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The Trace Of Colonialism In Sharia Banking In Indonesia: Structural Obstacles And Strategies For Decolonializing Management

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ABSTRACT

Colonialism has left a structural legacy that affects the legal, financial, and management paradigms, which have shaped the foundation of the modern financial sector and economic institutions in Muslim countries. In Indonesia, Islamic banking cannot be separated from the long-standing legacy of the colonial economic structure. This article examines the traces of colonialism in the field of Islamic banking in Indonesia, identifies existing structural obstacles, and formulates decolonization strategies for management that are relevant to the economic independence of the Muslim community. This research uses a qualitative approach, including literature review, historical analysis, and policy reports. The study's results show that the colonial legacy is still evident in three main aspects, namely the dualism of the financial system, dependence on colonial law, and the dominance of Western management thinking. The proposed decolonization strategies include strengthening the epistemology of Islamic economics, institutional reform, and business model innovation Based on local and Sharia values to strengthen the independence of the community. This study contributes to the development of theory and practice in Islamic banking management that is more independent and brings benefits.

1. Introduction

Colonialism is an event of expanding power to exploit all forms of resources owned by the colonized countries for years in various nations, including those with a majority Muslim population. The impact of colonization is extensive, affecting political, cultural, and economic systems. Walter D. Mignolo (2007) describes colonialism as a global modernity project aimed not only at controlling territories but also at controlling minds and intellect. Muhammad (2005) argues that Islamic banking is a financial institution that operates according to Sharia principles, meaning it does not use an interest system but instead applies profit-sharing principles (mudharabah and musharakah), trading (murabahah), leasing (ijarah), and other contracts according to fiqh muamalah norms. In Indonesia, Islamic banking has experienced significant growth since the early 1990s. However, its development cannot separated from the legacy of the Dutch colonial economic structure which altered the perspectives of the legal system, financial institutions, as well as managerial patterns in Indonesia. The colonial system created an economic dualism that distinguished between the modern economy and the traditional people's economy. This system left a tendency to disregard conventional financial rules and systems. In the present era, although colonialism has formally ended, its legacy is still clearly visible in the economic management of Muslim countries. Therefore It gave rise to the idea of decolonizing management, namely an effort to overhaul the colonial legacy and then adapt it to an economic system

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based on Islamic values. Islamic banking has developed rapidly in Indonesia over the past 20 years; this situation has great potential to support a national financial system that is inclusive while adhering to Islamic principles. This growth has not been entirely without obstacles, as it has been shaped since the colonial era. The colonial economic system left behind legal structures, financial institutions, and management paradigms oriented towards colonial interests and Western capitalist economies. Therefore, the Islamic banking sector often faces structural, regulatory, institutional, and managerial challenges. This study is important in the effort to identify traces of colonialism and then formulate appropriate management decolonization strategies in Indonesia.

2. Literature Review

In the field of Islamic economics, Chapra (2000) argues that colonialism left behind an economic system that is exploitative, bureaucratic, and centralized, so a process of decolonization is needed through strengthening institutions and implementing Sharia-based management. Asutay (2007) also adds that one of the strategic steps to gradually eliminate the community's dependence on global capitalism is to develop alternative management models that are participatory, ethical, and based on Islamic values. Sharia fintech is a technological innovation in the financial sector based on principles free from riba, gharar, and maysir, aimed at facilitating financial access for the general public (Mukhlisin, 2020). In line with this, Karim (2010) emphasizes the importance of digital innovation in Islamic finance, digital zakat platforms, and technology for managing waqf, as an effort to strengthen community self-reliance. Ascarya (2013) and Karim (2017) in their research He found that the growth of Islamic banking still faces regulatory and institutional challenges. The dualism in the financial system causes Islamic banks to be unable to compete with conventional banks.

Mignolo and Walsh (2018) stated that decolonization does not entirely reject Western state thinking, but rather emphasizes an effort to open up to pluriversality, which recognizes and appreciates the existence of diverse viewpoints living side by side. In the context of Islamic banking, this perspective provides room to shift thinking from a capitalistic framework to one based on the maqashid of Sharia and local values. Meanwhile, Smith, L.T (2012) also expressed the opinion that decolonization is an effort to provide opportunities for those who have been marginalized due to colonial history so that their voices and experiences can be reconsidered in decision-making. Western-style management approaches are not entirely suitable for local conditions, therefore organizations need to critically assess and then adapt to local values and culture. Decoloniality is not merely an idea but an ethical, political, and existential choice that arises from struggle The reality of society to reject coloniality. Decoloniality is a way to revive forms of knowledge and existence that have long been erased by modernity. (Walsh, 2018).

