

Research Paper

Islamic Economic System in Practice: Beyond Merely Islamic-based Transactions

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Islamic economic system is well-known for its not-so-generally accepted concept, a gap between theory and reality, and paradigm disputes. Regarding the different thoughts and the need for economic, social, and moral values; this study intends to elaborate on the Islamic economic system practice at a mezzo level in Pondok Modern Darussalam Gontor (PMDG). This study presents the novelty of the Islamic economic system practice with authority protection and Islamic worldview. Data were collected through semi-structured interviews and interpreted narratively. This study finds that the Islamic economic system in PMDG comprises economic agents and Islamic institutions, transactions, worldviews, and behaviors with market protection to ensure efficient resource allocation and business units' sustainability. Economic agents consist of a foundation, the chairman as an economic and religious-related decision maker, the management of business units, and the society surrounding PMDG. PMDG allocates resources and regulates market protection through Islamic institutions and transactions to prevent unhealthy competition. The Islamic worldview and behaviors are shown by the integration of modern knowledge and Islamic principles with cooperation and brotherhood. Eventually, the whole process of the Islamic economic system implies the social welfare of internal PMDG and the surrounding community, as well as the achievement of the objective of Sharia. Further research can investigate the more challenged implementation of Islamic economics in a macro-level system and diverse society.

Keywords: Islamic economic system, Islamic transactions, protection, Islamic worldview, Islamic behaviors

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1. Introduction

Although there are numerous literatures related to interest-free and value principles, a widely accepted foundation for Islamic economics has not been reached yet (Shams, 2004). Some feel doubt with the prospects of Islamic economics as well as critics come from many aspects. Islamic economics is viewed difficult to apply, unable to overcome conventional economic' problems, incapable to create justice, no clear substance, and to

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have paradigm disputes. Due to a large gap between ideal and reality, Islamic economics seems to be great in theories, but less concrete and practical (Zaman, 2015).

Shams (2004) also stated that the empirical evidence of the Islamic economics in Moslem sphere are still limited. As Islahi (2015) divided Islamic economics into two generation, 1950-1975 when the first notion carried by King Abdul Aziz University and after 1975, it has been almost fifty years since Islamic economics became known in 1975. However, there is a stagnation of Islamic economics practice in Moslem countries because of dual economic systems, conventional and Islamic.

Furthermore, current developments in economic transactions that are significantly different from the past as the era of Prophet Muhammad and khalifa, result in different thought of Islamic economic. There is still no agreed definition of Islamic economics (Zaman, 2015) and a debate of many Moslem scholars related to how Islamic economics should stand. Partly argue that Islamic economics implemented, especially during the 7th to the middle of 13th century, was Islamic capitalism comprising property rights protection, enforcement of contracts, and good governance. The minimum government intervention and wide personal discretion of property ownership and economic transaction shows the element of capitalism (Çizakça, 2011; Crow, 2013). On the other hand, some argue that Islamic economics is alike with socialism because some aspects such as prohibition of the accumulation of wealth, social welfare, priority of social interest, prevention of social structure, and minimizing the differences in economic standard (Conn, 1976).

However, there is optimistic thought stating the discipline is still making progress (Islahi, 2015). In case Western economic needs centuries to be clearly formed, Islamic economics also needs time to develop (Zaman, 2015). Despite the different streams, Islamic economics considers both the dynamism from capitalism and equality from socialism but should be in accordance with sharia. Also, a mixture of economic, social, and moral values is the key to Islamic economics (Ahmad & Rakib, 2019).

Therefore, it is urged to provide examples of Islamic economic system comprehensively and integrated. As known, labelling Islamic economics requires agents with worldview and behaviour according to Islam. Transactions must be in line with sharia supported by Islamic financial institution and Islamic-based decision making. Limited studies take into the Islamic economic practice whereas previous research investigate separately regarding sharia-compliant companies (Hambali & Adharani, 2022), sharia practice at Islamic banks (Khomsatun et al., 2021; Majeed & Zainab, 2018), sharia capital (Fathonih et al., 2019), or the Islamic wealth management system (Nurasyiah et al., 2022).

