princeton university press, 2010).

<sup>13</sup> Kenneth W Abbott and Duncan J Snidal, *The Spectrum of International Institutions: An Interdisciplinary Collaboration on Global Governance* (Routledge, 2021).

<sup>14</sup> Mehmet Asutay, "Islamic Moral Economy as the Foundation of Islamic Finance," *Islamic Finance in Europe: Towards a Plural Financial System* 5 (2013): 55–63.

<sup>15</sup> Faizal Affandi and Melda Diana Nasution, "Islamic Boarding Schools And The Development Of Sharia Economy In Indonesia," (EKSYA) *Jurnal Program Studi Ekonomi Syariah STAIN Madina* 4, no. 1 (2023): 243–58.

model of Islamic economic development that meaningfully connects values, institutions, and policies<sup>16</sup>.

## RESEARCH METHODS

This article is a conceptual research (conceptual paper) that aims to develop a theoretical understanding and analytical framework regarding the role of Islamic boarding schools (pesantren) in the development of the sharia economy and halal industry in Indonesia. Unlike empirical research, the article's concept does not focus on field data collection, but rather on a critical synthesis of existing scientific concepts, theories, and findings to develop a new analytical perspective. In the literature on scientific methodology, a conceptual paper is understood as a systematic effort to organize, integrate, and reconstruct knowledge used to produce a framework or theoretical proposition that can be tested in further research<sup>17</sup>.

### Research Approach

This research uses a qualitative approach based on conceptual and theoretical analysis (qualitative conceptual analysis). This approach was chosen because the issues of Islamic boarding schools, Islamic economics, and the halal industry cannot be fully explained through quantitative measurements alone, but rather require an understanding of the relationship between religious values, institutional structures, and public policy. Conceptual analysis allows researchers to examine the meaning, assumptions, and normative application of key concepts used in the literature on Islamic economics and Islamic political economy<sup>18</sup>.

This approach also aligns with the view that the study of Islamic economics cannot be separated from the moral, institutional, and political dimensions that shape the economic practices of the people. Therefore, the analysis is not aimed at statistical verification, but rather at conceptual interpretation and theoretical integration<sup>19</sup>.

### Data Sources and Literature Selection Strategy

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<sup>16</sup> Isaac K Ofori and Simplice Asongu, "Foreign Direct Investment, Governance and Inclusive Growth in Sub-Saharan Africa," *Governance and Inclusive Growth in Sub-Saharan Africa* (June 7, 2021), 2021.

<sup>17</sup> Elina Jaakkola, "Designing Conceptual Articles: Four Approaches," *AMS Review* 10, no. 1 (2020): 18–26.

<sup>18</sup> Amalie Trængbæk and Mathilde Cecchini, "Using the Interpretivist Methodology," in *Handbook on Ministerial and Political Advisers* (Edward Elgar Publishing, 2023), 123–36.

<sup>19</sup> M Umer Chapra, *The Future of Economics: An Islamic Perspective*, vol. 21 (Kube Publishing Ltd, 2016).

Data sources were obtained through a systematic literature review of relevant scientific publications and policy documents. The literature was selected based on the following criteria: (1) journal articles indexed by Scopus or accredited national journals; (2) substantive relevance to the themes of Islamic boarding schools, Islamic economics, the halal industry, and public policy; (3) publication timeframe of 2010–2024 to ensure the novelty of the analysis; and (4) clear theoretical contributions, not merely empirical descriptions<sup>20</sup>.

The literature includes international journal articles, academic books, policy reports, and official government documents related to halal regulations. The selection process was conducted purposively to ensure the literature used represents the main theories in the field of Islamic economics and halal governance<sup>21</sup>.

### **Analysis Techniques and Conceptual Framework**

Data analysis was conducted through three main stages. *First*, a conceptual map was conducted to identify key concepts such as Islamic boarding schools, Islamic economics, the halal industry, public policy, and governance. This mapping aimed to examine the relationships between concepts and the position of Islamic boarding schools within the national halal economic ecosystem<sup>22</sup>.

*Second*, a thematic-conceptual analysis was conducted, namely grouping the literature based on the theoretical perspectives used, such as the normative-religious approach, Islamic economics, and Islamic political economy. This stage helps identify differences in assumptions and frameworks of thought between the studies described<sup>23</sup>.

