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Sharia and Fatwa Dynamics in Islamic Economic Law: Reconstructing Islamic Legal Policy for Contemporary Financial Governance

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ABSTRACT : This article analyzes the dynamic interaction between sharia principles and fatwa development within Islamic economic law and its implications for reconstructing Islamic legal policy for contemporary financial governance in Indonesia. Fatwas, once operating purely as non-state moral guidance, have transformed into quasi-regulatory instruments influencing compliance, product governance, and state policy when institutionalized through formal bodies and economic actors. Indonesian Islamic legal policy increasingly exhibits normative migration, wherein fatwas become de facto legal references through state accommodation and market rationalization, particularly in sectors such as banking and fintech. Fatwa authority is strongly articulated through the roles of MUI and DSN-MUI, whose legal opinions guide national sharia financial standards and regulatory behavior. The article emphasizes that effective financial governance demands policy reconstruction beyond formalistic sharia compliance toward adaptive, legitimate, and functional regulation. A transformative Islamic economic law paradigm is proposed to balance doctrinal authority, sociological legitimacy, and state governance, ensuring stability, innovation, and public trust amid digital disruption.

KEYWORDS: Fatwa; Sharia; Governance; Fintech.

INTRODUCTION

Indonesia offers one of the most distinctive legal ecosystems in the Muslim world, where religious doctrine, state law, and socio-economic transformation overlap within a continuously negotiated normative structure. In classical Islamic jurisprudence, fatwa is a non-binding legal opinion whose authority is grounded in epistemic legitimacy rather than state coercion (Boy, 2017). Yet in Indonesia, Islamic economic fatwas, particularly those issued by the Dewan Syariah Nasional-Majelis Ulama Indonesia (DSN-MUI), have evolved into "soft regulatory references," exerting quasi-binding influence over financial governance, institutional compliance, and even regulatory orientation (Ullah et al., 2018). This transition is not simply doctrinal but structural, reflecting a transformation in Indonesia's Islamic legal-political architecture, in which authoritative ijtihad interacts with public legitimacy, market necessity, and state endorsement without becoming formal positive law.

A major turning point in fatwa institutionalization was the formation of the National Sharia Board (DSN-MUI) in 1999. Although its fatwas are not legally codified as state law, Indonesian regulators increasingly position them at the normative core of sharia financial governance. This trend was a'mplified through Law No. 21/2008 on Islamic Banking, which formally recognizes DSN-MUI fatwas as the principal reference for sharia compliance in Islamic financial products, reinforcing delegated religious authority in financial governance (Lai et al., 2017). Thus, the binding force of fatwa in the Indonesian economic domain stems less from direct coercion and more from institutional delegation, regulatory endorsement, industrial dependency, and economic rationalization, creating a compliance model often framed as "soft norm enforceability" (Saurugger & Terpan, 2021). Within this model, fatwa acts as a pre-legal filter, granting normative clearance before a product completes formal regulatory harmonization at state institutions such as Bank Indonesia (BI) and the Financial Services Authority (OJK).

This pre-legal role of fatwa is visible in Islamic banking operations, where institutions must simultaneously adhere to state-mandated regulatory requirements, including risk management, transparency, macro-prudential safeguards, consumer protection, capital adequacy, and financial stability governance, while also obtaining fiqh-based validation for product permissibility before regulatory approval (Umam & Kimberly, 2021). In practice, the product governance lifecycle in Indonesia reflects a clear regulatory dependency model: *normative religious approval precedes legal governance harmonization*. Before sharia banks and Islamic financial instruments, including sukuk, Islamic insurance (takaful), Islamic capital market instruments, micro-finance schemes, halal product governance frameworks, and digital sharia financial ecosystems, enter the regulatory approval process, they are first subjected to DSN-MUI fatwa screening (Athallah Malik & Muthohar, 2023). Hence, legality at the governance level is preceded by permissibility at the religious-normative level, and institutional compliance is maintained by industry-level dependency rather than statutory imposition alone.

However, while fatwa institutionalization helps standardize doctrinal legitimacy, it also exposes a structural dilemma: Indonesia has strong *normative authority in the domain of permissibility*, but comparatively weaker *governance infrastructure in the domain of enforceability*, especially for real-time digital finance. Market actors increasingly treat fatwa as a source of normative assurance in key areas such as sharia banking product screening, capital market structuring, halal governance, sukuk orchestration, Islamic insurance governance, micro-finance validation, and rapidly expanding fintech-based sharia finance ecosystems (Rafiuddin et al., 2024). Yet Indonesia's fatwa institutions operate on a deliberative, collective, scholarly-council issuance model that does not follow fast regulatory cycles. This creates a serious temporal misalignment: *digital financial markets move faster than fatwa issuance loops*, leading to a governance gap where public legitimacy exists without real-time normative certification at the governance-enforceability level, particularly in fintech product circulation.

Since 2017, fintech sharia platforms have represented the most significant disruptor to Islamic financial governance. Unlike Islamic banking institutions, which evolve within long regulatory adaptation cycles, fintech operates in real-time transactional markets with infrastructure such as blockchain audit trails, peer-to-peer lending platforms, decentralized crowdfunding ecosystems, algorithmic lending orchestration, smart contracts, AI-driven lending decisions, automated risk screening instruments, tokenized asset financing, digital contract authentication, algorithmic filtering for halal compliance, digital sukuk issuance, consumer data governance, and AI-mediated compliance validation systems (Rabbani, 2022). These innovations create a *temporal normative-governance gap*. Many fintech platforms launch products that obtain early public demand and social legitimacy but lack initial fatwa certification as governance-deployable compliance instruments (Makki & Hasan, 2025). This reveals a paradox: Indonesia enjoys tremendous Muslim public legitimacy for Islamic finance, yet lacks a rapid normative conversion-model that can validate products at the same speed as digital markets.

This gap is critical, not because Indonesia's fatwa institutions lack epistemic authority, but because Indonesia has not yet fully developed a tech-legitimate regulatory translation framework that converts fatwa endorsements into governance-enforceable digital regulatory tools, such as regulatory sandboxes, algorithmic compliance governance instruments, automated contract validation systems, digital lending audit tools, blockchain-integrated fatwa compliance infrastructure, tokenization legality audits, smart contract auditing frameworks, data governance oversight tools, decentralized halal compliance risk filters, or AI-screened fatwa compliance litigation-prevention infrastructures (Purnama et al., 2025). As such, regulatory institutions increasingly adopt fatwa compliance into product approval frameworks but not into real-time digital enforceability instruments. Scholars emphasize that Indonesia's Islamic legal-political model is efficient in early sharia legitimacy formation, but inefficient when financial governance must operate at real-time market speed mediated by digital automated systems and algorithmic audit trails.

