

## Sharia Literacy and Social Dimension of Indonesian Education: A Study of Financial Inclusion in Islamic Boarding Schools Through Digital Transformation

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### ABSTRACT

This research explores strategies for enhancing Sharia financial literacy and inclusion in Islamic boarding schools through digital transformation. It highlights the potential of digital technology to improve students' understanding and practice of Sharia finance. The study examines the influence of cultural and social factors on the adoption of digital technology and the importance of adhering to Sharia principles in digital financial transactions. Using sociological frameworks such as Rogers' Diffusion of Innovations, Bourdieu's Habitus and Capital, and Weber's Social Action Theory, the research demonstrates that digital tools like e-learning platforms and Sharia financial apps effectively boost financial literacy. Collaboration with Sharia financial institutions further promotes financial inclusion. This study provides valuable insights for developing Sharia financial literacy programs and informs policy development.

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## 1. INTRODUCTION

The government is promoting the acceleration of financial literacy and inclusion through the release of medium-term national planning documents, formulated in Presidential Regulation Number 18 of 2020 on the 2020-2024 National Medium-Term Development Plan (RPJMN). The RPJMN outlines that one of the necessary steps in deepening the financial sector to enhance economic growth and competitiveness is through the improvement of financial literacy and inclusion by leveraging various digital technologies. Despite the advent of digital financial services brought about by the 4.0 industrial revolution (Peraturan Presiden Republik Indonesia No 18 Tahun 2020 Tentang Sistem Pembangunan Jangka Menengah Nasional 2020-2024, 2020), Simorangkir notes that the level of financial literacy and inclusion among the public remains relatively low (Hidayatinnisa' et al., 2021), at only 35%. Consistent with Damayanti's (2018) research, the lack of financial literacy and inclusion in Indonesia is a crucial issue that has the potential to hinder economic development. Therefore, efforts are needed to enhance financial literacy and inclusion so that the public can fully utilize digital financial technology innovations (Prasidya, 2020).

The rapid development of technology has given rise to various digital innovations that have become integral parts of modern human life. In the current concept of Sharia economics, the development of digital service innovations is essential for Sharia Financial Institutions (LKS), which serve as a means to increase public access to Sharia financial products and services. The significant potential of Sharia finance in Indonesia is expected to provide extensive access to the Muslim community, especially to the students in Islamic boarding schools (pesantren) spread across the country. Currently, there are 37,626 registered Islamic boarding schools in Indonesia, with a total of 3.8 million resident students and 0.27 million non-resident students (Ministry of Religious Affairs, 2023) when Law Number 18 of 2019 on Islamic Boarding Schools was enacted (Ameliya, 2024).

However, Sharia Financial Institutions (LKS) still face several critical issues, one of which is the low level of literacy and inclusion in Sharia finance. According to data from the Financial Services Authority (OJK) in the 2024 National Survey on Financial Literacy and Inclusion (SNLIK), conducted in collaboration with the Central Bureau of Statistics (BPS), the index of Sharia financial literacy among the Indonesian population is 39.11 percent. This indicates that public knowledge and understanding of Sharia financial products and services remain low. Secondly, the level of Sharia financial inclusion among the Indonesian population is only 12.88 percent (Widyasanti, 2024), indicating that most of the population does not have adequate access to Sharia financial products and services. This is partly due to the disparity in access between urban and rural areas, as well as the limited understanding of Sharia finance among the public. Thirdly, infrastructure challenges and the availability of skilled human resources in Sharia finance can hinder the development of innovative Sharia financial products and services (Nugraha Triyan Putra & Thamrin, 2021).