To answer the different thought of Islamic economics and need of Islamic system at a whole; this study intends to elaborate the Islamic economic system practice in a mezzo-level in Pondok Modern Darussalam Gontor (PMDG) derived from actual behaviours based on Islamic principles. This study gives theoretical and practical implication of how Islamic economic system with protection can be implemented. The finding can inspire other social community or institutions in term of Islamic economic practice.

2. Literature Review

2.1. Islamic Economics Theories

Economic is related to two main keywords, human and resources which explains how human uses resources to satisfy their wants. Hassan Uz Zaman (1984) in (Azid, 2010) defines Islamic economics as “the knowledge and application of injunctions and rules of the sharia that prevent injustice in the acquisition and disposal of material resources in order to provide satisfaction to human beings and enable them to perform their obligations to Allah (SWT) and society”.

However, there are two focuses on exploring Islamic economic, interpreting interest-free and moral values embedded in the economy. First, differ to conventional, Islamic economics suggests normatively that people must consider morality and sharia rules in utilizing resources through economic activities. Some basic assumptions of Islamic economics are *Tawhid*, *rububiyah* (totality of human beings to God), guidance from Qur’an and Sunnah, role of human as *khalifa*, sanctification through tazkiah, and spiritual accountability (Azid, 2010). Second, the further analysis is to measure performance, sustainability, or achievement; and solve problems in numbers (Shams, 2004).

Islamic scholars were divided into two common group in developing Islamic transactions. First, revisiting and replacing western values with moral principles of Islam. This stream adopts conventional assumption and modify transactions to be suitable with Islamic values. They investigate the actual economic behaviour and/or study the behaviour in the past. Second, choosing to ignore western or existing practice in a whole, but build Islamic economic principles from Qur’an and Hadith. This stream brings a concept of Tawhidi or spiritual (Islahi, 2015).

The difference of Islamic economic thought is not only the stages in building theories, but also the perspective of Islamic economics itself. Islamic economist started their work by criticizing western economic including capitalism (market system) and socialism (command system) (Bradley & Donway, 2010). In one side, individuals are inclined to

accumulate self-gain which can form disorder and need intervention from the state. In other side, dictatorship indicated by state expropriate individuals' property may also danger too (Dallago, 2004). To present, three perspectives are commonly known, Islamic capitalism; Islamic socialism; and the last is Islamic economics derived from Qur'an, Hadith, and *ijtihad* without any appendage.

2.2. Islamic Economic System

Economic system is related to some issues, such as government interference and economic targets such as welfare, income equality, innovation, and stability (Ahlborn & Schweickert, 2017). Input of raw materials, human, and capital enter the production process to produce final products as output. The final products then enter distribution process to be consumed. Therefore, a market system is important where the goods and services are obtained and circulated (Kamitake, 2009).

Islamic economic system has several features such as interest-free economy, ethic orientation, refusal of absolute ownership and big economic disparities, brotherhood support, a justice as a goal, and attention to the poor. The system lies on Tawhid (vertical dimension), social (horizontal dimension) with an openness to the opportunity to have a free will, but also controlling the *nafs* (Hakim et al., 2020; Azid, 2010). Differ to conventional financial transaction that is permissible without underlying assets if it is profitable (Kamitake, 2009), in Islamic system, the goods and services must be clearly identified and tangible; and financial transaction also needs to be equipped with underlying assets.

Islamic economic system defines the overall economic activities and order (Waqas et al., 2016), consisting of a set of production, distributor, consumption, banking, and governance to reinforce economy in society. Islamic economy emphasises the distribution of wealth and social welfare (Azid, 2010; Zia & Nasir-Ud-Din, 2016).

3. Methodology

This study is qualitative research to provide detail description and analyse the substance and people behaviours in implementing Islamic economics in PMDG. Data collected is in from semi-structured interview transcript (primary data) and related document about business units and financial institution (secondary data). The informants are the head of foundation, chairman, administration, and finance staff, teachers, business unit representatives, and management of sharia cooperative (*Baitul Maal wat Tamwil*).

Interview is conducted at the PMDG boarding school located in Ponorogo regency, Indonesia. Data analysis was done through collecting information based on informants' experiences, arranging the data obtained, and interpreting the data narratively.