*Third*, a contextual synthesis was conducted, integrating various findings and concepts to build a new analytical framework. This synthesis not only summarizes the literature but also connects key concepts to explain why the role of Islamic boarding schools in the halal economy has not been optimal despite their strong religious and social legitimacy<sup>24</sup>. Proving that community-based economic empowerment is able to

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<sup>20</sup> Jane Webster and Richard T Watson, "Analyzing the Past to Prepare for the Future: Writing a Literature Review," *MIS Quarterly*, 2002, xiii–xxiii.

<sup>21</sup> Hannah Snyder, "Literature Review as a Research Methodology: An Overview and Guidelines," *Journal of Business Research* 104 (2019): 333–39.

<sup>22</sup> Yosef Jabareen, "Building a Conceptual Framework: Philosophy, Definitions, and Procedure," *International Journal of Qualitative Methods* 8, no. 4 (2009): 49–62.

<sup>23</sup> Virginia Braun and Victoria Clarke, "Using Thematic Analysis in Psychology," *Qualitative Research in Psychology* 3, no. 2 (2006): 77–101.

<sup>24</sup> David A Whetten, "What Constitutes a Theoretical Contribution?," *Academy of Management Review* 14, no. 4 (1989): 490–95.

maintain the sustainability of Islamic boarding schools, this study argues that sustainable Islamic boarding schools then play a strategic role in developing the sharia economy in Indonesia<sup>25</sup>.

### **Conceptual Research Output**

The main outputs of this methodology are: (1) a conceptual framework that positions Islamic boarding schools as actors in Islamic political economy; (2) a theoretical synthesis of the relationship between Islamic boarding schools, halal policies, and Islamic economic governance; and (3) contextual propositions that can be used as a basis for further empirical research and public policy research <sup>26</sup>. Thus, this article fulfills the characteristics of a conceptual paper which is not only descriptive, but also analytical and theoretically contributive <sup>27</sup>.

## **RESEARCH RESULTS**

### **Islamic Boarding Schools as Islamic Economic Actors in the Development of Sharia Economics**

The results of contextual research (Part V) show that Islamic boarding schools in Indonesia cannot be understood only as religious educational institutions, but rather as non-state Islamic political economic actors that operate in the relationship between values, markets, and public policy <sup>28</sup>. expands the literature on Islamic economics, which has tended to focus analysis on formal institutions such as Islamic banking and the halal industry, while ignoring the role of community-based socio-religious institutions <sup>29</sup>.

In the perspective of Islamic political economy, the economic system is always embedded (embedded) in social, moral and power structures <sup>30</sup>. Pesantren have a strategic position because they combine the scholarly authority of ulama, moral

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<sup>25</sup> Abdul Muiz, Siti Qurratul Aini, and Mohd Shahid Bin Mohd Noh, "Advancing Sustainable Economic Empowerment in Pesantren by Community-Based Development Theory," 2025.

<sup>26</sup> Meng Zhang, Guy G Gable, and Mary Tate, "Overview of the Multilevel Research Perspective: Implications for Theory Building and Empirical Research," *Communications of the Association for Information Systems* 45, no. 1 (2019): 1.

<sup>27</sup> Lucy Gilson et al., "Building the Field of Health Policy and Systems Research: Social Science Matters," *PLoS Medicine* 8, no. 8 (2011): e1001079.

<sup>28</sup> Mehmet Asutay, "Conceptualising and Locating the Social Failure of Islamic Finance: Aspirations of Islamic Moral Economy vs the Realities of Islamic Finance," *Asian and African Area Studies* 11, no. 2 (2012): 93–113.

<sup>29</sup> Feisal Khan, "How 'Islamic' Is Islamic Banking?," *Journal of Economic Behavior & Organization* 76, no. 3 (2010): 805–20.

<sup>30</sup> Douglass C North, *Institutions, Institutional Change and Economic Performance* (Cambridge university press, 1990).

legitimacy, and closeness to the Muslim social base<sup>31</sup>. The findings of this study confirm that this legitimacy allows Islamic boarding schools to influence the economic preferences of the community, including attitudes towards halal consumption, Islamic finance, and Islamic business ethics<sup>32</sup>.

Internasional literature shows that community-based religious institutions often function as informal regulators in value-based markets, despite lacking formal legal authority<sup>33</sup>. In the Indonesia context, Islamic boarding schools carry out this function through Islamic jurisprudence education, internal economic practices (Islamic boarding school cooperatives, BMTs, halal business units), and providing a symbol of legitimacy for Islamic economic products and institutions<sup>34</sup>. This finding is in line with the research results (Part V) which position Islamic boarding schools as a moral infrastructure for the development of the national sharia economy<sup>35</sup>.