Modern regulatory governance theorists argue that contemporary financial regulation relies on responsive regulation, institutional hybridity, regulatory delegation, technological legitimacy validation, hybrid state-market governance authority, ex-ante risk screening regulation, orchestrated regulatory authority, technical enforceability, digital audit trails, automation legality screening, and fast-cycle regulatory sandboxes (Buckley et al., 2023). Indonesian fatwa research to date, by contrast, still focuses primarily on doctrinal legitimacy rather than governance feasibility, meaning it investigates *whether fatwa is legitimate*, not *whether fatwa can function as a governance-implemented digital regulatory compliance instrument deployed in real time*. The academic question has shifted dramatically: *the issue is no longer permissibility alone, but enforceability, performativity, technological auditability, governance feasibility, institutional trust, systemic resistance to disruption, regulatory orchestration, digital certification, data-driven compliance, algorithmic risk auditing, digital contract enforceability audits, sandbox governance validation, blockchain-enabled auditing, technological legitimacy, real-time governance compliance regulation instruments, and hybrid regulatory authority design structures*; fatwa is now a starting point of governance, not its final destination.

Hence, reform in Indonesian Islamic economic legal policy must move beyond the classical assumption that "fatwa is advisory" toward a new paradigm where fatwa retains epistemic legitimacy but is translated into governance-feasible, digitally audited, institutionally enforced, system-stability-oriented, technologically validated, rapidly adapted compliance instruments, without losing its ijtihad foundational roots. This reform seeks to realign normative issuance cycles, produce regulatory adaptability, support fintech velocity, validate innovative Islamic digital finance instruments on market-responsive regulatory sandboxes, generate fatwa-to-governance compliance audit infrastructures, protect system stability, maintain public trust, broaden financial inclusion, preserve doctrinal consistency, and ensure product legitimacy is enforceable in practice and validatable in digital regulatory audit loops. Indonesia's Islamic finance ecosystem now operates in non-linear growth speed, while fatwa citation influence grows exponentially—yet its enforceability mechanisms remain behind industry speed. Therefore, the challenge is not to abandon fatwa authority, but to redesign its *regulatory operational governance life-cycle*, adapt its issuance temporal governance, and develop digital enforceability instruments, making fatwa a governance-validated norm-filter for real-time Islamic digital economic financial regulatory markets

METHOD

This research employs a library research (literature study) (Ishaq, 2015) design to examine the development of sharia economic fatwas and their implications for Islamic legal policy reconstruction in Indonesia, particularly in responding to contemporary financial governance challenges. Library research is suitable for this topic because the primary object of inquiry consists of fatwa texts, statutory regulations, policy documents, and scholarly discourse, which require analytical interpretation rather than field-based verification (Jaya, 2020). The study relies on authoritative legal sources including published fatwas issued by the Indonesian Ulama Council (MUI) and DSN-MUI, laws governing Islamic finance, regulatory frameworks, and academic literature in Islamic jurisprudence and financial governance.

The research adopts a normative–conceptual and interdisciplinary analytical approach grounded in Islamic economic law studies and legal policy scholarship. Data collection is carried out through systematic documentation of secondary academic sources such as books, peer-reviewed journal articles, policy reports, institutional analyses, and global financial governance literature to identify patterns, shifts, and gaps in Indonesia's fatwa adoption framework. Source selection prioritizes academic credibility and thematic relevance through structured keyword clustering and conceptual linkage between sharia, governance, and digital finance regulation (Stapleton et al., 2020).

The analytical method used is qualitative content analysis, focusing on jurisprudential substance, authority transformation, policy influence mechanisms, and regulatory adaptation challenges. This approach enables a deeper investigation into how fatwas operate as normative references that influence financial governance while identifying epistemic shifts and modernization needs in Islamic legal policy formulation (Rosidi, 2024). To refine analytical sharpness, the study also integrates comparative regulatory theory lenses, particularly responsive regulation and regulatory orchestration frameworks from financial governance scholarship, to evaluate normative stagnation risks and adaptation deficits in real-time digital financial environments (Raza et al., 2025).

Triangulation is achieved through critical comparison across doctrinal, policy, and governance literature streams to validate arguments and construct a conceptual model for governance-oriented Islamic economic legal policy reconstruction. The final synthesis is produced through structured abstraction, relational authority analysis, and formulation of adaptive regulatory principles for future fatwa-based policy reform.

RESULT AND DISCUSSION

The Institutional Evolution of Economic Fatwas (MUI & DSN-MUI)

The evolution of economic fatwas in Indonesia cannot be separated from the historical formation of modern Islamic authority and its entanglement with the political and regulatory domains of the state. Theoretically, the classical fatwa tradition in the Muslim world was embedded in a scholarly ecosystem where jurists issued opinions through personalized or decentralized knowledge networks, shaped primarily by theological legitimacy, epistemic credibility, and communal recognition rather than state mandate (Rosidi, 2025). However, Indonesia represents an important departure from this pattern. Fatwas in the country, especially in the economic sector, have moved from dispersed scholarly consultation toward a structured system of institutional authority capable of influencing national policy behavior and regulatory references (Menchik, 2022).

At the root of this transformation stands the Indonesian Ulama Council (Majelis Ulama Indonesia/MUI), founded in 1975. MUI emerged during the New Order period amid the state's intention to manage socio-religious plurality by creating a central body that could mediate Islamic aspirations without politically empowering Islamic parties directly (Mahfudz, 2023). Unlike fatwa councils in several Middle Eastern countries that were state ministries or judicial arms from inception, MUI was formed as a hybrid semi-state institution: endorsed politically but structurally independent in jurisprudential issuance, funded initially through state support, yet authoritative primarily through moral legitimacy (Al-Fatih & Aditya, 2012). During its early decades, MUI issued diverse religious opinions, but its fatwas still operated mainly in advisory socio-moral domains such as food permissibility, Islamic rituals, or social conduct, not structured financial regulation. The state regarded fatwas as important moral signals but did not embed them in economic regulatory decision cycles (Leiliyanti, 2025).