4. Results and Discussion

4.1. Economic Agents

Economic agents consist of society staying surround PMDG. The highest authority in PMDG is Foundation (*Yayasan Pondok Modern Darussalam Gontor*) who established several institutions to run PMDG's mission. The highest executive body is PMDG' chairman. Under the chairman, there are students (*santri*), tutors/teachers, maintenance, and development of waqf (*Yayasan Pemeliharaan dan Perluasan Wakaf Pondok Modern - YPPWPM*), secondary school (*Kulliyatul Mutaallimin al-Islamiyah – KMI*), college (University of Darussalam Gontor), and family ties (*Ikatan Keluarga Pondok Modern –IKPM*). Technical institution beneath consists of management training centre (*Pusat Latihan Manajemen Pondok Modern - PLMPM*), Islamic cooperative (Koperasi Pondok Pesantren), students' organizations (including Organisasi Pelajar Pondok Modern - OPPM, Pramuka, and Students Council), and business units (Muzarie, 2010). This economics system involves all stakeholders, students, teachers, employees, lecturers, alumni, and local communities to perform their economic roles.

The foundation must carry out vision and mission activities such as maintaining and managing PMDG and waqf. The foundation is held by early generation alumni who hold government positions. The chairman is then charged by the Foundation with leading and executing all activities, including economic activities. Meanwhile, the Chairman Board plays an important role in controlling the system, maintaining economic life in the community, and ensuring the implementation of PMDG values (sincerity, simplicity, autonomy, fraternity, and independence) in performing activities. One practical example is the objective selection of trustworthy individuals for waqf staffing. Furthermore, all budget realization and financial reporting by many subordinate units are reported to the chairman (Muzarie, 2010).

PMDG has business units in a variety of industries to generate additional revenue. A portion of the income generated is used to fund the institution's operations (Muzarie, 2010). PMDG's business units are depicted below.

According to Table 1, PMDG owns many business units in various sectors, demonstrating that PMDG dynamically follows current development. Business units were formed

TABLE 1: Business units in PMDG.

No.	Business Sectors	Business Units
1	Agriculture	Rice Mill
2		Cultivation of Several Plantation Commodity
3	Animal Husbandry	Chicken Cutting
4		Cattle Fattening
5		Slaughter of Livestock
6	Pharmacy	'La Tansa' Pharmacy
7	Distributor	'Darussalam' Distributor Centre
8	Services	'Darussalam' Printing
9		Photocopy I KUK
10		Telecommunication Stalls 'Gambia Permai'
11		Transportation
12		Telecommunication Stalls 'Sudan'
13		'Darussalam' Computer Centre
14		'Darussalam' Guest House
15		Photocopy II Asia
16		Telecommunication Stalls 'Al-Azhar'
17		Convection
18	Trade	Grocery Store
19		Building Materials Store
20		Book Store
21		Startup
22		Sport Goods Store
23	Foods	Meatballs Stall
24		'Azhar' Canteen
25	Manufacture	Ice Mills
26		Bakery Factory
27		Bottled Water
28		Chicken Noodle Factory
29	Others	Lembaga Mandiri Mengakar di Masyarakat (LM3)
30		Usaha Kesejahteraan Keluarga (UKK)

Source: Muzarie (2010)

to meet internal needs, such as those of students, teachers, employees, lecturers, and parents visiting PMDG and local communities. The primary goals of business units in PMDG are to meet people's daily needs and to create economic autonomy in PMDG. Nonetheless, PMDG has not been completely self-sufficient because rice, eggs, fish, meat, and fruits are imported. However, PMDG strives to meet as many needs as possible by establishing business units (Muzarie, 2010).

In addition, PMDG has a micro-Islamic financial institution (Baitul Maal wat Tamwil - BMT). BMT facilitates economic growth by accommodating savings; channeling financing to business units; and organising *zakah*, *infaq*, and *shadaqa*. Therefore, BMT has a strategic role to transmit money and support capital circulation of business units (Ishak, 2018).