In practice, several Islamic boarding schools have already utilized digital financial technology in their daily activities. The implementation of digital technology is one way to accelerate the improvement of digital literacy, which in turn impacts the enhancement of Sharia financial literacy and practices in these boarding schools (Badan Riset Inovasi Negara, 2023). However, there is a perception that Islamic boarding schools are not responsive to technological

developments. In reality, Islamic boarding schools have begun to integrate technology into their operations, such as digital payments and monitoring activities within the boarding school environment. The public's perception that Islamic boarding schools still adopt conservative financial management systems is not entirely incorrect. The inability of Islamic boarding schools to adapt to modern developments, especially in technology, is one of the contributing factors. To remain relevant and competitive, Islamic boarding schools need to undergo digital transformation by integrating digital financial management systems into their operations. The current dominance of traditional systems needs to be evaluated and adjusted to keep up with the times. The adoption of digital technology in all aspects of Islamic boarding school management, including finance, is a strategic step to improve efficiency and transparency.

To minimize these fundamental issues, a specific approach is needed to enhance Sharia financial literacy and inclusion in Indonesian Islamic boarding schools. One approach that can be taken is to utilize digital technology as a means to increase students' access to Sharia financial products and services. Digitalization can enable students to easily access information, conduct transactions more efficiently, and expand the reach of Sharia financial access, especially in remote areas. This aligns with the adaptation of digital information technology by Sharia financial institutions, such as Islamic banks, Sharia financing institutions, and other Sharia financial institutions, to achieve sustainability (Harto et al., 2023).

According to Waryono Abdul Ghofur, Director of Religious Education and Islamic Boarding Schools at the Ministry of Religious Affairs, digitalization is a strategic step for Islamic boarding schools to enhance competitiveness and relevance in the context of rapid information technology development. Full support from the Ministry of Religious Affairs for digitalization initiatives in Islamic boarding schools aligns with the government's commitment to accelerate national digital transformation (Mlangi, 2022). The implementation of digital financial inclusion in Islamic boarding schools can be realized by providing equitable access to various digital financial services for students and staff (Umam et al., 2023). This allows all members of the Islamic boarding school community to conduct financial transactions, payments, and savings management efficiently and effectively. Thus, digital financial inclusion can ensure equitable access to financial services within Islamic boarding schools.

According to Bank Indonesia, financial inclusion involves efforts to eliminate price and non-price barriers that can hinder public access to financial services (Bank Indonesia, n.d.). According to OJK, financial inclusion is the widespread availability of access to various institutions, products, and financial services that meet the needs and capabilities of the public (Undang - Undang OJK: Peraturan Otoritas Jasa Keuangan 53, No. 9, 2016). The utilization of digital technology is quite effective in promoting financial inclusion in Islamic boarding schools, although the costs required are quite significant.<sup>1</sup> This enables Islamic boarding schools to become adaptive, responsive institutions that provide significant benefits to the community in achieving welfare and sustainable development. Therefore, it is intriguing for researchers to study the implementation of digital transformation in Islamic boarding schools to enhance Sharia financial literacy and inclusion.

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<sup>1</sup> According to the information provided by HIPSI, developing a digital platform requires IT human resources and funds amounting to Rp. 500 million (if developed independently) and can support transactions for up to 1,000 students. The monthly cloud rental cost requires up to Rp. 8 million per month.

## 2. METHODS

This research is a qualitative descriptive study based on secondary data, such as books, research results, government publications, journal articles, newspapers, internal institutional notes, and internet sites, aimed at deeply understanding the phenomenon of Sharia digital financial inclusion. Qualitative descriptive research describes and illustrates the phenomenon related to Sharia digital financial inclusion collected from various sources. In this study, the data collected will consist of written or spoken words from involved respondents, such as administrators, students, and related parties, rather than numerical data. From the perspective of the sociology of Sharia economic law, this research also analyzes how social factors such as culture, values, and social structures influence the acceptance of digital technology. Meanwhile, from the perspective of Sharia economic law, this research highlights the importance of compliance with Sharia economic principles in financial transactions, facilitated by digital technology. The social dynamics associated with the application of digital technology in Sharia financial literacy and inclusion in Islamic boarding schools are also examined. Additionally, the research reviews theories that support the implementation of digital innovation in Sharia financial management. Thus, this research is expected to contribute to a more comprehensive understanding of the application of Sharia digital financial literacy and inclusion in Islamic boarding schools within the context of the sociology of Sharia economic law.