The crucial turning point arrived in 1999 with the establishment of the National Sharia Board (Dewan Syariah

Nasional/DSN-MUI) (Setyawan, 2025). This development followed two parallel national shifts. First, after the 1997–1998 Asian financial crisis, Indonesia began restructuring its financial system, leading to institutional reforms that also opened space for Islamic banking, Islamic insurance, Islamic capital markets, and sharia financial standardization (Saputro & Taufiequrrohman, 2021).

Second, Reformasi politics reconfigured state-religion relations by adopting a more accommodative legal-political approach toward Islamic institutions, not through constitutionalization, but through sectoral institutional delegation (Shalihah & Khoyyinah, 2024). DSN-MUI became Indonesia's only formally mandated institution authorized to issue sharia compliance standards for Islamic financial products, certifying product structures in banking, capital markets, insurance, pawn services, Islamic micro-finance, and later digital sharia lending platforms.

The institutional architecture of DSN-MUI introduced several unprecedented features in Indonesia's fatwa history. First, fatwas were now issued collectively by scholars and industry experts through deliberative council sessions (*ijtihad jama'i*) rather than individual jurists (Garamatan & Ayuniyyah, 2021). Second, a structural compliance route was built where every sharia financial institution must appoint a Sharia Supervisory Board (Dewan Pengawas Syariah/DPS), which is sworn to ensure fatwa implementation at the industrial governance level (Farhani, 2024). Third, regulators such as Bank Indonesia, OJK, and state financial policy committees began referencing DSN-MUI fatwas to validate sharia product legality, even without converting them into positive state law directly (Mahfudz, 2023). In other words, fatwa enforcement shifted from state coercive power to a model of *institutional binding by delegation* and *regulatory endorsement*, creating a legal hybrid that is neither fully soft law nor fully hard law, but a delegated normative authority model.

In the Islamic banking arena, DSN-MUI fatwas became indispensable for product design and approval. Banks cannot operationalize new contracts such as *murabaha*, *mudaraba*, *musharaka*, or Islamic structured sukuk without first obtaining a DSN-MUI fatwa that confirms compliance with Islamic economic jurisprudence (Suharto, 2021). While classical fiqh categories provide foundational guidance, Indonesia's modern Islamic finance sector transformed these doctrines into operational contract templates through DSN-MUI institutional certification. This approach gave Indonesian Islamic banking an authoritative doctrinal backbone, enabling rapid public trust-building, modern contract Islamicization, product legitimacy standardization, and state-industry normative alignment (Sadikin et al., 2021). Nonetheless, scholars emphasize that fatwas influence Indonesia's regulatory orientation not through *state legislative codification*, but through a compliance symmetry route: regulators endorse fatwas instrumentally, while institutions comply structurally through DPS supervision protocols (Garamatan & Ayuniyyah, 2021).

The Islamic capital market sector also followed a similar authority expansion pathway. Sukuk structuring, sharia stock screening, Islamic insurance governance, and Islamic multi-sector financial compliance all rely on DSN-MUI's epistemic and institutional signature as the doctrinal condition for product permissibility before regulatory harmonization (Ramadhana & Prasetiyo, 2025). The stronger the national sharia economy ecosystem grows, the more fatwa authority functions not only as jurisprudential consultation, but as pre-regulatory normative infrastructure determining legality, compliance, and public legitimacy in Islamic finance sectors.

Another element in the evolution is the shifting policy perception of fatwa authority by the Indonesian state. After the institutional success of DSN-MUI's product governance role, the state expanded its partnership with Islamic economic fatwa institutions through national policy bodies such as the National Committee for Islamic Economy and Finance (KNEKS), founded in 2016. This body explicitly integrates fatwa compliance standards into sharia policy formulation, halal industry roadmaps, Islamic micro-finance structuring frameworks, and national Islamic economic strategy, emphasizing market functionality rather than constitutional codification (KNEKS 2018; Zulkarnain 2020; Hidayat 2016). Indonesia's Islamic legal policy trajectory therefore reveals a governance-collaborative Islamization model where the state, Islamic councils, and financial industry actors operate simultaneously as interdependent normative and regulatory partners.

Despite these milestones, scientific literature identifies several unresolved tensions that accompany this evolution. First, Indonesia's economic fatwa issuance model remains deliberative-collective, council-based, and slow-cycle normative by design. DSN-MUI does not have a fast-track fatwa issuance infrastructure that can validate products at market speed, especially for digital financial ecosystems such as fintech sharia lending, decentralized halal compliance instruments, real-time halal compliance filtering, AI-driven lending governance, smart contract auditing infrastructure, blockchain halal audit validation, or real-time contract enforceability testing (Muneeza 2020; Billah 2019; Zulkarnain 2020). Second, the legal literature highlights an authority paradox: fatwas are highly binding at the institutional compliance level (because institutions must comply structurally via DPS), but not binding at the formal legislative level, a soft-law enforceability model that works for conventional Islamic finance institutions but struggles for real-time digital financial governance (Hosen 2004; Hooker 2008; Feener 2013). Third, scholars diagnose an adaptability deficit for digital sharia finance: fintech products are launched in near real time, while fatwa issuance cycles remain pre-digital deliberative by design, creating a temporal normative-policy gap where legitimacy is socially strong but governance-enforceability is structurally challenged (Zulkifli 2012; Muneeza 2020; Billah 2019; Zulkarnain 2020).

The evolution of MUI and DSN-MUI's economic fatwa institutional authority ultimately shows a broader political-legal transformation: Islamic legal authority in Indonesia has modernized not by becoming state-legislative, but by becoming institutionally delegated, regulatorily endorsed, and market-indispensable. This pathway is both Indonesia's strength and its vulnerability: its strength lies in legitimacy without conflict, and its vulnerability lies in governance-infrastructural delays in the fintech era.

This gap becomes academically strategic because fatwa authority must now be studied not simply from doctrinal or sociological lenses, but from the viewpoint of institutional issuance speed, technical enforceability, technological legitimacy, digital auditability, regulatory adaptability, and governance capability in real-time digital Islamic finance ecosystems (Black 2008; Mashaw 2010; Hirschl 2010; Muneeza 2020; Billah 2019). The present study therefore positions the transformation of economic fatwa authority not as a completed institutional success, but as a normative governance transition still incomplete in digital financial ecosystems. It is exactly at this transition point that Islamic legal policy reform finds its most urgent academic query: Indonesia must not lose its epistemic fatwa authority, but it must enrich the governance, adaptation, and technological validation mechanisms that enable fatwa texts to become implementable regulatory infrastructures for digital Islamic finance stability, innovation, legality, and public regulatory trust.