Thus, this discussion confirms that the contribution of Islamic boarding schools to the development of sharia economics is structural, not merely incidental or normative<sup>36</sup>. This position provides an important foundation for further analysis of the structural tensions facing Islamic boarding schools in the modern economic system. Furthermore, the findings of this study indicate that the involvement of Islamic boarding schools in the sharia economy does not only occur at the micro level of practice, but also has power in the configuration of economic power at the local and national levels<sup>37</sup>. From the perspective of the political economy of religion, religious institutions such as Islamic boarding schools function as arenas for the production of symbolic authority that can influence economic policies and market preferences<sup>38</sup>. International literature confirms that when moral authority is not institutionally involved in the design of public policy,

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<sup>31</sup> Robert W Hefner, "Islamic Schools, Social Movements, and Democracy in Indonesia," *Making Modern Muslims: The Politics of Islamic Education in Southeast Asia*, 2009, 55–105.

<sup>32</sup> Jonathan AJ Wilson, "The Halal Industry and Global Governance," *Journal of Islamic Marketing* 10, no. 1 (2019).

<sup>33</sup> (Mavelli, 2020)

<sup>34</sup> Asad Zaman, "Islamic Economics: A Critique of Normative Failure," *Review of Islamic Economics* 26, no. 1 (2022).

<sup>35</sup> Wael B Hallaq, *Shari'a: Theory, Practice, Transformations* (Cambridge University Press, 2009).

<sup>36</sup> Asutay, "Conceptualising and Locating the Social Failure of Islamic Finance: Aspirations of Islamic Moral Economy vs the Realities of Islamic Finance."

<sup>37</sup> (Mavelli, 2020)

<sup>38</sup> Robert W Hefner, "Islam and Politics in Asia," in *Oxford Research Encyclopedia of Politics*, 2024.

religious institutions tend to experience marginalization in the process of modern economic development <sup>39</sup>. This finding strengthens the research results (Part V) which identified the absence of an integrative governance framework as the main factor in the limited structural contribution of Islamic boarding schools to the development of Indonesia's sharia economy <sup>40</sup>.

In addition, the position of Islamic boarding schools as actors in Islamic political economy also places them in tension between the moral-economic logic of sharia and the rationality of state economic policies that focus on efficiency and growth <sup>41</sup>. Substitute studies in Islamic moral economy show that without governance mechanisms that accommodate the values of distributive justice and social inclusiveness, Islamic economics risks being reduced to a market instrument that loses its social transformational power <sup>42</sup>. In this context, Islamic boarding schools have the potential to become balancing institutions that counterbalance the dominance of market logic, provided they are positioned as active subjects in the sharia economic policy ecosystem <sup>43</sup>. Thus, strengthening the role of Islamic boarding schools is not only relevant for the development of the sharia economy, but also for the formation of a more equitable and value-based national economic governance <sup>44</sup>.

### **Structural Tensions between Islamic Boarding School Sharia Values and the Modern Economic System**

The failure of Islamic economics in various countries is not caused by the weakness of Islamic normative principles, but rather by the failure of institutions and governance <sup>45</sup>. The results of this study confirm this argument in the Indonesian context, where the growth of the sharia economy, sharia banking, the halal industry, and Islamic social finance have not been systematically integrated with the social base of Islamic boarding schools <sup>46</sup>.

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<sup>39</sup> Asutay, "Conceptualising and Locating the Social Failure of Islamic Finance: Aspirations of Islamic Moral Economy vs the Realities of Islamic Finance."

<sup>40</sup> Zaman, "Islamic Economics: A Critique of Normative Failure."

<sup>41</sup> Khan, "How 'Islamic' Is Islamic Banking?"

<sup>42</sup> Asutay, "Islamic Moral Economy as the Foundation of Islamic Finance."

<sup>43</sup> Mohammad Kabir Hassan et al., "Ten Years of the Journal of Islamic Marketing: A Bibliometric Analysis," *Journal of Islamic Marketing* 13, no. 10 (2022): 2047-68.

<sup>44</sup> North, *Institutions, Institutional Change and Economic Performance*.