## 3. RESULTS AND DISCUSSION

Financial literacy is the understanding of a person about the range of prices and their potential to use this understanding in the form of personal monetary control, which includes debt control, financial savings, and the creation of monetary destiny plans (Huston, 2010). Inclusion, according to the KBBI (Indonesian Dictionary), is coverage. Financial inclusion is the ability of individuals or groups to have access to financial products and services. According to Gardeva & Rhyne, financial inclusion is a condition where all members of society have access to financial products and services (Gardeva & Rhyne, 2011). Through financial inclusion, efforts are made to ensure that all individuals and groups in society have fair and equitable access to financial services, such as bank accounts, loans, insurance, and payment services (Beik & Arsyianti, 2017). Digital finance involves the provision of financial services and payment management through the use of technology and mobile or web networks, including mobile banking (m-banking), mobile payment (m-payment), electronic money (e-money), and internet banking.

Support from Islamic boarding schools in efforts to increase financial inclusion, as explained, can be achieved through the involvement of students and the general public in productive activities. Various methods are offered to enhance financial inclusion, such as providing a range of interconnected payment channels and instruments by utilizing various digital technologies, increasing the role of BMTs (Baitul Maal wat Tamwil) and other Sharia microfinance sectors, optimizing and efficiently distributing social and religious funds (such as zakat, alms, and infaq) along with various other socio-economic empowerment initiatives, structured microfinance programs, and digital financial services.<sup>2</sup>

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<sup>2</sup> Quoted from Aripin, Fatwa, and Hannase (2022), it is explained that digital financial services can drive the creation of more competitive banking products, thereby promoting increased financial

To ensure financial inclusion, it is necessary to promote the creation of superior Islamic boarding schools through economic empowerment schemes. Several requirements are needed for Islamic boarding schools to move towards economic empowerment, as follows:

- a. Activities must be directed and beneficial to the boarding school and the surrounding community, especially the weaker segments of society;
- b. Implementation must be carried out by the boarding school and the community themselves;
- c. Since boarding schools and weaker communities find it difficult to work independently due to lack of power, efforts to empower the boarding school economy also involve the development of joint business activities within specific groups related to business units that can be empowered by the students; and
- d. Encourage the participation of the surrounding community to help each other in the spirit of social solidarity, including the involvement of local people who have advanced (Irhas et al., 2023).

However, the business entities owned by Islamic boarding schools currently do not develop well in various places. In fact, business units as business entities can be considered an appropriate platform to ensure financial inclusion. In practice, the 37,626 Islamic boarding schools that currently exist are also affiliated with Islamic community organizations, and it is recorded that only 4,455 of them are not affiliated.

**Table 1.** *Number of Islamic Boarding Schools and Their Affiliation with Islamic Community Organizations*

<b>Islamic Community Organization</b>	<b>Number of Islamic Boarding Schools</b>
NU	26.107
Muhammadiyah	515
Al Washliyah	21
Al Khairat	47
DDI	65
PUI	72
PERTI	157
LDII	167
Mathlaul Anwar	32
NW	291
NWDI	110
PERSIS	111
GUPPI	10

*Source: Ministry of Religious Affairs, 2022*

The affiliation of Islamic boarding schools with Islamic community organizations has a significant influence, one of which is related to the role played by these organizations towards the boarding schools in a coordinative and instructive manner.<sup>3</sup> This role is crucial in enriching the management perspective of business entities by the leaders of Islamic boarding schools. Well-developed business entities can serve as new economic growth centers and efforts to strengthen Sharia economic and financial systems.

inclusion. The change in public behavior, which increasingly prefers non-physical services, should be utilized by Islamic banks by issuing services that emphasize the use of information technology in banking products.