Fatwa Adoption as Normative Infrastructure in Islamic Legal Policy

The landscape of Islamic legal policy in Indonesia demonstrates a distinctive normative constellation wherein fatwas function beyond their classical legal designation as non-binding juristic opinions. Unlike positive state law that gains legitimacy through codified coercive authority, fatwas operate within epistemic legitimacy produced by scholarly consensus (*ijmāʿ al-ʿulamāʾ*) and moral authority rooted in the collective credibility of religious institutions (Kamali 2003; Masud, Messick, and Powers 1996). Indonesia, however, has produced a separate trajectory. Within Indonesia's Islamic economic legal system, fatwas have undergone a process of normative elevation through institutional delegation mechanisms, regulatory endorsement, and market dependency, forming a legal structure that scholars increasingly classify as part of Indonesia's wider Islamic legal infrastructure rather than peripheral moral counsel alone (Hosen 2004; Hooker 2008; Ichwan 2013).

The adoption of fatwa authority into state regulatory logics in Indonesia is neither incidental nor symbolic, but structural and iterative. Though fatwas are not incorporated as sources of national positive law directly, their normative role functions as a pre-regulatory certification pathway, legitimizing institutions, economic contracts, and financial product governance standards before regulators codify operational permissions. Indonesia's state institutions grant legal recognition to economic fatwas specifically as normative compliance standards, delegating supervisory enforceability through structural compliance transmission routes, mainly institutional adoption by sharia financial bodies guided by DSN-MUI fatwa mapping into Dewan Pengawas Syariah (DPS) supervision frameworks (Hosen 2004; Hidayat 2016; Hidayat and Alamsyah 2019). This creates Indonesia's distinct model: products are fatwa-authorized first, regulatorily harmonized second, publicly trusted third, and institutionally enforced through DPS structural supervision rather than legislative criminal sanction.

Within this *normative migration* trajectory, Islamic banking stands as the strongest evidence that fatwas do not merely influence Indonesia's Islamic legal political orientation, but act as determinative normative infrastructure guiding sharia contract templates such as murābaḥa, muḍāraba, musyāraka, ijāra, wadiʿa, qardh, hawāla, kafāla, rahn, and structured sukuk contracts that determine whether Islamic financial products can be publicly launched and legally harmonized within Indonesia's regulatory system. Banks cannot market, operationalize, or productize a new sharia contract before obtaining a DSN-MUI fatwa on contract legitimacy and product compliance in accordance with Islamic muamalah jurisprudence foundations (Zulkifli 2012; Hosen 2004; Ascarya 2015;

Hidayat 2016; Billah 2019). Fatwas therefore operate as the normative infrastructure for sharia contract governance by guiding contract permissibility cycles across Islamic finance verticals.

The structural recognition of DSN-MUI fatwa into Indonesia's financial legality cycle reached formal institutive endorsement momentum through Law No. 21/2008, which recognizes DSN fatwas as the primary standardization reference for sharia compliance within Indonesia's Islamic financial system challenges (Ichwan 2013; Ichwan 2018; Hidayat and Alamsyah 2019). As a result, regulators such as Bank Indonesia and OJK reference DSN-MUI fatwa compliance standards to determine national Islamic product governance legality without converting fatwa texts into enforceable positive law legislative statutes directly. The enforceability route remains institutionally and regulatorily endorsed rather than legislative-criminally mandated (Hooker 2008; Hosen 2004; Feener 2013). In other words, Indonesia's model is one of normative infrastructure delegation rather than normative *positive law codification*, a concept scholars increasingly refer to as Indonesia's soft norm enforceability by institutional adoption and regulatory mediation (Hosen 2004; Hooker 2008).

This delegation produces a compliance architecture highly effective for the early period of institutional Islamization, contract *public performativity legitimacy adoption*, and market trust-building, but increasingly challenged in governance feasibility for real-time digital financial disruption. While fatwas are highly authoritative through DPS structural supervision frameworks across financial verticals such as Islamic banking, Islamic insurance (*takaful*), Islamic pawn services (*rahn*), Islamic microfinance (*BMT*), crowdfunding (*Islamic-compliant donations and sharia crowdfunding equity*), halal product screening, Islamic structured sukuk, and contract validity compliance taxonomy scrutiny operations before regulatory adoption (Hidayat 2016; Zulkifli 2012; Billah 2019; Ichwan 2018; Feener 2013), the emergence of fintech sharia platforms reveals a temporal governance gap where the speed of normative issuance cannot match the speed of market circulation and regulatory compliance digitization needs.

The fintech era has transformed the regulatory question fundamentally. The legitimacy gap is no longer about *doctrinal permissibility*, but about governance enforceability capability, issuance adaptation speed, technological legitimacy auditing frameworks, AI-mediated compliance traceability, blockchain audit reliability, real-time contract enforceability scrutiny, lending risk orchestration audits, digital regulatory endorsement feasibility, and whether fatwa frameworks can operate as *near-real-time regulatory adoption instruments* within fintech sharia ecosystems (Muneeza 2020; Billah 2019; Black 2008; Hirschl 2010). Fintech sharia platforms operate by using algorithmic lending orchestration, digital contract issuance, smart contract automation, blockchain audit trails, tokenized asset legality conversion infrastructure scrutiny, public compliance incentivization, and digital verification systems that require near real-time legal adaptation for product legitimacy and contract enforceability. Regulators increasingly use digital policy issuance infrastructure such as regulatory sandboxes to test emerging fintech products at speed. Yet DSN-MUI, by design, still issues fatwas through deliberative collective ijtihad sessions that are slow-cycle normative by infrastructure, not rapid normative issuance bodies capable of certifying automated contract enforceability, blockchain regulatory legitimacy, or AI fatigue compliance taxonomy auditing for real-time fintech transactions.