Islamic managerial education is currently becoming an area of increasing attention and discussion. Fattah (2018) explains that the management of Islamic education should be understood as a combination of modern management theory and knowledge of the values taught in the Qur’an and Sunnah. Fundamental concepts such as trustworthiness, justice, consultation, and public welfare serve as the main guidelines in shaping a leader who always prioritizes the well-being of the community. In line with this view, Hafidhuddin and Tanjung (2019) state that Islamic managerial education not only emphasizes accuracy and efforts to maximize results, but its goals are broader, namely blessings and social justice.

3. Methodology

This study uses a descriptive qualitative approach with library study and historical analysis methods. The data sources in this study include literature review, Indonesian banking regulations, and official reports from the OJK and BI regarding Islamic banking. Furthermore, the literature sources used to support this literature review are obtained through open access services, national and international journals, Google Scholar, DOAJ, CORE, and LibGen. The analysis is conducted in three stages: historical analysis of colonial heritage in the financial system, critical analysis of the gaps between the existing structure and Islamic economic principles, and conceptual synthesis to formulate decolonization strategies.

4. Results and Discussion

4.1 The Legacy of Colonialism in the Islamic Banking System

Based on research, it was found that the legacy of colonialism regarding the economic management system and Islamic banking in Indonesia is still adopted today. The colonial legacy is not only evident in the physical form of institutions or legal systems but is also ingrained in ways of thinking, regulatory patterns, and organizational structures used in bank management. From a historical perspective, the modern banking system in Indonesia began with Dutch colonial economic policies that positioned financial institutions as tools to support colonial trade and industry interests. The institutional and banking legal models used at that time were oriented toward the Western capitalist system, which heavily emphasized efficiency, profit, and centralized control. After Indonesia gained independence, there were no changes to the structure, laws, and institutional systems; instead, they only underwent formal adaptation without significant epistemological transformation. As a result, the Islamic banking sector that exists Then being present must operate within a legal and institutional framework designed for the conventional financial system. Colonialism also left a centralized and hierarchical management system in the context of leadership. For example, this system shows a pattern where there are tiers of positions from governor to village head as an extension of the president, and the next pattern is the elimination of meritocracy. Such a management pattern emphasizes control and supervision rather than participation.

4.2 Obstacles in the Islamic Banking System

4.2.1 Structural Barriers

The first structural obstacle is that Muslim countries are still dependent on global markets and Western economic power. This dependence occurs because the economic system of Muslims has been set up in such a way from the colonial era until now solely to serve the needs of the global market by exporting raw materials and then importing finished goods, after which they are faced with investment and foreign debt requirements. Examples of capitalist economic practices used include the passport system (Passeportenstelsel) and capital loans with interest. The second obstacle is that Indonesia's banking regulations largely refer to colonial legal frameworks, particularly the legacy of Dutch civil law and the European modern financial regulatory system. Laws and regulations governing Islamic banking are more adaptive to conventional systems, rather than being based on an independent Islamic financial paradigm. For instance, many banking legal provisions still assume the existence of interest as the main instrument, while the principles of Sharia reject interest and convert it into profit-sharing or contract forms. Thus, the goal of Islamic banking, namely Sharia objectives and protecting religion, can be achieved.

4.3 Decolonization Efforts of Management in Islamic Economics

4.3.1 Lack of Islamic Managerial Innovation

The gap between Islamic economic theory and practical application in the world of management occurs when an organization, institution, or economic system is unable to create, develop, or implement new ideas in resource management, decision-making, or operational strategies. As a result, management runs repeatedly, traditionally, and struggles to adapt. To make management based on Islamic values more innovative, relevant, and adaptive to modern demands, the following solutions can be implemented:

a) The integration of digital technology in Islamic management, the use of technologies such as the digitization of Sharia fintech helps accelerate decision-making, enhance transparency, and expand the reach of Islamic economic services.

b) Organize Islamic management certification for institutional leaders, entrepreneurs, and professionals to foster innovative thinking in accordance with Islamic principles.

c) Combining modern management theories (e.g., Lean Management, Agile, Balanced Scorecard) with the principles of trustworthiness, fairness, welfare, and deliberation.

For example: the use of KPI (Key Performance Indicator) based on community benefits, not solely focused on profit.

d) Islamic Management Research and Development, encouraging educational institutions and research centers to develop Islamic management methodologies focused on research and innovation in the operational systems of zakat institutions, waqf, cooperatives, and Islamic banking.

e) A system of rewards and recognition can be implemented to motivate and enhance well-being, thereby creating innovations that benefit humanity.