<sup>3</sup> This is as stated by Muhib Abdul Wahab (Secretary of the Pesantren Development Institute of PP Muhammadiyah during the Focus Group Discussion on August 23, 2022), that Muhammadiyah utilizes the Rakornas forum as a coordination platform as well as an instruction medium.

Religious figures also play an important role in empowering the economy, for example, in the decision-making process regarding the type of commodities produced, the formation of economic institutions, and economic practices or behaviors (Bulungo et al., 2022). Furthermore, Nadzir's (2015) study also includes students as another significant element to encourage self-development by taking actual actions (*dakwah bil hal*) in the community around the Islamic boarding school in various fields, including economic empowerment.<sup>4</sup> Based on the results of FGDs, there are factors that cause the business units currently existing in some Islamic boarding schools to not fully develop optimally, namely:

- a. Non-bankable products;<sup>5</sup>
- b. Institutional aspects (including capacity);
- c. Development strategy design;
- d. Low trust society;
- e. Entrepreneurial education patterns;
- f. Student involvement;
- g. Development funds; and
- h. The significant challenge of digital transformation.

Through the presentation given by Isnaeni Achdiat in January 2022,<sup>6</sup> it was specifically explained that digital transformation faces several issues, including a complex ecosystem involving many stakeholders such as Sharia Financial Institutions (LKS), the halal industry, MSMEs, and e-commerce. The need for digital transformation is also required, especially to synergize products between business units to be complementary to meet demand. The utilization of digital technology is quite effective in promoting financial inclusion in Islamic boarding schools, although the costs required are quite significant.<sup>7</sup> In some Islamic boarding schools that have utilized digital technology, especially in the economic sector, such as *Pondok Pesantren Al Yasini*, the application of digital technology can force an improvement in digital literacy levels, which then impacts the enhancement of Sharia financial literacy and practices in those Islamic boarding schools.<sup>8</sup>

Based on a questionnaire-based survey involving 776 Islamic boarding schools (of which 485 have business units) and 1,080 students, conducted by the National Research and Innovation Agency (BRIN) in 2022, which included the formulation of policy recommendations through a series of activities including FGDs, interviews, and case studies of best practices, the following data was obtained:

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<sup>4</sup> The FGD by BRIN was conducted on August 23, 25, and 30, 2022, involving practitioners, academics, and government officials.

<sup>5</sup> The results of the BRIN FGD also explain the need for Sharia Financial Institution products that are adaptable to suit the characteristics of the processes and types of businesses conducted by most units in Islamic boarding schools.

<sup>6</sup> Presented at the 2022 Sharia Financial Industry Outlook webinar.

<sup>7</sup> The information provided by HPSI indicates that developing a digital platform requires IT human resources and funds amounting to Rp. 500 million (if developed independently) and can support transactions for up to 1,000 students. The monthly cloud rental cost requires up to Rp. 8 million per month.

<sup>8</sup> Pesantren Al Yasini also encourages the implementation of e-BMT and the creation of a management system for the collection and management of social funds (ZISWAF). The digitalized system also generates a wealth of data that is utilized to drive the micro-economic ecosystem (Halal Value Chain).



- a. The pattern of entrepreneurial education also poses a barrier to the stagnation of business entities in Islamic boarding schools. Generally, this educational pattern heavily depends on the vision of the boarding school's leader, especially in encouraging student involvement (see survey results in Figure 1).