Scholars argue that this discrepancy opens a strategically urgent research query not about doctrinal legitimacy, but about policy translation infrastructures that can validate fatwa compliance standards into governance-feasible legal principles for Indonesia's Islamic digital finance ecosystems. While regulatory institutions worldwide incorporate AI compliance engines, blockchain regulatory audit trails, *regulatory sandboxes*, automated digital lending frameworks, and real-time risk-based financial governance legal oversight infrastructures as standard legitimacy audits for fintech platforms (Black 2008; Mashaw 2010), Indonesia's fatwa institutionalization system is still structurally challenged and deliberative slow-cycle, which risks normative stagnation not because fatwas have lost authority, but because they have not developed a rapid digital governance compliance infrastructure model that can validate innovation at market speed without losing juristic consistency (Zulkifli 2012; Muneeza 2020; Billah 2019).

Theoretically, scholars also warn that fatwas remain strong as epistemic normative references, but in Indonesia's modern financial system, their adoption success must now be evaluated through the presence of enforceable governance mapping, regulatory feasibility, real-time digital authority compliance conversion, and technology-legitimate auditing routes that can validate Islamic financial inclusion, product legality, institutional enforceability, and public market trust simultaneously. This analytical distinction is critical because Indonesia's Islamic finance ecosystem is deeply shaped by fatwa authority that determines product circulation legitimacy before state regulatory endorsement. The stronger this fatwa dependency grows, the more crucial the normative infrastructure becomes as a pre-regulatory condition for product legitimacy and public trust—and the more dangerous governance gaps become when quasi-regulatory instruments cannot adapt to fintech speed.

The existing academic literature shows that fatwas become governance-enforced not by state sanction, but by institutional adoption and regulatory endorsement cycles, enabling high market compliance legitimacy without political conflict (Hosen 2004; Hooker 2008). This “normative delegation model” is Indonesia’s legal hallmark: fatwas act as normative infrastructure that shapes state policy behavior and product governance legality through regulatory endorsement rather than positive law codification (Feener 2013). Yet the fintech era reveals that this model must now evolve toward digital governance feasibility beyond doctrinal adoption.

To sharpen analytical frameworks, many scholars propose that fatwa adoption in Indonesia must be studied as part of normative infrastructure design (*institutional regulatory orchestration*) that integrates doctrinal authority, governance enforceability capability, technological legitimacy auditability, institutional adoption, market necessity, real-time digital legitimacy, policy-endorsed fatwa adoption enforceability, blockchain audit principles, AI-based financial orchestration enforceability, responsive regulation infrastructure feasibility, and contract enforceability taxonomy scrutiny (Black 2008; Hidayat 2016; Huston 2017; Ichwan 2018; Muneeza 2020; Billah 2019), a product enforcement adoption that begins doctrinally but ends governance-legally.

Three normative layers combine to validate fatwa enforceability governance adoption in the financial system:

1. Epistemic sharia authority (doctrinal jurisprudential legitimacy),
2. Institutional supervisory enforceability (structural compliance through DPS),
3. Regulatory feasibility endorsement from the state (endorsement by Bank Indonesia/OJK),
4. Market compliance necessity (dependency from Islamic financial verticals),
5. Technological legitimacy verifiability (digital audit trails, blockchain audits, real-time contract enforceability), but this fifth layer is the one with the largest gap in Indonesia.

Indonesia’s Islamic legal policy discourse has not extensively evaluated fatwas in accordance with technological validation requirements that ensure regulatory enforceability tracking, market responsiveness issuance speed, digital governance feasibility, and system stability auditability at non-linear digital finance market speed. Most classical Islamic authorities do not deal with digital lending ecosystems, consumer protection during algorithmic lending audits, token-based Islamic financial ecosystems, or smart contract enforceability auditing frameworks. Indonesia must advance from “fiqh-based doctrinal certification” to “governance-enforceable policy-adaptive fatwa infrastructure”.

This reform is not about rejecting current institutions (MUI/DSN-MUI), but shifting the analytical lens: instead of “Is the fatwa valid?” the question becomes “Can the validity of this fatwa be translated into governance-feasible state-endorseable regulatory infrastructure for real-time sharia digital finance disruption?” The gap is specifically infrastructural-governance-based, not doctrinal-authority-based.

Therefore, the fatwa adoption model, while historically one of Indonesia’s most successful Islamic legal institutional designs for public legitimacy and financial Islamization (Hosen 2004; Hooker 2008; Feener 2013; Ichwan 2018), now requires a reconstruction pathway that ensures fatwas operate as adaptive governance-enabled normative infrastructures capable of mediating Islamic financial innovation, contract enforceability, institutional regulatory adoption enforceability, technology validation, systemic financial stability oversight feasibility, and public trust in the fintech era.

The contribution of this study is a conceptual reconstruction model where fatwa adoption must be studied in terms of:

1. Issuance institutional speed,
2. Governance feasibility,
3. Technological auditability legitimacy,
4. Regulatory harmonization endorsement cycles,
5. Real-time contract enforceability auditing needs,
6. Hybrid normative governance frameworks for digital finance.

This shift emerges because law now lies in governance, not number of opinions. Modern Islamic legal policy reform must emphasize:

1. regulatory-fatwa responsiveness,
2. governance feasibility mapping,
3. technology-validated compliance infrastructures,
4. real-time public legitimacy endorsement pathways,
5. digital contract enforceability scrutiny,
6. algorithmic lending risk legitimacy standards,
7. smart contract auditing feasibility,
8. blockchain audit reliability for halal product and contract legitimacy,
9. and not merely doctrinal permissibility opinion issuance.

Indonesia must undertake a policy-led governance-enforced technology-validated normative infrastructure reconstruction that ensures fatwas maintain classical Islamic epistemic roots and doctrinal-sanctioned supervision through DPS, while reconstructing government-regulator endorsement cycles to validate near-real-time Islamic digital financial governance products.

This study synthesizes Islamic legal policy scholarship with global financial governance theories, "regulatory orchestration" (Black 2008); "responsive regulation" (Mashaw 2010); and "juristocratic accommodation of religious institutions into financial policy behavior" (Hirschl 2010; Hosen 2007).

These frameworks test where Indonesia's model is strong (Social legitimacy, Institutional adoption, Regulatory endorsement, Public trust, Islamic banking compliance), but reveal Indonesia's largest gap: technology validation enforceability, near real-time issuance speed, governance feasibility for digital sharia finance, and political-legal harmonization at fintech disruption speed.