<sup>45</sup> Asutay, "Conceptualising and Locating the Social Failure of Islamic Finance: Aspirations of Islamic Moral Economy vs the Realities of Islamic Finance."

<sup>46</sup> Wilson, "The Halal Industry and Global Governance."

As a result, Islamic boarding schools are often caught in two extreme positions: on the one hand they are promoted as symbols of Islamic economics, on the other hand they are not substantively involved in market design and structure policies <sup>47</sup>. This condition strengthens the criticism of the normative approach in Islamic economics which emphasizes moral superiority, but ignores the dimensions of power, regulation, and governance <sup>48</sup>.

This discussion shows that without a governance mechanism capable of bridging Islamic boarding school values with the modern economic system, Islamic boarding schools are at risk of being marginalized in the mainstream of Islamic economic development <sup>49</sup>. Therefore, an Islamic political economy approach is crucial for understanding the structural limitations of Islamic boarding schools and formulating realistic transformation strategies <sup>50</sup>.

Furthermore, this structural tension is also reflected in the process of institutionalizing Islamic economics which tends to be top-down and market-oriented, thus ignoring the social capital and moral authority of Islamic boarding schools <sup>51</sup>. International studies on religious institutions and economic governance show that when religious values are only used as symbolic legitimacy without institutional integration, religious institutions will lose bargaining power in market-state relations <sup>52</sup>. In the Indonesian context, this is evident in the minimal involvement of Islamic boarding schools (pesantren) in formulating halal industry regulations and sharia economic policies, even though Islamic boarding schools have a broad and sustainable social base <sup>53</sup>. This finding strengthens the research results (Part V) that the main problem does not lie in the resistance of Islamic boarding schools to the economy of modernity, but rather in the design of governance that is not inclusive of socio-religious actors <sup>54</sup>.

Moreover, the updated literature in Islamic political economy asserts that a sharia economy operating without reform risks experiencing what is known as "market

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<sup>47</sup> (Mavelli, 2020)

<sup>48</sup> Zaman, "Islamic Economics: A Critique of Normative Failure."

<sup>49</sup> North, *Institutions, Institutional Change and Economic Performance*.

<sup>50</sup> Asutay, "Conceptualising and Locating the Social Failure of Islamic Finance: Aspirations of Islamic Moral Economy vs the Realities of Islamic Finance."

<sup>51</sup> Wilson, "The Halal Industry and Global Governance."

<sup>52</sup> (Mavelli, 2020)

<sup>53</sup> Hefner, "Islamic Schools, Social Movements, and Democracy in Indonesia."

<sup>54</sup> North, *Institutions, Institutional Change and Economic Performance*.

capture of Islamic norms,” namely when sharia principles are reduced to instruments of market commodification<sup>55</sup>. In this condition, Islamic boarding schools face a strategic dilemma between maintaining the integrity of moral values and adapting to the demands of the modern market<sup>56</sup>. Without a policy framework that positions Islamic boarding schools as strategic partners, this tension not only limits the contribution of Islamic boarding schools, but also encompasses the goals of sharia socio-economic transformation itself<sup>57</sup>. Therefore, the Islamic political economy approach demands a repositioning of Islamic boarding schools as structural actors actively involved in economic decision-making, not merely as normative complements in the narrative of Islamic economic development<sup>58</sup>.

### **Governance and Repositioning of Islamic Boarding Schools in the National Sharia Economic Ecosystem**

The third research finding (Part V) shows that the dominance of the normative-descriptive approach in the study of Islamic boarding school economics has an impact on the weak repositioning of Islamic boarding schools in national Islamic economic policy<sup>59</sup>. Islamic boarding schools are more often treated as objects of empowerment, not as strategic actors in sharia economic governance<sup>60</sup>.

Based on the research conceptual framework, Islamic boarding schools should be positioned as mediation institutions that bridge Islamic economic values with the state, market and society<sup>61</sup>. International literature confirms that the successful integration of religious institutions in economic development is highly dependent on inclusive and participatory governance design<sup>62</sup>.

This repositioning encourages a shift in the policy paradigm from a charitable approach to an institutional governance approach, where Islamic boarding schools are involved in halal policies, the development of the sharia industrial ecosystem, and the strengthening of Islamic social finance<sup>63</sup>. Without this repositioning, Islamic boarding

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<sup>55</sup> Asutay, “Conceptualising and Locating the Social Failure of Islamic Finance: Aspirations of Islamic Moral Economy vs the Realities of Islamic Finance.”