4.3.2 Strengthening Islamic Economic Institutions

Optimization is the process of strengthening the capacity, structure, and role of Sharia-based economic institutions so that they are able to become drivers of development and competitive within the global economic system. Islamic economic institutions, such as Sharia banks, need to have a strong institutional foundation through clear regulations, transparent governance, and professional human resources. Islamic economics in Indonesia has great potential considering the majority of the population is Muslim. However, in practice, the strengthening of Islamic economic institutions, particularly in the field of Sharia banking, often encounters obstacles. These obstacles do not only originate from internal institutional factors but also from existing regulations. Firstly, Banking Law No. 7 of 1992 and Law No. 10 of 1998. Although they have created space for Sharia banking, these regulations still position Sharia banks as an 'addition' to the conventional banking system. These regulations do not provide full autonomy for Islamic banking has to develop with its own characteristics. As a result, Islamic banks must still comply with the conventional regulatory framework, which does not always align with Sharia principles, such as the stipulations of the reference interest rate (BI Rate) that still serve as a benchmark in financial management. Secondly, taxation rules in the case of Islamic banking, such as the imposition of double taxation on products like murabahah (sale with a margin) or ijarah (leasing), have once been a major issue. Sharia transactions, which should be simple, are instead subject to higher tax burdens than conventional transactions. Indonesia is known as a country with a Muslim population; logically, this condition should be a significant asset for the ecosystem of Islamic banking growth. However, in reality, the market share of Islamic banking in Indonesia is still relatively small compared to conventional banking, accounting for only around 6–7 percent of the total national banking industry The limited use of Islamic banks in Indonesia does not mean that the public does not want a Sharia-compliant financial system, but rather due to structural, historical, regulatory factors, and limitations in innovation. To enhance the role of Islamic banks, serious steps are needed, including improving Sharia financial literacy, innovating services according to market needs, digitalizing and streamlining services, as well as implementing fair regulations that support the Islamic economy.

4.3.3 Decentralization and Participation

Decolonization efforts in management must focus on strengthening the role of the community in decision-making. A participatory system will erode the centralized and elitist colonial legacy. In the context of modern management and Islamic economics, decentralization is an effort to reduce centralistic characteristics, meaning that power and decisions are no longer concentrated only in certain elite groups. Through decentralization, decision-making becomes closer to the community, allowing policies and programs to better align with domestic needs and promote the economic independence of the people. Digital innovation, which refers to efforts to utilize technology in the field of Islamic economics, such as the emergence of halal online marketplaces and Sharia-based management systems, aims to increase both independence and competitiveness among Muslims. Digital innovation in this field includes the development of Sharia fintech services, which enable transactions to be conducted more quickly, safely, and transparently, without reliance on Conventional banks. In addition, digitalization also makes it easier for zakat institutions to reach the public through mobile applications, which provide convenience for muzakki to pay zakat anytime, and ensure its distribution is more targeted. This system is also equipped with real-time reports on fund distribution, thereby maintaining transparency.

4.3.4 Islamic Managerial Education

Developing human resources who are skilled and have Islamic character is very important. The management education curriculum needs to prioritize the integration of modern knowledge with Islamic values while also incorporating Sharia principles such as amanah (responsibility), adil (justice), shura (consultation), maslahah (benefit), and ihsan (excellence). In practice, Islamic managerial education can be applied in universities through Sharia economics and management curricula, in Islamic boarding schools through entrepreneurship training based on Sharia cooperatives, and in Islamic banking institutions through programs to strengthen human resource capacity. Therefore, Islamic managerial education serves as a strategic instrument to strengthen the Islamic economic institutions, build community independence, and create management that is just, transparent, and sustainable.

5. Conclusion

From this study, it was found that the development of the Islamic banking sector in Indonesia cannot be separated from the influence of the existing colonial structure that has developed since the Dutch colonial period. This colonial heritage is evident in three main aspects: the legal and regulatory system, the financial institutional structure resembling conventional bank models, and the understanding of a management system oriented towards profit and capitalist-style efficiency. This condition causes the Islamic banking sector to face complex structural obstacles, ranging from unsupportive regulations, organizational structure, to management adaptation that conflicts with the maqashid sharia. To address these problems, the decolonization of management becomes an effort to instill Islamic values such as the maqashid sharia as a foundation in formulating policies and strategies for managing Islamic banks. Thus, efforts in management decolonization can strengthen the position of islamic banking Sharia as an important part in the management and development of a just and sustainable national economy.

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