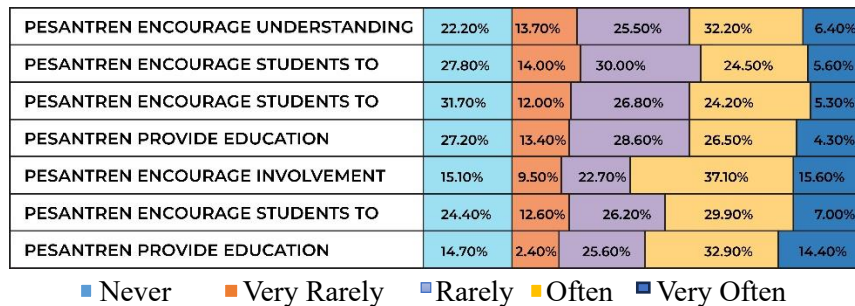


Figure 1. Survey Results on Islamic Boarding Schools' Responses to Efforts Encouraging Students' Engagement

- b. The absence of an educational framework that fosters empowerment in Islamic boarding schools, particularly economic empowerment, will affect the enthusiasm and entrepreneurial ecosystem of students, business units, and the broader boarding school community. Furthermore, this will lead to low financial literacy levels (see survey results in Figure 2) (Angraini, 2024).

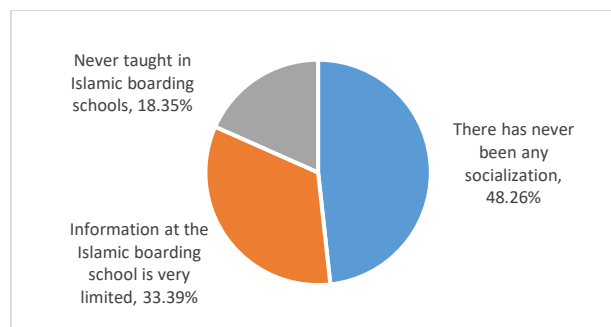


Figure 2. Percentage of Students' Responses Regarding the Reasons for Their Lack of Knowledge About Islamic Financial Products

- c. Religious figures such as *kyai* or *ustaz* still play a significant role for the majority of students in acquiring knowledge about financial products (see survey results in Figure 3).

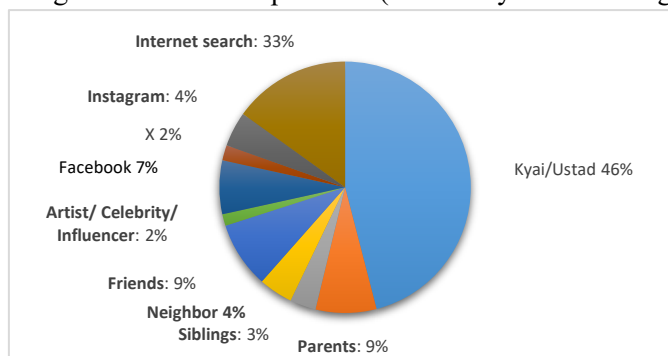


Figure 3. Sources of Information for Students on Islamic Financial Products

d. It was found that many Islamic boarding schools have not yet been reached by banking facilities. However, survey results (see Figure 4) indicate that the leaders of these schools tend to support various efforts toward financial inclusion and economic independence. Furthermore, observations reveal that many boarding school business activities remain unbankable, contributing to the reluctance of Islamic Financial Institutions (IFIs) to increase their physical presence within these educational business entities.