<sup>56</sup> Khan, “How ‘Islamic’ Is Islamic Banking?”

<sup>57</sup> Zaman, “Islamic Economics: A Critique of Normative Failure.”

<sup>58</sup> Asutay, “Islamic Moral Economy as the Foundation of Islamic Finance.”

<sup>59</sup> Hefner, “Islamic Schools, Social Movements, and Democracy in Indonesia.”

<sup>60</sup> Wilson, “The Halal Industry and Global Governance.”

<sup>61</sup> (Mavelli, 2020)

<sup>62</sup> North, *Institutions, Institutional Change and Economic Performance*.

<sup>63</sup> Zaman, “Islamic Economics: A Critique of Normative Failure.”

schools will remain on the fringes of the economic system, despite having strong religious legitimacy<sup>64</sup>.

Furthermore, the weak repositioning of Islamic boarding schools in national Islamic economic policy also reflects an institutional bias in the design of Islamic economic governance which is too focused on state and market actors<sup>65</sup>. Institutional economics literature emphasizes that ignoring non-state social actors in the policy formulation process will result in policies that are not contextual and minimize social legitimacy<sup>66</sup>. In the context of the Indonesian sharia economy, this condition causes halal policies and sharia finance to develop technocratically, but is less able to eliminate the socio-religious basis which is the main source of legitimacy for the sharia economy<sup>67</sup>.

## DISCUSSION

### **Islamic Boarding Schools as Islamic Economic Actors in the Development of Sharia Economics**

Research shows that Islamic boarding schools play a role in the development of sharia economics through several stages: *first*, education on sharia economic principles in the curriculum. *Second*, the formation of santripreneurs (entrepreneurial students). *Third*, economic models that align with sharia principles.

This research expands the literature on Islamic economics, which has tended to focus on formal institutions such as Islamic banking and the halal industry, while neglecting the role of community-based socio-religious institutions (Khan, 2010). Pesantren terbukti memiliki posisi strategis karena mengintegrasikan otoritas Islamic boarding schools have been shown to have a strategic position because they integrate the scholarly authority of Islamic scholars , religious moral legitimacy , and Structural proximity to the Muslim social base . This combination gives Islamic boarding schools the capacity to influence community economic preferences, including halal consumption, the use of Islamic financial services, and the formation of Islamic business ethics, in line with research (Hefner, 2009 & Wilson, 2019)

Thus, the contribution of Islamic boarding schools to the development of the Islamic economy is structural , not merely incidental or normative. Islamic boarding

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<sup>64</sup> Asutay, "Conceptualising and Locating the Social Failure of Islamic Finance: Aspirations of Islamic Moral Economy vs the Realities of Islamic Finance."

<sup>65</sup> Wilson, "The Halal Industry and Global Governance."

<sup>66</sup> North, *Institutions, Institutional Change and Economic Performance*.

<sup>67</sup> (Mavelli, 2020)

schools act as infrastructure. moral which supports the sustainability of the national sharia economy by maintaining the value orientation of justice, halalness, and social support (Hallaq, 2009). This finding confirms that the sharia economy cannot be reduced to a mere market instrument, but must be understood as a socio-moral project rooted in community institutions.

### **Structural Tensions between Islamic Boarding School Sharia Values and the Modern Economic System**

research confirms this argument in the Indonesian context. Although the sharia economic sector-including sharia banking, the halal industry, and Islamic social finance-has experienced quantitative growth, these sectors have not been systematically integrated with the social base of Islamic boarding schools (pesantren), which serve as the source of moral legitimacy and sustainability of the sharia socio-economic system.

This research shows that without a policy framework that positions Islamic boarding schools as strategic partners in economic decision-making, these structural tensions not only limit the contribution of Islamic boarding schools but also undermine the goals of sharia socio-economic transformation itself (Zaman, 2022). Therefore, an Islamic political economy approach is crucial for repositioning Islamic boarding schools as actors . structural in the national sharia economic system-not merely a normative complement in the development narrative, but as an active subject in the formation of just and value-based economic governance.

The results of this study reveal the existence of structural tension between the sharia economic values produced by Islamic boarding schools and the modern economic institutional framework that dominates the national economic system <sup>68</sup>. This tension arises because the modern economy operates within the logic of efficiency, competition, and capital accumulation, while Islamic boarding schools operate within the logic of morality, social solidarity, and distributive justice <sup>69</sup>.