4.2. Islamic Economic System

Islamic economic system consists of agents with Islamic institutions and Islamic financial instruments (Aydin, 2013). Agents consist of producers (business units), consumers (students, teachers, lecturers, students' parents, alumni, local community, school, and university), government, foundation, chairman, financial institution, and administration & finance division.

To produce outputs, producers need factors of production, such as capital, land, and labour. Capital is obtained from cash waqf managed by waqf management and additional funds from Islamic cooperative (*Baitul Maal wat Tamwil - BMT*). Land is also obtained from *waqf* and labour is hired from society surrounding PMDG and involvement of students and teachers. Besides that, producers also collaborate with government such as agriculture department to gather information related to current issues in managing farms. The products then are distributed to store, stall, and kitchen; and consumed by the consumers.

Cash flow in from business units is deposited to finance division, meanwhile the financial statement is reported by each business management to the chairman. The chairman is responsible in checking and controlling financial condition thoroughly (Muzarie, 2010). After being checked, money will be deposited to BMT by treasury. Administration and finance also allocate the money to many parties, such as for maintaining or constructing new buildings, funding schools and university's operational, financing business units' operational, creating new business, until opening new branch of Gontor boarding school. This allocating decision is made by administration and finance and authorized by the Chairman.

This practice shows that there is a circulation of economics among economic agents through financial institution and Islamic transactions. BMT also plays a role in holding all funds which are related to activities in PMDG which is suitable with previous study finding that Islamic banking and finance could achieve economic stability (Beseiso, 2016).

4.3. Islamic Transactions with Dynamism and Creativity

In doing investment, BMT and PMDG's people must consider the ethical aspects and avoid interest, obscurity (*gharar*), and gambling (*maysir*). Transactions used are interest free, suppressing selfishness and self-interest, minimizing debt, developing participatory in profit-sharing system, optimizing *zakah infaq shadaqa* (Zia & Nasir-Ud-Din, 2016), and avoiding unethical attitudes (Azid, 2010).

Transactions (*aqad*) in economic turnaround should be in conformity with Islamic laws. Moreover, *aqad* is important in economic activities in bonding between two or more parties and representing the legitimation of ownership. The examples of *aqad* used are *jual beli* (buying and selling), *musharaka* and *mudharaba* (partnership), *ijarah* (rent), etc. Goods and services sold must be useful, permissible, obtained using halal sources of earnings (Hossain, 2014; Zia & Nasir-Ud-Din, 2016), and free from fraudulent practice (Pryor, 1985).

Many parties in PMDG conduct economic transactions with dynamism and creativity, not just in terms of Islamic behaviour. They recognized the significance of managing business units creatively and dynamically adapting to the environment. Occasionally, a business unit is liquidated, such as telecommunications stalls that are no longer relevant, and is replaced by a telecommunications centre using a mobile phone. In addition, the PMDG creates a start-up in the form of an online application for selling and buying goods.

Besides investment and other economic transactions, the unique activity in Islamic economic system is distribution of wealth (Zia & Nasir-Ud-Din, 2016) in the form of donation to the poor (Hossain, 2014) through *infaq*, *shadaqa*, *zakah*, and *waqf* (Pryor, 1985). In PMDG, *waqf* is essential, managed and empowered by management to finance religious and social projects. *Waqf* can be in the form of immovable assets (property), movable assets (money and commodities), and services; collected from founder, government, and society. Movable assets are industry machines for business units, printing machines, convection tools, cattle, vehicles, office equipment, and money. Meanwhile, *waqf* of service refers to people who dedicate their lives to PMDG voluntarily and without coercion. The assets and services then are utilized in all sectors, like agriculture, business unit, industries, and services which benefits for economic and education aspects (Muzarie, 2010).

4.4. Market Forms and Authority Protection

Islamic economic system in PMDG agrees with notion from Zia & Nasir-Ud-Din (2016) and Tahir (2017) that market should allocate resources effectively and efficiently to optimize the capital turn over but refuses rough competition in the market. Therefore, PMDG has a rule to arrange the market through protection for promoting fairness. We could not find many business units in PMDG operating in the same fields. There is only one convection, grocery store, or bookstore with the intention of avoiding unhealthy competition. However, for much-needed business such as photocopy, several photocopy units are spread in many locations around PMDG to meet the demand from students and teachers.