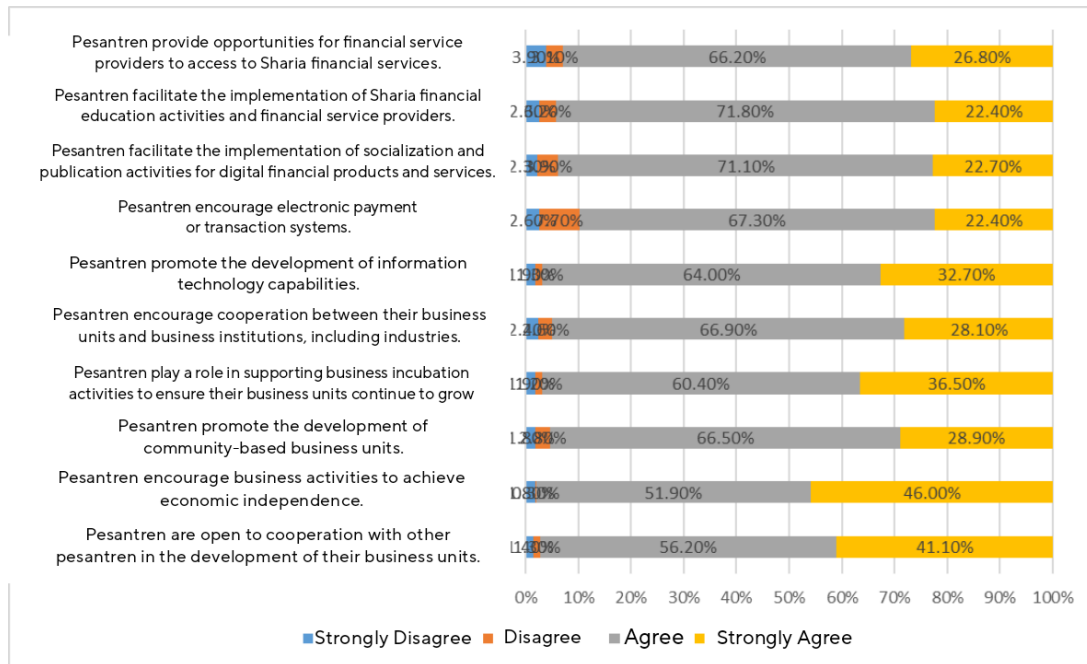


Figure 4. Survey Results on Islamic Boarding School Leaders' Perceptions of Indicators of Financial Inclusion and Economic Independence

e. From a management perspective, existing business units still face numerous challenges, including issues in product marketing, an unsupportive boarding school environment, inadequate institutional support with most operations managed non-professionally, unskilled human resources, and suboptimal business unit management (see survey results in Figure 5).

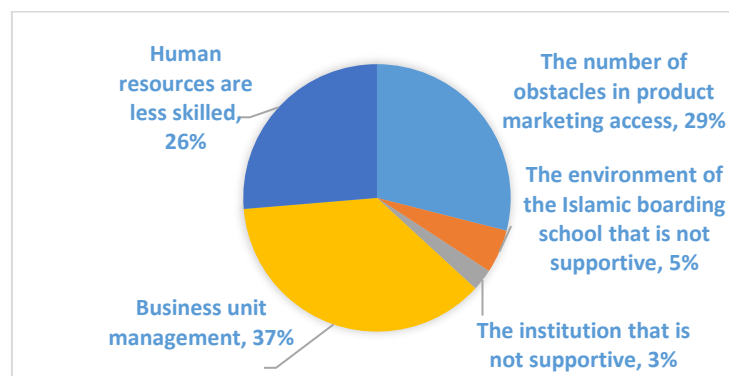


Figure 5. Various Challenges Hindering the Optimal Development of Islamic Boarding School Business Units



### 3.1. Sociological Dynamics Theory of Sharia Economic Law in Islamic Boarding Schools

Based on the processing of primary data (through observation and interviews) and secondary data (previous studies through publications), the explanation of Islamic boarding school business units and efforts to increase financial inclusion can be categorized as best practices that can be associated with the sociological theory of Sharia economic law, namely:

- a) Innovation Diffusion Theory by Everett M. Rogers, this theory can help understand the process of adopting digital technology in the development of Sharia finance, which includes stages of innovation such as knowledge, persuasion, decision, implementation, and confirmation. Factors influencing adoption include the characteristics of the innovation, communication channels, time, and the social system. For example, Islamic boarding schools can adopt digital technology more quickly if students and teachers have easy access to information about the technology and see clear benefits in its use.