The present paper concludes that Indonesia has transitioned from pure *fiqh moral certification* into a model of quasi-regulatory delegated fatwa adoption normative infrastructure endorsement. However, this infrastructure must now evolve into governance-enforced and technology-legitimate regulatory instruments for Indonesia's future Islamic economic law reform.

Regulatory Governance Gaps in Indonesia's Sharia Digital Finance

Indonesia's legal architecture of Islamic economic governance has long established fatwa as an upstream normative filter through which financial products attain *sharia legitimacy* prior to regulatory endorsement by state institutions such as Bank Indonesia and the Financial Services Authority (OJK). Historically, this model has functioned effectively in Islamic banking, insurance, microfinance, capital markets, and halal product screening mechanisms. However, the accelerated transformation of financial technology, particularly fintech lending, digital payment systems, blockchain-based financial settlement, smart contracts, digital investment platforms, cryptocurrency-adjacent tokenization, peer-to-peer (P2P) financing, equity-crowdfunding (ECF), and AI-mediated algorithmic credit scoring, has generated a wave of regulatory pressure that exposes structural vulnerabilities in Indonesia's current normative-regulatory chain.

The essential legal friction does not emerge because the doctrinal authority of fatwa has diminished, but because the governance ecosystem surrounding fatwa issuance was designed for *deliberative ijtihad cycles*, not real-time regulatory adaptation. This divergence becomes more visible as digital finance disrupts not only market behavior but also legal temporality, jurisdictional boundaries, compliance verification mechanisms, audit traceability, and regulatory velocity expectations.

One of the core observations in global governance scholarship is that fintech regulation demands mechanisms that are fast, modular, recursive, experimentally enabled, risk-based, system-auditable, machine-readable, cross-sector coordinated, and institutionally orchestrated. Regulatory instruments such as *regulatory sandboxes*, algorithmic auditing standards, digital identity-linked consumer protection frameworks, lending risk orchestration, public interest compliance incentives, AML-KYC digital governance, *networked regulation*, real-time supervision dashboards, digitally endorsed compliance, blockchain audit trails, and platform liability governance have become widespread regulatory solutions across jurisdictions committed to digital finance stability (Black 2008; Mashaw 2010; Zetzsche et al. 2017). The fact that these governance design principles are now typical in fintech ecosystems indicates that regulation has shifted meaning: law does not merely lie in codified norms but in governance infrastructure capability (Black 2008).

In Indonesia, fatwa issuance authority belongs to the Indonesian Ulema Council (MUI) and operational-economic fatwa products are standardized by DSN-MUI. However, neither institution functions as a rapid response regulatory body structurally, nor do they possess digital compliance certification systems that match the required velocity and auditability that fintech ecosystems demand. Though fatwa authority is often delegated to Dewan Pengawas Syariah (DPS) supervisors at institutional levels, the *submission-authorization-implementation-regulatory harmonization* cycle remains multi-layered and slow in practice, while fintech innovation cycles operate non-linearly at exponential speed.

Globally, fintech regulatory success is increasingly assessed using three performance indicators: (1) normative responsiveness, (2) governance feasibility, and (3) technological auditability (Zetzsche et al. 2017; Black 2008). Indonesia, by contrast, excels dominantly in *epistemic legitimacy*, functional institutional DPS supervision, and *social endorsement*, but underperforms in the speed of normative issuance and technological compliance mapping. This mismatch produces the first governance gap: temporal unfitness between fatwa issuance logic and fintech innovation speed.

Another identified gap concerns policy transposability. Fatwa in Indonesia is not directly codified in national legislation, yet sharia financial regulation uses it as the highest normative governance reference. This creates a dependency structure: regulatory and market institutions *cannot move without fatwa guidance*, but fatwa institutions *cannot move at market speed* (Hosen 2004; Hooker 2008; Ichwan 2013). This reveals the second gap: dependency without acceleration capability.

The absence of machine-readable fatwa standardization further forms the third gap. Modern fintech governance does not manually read doctrinal principles but relies on digital compliance engines, algorithmic interpretability, smart contract regulation mapping, semantic regulatory equivalence classification, and open API regulatory governance that can harmonize sharia norms automatically into platform code architecture (Zetzsche et al. 2017; Muneeza 2020; Zulkifli 2012). DSN-MUI fatwas exist in text form but are not standardized as digital compliance ontologies or APIs that can be plugged into fintech governance systems automatically. Thus emerges the third gap: interpretation is authoritative but not interoperable.

The fourth gap pertains to the absence of systemic liability governance for sharia fintech platforms. Indonesia's current supervisory model emphasizes sharia compliance primarily at the institutional design layer (Bank, insurance, capital market boards), but fintech operates as *borderless multi-user platforms*, not just product-issuing institutions. Governance frameworks that can regulate liability segmentation, dispute resolution in algorithmically mediated smart contracts, platform compliance responsibility allocation, consumer protection during automated lending cycles, modular risk auditing for sharia compliance, and public transparency dashboards have not been fully theorized or institutionally implemented in Indonesia's fatwa–regulation chain (Busyro 2017; Billah 2019; Black 2011; Mashaw 2010). This becomes the fourth gap: institution-based supervision while market innovation depends on platform-based governance.

Fifth, Indonesia has not sufficiently theorized regulatory pluralism orchestration, despite operating in a plural legal system. Other jurisdictions that formalize religious finance standards without codifying them directly often incorporate *regulatory orchestration systems*, cross-sector meta-governance, hybrid normative adoption frameworks, digital auditing state endorsement, and decentralized but coordinated governance instruments for soft norms adoption (Black 2008; Hirschl 2010; Feener 2013). In Indonesia, *regulatory harmonization* exists, but *governance orchestration capability for non-linear digital finance validation does not yet exist robustly*. This is the fifth gap: pluralism without orchestration engines.

Sixth, fintech regulation requires dispute-resolution acceleration. Legal disputes in fintech move at transactional speed and scale. Yet fatwa institutions issue normative backing but do not generate real-time dispute eligibility standards that can filter disputes for state courts, sharia arbitration boards, or digital mediation systems automatically (Hooker 2008; Hosen 2004). This creates the sixth gap: normative backing without dispute modularity filtering.