Besides that, in operating business units in PMDG, there are cooperation and relationship built among people which are based on brotherhood (*ukhuwah Islamiyah*) (Zia & Nasir-Ud-Din, 2016). Such mutual help is in accordance with values by the Qur'an to pursuit of justice (Kadivar, 2020). This corresponds to the statement that Moslem need to help each other as a whole body (Azid, 2010).

Protection of the economic system in PMDG has three specific objectives. First, it intends to ensure that resources are not piled in one hand, so that it will minimize poverty and inequality. Second, it can support business units' continuity and sustainability by encouraging students to buy goods within PMDG because merely all the students' necessities are provided by PMDG, starting from foods, uniforms, daily needs, haircut, telecommunication, transportation, etc. Third, it is eager to maintain religious behaviour and economic simultaneously (Hossain, 2014). The other form of protection is family welfare program through home industry with the products sold to stalls around. Differ to previous finding that sharia board in Islamic financial institutions might not perform Islamic culture perfectly (Majeed & Zainab, 2018; Muhammad et al., 2021), the practice in PMDG shows evidence of the effectiveness of protection to maintain Islamic practices.

The duty of protection is held by the chairman (Muzarie, 2010). The chairman controls all conditions in PMDG, comprising the financial and economic circulation within Islamic framework. However, the combination of the protection and regulation can ensure long-term financial and social stability (Zia & Nasir-Ud-Din, 2016). Aligning with Byung-Yeon (2012), Islamic economic system in PMDG is characterized by a coordination system to protect internal economic of PMDG and keep empowering local communities by hiring them to work in PMDG or establishing cooperation with them.

4.5. Islamic Worldview and Behaviour: Economic, Social, and Moral Values

Besides the activities that must be in accordance with Islamic principles, the society involved also must think and behave economically within Islamic guides. Economic agents must have right understood of Islam dan human beings in the lens of Islam (Al Hakim, 2019). Material is needed in a particular system, but immaterial things like thought and behaviour are also valuable in Islamic economics (Zaman, 2015). Therefore, not only production, distribution, consumption, investment, and banking management that must be Islamic (Tahir, 2017), but the behaviours of producers, distributors, consumers, investors, and bankers also.

a. Accountability to God and Achieving the Virtue of Life

Humans are accountable not only to other people or environment, but mainly to God (Azid, 2010). Moslem should know the goal of their human beings, who do not only satisfy the needs of the world, but also God's pleasure. They have a spiritual focus, act in morality, and engage in right path should be (Shams, 2004, Zaman, 2015; Zia & Nasir-Ud-Din, 2016).

b. Integration of Modern Knowledge and Islamic Worldview

Aligning with it, Islamic economic system guides people to control their self-interest (Zia & Nasir-Ud-Din, 2016). As Shams (2004), Moslem society is characterized to be able to control their *nafs* and called as '*homo Islamicus*' or 'Islamic man'. Islamization requires Moslem not only to interact with modern economic, but also understand and be aware of Islamic worldview.

In accordance with this idea, business units in PMDG also build network with other parties such as government and society and conceptualize that Islam cannot be separated from general knowledge (Muzarie, 2010). One characteristic of Islamic worldview is not measuring everything with money and does not make Moslem materialistic (Waqas et al., 2016). They have consciousness of Islamic values in economic (Furqani and Haneef, 2015), then act economic individually and collectively within Islamic framework (Mahomed, 2015; Hossain, 2014).

It is a humane if people never be satisfied to fulfil their needs, will, and power (Hossain, 2014). People are rational in making decision, such as businessmen optimize revenue and decrease expense, corporation invest to get the highest return, creditors lend money to get maximum income, buyers' demand based on the price, etc. However, human cannot be fully rational as they do not have powerful capacity to reach the

highest one (Arrow, 1986). It refuted classical conventional economic theory which said that resources are limited, and people wants are unlimited (Azid, 2010).