Example: Sidogiri Islamic Boarding School Cooperative (Kopontren Sidogiri). In running its business, Kopontren Sidogiri has formed four Integrated Companies (PT) as business operators for several business lines. The four PTs established by Sidogiri are:

- 1) PT. Sidogiri Mitra Utama, which operates in the distribution sector; retail and wholesale stores with the brand Toko Basmalah;
- 2) PT. Sidogiri Mandiri Utama in the manufacturing sector, producing Packaged Drinking Water (AMDK) under the Santri brand;
- 3) PT. Sidogiri Pandu Utama in the human resource development and IT infrastructure services sector; and
- 4) PT. Sidogiri Fintech Utama, a company operating in the digital payment sector with the main product being e-maal electronic money.

The existence of these four companies, which synergize with Kopontren Sidogiri, its members, and business partners (producers and suppliers), forms a miniature Sharia business ecosystem that Kopontren Sidogiri aims to build. Furthermore, regarding financial inclusion, business units consider financial inclusion as an input that must align with the pattern of developing the right industry. Financial inclusion is also seen as an effort to change the mindset as a foundation for survival and independence.

- b) Habitus and Capital Theory by Pierre Bourdieu. This theory can be used to analyze how the habitus and capital possessed by students and boarding school managers influence the acceptance and use of digital technology in Sharia financial literacy. Life experiences shape individual perceptions, thoughts, and actions, including the acceptance of technology. Capital, consisting of economic and cultural capital, such as religious knowledge and traditional values, can influence how digital technology is accepted and integrated to access and adopt new technologies. However, the economic independence of boarding schools often does not align with the increase in the Sharia financial inclusion score.

Example: Nurul Iman Islamic Boarding School Business Unit. This unit has several assets originating from waqf (endowment) or grants. The management of waqf assets is carried out by the heirs of the boarding school leader and professional experts in a balanced manner. These assets are then managed into educational buildings in the boarding school and further developed into 59 business units. The establishment of business units in this

boarding school was initially supported by grants or assistance and cooperation with external parties. The form of assistance provided was not in the form of funding but tended to be in the form of asset or technology support and knowledge. Furthermore, the results of cooperation or support given to Nurul Iman Boarding School are developed into businesses. The management of these businesses by the boarding school has been able to realize the economic independence of the boarding school, marked by free educational services for all students.

The only form of cooperation Nurul Iman Boarding School has with banks is with Bank Syariah Indonesia to facilitate financial transactions between the boarding school and students' guardians. Additionally, all financial management systems are carried out independently by Nurul Iman Boarding School through a financial management system developed by the boarding school itself, known as Tabani. This system is not only used within the boarding school environment but can also be used by the surrounding community when transacting at business units owned by the boarding school. Nurul Iman Boarding School has not focused on efforts to empower the local economy. However, the presence of 59 business units owned also involves the local community around the business units as workers. In terms of economic empowerment, the business units of Nurul Iman Boarding School have developed relatively quickly, with only 25 businesses in 2010 and growing to 59 business units by 2022. These businesses are developed by encouraging student involvement as a form of cadre development from the expert staff currently employed to manage the existing business units.

- c) Social Action Theory by Max Weber. This theory can be used to analyze the application of digital technology in Islamic boarding schools as social actions aimed at improving Sharia financial literacy and inclusion, influenced by the religious and social values of the boarding school community. Weber describes social action as action that is subjectively understood by individuals and directed towards others. In the context of economic development, for example, Al Yasini Islamic Boarding School provides opportunities and practical land for students to learn entrepreneurship. Al Yasini has a store called Al Yasini Mart, which has branches in several areas in East Java. Al Yasini Mart also helps local MSMEs by cooperating to market their products. Al Yasini also has several business units such as wholesale units, canteens, and packaged water.