The seventh gap relates to public data transparency for fatwa-based compliance. Fintech governance is expected to provide system auditability, non-linear compliance insight, public transparency dashboards, *digital consumer confidence infrastructure*, and open governance feedback loops that recursively repair regulatory ecosystems based on real-time user behavior evidence (Black 2011; Mashaw 2010). Indonesia's Islamic finance sector publishes annual reports, but fatwa compliance data is neither public-dashboard exposed nor recursively responsive at platform speed (Ichwan 2013; Muneeza 2020; Zulkifli 2012). This is the seventh gap: compliance is internally supervised but not publicly auditable.

Eighth, Indonesia lacks AI-compatible sharia compliance certification infrastructure. Fintech lending credit scoring, payment behavior mapping, smart contracts, blockchain settlements, algorithmic market orchestration, token-adjacent settlement experiments, and real-time sharia fintech transactions increasingly function using machine learning supervision models. Yet fatwa institutions are not AI-enabled compliance issuers and have not developed AI-verification frameworks for digital fatwa authority enforcement, which scholars globally classify as regulatory necessity for contemporary digital finance oversight stability mechanisms (Black 2008; Zetzsche et al. 2017; Muneeza 2020; Billah 2019). This is the eighth governance gap: Sharia authority without AI auditability.

The ninth gap concerns regulatory fragmentation over fintech sharia instruments. Islamic financial regulation globally seeks cross-sector coordination enabling risk-based auditing, regulatory platform harmonization, blockchain audit trails, fintech product viability tracking systems, sharia arbitration audit equivalence classification, fatwa enforceability mapping for courts, and fiscal compliance synergy audits for fintech systems (Black 2011; Mashaw 2010; Zetzsche et al. 2017). Indonesia references DSN fatwas but does not possess cross-sector automated sharia governance orchestration, leaving fintech companies to manually self-interpret compliance frameworks that are not technology-harmonized at platform-system speed.

Tenth, the fintech era exposes a more fundamental gap: normative enforceability is institution-based, while compliance demand is ecosystem-based (Black 2011). This divergence is increasingly critical as Indonesia seeks Islamic financial inclusion, but inclusion in the digital sector requires law encoded into governance infrastructure, not only authoritative normative text.

Eleventh, fintech regulation also demands consumer-risk governance accountability segmentation. In algorithmically issued lending, risk lies in automation design and auditability, not only contract moral legitimacy. Indonesia's *contract validity archaeology research* is strong, but compliance accountability segmentation principles that align fatwa authority into machine-auditable governance systems are not yet systematically classified (Hooker 2008; Hosen 2004; Feener 2013; Black 2008). This is the eleventh gap: contract legitimacy without algorithmic risk audit frameworks.

Twelfth, fintech requires hybrid norm verifiability taxonomy—systems that harmonize soft norms into state policy without converting them into criminal statutes but maintaining enforceability through governance architecture. Countries such as Malaysia, UAE, Bahrain, Pakistan, and Singapore embed fatwa or sharia compliance using coordination engines, *digital compliance frameworks*, governance-mapping regulatory-compatible fatwa pathways, national standards equivalence comparison, banking and fintech contract enforceability orchestration modules, near-real-time auditing frameworks, and digitally endorsed state–religious governance synergy models (Muneeza 2020; Zulkifli 2012; Billah 2019; Black 2008). Indonesia must reach this stage.

Finally, all gaps converge into one structural conclusion: Indonesia possesses fatwa authority without fintech-appropriate governance instrumentation. Indonesia possesses lender compliance dependency without issuance acceleration capability. Indonesia possesses institutional supervision without platform-based audit infrastructure.

Therefore, Islamic economic law reform in Indonesia must now prioritize:

1. fatwa issuance acceleration infrastructure,
2. machine-readable fatwa ontologies,
3. AI compliance auditing frameworks,
4. blockchain audit compatibility,
5. modular dispute filtering systems,
6. public auditability dashboards,
7. state-fatwa regulatory orchestration engines.

These seven instruments will determine the future success of Indonesia's fatwa adoption not only epistemically, but systemically, governably, digitally, recursively, financially, and legally.

Toward a Transformative Governance-Oriented Islamic Economic Law Framework

The acceleration of digital financial innovation and the increasing entanglement between religious norms, state compliance expectations, and governance feasibility instruments have created a structural imperative in Indonesia's Islamic economic legal scholarship: fatwas must evolve from *authoritative epistemic texts* into *technological-compatible governance-adaptive normative infrastructures*. The question is no longer whether fatwas are doctrinally valid according to classical *uṣūl al-fiqh* principles, but whether their validity can be translated into enforceable governance architectures capable of regulating Islamic financial ecosystems operating at non-linear market speed. This is the precise analytical point of departure for a transformative regulatory accessibility framework in Indonesia.

The existing Indonesian model has historically relied on fatwa primacy, institutional DPS supervision, and sequential regulatory harmonization (Hosen 2004; Hooker 2008; Ichwan 2013). Islamic banks, insurance institutions, BMTs, sukuk issuers, and halal financial instruments have depended structurally on DSN-MUI fatwas to validate product legality before regulatory authorization (Ascarya 2015; Hidayat 2016). This design produced strong legitimacy during the institutional Islamization phase. However, fintech and algorithmic finance ecosystems have created a new regulatory semiotics: law now lies in governance interpretability, technological auditability, modular normative responsiveness, and digital enforcement feasibility, not solely in juristic consensus (Black 2008).

Scholars of Islamic legal institutionalization in Indonesia describe fatwa enforceability as a *delegated soft-norm adoption model* where norms migrate into policy endorsement cycles without requiring legislative codification into criminal statutes (Feener 2013; Hosen 2004; Hooker 2008). Yet digital finance governance scholarship warns that soft norms must be interoperable, machine-encoded, system-auditable, API-connectable, AI-verifiable, dispute-filterable, and recursively feedback-corrective if they are to regulate fintech ecosystems effectively (Zetzsche et al. 2017; Muneeza 2020). This exposes a theoretical and regulatory vacuum: Indonesia possesses authoritative fatwas but lacks governance-acceleration engines that make fatwas translatable into real-time platform compliance infrastructures.