The evidence shows the opposite whereas people control their wants and believe that resources from God are unlimited beyond the human mind. Resources are adequate, not scarce. As consumers, they behave rational too, but balance their consumption by living more simply and not attempting to maximize their satisfaction to the point of peak (Azid, 2010; Shams, 2004; Hossain, 2014). Producers also behave rational to achieve profit as there was no limitation of rate of return, but they utilize resources as far as meeting the needs and not in maximum capacity. Besides that, they do not maximize the profit from their business by violating ethics.

c. The Importance of Cooperation and Brotherhood

As Zaman (2015) said that generosity should replace greed, Moslem does not need to nourish greed, but spend to others. Besides that, although competition is unavoidable, cooperation must be built beyond competition where people cooperate and help each other.

PMDG has values that always be preserved and transformed to students and the whole PMDG's family which is "Panca Jiwa" consisting of sincerity, simplicity, autonomy, fraternity, and independency. Sincerity is manifested in doing something, includes conducting economic activities sincerely because of God and achieving the virtue of life. Simplicity does not mean to be apathetic, but still dare to move forward with rational, realistic, and no excessive planning. Autonomy intends to make students be able to fulfil their needs without big dependence to others. Brotherhood (*ukhuwah*) is built among students and all people within PMDG. Lastly, Independency means PMDG is above all factions and not bound by certain views understanding. These values are embedded in thought which is formed since being students (Muzarie, 2010).

Individual's embedded thought and behaviour beyond the formal rule of activities play important roles in PMDG. Behaviours must be shaped by moral values which are embedded in the economic agents (Shams, 2004; Islahi, 2015). These effort of forming Islamic worldview and behaviour in PMDG is the form of Islamization of economy that can replicate the success of prior Islamic economics (Zaman, 2015).

4.6. Economic Implications and Goals: Equality and Social Welfare

Islamic economic system applied contributes to economic increase (Setiadi & Herlinawati, 2022) in community directly and indirectly. The system not only benefits internal PMDG (students, teachers, lecturers, alumni, students' parents), but also surrounding

community. Community around PMDG get advantages by being employed in business units, obtaining development grants funds for education or religious institution, and obtaining scholar from PMDG. There was also an appreciation from government that decide Gontor as 'self-sufficiency village' that is successful to develop to fulfil basic needs and family's prosperity (Muzarie, 2010).

The involvement of all economic agents in system can achieve the objective of sharia which consists of nourishing the religion, soul, mind, descendant, and wealth. Besides, the economic practices eventually increase employment, rise the social welfare, eliminate poverty, and diminish economic disparities (Setiadi & Herlinawati, 2022; Azid, 2010). This result is in accordance with Islamic economic practice's goal to reach socio-economics (Chaar, 2016), achieve *falah* which means value-based and God-centred success; and glory in the world and hereafter (Aydin, 2015). Islamic economic activities are conducted not only to attain basic needs, economic success, and well-being in the world; but also reach barakah and glory through adherence to Islamic principles.

5. Conclusion

Economic agents consist of society staying surround PMDG with the main players are foundation in managing PMDG and waqf; chairman in maintaining economic life and ensuring values as basis for activities; and management of business units in many sectors. There is a circulation of economics activities including production, consumption, and distribution which involves economic agents, Islamic institution, and sharia contracts in term of dynamism and creativity. PMDG allocates resources effectively and efficiently but refuses rough and unhealthy competition to control economic stability. There are also cooperation and relationship built among people which are based on brotherhood to ensure long-term financial and social stability. Economic agents should also have Islamic worldview and behaviours as they think and behave economically within Islamic guides. In practice, they must have accountability to God and achieve the virtue of life, integrate modern knowledge and Islamic worldview, and be involved in cooperation and brotherhood. This economic system not only benefits internal PMDG, but also surrounding community as increases employment, eliminates poverty, and diminishes economic disparities. All these continued implementations of Islamic economics imply the social welfare and achievement of the objective of sharia.

This study captures the Islamic economic system in a broad view. Further research may be conducted to explore the components of economic system in a more detailed discussion, both qualitatively and quantitatively. Besides that, this empirical research

gathered successful evidence from mezzo-level system and a uniform society with equal religious engagement. The implementation of Islamic economics will be more challenging in a macro-level system and a diverse society.

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