In promoting financial inclusion, Al Yasini has a Sharia Financial Institution (LKS) unit that serves savings and loans for teachers and the surrounding community. Al Yasini has also developed an application that connects students, parents, teachers, and boarding school administrators. The application features allow parents to send and manage student finances. Students can also spend this money in a cashless form using their student cards at all business units in Al Yasini Islamic Boarding School. Furthermore, they have built a financial ecosystem using the developed application so that local MSMEs can also join this ecosystem. Al Yasini also empowers the local community by providing various entrepreneurship training such as bread making, sewing, and others.

### 3.2. Strategies for Implementing Digital Transformation in Sharia Finance at Islamic Boarding Schools

The government continues to encourage the improvement of Sharia financial inclusion as part of the financial inclusion program for all Indonesian society. According to the 2019 survey results by the Financial Services Authority (OJK), the level of Sharia financial inclusion in Indonesia is only around 9%, and the level of Sharia financial literacy has only reached 8.93%. Several strategies can be implemented, including:

- a) Encouraging the implementation of economic empowerment strategies. These strategies should focus on the commitment of Islamic boarding school business units and efforts to increase financial inclusion by taking the following steps:
  - 1) Enhancing Access to Financial Literacy: Leaders of Islamic boarding school business units should encourage increased access for students to obtain financial literacy by fully involving them in business practices at the boarding school's business units.
  - 2) Promoting the Use of Formal Financial Products and Services: Leaders of Islamic boarding school business units should encourage the use of formal financial products and services from: a. banking institutions (savings and loan products); b. insurance institutions; c. pension fund institutions; d. capital market institutions; e. financing institutions; f. pawnshop institutions; g. payment system service providers; and/or h. other formal financial institutions.
  - 3) Synergizing with Government Programs: Leaders of Islamic boarding school business units should encourage synergy with government programs to support the economic independence of Islamic boarding schools.

The indicators of successful economic empowerment of business units include:

- 1) Increased revenue of business units;
  - 2) Access to banks and other financial institutions by business units; and
  - 3) Increased savings, deposits, and investments by business units.
- b) Utilizing Fintech Technology; Adopting financial technology (fintech) can improve operational efficiency and provide better services to customers. For example, using Sharia banking applications and e-learning platforms can facilitate access to Sharia financial services (Yusuf et al., 2023).
  - c) Product and Service Innovation; Developing more innovative Sharia financial products and services that meet consumer needs. For example, diversifying financing and investment products that comply with Sharia principles.
  - d) Enhancing Sharia Financial Literacy; Conducting socialization and campaigns to increase awareness and understanding of the importance of Sharia financial literacy among the public. Educational and training programs focused on Sharia financial literacy can help students and boarding school managers understand and wisely use digital technology.
  - e) Involving Islamic Boarding Schools in Remote Areas to Enhance Economic Empowerment; Collaborating with Sharia financial institutions such as Sharia Rural Banks (BPRS) and Sharia Financial Institutions (LKS) to provide access to Sharia financial products and services that are appropriate.

- f) Enhancing Education and Socialization Programs for the Public; Increasing public awareness and understanding of Sharia financial products and services through various educational and socialization programs. This can include workshops, seminars, and community engagement activities that focus on the benefits and principles of Sharia finance.

By implementing these strategies, Islamic boarding schools can play a significant role in enhancing Sharia financial inclusion and literacy, ultimately contributing to the economic empowerment and independence of the boarding school communities.

## CONCLUSION

This study concludes that digital transformation plays an important role in enhancing the accessibility and effectiveness of improving Sharia financial literacy and inclusion. In the context of Sharia financial institutions (LKS), there are several challenges that need to be addressed, including the low levels of Sharia financial literacy and inclusivity among the public. One approach to enhancing Sharia financial literacy and inclusivity is through the use of digital technology. Digitalization can help LKS increase public access to Sharia financial products and services and provide opportunities for product innovation and service improvement. The implementation of digital transformation in LKS requires a strategic approach, including the adoption of artificial intelligence and data analysis, organizational culture change, and ensuring security and Sharia compliance.

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