A transformative framework therefore must be constructed using four conceptual reconstruction pillars that scholars identify as necessary for future Islamic economic law directions:

1. Governance Transposability
   Fatwas should function as *normative infrastructure components* capable of conversion into regulatory-compatible governance architectures, rather than existing as static juristic declarations (Black 2008; Hosen 2004). This means legal research and policy development must evaluate fatwa texts based on their ability to be *policy-transposed* into institutional and platform governance systems. Under this pillar, legal validity remains doctrinal, but enforceability becomes governance-instrumental.
2. Machine-Readable Norm Ontology
   Modern governance frameworks for Islamic finance increasingly rely on ontological standardization, digital taxonomies, algorithmic contract equivalence classification, semantic compliance tagging, and open API enforcement compatibility (Zetzsche et al. 2017; Muneeza 2020). The transformative direction for Indonesia requires the creation of *machine-readable fatwa ontologies* that translate DSN-MUI rulings into digital compliance infrastructure modules capable of being plugged directly into fintech platforms, Islamic banking supervision dashboards, and sharia compliance engines.
3. AI and Blockchain Auditability
   Fintech governance instruments increasingly evaluate compliance credibility through AI-mediated contract validation, blockchain traceability, automated halal-finance screening logic equivalence, algorithmic lending orchestration auditing, and real-time transaction supervision models (Muneeza 2020; Billah 2019; Black 2008; Zetzsche et al. 2017). Transformative Islamic law reform for digital finance must ensure that Indonesia's legal policy engages with these auditability expectations by developing frameworks that make fatwa verification possible through AI-compatible compliance principles and blockchain-auditable enforcement routes.
4. Dispute Modularity and Regulatory Orchestration
   Islamic legal governance must also facilitate *modular dispute eligibility filtering frameworks* capable of determining which disputes belong to state court, sharia arbitration, or digital mediation systems without collapsing legal pluralism (Hooker 2008; Hosen 2004; Busyro 2017). Meanwhile, governance scholarship emphasizes *regulatory orchestration models* that enable harmonization

among fatwa institutions, regulators, fintech operators, and financial stability principles through recursive compliance coordination and responsive governance oversight rather than conflict-based regulatory enforcement (Black 2008; Mashaw 2010).

Together, these four pillars indicate that Islamic economic law reform must migrate from *norm-production orientation* to *governance-production orientation*. The shift is conceptual: Indonesia must transition from "Does fintech comply with fatwa?" to "Can fatwa be encoded into governance-adaptive fintech compliance instruments?"

Scholars describe this as a movement toward transformative governance rather than juristic formalism alone (Hosen 2007; Hooker 2008; Black 2008). The transformation is not about replacing MUI or DSN-MUI, but reconstructing their normative outputs so they can operate as governance-enforced, regulatorily-harmonizable, and technologically-verifiable normative infrastructures. Several governance scholars also identify that normative transformation success must be measured by public interest responsiveness, not only doctrinal coherence (Mashaw 2010; Black 2011). This echoes Islamic legal maxims: public benefit (*maṣlaḥa*) becomes the metric of policy legitimacy, while fatwa remains the metric of sharia legitimacy.

In practical conceptualization, a governance-oriented Islamic economic law framework for Indonesia in the fintech era must ensure:

1. Fatwa issuance is upstream but digitally interoperable for platform enforcement, not only institution enforcement.
2. Legitimacy is epistemic, but enforceability is governance-instrumental.
3. Compliance pathways are automated, auditable, recursive, and regulatorily orchestrated, not manually self-interpreted by fintech companies.
4. Dispute governance is modular, segmented, interoperable, and acceleration-enabled, not slowed by deliberative institutional temporality alone.
5. Regulatory harmonization is accompanied by governance velocity equivalence frameworks, ensuring norms do not stagnate relative to innovation speed.

Comparative governance scholarship shows that jurisdictions that integrate sharia compliance with fintech ecosystems successfully do not rely on legislative codification alone, but construct hybrid governance orchestration engines, recursive compliance modules, near-real-time product auditing, digital enforceability tagging, platform liability segmentation principles, consumer-risk governance accountability frameworks, and state-endorsed fatwa adaptation pathways (Black 2008; Hirschl 2010; Muneeza 2020). Indonesia must adopt a similar analytical-governance lens.

At the theoretical core, the framework must accept, Fatwa is law in legitimacy, but governance is law in enforceability. Both must synchronize.

Indonesia's future model must therefore engineer a normative infrastructure that ensures this synchronization occurs through digital governance policy reform, institutional orchestration, machine-readable ontology conversion, dispute modularity filtering systems, AI-blockchain auditability instruments, fintech-linked consumer-risk governance segmentation frameworks, and state regulatory endorsement cycles engineered as orchestration engines rather than sequential slow harmonization alone.

A transformative governance-oriented Islamic economic law framework consequently contributes to:

1. Retaining doctrinal fatwa authority,
2. Strengthening governance enforcement capability,
3. Enabling digital auditability legitimacy,
4. Synchronizing fatwa + fintech + regulatory endorsement through orchestration,
5. Converting Islamic legal norms into adaptive governance-enabled legal policy principles,
6. Building recursive compliance models fit for fintech market speed,
7. Ensuring fatwa dependency evolves into fatwa functionality.

The study therefore proposes a model of governance-oriented normative reconstruction measured by technological auditability, governance feasibility, issuance velocity equivalence, dispute modularity, consumer-risk accountability segmentation, and regulatory orchestration, without discarding classical sources or Indonesia's Islamic legal institutional leadership.

CONCLUSION

This study confirms that Indonesia's Islamic economic law system is uniquely structured around fatwas, particularly DSN-MUI fatwas, which function as upstream legitimacy filters, determining the permissibility of financial products prior to regulatory validation by state institutions. Although this soft-delegated governance model has historically strengthened Sharia financial governance, it now faces significant pressure from fintech's regulatory temporality and its demand for real-time technical compliance. The core governance gap is not the erosion of doctrinal authority, but the absence of acceleration infrastructure that makes fatwas digitally interoperable, AI-verifiable, blockchain-auditable, and enforceable at platform speed through machine-readable instruments.

The paper's theoretical contribution lies in asserting that fatwa governs legitimacy, while governance governs enforceability, and both must align. Future reform should thus evolve from asking *whether fintech complies with fatwa* to questioning *whether fatwa can be encoded into fintech-compatible regulatory systems*. This requires new benchmarks including issuance-velocity equivalence, automated compliance taxonomies, platform-based supervision, public auditability dashboards, and regulatory orchestration engines. Indonesia's future success depends on reconstructing fatwa translatability, shifting normative dependency into normative usability while preserving classical authority through governance-adaptive digital infrastructures.

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