### **Governance and Repositioning of Islamic Boarding Schools in the National Sharia Economic Ecosystem**

The results of this study show that Islamic boarding schools have social capital, trust networks, and normative capacity that formal economic institutions do not have <sup>70</sup>.

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<sup>68</sup> Khan, "How 'Islamic' Is Islamic Banking?"

<sup>69</sup> Zaman, "Islamic Economics: A Critique of Normative Failure."

<sup>70</sup> Zaman.

However, without institutional mechanisms that allow Islamic boarding schools to participate in the governance process, this capital is not converted into policy influence<sup>71</sup>. International studies on religious governance confirm that the successful integration of religious institutions into modern economic systems depends heavily on the formal recognition of their role in decision-making structures<sup>72</sup>.

From the perspective of Islamic political economy, the repositioning of Islamic boarding schools is not just an administrative issue, but rather a matter of power relations in economic governance<sup>73</sup>. When Islamic boarding schools are only involved in the social implementation stage and not in the policy formulation stage, the risk of sharia economics being reduced to a market project that loses its orientation towards social justice<sup>74</sup>. This is in line with global criticism of the development of Islamic economics which tends to experience "ethical depoliticization", namely dismantling the moral values of the structure of economic policy. This discussion directly leads to the implementation of policy (Conclusion & Policy Implications), namely the need for integration of Islamic boarding schools in the design of national Islamic economic governance as a prerequisite for the desire and inclusiveness of value-based economic development in Indonesia<sup>75</sup>.

Therefore, the repositioning of Islamic boarding schools in the national sharia economic ecosystem must be understood as a corrective strategy for governance failure<sup>76</sup>. Islamic boarding schools need to be institutionalized as strategic partners of the state in the preparation of halal regulations, the development of Islamic social finance, and the design of community-based sharia economic policies<sup>77</sup>. Without this step, the development of sharia economics in Indonesia has the potential to lose the dimension of social transformation which is the main normative goal of Islamic economics<sup>78</sup>.

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<sup>71</sup> Asutay, "Conceptualising and Locating the Social Failure of Islamic Finance: Aspirations of Islamic Moral Economy vs the Realities of Islamic Finance."

<sup>72</sup> Luca Mavelli, "Islam and the Politics of Global Economic Governance," *Politics, Religion & Ideology* 13, no. 2 (2012).

<sup>73</sup> Zaman, "Islamic Economics: A Critique of Normative Failure."

<sup>74</sup> Khan, "How 'Islamic' Is Islamic Banking?"

<sup>75</sup> Wilson, "The Halal Industry and Global Governance."

<sup>76</sup> North, "Underst. Process Econ. Chang."

<sup>77</sup> Jonathan A J Wilson Jonathan Liu, "Journal of Islamic Marketing," *JIMA* 2 (2013): 1.

<sup>78</sup> (Zaman, 2020)

## CONCLUSION

Schools (pesantren) occupy a structurally significant yet underutilized position in the development of Islamic economics in Indonesia. Far from being merely religious educational institutions, pesantren function as non-state actors embedded in the moral, social, and political foundations of Islamic economic life. Their authority, legitimacy, and closeness to grassroots communities enable them to shape economic preferences, ethical behavior, and collective economic practices in ways that formal institutions alone cannot. As such, pesantren constitute a crucial component of the social infrastructure supporting Indonesia's Islamic economic ecosystem.

However, the limited contribution of Islamic boarding schools (pesantren) to the development of formal Islamic economics is not rooted in normative or theological deficiencies. Rather, it reflects deeper structural constraints arising from weak institutional integration and governance design. The findings suggest that Islamic economic development in Indonesia has largely followed a state- and market-centered path, prioritizing financial institutions, regulatory frameworks, and industrial expansion while marginalizing community-based religious institutions. This imbalance has resulted in a persistent gap between the moral aspirations of Islamic economics and its institutional realization.

By conceptualizing Islamic boarding schools (pesantren) within the framework of Islamic political economy, this article develops a structural understanding of their role in Islamic economic development. It argues that pesantren must be repositioned as intermediary institutions connecting values, markets, and public policy. This repositioning requires a shift from a charity-based and empowerment-oriented approach to an inclusive institutional governance model that formally recognizes pesantren as partners in halal governance, Islamic social finance, and community-based economic policy design.

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